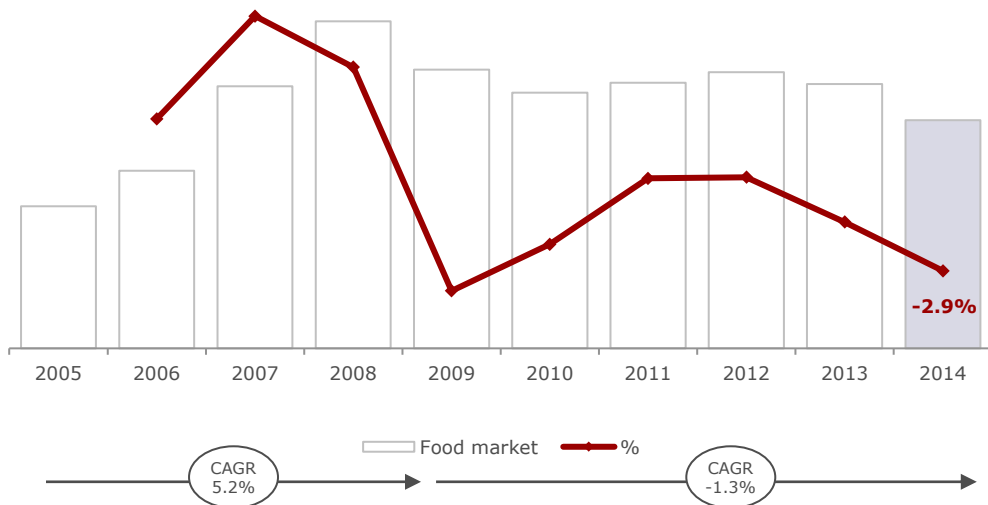




Spanish food retail market overview

Spanish food retail market and GDP – recent evolution

Food retail market evolution 2005-2014 – EUR mn



GDP evolution 2006-2014E - % YoY constant prices



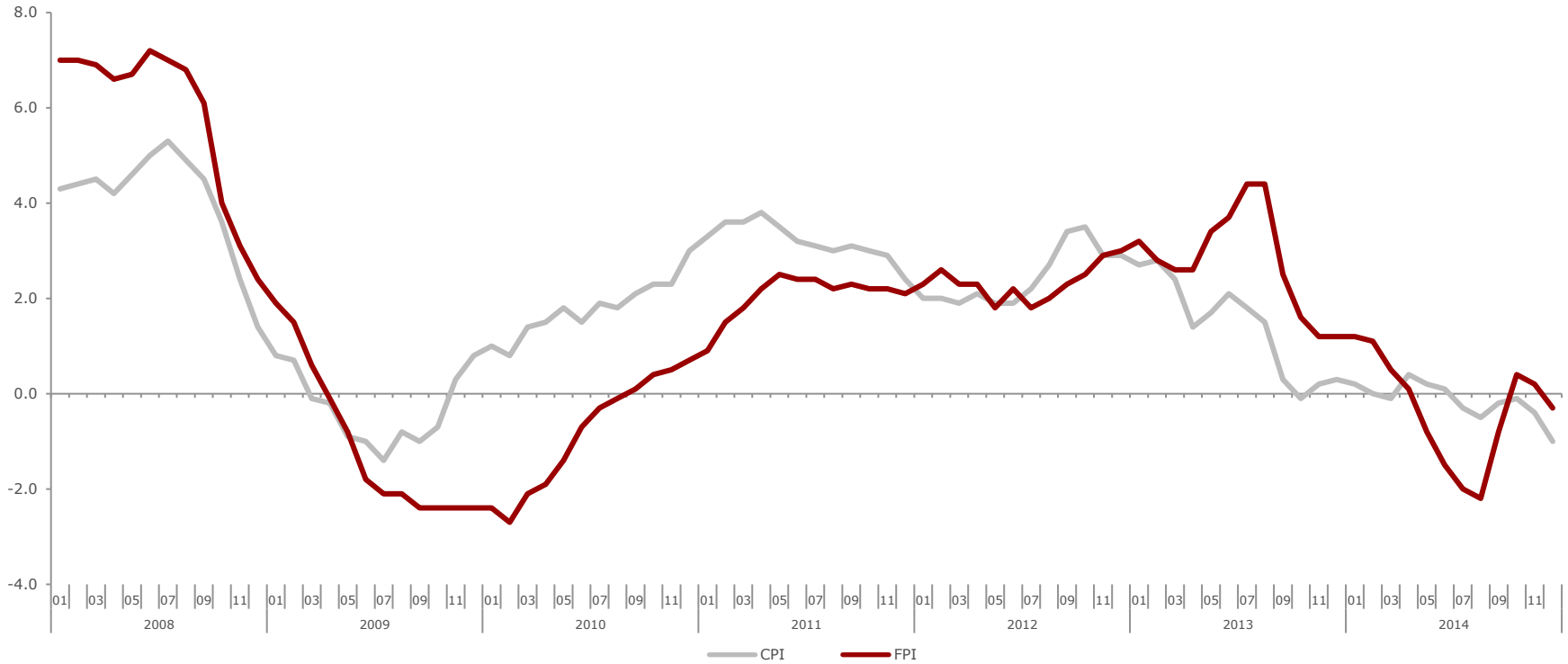
Food retail per capita - international benchmark – EUR



- In 2014, the total food retail market in Spain experienced a decrease of 2.9% YoY according to KPW.
- The GDP declined by 0.9% CAGR in the 6 year period (2008-2014) The food retail market has followed a similar pattern and has decreased by 1.3% CAGR, losing c.EUR7 bn from the 2008 peak.

Food inflation evolution vs. CPI

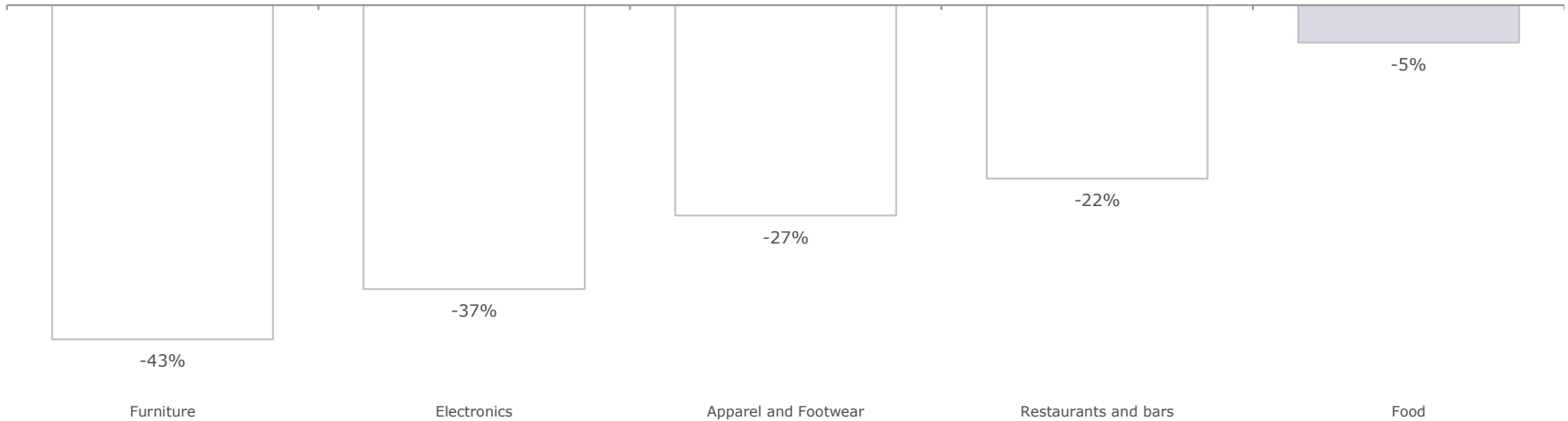
Total CPI and FPI evolution – YoY change %



