Business and Sustainability Report

Business and financial year profits

Business model and strategy

Proximity, price, and franchise are the three factors which, combined, are at the core of the DIA Group's success model.

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The DIA Group is a leader in proximity, as it gives customers access to daily consumer goods near their homes, offering speed, convenience, and savings when it comes to travelling to stores. In order to achieve this, **the company has widened its store network and now has more than 7,300 stores worldwide**.

One of the DIA Group's differentiating factors is price. The company has an unbeatable price image thanks to a strong culture of costs and two key pillars: own-label and the Club DIA loyalty programme.

The company was the first Spanish general retail distributor to launch its own label in 1984, and this model was strengthened from 2013 when the company began to develop new brands to meet customers' changing needs. It created brands such as Bonté, Baby Smile, and Junior, Basic Cosmetics, As, and Delicious. Currently, the company has more than 7,500 own-label SKUs. Moreover, through the Club DIA loyalty programme, partners have access to more than 250 products at exclusive prices, discount coupons, and even the option of paying for their purchases in instalments. This successful loyalty programme already has 32 million members (2 million new customers join the programme each year), giving the DIA Group a unique insight into customer behaviour, promoting and working on its price image through specific promotions and close cooperation with suppliers.

The franchise is an essential part of DIA's business model and a key tool for its profitable growth. The company has promoted the franchise concept for decades, considering it to be an unbeatable model to efficiently manage the proximity business. Thanks to this focus, the company is now the leading franchiser in Spain and Argentina, number three in Europe in the retail distribution sector, and number three in Brazil in terms of turnover. At the end of 2017, franchises represented 47.9% of the company's total store network, and 61.1% of the DIA banner.

The company network store has more than **7,300** stores worldwide

In addition to the franchise, the DIA Group operates the master franchise masterfranquicia model in countries such as Paraguay and has trademark assignment agreements with local partners in Africa and the Middle East, which have led to the setting up of 97 stores under the City DIA format in Senegal (75), Nigeria (6), Ivory Coast (9), Guinea-Conakry (3), and Ghana (4).

Very aware of its strengths, for the next five years the DIA Group has established the following five priorities that involve all parts of its business:

- **1. Keep the customer at the heart of the business:** This is a key priority for the company, and its projects and courses of action are always clearly focused on meeting the changing needs and habits of its increasingly demanding and specialised customers.
- **2. Focus on the multi-banner and multi-country model:** The company is opening several types of stores both in urban areas (DIA Market, La Plaza de DIA, Él Arbol, and Minipreçó Market) and in rural areas (Cada DIA and Mais Perto), attraction supermarkets such as DIA Maxi (Minipreço Family), stores with new ranges of personal care, health, and beauty products (Clarel), and new sales channels such as cash&carry (Max Descuento). This model allows the company to gain access to a wide range of consumers, adapting its offer to local or regional tastes with one single premise that remains constant: quality at the best price in the market.
- **3. Maximising shareholder value with management that prioritises efficiency and responsible resource management has led the company to distribute,** since its stockmarket listing, EUR1bn in dividends. With more than EUR300m invested in store openings and innovation and a debt level of EUR891.3m at the end of the year, DIA is an attractive company for investors.
- **4. Focus on digital transformation:** The development of e-commerce, the signing of agreements with third-party specialists in the online sales segment, the rollout of technological applications developed in-house to streamline processes, the creation of a digital platform to search for talent in-house, and the digitalisation of commercial services imply a real change in corporate management, allowing the company to forge ahead with its profitability and efficiency targets.
- **5. Develop the best professional talent:** Another of the company's priorities in order to grow its business has been to ensure it develops the best professional talent, with several training and talent search programmes ongoing in the various countries in which the company operates. This allows it to adapt the professional profiles of its employees to new requirements and customer needs.

Digital and technological transformation with a focus on efficiency

In recent years, the DIA Group has been implementing a digital transformation process involving all levels of the organisation, with a twofold objective: to improve the company's operating efficiency and to leverage one of the company's most valuable assets: the extensive knowledge of its customers, offering solutions that are adapted to consumers' new shopping habits. With this outlook in mind, the company focused on the following projects in 2017.

