

A hand holding a black smartphone is positioned over a tablet. The tablet displays a still life painting of various fruits and vegetables, including lemons, limes, and green beans. The background is a dark, textured surface with several white buttons. A red horizontal bar is positioned behind the title text.

# Activity Report

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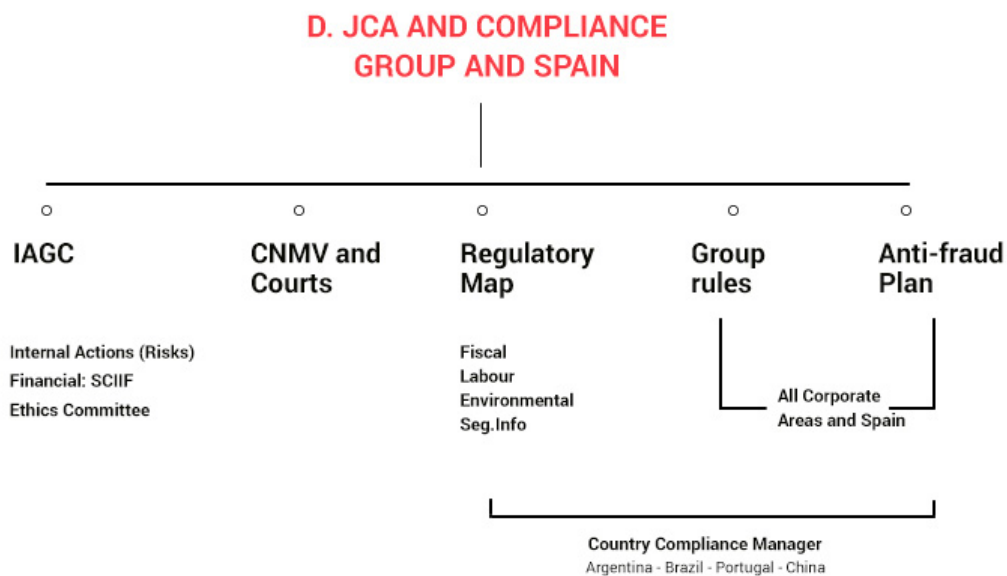
Corporate Governance

DIA

# DIA compliance model

CORPORATE GOVERNANCE	INTERNAL CONTROL AND LEGAL SECURITY	FRAUD PREVENTION AND DETECTION
OBJECTIVES		
<p>To have a strict regulatory body in the area of Good Governance</p> <ul style="list-style-type: none"> <li>UGA, CdA and RIQ Statutes and Regulations</li> <li>Issue of AGC, IAR and Relevant Facts</li> <li>Control of Securities and Treasury Stock operations and Privileged Information</li> </ul> <p>Adoption of company agreements in accordance with the Law</p> <ul style="list-style-type: none"> <li>Control and coordination of Subsidiaries</li> <li>Design of a framework for the delegation of safe powers (centralization of powers, joint signature and financial restrictions) (centralization of powers, joint signature and financial restrictions)</li> </ul>	<p>To have an internal control system and risk management that ensures an adequate control environment</p> <ul style="list-style-type: none"> <li>Risk Management Control System</li> <li>Implementation of Regulations</li> <li>Internal Control (SCIIF + operations)</li> <li>Corporate and Local Insurance Programmer</li> </ul> <p>Provide legal certainty to the company in business trade</p> <ul style="list-style-type: none"> <li>Regulatory Map</li> <li>Contractual Control (standard model)</li> <li>Data Protection (Consultation Office)</li> </ul>	<p>To embody a culture of compliance through an ethical model for employees</p> <ul style="list-style-type: none"> <li>Code of Ethics</li> <li>Crime Prevention Model (Spain)</li> <li>Anti-Fraud and Anti-Corruption Programmer</li> </ul> <p>To have channels for the detection of bad conduct</p> <ul style="list-style-type: none"> <li>Ethical Channel</li> <li>Forensic actions (DD in compliance in M&amp;A)</li> </ul>
AREAS RESPONSIBLE FOR SUPERVISION AND CONTROL		
<p>SECRETARY OF THE BOARD LEGAL COUNSEL AND COMPLIANCE DEPARTMENT</p>	<p>INTERNAL AUDIT FINANCIAL DEPARTMENT LEGAL COUNSEL AND COMPLIANCE DEPARTMENT</p>	<p>ETHICS COMMITTEES LEGAL COUNSEL AND COMPLIANCE</p>

# DIA Compliance Structure





# Governing Bodies

The DIA Group has a Corporate Governance and compliance system that ensures an environment of proper control and compliance with regulations, both external and internal. This involves a regulatory body adapted to the regulation of capital companies and to the stock market, and which is highly demanding in terms of compliance with the Good Governance recommendations.




