EXPLANATORY REPORT BY THE NOMINATIONS AND REMUNERATIONS COMMITTEE ON THE DIA LONG-TERM INCENTIVE PLAN 2016-2018 FOR EXECUTIVES OF DIA GROUP

1. Rationale of the Plan

Upon the initial listing of Distribuidora Internacional de Alimentación, S.A. (“**DIA**” or “**the Company**”) on the Spanish stock exchange, DIA implemented a Long-Term Incentive Plan that was approved by the General Shareholders’ Meeting held in June 2012, covering the performance period of 2011–2014.

Afterwards, the Board of Directors of DIA proposed for its approval by the Shareholders’ Meeting which, in 2014, approved a Long-Term Incentive Plan for the period 2014-2016 (the “**2014-2016 Incentive Plan**”).

Based on the experience gained from the aforementioned incentive plans, the feedback from investors and the advice from external advisors, the Board of Directors of DIA intends to sustain its long-term incentive policy by proposing the implementation of a new long-term incentive plan for 2016-2018 (the “**Incentive Plan 2016-2018**” or the “**Plan**”) addressed to the Company’s Executive Director, management team and key people of the Company, which will be submitted for approval by the Company’s Shareholders’ Meeting.

The implementation of a policy of successive overlapping plans is an effective instrument as it promotes a constant, beneficial drive towards the long-term achievement of the Company’s strategic goals and of the need to create value for the shareholders.

The Incentive Plan 2016-2018 will pursue the following objectives:

- Align the compensation of the management with the interests of the Company and its shareholders.
- Serve as an incentive for achieving results and the strategic objectives of the Company for the period 2016-2018.
- Attract and retain key performance contributors.
- Build management's participation in the share equity of the Company.

The Incentive Plan 2016-2018 follows the same structure as the previous Plan, i.e., it consists of an assignment of units ("RSUs") that will serve as a basis for determining the number of DIA shares to be awarded to the participants if the operating targets set in the Plan are met. Where those targets are met, the final number of shares to be awarded will be calculated by applying a multiplier, which depends on the value creation target ("TSR") during the period 2016-2018, to the shares initially determined according to the degree of achievement of the operating targets.

The Nominations and Remunerations Committee ("**N&R Committee**"), pursuant to its authority, continually analyzes and revises the remuneration policy of the executive director and senior managers of the Company, in order to adapt it to the best practices and recommendations made by the institutional investors, proposing to the Board of Directors the necessary modifications and improvements in the Company's remuneration policy.

Considering the experience in previous incentive plans and following the market recommendations, and in order to adapt the Company's remuneration policy even more to market trends, the N&R Committee has considered it advisable to include some modifications in the new Incentive Plan with respect to the Plan that was established in 2014.

Thus, for the period 2016-2018, the following changes have been proposed with respect to the previous Plan:

- Two operation metrics have been introduced, rather than one.

- Greater weight has been placed on the operation metrics (in the case of the Chief Executive Officer (the "CEO"), 60% rather than the 20% of the preceding Plan) and the weight of the TSR metric has been reduced (in the case of the CEO, 40%, rather than the 80% of the preceding Plan).

- The metrics selected are the cash flow and sales parameters, measured in organic growth.

- Three levels of achievement of the operation metrics have been set, which will therefore determine three levels of achievement of the incentive associated to each metric.

- One of the operation metrics is measured on relative terms in comparison to a group of comparable companies ("peer group").

- The Plan maintains the same initial assignment of the incentive for the CEO as the previous Plan, that is, the assignment of RSUs represents for the three years of duration of the Plan 5 times the CEO's fixed compensation in 2016, assuming a 100% achievement of targets. However, in order to provide a special incentive to potentially reach exceptional results, the Plan establishes that, in case of "outperformance", the maximum incentive of the CEO can reach up for the three years of duration of the Plan to 6.25 times his fixed compensation.

- The Plan establishes the obligation for the CEO and members of the Executive Committee to keep shares received under the Plan in order to adapt the Plan to the national and international recommendations of good governance.

