



**ANNUAL REPORT BY THE AUDIT AND COMPLIANCE COMMITTEE OF  
DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.**

**2014 FINANCIAL YEAR**

**I. Introduction**

The Audit and Compliance Committee of the company DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. (“DIA” or the “Company”) has prepared this annual report on its activities with the purpose of evaluating its operations and organisation in 2014, highlighting the main incidents that have arisen with respect to the specific functions it has been assigned.

This report has been prepared in compliance with Articles 5.3 and 37.11 of the Regulation of the Board of Directors of DIA, and pursuant to the recommendations on good corporate governance for publicly traded companies. This report also complies with the provisions of new Article 529 nonies of the Corporate Companies Act (*Ley de Sociedades de Capital*), following the amendments carried out as a result of the enactment of Law 31/2014, of 3 December, amending the Capital Stock Companies Act to improve corporate governance (the “Companies Act”), which stipulates that the Board of Directors must evaluate the operation of its committees once a year, based on the report issued by the Audit and Compliance Committee.

**II. Composition**

According to Article 41 of the Articles of Association and Article 37 of the Regulation of the Board of Directors, the Audit and Compliance Committee shall be composed of outside directors, the number of said members being determined by the Board of Directors, with a minimum of three and a maximum of five, and, at least, one of them being an independent director. The members of this Committee shall be appointed by the Board of Directors of the Company from its outside directors.

The members of the Audit and Compliance Committee, and in particular its chairperson, shall be appointed taking into account their knowledge and experience in matters of accounting, auditing and risk management.

In accordance with DIA’s internal regulations, the chairperson of the Audit and Compliance Committee shall be appointed from among outside directors or members that do not have management or executive functions within the Company, or have any contractual relation with it other than the status on the basis of which they are appointed. The chairperson must be replaced every four years and may be re-elected one year after leaving office.

When so requested by the Committee, members of the management team or employees of the Company are required to attend the sessions of the Audit and Compliance Committee in order to assist and provide with any information available. The Committee may also require the Company’s auditors to attend its sessions.

The composition of the Audit and Compliance Committee in 2014, which remains the same at the present time, is as follows:

Name of director	Type of director	Position in Committee
Mr Julián Díaz González	Independent	Chairman
Mr Richard Golding	Independent	Member

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Name of director	Type of director	Position in Committee
Mr Nadra Moussalem	Proprietary	Member

Mr Julián Díaz González was appointed independent outside director and chairperson of DIA's Audit and Compliance Committee on 5 July 2011, when the Committee was created. He was re-elected as director on 26 April 2013 and as member of the Committee on 6 May 2013. Mr Díaz is a graduate of Business Studies from Universidad Pontificia de Comillas - ICADE. After working as Managing Director of TNT Leisure, S.A., Managing Director of the Airports Division of Aldeasa, Managing Director of Aeroboutiques de Mexico, S.A. de CV and Managing Director of Deor, S.A. de CV, he joined Latinoamericana Duty-Free, S.A. de CV. Since 2004 he has been Chief Executive Officer (CEO) of Dufry AG. He is also member of the Board of Directors of Dufry International AG, Duty Free Caribbean Holdings and Chairman of the Group Executive Committee of Dufry AG.

Mr Richard Golding was appointed independent outside director and member of the Audit and Compliance Committee of DIA on 5 July 2011. He was re-elected as member of the Committee on 19 March 2014 and as director of DIA on 25 April 2014. Mr Golding is a graduate in Business Administration from London Thames University. He has held a number of positions during his career, including marketing director of the Cadbury Schweppes group, managing director of Aspro Ocio, Chief Executive and Chairman of Dorna Promoción del Deporte, Chief Executive of Two Wheel Promotion, and Chairman of the tobacco business and part of the food business of RJR Nabisco for Spain, Portugal, Italy, France, Andorra and the United Kingdom. Until January 2014, he was Chairman of Parques Reunidos, and during 2014 he has been Chairman of Parques Reunidos Valencia.

Mr Nadra Moussalem was appointed outside proprietary director (representing DIA's significant shareholder Blue Capital S.à r.l.) and member of the Audit and Compliance Committee of DIA on 5 July 2011. He was re-elected as member of the Committee on 19 March 2014 and as director of DIA on 25 April 2014. Mr Moussalem has a Master's Degree in Information and Communications Technologies from École Centrale de Lyon. He joined the group Colony Capital in 2000, where he was appointed Managing Director in 2007, Principal in 2010 and Co-Director of Colony Capital Europe in 2013, where he heads up the company's European investment strategy. Among other positions, he is currently member of the Board of Directors of Edenred S.A. and Accor S.A., director of Sisters Soparfi S.A. and Managing Director of Cedar Trust S.à r.l.

Mr Ramiro Rivera Romero, who is the Secretary of the Company's Board of Directors, acts as non-member Secretary of the Audit and Compliance Committee; while Mr Miguel Ángel Iglesias Peinado, non-director Vice Secretary of the Board of Directors and Director of the Company's Legal Services department, is the non-member Vice Secretary of the Committee.