This model is designed to fulfil the corporate objectives that are established within the Governing Bodies of the Group and protect the interests of all of its stakeholders in a transversal and transparent manner.

In 2016, the DIA Group worked on the implementation of a series of modifications of its internal Rules of Conduct to adapt them to the new standards on market abuse, as well as the implementation and start-up of an anti-fraud plan in each of the countries in which it operates.

## Board of Directors

The DIA Group has a Board of Directors comprised of a total of 10 members, of which seven are independent, one executive and one classified as "other external directors", in the case of the non-executive Chairwoman.

The composition Board of Directors, at 31 December 2016, is follows:

Positions	Date appointed	Election procedure
<span>◆</span> Other External   <span>◆</span> Executive   <span>◆</span> Independent	<span>🕒</span> First and last appointed	<span>📝</span> Co-optation   <span>🗳️</span> Resolution of the General Shareholders' Meeting
		
<span>◆</span> <span>□</span> <b>Ana María Llopis Rivas</b> Non-executive Chairwoman 05/07/2011 - 26/04/2013 <span>🕒</span>	<span>◆</span> <span>□</span> <b>Mariano Martín Mampasso</b> Vice-Chairman 05/07/2011 - 26/04/2013 <span>🕒</span>	<span>◆</span> <span>□</span> <b>Ricardo Currás</b> Chief Executive Officer 05/07/2011 - 26/04/2013 <span>🕒</span>



◆ □  
**Antonio Urcelay Alonso**  
Director  
05/07/2011 - 25/04/2014  
🕒



◆ □  
**Julián Díaz González**  
Director  
05/07/2011 - 26/04/2013  
🕒



◆ □  
**Richard Golding**  
Director  
05/07/2011 - 25/04/2014  
🕒



◆ □  
**Juan María Nin Génova**  
Director  
15/10/2015 - 15/10/2015  
🕒



◆ □  
**Ángela Spinder**  
Director  
08/02/2016 - 08/02/2016  
🕒



◆ □  
**Borja de la Cierva**  
Director  
05/09/2016 - 05/09/2016  
🕒



◆ □  
**María Luisa Garaña**

Director

14/12/2016 - 14/12/2016



The main function of the Director is to supervise and submit for consideration all business matters of particular importance for the Group, generally relinquishing the ordinary management to the members of Senior Management.

DIA's Board is responsible for approving the Company's general policies and strategies, as well as approving the necessary tools for implementation, placing special emphasis on the strategic plan, management objectives and annual budget, as well as the investment and financing policy, the Company's fiscal strategy, the Good Governance policy, the remuneration policy, and performance assessment of the management team, among others.

## Changes in the Board

In 2016, the Board of Directors of the Group undertook a series of changes in its composition as a result of the resignation of some of its members due to them taking on new professional commitments. This is the case of Rosalía Portela, who resigned from her position as independent director and, consequently, also as a member of the Audit and Compliance Committee.

Likewise, coinciding with the end of his term, Pierre Cuilleret, also an independent director and member of the Remuneration and Appointments Committee, submitted his resignation from the position due to new professional commitments.

As a consequence of this resignation, on 6 July 2016, the Board of Directors agreed to appoint Borja de la Cierva Álvarez de Sotomayor by co-optation as an independent director and member of the Audit and Compliance Committee.

On 14 December 2016, the Board of Directors also appointed María Luisa Garaña Corces by co-optation as an independent director of the company, who in turn will form part of the Audit and Compliance Committee as a member.

# Committee

## Remuneration and Appointments Committee

The Remuneration and Appointments Committee is made up of three members. An independent Chairperson and another member, also independent. In 2016, it met on **6 occasions**.

Name	Position	Type of position
Mr. Mariano Martín Mampaso	Chairman	Independent
Ms. Ángela Spindler	Member	Independent
Mr. Antonio Urcelay Alonso	Member	Independent

## Audit and Compliance Committee

The Audit and Compliance Committee is made up of five members. An independent Chairperson and four other members, also independent. In 2016, it met on **6 occasions**.

