



## **ANNUAL REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE OF DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.**

### **2015 FINANCIAL YEAR**

#### **I. Introduction**

The Nomination and Remuneration Committee of 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 2015, 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 6.2 and 39.11 of the Regulation of the Board of Directors of DIA, and in compliance with the recommendations on good corporate governance for listed companies. Additionally, this report complies with the new Article 529 nonies of the Corporate Companies Act as modified through Law 31/2014 of 3 December, amending the Companies Act to improve corporate governance (*Ley de Sociedades de Capital*, the “**Companies Act**”), which states the obligation of the Board of Directors to annually evaluate its Committees functioning, based on the report issued by each of them and, in this specific case, by the Nomination and Remuneration Committee.

#### **II. Composition**

According to Article 42 of the Articles of Association and Article 39 of the Regulation of the Board of Directors, the Nomination and Remuneration Committee shall be composed exclusively of external directors, the majority of them independent, in a number to be determined by the Board of Directors, with a minimum of three and a maximum of five. The members of this Committee shall be appointed by the Board of Directors of the Company.

The members of the Nomination and Remuneration Committee shall have knowledge, aptitude and experience appropriate to the functions they are to perform. For these purposes, the board will take into consideration the knowledge and professional experience acquired as a result of the performance of responsibilities related to this matters, as well as the knowledge and experience due to the performance of management and executive roles and responsibilities which could be related to these issues in a significant way (such as chief executive officers or senior managers with supervisory and management responsibilities in human resources, corporate governance and remuneration policies areas, etc.).

The Nomination and Remuneration Committee shall appoint a Chairperson from among its members, who must be an independent director. The chairperson must be replaced every four years and may be re-elected one year after leaving office.

When so requested by the Committee, the members of the Board of Directors, the management team or employees of the Company are required to attend the sessions of this Committee in order to assist and provide with any information available. Additionally, when it deems it to be necessary for appropriate fulfilment of its duties, the committee may seek the advice of outside experts.



The composition of the Nomination and Remuneration Committee at the 2015 year close was as follows:

Name of Director	Type of Director	Position in the Committee
Mr Mariano Martín Mampaso	Independent outside director	Chairman
Mr Pierre Cuilleret	Independent outside director	Member
Mr Antonio Urcelay Alonso	Independent outside director	Member

Mr Mariano Martín Mampaso was appointed independent outside director and member of DIA's Nomination and Remuneration Committee 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 Martín is a graduate in Economics from Universidad Complutense de Madrid. In 1976 he joined Procter & Gamble, where he remained for 33 years carrying out different managerial posts in Spain and internationally. In June 2009 he retired from his last post as the company's Global Sales President. He was a member of the Board of Directors of the Asociación Española de Codificación Comercial (AECOC), of the Governing Board of GSI US, of the Executive Board of the Global Commerce Initiative and of the Board of Directors of Zinkia Entertainment, S.A.

On 11 May 2015, coinciding with Mr. Nicolas Brunel leaving, Mr. Martin was elected Chairman of the Committee, and has been carrying out these functions since then.

Mr. Pierre Cuilleret was appointed independent outside director 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 Cuilleret is a graduate of École des Hautes Etudes Commerciales (HEC) in Paris and studied at the University of Berkeley and at the Stockholm School of Economics. After working in the Bouygues group in the United Kingdom and in Gemini Consulting in France, he founded The Phone House in 1996. In 2000 he became the Executive Director of the insurance group The Carphone Warehouse Group Plc. From August 2005 to 2014 he was Executive Officer of Micromania, and from 2011 to 2014 he was Senior Vice President of Gamestop. He is currently a Board Member of Desigual, company in which he has been appointed "chief client officer", responsible for the areas of customer, marketing and communication.