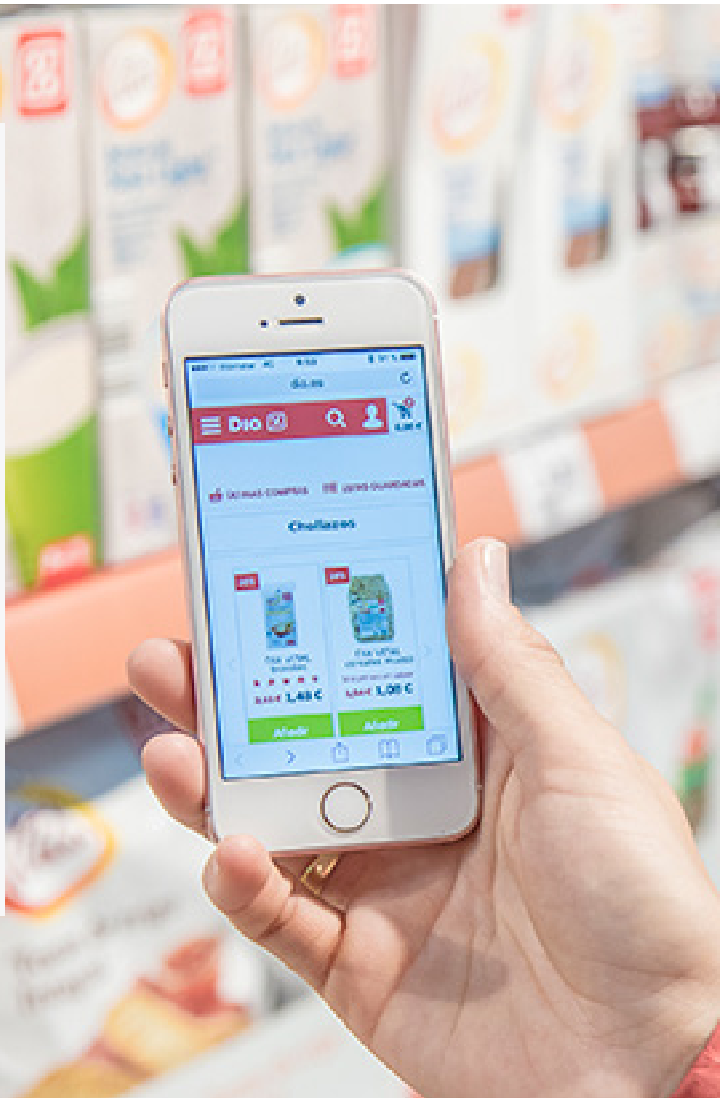
During 2017, the company worked on improving its value proposition in online sales in Spain, with an increase in the number of delivery times (even on the same day as the order is placed), as well as the rollout of a new application that allows customers to shop from their mobiles in Spain, the activation of customer applications in the markets of Argentina and Brazil where it was not yet present, as well as the digitalisation of commercial services to streamline the processes, reducing the number of administrative tasks.

Reinforced commitment to online sales:

The omni-channel concept developed by the company in recent years has placed it in an unbeatable position in the online shopping segment. The DIA Group is at the forefront of the digitalisation of services in the retail distribution sector thanks to increasingly digitalised in-store services, the online sale of non-food products, and synergies between the extensive network of physical stores and the online channel.

DIA Spain has reached an agreement with Amazon, the online sales giant, whereby its Prime Now customers can order more than 5,300 SKUs (fresh and packaged foods) from DIA's supermarkets and receive them at home in under an hour. This service, which began in Madrid in 2016, is also available in Barcelona and Valencia, and will shortly be rolled out in other cities across Spain.

The agreement with Amazon was also broadened during 2017 with the installation of delivery lockers at 13 La Plaza de DIA stores for purchases made on the Amazon website. The orders are placed in secure delivery lockers, which can be opened by entering a code or scanning a barcode. The delivery lockers are automatic and are located at the entrance of the La Plaza de DIA stores. The collection timetable is from 9am to 9pm.



Improved time to market

As of last year, the DIA Group has been developing an ambitious project that implies re-engineering and digitalising its main commercial processes. This project has led to benefits such as the optimisation and standardisation of processes, the complete digitalisation of information as well as its traceability, and a reduction in time to market thanks to a better execution of the processes. The solution chosen for the digitalisation of the processes is the AuraPortal tool, a software package by BPM (Business Process Management), one of the leaders in the sector, which allows processes to be modelled, implemented, and operated.

Thanks to this implementation, in 2017 the DIA Group won an international award from the Workflow Management Coalition (WfMC), which values the DIA Group's ability to successfully develop an innovative, wide-scale project. The Workflow Management Coalition awards are given to organisations that have stood out by implementing innovative solutions in their business processes with the aim of achieving their strategic commercial objectives.

In parallel with these projects, DIA is also working on a project to digitalise the POS (point of sale) systems at its stores in Spain. This is a new IT system that allows the company to centralise its back-office functions that are necessary to manage the stores (stock control, orders, etc.).

In order to implement this project, the company has had to integrate a new architecture into its centralised systems, acting as a platform from which to process all the information, not only in a centralised way, but in real time. Access from the point of sale is carried out through a new graphical user interface that has been developed based on criteria of productivity and ease of use by store staff.

The new architecture, centralisation of functions, real-time management, and graphical user interface have allowed the DIA Group to digitalise a large number of processes, eliminating the use of paper and making the processes much more efficient.

During 2017, this system was implemented in more than 110 own stores and franchises, which are acting as testing grounds ahead of the rollout to the entire store network planned for 2018. In parallel, the company is developing the content necessary for the rollout to the other countries in which it operates.

