



REPORT DRAWN UP BY THE BOARD OF DIRECTORS OF DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A., JUSTIFYING THE PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY, AS PER ITEM SIX OF THE AGENDA OF THE GENERAL SHAREHOLDERS' MEETING SCHEDULED FOR 24 APRIL 2015 ON SECOND CALL

1. OBJECT OF THE REPORT

This report has been drafted by the Board of Directors of DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. (hereinafter the "**Company**" or "**DIA**"), in compliance with the provisions foreseen in Articles 286 and 318 of the Royal Legislative Decree 1/2010 of 2 July, approving the revised text of the Capital Stock Companies Act (the "**Companies Act**"), to justify the proposal to reduce the share capital by the amortisation of own shares (the "**Capital Reduction**") which will be proposed for approval by DIA's Ordinary General Shareholders' Meeting, under point six of the Agenda, to be held on 23 April 2015, at 12:00 hours at first call and on the following day, 24 April 2015 at the same time at second call.

In view of the aforementioned articles, the Board of Directors must draft a report to justify the proposal to be submitted for approval by the General Shareholders Meeting, to the extent that the approval of the Capital Reduction and the execution thereof necessarily entails the amendment of Article 5 of DIA's Articles of Association, concerning the share capital.

2. JUSTIFICATION FOR THE PROPOSAL

Within the context of the remuneration policy for shareholders, the Board of Directors deems appropriate to propose a share capital reduction in DIA by amortising its own shares, as a method of free remuneration to shareholders whose percentage shareholdings will be automatically increased in the Company, which would take place as a result of reducing the number of traded DIA shares if the proposal is eventually approved.

Hence, this is a complement to the payment in cash dividends, also proposed at this General Meeting. The own share reduction by amortising the Company's own shares would increase the profits on shares of the Company and consequently the percentage of shareholdings held each shareholder.

The proposed Capital Reduction will be carried out by amortising the shares owned by the Company itself, thus reducing the amount of share capital by the nominal amount of said shares. For this purpose, the Company must first acquire the own shares to be amortised.

In accordance with the foregoing, the Board of Directors has agreed to acquire the shares to be amortised through a buy-back of own shares programme, which was approved by the Board of Directors at the meeting held on 20 February 2015, in accordance with the Commission Regulation (EC) N° 2273/2003, of 22 December 2003 (the "**EC Regulation**") and pursuant to the authorisation granted by the former sole shareholder of the Company on 9 May 2011 (the "**Buy-back Programme**").

The Buy-back Programme, in addition to being the method to acquire the own shares to be amortised within the Capital Reduction, will also enhance liquidity of shares.



3. TERMS AND CONDITIONS FOR THE PROPOSED CAPITAL REDUCTION

3.1 Principal terms of the proposal

It is proposed to reduce the Company's share capital by the aggregate nominal value, with the maximum indicated as follows, representing 40,500,000 of the Company shares, each with a nominal share value of 0.10 euros, accounting approximately for 6.22% of DIA share capital, to be acquired by amortisation through the Buy-back Programme approved by the Board of Directors on 20 February 2015.

The Buy-back Programme is subject to two quantitative limits concerning the amount of the investment and the number of shares to be acquired:

- (i) The maximum investment of the Buy-back Programme will be 200 million euros (the "**Maximum Investment**"). For the purposes of calculating the amount of the Maximum Investment, only the acquisition price of the shares will be computed. Consequently, no expenses, commissions or brokerage fees related to the acquisition will be computed.
- (ii) The number of shares to be acquired under the Buy-back Programme may not exceed 40,500,000, representing approximately 6.22% of DIA share capital on the date this proposal was drawn up.

Consequently, the maximum capital reduction figure will be the amount in euros of the aggregate nominal amount of the maximum number of own shares, of 0.10 euros nominal value each, which will be acquired through the Buy-back Programme in accordance with the aforementioned thresholds.

Having approved the agreement for the Capital Reduction, the final figure of the reduction will be determined by the Company's Board of Directors depending on the final number of shares that are acquired from shareholders within the framework of the Buy-back Programme.

