



**REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY “DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.” REGARDING THE RATIONALE FOR THE PROPOSAL OF THE SETTING THE NUMBER OF DIRECTORS AND APPOINTMENT OF NEW MEMBERS OF THE BOARD OF DIRECTORS INCLUDED IN ITEM TWO ON THE AGENDA FOR THE GENERAL SHAREHOLDERS’ MEETING CALLED FOR 19 APRIL 2018 AND 20 APRIL 2018, ON FIRST AND SECOND CALL, RESPECTIVELY**

**I. Purpose of the report**

This report is prepared by the Board of Directors of “Distribuidora Internacional de Alimentación, S.A.” (“**DIA**” or the “**Company**”) in compliance with the provisions of paragraph 5 of article 529 decies of Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Companies Act (*Ley de Sociedades de Capital*) (the “**Spanish Companies Act**”), in order to assess the competence, experience and merits of the persons whose appointment is proposed, and, particularly, the proposals of appointment of Mr. Stephan DuCharme and Mr. Karl-Heinz Holland (collectively, the “**Candidates**”) as directors of the Company. Furthermore, this report assesses the proposal submitted to the General Meeting for the purpose of setting at twelve (12) the number of DIA’s directors, within the threshold of the Recommendation 13 of the Code of Good Governance for publicly traded companies and the legal maximum regulated in the article 32 of the Articles of Association.

When drafting this report and the subsequent proposals, pursuant to article 19.2 of the Regulations of the Board of Directors, the guidelines in the Company’s Directors Selection Policy, approved by the Company on 11 December 2015, have been followed.

Provided that the proposal of the formal request recently received from Letterone Investment Holdings S.A. (“**Letterone**”), significant shareholder of the Company, the proposed classification for Candidates will be as follows:

- Mr Stephan DuCharme as “external proprietary Director”.
- Mr Karl-Heinz Holland as “external proprietary Director”.

In accordance with the foregoing, the individual assessment by the Board of Directors of the competence, experience and merits of both Candidates and their suitability to perform their duties as directors of DIA, in light of the report (**Annex**) prepared by the Nomination and Remuneration Committee, pursuant to paragraphs 5 and 6 of article 529 decies of the Spanish Companies Act, which the Board endorses in its entirety, is set out in section III below.

In addition, in order to comply with the requirements of article 518.e) of the Spanish Companies Act, this report also provides full information on the identity, *curriculum vitae* and category to which the Candidates belong.



## **II. Rationale for the proposal of the setting the number of members of the Board of Directors at twelve (12)**

Currently and as inferred from the notifications sent to the CNMV, Letterone holds, directly or indirectly, a number of DIA shares that represents 15% of its share capital, and is also the holder of a financial instrument (*forward purchase agreement*) that grants Letterone the right to acquire shares representing an additional 10% of the share capital.

The Board of Directors has received from Letterone a formal request regarding the appointment of Mr Stephan DuCharme and Mr Karl-Heinz Holland as new members of the Board of Directors of DIA with the category of “external proprietary Director”.

As a consequence, the Board of Directors has analyzed, upon the review and report of the Nomination and Remuneration Committee, the convenience of meeting Letterone’s request and therefore of proposing the appointment of both external proprietary Directors and the consequent increase in the number of directors that compose the Board of Directors of the Company.

In the opinion of the Board of Directors, setting at twelve (12) the number of Directors allows the Company to maintain the current level of qualifications, skills, knowledge and experience of the Board of Directors, boasted over recent years as a result of accurate recruitment processes; at the same time, such increase allows the entrance of the external proprietary Directors in light of a significant shareholder’s request who has a notable presence in the share capital.

Both new members of the Board of Directors would be classified as “external proprietary Directors” provided they represent Letterone (significant shareholder) and pursuant to the provisions of paragraph 3 of article 529 duodecies of the Spanish Companies Act. In any case, in light of their undeniable professional experience in the food retail distribution sector, they would contribute to strengthening even more the qualifications of the Board of Directors.

Furthermore, increasing the number of directors would allow the Company to maintain the high degree of independence of the Board of Directors, which is at the same time consistent with the current Company’s capital structure. The current number of independent directors allows an ample compliance with the Recommendation of Good Governance by which no significant shareholders shall exert an influence on the Board’s decisions that is disproportionate to their capital ownership. In addition, that proportion would allow compliance with the Recommendation by which at least half of all board members shall be independent directors.

