CONSOLIDATED DIRECTORS’ REPORT 2017

(Free traslation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails).

Distribuidora Internacional de Alimentación, S.A. (the Company) and its dependent companies (the Group, or the DIA Group) have prepared this consolidated directors' report, following the recommendations of the guide for the preparation of the directors' report of listed companies issued by the CNMV on 29 July 2013.

1. COMPANY PROFILE

1.1. Organizational structure

Distribuidora Internacional de Alimentación, S.A. and its subsidiaries form the DIA Group.

1.1.1. Corporate structure

Distribuidora Internacional de Alimentación, S.A. owns, directly or indirectly, 100% of all its subsidiaries, except for Compañía Gallega de Supermercados, S.A. of which it owns 94.24%, ICDC Services Sarl, CINDIA, A.C.E., Red Libra Trading Services, S.L. and CD Supply Innovation, S.L. of which it owns 50% and Distribuidora Paraguaya de Alimentos, S.A. of which it owns 10%.

The DIA Group's main activity is the retail and wholesale sale of food products and other consumer products, through owned or franchised stores.

DIA World Trade, S.A. is located in Geneva, Switzerland, and provides services to the suppliers of the DIA Group companies.

Finandia E.F.C., S.A.U. is a Spanish credit company that offers financing to customers of the DIA stores in Spain with the "ClubDIA" card.

Distribuidora Internacional, S.A., located in Buenos Aires, Argentina, is specialised in services consultancy.

The group of companies CINDIA, A.C.E and the ICDC company have been set up together with Intermarché and Casino, respectively, to jointly purchase goods in Portugal and Switzerland (Geneva).

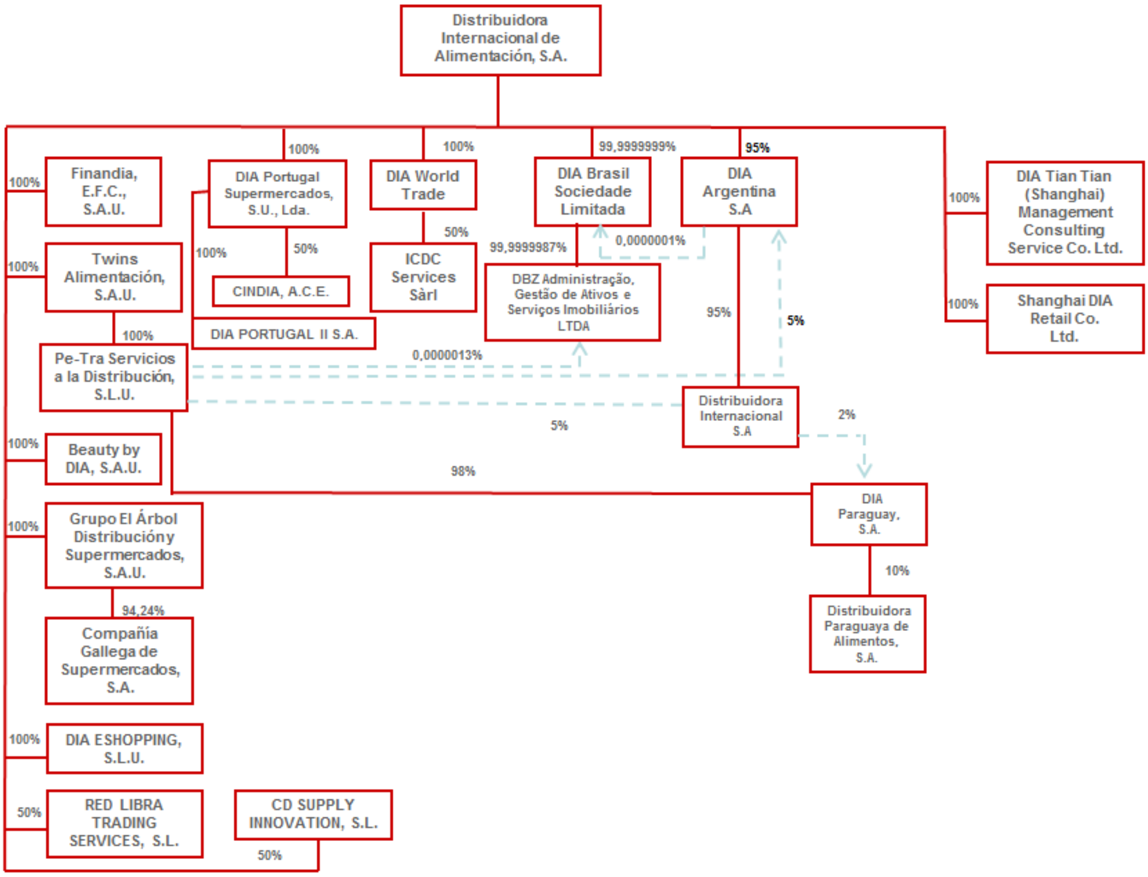
DIA E-Shopping creates, maintains and operates websites and internet portals for the sale of products and services.

