



COMMUNICATION FROM THE BOARD OF DIRECTORS OF DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. TO ITS SHAREHOLDERS REGARDING THE SUPPLEMENT TO THE CALL TO THE GENERAL SHAREHOLDERS MEETING OF THE COMPANY CONVENED FOR 19 MARCH 2019, ON FIRST CALL, AND FOR 20 MARCH 2019, ON SECOND CALL

The Board of Directors of Distribuidora Internacional de Alimentación, S.A. (“**DIA**” or the “**Company**”) has analysed the supplement to the call to the General Shareholders Meeting that will likely take place the next 20 March 2019 on second call, which has been requested by L1R Invest1 Holdings S.à r.l. (“**Letterone**”), shareholder owning 29.001% of the share capital. For this purpose, the Board of Directors has examined both the proposal of resolution referred to the new item 6.3 of the Agenda and the justifying report prepared by the proposing shareholder, in both cases referred to a share capital increase of DIA for an amount of Euro 500 million with the recognition of the shareholders’ preferential subscription rights, which execution is subject to: (i) the effective settlement of the voluntary takeover bid launched by Letterone (“**Voluntary Tender Offer**” or “**VTO**”) and the appointment of a majority of members of the Board of Directors of the Company; and (ii) an agreement being reached between DIA and the credit entities holding the bank debt of the Company in the terms set out by Letterone in its proposal of resolution.

Letterone expressed in the previous announcement of its VTO that, as of that date, it had no intention of voting in favour of the share capital increase of DIA for an amount of Euro 600 million with recognition of the shareholders’ preferential subscription rights, that had been submitted by the Board of Directors to the General Shareholders Meeting under item 6.2 of the Agenda.

Pursuant to articles 172 and 519 of the Spanish Companies Act (*Ley de Sociedades de Capital*) the Board of Directors of the Company will publish the supplement to the call as requested by Letterone.

In connection with this supplement to the call, the Board of Directors of DIA wishes to share the following remarks intended to facilitate the due assessment by shareholders of the proposals submitted to their decision:

1. The share capital increase proposed by Letterone does not solve the Group short term needs

As indicated in the directors’ report justifying the proposal, the share capital increase submitted by the Board of Directors to the General Shareholders Meeting under item 6.2 of the Agenda is part of a set of agreements and measures agreed by DIA with its financial creditors, that, if implemented as expected, would provide a global solution to the short and medium term financial needs of the Group and would establish a solid



basis to implement the new business plan for the benefit and interest of the Company and of all its shareholders and other stakeholders interested in the success of the Group.

In turn, the proposal of share capital increase of DIA as submitted by Letterone, together with its VTO and the announcement of its intention not to vote in favour of the proposal of share capital increase submitted by the Board of Directors, do not guarantee, as the Board of Directors already highlighted in its communication to the market dated 6 February 2019, that the short term needs and obligations of the Group are duly covered and discharged, insofar as:

- a) Considering the existing uncertainties surrounding the VTO calendar and the series of potential events beyond the control of Letterone that could delay or even prevent such takeover bid (non-acceptance of the offer by a sufficient number of shareholders, timing of the VTO approval by the Spanish authorities, timing required to obtain all requisite merger control clearances by the competent anti-trust authorities as well as the setting of potential conditions and remedies related therewith, the launching by third parties of potential competing takeover bids, etc.), there is no certainty as to whether the referred proposal may, in the strict time frame provided in the current regulations, solve the negative equity situation of the Company and remove the legal cause of dissolution in which the Company is currently immersed; further, no other effective alternative to restore the current negative equity balance is proposed, which could eventually force the Company into a judicial dissolution procedure;
- b) If eventually approved by the shareholders, Letterone's referred initiatives could result in a unilateral breach of the agreements reached by DIA with its financial creditors, both for an insufficient recapitalisation as well as a result of delays and other breaches in its undertakings. Note should be taken that those facilities do contemplate a significant maturity on 31 May 2019, as announced by the Company to the market on 31 December 2018 and further detailed in the notes to the 2018 individual annual accounts. In turn, Letterone has not indicated if it has reached any agreement with the financial creditors of the Company that may avoid such breaches;
- c) Under Letterone's proposal, cash inflow of the share capital increase may be significantly delayed in time, postponing its application to the uses and needs as contemplated in the Group Business Plan and Budget for the year; and
- d) Considering the factors referred to in previous paragraphs, the proposals do not provide certainty regarding the availability of funds needed to settle at maturity the Euro 306 million bonds due on July 2019.



2. The share capital increased proposed by Letterone is subject to uncertainties

Attention must be brought to the clear uncertainties which the share capital sponsored by Letterone is exposed to since it is conditional upon, no later than 18 July 2019, (i) the effective settlement of its VTO and its gaining control over the Board of Directors of the Company; and (ii) once condition (i) is fulfilled, an agreement being reached between DIA and its lending banks in the terms provided in Letterone's proposal.

As previously indicated, Letterone's VTO is subject to various conditions which remain uncertain, as well as to eventualities and delays resulting from the application of the existing legislation and the potential filing of competing takeover bids by third parties.

Likewise, the terms foreseen by the proposing shareholder for a potential agreement of DIA with its lending banks differ in very significant matters from the terms of the existing heads of agreement between the Company and its financial creditors as described on 8 February 2019, thus adding numerous uncertainties as they remain subject to negotiation with the financial creditors.

As a consequence, there is no guarantee that both conditions will be met, either by the given deadline (18 July 2019) or at all, which would render ineffective the resolution that may have been approved.

3. The share capital increase does not allow all shareholders to participate in the future value creation

Moreover, the proposal of share capital increase of DIA as submitted by Letterone, together with its VTO, would not allow all current shareholders of DIA from participating in the potential future value creation of the Company, as it subjects the VTO (and thus the share capital increase) to (i) the acceptance of Letterone's offer by such number of shareholders that would allow Letterone to control no less than 64.5% of the share capital (that is, that at least 50% of the share capital not controlled by Letterone be tendered in the VTO); and (ii) DIA not issuing new shares or other convertible securities before the outcome of the VTO is announced. Should these conditions (among others required by Letterone) not be met, the VTO could be rendered ineffective –for instance, in the event that the share capital increase proposed by the Board of Directors is approved even though Letterone decides not to vote in favour–.

4. The proposed share capital increase faces the shareholders of DIA with a difficult choice

In summary, in the view of the Board of Directors of the Company the proposal of share capital increase of DIA submitted by Letterone, combined with its VTO and the announcement of its intention not to vote in favour of the share capital increase presented by the Board of Directors, face the remaining shareholders of the Company with the dilemma of either supporting Letterone's share capital increase and accepting



the VTO, with the uncertainties that it is subject to and as much as they may believe in the ability of DIA to generate a medium term value greater than the consideration offered by Letterone; or not accepting the VTO and supporting the proposal of share capital increase of the Board of Directors, with the risk that if this share capital increase is not approved and the VTO is not successful, the Company may be unable to put together the stable capital structure it needs and may thus face the adverse consequences highlighted in section 1 above, that may affect its viability and expose it to dissolution.

In these circumstances and for the reasons indicated above, the Board of Directors of DIA can only maintain its recommendation to the shareholders of DIA to cast its vote in favour of the proposed resolution initially issued by the Board of Directors under item 6.2 of the Agenda.

Madrid, 1 March 2019