Stock management project

As part of the DIA Group's ongoing "Listening to the customer" programme, during 2017 the company started a transversal project (which applies to all the countries in which it operates) focused on managing and improving the stock levels of specific products in stores, which is one of the main customer requests identified by DIA.

Accordingly, an international work group has been set up, which focuses on two courses of action:ç

1. Improve the setting up of parameters related to automatic orders.
2. In-store stock management.

This project has led to all of the store replenishment processes being reviewed, from orders and logistics to store management.

Talent search and digital training

In order to simplify its customers' lives while improving its business model, in 2017 the DIA Group launched its Nexus programme. The aim of the programme is to promote a digital innovation ecosystem through which entrepreneurs and new companies worldwide are able to access the DIA Group's database of more than 40 million customers, test their solutions in stores in Spain, and access the expertise that DIA Group employees have built up over more than three decades. In its first edition, four projects aiming to define the future of shopping were selected from more than 120 proposals received from more than 25 countries:

Wasteless (Israel)
This company aims to allow companies to sell more and generate less waste, by assigning fluctuating prices to products that allow consumers to choose how much they want to pay for a product in accordance with its expiration date.

Talking Circles (United Kingdom)
This company provides an efficient way of collaborating and sharing organisational knowledge on a broad scale, allowing companies to promote commitment, create capacity, and retain its best talent.

Plant Jammer (Denmark)
This company is specialised in vegetarian cooking, using artificial intelligence to compare the ingredients that users have available in their kitchens and recommending the best way to combine them when following recipes.

Neuromobile (Spain)
This company provides information on customers' individual habits and preferences, allowing brand managers to develop effective and efficient marketing campaigns while measuring the results in real time.

For more information on this initiative, please refer to the website especially set up for this programme (www.nexusbydia.com).

Another priority for DIA is to ensure that all of its employees are trained in all aspects of digital transformation. With this in mind, in 2017 the company set up the Digital Transformation School, and to date more than 1,000 employees from the group's headquarters have benefited from this initiative. The aim is to provide a space where digitalisation can be dealt with through cultural change in the company, while providing the necessary tools and concepts to implement this change. Therefore, this project aims to focus on previously identified training priorities, provide a network of leading trainers and the necessary training resources, and to then measure the successful shift from the analogue world to the digital world.

Investment in customer-centric and store management applications

Over the last year, the DIA Group has set up a transversal working group in which employees from all the countries in which the company operates are involved. This aim of this group is to develop, in-house, new digital applications focused on improving the experience of customers, franchisees, and employees. This has led to the implementation of several applications that have been rolled out in a simple and fast way across all the countries in which the company operates.

Store management application

Once developed and rolled out in the company's own stores and franchises in Spain, this application makes tasks easier, simplifying access to information and streamlining customer service, given that it enables instant access to all the information related to questions that consumers might have (prices, stocks, offers, etc.). This application also manages returns, modifications, and products sent directly to stores, all via mobile phone. For now, this application is available for stores in Spain, where franchisees can also place orders directly through the mobile application, with no need to use the sales terminal.

Store inventory application

This application has been developed over the past year with the aim of streamlining the daily management tasks of employees and franchisees. This application provides a digital stock count of all the store's SKUs and uploads the files through this simple and intuitive application. The almost minute-by-minute inventory updates provide a more reliable and accurate view of the stock's financial situation, along with enhanced stock control and better knowledge of customers' immediate needs.

Purchase management application

For a number of years already, customers in Spain have been able to use another free application developed for iOS and Android which allows purchases to be managed from any mobile device. It has already been downloaded more than a million times in Spain. Among the many functions available on the app, users can create their own shopping list for their usual store, check on the location of other stores, link the loyalty card in order to obtain digital discount coupons, see the latest news about new store openings, access real-time information about their purchases and the related savings, and see a list of all promotions. During 2017, this application was rolled out in the Portuguese, Brazilian, and Argentinean markets.

Direct purchase application

In line with the company's objective to improve the online experience, during 2017 DIA launched a new exclusive mobile application that streamlines the buying process and adds new functions that help customers to simplify the procedure. This new application allows users to quickly add products to their virtual shopping baskets by means of a powerful search function. The main new developments related to the technology used in this application include the fact that customers can use the microphones on their mobile devices to add products to their shopping baskets using a voice-activated system (in addition to the traditional keyboard input option).

Furthermore, the system allows customers to scan product barcodes using the mobile device's camera and add them to the virtual shopping basket. It also includes a new system that offers alternative options if a product is not available at that time in the product catalogue available at www.dia.es. This application also uses technology that allows users to recover old orders or saved lists to place a new order more quickly.

Commercial franchise application

During 2017, DIA launched a new application that helps franchisees with their daily management tasks. It allows franchisees to check all the information on marketing activities specifically aimed at them in addition to key information related to store margins, product lists, and purchase prices, among other things. This application was developed in Spain during 2017 and in the next few years it is due to be launched in the other countries in which the company has a presence.