The company DBZ Administraçao, Gestao de ativos e Serviços Imobiliarios Ltda., domiciled in Sao Paulo, is involved in managing the real estate belonging to DIA Brasil.

The company Red Libra Trading Services, S.L. has been created jointly with Eroski Group for the negotiation with suppliers of own brands for both companies, as well as the acquisition of other materials necessary for its activity.

The company CD Supply Innovation, S.L. has been jointly established with Casino Group for the management of financial, logistic and innovation services.

The companies that make up the DIA Group are outlined below:



1.1.2. Board of Directors

Distribuidora Internacional de Alimentación, S.A. is managed and governed by a Board of Directors made up of ten members, of which six are independent, one is executive, and three are classified as "other external director".

The composition of the Board of Directors is as follows:

- Ana María Llopis Rivas: Non-executive Chairwoman classified as "other external director".
- Mariano Martín Mampaso: Second Vice-Chairman qualified as independent.
- Ricardo Currás de Don Pablos: CEO qualified as executive.
- Julián Díaz González: Director qualified as independent.
- Richard Golding: First Vice-Chairman qualified as independent.
- Antonio Urcelay Alonso: Director qualified as "other external director".
- Juan María Nin Génova: Director qualified as "other external director".
- Ángela Lesley Spindler: Director qualified as independent.
- Borja de la Cierva Álvarez de Sotomayor: Director qualified as independent.
- María Luisa Garaña Corces: Director qualified as independent.

The overall function of the Board of Directors is the supervision and consideration of matters of particular importance to the Group. As a general rule, it entrusts the Group's ordinary management to the CEO and Senior Management (see point 1.1.3).

The main responsibilities of the Board of Directors include the following:

a) the approval of the Company's general policies and strategies and the organisation required to implement them, including the following:

(i) the strategic or business plan, as well as the management targets and the annual budget;

(ii) the investment and financing policy;

(iii) the determination of the Company's fiscal strategy;

(iv) the definition of structure of the corporate group, and the coordination, within the legal limits, of the group's general strategy in the interest of the Company and the companies comprising it;

(v) the corporate governance policy of the Company and its group;

(vi) the corporate social responsibility policy;

(vii) the supervision of the performance of the board committees set up within it, as well as the acts carried out by delegated bodies and the designated directors;

(viii) the policy for compensation and evaluation of the management team's performance;

(ix) the policy for control and management of risk, including fiscal risks, and the supervision of information and control systems, identifying the Company's main risks and organising the appropriate internal control and reporting systems;

(x) defining the basis for the corporate organisation, in order to ensure greater efficiency thereof and the effective supervision by the board of directors;

(xi) setting and implementing the dividend and treasury share policies, within the framework of the authorisations of the general meeting.

b) the approval of the following operating decisions:

(i) convening the general shareholders meeting and drafting the agenda and proposals for resolutions;

(ii) appointing directors by way of co-option and referring proposals to the general meeting regarding the appointment, ratification, re-election or removal of directors, as well as the acceptance of director resignations;