Therefore, the proposal upholds the principles of article 10 of the Regulations of the Board of Directors regarding a balanced composition of the Board, as (a) the external non-executive directors would continue representing a large majority of the Board (eleven out of twelve members), (b) the independent directors would continue representing half of the members of the Board (six out of twelve members), and (c) the ratio of external proprietary directors over the total number of non-executive directors would reflect the proportion existing between the Company’s capital represented by the external proprietary directors and the rest of the capital



(once the compromised acquisition is confirmed, Letterone's shareholding would amount to 25%).

In accordance with the foregoing, the Company's Board of Directors deems appropriate to meet Letterone's request, and, therefore, the setting of the number of members of the Board of Directors at twelve (12) and the appointment of two new directors should be submitted to the Annual General Shareholders' Meeting.

### **III. Rationale for the proposal of appointment of two new Directors**

#### **A. Mr Stephan DuCharme**

##### **1. Background and education**

Mr Stephan DuCharme, was born in Addis Ababa (Ethiopia) in 1964 and has the German-American dual nationality. He holds a degree in Economics and Political Sciences from the University of California, Berkeley and a Master's in Business Administration (MBA) from INSEAD. He has a good command of English, German, French and Russian, and a good knowledge of Portuguese and Spanish.

##### **2. Noteworthy professional experience for the holding of the Candidate's positions at the Company**

Mr Stephan DuCharme has held in the past the positions of Chief Financial Officer, Control and Corporate Development at Alfa Group (important financial and industrial group in Russia), Chairman at SUN Group (a family office with investments in Russia, Ukraine and India) and Director at multiple companies (SUEK Siberian Coal & Energy Company, Lomisis JSC, Iberia Refreshments, First Ukraine International Bank).

He has a noteworthy professional experience in the retail sector in light of the multiple responsibilities performed in X5 Retail Group (major Russian group in the food retail sector, and currently listed in the London and Moscow Stock Exchange through Global Depositary Receipts), where he held, between 2012 and 2016, the position of Chief Executive Officer, and since 2016, of Chairman of the Supervisory Board. Currently, he is also the Managing Partner of the retail division at LetterOne Group, and as of October 2017, he is also the Chairman of the Board of Directors at Holland & Barrett (a company of hygienic and cosmetic products distribution).

##### **3. Membership of other boards of directors**

Mr DuCharme is currently Chairman of the Supervisory Board at X5 Retail Group and Managing Partner of the retail division at LetterOne Group, and as of October 2017, Chairman of the Board of Directors at Holland & Barrett.



#### **4. Category**

The appointment of Mr Stephan DuCharme has been proposed at Letterone request, Letterone being a significant shareholder of the Company. As a consequence, the Nomination and Remuneration Committee considers him an external proprietary director since, according to the information received, he meets the requirements established in paragraph 3 of article 529 duodecies of the Spanish Companies Act and article 9.1.b) of the Regulations of the Board of Directors.

#### **5. Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company, of which the Candidate is a holder**

Mr Stephan DuCharme has declared not to be a direct holder of any shares of the Company.

#### **6. Requirements for the appointment**

The Board of Directors considers that the *curriculum vitae*, the professional experience and the positions held by Mr Stephan DuCharme certify that he meets the requirements of education and professional qualification, competence and experience for the position of external proprietary Director of the Board of Directors of the Company.

Specifically, the Board of Directors believes that, in the particular case of Mr DuCharme, in order to be able to properly perform his supervisory and control duties over DIA Group, the candidate appropriately combines sufficient qualifications, skills and experience in the following areas:

- (a) the markets and industry sectors in which DIA operates its business;
- (b) economic and financial matters, management of highly qualified human resources, and legal and regulatory frameworks;
- (c) strong international strategic business vision; and
- (d) experience as a director in business management, leadership and strategy.

The Board of Directors has also concluded that Mr DuCharme meets these requirements due to his outstanding knowledge and his wide professional and practical experience in positions of business management which encompassed great responsibilities, complexity and competence in the area of consumer services directed to the wider public.

It has also been confirmed that he does not incur, directly or indirectly, in any legal or internal incompatibility, prohibition, conflict or opposition to the Company's interests as stated in the applicable general regulations or DIA internal rules. For these purposes, the Board of Directors and the Nomination and Remuneration Committee have assessed his presence in the Board of Directors of Holland & Barrett, analyzing and verifying that, to date, there is no situation of relevant conflict of interest pursuant to article 229 of the Spanish Companies Act.

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It has also been verified that, according to the information provided by Mr DuCharme, he does not exceed the maximum number of boards of directors of which he may be a member pursuant to article 19.6 of the Regulations of the Board of Directors.