Food inflation has been significantly negative in the central part of 2014 and started to recover after the summer. The drop in oil prices seems to have reverted the trend again and FPI ended the year in negative territory

Evolution of key sectors 2008-2013

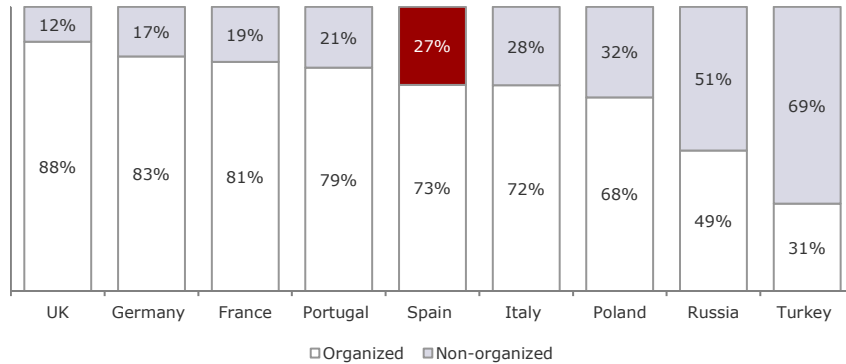
Main consumer segments evolution – 2013 vs. 2008



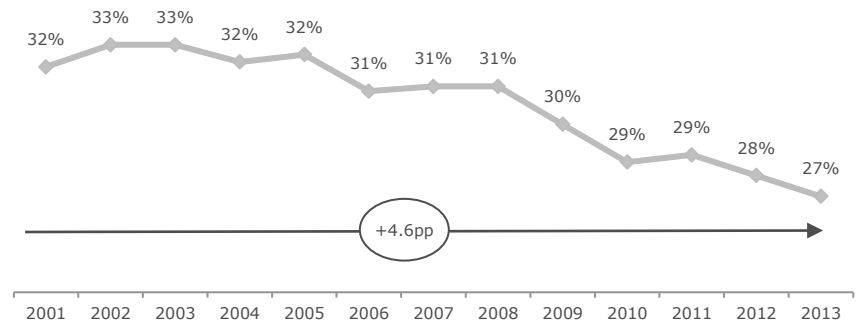
Food has been substantially more resilient during the crisis than other main consumer segments which plunged at double digit since their peak in 2008

Traditionals still play a major role in the Spanish market

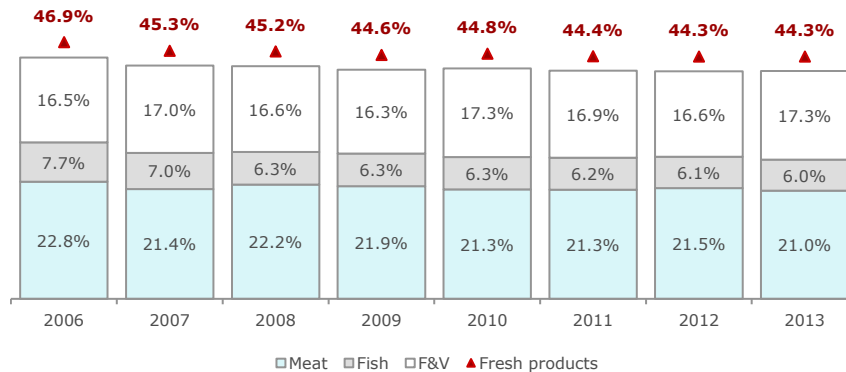
Organized and traditional MS – 2013 – international benchmark



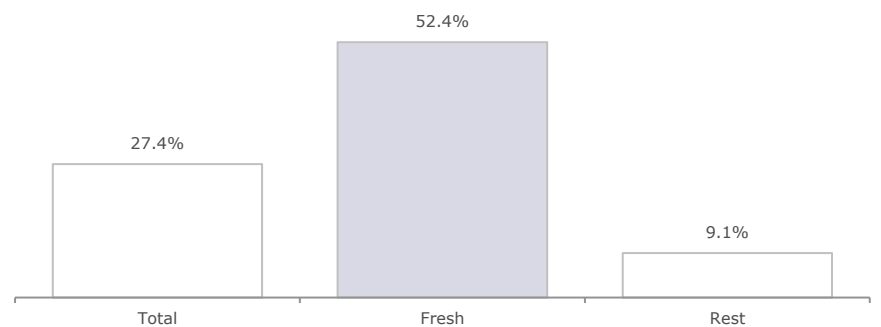
Traditionals MS – evolution



Fresh consumption evolution - % on total food – 2006-2013



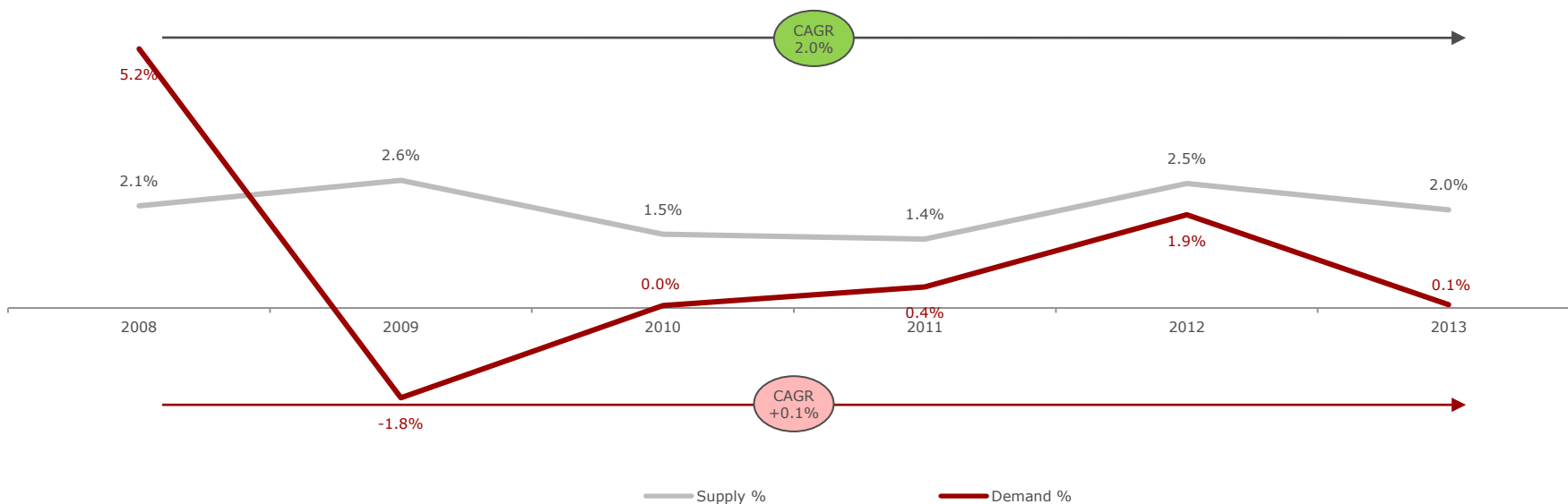
Weight of traditional channel by type of product – 2013 - %



