



**ANNUAL REPORT FROM THE NOMINATION AND REMUNERATION
COMMITTEE OF DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.
YEAR: 2017**

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 2017, 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 publicly traded 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 Corporate Enterprises Act (the “**Companies Act**”), 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 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 these matters, will be taken into account, as well as any knowledge and experience resulting from management and executive tasks and responsibilities that have a relevant impact on said matters, amongst others (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 must be an independent director. The chairperson will be replaced every four years and may be re-elected one year after leaving office.

When the Committee requests this, the members of the Board of Directors, management team and Company staff will be obliged to attend all meetings of the Committee, collaborating and providing access to any information they may have. 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 2017 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	Other outside director	Director
Ms Angela Spindler	Independent outside director	Director

Mr Mariano Martín Mampaso was appointed 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 and on 28 April 2017, the date on which he was also re-elected as member of the Committee.

On 28 April 2017, Mr Martin was re-elected as Chairman of the Committee, a position whose functions he had been carrying out since May 2015, for a period of one year.

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 resigned from his last 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.

Mr Antonio Urcelay Alonso was appointed director on 5 July 2011 and re-elected as such on 25 April 2014 and 28 April 2017. He was elected as a member of the Committee on 25 June 2015 and re-elected on 28 April 2017.

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 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 responsible for its operating company, JD Williams & Company Limited.



Mr Ramiro Rivera Romero, who is the Secretary of the Company's Board of Directors, acts as non-member Secretary of the Nomination and Remuneration Committee; while Mr Miguel Ángel Iglesias Peinado, non-director Vice Secretary of the Board of Directors and Manager of the Company's Legal Services department and responsible for the Company's Regulatory Compliance Unit, is the non-member Vice Secretary of the Committee.

Further to the foregoing and as the Committee consists of two independent directors and one outside director, the composition of the Nomination and Remuneration Committee at 31 December 2017 conforms to the Articles of Association and Board Regulation. Furthermore, the Nomination and Remuneration Committee fulfils article 529 quincecies 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 proposes (particularly Recommendation 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 and tasks carried out in 2017

In compliance with its functions under Article 529 quincecies of the Companies Act, Article 42 of the Articles of Association and Article 39 of the Regulation of the Board of Directors, in 2017 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 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 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 Act and Recommendation 36 of the Code of Good Governance.

That assessment was made for 2016 in the period which ended on occasion of the meeting held on 22 February 2017, which resolved to complete and approve the Committee's assessment in a satisfactory way under the terms of Article 6 of the Board Regulation and submit the report's conclusions to the Board of Directors. During the assessment, 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 completed in 2016 and 2017 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, it is understood that the capabilities regarding their experience and knowledge in



1. the administration and management of commercial resources and new commercial operation models in international markets,
2. the digital environment and the capitalisation of opportunities provided by the technological revolution,
3. the efficient management of the value chains in the retail distribution markets, and
4. the accounting, financial and risk management

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

That assessment was made for 2017 in the period which ended on occasion of the meeting held on 19 February 2018, which resolved to complete and approve the Committee's assessment in a satisfactory way under the terms set out above.

2. Informing and submitting to the Board the proposals for appointing a new First Deputy Chairperson

During the year, the Board positively assessed the designation of a First Deputy Chairperson within the powers granted under article 12 of the Board Regulation.

The objective of this new deputy chairperson, whose appropriateness was noticed as a result of the performance assessment of the Board and its chairperson in 2016, is to reinforce the areas of institutional representation and relations with investors, suppliers and employees, providing a more rational share-out of the numerous tasks carried out at that date by the Board Chairperson and by the Deputy Chairperson who had been designated until then, who has now become the Second Deputy Chairperson.

As a result, on 21 March 2017 the Committee members resolved to submit to the Board the proposal to designate a new First Deputy Chairperson and designate Mr Richard Golding as First Deputy Chairperson of DIA's Board of Directors.