The fundamentals and the analysis made by the N&R Committee of the main aspects of the Plan are as follows.

2. Fundamentals and analysis

The N&R Committee has worked on the proposal of an Incentive Plan 2016-2018 in order to reward the successful implementation of strategy and the creation of value for shareholders over a time period that reflects the Company's strategic objectives.

The determination of the most appropriate metrics in this type of plan is undoubtedly an important task of the N&R Committee, considering the impact on the fulfillment of the Company's strategic objectives.

The metrics selected for the new Plan and the justification for that selection are summarized as follows:

2.1 Metrics selected

In order to propose the metrics of the new Plan, the N&R Committee has reviewed the incentive and compensation practices of other public companies in Spain as well as of international food retail groups, the recommendations of the market and institutional investors.

After analyzing the market[1], the N&R Committee has taken into account the following recommendations, among others, when establishing the Plan's metrics:

- Where operational measurements are used, they would generally be expected (i) to include, subject to business strategy, one or more measures relating to overall business volume or growth, (ii) to include one or more measures relating to business efficiency or profitability, and (iii) to avoid the risk of providing an implicit incentive to take undue operational or financial risks or, in particular, to adopt an unduly risky capital structure.

- Multiple criteria may be chosen, and they must be sufficiently stringent. They may relate to value creation for the shareholder (share price, total shareholder return -TSR) and to the medium and long-term objectives of the strategic plan.

[1] The N&R Committee's analysis of the market recommendations was based on the guidelines issued by the following institutions: ERAFP, Glass Lewis & Co., ISS and the Investment Association.

- We believe measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance than a single metric, and multiple metrics are less easily manipulated. We recommend using parameters that entail a challenge and motivate the executives to strive to achieve exceptional results.

- Performance standards must be fully disclosed, quantified, and long-term, with relative performance measures preferred.

In view of all of the above, and as a result of the N&R Committee's analysis of the current situation of the Company after the period of acquisitions and inclusions of other companies over the last years, it has considered that the new Incentive Plan is correctly aligned with the Company's strategy plan through the use of two operation metrics, which the Committee considers as the most appropriate measures on which the obtainment of the incentive should depend.

The two operation metrics selected by the N&R Committee for the new Incentive Plan 2016-2018 are the following:

- "*Cumulative Organic Cash From Operations*" (CFO) of the DIA Group for the period 2016-2018.

- "*Relative Organic Sales Average Growth"* (ROSAG) of the DIA Group for the period 2016-2018.

For these purposes, the DIA Group is deemed to be formed by the Company and its subsidiaries.

The N&R Committee considers that these operation metrics are a good indicator of the organic growth of the DIA Group; the first emphasizes the cash generation target with the relevant impact on the financial stability and growth of net income of the DIA Group, while the second focuses on the impact on growth in sales as a parameter for determining the DIA Group's business performance on the medium and long term. Both metrics are measured on organic terms, that is, without taking into account possible differences caused by mergers, acquisitions or other corporate transactions. The targets have been defined at a constant exchange rate.

Following is a description of each of the metrics selected:

2.1.1 "*Cumulative Organic Cash From Operations*" (CFO)

"*Cumulative Organic Cash From Operations*" (CFO) is a parameter for measuring the cash flows generated by a company's operating activities. The N&R Committee has elected to include that operating metric given that it is a significant indicator for investors, which reflects the capacity of DIA Group's operating activities to generate cash.

The CFO is the organic Cumulative Adjusted EBITDA of the period minus organic Cumulative CAPEX and minus organic Cumulative Nonrecurring Costs, pursuant to the financial statements for fiscal years 2016, 2017 and 2018.

The N&R Committee has decided that the CFO shall represent 40% of the final number of shares to be awarded to the CEO.

The N&R Committee has considered it appropriate to include an operating metric based on the cash flows generated by the operating activities of DIA Group after having studied the metrics included in the long-term incentive plans implemented by other international groups in the food industry.