Supply chain monitoring application

The DIA Group also has a mobile application aimed at improving the logistics services by offering real-time monitoring of deliveries by those in charge of logistics. This application allows daily monitoring of delivery frequency with the aim of rapidly adjusting the frequency and implementing improvements in order to guarantee that a store's sales level is aligned with the reserve capacity. This application started to be developed during the past in Argentina and was then launched in Spain during 2017.

In total, the activated amount corresponding to the capitalisation of IT development in Spain during 2017 is EUR11.2m, 57.7% more than the investment carried out in 2016 (EUR7.1m).

DIA Group's main technological innovations in 2017

DIA Group's main technological innovations in 2017

Users	Application	Funcionalities	Objective	Country
Employees and franchisees	Store management	Manage returns, modifications, and products sent directly to stores	Streamline tasks and improve the quality of procedures	Spain
		Check prices, stocks, and offers.		
	Inventory	Stock count and stock control		
		File uploading		
	Commercial management for the franchisee	Information on marketing activities	Streamline the management and information processes for franchisees	
		Check margins and product list prices		
		Check purchase prices		
Clients	Purchase Management	Shopping list with products available in stores	Optimise the shopping experience and favour synergies with the online business.	Spain, Brazil, Portugal and Argentina
		Access to digital discount coupons		
		Check store locations.		
		Monitor monthly spending.		
		Digital loyalty card.		
	Direct Purchase	Add products to the virtual shopping basket using a voice-activated system	Boost e-commerce sales with an efficient, simple tool	Spain
		Product search function		
		Scan barcodes to add them to the basket		
		Recover previous orders		
Logistics	Transport Service	Daily monitoring of delivery frequency and the fleet.	Monitor deliveries in real time and optimise service levels	Argentina and Spain
		Take photos when a delivery is received		

Business performance and results in 2017

01. Sales Performance

In 2017, gross sales under banner grew by 0.2% in Euros to EUR10.33bn. In local currency, the growth rate was 1.5%, which reflects a 1.3% negative currency effect.

In Q4 2017, gross sales under banner decreased by 3.4% to EUR2.6bn, with a 5.2% negative currency effect (a 1.8% increase ex-currency).Ex-calendar comparable sales growth amounted to 3.4% in 2017, with a 3.9% rise in Q4 2017.

In Q4 2017 and FY 2017, **all the DIA countries achieved positive comparable LFL growth rates**.

Iberia

2017 gross sales under banner declined by 3.3% to EUR6.59bn, with comparable sales of 0.3% and a 3.0% negative contribution from space (both permanent and temporary closings related to remodelling). The negative sales performance was due to Spain, where gross sales under banner fell by 3.8% in 2017, in line with the reduction of store selling area. In Portugal, gross sales under banner grew by 0.6% to EUR853m.

In Q4 2017, gross sales amounted to EUR1.66bn, down by 2.9%. This decline was also due to space reduction, as "ex-calendar" LFL rose by 1.1% in the standalone quarter.

During 2017, DIA continued to make progress in its network, with the upgrade of 613 stores, doubling the 2016 figure of 307. This store upgrade plan, apart from enhancing the customer experience, reinforces DIA's product offering with new categories.

Clarel's gross sales under banner in Iberia rose by 2.6% to EUR358m in 2017, with a weak year-end in Catalonia, where the format operates more than 650 stores.

Gross sales under banner at La Plaza stores amounted to EUR813m in 2017, down by 6.2%, which compares with an 11.6% decline in the store selling area.

Emerging Markets

In 2017, gross sales under banner grew by 7.0% in Euros to EUR3.74bn and by 10.8% ex-currency, reflecting a 3.8% negative effect from FX.

Q4 2017 gross sales in Euros decreased by 4.2% to EUR0.94bn, which reflects a 14.2% negative impact from the depreciation of the Argentinean Peso and Brazilian Real seen in the quarter.

In 2017, comparable sales amounted to 8.6% (excluding a -0.2% calendar effect), while in the last quarter it amounted to 8.3%.

Comparable sales growth in emerging markets slowed down in 2017 versus 2016 due to the significant decline in inflation seen in both Argentina and Brazil throughout the year. Food inflation continued to decline during the last quarter of 2017, both in Argentina and Brazil. In Brazil, average food deflation in Q4 2017 amounted to -5.1%. Despite this negative contributing factor, comparable sales improved notably in Brazil during the period, reaching mid-single-digit growth rates in the standalone quarter.

