



**ANNUAL REPORT FROM THE NOMINATION AND REMUNERATION
COMMITTEE OF DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.
YEAR: 2016**

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 2016, 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 39.9 of the Regulation of the Board of Directors of DIA, and pursuant to the recommendations on good corporate governance for listed companies. This report also complies with the provisions of Article 529 nonies of Legislative Royal Decree 1/2010 of 2 July, which approves the consolidated text of the Spanish Companies Law (the “**Companies Law**”), which stipulates that the Board of Directors shall evaluate the operation of its committees once a year, based on the report issued by each of them, and in this specific case by the Nomination and Remuneration Committee.

This report will be available to shareholders and investors on the Company's website (www.diacorporate.com) from the moment that the Annual General Meeting is convened.

II. Structure

According to article 42 of the Bylaws and article 39 of the Regulation of the Board of Directors, the Nomination and Remuneration Committee will solely consist of external or non-executive directors, mostly independent, in the number determined by the Board of Directors, with a minimum of three and a maximum of five. The members of this Committee will be appointed by the Company's Board of Directors.

It will be ensured that all committee members have the necessary knowledge, skills and experience for the duties assigned. To this effect, both their professional knowledge and experience, gathered when performing tasks directly related to those matters, will be taken into account, as well as any knowledge and experience resulting from, amongst others, management and executive tasks and responsibilities that have a relevant impact on said matters (e.g. CEOs, top executives or senior managers supervising and controlling human resources, corporate governance, remuneration policies, etc.).

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

The members of the Board of Directors, management team or Company staff will be obliged to attend Committee's meetings to collaborate and provide access to any information they may have, at the Committee's request. Furthermore, if it deems this necessary for the adequate performance of its tasks, it may be advised by external experts.

The composition of the Nomination and Compliance Committee at the 2016 year close was as follows:



Name of director	Type of director	Position in the Committee
Mr Mariano Martín Mampaso	Independent outside director	Chairman
Mr Antonio Urcelay Alonso	Independent outside director	Director
Ms Angela Spindler	Independent outside director	Director

Mr Mariano Martín Mampaso was appointed independent outside director 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 Madrid Complutense University. In 1976 he joined Procter & Gamble, where he spent 33 years, holding different responsibilities in Spain and elsewhere. In June 2009 he retired from his position as the company's world sales president. He has been a member of the Board of Directors of Asociación Española de Codificación Comercial (AECOC), of the Governing Board of GS1 US, of the Executive Board of Global Commerce Initiative and of the Board of Directors of Zinkia Entertainment S.A.

On 11 May 2016, Mr. Martin was re-elected Chairman of the Committee, a position he had been holding since May 2015.

Mr Antonio Urcelay Alonso was appointed independent outside director on 5 July 2011 and re-elected on 25 April 2014. He was elected as director on 25 June 2015. Mr Urcelay is a graduate in Law from Madrid Complutense University. During his career, he has held the following posts, amongst others: Marketing Department of Procter & Gamble, General Manager of Ahold España, a practising lawyer at J. y B. Cremades, General Manager of the Digma, S.A. supermarket chain and, subsequently, of Leche Pascual, S.A. In 1996, he joined Toys R Us, where he has held various positions in Spain and abroad. Between 2013 and June 2015, he chaired the Board of Directors of Toys R Us Inc. and was appointed CEO, with responsibility for the company's entire business worldwide. In 2016, he was a member of the Board of Directors of Tuc Tuc, S.L. and, since 2016, he is a member of the Board of Directors of the following companies: Calidad Pascual, S.A., Corporación Empresarial Pascual, S.L. and Kipenzi, S.L.

Ms Angela Spindler was appointed independent outside director on 15 February 2016 by co-option and ratified by the Annual General Meeting on 22 April 2016 as director, the date on which she was also elected as a member of the Committee through a Board resolution. Ms Spindler is a graduate in Psychology from Manchester University. In 1983, Ms Spindler began her career by working in the sales and marketing area at different companies such as Cadbury Plc., Coca Cola Schweppes Beverages Ltd. and Pedigree Masterfoods. She later became an executive manager and carried out business transactions at Asda Stores Ltd., between 1997 and 2007, and at Debenhams Plc in 2008. Likewise, between 2009 and 2013, Ms Spindler became the CEO of The Original Factory Shop Ltd. She is currently the CEO of N Brown Group PLC and a director of its operating company, JD Williams & Company Limited.