The N&R Committee has established the following degree of achievement of the CFO derived from the accounts relating to the period 2016-2018, according to the following scale:

Level	**CFO (€ million)**	**Degree of achievement**
Minimum	700	70%
Target	800	100%
Outperformance	900	125%

According to that scale:

- Below the required 70% minimum achievement of the target, no incentive will be received in relation to this indicator.

- If the CFO target reaches €800 million, 100% of the incentive relating to this target will be obtained.

- If the target is achieved at the "outperformance" level, the incentive relating to this target could reach 125%, in order to motivate and incentivize the achievement of exceptional results.

The degrees of achievement of the targets falling between the intermediate ranges indicated will be calculated by linear interpolation.

2.1.2 "*Relative Organic Sales Average Growth*" (ROSAG)

The N&R Committee has considered it appropriate to include an operation metric based on the Company's sales given that it constitutes a relevant indicator in the food industry and for the DIA Group.

To comply with the market recommendations, the N&R Committee has decided to introduce a metric in the Incentive Plan 2016-2018 whose achievement is measured on relative terms in comparison to the peer group.

In this regard, from the review of the market[2], the N&R Committee has extracted as a conclusion that it is recommendable to include at least one relative performance metric that compares the Company's performance to a relevant peer group or index.

The "Relative Organic Sales Average Growth" (ROSAG) is a parameter for measuring the organic growth of a DIA Group's sales in comparison to a peer group, without taking into account possible differences caused by mergers, acquisitions or other corporate transactions. The N&R has elected to include that operating metric given that it is a good indicator of the management of internal resources for increasing profits.

The N&R Committee has decided that the ROSAG shall represent 20% of the final number of shares to be awarded to the CEO.

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[2] See footnote 1 above.

In this regard, the N&R Committee has decided to include in the peer group representative multinational companies from the food industry and with a similar geographic scope as that of DIA Group (Europe and South America). These companies are: Casino, Carrefour, Tesco, Cencosud, Sainsbury, Pão de Açúcar, Jeronimo Martins, Colruyt, Ahold, Delhaize, P&G, Nestlé, Colgate-Palmolive, Unilever and Mondelez

The N&R Committee has established the following degree of achievement of the ROSAG derived from the financial statements of the period 2016-2018, compared to the peer group mentioned above, according to the following scale:

Level	**ROSAG (peer group's position in the ranking)**	**Degree of achievement**
Minimum	Median	70%
Target	75^{th} percentile	100%
Outperformance	90^{th} percentile	125%

According to the above scale:

- If the performance of this metric on comparative terms during the measurement period falls below the median of the peer group, no incentive will be generated in relation to this indicator. If it is situated at the median, the incentive relating to this target will be deemed met by 70%.

- If the performance of this indicator at the DIA Group falls within the 75^{th} percentile of the peer group, 100% of the incentive relating to this target would be achieved.

- If the performance of this indicator at the DIA Group falls within the 90^{th} percentile of the peer group, the incentive relating to this target could reach up to 125%, in order to motivate and incentivize the achievement of exceptional results.

Following the market recommendations, the Company's position below the median of the peer group will not generate any incentive in relation to this metric.

The degrees of achievement of the target falling between the intermediate ranges indicated will be calculated by linear interpolation.

2.1.3 "*Annual Total Shareholder Return*" ("Annual Cumulative TSR")

The N&R Committee considers it appropriate to include an external metric that links the remuneration of executives with the Company's performance and with changes in the long-term value of the Company's shares. The N&R Committee has reached the conclusion that the most appropriate external metric is the Annual Cumulative Total Shareholder Return ("Annual Cumulative TSR") on absolute terms.

It should be noted that the Plan has been designed in such a way that it is a condition *sine qua non* that the minimum targets relating to the operation metrics must be met in order to be able to apply the TSR ratio; if the operating targets are not met, no incentive will be paid under the Plan. The TSR ratio is established, therefore, as an additional target which applies exclusively if the business targets are met.

Annual Cumulative TSR, for the purposes of the Plan, measures the increase in value of DIA shares during the relevant period, assuming that dividends or any other cash payment is reinvested in additional DIA shares on the date of payment.