## **7. Conclusion**

From the information received it can be inferred that Mr Stephan DuCharme has the required competence, experience and merits to perform the duties of his position. Accordingly, the Nomination and Remuneration Committee has favourably informed the Board of Directors of the Company of the appointment of Mr Stephan DuCharme as external proprietary Director of the Company proposed by the significant shareholder Letterone, assessment the Board embraces.

## **B. Mr Karl-Heinz Holland**

### **1. Background and education**

Mr Karl-Heinz Holland was born in Germany in 1967. He holds a degree in Business Administration from Augsburg University of Applied Sciences. He is a Germany native speaker, although he has a good command of English and a basic knowledge of French.

### **2. Noteworthy professional experience for the holding of the Candidate's positions at the Company**

Mr Holland has held multiple management positions at Lidl Group (one of the leading European groups of food distribution) between 2003 and 2014, successfully leading this company for more than six years. Mr Holland is currently the Chairman of the Supervisory Board at Der Gruene Punkt, Senior Advisor at Boston Consulting Group, member of the Supervisory Board at Zooplus AG and member of the Advisory Council of the retail division at Letterone.

### **3. Membership of other boards of directors**

Mr Holland is currently the Chairman of the Supervisory Board at Der Gruene Punkt, Senior Advisor at Boston Consulting Group, member of the Supervisory Board at Zooplus AG and member of the Advisory Council of the retail division at Letterone.

### **4. Category**

The appointment of Mr Karl-Heinz Holland has been proposed at Letterone request, Letterone being a significant shareholder of the Company. As a consequence, the Nomination and Remuneration Committee considers him an external proprietary director since, according to the information received, he meets the requirements established in paragraph 3 of article 529 duodecies of the Spanish Companies Act and article 9.1.b) of the Regulations of the Board of Directors.



## **5. Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company, of which the Candidate is a holder**

Mr Karl-Heinz Holland has declared not to be a direct holder of any shares of the Company.

## **6. Requirements for appointment**

The Board of Directors considers that the *curriculum vitae*, the professional experience and the positions held by Mr Karl-Heinz Holland certify that he meets the requirements of education and professional qualification, competence and experience for the position of external proprietary Director of the Board of Directors of the Company.

Specifically, the Board of Directors believes that, in the particular case of Mr Holland, in order to be able to properly perform his supervisory and control duties over DIA Group, the candidate appropriately combines sufficient qualifications, skills and experience in the following areas:

- (a) the markets and industry sectors in which DIA operates its business;
- (b) economic and financial matters, management of highly qualified human resources, and legal and regulatory frameworks;
- (c) strong international strategic business vision; and
- (d) experience as a director in business management, leadership and strategy.

The Board of Directors has also concluded that Mr Holland meets these requirements due to his outstanding knowledge and his wide professional and practical experience in positions of business management which encompassed great responsibilities, complexity and competence in the area of consumer services directed to the wider public.

It has also been confirmed that he does not incur, directly or indirectly, in any legal or internal incompatibility, prohibition, conflict or opposition to the Company's interests as stated in the applicable general regulations or DIA internal rules. For this reason, the Board of Directors and the Nomination and Remuneration Committee have assessed his presence in the Supervisory Board at Zooplus AG (online pet food distribution company) analyzing and verifying that, to date, there is no situation of relevant conflict of interest, pursuant to article 229 of the Spanish Companies Act.

It has also been verified that, according to the information provided by Mr Holland, he does not exceed the maximum number of boards of directors of which he may be a member pursuant to article 19.6 of the Regulations of the Board of Directors.

## **7. Conclusion**

From the information received it can be inferred that Mr Karl-Heinz Holland has the required competence, experience and merits to perform the duties of his position. Accordingly, the

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Nomination and Remuneration Committee has favourably informed the Board of Directors of the Company of the appointment of Mr Karl-Heinz Holland as external proprietary Director of the Company proposed by the significant shareholder Letterone, assessment the Board embraces.

#### **IV. Conclusion**

The information received shows that the Candidates have the required qualifications, experience and merits to discharge the duties of their positions. The Board considers that the appointment of the Candidates allows that the Board of Directors still be diverse and plural regarding the education, expertise, culture and internationality of its members, while maintaining a balanced composition, structure and size according to its current and future needs.

The Board, therefore, upon the favourable report of the Nomination and Remuneration Committee, submits for approval at the next Annual General Shareholders' Meeting the proposal for the appointments as external proprietary Directors of Mr Stephan DuCharme and Mr Karl-Heinz Holland.

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Madrid, 15 March 2018





## ANNEX

### FAVOURABLE REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE

#### **Report of the Nomination and Remuneration Committee of Distribuidora Internacional de Alimentación S.A. favourably assessing the proposal of the Board of Directors for the appointment of two external proprietary Directors**

This report is issued in compliance with the provisions of paragraph 529 decies of the Spanish Companies Act and its purpose is to favourably report to the Board of Directors the submission for approval at the next Annual General Shareholders' Meeting of the appointment of two directors classified as "external proprietary Director".