To fill the vacancy left by former director Mr Pierre Cuilleret, Ms Spindler was elected as a member of the Committee on 22 April 2016.



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

Further to the foregoing and as the Committee consists of three directors -all of whom are independent- the composition of the Nomination and Remuneration Committee on 31 December 2016, conforms to the Articles of Association and Board Regulation. Furthermore, the Nomination and Remuneration Committee fulfils article 529 quincecies of the Companies Law; and with the recommendations on good corporate governance of the Code of Good Governance for listed companies, approved by the Spanish National Securities Market Commission (CNMV) dated February 2015 (the "**Code of Good Governance**"), which recommends (particularly recommendation n. 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 529 quincecies of the Companies Law, Article 42 of the Articles of Association and Article 39 of the Regulation of the Board of Directors, in 2016 the Nomination and Remuneration Committee carried out the functions assigned, including the following:

1. Assessment of the competences, knowledge, experience and level of dedication of the members of the Board of Directors

The Nomination and Remuneration Committee continued to periodically assess the competences, knowledge, experience and level of dedication of the members of the Board of Directors.

As part of the process, the Committee coordinated the annual process of assessing the performance, quality and efficiency of the Board of Directors as a body, and the individual work carried out by the top manager of the Company, 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. This is part of the policy of compliance with the rules under Article 529 nonies of the Companies Law and Recommendation 36 of the Code of Good Governance.

Additionally, in 2016 and during the selection of the new directors designated by the Company (see section 2 below), a detailed analysis was made of the individual and group profile of the Board and of the specific needs in the light of the DIA Group's business characteristics themselves, of its current and future geographical implementation, of the requirements defined in its strategic plan and of the new challenges resulting from the digital evolution. The analysis concluded by identifying the skills that the Board must have and has enabled the Company to identify the Board's improvement areas which, in turn, enabled the selection processes to be actively aimed at identifying the suitable candidates for contributing to the general improvement of the Board's operations and at increasing the value generated by the Board for the Group.

In this sense, the Board believes that the capabilities regarding their experience and knowledge in



- (a) administration and management of commercial resources and new commercial operation models in international markets,
- (b) digital environment and capitalisation of opportunities provided by the technological revolution,
- (c) efficient management of the value chains in the retail distribution markets, and
- (d) accounting, financial and risk management

have been considerably reinforced as a result of the new members in the last 18 months (Mesdames Spindler and Garaña; Messrs Nin and de la Cierva).

2. Informing and submitting to the Board of Directors the proposals for appointments of independent directors

During 2016, the Board carried out a process to seek and select new candidates to fill the director vacancies as a result of directors leaving the Company in 2015 and 2016 and who had not yet been replaced (Messrs Moussalem and Cuilleret, and Ms Portela).

To do this, the Committee carried out three in-depth selection processes, based on the guiding director selection criteria included in DIA's Directors Selection Policy approved in 2015.

At all times, the Committee was advised by external firms specialising in identifying and attracting potential candidates (Russell Reynolds in the cases for appointing Ms Spindler and Mr de la Cierva, and Spencer Stuart in the case for appointing Ms Garaña).

To this end, the Committee defined the functions and capacities required of the candidates to fill each vacancy, as well as the competences, knowledge and experience required by the Board of Directors, and assessed the precise amount of time and degree of dedication necessary for them to effectively perform their duties.

The processes were led by the Committee and, after the pertinent in-depth examination of the candidates and the corresponding interviews by a large number of directors in each case, the final conclusions regarding the corresponding proposals were drawn.

Therefore, on 3 February 2016 the Nomination and Remuneration Committee submitted to the Board the proposal to appoint by co-option the independent director Ms Angela Lesley Spindler, who accepted on 15 February 2016, for the period until the following Annual General Meeting, being therefore her appointment ratified on 22 April 2016.

On 5 September 2016, the Nomination and Remuneration Committee submitted to the Board the proposal to appoint by co-option the independent director Mr Borja de la Cierva Álvarez de Sotomayor, who accepted on the same date, for the period until the next Annual General Meeting, where his appointment is expected to be ratified.