Name	Position	Type of position
Mr. Richard Golding	Chairman	Independent
Mr. Julián Díaz González	Member	Independent
Mr. Borja de la Cierva	Member	Independent
Mr. Juan María Nin Génova	Member	Independent
Ms. María Garaña Corces	Member	Independent

All of the members of the Board of Directors are professionals with a strong executive profile and extensive experience in business relating to distribution and consumer goods.



## DIA Group Management Committee

Name	Position
Mr. Ricardo Currás de Don Pablos	Chief Executive Officer
Mr. Diego Cavestany de Dalmases	Executive Manager of Operations Spain
Mr. Antonio Coto Gutiérrez	Executive Director Latin America and Partnership
Mr. Juan Cubillo Jordán de Urrés	Business Manager and Merchandise
Mr. Francisco Javier La Calle Villalón	Resources Corporate Director and Executive in China
Mr. Amando Sánchez Falcón	Corporate Director of Services and Executive in Portugal

## General Shareholders' Meeting

DIA held a General Shareholders' Meeting in 2016 on 22 April. This meeting was attended in person or by proxy by 817 shareholders, representing ownership of 61.86% of the shares.

## Quorums at the last General Shareholders' Meetings

JGA	Shareholders	Number of shares	%Capital
13 june 2012	In person	53	98,719,973
	By proxy	272	272,179,640
	<b>Total</b>	<b>325</b>	<b>370,899,613</b>
26 april 2012	In person	88	54,283,482
	By proxy	463	348,382,403
	<b>Total</b>	<b>551</b>	<b>402,665,885</b>
25 april 2013	In person	65	6,385,360
	By proxy	456	381,574,742
	<b>Total</b>	<b>551</b>	<b>402,665,885</b>
25 april 2014	In person	65	6,385,360
	By proxy	456	381,574,742
	<b>Total</b>	<b>521</b>	<b>387,960,102</b>
April 2015	In person	69	250,743,01
	By proxy	442	404,517,663



April 2016	In person	134	48,880,634	7.85%
	By proxy	683	336,192,892	54.01%
	<b>Total</b>	<b>817</b>	<b>385,073,526</b>	<b>61.86%</b>

During the General Shareholders' Meeting held on 22 April 2016, a report was given on the modification and subsequent approval of the Regulations of the Board of Directors of the Company for the purpose of incorporating the regulatory changes introduced by the Capital Companies Act following the approval of Law 22/2015, on Account Auditing, as well as to include certain technical improvements that enable clarification of certain matters, refine the language, and make it easier to understand.

This regulation is registered in the Commercial Registry of Madrid, and both this text and the explanatory report of the modifications approved are available on the Company's website.

Likewise, the Company's annual individual accounts were submitted for examination and subsequent approval, as well as the consolidated accounts with its subsidiary corporations, in addition to the individual management report and consolidated management report corresponding to the year ending 31 December 2015.

The Meeting also authorized the Board of Directors, with express power of delegation, for a maximum period of five years, to increase the share capital in accordance with the provisions of Article 297.1.b) of the Capital Companies Act, to up to half of the share capital on the date of authorization. It also authorized the Board to issue exchangeable debentures or bonds and/or convertible into shares of the Company.

Lastly, the General Shareholders' Meeting approved the Long-Term Incentive Plan (2016-2018) through the delivery of shares to directors of the Company.

## Ethical channel

The DIA Group remains committed to compliance with current regulations at all levels, and it has control and monitoring tools in place that ensure the correct functioning and operation of all the stakeholder groups that form part of the company. These mechanisms are incorporated in the corporate management systems and are updated on a regular basis, ensuring a perfect balance between the best business opportunities and risk management.

With its corporate values (**Effectiveness, Initiative, Respect, Team and Customer**) serving as the foundation, the DIA Group has a Code of Ethics implemented in all the countries, where it draws up the conduct guidelines that must be followed by the people participating in the company's activity.