Comparable sales 2017

	1T 2017	2T 2017	3T 2017	4T 2017	2017
Comparable Sales					
Iberia	0.7%	-0.5%	-1.3%	-0.1%	-0.3%
Emerging	10.0%	10.4%	6.5%	7.3%	8.4%
TOTAL DIA	3.9%	3.4%	1.6%	2.8%	2.9%
Calendar Effect					
Iberia	-0.1%	-1.7%	0.2%	-1.2%	0.6%
Emerging	-0.1%	-0.3%	0.4%	-1.0%	-0.2%
TOTAL DIA	-0.1%	-1.2%	0.3%	-1.1%	-0.5%
Comparable Sales (ex-calendar)					
Iberia	0.8%	1.2%	-1.5%	1.1%	0.3%
Emerging	10.1%	10.7%	6.1%	8.3%	8.6%
TOTAL DIA	4.1%	4.6%	1.3%	3.9%	3.4%

Gross sales under banner (€m)

	2016	%	2017	%	Cambio	Efecto divisa	Cambio (ex-FX)
Spain	5,966.6	57.9%	5,736.9	55.5%	-3,8%.	0.0%	-3.8%
Portugal	848.0	8.2%	852.8	8.3%	0.6%	0.0%	0.6%
IBERIA	6,814.6	66.1%	6,589.7	63.8%	-3.3%	0.0%	-3.3%
Argentina	1,642.6	15.9%	1,747.6	16.9%	6.4%	-15.1%	21.5%
Brazil	1,856.5	18.0%	1,997.1	19.3%	7.6%	6.2%	1.4%
EMERGING	3,499.1	33.9%	3,744.7	36.2%	7.0%	-3.8%	10.8%
TOTAL DIA	10,313.6	100.0%	10,334.4	100.0%	0.2%	-1.3%	1.5%

02. Sales

Net sales evolution (€m)

	2016	%	2017	%	Cambio	Efecto divisa	Cambio (ex-FX)
Spain	5,064.5	58.4%	4,827.4	56.0%	-4.7%	0.0%	-4.7%
Portugal	681.9	7.9%	678.3	7.9%	-0.5%	0.0%	-0.5%
IBERIA	5,746.5	66.3%	5,505.6	63.9%	-4.2%	0.0%	-4.2%
Argentina	1,310.9	15.1%	1,391.6	16.1%	6.2%	-15.0%	21.2%
Brazil	1,611.9	18.6%	1,723.3	20.0%	6.9%	6.1%	0.8%
EMERGIN	2,922.8	33.7%	3,114.9	36.1%	6.6%	-3.4%	10.0%
TOTAL DIA	8,669.3	100%	8,620.6	100%	-0.6%	-1.2%	0.6%

Net sales decreased by 0.6% in Euros to EUR8.62bn (+0.6% ex-currency). Apart from the negative effect in LatAm currencies and the steady expansion of the franchised activities, the decline in net sales is mostly due to the 3.9% fall in store selling area in Spain in 2017.

Currency depreciation was reflected in a negative 1.2% effect on 2017 net sales growth. This small negative impact was the result of the combined 12.2% average depreciation of the Argentinean Peso and the 6.5% strengthening of the Brazilian Real during the year.

03. Operating Results

Adjusted EBITDA decreased by 9.4% in 2017 to EUR568.6m, down by 8.9% ex-currency. The decline in adjusted EBITDA was reflected in a 65bps erosion of the adjusted EBITDA margin to 6.6% as a result of the pricing policy implemented in Spain during the second half of the year.

Depreciation and amortization rose by 2.3% to EUR232m (+2.3% ex-currency), slightly above local-currency sales growth, primarily due to the remodelling process carried out in recent years.

Adjusted EBIT fell by 16.1% in Euros to EUR336.6m, with a 15.2% decrease at constant currency. Other items excluded from the calculation of adjusted EBIT declined by 2.3% in 2017 to EUR89.5m. Other cash items rose by 14.4% to EUR59.8m in the year, impacted by the higher costs related to store closures. Accrued expenses related to the Long-Term Incentive Plans became EUR4.9m positive in the year due to the lower likelihood of meeting the Minimum Operating Performance targets described in the plan. With regards to 'Other non-cash items', it rose by 40% to EUR34.5m on the back of the higher volume of write-downs related to store closures and remodelling.

EBIT fell by 20.2% to EUR247.1m (-19.5% ex-currency).

The group's net financial expenses went up by 20.6% in 2017 to EUR61m, with Emerging Markets behind most of the EUR10.4m increase in interest costs, as average financial costs in Euros declined by 12bps in 2017 to 1.26%. Total financial costs related to the company's factoring activity amounted to EUR0.2m in 2017.

04. Profits

Income tax in 2017 amounted to EUR55.4m, well above the EUR25.8m the company paid in corporate taxes during the year. The company's blended effective tax rate was 29.7%.

Consolidated profit declined by 31.0% to EUR131m, down by 31.8% ex-currency. Net attributable profit fell by 37% to EUR109.6m, affected by the growing volume of negative results accounted from the discontinued operations in China in 2017.

