



REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. (“DIA”) PURSUANT TO THE PROVISIONS OF SECTIONS 286, 297.1.b) AND 506 OF THE SPANISH COMPANIES LAW, IN CONNECTION WITH THE PROPOSED AUTHORIZED CAPITAL RESOLUTION UNDER ITEM FOURTH ON THE AGENDA FOR THE GENERAL SHAREHOLDERS’ MEETING OF DIA CALLED TO BE HELD ON APRIL 21 AND 22, 2016, ON FIRST AND SECOND CALL, RESPECTIVELY

I. Purpose of the report

This report has been prepared by the Board of Directors of Distribuidora Internacional de Alimentación, S.A. (hereinafter, “DIA” or the “Company”) pursuant to the provisions of Sections 286, 297.1.b) and 506 of the restated text of the Companies Law (*Ley de Sociedades de Capital*) (the “Spanish Companies Law”), approved by Royal Legislative Decree 1/2010, of July 2, in order to support the proposal submitted for approval of the shareholders at the General Shareholders’ Meeting of the Company called to be held on April 21, 2016, at 11:00 a.m., on first call, and the following day, April 22, 2016, at the same time, on second call, under item fourth on the agenda, in connection with the authorization to the Board of Directors of the Company to increase the share capital, within a term of five years, by up to one-half of the share capital existing at the time of the authorization, on one or more occasions and at the time and in the amount it deems appropriate, with the power to exclude pre-emptive rights as provided in Section 506 of the Companies Law.

II. Rationale for the proposal

Pursuant to Section 297.1.b) of the Spanish Companies Law, the shareholders at the General Shareholders’ Meeting may, by complying with the requirements established to amend the By-Laws, delegate to the Board of Directors the power to resolve, on one or more occasions, to increase the share capital up to a given amount, at the time and in the amount decided by the Board, without previously consulting with the shareholders at the General Shareholders’ Meeting. The aforementioned legal provision establishes (i) that the amount of such capital increases may under no circumstances exceed one-half of the share capital of the Company at the time of the authorization; and (ii) that they must be made by means of cash contributions within a maximum period of five years from the date that the resolution is adopted at the General Shareholders’ Meeting.

The Board of Directors believes that the proposed resolution submitted for approval by the shareholders at the General Shareholders’ Meeting is justified by the advisability of making use of the mechanism contemplated by current corporate laws and regulations whereby the Board is given an instrument which allows it to carry out one or more increases in share capital, within the limits and subject to the periods, terms and conditions decided by the shareholders at the General Meeting, without calling or holding a new General Shareholders’ Meeting. It is noted that the dynamics of large commercial listed companies and the current environment and circumstances of the market, in which the success of many corporate strategies frequently depends on the ability of the company to deal with them promptly,

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requires that their strategy decision-making bodies have the most suitable instruments to respond appropriately and in time to the needs of the company at any time, including the need of new funding.

In general, it is not always possible to anticipate what the Company's capital needs will be and, besides that, as stated before, the recourse to shareholders at the General Shareholder's Meeting with a view to obtain funds, which entails, in many cases, delays and increased costs, may hinder a prompt and effective response by the Company to market needs.

Therefore, it is proposed to approve the aforementioned authorization that will improve the Board of Director's capacity to react by providing it with an additional level of flexibility to meet the Company's needs as required by the circumstances.

Maximum amount of capital increases

Therefore, and for such purposes, according to Section 297.1.b) of the Spanish Companies Law it is submitted to the shareholders at the General Shareholder's Meeting, the proposal consisting of delegating in favour of the Board of Directors the power to increase the Company's share capital by up to a maximum amount of €31,122,825.65, which corresponds to one-half of the Company's current share capital.

Exclusion of pre-emptive rights

Additionally, Section 506 of the Spanish Companies Law sets forth that, in case of listed companies, when the shareholders at the General Shareholders' Meeting delegate the power to increase the share capital in accordance with Section 297.1.b) of such Law, the Board of Directors may also be given the power to exclude pre-emptive rights with respect to issuances of shares covered by the delegation, provided that (i) the circumstances described in such section are present, (ii) such proposed exclusion is stated in the call to the General Shareholders' Meeting, and (iii) the nominal value of the shares to be issued plus the issue premium, if any, is equal to the fair value of the shares of the Company as set forth in the report to be prepared, at the request of the Board of Directors, by an independent expert other than the auditor of the Company, appointed for such purpose by the Commercial Registry on each occasion that the Board exercises the power to exclude pre-emptive rights.

This possibility of excluding pre-emptive rights is also expressly provided for in Article 11.2 of the current Articles of Association of the Company.

The Board of Directors believes that this additional possibility to exclude pre-emption rights as a complement to the power to increase share capital, is justified by several reasons.

Firstly, the exclusion of pre-emptive rights normally allows for a reduction of the costs associated with the transaction (including, in particular, the fees of the financial entities participating in the issuance) as compared to an issuance with pre-emptive rights.

Secondly, the exclusion of pre-emptive rights enables the directors to increase the promptness and responsiveness which is sometimes necessary to act in today's financial markets in order to take advantage of the moments when market conditions are more favorable. Furthermore, the exclusion of pre-emptive rights may allow the Company to optimize the financial conditions of the transaction and, in particular, the issue price of the new shares, as it may

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bring it closer to the expectations of the qualified investors to whom such capital increases are customarily addressed, while reducing execution risks through a lower exposure of the transaction to changes in market conditions.

Finally, the exclusion of pre-emptive rights mitigates the distorting effect on trading in the Company's shares during the issuance period, which tends to be shorter than for an issuance with pre-emptive rights.

