



**REPORT ISSUED BY THE BOARD OF DIRECTORS OF DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. FOR THE PURPOSES SET OUT IN ON ARTICLE 318.1 IN RELATION WITH ARTICLE 286 OF THE SPANISH COMPANIES ACT, ON THE RATIONALE FOR THE PROPOSALS TO ALLOCATE OF RESERVES AND THE SHARE CAPITAL REDUCTION IN ORDER TO OFFSET LOSSES INCLUDED IN ITEM FIVE, RESPECTIVELY OF THE GENERAL SHAREHOLDER'S MEETING CALLED TO BE HELD ON 19 AND 20 MARCH 2019, AT FIRST AND SECOND CALL, RESPECTIVELY.**

**I. Purpose of the report**

The Board of Directors of Distribuidora Internacional de Alimentación, S.A. (“**DIA**” or the “**Company**”) has prepared this report to justify, in compliance with the provisions set forth in article 318.1 in relation to article 286 of the Spanish Companies Act, approved by the Royal Decree 1/2000, July 2, (“**the Spanish Companies Act**”) the proposed resolutions consisting of:

- (i) the allocation of the offsetting of losses of the “legal reserve” in the amount of EUR 13,021,411.16, of the “capital redemption reserve” in the amount of EUR 5,687,948.70, of the “differences from redenominating the capital to euro” in the amount of EUR 62.07 and of the “voluntary reserve” in the amount of EUR 45,076,550.47 based on the individual balance sheet of the Company for the year ended 31 December 2018 and integrated in the 2018 annual accounts of the Company approved under item 1.1 on the Agenda; and
- (ii) the share capital reduction in an amount of EUR 56,021,086.17 by virtue of the reduction of the par value of the Company’s shares by EUR 0.09, to EUR 0.01 per share to offset losses.

These proposed resolutions are included as items 5.1 and 5.2, respectively, of the upcoming General Shareholders Meeting’s agenda, called for 19 March 2019 at 10:00 on first call and the following day, 20 March 2019 at the same time, on second call (the “**General Shareholder’s Meeting**”).

Likewise, it has been resolved to submit to the General Shareholder’s Meeting the subsequent amendment of article 5 of the Articles of Association and the relevant delegation of powers.

This report has been unanimously approved by the members of the Board of Directors of DIA at its meeting held on 15 February 2019.

**II. Applicable legislation**

In accordance with the provisions set forth in article 318 of the Spanish Companies Act, the share capital reduction must be approved by the General Shareholder’s Meeting in compliance with the requirements for the amendment of the Articles of Association.



Likewise, as provided by article 286 of the Spanish Companies Act, directors shall prepare a written report justifying the rationale for the resolution proposal, insofar as, on the one hand, the resolution for the share capital reduction results necessarily in the amendment of article 5 of the Articles of Association regarding the amount of share capital and, on the other hand, one of the proposed reserves to be applied to offsetting of losses is only available under the same requirements required for the share capital reduction.

Likewise, article 287 of the Spanish Companies Act requires that the announcement of call of the General Shareholders' Meeting clearly states the items to be amended and the right of all shareholders to examine the complete text of the proposed amendment and the related report at the registered address, as well as to request the free delivery or shipment of such documents. As for article 318.2 of the Spanish Companies Act requires that the resolution of the General Shareholders' Meeting specifies at least the amount of the reduction, its purpose, how it shall be implemented and the term for its implementation.

### **III. Justification for the proposal**

In the light of Company's individual balance sheet, as at 31 December 2018, the Board of Directors has resolved to submit to the General Shareholder's Meeting the allocation of the reserves for the offsetting of losses and the share capital reduction in order to offset negative reserves resulting from the losses generated in the 2018 financial year and reflected in the referred balance sheet.

To this end, it is hereby stated for the record that the balance in which these reductions will be based on, the Company's individual balance sheet as at 31 December 2018 and integrated in the Company's annual accounts submitted for the General Shareholders Meeting approval under the item 1.1 of the agenda. This balance sheet has been drafted by the Board of Directors of the Company, as part of the annual accounts for the 2018 financial year, during the meeting held on 7 February 2019 and was verified by the Company's auditor, KPMG Auditores, S.L., on the same date.

#### **1. Allocation of reserves to offset losses**

In accordance with the provisions included in article 322.2 of the Spanish Companies Act, limited liability companies (*sociedades anónimas*) are not allowed to reduce their share capital to offset losses as long as the company has any type of voluntary reserve or as long as the legal reserve, after executing the capital reduction, exceeds ten per cent of the share capital. For these purposes, the Board of Directors proposes the General Shareholder Meeting to, under item 5.1 on the Agenda, to approve, the allocation of the voluntary reserve and the legal reserve reflected in the referred balance sheet prior to the share capital reduction through the reduction of the par value of the shares, all of the above in order to offset losses.