In light of the above, the composition of the Audit and Compliance Committee meets the requirements of the Articles of Association and the Regulation of the Board of Directors. In addition, given that the Committee has two independent directors among its members, one of them acting as chairperson, it complies with Article 529 quaterdecies of the Companies Act, which was introduced by Law 31/2014 of 3 December, amending the Companies Act to improve corporate governance. DIA's Audit and Compliance Committee also complies with Recommendation 39 of the Unified Code of Good Corporate Governance for publicly traded companies, approved by the Spanish National Securities Market Commission (CNMV) on 22 May 2006 and updated for the last time in June 2013 (the "**Unified Code of Good Corporate Governance**").

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### III. Functions

Pursuant to functions under Article 529 quaterdecies of the Companies Act, Article 41 of the Articles of Association and Article 37 of the Regulation of the Board of Directors of the Company, the Audit and Compliance Committee has focused its meetings in 2014 on the following main activities:

- **Review of the periodic financial information**

The Committee has supervised and reviewed the process of preparing and presenting the individual and consolidated regulated financial information (quarterly and half-yearly), which the Board of Directors must submit to the markets and their supervisory bodies; and, in general, it has ensured compliance with the legal requirements on this matter, the appropriate specification of the scope of consolidation and the correct application of generally accepted accounting principles, within the deadlines legally established for this purpose.

- **Review of the annual accounts**

With the purpose that the individual and consolidated accounts for 2014 prepared by the Board of Directors are presented to the Annual General Meeting without qualifications in the audit report, the Audit and Compliance Committee carried out the following tasks, inter alia:

- a) reviewed the Company's accounts;
- b) ensured compliance with legal requirements and the correct application of the generally accepted accounting principles;
- c) supervised and reviewed the process of financial reporting and the Company's internal control systems, verifying that the systems were sufficient and comprehensive;
- d) reviewed the mandatory financial information that the Board of Directors must provide regularly to the markets and their supervisory bodies; and
- e) verified that the members of the management team had taken into account the conclusions and recommendations of its reports, as well as discussing with the Company's auditors any significant weaknesses in the internal control systems that they may have detected in carrying out the audit.

As a result of these processes of supervision and review, it is noted that the Audit and Compliance Committee agreed to submit to the Board of Directors the Company's individual accounts and the consolidated accounts of DIA Group, together with the relevant management reports corresponding to the fiscal year ending 31 December 2013, prior to their final drafting by the Board.

In addition, the Audit Reports of the Company's individual accounts and DIA Group's consolidated accounts corresponding to the fiscal year ending 31 December 2013 (drafted in 2014) were presented without any qualifications.

- **External audit**

In accordance with the provisions of Article 37 of the Regulation of the Board of Directors, the Audit and Compliance Committee has supervised the relationships with KPMG Auditors, S.L., the Company's and DIA Group external auditors, as well as compliance with the audit contract, and has aimed to ensure that the opinion on the annual accounts and the main contents of the audit report were drafted clearly and precisely.

Both the Regulation of the Board of Directors abovementioned and the Companies Act provide that the Audit and Compliance Committee must issue a report every year expressing

an opinion on the independence of the auditors or the audit firm. The Audit and Compliance Committee verified in 2014 that the work carried out under contract by the external auditor complies with the requirements for independence set out in the current Accounting Act (*Ley de Auditoría de Cuentas*) and thus there are no objective reasons justifying any doubts regarding the independence of the auditor in 2014.

The Committee has analysed the work carried out under contract by the auditor and the provision of additional services other than the legal audit in 2014, concluding that the current legislation and limits to concentration of the auditor's business have been respected, as well as, in general, any other laws aimed at ensuring the independence of auditors.

To arrive at this conclusion, the Audit and Compliance Committee established appropriate relations with the auditors and received sufficient information on questions related to the process of carrying out the audit and the independence of the auditors, as well as the other communications specified under the auditing legislation.

- **Internal audit**

Another power given by the Regulation of the Board of Directors to the Audit and Compliance Committee is the function of supervising and reviewing periodically the effectiveness of the Company's internal control procedures, internal audit and other risk management systems to ensure they are sufficient and comprehensive. Likewise, the Committee must discuss with the Company's auditors any significant weaknesses in the internal control system that they may detect in carrying out the audit.

The Company has an Internal Audit Department directed by Ms Isabel Fernández de Córdoba. This department and its Director report directly to the Audit and Compliance Committee and carry out presentation in each formal meeting held by the Committee.

In addition, the Company's external auditors, KPMG Auditores, S.L., made various presentations in 2014 informing the Committee on a number of questions related to the audit of the Company and DIA Group.

In 2014, the Internal Audit Plan was submitted to assessment and approval by the Audit and Compliance Committee for that fiscal year, and the Committee has been informed at its successive meetings of the progress made with the plan. At the same time, the annual report on the activities of the Internal Audit Department was presented to the Committee and the Strategic Audit Plan for the three-year period 2015-2017 was approved.

- **Risk management system and internal control systems related to the process of internal control over financial reporting (ICFR)**

As part of the function of supervision and periodic review of the efficiency of the Company's internal control procedures, the Audit and Compliance Committee, through the Finance Department, has promoted and supervised the development and implementation of an updated version of the systems of Internal Control over Financial Reporting (ICFR) adapted to the Company's current needs.