Mr Antonio Urcelay Alonso was appointed independent outside director on 5 July 2011. He was re-elected as director on 25 April 2014. Mr Urcelay is a graduate of Law in Universidad Complutense de Madrid. At his professional career he has developed, among others, the following positions: marketing department of Procter & Gamble, General Manager of Ahold Spain, Lawyer at J. y B. Cremades, General Manager of Digma, S.A. supermarkets chain and Leche Pascual, S.A. In 1996, Mr Urcelay joined Toys R Us Inc., where he held different managerial posts in Spain and internationally. From 2013 to June 2015 he was Chairperson of Toys R Us Inc., Board of Directors and Chief Executive Officer, with full responsibility over the company's worldwide business.

Coinciding with Mr. Nicolas Brunel leaving, Mr. Urcelay was appointed member of the Committee on 26 June 2015.

Mr Ramiro Rivera Romero, non-director Secretary of the Company's Board of Directors, acts as non-member Secretary of the Nomination and Remuneration Committee; and Mr Miguel



Ángel Iglesias Peinado, non-director Vice Secretary of the Board of Directors and Director of the Company's Legal Services department, is non-member Vice Secretary of the Committee.

In the light of the above, and as there are three members, all of whom are independent, the composition of the Nomination and Remuneration Committee is in line with the Articles of Association and the Regulation of the Board of Directors. At the same time, the Nomination and Remuneration Committee complies with the stipulations of Article 529 quidecies of the Companies Act; and with the recommendations on good corporate governance of the Code of Good Governance for publicly traded companies, approved by the Spanish National Securities Market Commission (CNMV), dated February 2015 (the “**Code of Good Governance**”), which recommends (particularly in number 47) that the chairperson of the Nomination and Remuneration Committee should be an independent director and that the majority of its members should be independent directors, to guarantee their criteria are impartial and objective.

### **III. Functions**

In compliance with its functions under Article 39 of the Regulation of the Board of Directors, in 2015 the Nomination and Remuneration Committee carried out the functions assigned, including the following:

- **Evaluation of the competences, knowledge, experience and level of dedication of the members of the Board of Directors**

The Nomination and Remuneration Committee has, in 2015, complied with its task of evaluating the competences, knowledge, experience and level of dedication of the members of the Board of Directors. To that aim, the Committee has coordinated the annual process of evaluating the performance, quality and efficiency of the Board of Directors as a body, and the individual work carried out by the Chief Executive Officer, Mr Ricardo Currás de Don Pablos, and the Chairperson of the Board of Directors, Ms Ana María Llopis, and that by the Committees themselves and the individual performance of the Directors, all supported by the consultancy firm Heidrick & Struggles. This is part of the policy of compliance with the rules of corporate governance applicable to the Company. This process complies with the new Article 529 nonies of the COMPANIES ACT and Recommendation 36 of the Code of Good Governance.

- **Submission to the Board of Directors of the proposals for appointments of Independent Directors**

With Mr. Nicolas Brunel and Mr. Nadram Moussalem leaving DIA as Directors, the Board has had to carry out a search and selection process for new candidates to cover the vacancies.

Firstly, on 15 October 2015, the Nomination and Remuneration Committee submitted to the Board of Directors the proposals for the appointment by co-optation of the outside independent director, Mr Juan María Nin Génova, for the remaining term until the General Shareholders Meeting of 2016, which is expected to ratify the appointment.

To do so, the Committee carried out a thorough selection process in order to analyse the competence, knowledge, and experience required in the Board. To this end, the Committee has determined the functions and skills required for the candidates to cover a vacancy, and evaluated the precise time and dedication in order to carry out their tasks effectively.



- **Appointment of the new Chairperson of the Nomination and Remuneration Committee**

On 11 May 2015, the members of the Nomination and Remuneration Committee decided to appoint Mr Mariano Martín Mampaso as Chairman of the Committee for a one-year term.

- **Supervision of compliance with the rules on corporate governance applicable to the Company, in order that it achieves its mission to promote the social interest and to take into account, as appropriate, the legitimate interests of other stakeholders.**

On 20 February 2015, the Board of Directors agreed unanimously to maintain the classification of all the directors, no reason being found for a change in their category.