- **Spain lags behind other top Western European countries** in terms of **penetration of modern players: traditionals still represent c.27%** of the total food retail market. **In the last 12 years, the share of non-organized players has only declined by 4.6pp.**
- The main reason behind that **is the strong weight of fresh produce** in the total food consumption (c.44%) which is still **mostly bought (c.52%) in open markets and specialized players.**

Food retail supply and demand

Supply and demand evolution - MGD sales and sqm - % YOY













During the period 2008-2013, **supply has significantly outpaced demand: the MGD sqm have progressed by 2.0% CAGR in the period while MGD has only increased by 0.1%**. This indicates **strong pressure on LFLs** of organized players and **explains the serious difficulties faced by several Companies** (Eroski, El Corte Inglés, El Arbol...)

SQM evolution – 2010-2013 – Top10

During the 2010-2013 period, Top10 Spanish retailers in terms of sqm opened represented c.83% of the total new selling space, being Mercadona the most active player, accounting for c.27% of the new sqm, well above Auchan, Dia, Carrefour and SPAR

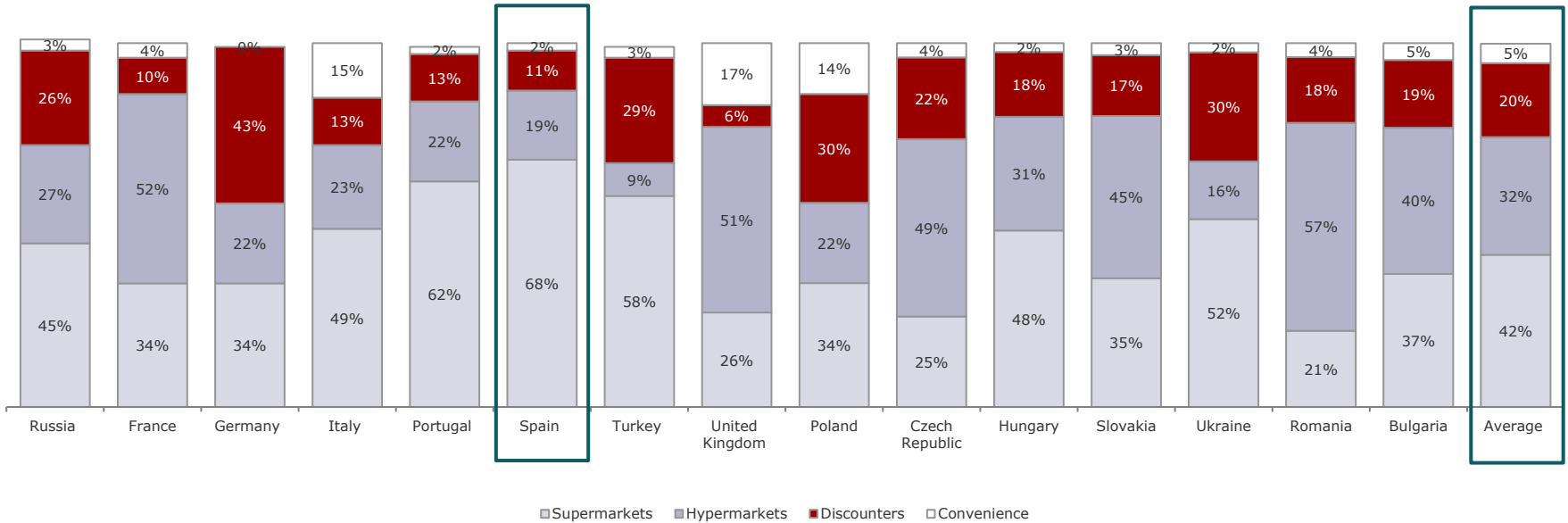
SQM evolution– 2010-2013 – Top10

Player	Sales 2013 EUR mn	Stores opened 10-13	SQM opened 10-13	% SQM opened
 MERCADONA	18,197	157	218,788	27.3%
 AUCHAN	4,490	116	87,901	11.0%
 DIA	4,500	237	83,531	10.4%
 CARREFOUR	8,416	151	65,278	8.1%
 SPAR	1,306	216	62,347	7.8%
 FROIZ	522	27	31,558	3.9%
 SEMARK AC	376	31	31,513	3.9%
 ALDI	611	28	30,385	3.8%
 EROSKI	5,881	38	29,618	3.7%
 AHORRAMÁS	1,396	48	24,428	3.0%
Top10	45,696	1,049	665,347	82.9%

Market share by segment – international benchmark

Compared to the average of our international benchmark, Spain has a much stronger weight of supermarkets (68% of MGD sales compared to an average of 42%) and a significantly lower participation of hypermarkets and discounters. Modern convenience is a marginal segment in Spain representing less than 2% of the MGD