Pursuant to the aforementioned paragraph of the Spanish Companies Act, the proposal for appointment, re-election or ratification of Directors made by the Board of Directors must be accompanied by a proposal or a favourable report made by the Nomination and Remuneration Committee, as appropriate.

The Nomination and Remuneration Committee believes that, in order to be able to properly perform his supervisory and control duties over DIA group, the candidate must appropriately combine sufficient qualifications, skills and experience.

Provided that the proposal of the formal request recently received comes from Letterone Investment Holdings S.A. ("**Letterone**"), significant shareholder of the Company, the proposed classification for Candidates will be as follows:

- Mr Stephan DuCharme as "external proprietary Director".
- Mr Karl-Heinz Holland as "external proprietary Director".

In accordance with the foregoing, this Committee issues this favourable report on the appointment of Mr Stephan DuCharme and Mr Karl-Heinz Holland, proposed by the significant shareholder Letterone, as external proprietary Directors of DIA for the statutory term.

Below is the detailed report on the candidates:

#### **Mr Stephan DuCharme**

His appointment as director is proposed with the classification of "external proprietary Director" for the three-year term set out in the Articles of Association.

#### **1. Background and education**

Mr Stephan DuCharme, was born in Addis Ababa (Ethiopia) in 1964 and has the German-American dual nationality. He holds a degree in Economics and Political Sciences from the





University of California, Berkeley and a Master's in Business Administration (MBA) from INSEAD. He has a good command of English, German, French and Russian, and a good knowledge of Portuguese and Spanish.

## **2. Noteworthy professional experience for the holding of the Candidate's positions at the Company**

Mr Stephan DuCharme has held in the past the positions of Chief Financial Officer, Control and Corporate Development at Alfa Group (important financial and industrial group in Russia), Chairman at SUN Group (a family office with investments in Russia, Ukraine and India) and Director at multiple companies (SUEK Siberian Coal & Energy Company, Lomisis JSC, Iberia Refreshments, First Ukraine International Bank).

He has a noteworthy professional experience in the retail sector in light of the multiple responsibilities performed in X5 Retail Group (major Russian group in the food retail sector, and currently listed in the London and Moscow Stock Exchange through Global Depository Receipts), where he held, between 2012 and 2016, the position of Chief Executive Officer, and since 2016, of Chairman of the Supervisory Board. Currently, he is also the Managing Partner of the retail division at LetterOne Group, and as of October 2017, he is also the Chairman of the Board of Directors at Holland & Barrett (a company of hygienic and cosmetic products distribution).

## **3. Membership of other boards of directors**

Mr DuCharme is currently Chairman of the Supervisory Board at X5 Retail Group and Managing Partner of the retail division at LetterOne Group, and as of October 2017, Chairman of the Board of Directors at Holland & Barrett.

## **4. Category**

The appointment of Mr Stephan DuCharme has been proposed at Letterone request, Letterone being a significant shareholder of the Company. As a consequence, the Nomination and Remuneration Committee considers him an external proprietary director since, according to the information received, he meets the requirements established in paragraph 3 of article 529 duodecies of the Spanish Companies Act and article 9.1.b) of the Regulations of the Board of Directors.

## **5. Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company, of which the Candidate is a holder**

Mr Stephan DuCharme has declared not to be a direct holder of any shares of the Company.

## **6. Requirements for the appointment**

The Nomination and Remuneration Committee considers that the *curriculum vitae*, the professional experience and the positions held by Mr Stephan DuCharme certify that he meets the



requirements of education and professional qualification, competence and experience for the position of external proprietary Director of the Board of Directors of the Company.

Specifically, the Nomination and Remuneration Committee believes that, in the particular case of Mr DuCharme, in order to be able to properly perform his supervisory and control duties over DIA Group, the candidate appropriately combines sufficient qualifications, skills and experience in the following areas:

- (e) the markets and industry sectors in which DIA operates its business;
- (f) economic and financial matters, management of highly qualified human resources, and legal and regulatory frameworks;
- (g) strong international strategic business vision; and
- (h) experience as a director in business management, leadership and strategy.

The Board of Directors has also concluded that Mr DuCharme meets these requirements due to his outstanding knowledge and his wide professional and practical experience in positions of business management which encompassed great responsibilities, complexity and competence in the area of consumer services directed to the wider public.