The Committee reviewed the 2014 Annual Corporate Governance Report, and, in 2016, has already begun to review that corresponding to 2015, which, in accordance with Article 538 of the Companies Act, must be included in a separate section in the Management Report of the annual accounts.

Furthermore, according with Article 4.2 of the Regulation of the Board of Directors, the Nomination and Remuneration Committee proposed to the Board of Directors to modify the Regulation of the Board of Directors with the main purpose of: (i) introducing the legal changes coming from the Law 31/2014 of 3 December, amending the COMPANIES ACT to improve corporate governance; (ii) reviewing corporate government system of the company, introducing some recommendations on good corporate governance recognised in Spain; and (iii) introduce technical improvements in order to clarify the meanings of some precepts and facilitate its understanding.

- **Reporting the senior directors appointment proposals and the basic conditions of their contracts.**

As a result of the strategic reflection headed up by the Board, during 2015 the Committee has carried out a detailed follow-up process of the search, selection and assessment of the capabilities and skills of the candidates to cover the digital development and marketing posts. This process has led to identification and contracting of people to cover both posts.

- **Analysis, formulation and periodical revision of the remuneration policy applied to executive directors and to the management team, including the systems of remuneration by shares and their application; and guarantee that such remuneration is proportional to what is paid to other directors and members of the senior management team and to other members of the Company's employees**

- Remuneration policy for Senior Management

On 20 February 2015, the Nomination and Remuneration Committee reviewed and agreed to submit to the Board of Directors, for its final approval, the remuneration policy for Senior Management and for the executive director corresponding to 2014 and that corresponding to 2015 (in particular, with reference to the proposal to set the 2015 Salary Amount and the Bonus Targets for 2015).

- Long-term Incentive Plan for DIA Group 2016-2018

Similarly, the Nomination and Remuneration Committee has undertaken several meetings monitoring the plan to elaborate a new Long-Term Incentive Plan for the 2016-2018 period (LTIP 3).



- Long-term Incentive Plan for DIA Group 2011-2014

Likewise, in 2015, the Nomination and Remuneration Committee monitored the Company's Long-Term Incentives Plan for the 2011-2014 periods (LTIP 1) and 2014-2016 (LTIP 2), in order to propose, where applicable, to the Board of Directors adjustment of its targets and metrics to changes in the scope that had taken place during the year, as well as the incorporation of new beneficiaries.

- **Proposal to the Board of Directors of (i) the annual remuneration system for directors and its amount; (ii) the individual remuneration of executive directors and senior managers; and (iii) the basic conditions of their contracts**

The Nomination and Remuneration Committee reviewed and agreed to submit to the Board of Directors for its approval, the following items:

- (i) the remuneration policy for the Board of Directors, including, inter alia, the distribution of 2015 remuneration in favour of the directors which consist of (a) an amount established taking into account the charge and responsibility of the director, giving a higher weighting to the functions of Chairperson of the Board of Directors, Chairperson and members of the Committees payable in cash and company shares, and (b) fees for attending meetings of the Board of Directors and its Committees; and
- (ii) the remuneration policy of the Chief Executive Officer, Mr Ricardo Currás de Don Pablos, for the performance of his duties as a senior director, with respect to the bonus corresponding to 2014 and the rest of the components of his remuneration for 2015; the proposal that part of his remuneration shall be linked to the achievement of targets based on earnings and other parameters of activity; and approval the amendments to the executive director's contract, prior to the Board of Director's approval.

Likewise, the Nomination and Remuneration Committee has made a regular monitoring of the process to determinate the criteria for the remuneration of the directors, the Chief Executive Officer and senior managers for 2016.