MS by retail channels – international benchmark – 2013 - % of MGD sales



Top5 MS on MGD – international benchmark

TOP5 MS in total MGD market – 2013 – international benchmark

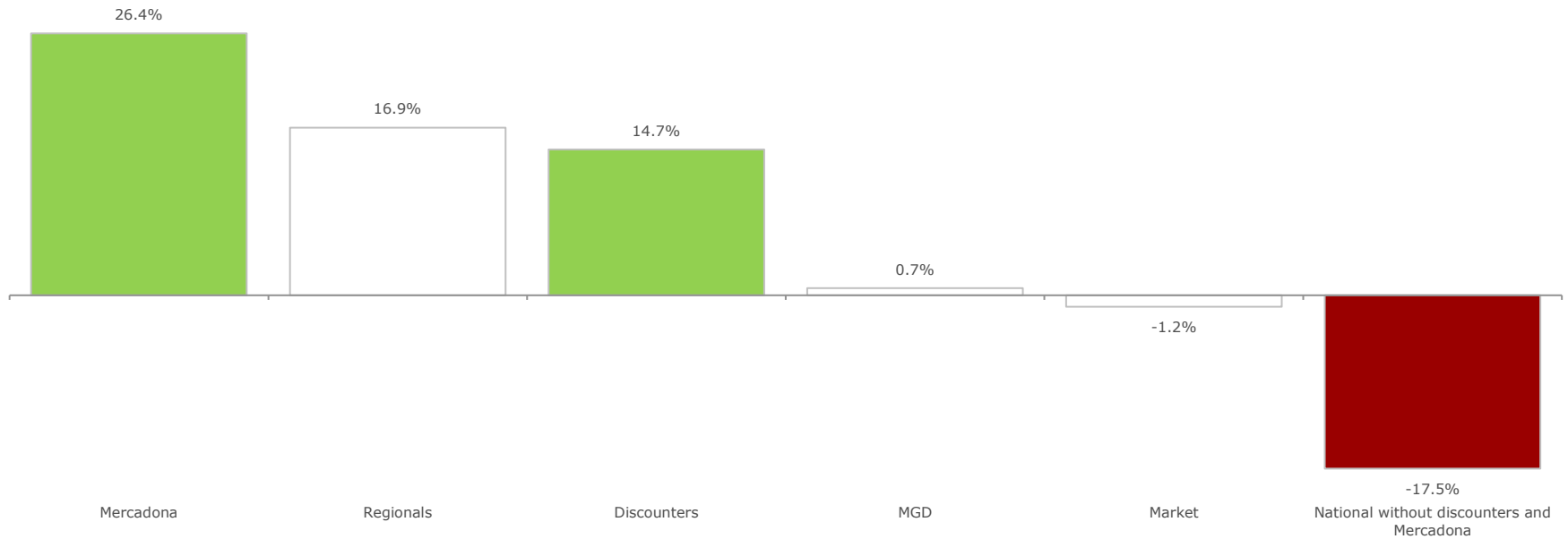


- **The food retail market in Spain is still more fragmented than many of the top Western European countries.**
- Unlike other European countries, where **most regional operators have disappeared or have been acquired by national or international players, regional food retailers play an important role in Spain** and are **well adapted to their local markets and enjoy** (in many cases) **solid financials**.

Sales evolution – benchmark

Apart from Mercadona, which has increased its net sales by 26.4% in the period 2009-2013, only regional players (+16.9%) and discounters (+14.7%), have showed positive sales growth, while national chains have faced a substantial decline

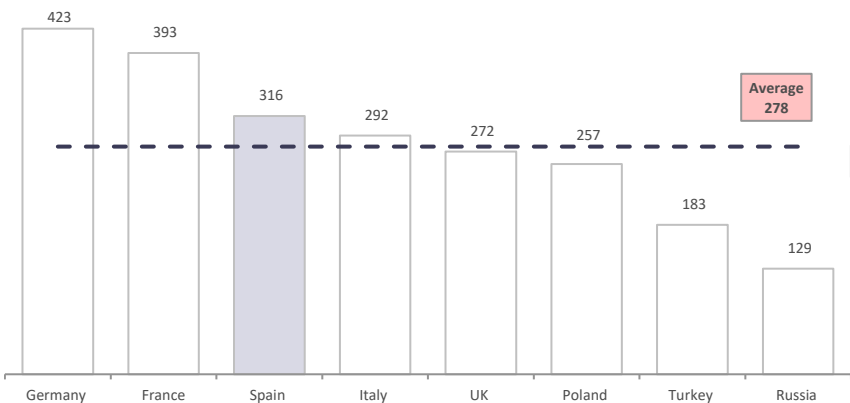
Sales evolution – 2009-2013 - %



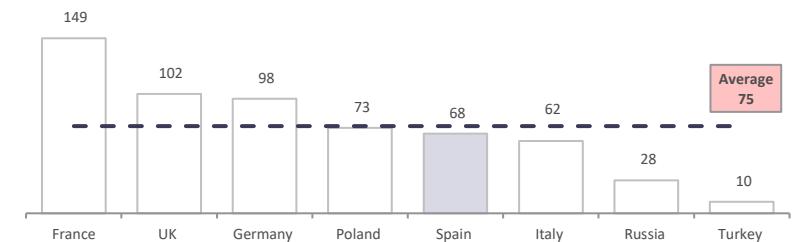
Sales densities – international benchmark

Spain is a very competitive market with c.316 sqm of MGD selling area per 1,000 inhabitants, in particular in the supermarket segment where the Country has the highest sqm density of our benchmark

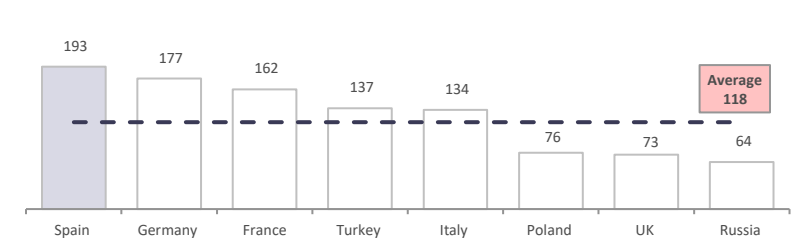
SQM densities per 1,000 inhabitants – benchmark – 2013(*) **Total**



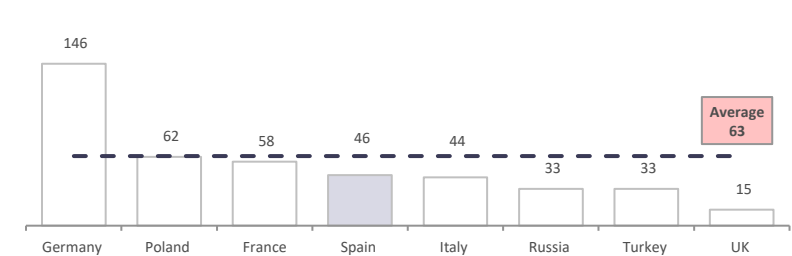
SQM densities per 1K inhabitants – benchmark – 2013(*) **Hyper**