On 14 December 2016, the Nomination and Remuneration Committee submitted to the Board the proposal to appoint by co-option the independent director Ms María Garaña Corces, who accepted on the same date, for the period until the next Annual General Meeting, where her appointment is expected to be ratified.

In all the cases, the Committee made sure that the information available to the shareholders and the market in general about the personal and professional profiles of the new directors was sufficiently complete and transparent, thus enabling them to have a satisfactory opinion about their suitability.



3. Reporting and submitting to the Board of Directors the proposal to re-elect certain independent directors and the Chief Executive Officer

On 11 March 2016, the members of the Nomination and Remuneration Committee unanimously resolved to provide a favourable report to the Board of Directors regarding the re-election of Ms Ana María Llopis and Mr Julián Díaz as directors and of Mr Ricardo Currás de Don Pablos as the Chief Executive Officer. To this end, it analysed in detail the contribution made during their mandates by the directors in question, as well as their positioning and capabilities to continue providing value and performing their duties, finally concluding that the re-election of those directors would reinforce the Board's skills.

4. Re-election of the Chairperson of the Nomination and Remuneration Committee

On 11 May 2016, the members of the Nomination and Remuneration Committee resolved to appoint Mr Mariano Martín Mampaso as Chairman of the Committee for a one-year term.

5. Supervision of compliance with the rules on corporate governance applicable to the Company, so that it achieves its mission to foster corporate interest and take into account, as appropriate, the legitimate interests of other stakeholders

At its meeting on 23 February 2016, the Committee examined the personal and professional situation of all the directors and unanimously proposed the Board to maintain the same director category they held until then.

The Committee also reviewed the 2015 Annual Corporate Governance Report and, in 2017, it has already started to review the 2016 Annual Corporate Governance Report which, in accordance with Article 538 of the Companies Law, must be included in a separate section in the directors' report, making sure that the following were complied with: (i) Order ECC/461/2013 of 20 March, which determines the content and structure of the annual corporate governance report, of the annual report on remuneration and other reporting instruments of listed companies, savings banks and other institutions that issue securities admitted to trading in official securities markets; and (ii) CNMV Circular 5/2013 of 12 June, which establishes the annual corporate governance report forms for listed companies, savings banks and other institutions that issue securities admitted to trading in official securities markets, as amended by virtue of CNMV Circular 7/2015 of 22 December.

Furthermore, according to Article 4.2 of the Regulation of the Board of Directors, the Nomination and Remuneration Committee proposed to the Board of Directors to amend the Regulation of the Board of Directors and the Internal Code of Conduct with the main purpose of: (i) introducing the legal changes arising from the entry into force of Audit Act 22/2015 of 20 July and Regulation 596/2014 of 16 April 2014 of the European Parliament and of the Council on market abuse and its implementing regulations; and (ii) introducing technical improvements to clarify the meanings of some matters, perfect the wording and facilitate its understanding.

6. Analysing, drafting and periodically reviewing 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 senior management and other Company employees



- Remuneration policy for senior management

On 23 February 2016, the Nomination and Remuneration Committee reviewed and agreed to submit to the Board of Directors, for its final approval, the variable remuneration for Senior Management and for the executive director corresponding to 2015 and the remuneration policy corresponding to 2016 (in particular, with reference to the proposal to set in the 2016 Salary Review and the bonus targets for 2016).

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

Similarly, the Nomination and Remuneration Committee monitored the design and drafting of a new Long-Term Incentive Plan for the 2016-2018 period (LTIP III), with advice from an external expert, during the second half of 2015 and the first half of 2016. In February 2016, it agreed to submit to the Board of Directors the proposal for the general design of that Plan, which would later be submitted to the shareholders.

Once it was finally approved by the Company's Annual General Meeting on 11 May 2016, the Committee approved its functioning rules and the communication plan, which was submitted to the Board for final approval.

- Long-term Incentive Plan for DIA Group 2014-2016

Also in 2016, the Nomination and Remuneration Committee monitored in detail the Company's Long-Term Incentive Plan for 2014-2016 (LTIP) and monitored its targets and metrics, as well as the possible inclusion of new beneficiaries.

7. 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 resolutions, among others:

- (i) the remuneration policy for the Board of Directors, including, inter alia, the distribution of 2016 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 2015 and the rest of the components of his remuneration for 2016; and the proposal that part of his remuneration shall be linked to the achievement of targets based on earnings and other parameters of activity.