- **Annual Report on Remuneration and consolidated remuneration policy for DIA's directors**

On 20 February 2015, the Nomination and Remuneration Committee drafted the 2014 Annual Remuneration Report of the directors, in accordance with the former Article 61 ter of Act 24/1988, of 28 July governing the stock market, currently included in Article 541 of the COMPANIES ACT, and presented it to the Board of Directors for approval and for submission to a consultative vote by the Annual General Meeting.

On the same date and, in the light of Article 529 septdecies of the Companies Act, according to which listed companies shall have a retribution policy for its directors, which describes and detail the different types of retribution that the said directors are entitled to, as well as the characteristics and foundations of the remunerations of the directors who undertake executives functions at the company, the Nomination and Retribution Committee submitted to the Board of Directors a proposal of retributions policy which was approved by the aforementioned Board.



- **Information to the Board of Directors on matters of gender diversity and, in particular, ensure that selection procedures for directors and senior managers do not have any implicit bias making the selection of female directors difficult**

The Nomination and Remuneration Committee has revised and monitored the indicators of parity and equality in DIA Group and the Company's policy on matters of gender diversity and equal opportunities, as well as the measures already implemented and that will be implemented in 2016.

In this respect, the Committee has set a representation target for the under-represented sex at the Board of Directors; a target which has been reflected, among others, in the selection policy approved by the Board of Directors, prior favourable report of the Committee.

Consequently, at the date of this report's adoption, the process of appointment by co-optation of a new female independent director proposed by the Committee has been successfully completed. The said appointment fills the last vacancy of those produced after the resignation of the proprietaries directors on 17 June 2015. The appointment also serves to achieve the objective of recommendation 14 of the Code of Good Governance, according to which, in 2020, at least 30% of the members of the Board of Directors should be females directors.

- **Approval of the selection policy to be submitted to the Board of Directors**

The Nomination and Remuneration Committee agreed, at its 11 December meeting in 2015, to submit the selection policy to the Board of Directors in order it approves it and with the aim of setting indicative criteria in terms of directors' selection to guide both the Board's and the Nomination and Remuneration Committee's activity on this area.

In accordance with the recommendation of the Code of Good Governance, the said policy (i) is precise and verifiable, (ii) guarantees that the appointment or re-election of directors proposals are based on a previous analysis of the needs of the Board of Directors, and (iii) promote diversity and plurality of knowledge, experiences and gender within the Board.

- **Succession plans**

The Committee has pushed through the preparation of succession plans for the Chairwoman and the first executive of the company in order to guarantee the said succession happen in an ordinated a planned way. The succession plan had been approved for the first executive of the Company, although the Committee is still working on the succession plan for the Chairwoman.

#### **IV. Meetings held in 2015**

The Company's Nomination and Remuneration Committee formally met six times in 2015 (including issue of the mandatory minutes), adopting resolutions in writing and without holding a meeting on another occasion. All the meetings have been attended by all the members of the Committee, either personally or duly represented. In addition, the members of the Committee have carried out regular working session by means of phone or videoconference, between them and with the Human Resources management team of DIA Group.

Furthermore, during the second semester of 2015 the Committee held three additional meetings (without it being necessary to draft minutes because of the nature of the meetings) within the framework of those works necessary to design and draft the new Long-term Incentives Plan for the period 2016-2018 (LTIP 3).



In compliance with Article 39 of the Regulation of the Board of Directors, this Committee met as often as necessary to perform its functions.

**V. Proposals for improvement**

In 2015, the Nomination and Remuneration Committee has monitored the corporate governance reforms that have been materialised in Law 31/2014, of 3 December, amending the COMPANIES ACT to improve corporate governance.

Pursuant to this Law, the Nomination and Remuneration Committee has carried out an exhaustive analysis of the amendments to the regulations in the field of corporate governance. In addition to having implemented several amendments in this regard, there are still to implement some plans or policies such as the plan for the chairperson's succession or the evaluation of the degree of compliance and implementation of the Selection Policy and review the new applicable regulations that come into force this year (for example the new Accounts Auditing Law).

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Madrid, 23 February 2016