SQM densities per 1K inhabitants – benchmark – 2013(*) **Super**



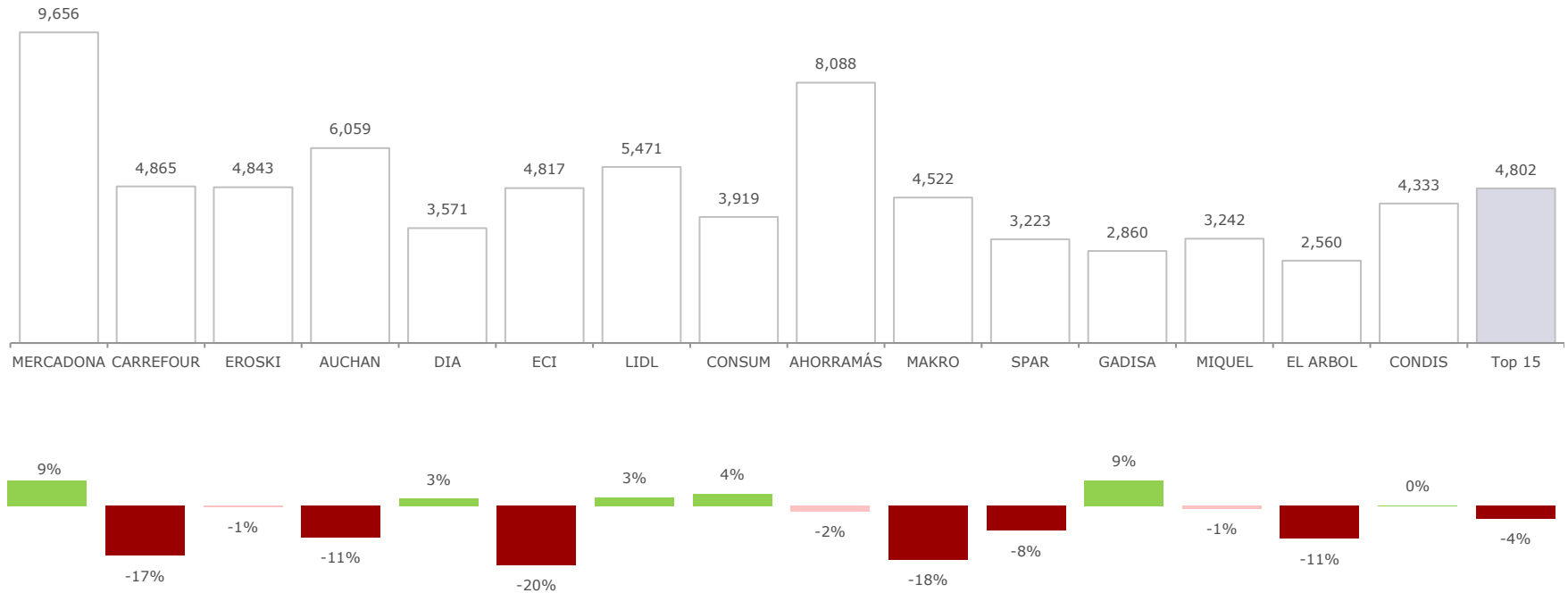
SQM densities per 1K inhabitants – benchmark – 2013(*) **Discount**



Note(*): Average excluding Spain

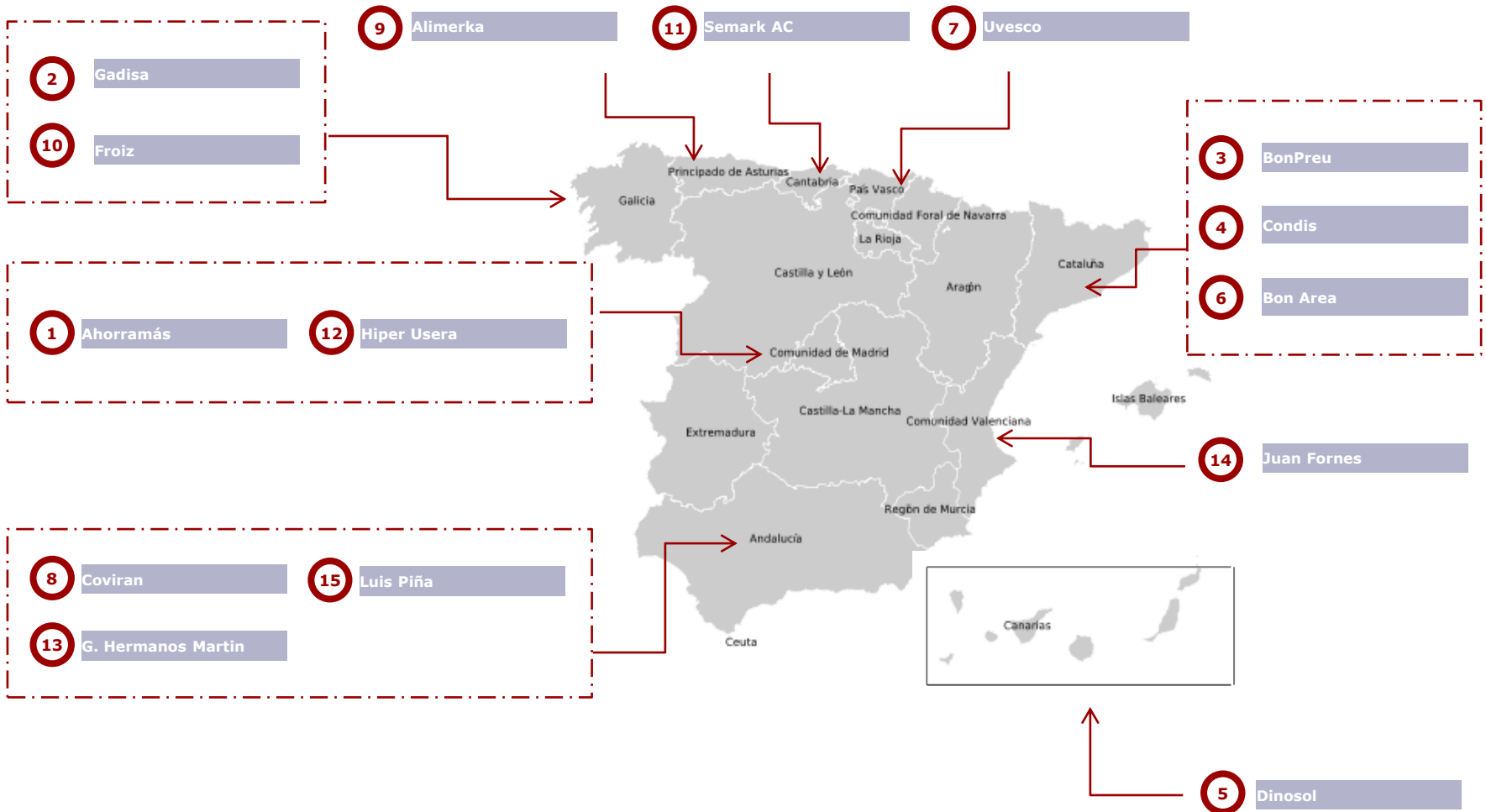
Sales densities evolution – 2009-2013 - Top15

Sales densities evolution 2009-2013– TOP 15 – EUR sqm



- Sales densities of TOP15 Spanish food retail players have declined by 5% in 2009-2013.
- Price oriented players (Mercadona, Lidl and DIA) along with Consum and Gadisa have been the only companies increasing their sales densities in the period 2009-2013, while hypermarkets, C&C and El Arbol have faced the strongest declines.