In 2014, the Committee received the risk management report for 2013 and learned of the progress made in this matter. Its most notable milestones have been (i) description of the internal organisation supporting the risk management function, identifying the units involved, the information flows and the main activities related to risk identification and assignment, valuation, mitigation and monitoring; (ii) an examination of the corporate risk indicators and changes in them in each of the quarters, weighted by factors of "probability" and "impact"; and (iii) a review and report on the corporate risk map for 2014.



Similarly, the Audit and Compliance Committee has supervised the progress made on the ICFR project, both in Spain and other countries, through periodic reports presented by the Corporate Senior Manager. It has also monitored the processes of implementing the ICFR, supervising for this purpose the implementation of the integrated risk management system at the level of DIA Group and reviewing the reporting model and the assessment of key ICFR controls in a number of its processes.

In compliance with the above, at each of the meetings of the Audit and Compliance Committee, the Corporate Senior Manager and the Legal Compliance Unit made several presentations to inform its members of the internal measures implemented with respect to ICFR.

Additionally, and in relation to the ICFR, DIA has established a Corporate Information Security Policy that includes the strategy for protecting information with relation to access control, user responsibilities, security in communications and operations, change management, security in development, incident management, business continuity and compliance. The policy and associated regulatory framework are based on the ISO 27000 series of international standards.

With respect to the critical business processes for the Company, DIA has various organisational and technological solutions that guarantee business continuity. Therefore, there is a continuity plan for systems that replicate the main applications in sufficiently distant locations.

The Committee has supervised monitoring of the results of the self-assessment of the ICFR with respect to key and material processes in Spain and in the DIA Group countries.

As of the date of this report, DIA continues to develop its ICFR systems and implement an ICFR structure that allows it to control and manage potential risks in the preparation of financial information. In particular, in 2014, it implemented the SAP GRC system to optimise processes and functions.

DIA has subjected to review by the external auditor the information on the ICFR systems submitted to the markets for 2014. The scope of the auditor's review procedures are in accordance with the Guidelines for Action and the template of auditor's report on the information related to the internal control system on financial information in publicly traded companies of July 2013, issued by the official auditors' associations.

- **Corporate risk management system**

The Group's Internal Audit department has carried out detailed monitoring and control of the risk management function, of its formal deployment by jurisdictions, implementation of the risk management tools and, in general, of all the components of the integrated corporate risk management system, including fiscal risks. Among other measures, this department controls and periodically presents to the Committee the situation of the "map of corporate risks" and the evolution in the main risk indicators.

- **Financial risks**

In 2012, the Audit and Compliance Committee began to quarterly supervise the Company's main financial risks, i.e. (i) liquidity risk; (ii) credit risk; (iii) solvency risk; and (iv) market risk.

In 2013 and 2014, the Committee has continued monitoring and supervising the above financial risks, through follow-up presentations made at each Committee meeting.



- **Legal compliance**

In 2014, the Audit and Compliance Committee has worked to ensure compliance with the Internal Rules of Conduct, the Regulation of the Board of Directors and, in general, the Company's rules on corporate governance, with no significant failures to comply being detected in this respect.

The Committee has also revised the 2014 Annual Corporate Governance Report, which, in accordance with Article 538 of the Companies Act, must be included in a separate section in the Management Report.

In addition, in relation to the Ethical Code and Consultation and Information Channel, the Committee has supervised the actions carried out to make the Code and Channel better known in 2014 and monitored the operation of the Ethics Committees at corporate and country level. Regarding the use of the said channel by DIA Group employees, the Committee must receive up-to-date consolidated statistical information and details of any sanctions initiated, their status and the decisions adopted by the Committees.

#### **IV. Meetings held in 2014**

The Company's Audit and Compliance Committee met five times in 2014, adopting resolutions in writing and without holding a meeting in another occasion. Regarding assistance, one director excused his absence at two meetings, although he delegated on another board member at one meeting. The rest of the members of the Committee attended all the meetings.

This Committee has met with the necessary frequency for the correct operation of its functions, in all cases complying with Article 37.5 of the Regulation of the Board of Directors, which sets out that it must meet, at least, every quarter.

#### **V. Proposals to improve the Corporate Government rules**

In 2014, the Audit and Compliance Committee has revised the Company's Corporate Governance Rules with the aim of proposing any relevant modifications. It also monitored the corporate governance reforms that finally resulted in the enactment of Law 31/2014, of 3 December, amending the Corporate Companies Act to improve corporate governance.

As a result of the enactment of this Law, the Audit and Compliance Committee has identified some amendments to the Company's rules on corporate governance and, among other aspects, some additional powers are to be assumed by the Committee. These will be set out in a proposal to amend DIA's internal regulations to adapt them to applicable legislation and to improve and update them. In particular, the Audit and Compliance Committee plans to specifically include the monitoring of fiscal risks among its supervisory functions for risk management systems.

At the date of preparation of this report, this proposal for amendments is at the preparation stage.

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Madrid, 20 February 2015