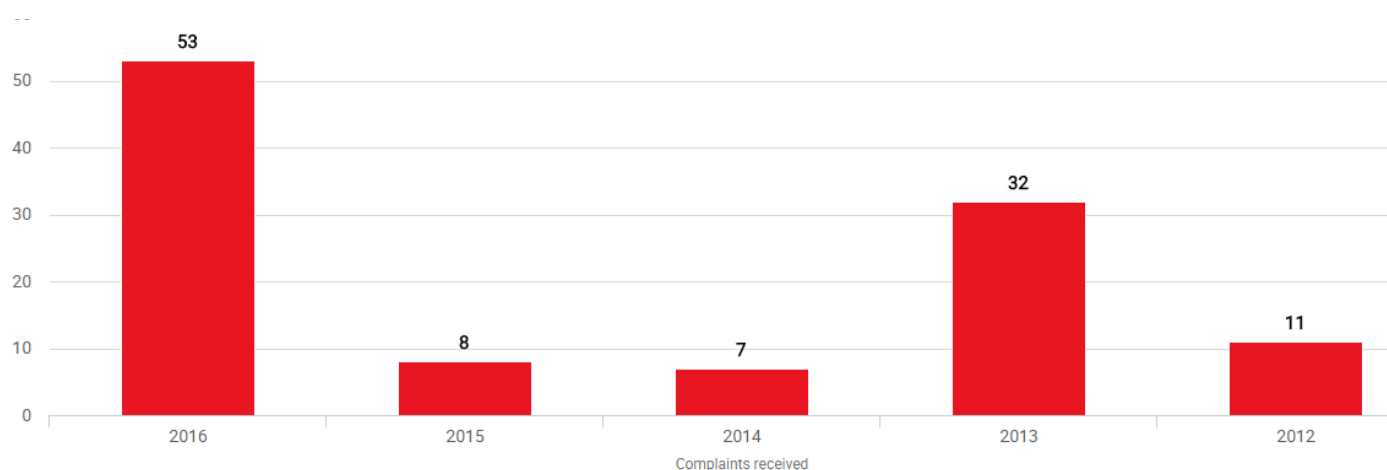
In previous financial years, it has worked on the modification and updating of its Code of Ethics, while deciding to open it up to other day-to-day players of the company, such as suppliers, franchisees and contractors. In 2016, the company worked on the dissemination and communication of this new version to raise awareness of the Code and of DIA's compliance model in all countries.

Through virtual training, **2,981 employees** have completed a course that explains the key points of this code in Spain and China. For the coming year, it is expected that this training will be continued in the rest of the countries. In turn, the Ethics Committee is responsible for managing matters arising under the Code of Ethics through its own channel, always with a guarantee of confidentiality, anonymity, and respect.



Quarterly, during 2016, the Ethics Committees of each country disclosed to the corporate Ethics Committee a detailed breakdown of the consultations and/or communications received in the immediately preceding quarter, indicating the reference or registration number, date of receipt, collective complainant (employee, franchisee, service or goods provider and others), the ethical principal infringed, assessment of reliability/accuracy of the facts that are the subject of the communication, current status of the file and, where appropriate, resolution of the same. Also, on an annual basis, a report is presented to the Audit and Compliance Committee, facilitating detailed consolidated statistical information at a Group level in accordance with the information received from each of the jurisdictions.

## Use of ethical channel



## Code of ethics

- **We comply with the rules and respect people.** Compliance with the rules and respect for people constitute the basis of our ethical behaviour.
- **We are ethical in our decisions and relations:** we say no to corruption. The DIA Group is aware that individual success is only possible as a collective. And collective success is only possible from an ethical standpoint.
- **We protect assets and information.** We are rigorous, professional people, loyal to the company. We make the best use of the assets and resources that the DIA Group places at our disposal, remembering that we must limit their use, in general, to strictly professional purposes.
- **We are committed to the customer and to society.** We compete fairly, avoiding manipulation, deceit or any other type of behaviour that might unduly place us in a favourable position.
- **We lead by example.** We are responsible for ensuring that our company maintains the ethical conduct that we desire. Our values and behaviour principles are not merely words, they must determine our behaviour every day.

In financial year 2016, the ethical and information consultation channel received a total of 80 communications, of which 53 were complaints and 27 were consultations. Of the 53 complaints, 46 were filed by employees (87%), 2 by suppliers (4%) and the other 5 (9%) were anonymous. At 31 December, 36 of the complaints had been resolved and 17 remain under investigation.

