

**REPORT BY THE BOARD OF DIRECTORS IN SUPPORT OF POINT FIRST ON THE AGENDA OF THE EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING IN RELATION TO THE PROPOSAL FOR THE CONSOLIDATION OF THE NUMBER OF SHARES IN ISSUE OR "SHARE CONSOLIDATION" IN A PROPORTION OF TWO NEW SHARES FOR EVERY FORTY-THREE EXISTING SHARES OF THE COMPANY. SUBSEQUENT AMENDMENT OF ARTICLE 5 OF THE ARTICLES OF ASSOCIATION. DELEGATION OF POWERS.**

**1. PURPOSE OF THE REPORT**

The Board of Directors of CODERE, S.A. agreed at its meeting of 7 September 2017 to call the Shareholders to an Extraordinary General Shareholders' Meeting, putting forward a proposal with respect to the consolidation of the number of shares in issue or "share consolidation" in a proportion of two new shares for every forty-three existing shares of the Company, as point Fifth on the Agenda. Likewise, it agreed to submit the subsequent amendment of article 5 of the Articles of Association and the delegation of powers to the General Shareholders' Meeting for approval.

In order for the above-mentioned share consolidation proposal to be submitted to the Company's Extraordinary General Shareholders' Meeting for approval, pursuant to article 286 of the Revised Text of the Companies Act approved by Royal Legislative Decree 1/2010, of 2 July (the "Companies Act"), and considering that a share consolidation resolution necessarily involves an amendment to article 5 of the Articles of Association in relation to the amount of the Company's capital, the Board of Directors is required to prepare this report which must contain the reasons in support of the proposed resolution. Likewise, article 287 of the Companies Act requires that the notice of the call of the General Meeting must clearly state the points to be amended and include a reminder of the right of each and every one of the shareholders to examine at the corporate headquarters the full text of the change proposed and of the report on such change, as well as the possibility of requesting the delivery or sending of such documents cost-free.

**2. JUSTIFICATION OF THE PROPOSAL**

The proposal for the consolidation and cancellation of shares to be exchanged for new shares in a proportion of 2 new shares for every forty-three old shares, raising the current nominal value of 0.20 euros to the figure of four euros and thirty cents, seeks (i) to reduce the total number of the Company's shares in issue; (ii) to facilitate the establishing of the Company's share price on the stock exchange in an adequate manner; and (iii) to limit the volatility of the share in the market, without losing liquidity.

The current share price can give rise to sharp movements in the listing of the Company's share, since even a minimal variation in unit terms signifies a high percentage of change, a circumstance that could be avoided through the share consolidation proposed.

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In conclusion, the transaction concerned in this report is designed to adapt the listed price of the Company's share in such a way that the price will not be conditioned by the factors mentioned previously, with the intention that this will facilitate a better formation of the listed price of the Company's share, in consonance with the circumstances of the market and of the Company itself.

The share consolidation being submitted to the General Meeting for its approval under this point on the agenda would not give rise to an increase or reduction of the Company's capital, affecting solely the number of shares into which it is divided, once the resolution proposed under point first of the agenda is approved by the General Meeting.

In this regard, those shareholders who, as a result of the exchange ratio, own a number of shares that is not a multiple of forty-three, may choose between acquiring or transferring the shares necessary for completing a number that would be a multiple of the number established in the exchange ratio.

If, at the close of the trading on the day prior to the date on which the exchange of the shares is to become effective, there are shareholders owning a number of shares that is not a multiple of forty-three according to the exchange ratio established, the Board of Directors will have the power to designate an agent of its choice, as well as to grant to such agent a mandate to enable it to purchase the aforementioned remainder shares. The purchase price will be the listed price of the share at the end of trading on that date, without involving any cost whatsoever for the shareholders owning such remainder shares, except for the expenses and brokerage fees as may be charged to them by their respective securities depositories. The amount necessary for the purchase of the remainder shares will be paid by the Company to the entities participating in Iberclear for subsequent payment into the accounts of the shareholders who have their Company shares deposited in such entities. Such payment will take place between the date on which the exchange of shares takes place and the second business day following that date. The Board of Directors may designate an entity as its agent, if deemed necessary, granting such agent a power of attorney to enable it to purchase the remainder shares on behalf of the Company.

According to articles 26.1.b) and 41.1 a) of Royal Decree 1310/2005, of 4 November, partially developing the Securities Market Act, in terms of the admission to trading of securities on official secondary markets, of initial public offerings or subscription and of the prospectus required for such purposes, the obligation of publishing a public offering prospectus is not applicable, since the new shares are issued in replacement of the shares of the same class already issued, without involving an increase in the share capital.