Adjusted by all the costs and revenue items excluded for the performance assessment in the year, DIA's underlying net profit amounted to EUR217.0m in 2017, 19.2% lower than last year (-19.2% ex-currency)..

Results 2017 (€m)

	2016	%	2017	%	Cambio	Efecto divisa	Cambio (ex-FX)
Net Sales	**8,669.2**	**100%**	**8,620.6**	**100.0%**	**-0.6%**	**-1.2%**	**0.6%**
Cost of goods sold & other income	(6,660.7)	-76.8%	(6,692.7)	-77.6%	0.5%	-1.2%	1.7%
Gross profit	**2,008.5**	**23.2%**	**1,927.9**	**22.4%**	**-4.0%**	**-1.0%**	**-3.0%**
Labour costs	(759)	-8.8%	(744.8)	-8.6%	-1.9%	-1.2%	-0.6%
Other operating expenses	(326.1)	-3.8%	(312.7)	-3.6%	-4.1%	-2.1%	-2.1%
Leased property expenses	(295.5)	-3.4%	(301.7)	-3.5%	2.1%	-0.1%	2.2%
Adjusted EBITDA (1)	**627.9**	**7.2%**	**568.6**	**6.6%**	**-9.4%**	**-0.6%**	**-8.9%**
D&A	(226.7)	-2.6%	(232.0)	-2.7%	2.3%	0.0%	2.3%
Adjusted EBIT (1)	**401.2**	**4.6%**	**336.6**	**3.9%**	**-16.1%**	**-0.9%**	**-15.2%**
Other items excluded from adj. EBIT	(91.6)	-1.1%	(89.5)	-1.0%	-2.3%	-1.6%	-0.7%
Other cash items	(52.3)	-0.6%	(59.8)	-0.7%	14.4%		
Long-Term Incentive Plans	(14.6)	-0.2%	4.9	0.1%	-133.2%		
Other non-cash items	(24.6)	-0.3%	(34.5)	-0.4%	40.1%		
EBIT	**309.5**	**3.6%**	**247.1**	**2.9%**	**-20.2%**	**-0.7%**	**-19.5%**
Net financial income/expenses	(50.6)	-0.6%	(61.0)	-0.7%	20.6%	-7.4%	28.0%
EBT	**259**	**3.0%**	**186.3**	**2.2%**	**-28.1%**	**0.6%**	**-28.7%**
Income taxes	(69.1)	-0.8%	(55.4)	-0.6%	-19.9%	0.2%	-20.2%
Consolidated profit	**189.9**	**2.2%**	**131.0**	**1.5%**	**-31.0%**	**0.8%**	**-31.8%**
Minorities & discontinuing operations	(15.9)	-0.2%	(21.5)	-0.2%		0.0%	
Net attributable profit	**174.0**	**2.0%**	**109.6**	**1.3%**	**-37.0%**	**1.3%**	**38.3%**
Underlying net profit	**268.5**	**3.1%**	**217.0**	**2.5%**	**-19.2%**	**0.0%**	**-19.2%**

(1) Adjusted by other items excluded from adjusted EBIT.

05. Review by segment

Iberia

Net sales decreased by 4.2% in 2017 to EUR5.5bn, while in Q4 2017 they fell by 3.7% to EUR1.39bn. This negative performance is due to the closure of some underperforming El Arbol and Dia stores in Spain, which was reflected in a 3.9% decline in store selling area. In addition, the store upgrading activity conducted throughout the year was very intense in 2017, with 613 stores upgraded during the year (vs. 307 completed in 2016).

Regarding banners, the Dia format did not perform according to expectations, although La Plaza had a very good year and Clarel also performed well until the summer, when the format started to be affected by its high exposure to Catalonia, a region where the company operates more than 650 Clarel stores.

Adjusted EBITDA declined by 16.0% in 2017 to EUR426.3m, with EUR85.3m generated in Q4 2017. The decrease in adjusted EBITDA seen in the last two quarters was due to the competitive environment of the Spanish market and the worse-than-expected negotiation terms with suppliers. The adjusted EBITDA margin decreased by 109bps in 2017 to 7.7%, with a 406bps erosion in standalone Q4 2017 to 6.2%.

D&A decreased in Iberia for the second year in a row. Depreciation went down by 4.4% in 2017 to EUR170.5m. In the standalone Q4 2017, it declined by 1.0% to EUR42.1m. Adjusted EBIT fell by 22.3% in 2017 to EUR255.8m, reflecting a 108bps decrease in margin over net sales to 4.6%. In Q4 2017, adjusted EBIT fell by 58.6% to EUR43.2m, reflecting a margin erosion of 414bps to 3.1%.

	2016	2017	Change
Net Sales	5,746.5	5,505.6	-4.2%
Adjusted EBITDA[1]	507.7	426.3	-16.0%
Adjusted EBITDA margin	8.8%	7.7%	-109 bps
D&A	-178.3	-170.5	-4.4%
Adjusted EBIT[1]	329.3	255.8	-22.3%
Adjusted EBIT margin	5.7%	4.6%	-108 bps

(1) Adjusted by other items excluded from adjusted EBIT.