Likewise, the Nomination and Remuneration Committee monitored the process to establish the criteria for the remuneration of the directors, the Chief Executive Officer and senior managers for 2017.

8. Annual report on remuneration and consolidated remuneration policy for DIA's directors

On 23 February 2016, the Nomination and Remuneration Committee drafted the 2015 Directors' Annual Remuneration Report, in accordance with Article 541 of the Companies



Law, and presented it to the Board of Directors for approval and for submission to a consultative vote by the Annual General Meeting.

9. Informing the Board of Directors on matters of gender diversity and, in particular, ensuring 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 reviewed 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 2017.

In this sense, the Committee made sure that the procedure and selection of new directors favoured diversity in gender, experience and knowledge among the Board and did not have any implicit bias that would jeopardise the selection of female directors or lead to discrimination.

At the date of approving this report, the process of appointment by co-option of a new female independent director (Ms María Garaña) proposed by the Committee has been successfully completed. The said appointment fills the last vacancy of those produced after the resignation of the independent directors in 2015 and 2016 and in 2017 meets Recommendation 14 of the Code of Good Governance, according to which at least 30% of the members of the Board of Directors should be female directors by 2020.

10. Succession plans

Within the framework of its tasks to examine and organise the succession of the Chairperson and Chief Executive Officer, in 2016 the Committee continued with the periodic examination of the principles governing the succession of both positions and, on 22 February 2017, this culminated with the proposal to the Board to approve a Succession Plan which makes sure that this is done in an orderly and planned manner.

Additionally, the Committee periodically examined the succession plans implemented at Group level in relation to all the senior management posts and other key positions in the organisation, plans which include identifying the candidates to fill each post both in the short term (as a result of an unexpected permanent situation) and in the medium and long term (internal promotion), as well as development and training programmes to reinforce the capabilities of the managers affected by the plans and ensure continuous improvement in their skills to take over the corresponding position.

11. Other matters of interest regarding the policies related to the Group's human resource management

During the year, the Committee was periodically informed of the main management decisions regarding the Group's human resources. The main activities monitored by the Committee were as follows:

- the periodic update of the Company's human resource classification system and of the DIA Group's talent management;
- the approval of a Strategic Human Resources Plan for the next three years; and
- the drawing up of a Talent Management Plan at the Group.



IV. Meetings held in 2016

The Company's Nomination and Remuneration Committee held eight formal meetings over the 2016 financial year, adopting resolutions in writing and without holding a meeting on another occasion (including recording the corresponding minutes). All the meetings convened were attended by all the Committee members, in person or by telephone.

In addition, the Committee members hold periodic work meetings by remote means (conference calls and video conference calls), both between themselves and the managers of the Human Resources Department of the DIA Group. In 2016, the Committee held numerous additional meetings (which did not require minutes because of their nature) within the work required for designing and drafting the new Long-Term Incentive Plan for 2016-2018 (LTIP III) and an extra meeting with the Nomination and Remuneration Committee to jointly assess the results under the Long-Term Incentive Plan for 2014-2016 (LTIP II).

Consequently, the Committee met with the necessary frequency for the good performance of its duties, complying, in any case, with Article 39.5 of the Regulation of the Board of Directors, which establishes that it must meet as many times as necessary, in the Chairperson's opinion, who must convene a meeting whenever a report has to be issued or proposals have to be adopted and, in any case, provided that this is appropriate for the good performance of its duties.

V. Proposals for improvement

In 2016, the Company's internal regulations were reviewed with the aim of adapting it to the entry into force of Audit Act 22/2015 of 20 July and Regulation 596/2014 of 16 April 2014 of the European Parliament and of the Council on market abuse and its implementing regulations.

Additionally, the Committee monitored and implemented the Directors Selection Policy in the appointments described in this report and, at the date of this report, the approval of the succession policies and plans for the Chairperson and Chief Executive Officer had been culminated.

The inclusion of Ms Spindler on the Committee has enabled it to fill the vacancy with full guarantees after Mr Pierre Cuilleret left the Company. Ms Spindler's experience in her career, especially her current responsibilities as a CEO at several companies and her knowledge of the English-speaking market, grants her special value when contributing to the performance of the Committee's duties.

* * *

In Madrid on 22 February 2017