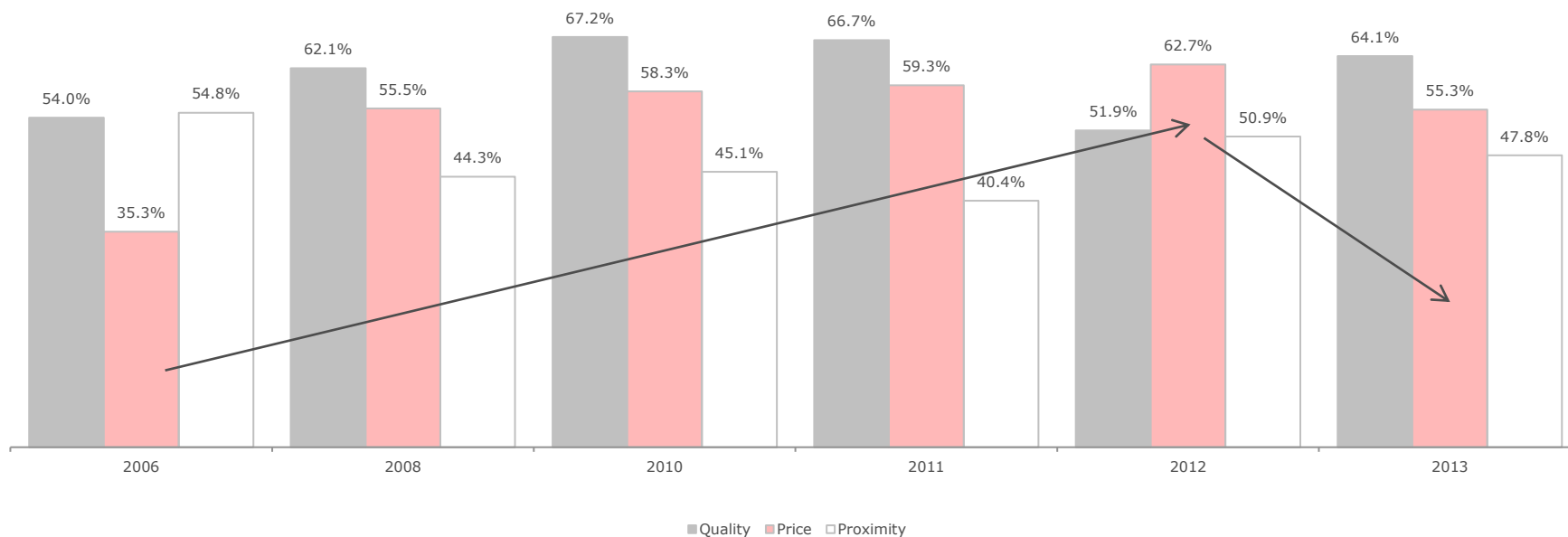
Main regional/family owned operators



Note(*): Numbers refer to the sales ranking of the regional players

Factors of store selection – 2013-2006

Reasons for buying in a particular store - % of customers

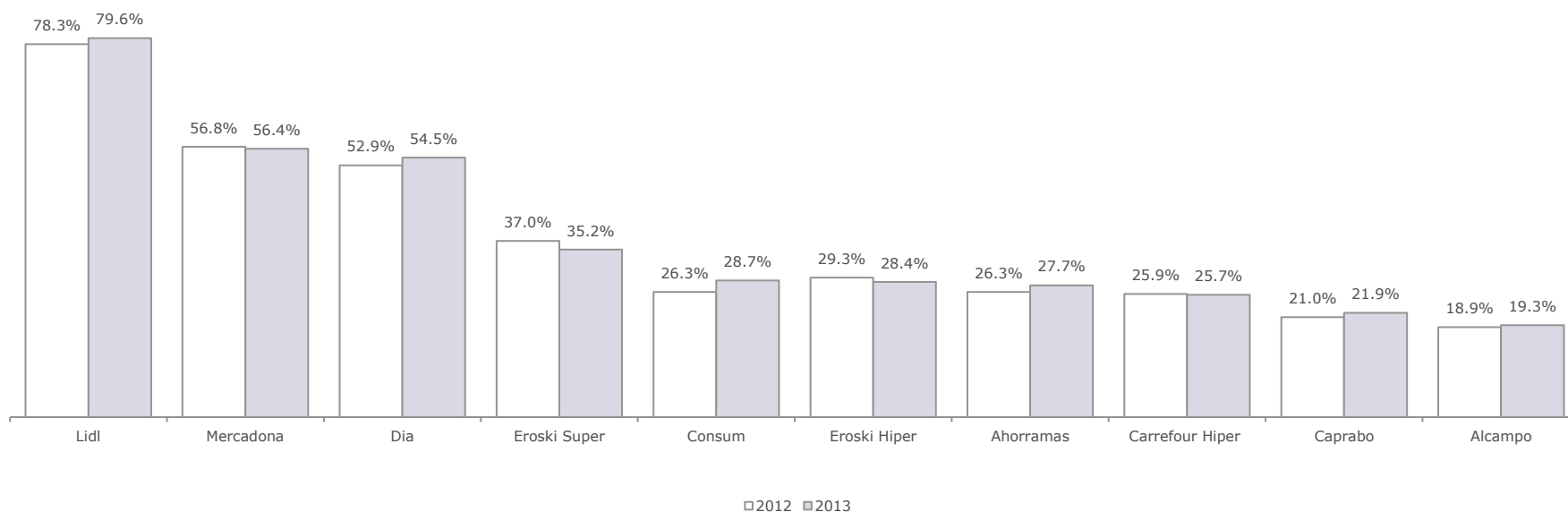


Price sensitiveness has substantially increased during the crisis period in Spain (reaching its peak in 2012 when it surpassed Quality as a main reason for shopping). In 2013, Quality recovered its position as #1 driver of shopping for customers.

PL – penetration

Virtually every company in all food retail segments are increasing the participation of PL on their sales. Notably Mercadona, with c.56% of its sales made through PL, has reached similar figures or even higher than soft discounters such as DIA