3.2 Principal characteristics of the Buy-back Programme

The principal characteristics of the Buy-back Programme are described as follows:

- The Buy-back Programme is unique and will account for a maximum investment of 200 million euros (excluding expenses and commissions) and will affect 40,500,000 of the Company's shares, representing approximately 6.22% of DIA share capital.
- The shares will be purchased at market price in accordance with the price conditions and volume set forth in Article 5 of the EC Regulation.
- The Programme will commence as of 26 March 2015 and will last for a maximum of 6 months, i.e. it will remain in force until 16 September 2015, unless an announcement for the amendment of this term is made as per article 4 of EC Regulation. This notwithstanding, DIA shall be free to bring the Buy-back Programme to an end if, before the arrival of the initial expiration date, DIA had acquired the maximum number of shares authorised by the Board of Directors or had acquired shares for a consideration exceeding the value of the maximum investment or if for any other reason it was deemed appropriate.
- The implementation and management of the Buy-back Programme shall be under the responsibility of a financial institution as per article 6.3 (b) of EC Regulation.



- The approval, amendment and extension, if appropriate, as well as the suspension and termination of the Buy-back Programme, and any share acquisitions completed thereunder shall be notified in due course to the *Comisión Nacional del Mercado de Valores* (“CNMV”) by releasing any such relevant facts as may be required by EC Regulation.

The acquisition of shares will be carried out pursuant to Article 144.a) of the Companies Act (cases of free acquisition of own shares) and under the terms of Articles 338 to 342 of the same Law, insofar as they are applicable, and Article 12.2 of Royal Decree 1066/2007 of 27 July and the EC Regulation, without it being necessary therefore, to draw up a public takeover bid on the Company shares that are acquired during exercise of the Buy-back Programme.

3.3 Procedure for reduction

The Capital Reduction will be charged against available reserves or voluntary reserves, making the relevant provision of reserve from amortised capital for an amount equal to the nominal value of the own shares effectively amortised, which may only be drawn from by meeting the requirements required for share capital reductions in accordance with Article 335.c) of the Companies Act. In accordance with the aforementioned article, DIA's creditors may not exercise the right to challenge envisaged in Article 334 of the Companies Act.

Likewise, since the shares to be amortised will be the property of the Company at the moment of Capital Reduction, this will not entail refund of contributions.

3.4 Ratification of agreements by the Board of Directors

It is also proposed to ratify, by the General Shareholders Meeting, the actions carried out to date by the Board of Directors in relation to the Buy-back Programme approved on 20 February 2015 and the determination of the terms and conditions thereof, including the maximum number of shares to be acquired and the validity period, as well as ratifying the action, statements and management to date concerning public disclosure of the Buy-back Programme.

3.5 Delegation of powers

Likewise, it is agreed to vest the Company's Board of Directors with specific powers of substitution so that, within a period no greater than nine months from when the Capital Reduction agreement is reached, proceed to its execution, being competent to determine the conditions that have not be specifically established herein or that are consequential to it.

More specifically, and for informative purposes only, the Board of Directors is vested with the following specific powers:

- (i) to declare the Capital Reduction finalised and completed, determining, for this purpose, the final number of shares to be amortised and therefore the amount by which the Company's share capital is to be reduced in accordance with the rules established in this agreement, and to appear before a Notary Public to grant the relevant deed of capital reduction.
- (ii) to redraft Article 5 of the Articles of Association to include the new share capital quantity and the number of operating shares after the Capital Reduction.
- (iii) To perform any other action, make statements or management procedures that may be required for public disclosure of the Buy-back Programme and whatever else may be required before the regulating bodies and the Spanish Stock Markets to negotiate,



agree and undersign any contracts, agreements, commitments or instructions that are necessary or appropriate for the best outcome of the Buy-back Programme and the Capital Reduction.