In any event, the ability to exclude pre-emptive rights is a power that the shareholders acting at the General Shareholders' Meeting delegate to the Board of Directors, and it is within the purview of the Board to decide in each case, in view of the specific circumstances and in accordance with the legal requirements, whether or not such rights should effectively be excluded. In the event that the Board of Directors decides to make use of the power to exclude pre-emptive rights in connection with a specific capital increase that it may ultimately approve in exercise of the authorization granted by the shareholders at the General Shareholders' Meeting, a directors' report and an independent expert's report shall be prepared as required by Section 308 and 505 of the Spanish Companies Law. As provided by Section 506 of the Spanish Companies Law, both such reports shall be made available to the shareholders and disclosed at the first General Shareholders' Meeting held after the capital increase resolution is adopted.

Despite the fact that there are no limits imposed neither by the applicable law nor by the Articles of Association of the Company on the right of the shareholders acting at the General Shareholders' Meeting to delegate to the Board of Directors the power to exclude pre-emptive rights, other than the restriction indirectly imposed through the maximum amount of one-half of the share capital that is authorized to be increased by means of the delegation justified hereby, the Board of Directors has believed it more appropriate, in line with international trends and recommendations on good market practices, to limit the use of such power. Consequently, the Board of Directors proposes to limit the power to exclude pre-emption rights to a maximum nominal amount equivalent to 20% of the share capital at the time of the authorization, in conjunction with the power contemplated in item five on the agenda.

Listing

The proposal also contemplates making application, when appropriate, for listing of the shares to be issued by the Company under the delegation of powers on Spanish or foreign, official or unofficial, organized or other secondary markets, authorizing the Board of Directors to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.

Delegation

Finally, it is proposed to expressly authorize the Board of Directors to delegate, in turn, the powers contemplated in this proposed resolution, as permitted by Section 249.bis.1) of the Spanish Companies Law.

In sum, the proposed resolution submitted for approval by the shareholders at the General Shareholders' Meeting reads as follows:

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ITEM FOUR ON THE AGENDA

Authorisation to the Board of Directors, with express power of further delegation, for a maximum period of five years, to increase the share capital pursuant to the provisions of in section 297.1.b) of the Companies Act (Ley de Sociedades de Capital), by up to one-half of the share capital on the date of the authorisation. Delegation of the power to exclude pre-emption rights in relation to increases in capital that may be approved pursuant to this authorisation, which power, along with the same power provided for in item five on the Agenda, shall be limited to a maximum aggregate nominal amount equal to 20% of the share capital on the date of the authorisation

PROPOSED RESOLUTIONS REGARDING ITEM FOUR

“To authorise the Board of Directors, as broadly as required under law, so that it may increase the share capital on one or more occasions and at any time under the provisions of section 297.1.b) of the Companies Act, within a term of five years from the date of approval of this resolution, by up to one-half of the current share capital, i.e. up to a maximum par value of 31,122,825.65 euros. Any capital increases made for the purpose of covering the conversion of debentures that are approved by the Board of Directors in the exercise of the powers delegated by the Company’s shareholders shall be deemed to be included within this limit.

Increases in share capital under this authorisation shall be carried out through the issuance and flotation of new shares (with or without a premium), the consideration for which shall be cash contributions. In each increase, the Board of Directors shall decide whether the new shares to be issued are ordinary, preferred, redeemable, non-voting or any other kinds of shares among those permitted by law. Furthermore, as to all matters not otherwise contemplated, the Board of Directors may establish the terms and conditions of the share capital increases and the characteristics of the shares, and may also freely offer the new shares that are not subscribed within the period or periods for the exercise of pre-emption rights. The Board of Directors may also resolve that, in the event of incomplete subscription, the share capital shall be increased only by the amount of the subscriptions made and amend the article of the By-Laws relating to share capital and number of shares.

Furthermore, in connection with the increases in share capital that may be carried out under this authorisation, the Board of Directors is authorised to totally or partially exclude pre-emption rights as permitted by section 506 of the Companies Act. This power shall in any event be limited to capital increases carried out pursuant to this authorisation and to those increases made under the authorisation contemplated in item five of the Agenda up to a maximum amount equal, in the aggregate, to 20% of the share capital on the date of adoption of this resolution.

The Company shall, when appropriate, make application for trading of the shares issued under this authorisation on Spanish or foreign, official or unofficial, organised or other secondary markets, and the Board of Directors shall be authorised to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.



The delegation to the Board of Directors includes the broadest powers to correct and supplement such resolutions as to all matters that may be necessary and to comply with all legal requirements for the successful implementation thereof, and to such end the Board of Directors may correct any omissions or defects in the aforementioned resolutions that may be identified by any Spanish or foreign authorities, officials or bodies, and may also adopt all such resolutions and execute all such public or private documents as it may deem necessary or appropriate in order to adjust the corresponding capital increase to the oral or written assessment of the Mercantile Registry, in general, of any other competent Spanish or foreign authorities, officials or institutions.

Pursuant to the provisions of section 249.bis.1) of the Companies Act, the Board of Directors is expressly authorised to further delegate the delegated powers contemplated in this resolution.

Pursuant to the provisions of sections 286, 297.1.b) and 506 of the Companies Act, the directors have prepared a report providing a rationale for the proposal presented herein.

Finally, it is proposed to deprive of effect Resolution Seven adopted by the shareholders at the General Shareholders' Meeting of the Company held on 13 June 2012 authorising the Company's Board of Directors to increase the share capital."

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Madrid, March 11, 2016