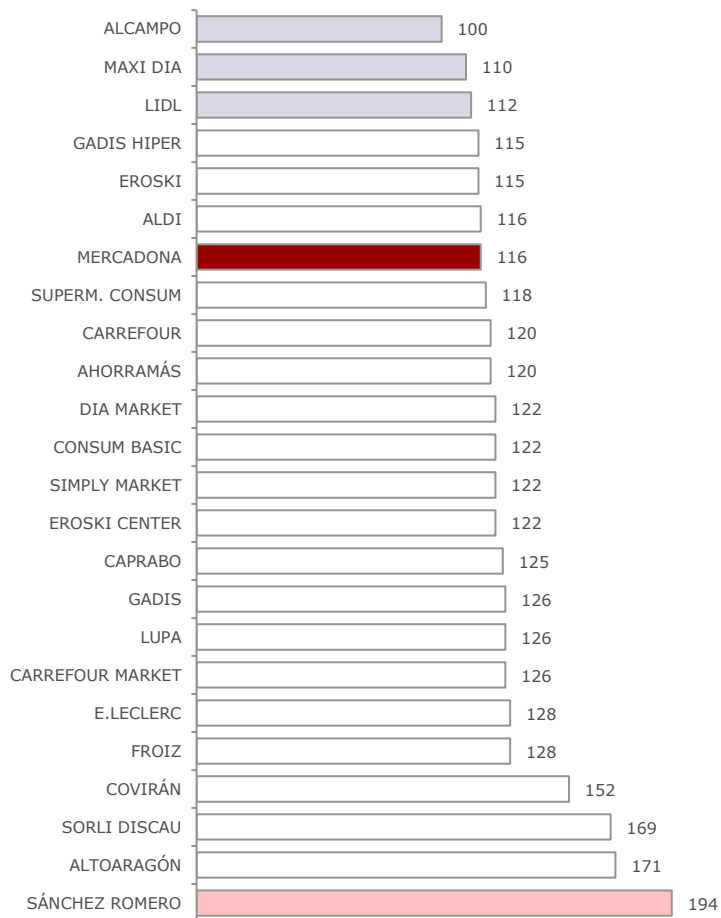
PL penetration* – 2012-2013 – %



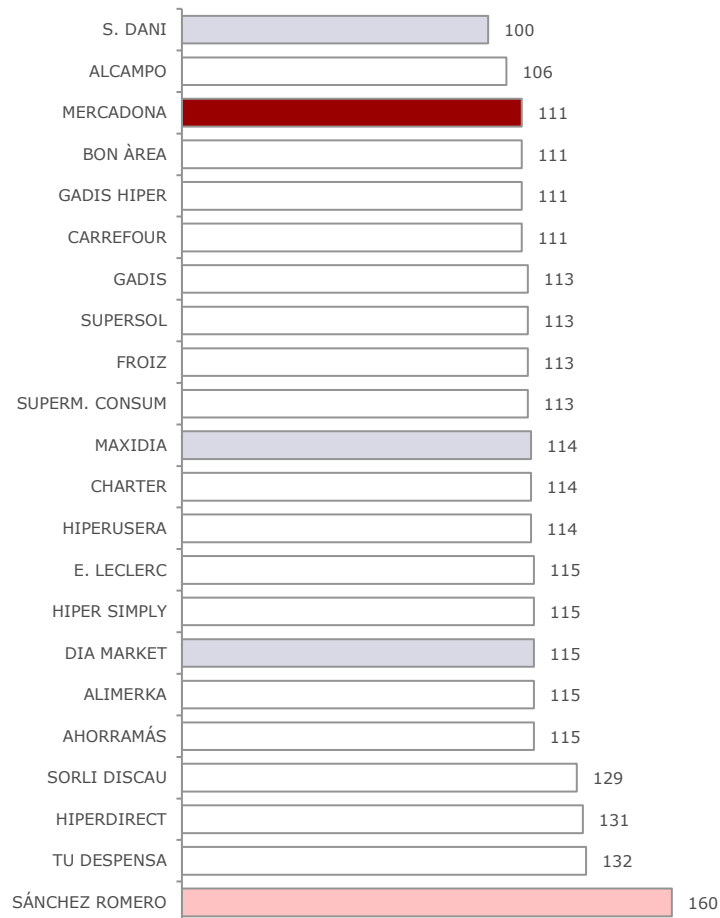
Note(*): Includes Food, H&B, Baby and Pet food

Price positioning 2014

Cheapest banner = 100 **Cheap basket**



Cheapest banner = 100 **Standard basket**

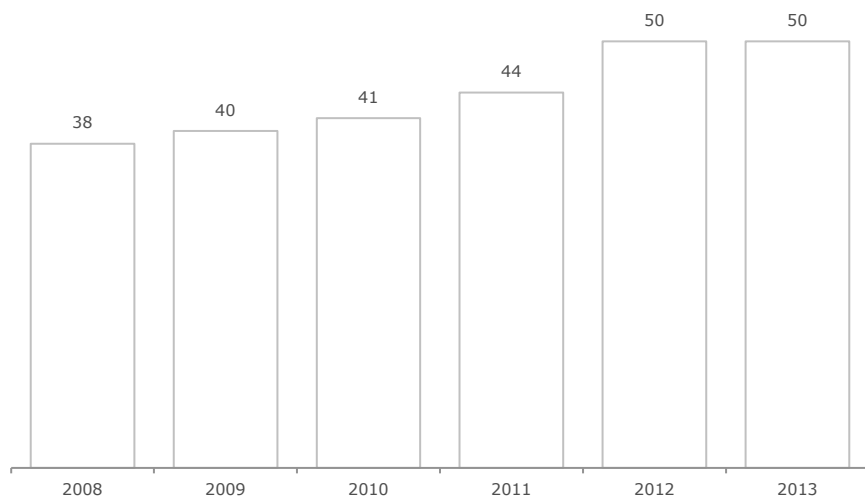


NOTE: The study of the OCU 2014, includes a total of 1,165 stores with two types of baskets:
 ▪ **The standard Basket:** branded products with a direct comparison of 146 identical products.
 ▪ **Cheap basket:** 79 products, always the cheapest, regardless of manufacturer
 ▪ The study **excludes promotions and benefits to loyalty cardholders**

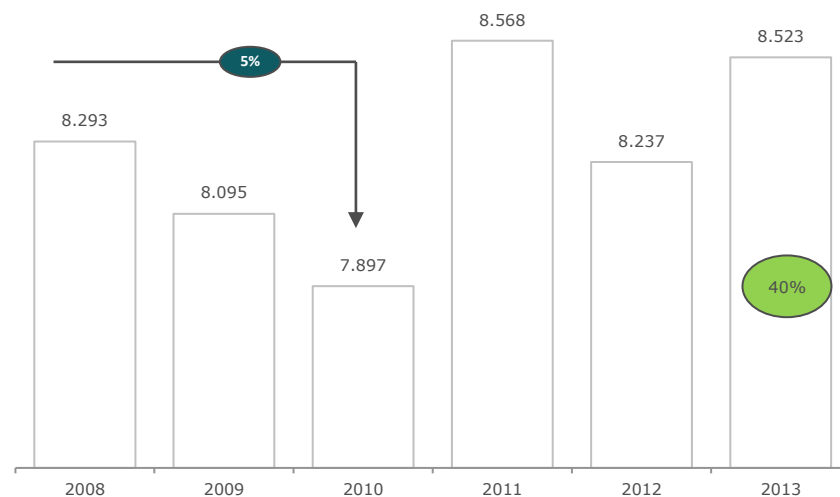
Franchising is very important in the Spanish food retail market

Franchising is very important in the Spanish food retail market: there are 50 chains using this system with a total of c.8,500 stores (c.40% of the total number of shops)

Evolution of number of franchisors – 2008-2013 – Food retail



Evolution of number of franchised stores – 2008-2013 and % on total market

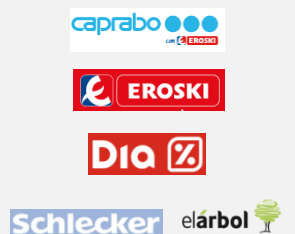


Still room for further consolidation

Still room for consolidation

The **consolidation of the Spanish market has progressed at a very slow pace. DIA has become the most active consolidator.** We believe the **process has not concluded yet and we anticipate further movements** in the near future as well as a **renewed appetite of financial investors for the sector** (as seen in the acquisition of La Sirena by OpCapita)

National consolidations



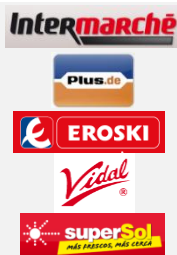
- The acquisition of **Caprabo by Eroski (2007)** has been **the most sizeable national consolidation in Spain in the recent years.**
- **In October 2012, Dia acquired Schlecker** (German discount specialist in cleaning and health and beauty products) **in Spain and Portugal** for c.EUR70 mn. In **2014** the Company **acquired El Arbol** for c.EUR120 mn and **140 Eroski stores in the Madrid** region.