Of the complaints resolved, 24 were closed due to lack of evidence (67%); 9 were resolved with training and coaching actions for those reported (25%); disciplinary measures of dismissal were applied in two cases, including a director (5%); and the last was resolved upon communication of the voluntary resignation of the person against whom the claim was brought (3%).

Regarding consultations, 19 were raised by employees (70%), 6 by suppliers (22%) and 2 by franchisees (8%). At 31 December, 24 consultations were resolved and 3 remained under analysis.

Of the consultations resolved, in 11 the concerns were resolved directly by the Ethics Committee (46%); 7 were transferred to the management department, where the issue raised by the sender was clarified or solved (29%) and 6 were transferred to the Human Resources department in order to directly resolve the doubts of the employee (25%).

## Internal control and compliance

### Adaptation of the Internal Code of Conduct

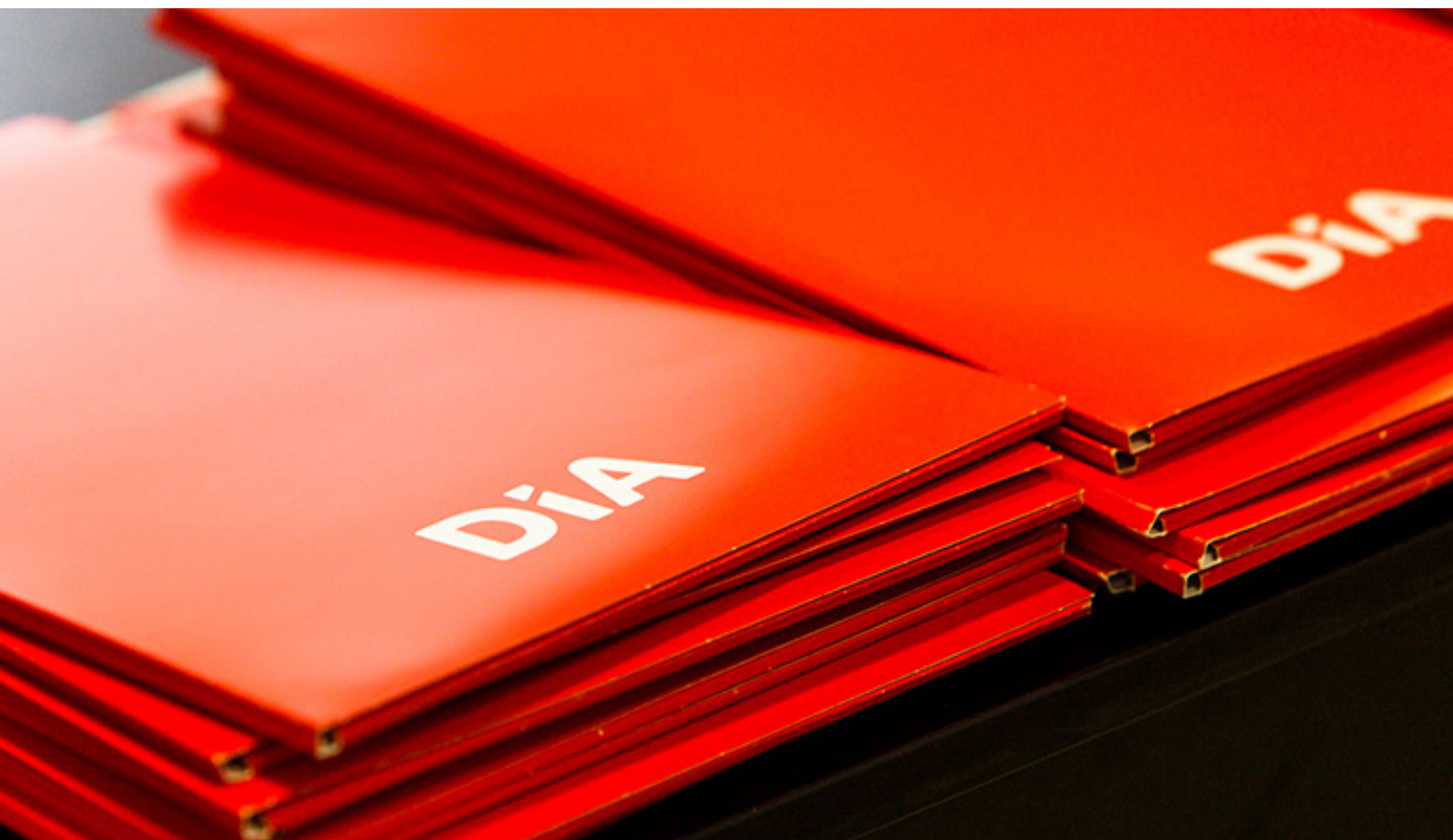
With the entry into force of the new standards on market abuse for listed companies, in 2016 the DIA Group updated its Internal Code of Conduct, with which it establishes rules for the management and control of the use of privileged information, treasury stock operations, and the transparent communication of relevant information.