Pursuant to what the referred balance sheet, the "profit and loss" account amounts to a loss of an amount of EUR 191,274,360.71, and it is proposed to the General Shareholders' Meeting



under item 1.3 on the Agenda its allocation to the stock account “negative results from prior periods”. As a result, it is proposed to the General Shareholders’ Meeting the allocation of the following reserves to the partially offset of that account of such negative reserves:

- (i) “legal reserve”, by the amount of EUR 13,021,411.16;
- (ii) “capital redemption reserve”, by the amount of EUR 5,687,948.70;
- (iii) “voluntary reserve”, by the amount of EUR 45,076,550.47; and
- (iv) “differences from redenominating the capital to euro reserve”, by the amount of EUR 62.07;

Once the entire amount of such reserves is allocated to the offset of the losses accounted in the referred “negative results from prior periods”, such account will amount to EUR 127,488,388.31.

It is hereby stated for the purpose of article 322.2 of the Spanish Companies Act, that in the event these proposed resolutions are approved, the Company would not have any voluntary or legal reserve exceeding 10% of the share capital, other than the voluntary non-available reserve in an amount of EUR 15,170,021.76, caused as a consequence of the re-classification, by the appliance of Royal Decree 602/2016. December 2, on the goodwill reserve, on 1 January 2016 to this new non-available reserve while the net amount of the goodwill registered at the assets of the Company is above from that amount (as appears in the Company’s balance sheet as of 31 December 2018).

## **2. Share capital reduction to offset losses**

In order to partially offset the amount of the so-called account the “negative results from prior periods” of the Company, outstanding after the allocation of the legal and voluntary reserves for such purposes, and based on the abovementioned audited balance sheet, the Board of Directors purposes to the General Shareholders Meeting to reduce the share capital to in the amount of EUR 56,021,086.17 (this is, from the current 62,245,651.30 to the amount of EUR 6,224,565.13), through the reduction by EUR 0.09 of the par value of each and every of the 622,456,513 outstanding shares of the Company, in accordance with article 320 of the Spanish Companies Act.

Such amount would be allocated to partially offset the losses registered in the “negative results from prior periods” which, once the offset proposed in section III.1 above is executed, under item 5.1 of the Agenda, amount to EUR 127,488,388.31.

Following the execution of the proposed share capital decrease, the Company’s losses, registered in the account “negative results from prior periods” will be reduced to EUR 71,467,364.21.

Pursuant to article 335.(a) of the Spanish Companies Act, creditors have no right of opposition to this share capital reduction. As a result, the proposed resolutions referred to in



the present report would be immediately effective by simple decision of the General Meeting, if approved (without prejudice to the formalization actions that may be required).

Likewise, it is proposed to amend article 5 of the Articles of Association of the Company in force, which will read as indicated in the proposed resolution included in the following section 4 of this report, in order to reflect the resulting new amount of the Company's share capital and of the par value of the shares comprising such share capital.

Finally, it is resolved to empower the Board of Directors, with express powers to sub-delegate, to carry out such actions and to execute such documents as may be necessary for the fully effectiveness of the resolutions referred to in this report.

#### **IV. Proposed resolutions submitted for the approval of the General Shareholder's Meeting**

The entire text of the proposed resolutions submitted for the approval of the General Shareholder's Meeting is as follows:

##### **ITEM 5.1 OF THE AGENDA: OFFSETTING OF LOSSES AGAINST RESERVES.**

#### **1. Application of the "legal reserve", "capital redemption reserve", "differences from redenominating the capital to euro reserve" and "voluntary reserve" to offset losses**

In the light of the Company's individual balance sheet as at 31 December 2018 and included in the Company's annual accounts approved under item 1.1 of the Agenda, the Company has the following reserves that amount to a total of EUR 63,785,910.09:

- (i) "legal reserve", by the amount of EUR 13,021,411.16;
- (ii) "capital redemption reserve", by the amount of EUR 5,687,948.70;
- (iii) "voluntary reserve", once applied the losses of the 2018 fiscal year in accordance with the resolution under item 1.3 of the Agenda, by the amount of EUR 45,076,550.47; and
- (iv) "differences from redenominating the capital to euro reserve", by the amount of EUR 62.07.

In accordance with such balance sheet, the "negative results from prior periods" amounts to EUR 191,274,360.71.