The proposal includes the delegation to the Board of Directors of the powers necessary for implementing the resolution proposed, among others, with express powers for sub-delegating to the Chairman, to one or several directors and to the Secretary and Deputy Secretary, as well as for taking all of the steps necessary for the purpose of meeting the requirements established in the relevant legislation; for applying for admission of the shares issued to official trading on the Stock Exchanges of Madrid, Barcelona, Bilbao and

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Valencia through the Stock Exchange Interconnection System (Continuous Market) and the rest of the Stock Exchanges on which the share is traded, together with their registration in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), and the simultaneous exclusion of the old shares which are cancelled; for carrying out the formalities necessary with respect to the Bank of Spain and the European Central Bank and for declaring the consolidation as completed and, consequently, amending article 5 of the Articles of Association in the appropriate terms, with the express power of sub-delegation.

As a result of the consolidation transaction proposed, the share capital will be set at the amount of 509,714,801.80 euros represented by 118,538,326 shares with a nominal value of 4.30 euros each, represented by means of book entries.

### **3. JUSTIFICATION OF THE CONSOLIDATION EQUATION**

The ratio for replacing the old shares by the new (forty-three old shares for every two new shares) has been set for the purpose of obtaining a nominal value of the new share that will make it possible, on the one hand, to attain the objectives pursued through the transaction, as described previously, while, on the other hand, without having the new nominal value affect the liquidity of the share, which minority investors may seek.

The exchange of the shares will become effective on the date determined by the Board of Directors once the consolidation resolution and the consequent amendment of the Articles have been registered on the Company's page in the Commercial Registry on a preliminary basis. The exchange will take place as from the date indicated in the notices to be published in the Official Gazette of the Commercial Registry, in a daily newspaper distributed nationwide, on the Company's website and, if mandatory, in the Listing Bulletins of the Spanish stock exchanges. This date will also be notified through the publication of the relevant significant event.

### **4. FULL TEXT OF THE PROPOSAL**

To consolidate the number of the Company's shares in issue through the transformation of every forty-three existing shares with a nominal value of 0.20 euros into two shares with a nominal value of 4.30 euros each. The number of shares resulting from the consolidation will be 118,538,326 shares, without changing the amount of the Company's share capital.

The new shares issued will be ordinary shares, represented by book entries, whose posting in the accounts will be attributed to Sociedad de Gestión de Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear) and to its participating entities. The new shares will be of the same series and class and will have the same economic and voting rights as the current shares, in proportion to their nominal value.

According to articles 26.1.b) and 41.1 a) of Royal Decree 1310/2005, of 4 November, partially developing the Securities Market Act, in terms of the admission to trading of

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securities on official secondary markets, of initial public offerings or subscription and of the prospectus required for such purposes, the obligation of publishing a public offering prospectus is not applicable, since the new shares are issued in replacement of the shares of the same class already issued and the issue does not involve any increase whatsoever of the share capital.

## **I. Date of effect and exchange procedure**

The exchange of the shares will become effective on the date determined by the Board of Directors once the consolidation resolution and the consequent amendment of the Articles of Association have been registered on the Company's page in the Commercial Registry on a preliminary basis. The exchange will take place as from the date indicated in the notices which will be published in the Official Gazette of the Commercial Registry and on the Company's website and, if mandatory, in a daily newspaper distributed nationwide and in the Listing Bulletins of the Spanish stock exchanges. Likewise, this date will be notified through the publication of the relevant significant event.

Those shareholders who are included in the Share Register at the close of the markets on the trading date prior to the date of effect determined by the Board of Directors, according to the accounting records of Iberclear and of its participating entities, will have the right to receive two new shares for every forty-three old shares, and such exchange will take place automatically.

The exchange of shares will be effected in accordance with the procedures established for the securities represented by means of book entries, through the participating entities, according to the instructions issued in this regard by Iberclear and by the entity designated as agent, if any.

## **II. Treatment of the fractions**

Those shareholders who, following the application of the exchange ratio for the consolidation, own a number of shares that is not a multiple of forty-three, will be able to purchase or transfer the shares necessary for completing a number that would be a multiple of the number established in the exchange ratio.

If, at closing of the trading session on the day prior to the date on which the exchange of the shares is to become effective, as described above, there are shareholders who still own a number of shares that is not a multiple of forty-three, the remainder shares will be purchased by the Company itself.

The purchase price will be the listed price of the share at the end of trading on that date, without involving any cost whatsoever for the shareholders owning such remainder shares, except for the expenses and brokerage fees as may be charged to them by their respective securities depositories.

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The amount necessary for the purchase of the remainder shares will be paid by the Company to the entities participating in Iberclear for subsequent payment into the accounts of the shareholders who have their Company shares deposited in such entities. Such payment will take place between the date on which the exchange of shares becomes effective and the second business day following that date. The Board of Directors may designate an entity as its agent, if deemed necessary, granting such agent a power of attorney to enable it to purchase the remainder shares on behalf of the Company.