- (iv) To carry out the necessary procedures and actions, and submit any required documents before the competent bodies so that, once the Company's shares have been amortised and the capital reduction deed granted and registered with the Mercantile Registry, the amortised shares are excluded from negotiation on the Madrid, Barcelona, Bilbao and Valencia Stock Markets through the Stock Market Interconnection System, and the relevant accounting entries are cancelled out; and
- (v) To carry out any necessary or appropriate action to execute and formalise this Capital Reduction agreement before any entity or public or private body, whether Spanish or foreign, including any required action for obtaining any authorisation or consent from third parties required to the Company, as well as any statements, complements or corrections of flaws or omissions that could prevent or hinder full effectiveness of the preceding agreements, and the publication of announcements, relevant facts and all other communication required for this purpose.

The Board of Directors is specifically authorised to in turn delegate the powers referred to in this agreement in accordance with the provisions established in Article 249.2 of the Companies Act.

3.6 Amendment of Articles of Association

Consequently, if the aforementioned Capital Reduction agreement is approved, and once it has been executed, Article 5 of DIA's Articles of Association will be accordingly amended to include the new share capital value and the new number of operating shares (once the own shares for which amortisation is proposed have been deducted).

Consequently, Article 5 of DIA's Articles of Association will read as follows, where the relevant figure shall be included:

“Article 5.- Share Capital

- 1. The capital stock amounts to [●] ([●] Euros) and is fully subscribed and paid up.*
- 2. The capital stock consists of [●] ([●]) shares, with a face value each of ten cents of a euro (0.10 Euros), belonging to the same class and series.”*

4. AGREEMENT PROPOSAL TO BE SUBJECTED TO THE GENERAL MEETING

The agreement proposal to be subjected to approval by the General Meeting is as follows:



“POINT SIX ON THE AGENDA

1. Share Capital Reduction through amortisation of own shares acquired through a buy-back programme

It is proposed to the General Shareholders Meeting to reduce the share capital by the aggregate nominal value, to the maximum indicated as follows, representing 40,500,000 corporate shares each with a nominal value of 0.10 euros, accounting approximately for 6.22% of DIA share capital, to be acquired for amortisation through the Buy-back Programme approved by the Board of Directors on 20 February 2015, still valid until 16 September 2015.

The Buy-back Programme is subject to two quantitative limits regarding the amount of the investment and the shares to be acquired:

- (i) The maximum investment in the Buy-back Programme will be 200 million euros. For the purposes of calculating the maximum investment amount only the acquisition price of the shares will be computed, therefore excluding any charges, commissions or brokerage fees, which could be incurred during the acquisition transactions.*
- (ii) The number of shares to be acquired under the Buy-back Programme may not exceed 40,500,000 representing approximately 6.22% of DIA share capital on the date this agreement proposal is drafted.*

Consequently, the maximum capital reduction figure will be the amount in euros of the aggregate nominal amount of the maximum number of own shares, of 0.10 euros nominal value each, which will be acquired through the Buy-back Programme in accordance with the aforementioned thresholds.

As per that described as follows, the definitive capital reduction will be determined by the Company’s Board of Directors in accordance with the final number of shares acquired under the Buy-back Programme.

Once the capital reduction process has been completed, Article 5 of DIA’s Articles of Association will be amended to include the new share capital amount and the new number of circulating shares, which will read as follows:

“Article 5.- Share Capital

- 1. The capital stock amounts to [●] ([●] Euros) and is fully subscribed and paid up.*
- 2. The capital stock consists of [●] ([●]) shares, with a face value each of ten cents of a euro (0.10 Euros), belonging to the same class and series.”*

2. Procedure for acquisition of shares that will be amortised under the Buy-back Programme

Regardless of any shares that DIA already holds as own shares, and in view of the provisions determined in the agreement by the Board of Directors reached at the meeting held on 20 February 2015, the Company will be able to acquire, in accordance with the Buy-back Programme aimed at all shareholders, a maximum number of 40,500,000 shares for amortisation, representing approximately 6.22% of the Company’s share capital on the date the Buy-back Programme is announced. This amount is within the legal limit and the envisaged limit in the authorisation for acquisition of own shares conferred by the former sole shareholder of DIA on 9 May 2011.