The General Shareholder's Meeting resolves to allocate:

- (i) the entirety of the aforesaid "legal reserve" account in the amount of EUR 13,021,411.16;
- (ii) the entirety of the aforesaid "capital redemption reserve" account in the amount of EUR 5,687,948.70;



- (iii) the entirety of the aforesaid “voluntary reserves” account in the amount of EUR 45,076,550.47; and
- (iv) the entirety of the aforesaid “differences from redenominating the capital to euro reserve” account in the amount of EUR 62.07.

to partially offset the “negative results from prior periods” of the Company. It is stated for the record that once these reserves have been allocated to offset losses, (i) the “negative results from prior periods” account shall amount to EUR 117,488,388.31; and (ii) according to article 322.2 of the Spanish Companies Act, approved by the Royal Decree 1/2000, July 2, (the “**Spanish Companies Act**”), the Company will not have any voluntary or legal reserves exceeding 10% of the share capital, other than for the unavailable voluntary reserve amounting to EUR 15.170.021,76 euros, arising from the reclassification, pursuant to Royal Decree 602/2016, of 2 December, of the goodwill reserve on 1 January 2016 to this new reserve, which is restricted as long as the net worth of the goodwill recognised in the Company's assets exceeds this amount (as is the case in the Company's balance sheet at 31 December 2018).

## **2. Delegation of powers**

Notwithstanding the specific delegations of powers comprised in separate items of the agenda (which are to be understood as having been granted with express powers of substitution or subdelegation in the bodies and persons detailed herein), it is resolved to empower the Board of Directors, as broadly as required by law, with express powers to be substituted by, or to empower by any of its members, the powers to carry out all actions or formalities that may be necessary or merely convenient in order to achieve the execution and success of this resolution, and, in particular, without limitation, being empowered as follows:

- (a) To develop, complement and implement this resolution.
- (b) To carry out all actions necessary in order to comply with the requirements set forth in the Spanish Companies Act and other applicable rules.
- (c) To carry out all actions and take all the steps necessary to obtain the consents and approvals required for this resolution to become fully effective.
- (d) To carry out on behalf of the Company any action, make any statement or take any step that may be required before the Spanish National Securities Market Commission (the “**CNMV**”), Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR), the Governing Bodies of the Stock Markets and any other agency or entity or public or private Registry, Spanish or foreign, related to this resolution.
- (e) To execute on behalf of the Company such public or private documents as may be necessary or appropriate and, at large, to carry out such actions as may be necessary for this resolution to become fully effective.



- (f) To correct, clarify, interpret, specify or supplement the resolutions adopted by the General Shareholders' Meeting, or those appearing in such public deeds or documents as may be executed in the implementation thereof, and, in particular, such defects, omissions or error, either substantive or formal, that may prevent the resolutions and the consequences thereof from registering with the Commercial Registry, the Official Registries of the CNMV, or any others, including in this case the power to adjust the figure by which the losses are to be offset if, in the light of the Commercial Registrar's assessment, this would be necessary due to not being possible the allocation of some those reserves with such objective.
- (g) At large, to carry out such actions as may be necessary or appropriate for this resolution to become fully effective.

**ITEM 5.2 OF THE AGENDA: SHARE CAPITAL REDUCTION IN THE AMOUNT OF EUR 56,021,086.17 BY DECREASING THE PAR VALUE OF THE COMPANY'S SHARES IN EUR 0.09 TO OFFSET LOSSES AND AMENDMENT OF ARTICLE 5 OF THE ARTICLES OF ASSOCIATION.**

**1. Company's share capital reduction to offset losses**

In accordance with the report submitted by the Board of Directors dated on 15 February 2019 and in compliance with article 318.1 in relation to article 286 of the Consolidated Text of the Spanish Companies Act, and following the allocation of all the voluntary and the legal reserves to offset losses, carried out by means of item 5.1 above, it is proposed to the General Shareholder's Meeting to reduce the share capital in the amount of EUR 56,021,086.17, that is, from the current amount of EUR 62,245,651.30 to EUR 6,224,565.13, through the reduction of the par share value of the totality of the ordinary shares with voting rights comprising Company's share capital, from the current amount of EUR 0.10 per share to EUR 0.01 per share.

The purpose of the share capital reduction is to offset the negative reserves registered in the "negative results from prior periods" account in an amount of EUR 56,021,086.17.