3. Informing and submitting to the Board the proposal to re-elect certain directors

On 23 March 2017, the members of the Nomination and Remuneration Committee resolved to provide a favourable report to the Board of Directors regarding the re-election of Mr Antonio Urcelay Alonso as "other outside director". It also proposed the Board to re-elect Messrs Richard Golding and Mariano Martín Mampaso and ratify and re-elect Mr Borja de la Cierva Álvarez de Sotomayor and Ms María Luisa Garaña Corces, all of them as "independent directors".

For the favourable report and the preceding proposals, 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, 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 28 April 2017, 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. Submitting the proposals for promoting the Company's senior managers and amending the basic terms and conditions of their contracts

The Nomination and Remuneration Committee analysed the reasons and motives for the proposal to approve the promotion and the subsequent review and change of the status and remuneration of two senior managers.

After considering the managers' duties and hearing the CEO's report, and taking into account the targets they met and their superb performance, the Committee resolved to submit the proposal to the Board.

6. 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 22 February 2017, the Committee examined the personal and professional situation of all the directors and, in view of each case, it proposed the Board—in the voluntary absence of Mr. Urcelay to deal with this item because it affected him— to reclassify Messrs Juan María Nin and Antonio Urcelay Alonso as "other outside directors". Regarding the other directors, the Committee resolved to propose the Board to maintain the same director category as until then.

The Committee also reviewed the 2016 Annual Corporate Governance Report which, in accordance with Article 538 of the Companies Act, 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; and (ii) CNMV Circular 5/2013 of 12 June, regarding the matters in its competence.

7. Analysis, drafting and periodical review 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 senior management and other Company employees

- Remuneration policy for senior management

The Nomination and Remuneration Committee reviewed and submitted to the Board of Directors, for its final approval, all the matters regarding the variable remuneration for senior management and the Chief Executive Officer for 2016 (in relation to the final variable remuneration) and 2017 (in general and in relation to all the salary items); they were dealt with at the meetings held on 22 February, 21 March and 28 April 2017.

Likewise, since the meeting held on 26 July 2017, the annual process was implemented to review the salary policies for senior management and the Chief Executive Officer for 2018.

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

In 2017, the Nomination and Remuneration Committee periodically monitored in detail the Company's Long-Term Incentive Plan for 2014-2016 (LTIP II) and monitored its targets and metrics and, once the Plan's duration plan ended, it supervised its settlement and all its beneficiaries under the applicable terms.

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

Likewise, the Nomination and Remuneration Committee periodically monitored in detail the Company's Long-Term Incentive Plan for 2016-2018 (LTIP III) and its targets and metrics.



During that process, it also assessed the proposals for potential changes which affect the capex targets as well as the future effect of certain transactions on the various metrics and the composition of the peer group to calculate the ROSAG after the corporate transactions recently carried out by some competitors included in that group.

- Long-term Incentive Plan for DIA Group 2018-2022

The Committee members have also headed the design and preparation of a new multi-year incentive plan for the DIA Group (LTIP IV), a task where they have received advice from an external expert (Garrigues Human Capital Services) and which lasted throughout 2017. The new plan is expected to be submitted to the Board and, once it is approved, it will be presented and submitted to the 2018 Annual General Meeting.

8. 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) apply the remuneration policy for the Board of Directors, including, inter alia, the distribution of 2017 remuneration in favour of the directors in accordance with the same criteria and amounts agreed in the previous year; and
- (ii) apply 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 2016 and the rest of the components of his remuneration for 2017; 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 2018, a task where they received advice from an external expert (Mercer Consulting).

9. Annual Remuneration Report

On 22 February 2017, the Nomination and Remuneration Committee drafted the 2016 Annual Remuneration Report of the directors, in accordance with Article 541 of the Companies Act, and submitted it to the Board of Directors for approval and for submission to a consultative vote by the Annual General Meeting.

10. 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 2018.