The N&R Committee understands that shareholders have a positive perception of financial measures linked to value creation. In this regard, TSR is the most widely used metric in the equity-based incentives implemented by companies as an indicator of value creation. In Spain, and according to the analysis carried out by the N&R Committee, many listed companies are currently using TSR as a metric in their equity-based incentives plans.

Just as in the previous Plan, the N&R Committee has proposed using the TSR as an absolute indicator of value creation. In this regard, the N&R Committee would like to point out that the position taken by the National Association of Pension Funds Limited (NAPF) in the United Kingdom is that the use of peer groups is not appropriate in all cases:

> *"We will push back on the use of peer group benchmarking. At the most senior levels, so-called peer comparisons are surely only a small part of what is needed to motivate and retain an executive. We would like to see boards take a more robust line when faced with peer comparisons. <u>We are often told that each company is unique; as such we would like to see boards reflect more upon the drivers needed to enact their own individual strategies and less comparing themselves against their "peers"</u>".*

In view of the above and bearing in mind the use of the TSR metric as a multiplier on the incentive resulting from the degree of achievement of the DIA Group's operating targets, the N&R Committee has maintained this indicator as a measurement metric on absolute terms.

In order to measure the performance of the Annual TSR, the N&R Committee has established that the reference used will be the average price weighted by the daily volume of the DIA share with respect to the 15 stock market sessions preceding the date of the approval of the call by the Board of Directors of the Shareholders' Meeting, scheduled for March 11, 2016, and the average price weighted by the daily volume of the DIA share with respect to the 15 stock market sessions following the date of publication of the results for 2018. The resulting TSR will be annualized taking into account the number of years comprising that period.

The performance of the Annual Cumulative TSR during the validity period of the Plan will determine the multiplier to be applied to the number of DIA shares, calculated according to the degree of achievement of the DIA Group's operation metrics. Applying that multiplier will result in the final number of shares that will be awarded to the CEO according to the following scale:

Annual performance of the TSR	***Multiplier of TSR***
15%	1.67
≤ 0%	1.00

The degrees of the TSR multiplier falling between the ranges indicated will be calculated by linear interpolation.

The N&R Committee has decided that the TSR shall represent 40% of the final number of shares to be awarded to the CEO.

2.1.4 Summary and weight of the metrics of the Plan 2016-2018

The following chart shows the metrics, the levels of achievement and their weight in the new Plan:

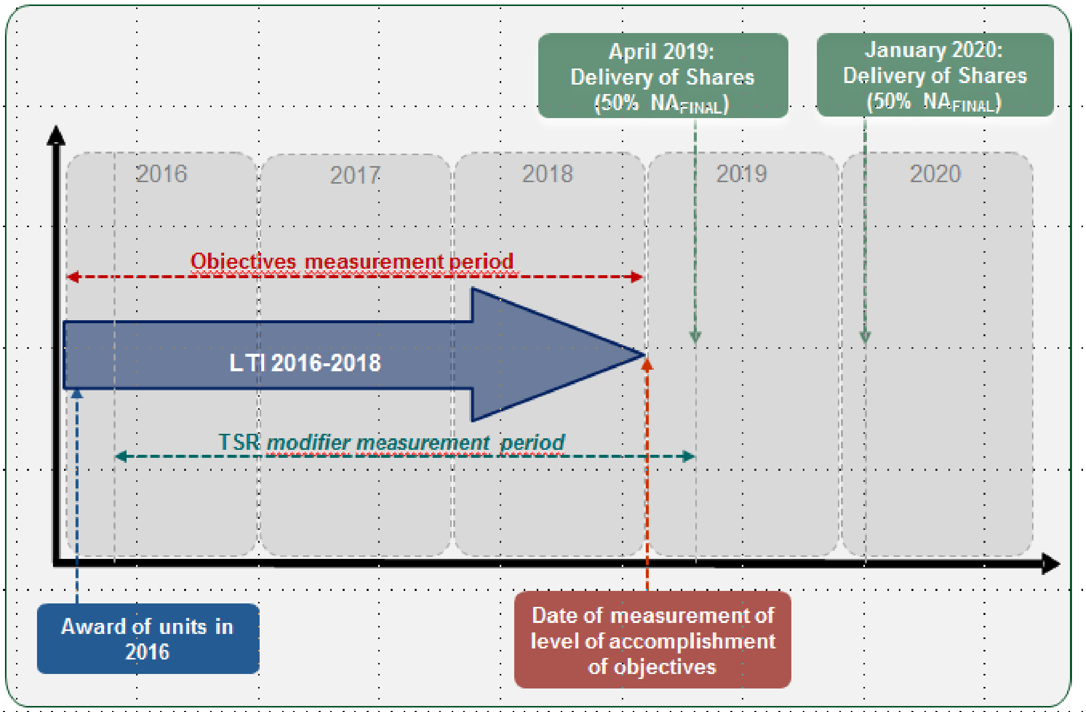
METRICS	LEVELS	m EUROS	DEGREE OF ACHIEVEMENT	WEIGHT
CFO				40%
	Minimum	700	70%	
	Target	800	100%	
	Outperformance	900	125%	
ROSCG		POSITION IN THE RANKING		20%
	Minimum	MEDIAN	70%	
	Target	75TH PERC.	100%	
	Outperformance	90TH PERC.	125%	
Annual TSR		PERFORMANCE ANNUAL TSR	Multiplier	40%
		≤0%	1.00	
		15%	1.67	