Regional consolidations and assets operations



- Few **regional consolidations:**
 - Acquisition of Ercoreca by Uvesco (2011).
 - Galerias Primero was bought by Group EL Árbol in 2008.
- **Assets operations:**
 - Disposal of hypermarkets in Madrid by Eroski sold to Leclerc.
 - Disposal of supermarkets in Madrid by Eroski sold to DIA.

Fallen angels



- **International players: Intermarché (acquired by Bonpreu in 2010) and Plus (acquired by Dia in 2007)** have abandoned the Spanish market.
- **Eroski and Vidal have been forced to sell assets (Eroski) or have gone vast (Vidal).**
- **Dinosol was sold in parts:** Peninsula and C&C to the Lithuanian Group Maxima and Canary to a group of investors.

Recent developments in the Spanish food retail market

While discounters are moving towards supermarket formats...

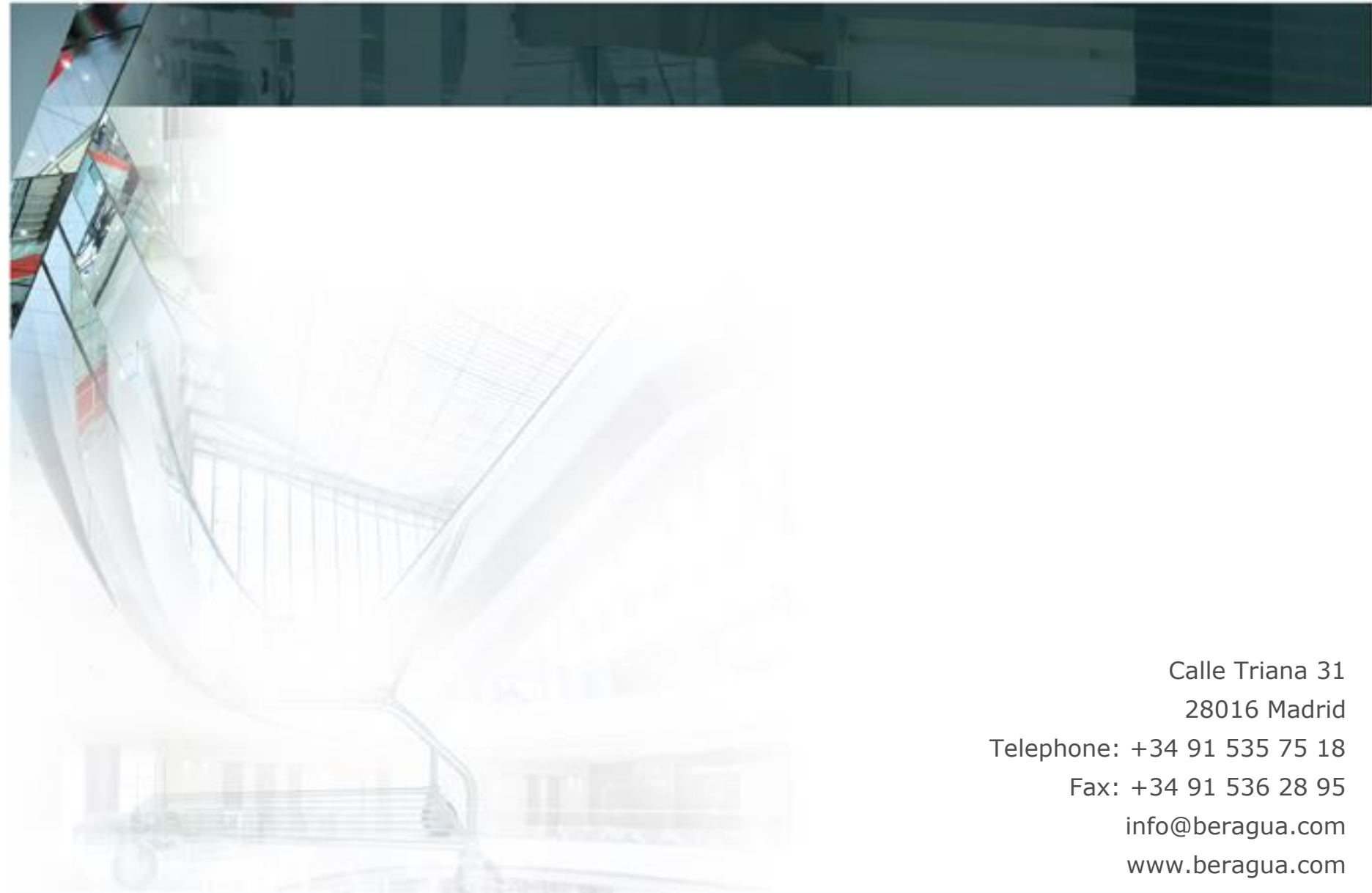
- In the last few years, **traditional discounter retailers** present in the Spanish food retail market, **such as Lidl or Dia, are moving towards supermarket formats:**
 - **Lidl** has introduced **assisted meat and fish counters** in some of its stores (**leased to third party specialists**) and has improved bakery and frozen sections while it keeps to focus its advertising in quality and freshness.
 - **Dia** has started to offer **assisted meat in its new format of proximity stores Dia Market** outlets.
 - **Both retailers have developed a 'premium' private label**, with **gourmet products** ('Deluxe' for Lidl and 'Delicious' for Dia) and its is especially used in Christmas.
 - **Dia has recently acquired the regional supermarket chain 'El Arbol'** and its plans include to **create an 'hybrid concept'** with 'discount-type' assortment in dry groceries and H&B and '**traditional' fresh sections** (assisted and local assortment) in **fish, meat and charcuterie**.

...new price-oriented players have entered the market

- On the other hand, several **new price-oriented players have entered the Spanish market:**
 - **Supeco** → **Carrefour introduced its first Supeco hard discount store in 2012. As of today**, the Company has **12 stores in the country**, with a selling area ranging from 1,500-2,000 sqm.
 - **Dealz** → **Last summer**, the British 'fix price' retailer **Poundland**, opened its **first store in Spain** under the **Dealz banner**. Each shop offers **c.3,000 SKUs at EUR1.5**, with a **mix of 40% food and 60% non-food** products. Currently the **Company operates 5 stores** (2 of them in Madrid).
 - **Costco** → On **May of 2014**, the **American Warehouse Club** retailer **opened its first store** in the city of Seville. The Company plans to **reach a total network ranging from 10 to 50 stores** in the country.

Mercadona is changing its approach to Fresh products

- Mercadona is starting to change its approach to fresh (the Company removed several years ago all the assisted sections except fish and approached F&V in the same 'industrial' way as discounters) in two ways:
 - **Reintroducing assisted meat counters.**
 - **Changing the 'industrial' approach to F&V to a more local and 'short-life cycle' oriented model.**



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