In accordance with the provisions set forth in the aforementioned agreement by the Board of Directors, acquisition of own shares will take place under the price and volume conditions set forth in Article 5 of the Commission Regulation (EC) N° 2273/2003, of 22 December 2003 (the "EC Regulation") and for the purpose of reducing the Company's share capital.

In view of the foregoing and Article 340.3 of the Companies Act, if the Company does not acquire the maximum number of 40,500,000 own shares under the Buy-back Programme, the capital will be reduced by the corresponding quantity of shares effectively acquired under the Buy-back Programme.

Consequently, the acquisition of the shares will be carried out under the terms envisaged in Articles 144 a) and 338 to 342 of the Companies Act, insofar as they are applicable, Article 12.2 of Royal Decree 1066/2007 of 17 July and the EC Regulation, without it being necessary to prepare a public takeover bid on the shares that the Company intends to amortise.

3. Procedures for capital reduction and reserves charged to those made

The capital reduction will be charged against available reserves or voluntary reserves, making the relevant provision of reserve from amortised capital for an amount equal to the nominal value of the own shares effectively amortised, which may only be drawn from by meeting the requirements required for share capital reductions in accordance with Article 335.c) of the Companies Act. In accordance with the aforementioned article, DIA's creditors may not exercise the right to challenge envisaged in Article 334 of the Companies Act.

In line with the provisions of Article 342 of the Companies Act, the capital reduction must be carried out within the month following the end of the Buy-back Programme and will not entail refund of contributions to shareholders given that the Company will be the holder of the shares to be amortised.

4. Ratification of agreements by the Board of Directors

It is agreed to ratify the agreements carried out by the Board of Directors concerning approval of the Buy-back Programme and the establishment of the terms and conditions, including the maximum number of shares to be acquired and the validity period, whilst also ratifying the action, statements and management carried out to date concerning public announcement of the Buy-back Programme.

5. Delegation of powers

It is agreed to empower the Company's Board of Directors with specific powers of substitution, so that, within a term that does not exceed nine months from the date this agreement is reached, proceed to its execution, being competent to determine any items and conditions that have not been specifically defined therein, or that are consequential to it.

In particular, and for informative purposes only, the Board of Directors is vested with the following specific powers:

- (i) to declare the Capital Reduction finalised and completed, determining, for this purpose, the final number of shares to be amortised and therefore the amount by which the Company's share capital is to be reduced in accordance with the rules established in this agreement, and to appear before a Notary Public to grant the relevant deed of capital reduction.*
- (ii) to redraft Article 5 of the Articles of Association to include the new share capital quantity and the number of operating shares after the Capital Reduction.*



- (iii) *To perform any other action, make statements or management procedures that may be required for public disclosure of the Buy-back Programme and whatever else may be required before the regulating bodies and the Spanish Stock Markets to negotiate, agree and undersign any contracts, agreements, commitments or instructions that are necessary or appropriate for the best outcome of the Buy-back Programme and the Capital Reduction.*
- (iv) *To carry out the necessary procedures and actions, and submit any required documents before the competent bodies so that, once the Company's shares have been amortised and the capital reduction deed granted and registered with the Mercantile Registry, the amortised shares are excluded from negotiation on the Madrid, Barcelona, Bilbao and Valencia Stock Markets through the Stock Market Interconnection System, and the relevant accounting entries are cancelled out; and*
- (v) *To carry out any necessary or appropriate action to execute and formalise this Capital Reduction agreement before any entity or public or private body, whether Spanish or foreign, including any required action for obtaining any authorisation or consent from third parties required to the Company, as well as any statements, complements or corrections of flaws or omissions that could prevent or hinder full effectiveness of the preceding agreements, and the publication of announcements, relevant facts and all other communication required for this purpose.*

The Board of Directors is specifically authorised to in turn delegate the powers referred to in this agreement in accordance with the provisions established in Article 249.2bis I) of the Companies Act.

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In Madrid, on 17 March, 2015