Emerging Markets

In 2017, net sales in Emerging Markets rose by 6.6% to EUR3.11bn, +10.0% in local currency, reflecting a negative 3.4% effect from currencies. In Q4 2017, net sales fell by 5.0% in Euros to EUR775m but went up 8.8% in local currency.

Adjusted EBITDA climbed by 18.4% in 2017 to EUR142.3m (+21.4% ex-currency), while in Q4 2017, adjusted EBITDA increased by 4.9% to EUR51.6m, +15.9% ex-currency. With these figures, the implicit adjusted EBITDA margin improved by 45bps in 2017 to 4.6%.

D&A rose by 27.1% in 2017, but only 12.2% in Q4 2017 to EU-R15.4m, although ex-currency the growth rate was very similar in Q4 2017 (25.3%) and full year 2017 (27.2%). These growth rates are entirely due to the higher level of capital allocated in these markets in recent years.

In 2017, adjusted EBIT grew by 12.5% to EUR80.8m (+17.4% ex-cu-rrency). The adjusted EBIT margin improved by 14bps in 2017 to 2.6% and by 33bps to 4.7% in Q4 2017.

Last year was another challenging year for food retailers in these countries, but particularly in Brazil. Despite the tough conditions, DIA continued to expand its store network in both countries, gaining market share fast (+ 40bps in Argentina to 14.1%, and +60bps in Brazil to 7.8%). 2017 was DIA's twentieth anniversary in Argentina, a milestone that was celebrated with even more intense promotional activity and the further development of private-label products. In Brazil, the loyalty program is now fully implemented and is up and running in all regions, accounting for 84% of sales with its 7.1m DIA Club card users.

	2016	2017	Change	Change (ex-FX)
Net Sales	2,922.8	3,114.9	6.6%	10.0%
Adjusted EBITDA 1	120.2	142.3	18.4%	21.4%
Adjusted EBITDA margin	4.1%	4.6%	45 bps	
D&A	-48.4	-61.5	27.1%	27.2%
Adjusted EBIT (1)	71.8	80.8	12.5%	17.4%
Adjusted EBIT margin	2.5%	2.6%	14 bps	

(1) Adjusted by other items excluded from adjusted EBIT.

06. Business performance and results in 2017

Trade Working Capital, Capex and debt

Trade Working Capital

DIA's negative value of trade working capital declined by 7.3% to EUR919m, down by 2.1% ex-currency.

The value of inventories declined by 13.4% in 2017, EUR88.4m down to EUR569.6m (a 6.1% decrease ex-currency). This material reduction of stock was partly attributable to the Double E-Project in Spain, but also to the implementation of similar initiatives in the rest of the DIA countries and due to the depreciation of currencies.

Trade and other receivables increased by 34.5% in 2017, up by 43.8% ex-currency. This EUR56.9m growth in the value of debtors to EUR221.8m is explained both by the increase in trade receivables from suppliers (EUR35.4m) and the expansion of the franchised activity (EUR21.5m).

The value of trade and other payables decreased by 5.7% to EUR1.71bn, up by 0.6% at constant currency. This decline is due to the limited sales growth, the challenging comparison base in 2016, and the depreciation of LatAm currencies at the end of 2017.

Non-recourse factoring from receivables from our suppliers amounted to EUR99.6m by the end of December 2017, compared with EUR88.4m at the end of December 2016.

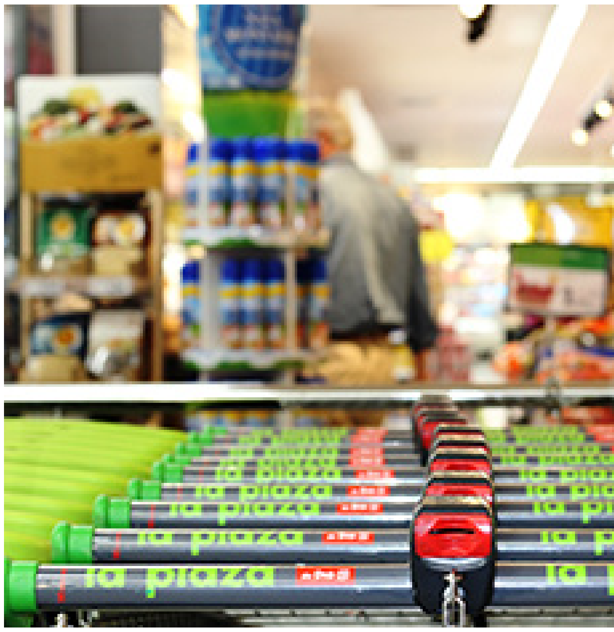
The equivalent number of days of negative trade working capital (over COGS) decreased by 4.2 days from 53.5 in 2016 (adjusted by the discontinuation of DIA China) to 49.3 days in 2017.