In accordance with the provisions set forth in article 323 of the Spanish Companies Act, this share capital reduction is based on the Company's individual balance sheet as at 31 December 2018 included in the annual accounts corresponding to the financial year 2018, approved by the General Shareholders Meeting under the First item of the agenda, and submitted to verification of the Company's statutory auditor, namely, KPMG Auditores, S.L., as reflected in the audit report issued 7 February 2019. The aforesaid balance sheet and audit report will be attached to the public deed of share capital decrease.

This share capital reduction resolution shall affect, proportionally to the per share value, to all of the shares comprising the share capital of the Company, and, consequently, it shall not affect to the voting or economic rights of the shareholder.



By virtue of article 335.(a) of the Spanish Companies Act the creditors do not have the right for opposition to this reduction of capital. As a result, the reduction will be immediately effective by simple decision of the General Meeting (notwithstanding with the formalisation acts needed).

As a result of the reduction of the par value of the shares no excess of assets or liabilities will be generated that should be allocated to the legal reserve.

## **2. Amendment of article 5 of the Articles of Association**

As a consequence of the foregoing, a new wording shall be drafted for article 5 of the Articles of Association, that will be drafted in the necessary terms to reflect the amount of the resulting capital reduction as set forth in item 1 above.

Therefore, the aforementioned article will be read as follows:

### ***“Article 5: Share capital***

*1. The share capital amounts to six million two hundred and twenty-four thousand five hundred and sixty-five euros and thirteen cents of euro (6,224,565.13 Euros) and is fully subscribed and paid up.*

*2. The capital stock consists of SIX HUNDRED AND TWENTY-TWO MILLION FOUR HUNDRED FIFTY-SIX THOUSAND FIVE HUNDRED AND THIRTEEN (622,456,513) shares, with a face value each of one cents of a euro (0.01 Euros), belonging to the same class and series.”*

## **3. Delegation of powers**

Notwithstanding the specific delegations of powers comprised in separate items of the agenda (which are to be understood as having been granted with express powers of substitution or subdelegation in the bodies and persons detailed herein), it is resolved to empower the Board of Directors, as broadly as required by law, with express powers to be substituted or empowered by any of its members, the powers to carry out all actions or formalities that may be necessary or merely convenient in order to achieve the execution and success of the share capital reduction, and, in particular, without limitation, being empowered as follows:

- (a) To develop, complement and implement this resolution.
- (b) To carry out all actions necessary in order to comply with the requirements set forth in the Spanish Companies Act and other applicable rules, the consolidated text of the Spanish Securities Market Act, the Royal Decree 878/2015, of October 2, on clearing, settlement and registration of securities represented in book-entry form, on the legal framework of central depositories and central counterparties, and on the transparency requirements for securities admitted to trading on a secondary market (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico*



*de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial)* and other applicable rules, including the publication of any mandatory notices.

- (c) To carry out all actions and take all the steps necessary to obtain the consents and approvals required for this resolution to become fully effective.
- (d) To carry out on behalf of the Company any action, make any statement or take any step that may be required before the National Securities Market Commission (the “CNMV”), Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR), the Governing Bodies of the Stock Markets, the Securities Clearing and Settlement Service and any other agency or entity or public or private Registry, either Spanish or foreign, in connection with the share capital reduction covered by this resolution and, in particular, effective from the beginning of the trading session determined by the latter, and after the public deed of share capital reduction has been executed and registered with the Commercial Registry, in order for the 622,456,513 ordinary shares of the Company with a par value of EUR 0.10 each currently outstanding to be excluded from trading, and the same number of shares with a par value of EUR 0.01 to be subsequently admitted to listing in the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges for trading through the Automated Quotation System (*Sistema de Interconexión Bursátil (Mercado Continuo)*).
- (e) To amend the article of the Articles of Association corresponding to the share capital, so as to adapt it to the new share capital figure.
- (f) To draft and publish such notices as may be necessary or appropriate in connection with this share capital reduction.
- (g) To execute on behalf of the Company such public or private documents as may be necessary or appropriate and, at large, to carry out such actions as may be necessary for this resolution to become fully effective.
- (h) To correct, clarify, interpret, specify or supplement the resolutions adopted by the General Shareholders Meeting, or those appearing in such deeds or documents as may be executed in implementation thereof and, in particular, such defects, omissions or errors, either substantive or formal, that may prevent the resolutions and the consequences thereof from registering with the Commercial Registry, the Official Registries of the CNMV, or any others, including in this case the power to adjust the figure by which the losses are to be offset if, in light of the Commercial Registrar’s assessment, this would be necessary if share capital reduction and the offset of losses or any of the reserves provided in the prior agreement.



- (i) At large, to carry out such actions as may be necessary or appropriate in order for the capital reduction to become fully effective.

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Madrid, 15 February 2019