It has also been confirmed that he does not incur, directly or indirectly, in any legal or internal incompatibility, prohibition, conflict or opposition to the Company's interests as stated in the applicable general regulations or DIA internal rules. For these purposes, the Board of Directors and the Nomination and Remuneration Committee have assessed his presence in the Board of Directors of Holland & Barrett, analyzing and verifying that, to date, there is no situation of relevant conflict of interest pursuant to article 229 of the Spanish Companies Act.

It has also been verified that, according to the information provided by Mr DuCharme, he does not exceed the maximum number of boards of directors of which he may be a member pursuant to article 19.6 of the Regulations of the Board of Directors.

## **7. Conclusion**

From the information received it can be inferred that Mr Stephan DuCharme has the required competence, experience and merits to perform the duties of his position. Accordingly, the Nomination and Remuneration Committee has favourably informed the Board of Directors of the Company of the appointment of Mr Stephan DuCharme as external proprietary Director of the Company proposed by the significant shareholder Letterone, assessment the Board embraces.

### **Mr Karl-Heinz Holland**

His appointment as director is proposed with the classification of "external proprietary Director" for the three-year term set out in the Articles of Association.



## **1. Background and education**

Mr Karl-Heinz Holland was born in Germany in 1967. He holds a degree in Business Administration from Augsburg University of Applied Sciences. He is a Germany native speaker, although he has a good command of English and a basic knowledge of French.

## **2. Noteworthy professional experience for the holding of the Candidate's positions at the Company**

Mr Holland has held multiple management positions at Lidl Group (one of the leading European groups of food distribution) between 2003 and 2014, successfully leading this company for more than six years. Mr Holland is currently the Chairman of the Supervisory Board at Der Gruene Punkt, Senior Advisor at Boston Consulting Group, member of the Supervisory Board at Zooplus AG and member of the Advisory Council of the retail division at Letterone.

## **3. Membership of other boards of directors**

Mr Holland is currently the Chairman of the Supervisory Board at Der Gruene Punkt, Senior Advisor at Boston Consulting Group, member of the Supervisory Board at Zooplus AG and member of the Advisory Council of the retail division at Letterone.

## **4. Category**

The appointment of Mr Karl-Heinz Holland has been proposed at Letterone request, Letterone being a significant shareholder of the Company. As a consequence, the Nomination and Remuneration Committee considers him an external proprietary director since, according to the information received, he meets the requirements established in paragraph 3 of article 529 duodecies of the Spanish Companies Act and article 9.1.b) of the Regulations of the Board of Directors.

## **5. Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company, of which the Candidate is a holder**

Mr Karl-Heinz Holland has declared not to be a direct holder of any shares of the Company.

## **6. Requirements for appointment**

The Nomination and Remuneration Committee considers that the *curriculum vitae*, the professional experience and the positions held by Mr Karl-Heinz Holland certify that he meets the requirements of education and professional qualification, competence and experience for the position of external proprietary Director of the Board of Directors of the Company.

Specifically, the Nomination and Remuneration Committee believes that, in the particular case of Mr Holland, in order to be able to properly perform his supervisory and control duties over DIA Group, the candidate appropriately combines sufficient qualifications, skills and experience in the following areas:



- (i) the markets and industry sectors in which DIA operates its business;
- (j) economic and financial matters, management of highly qualified human resources, and legal and regulatory frameworks;
- (k) strong international strategic business vision; and
- (l) experience as a director in business management, leadership and strategy.

The Board of Directors has also concluded that Mr Holland meets these requirements due to his outstanding knowledge and his wide professional and practical experience in positions of business management which encompassed great responsibilities, complexity and competence in the area of consumer services directed to the wider public.

It has also been confirmed that he does not incur, directly or indirectly, in any legal or internal incompatibility, prohibition, conflict or opposition to the Company's interests as stated in the applicable general regulations or DIA internal rules. For this reason, the Board of Directors and the Nomination and Remuneration Committee have assessed his presence in the Supervisory Board at Zooplus AG (online pet food distribution company) analyzing and verifying that, to date, there is no situation of relevant conflict of interest, pursuant to article 229 of the Spanish Companies Act.

It has also been verified that, according to the information provided by Mr Holland, he does not exceed the maximum number of boards of directors of which he may be a member pursuant to article 19.6 of the Regulations of the Board of Directors.

## **7. Conclusion**

From the information received it can be inferred that Mr Karl-Heinz Holland has the required competence, experience and merits to perform the duties of his position. Accordingly, the Nomination and Remuneration Committee has favourably informed the Board of Directors of the Company of the appointment of Mr Karl-Heinz Holland as external proprietary Director of the Company proposed by the significant shareholder Letterone, assessment the Board embraces.

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