	31 Dec 2016(2)	31 Dec 2017	Change	Change (ex-FX)
Inventories (A)	658.0	569.6	-13.4%	-6.1%
Trade & other receivables (B)	164.9	221.8	34.5%	43.8%
Trade receivables with franchisees	101.2	122.7	21.2%	
Trade receivables with suppliers & other	63.7	99.1	55.6%	
Trade & other payables (C)	1,815.1	1,710.8	-5.7%	0.6%
Trade Working Capital (1)	-992.2	-919.3	-7.3%	-2.1%

(1) Trade working capital defined as (A+B-C),

(2) Figures adjusted by the discontinuation of DIA China

Capex



DIA invested EUR302.6m in 2017, 12.4% less than in the same period last year. This value of investment was completely in line with the initial capex guidance provided in February 2017 (“Capex to continue declining in 2017”) and in October 2017 (“around EUR300m”).

In Iberia, capital expenditure decreased by 26.9% to EUR165m, as remodelling efforts in the most expensive transformations in La Plaza and Dia Maxi stores in Spain were significantly lower, and investment in openings more than halved during the year. In Portugal, 2017 capex was slightly lower than in 2016.

In Emerging Markets, investment increased by 15.0% in Euros (17.4% in local currency) to EUR137.6m, which represents 45.5% of the total company expenditure in 2017. Investment in fixed assets rose significantly in 2017 in both countries. The increase in capex in Argentina was related to store upgrade programmes, while in Brazil it was almost entirely due to new openings.

In 2018, the company plans to invest EUR320-350m, with a very balanced split between openings and remodelling projects. For the third consecutive year, IT capex is set to grow significantly in 2018.

	2016	%	2017	%	Cambio	Cambio (ex-FX)
Iberia	225.8	65.4%	165.0	54.5%	-26.9%	-26.9%
Emerging markets	119.6	34.6%	137.6	45.5%	15.0%	17.4%
TOTAL Capex	345.4	100%	302.6	100.0%	-12.4%	-11.5%

Net Debt

Net debt at the end of December 2017 amounted to EUR891.3m, EUR13m higher than in the same period last year.

During 2017, the average number of treasury shares the company kept in its balance sheet barely changed (10.6m shares in 2017 vs. 9.3m shares in 2016). Regarding dividends, in July 2017 DIA paid EUR128.5m to shareholders, which was EUR6.3m more than in 2016.

As of December 2017, the ratio of net debt over the last twelve months' adjusted EBITDA was 1.6x, while DIA's estimates for the adjusted leverage ratio calculated under the S&P and Moody's methodology are 2.2x and 3.6x respectively. All these ratios imply significant scope for potential additional leverage without threatening the company's corporate investment grade rating.

In 2017, DIA obtained proceeds of EUR68.2m from asset disposals, related to a group of stores divested in the last quarter of the year.

	31 Dec 2015	31 Dec 2016	31 Dec 2017
Net debt / Adj. EBITDA	1.8x	1.4x	1.6x
Adjusted net debt / Adj. EBITDA (S&P	2.5x	2.0x	2.2x(1)
Adjusted net debt / Adj. EBITDA (Moody's)	3.5x	3.4x	3.6x(1)
Net debt	1,132.4	878.3	891.3

(1) Company estimate.

07. Definition of APMs

In the preparation of the financial information that is reported internally and externally, the Directors of DIA have adopted a series of Alternative Performance Measures (APMs) in order to gain a better understanding of the business performance. These APMs have been chosen according to the company's activity profile and taking into account the information of business performance commonly published by other international peers. Nevertheless, these APMs may or may not be totally comparable with those of other companies in the same industry. In all cases, APMs should be considered as data that are not intended to replace (or be superior to) IFRS measurements.

The purpose of these APMs is to assist in the understanding of the business performance by providing additional useful information about the underlying performance of the activity and financial position of the company.

APMs are also used to enhance the comparability of information between reporting periods and geographical units by adjusting for other cost and revenue items or uncontrollable factors that affect IFRS measures. APMs are therefore used by Directors and management for performance analysis, planning, reporting, and incentive-setting purposes.

CHANGES TO APMs

During the period, the company has changed the wording of some APMs to adopt the recommendations of the ESMA (European Securities and Markets Authorities). Accordingly, the former expression "Non-recurring items" has been rephrased to "Other items excluded from adjusted EBIT". In accordance with this change, the old expressions "Non-recurring cash items" and "Non-recurring non-cash items" have been also adapted to the new wording "Other cash items" and "Other non-cash items" respectively.

In 2017, the calculation of "Other cash-items" includes gains on the disposal of non-current assets due to the accounting of this item as "Other income" in the consolidated P&L accounts. This modification, introduced in full compliance with IFRS, better reflects the cash impact of "Other items excluded from adjusted EBIT".