The Internal Code of Conduct imposes obligations and limitations on the people affected and treasury stock managers, in order to protect the interests of its investors and avoid any type of abusive situation, while facilitating the participation of managers and employees in the capital of the company, in strict observance of current legislation.

### Transparency and the fight against corruption

The DIA Group has developed and implemented a crime prevention model with the aim of establishing the most adequate internal control procedures and policies to prevent illegal offences being committed. In addition to analysing the activities of each business area to evaluate the risk of criminal activity in each one, the DIA Group has a Prevention Manager who reports to the Ethics Committee and to the Regulatory Compliance Manager.





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In order to obtain greater control and security, the DIA Group analyses the activities performed by the different business areas and assesses the risk of each activity in regard to the possible commission of offences in terms of probability and impact, taking into account the controls already implemented. In 2016, the crime prevention model was the study of analysis and expert opinion of a consulting firm with experience in the field of forensics. Therefore, the model implemented by DIA has adequate and efficient control measures for preventing and detecting the commission of offences which could result in criminal liability for DIA.

The DIA Group also has an anti-fraud plan, new this year, which has already been implemented in all the countries in which the company operates. In this respect, in each country the company has a fraud risk matrix, which conducts an analysis in terms of frequency and impact and incorporates the existing controls to prevent such conduct. An anti-fraud manager has been designated who, in turn, is responsible for the prevention of offences.

During 2017, specific anti-fraud training will be given to employees in each country.

## Control of financial information

The company has an Internal Financial Information Control System Policy (SCIIF) that covers the general description of the system and its objectives, roles and responsibilities, methodology for the development of the internal control of financial information, and risk management.

The SCIIF affects all levels of the organization and its maintenance is the responsibility of the Board of Directors, while its supervision is carried out by the Board's Audit Committee.

The DIA Group has documented the processes that may be considered to have a risk of material impact on the preparation of financial information, also covering the risk of fraud.

## Process Map

During financial year 2016, for the purpose of strengthening the internal control system with an integral vision that not only contributes to reliability, but also to the effectiveness and efficiency of the operations, the "Process Map" of the Group in Spain has been defined.

This map identifies all the Spanish and Corporate processes and sub-processes and was approved by the Group Management Committee and presented to the Audit and Compliance Committee in September.

The "Process Map" provides a unique reference framework for the control and risk systems.

## Regulatory Map

In each country where the company operates, the Legal Department has what is known as a "Regulatory Map", which identifies and details all regulations applicable to DIA, with special attention given to key legislation in the main supply chain processes, which has been classified in six sections:

- Legislation applicable to the product negotiation process, that is, in regard to DIA's relations with its service and goods providers, competitors, regulatory boards, and brands;
- Legislation applicable to the logistics activity, that is, the exercise of storage, distribution and goods transport activities;
- Legislation applicable to the wholesale and retail business;
- Legislation applicable to commercial premises, urban leases, horizontal property, local taxes, business hours;
- Legislation applicable to DIA's customer relations, personal data protection, consumption, payment method, advertising and sales promotions;
- Legislation applicable to DIA, as a listed company, in regard to the stock market and Internal Code of Conduct.

The Legal Department, in turn, is responsible for reporting to the rest of the areas or departments of the Company on the content and scope of new features and/or regulatory changes, designing and holding training sessions, either in person or via e-Learning, when the new legislation could have a significant impact on DIA's activity.

To carry out this function, the Legal Department has established a procedure for the monitoring and updating of regulations and communication, which defines the necessary resources, responsibilities and internal and external tools to perform this duty and achieve the twofold objective of having an updated regulatory map and an organization aware of its legal obligations.

This Regulatory Map is revised annually.