To that end, the Committee resolved to conduct a comparative study on the salaries of male and female directors, explaining, where applicable, any differences. After analysing the study (at the meetings on 25 October and 14 December), the Committee members concluded that



there was a reasonable salary balance (fixed and variable remuneration) by gender and that there were no unjustified imbalances. Nevertheless, the Committee resolved to maintain its constant support so that the Group continues to foster the presence of more women in senior positions of responsibility.

Regarding the presence of women on the Board, it must be stated that a new female independent director (Ms María Garaña) was appointed by co-option, at the proposal of the Committee, which was later ratified by the Annual General Meeting on 28 April 2017. That appointment increased the number of female directors to three (out of a total of ten directors) and filled the last vacancy of those produced after the resignation of the independent directors in 2015 and 2016 and met Recommendation 14 of the Code of Good Governance in 2017, according to which at least 30% of the members of the Board of Directors should be female directors by 2020.

In accordance with article 540.4.c.6 of the Corporate Enterprises Act, in the wording introduced by Royal Decree-Law 18/2017 of 24 November, which amends the Spanish Code of Commerce, the consolidated text of the Corporate Enterprises Act approved by Legislative Royal Decree 1/2010 of 2 July, and Audit Act 22/2015 of 20 July regarding non-financial information and diversity, the Annual Corporate Governance Report of listed companies must include, among others, a description of the diversity policy applied in relation to the Board of Directors, including its objectives, the measures adopted, the way in which they have been applied, and the results in report presentation period, as well as the measures which, where applicable, have been resolved to that end by the nomination committee.

The Director Selection Policy (approved in December 2015 and inspired by article 19 of the Board Regulation) establishes, among others, the following principles which inspire the director selection procedures:

- It must not have an implicit bias nor discriminate on grounds of race, gender or any other type.
- It must favour diversity of knowledge, experience and gender among the Board.
- It must enable the Board of Directors to have diversity and plurality regarding the members' training, culture and internationalisation.
- To avoid hampering the selection of female directors, the Company must deliberately seek and include, among the potential candidates, women who meet the professional profile requirements with the target that in 2020 the number of female directors should represent at least 30% of all the members of the Board of Directors.

Likewise, the Selection Policy requires that all the candidates must have the necessary training, qualifications and professional experience, thus favouring the Board's cultural diversity and internationalisation.

The recent experience in applying such rules shows that age, disability or gender are not an obstacle to join the Company's Board and, where applicable, retain the talent in the last few years.

Moreover, further to the provisions derived from amendments made to the Corporate Enterprises Act in corporate governance matters, the Nomination and Remuneration Committee was entrusted with establishing a representation target for the least represented gender on the Board and has engaged itself in achieving this target. As a result of such efforts,



the Company now fully meets the target set out in Recommendation 14 of the Code of Good Governance.

11. Succession plans

Within the framework of the tasks to examine and organise the succession of the Chairperson and Chief Executive Officer, in 2017 the Committee continued analysing the principles governing the succession of both positions; the process was 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.

12. 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 two 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; and
- the supervision and approval of the DIA Group's corporate reorganisation in March 2017, aimed at an efficient resource management at the Group and full dedication and an effective deployment of those resources at the service of the Group's strategic plan and of the Group's performance and business in recent years.

IV. Meetings held in 2017

The Company's Nomination and Remuneration Committee held seven formal meetings in 2017. 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 2017, the Committee held numerous additional work meetings within the work required for designing and drafting the new Long-Term Incentive Plan for 2018-2022 (LTIP IV) and extra meetings with the Audit and Compliance Committee to jointly assess the state of the Long-Term Incentive Plan for 2016-2018 (LTIP III). Likewise, the Committee members met by telematic means to deal with and review the remuneration criteria for the Board, the Chief Executive Officer and the senior management.

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.

When deemed appropriate, such as analysing the remuneration benchmarks and analysing the market regarding the remuneration policy, the Committee has received advice from external experts, who have enriched the debate and the Committee's decision-making.

* * *

In Madrid on 19 February 2018