### III. Application for admission to official trading

It has been agreed that, once the deed formalising the consolidation of the shares currently in issue into the shares of the new issue with the change in the nominal value of the shares, an application will be made to have the old shares simultaneously excluded from trading and the new shares admitted to trading on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, where the share is listed, through the Stock Exchange Interconnection System (Continuous Market), and the formalities and steps necessary will be carried out and the documents required will be submitted to the competent bodies for the admission to trading of the new shares issued as a consequence of the resolution passed, expressly stating the Company's adherence to the rules that exist or may be put into place in the context of the Stock Exchange and, particularly, with respect to contracting, continuing presence and exclusion from official trading.

It is expressly stated that, in the event of a subsequent request for the exclusion from trading of the Company's shares, such exclusion will be adopted with the same formalities as applicable and, in such an event, the interests of those shareholders who may oppose the exclusion resolution or who do not vote on it will be guaranteed, by complying with the requirements contained in the Companies Act and concordant provisions, in accordance with the revised text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October, and the provisions pursuant to such Act in force at all times.

### IV. Amendment of article 5 of the Articles of Association

Following implementation of the share consolidation, article 5 of the Articles of Association in relation to the share capital will be amended. This amendment will be made as follows:

ARTICLE 5.- The share capital totals FIVE HUNDRED AND NINE MILLION SEVEN HUNDRED AND FOURTEEN THOUSAND EIGHT HUNDRED AND ONE EUROS AND EIGHTY CENTS (509,714,801.80 €), fully subscribed and paid up, and is represented by ONE HUNDRED AND EIGHTEEN MILLION FIVE HUNDRED AND THIRTY-EIGHT THOUSAND THREE HUNDRED AND TWENTY-SIX SHARES (**118,538,326**) shares, with a nominal value of FOUR EUROS AND THIRTY CENTS (4.30 €) each, represented by book entries.

### V. Delegation of powers to the Board of Directors

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It is agreed to delegate the implementation of the consolidation transaction to the Board of Directors, on a basis as broad as appropriate under the Law, with powers to sub-delegate to the Chairman, the Deputy Chairman and to the Secretary and Deputy Secretary, including but not limited to:

- (i) The power to implement the consolidation resolution. The date of the exchange of shares will be notified in due course by means of a notice in the Official Gazette of the Commercial Registry and on the Company's website and, if mandatory, in a daily newspaper distributed nationwide and in the Listing Bulletins of the Spanish stock exchanges. Likewise, this date will be notified through the publication of the relevant significant event.
- (ii) The power to draw up, notify and manage any documents, publications or certificates as may be required in relation to the share consolidation process.
- (iii) The power to determine the date of effect of the consolidation and the date on which the share consolidation is declared to have been completed.
- (iv) The power to reword article 5 de the Company's Articles of Association, with respect to its share capital, to adapt it to the result of the implementation of the share consolidation.
- (v) The power to carry out all of the formalities necessary for recording the new shares in the accounting records of Iberclear in accordance with the legally established procedures.
- (vi) The power to process, at the time deemed advisable, the application to the CNMV, the Stock Exchange Councils of the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, the Central Securities Depository, Iberclear and any other body, entity, or public or private, national or foreign registry, for the admission to trading of all of the shares comprising the share capital of the Company on the Stock Exchanges of Madrid, Barcelona, Valencia and Bilbao, as well as the contracting thereof through the Stock Exchange Interconnection System (Continuous Market) and the simultaneous exclusion of the old shares which are cancelled, as well as any and all formalities, steps, declarations or representations as may be necessary or advisable for the purpose of obtaining, *inter alia*, the approval, verification and admission to trading of the shares, and for drafting and publishing whatever notices as may be necessary or advisable for this purpose.
- (vii) The power to take whatever steps necessary or advisable for implementing and formalising the share consolidation with respect to any public or private, Spanish or foreign entities and bodies whatsoever, including declaratory actions, supplementary actions or the remedy of any defects or omissions that could put obstacles in the way of the full effectiveness of the preceding resolutions.

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(viii) The power to determine, as appropriate, the entities which are to take part in the process for coordinating the transaction (in particular, the designation of an entity to act as agent and the granting of powers of attorney to such agent in the terms stated previously) and, in general, all of the criteria to be followed in the process.

(ix) The power to draw up and sign commitments, agreements, contracts or documents of any other kind, in the terms they deem appropriate, with any entity connected in any way whatsoever with the transaction.

(x) The power to execute whatever public and private documents as may be advisable for the full or partial implementation of the share consolidation and the power to take all steps as appropriate in relation to the preceding resolutions for the registration of such resolutions in the Commercial Registry and in any other registries, including, in particular, and among other powers, that of appearing before a notary public to execute the deeds and notarial certificates necessary or advisable for such purpose, to remedy, rectify, ratify, interpret or supplement what has been agreed and to formalise any other public or private document as necessary or advisable up to the point where the resolutions passed by the General Meeting are fully registered, without the need for a new resolution.

(xi) And, in general, the power to take whatever steps and to sign whatever public or private documents as necessary or advisable in the opinion of the Board of Directors, the Chairman and the Secretary or Deputy Secretary, or of whoever has been delegated by them, for the full effectiveness and fulfilment of the preceding resolutions.