2.2 Duration

The Plan has a duration of three years (2016-2018), plus 2 years for the settlement (2019 and 2020).

In this regard, the shares will be awarded under the Plan in April 2019 and January 2020 The N&R Committee believes that said deferral in award enhances the retention element and is consistent with the intention of rewarding effective performance and avoiding payment for failure.

There follows a graphic depiction of the Plan:



2.3 Eligibility

The Incentive Plan 2016-2018 is addressed to the following persons: the Chief Executive Officer (the "CEO"), the Chief Corporate Officer ("CCO"), the members of the Executive Committee, managers with D status ("D's") and key personnel designated by the Company (a maximum of 220 persons).

2.4 Early settlement of the Plan

The Plan will provide for the possibility of early settlement of the shares in the event of a change of control or certain cases of termination of the employment or independent contractor relationship between the participant and the Company ("good leaver").

2.5 Maintenance of shares and clawback clause

In accordance with the market recommendations and those relating to good corporate governance by the Spanish National Securities Market, the CEO and the members of the Executive Committee will be required to keep the shares which they receive from their participation in the Incentive Plan 2016-2018 and following until they reach, within a period of five years, a number of shares equal to two times the CEO's fixed compensation.

In addition, the Company may require the CEO to return all or some of the shares awarded if any of the following circumstances arises during the 3 years following each of the share award dates:

- The CEO has been sanctioned for serious breach of the code of ethics and other internal legislation.

- It is detected that the liquidation and payment of the incentive pursuant to the Plan has been totally or partially based on information that is subsequently proven to be manifestly false or seriously inaccurate, or risks assumed during the period considered or other circumstances come to light which were unexpected and not assumed by the Company, that have a negative material impact on the income statements of any of the years of validity of the clawback period, where they affect the fulfillment of the general or particular conditions required of the CEO.

2.6 Effects for the shareholders

The number of DIA shares to be awarded pursuant to the Plan for a 100% achievement of operating targets and maximum achievement of TSR is 8,300,000 for all of the Plan's participants. In the event of outperformance of operating targets, the number of shares for all of the Plan's participants could reach 10,400,000

It is not the Company's intention to issue new shares but rather it will use current treasury stock or treasury stock acquired in the future in order to award the shares deriving for the participants under this Plan.

The N&R Committee considers that the impact of the Plan for the shareholders is reasonable and that it is consistent with the percentages that habitually exist in this type of plans at other listed companies.

In view of the foregoing, the N&R Committee proposes to the Board of Directors, for approval by the Shareholders' Meeting, the following resolution in relation to the Incentive Plan 2016-2018.