(iii) appointing and renewing internal positions on the board of directors, and the members and positions of the committees constituted within the board;

(iv) delegating authority to any of its members, under the terms established by law and the articles of association, and revocation thereof;

(v) appointing and removing executive directors and senior managers reporting directly to the board, as well as establishing the basic conditions of their contracts, including their remuneration;

(vi) granting an authorisation or exemption of the obligations deriving from the duty of loyalty, when the granting of such authorisation lies legally with the board, in accordance with legal stipulations;

(vii) preparing the financial statements, management report and proposal for the application of the Company's profits, as well as the consolidated financial statements and the management report, and their submission to the general meeting for approval;

(viii) approving the financial information that the Company, being a listed company, must periodically disclose;

(ix) preparing the annual governance report and the annual report on directors' remuneration, both to be presented to the general meeting and the other reports and documents that must be submitted to it;

(x) approving and amending this regulation;

(xi) proposing to the Company's general shareholders meeting the amendments to the regulation of the general shareholders meeting that it deems appropriate to ensure the exercise of shareholders' rights of participation;

(xii) decisions relating to the remuneration of board members, in accordance with the articles of association and, if applicable, the remuneration policy approved by the general meeting;

(xiii) fixing, in the case of executive directors, any additional remuneration for their management duties and other terms of their contracts;

(xiv) establishing strategic alliances with industrial, commercial or financial groups, domestic or foreign;

(xv) investments, divestitures or transactions of all kinds (including financial transactions) that, due to their high amount or special characteristics, are of a strategic nature or special tax risk, including industrial, commercial and financial transactions of particular importance, unless (i) they have been approved in the annual budget, or (ii) approval thereof corresponds to the general meeting;

(xvi) creating or acquiring shares in special-purpose vehicles or entities resident in jurisdictions considered to be tax havens, and any other transactions or operations of a comparable nature, which, due to their complexity, could impair the transparency of the Company and its group, after a report from the audit and compliance committee;

(xvii) the powers that the general meeting vested on the board of directors, save for those that the latter has been expressly authorised to subdelegate;

(xviii) the preparation of any type of report required by law, when the operation to which the report refers cannot be delegated; and

c) the approval of the transactions carried out by the Company or companies of its group with directors, in accordance with the legally defined terms, or with shareholders who own, individually or jointly, a significant stake, including shareholders represented in the board of directors of the Company or other companies that are part of the same group, or with individuals linked to them ("Related Party Transactions"). The directors concerned or who represent or are linked to the relevant shareholders must refrain from participating in the deliberation and voting of the resolution in question.

However, related party transactions that simultaneously satisfy the three following conditions will not require board authorisation:

• those governed by contracts with standard conditions applied across the board to a large number of customers;

• those entered into at market prices or rates, generally fixed by the person supplying the goods or services; and

• where the amount of the transaction does not exceed one percent (1%) of the Company's annual revenues.

The Board of Directors has appointed an audit and compliance committee, and a nominating and compensation committee.

<u>The main functions of the audit and compliance Committee are as follows</u>:

(i) report to the general shareholders meeting in relation to issues within the scope of its responsibilities;

(ii) supervise and review the preparation process and presentation of the required financial information which, in accordance with article 35 of the Securities Market Act, is to be provided by the board to the markets and their supervisory bodies, and, in general, ensure compliance with the legal requirements in this area, the appropriate delimitation of the scope of consolidation and the proper application of generally accepted accounting principles, as well as report on proposals for changes in accounting principles and standards suggested by management;

(iii) Periodically supervise and review the effectiveness of the Company's internal control and financial and non-financial risk management systems, including fiscal risks, verifying the appropriateness and completeness thereof; proposing the selection, appointment, re-election and removal of the responsible parties; proposing the budget for such services, approving the orientation and working plans, ensuring that the activity is focused mainly on risks relevant to the Company, and verifying that the members of the management team take into account the conclusions and recommendations in its reports; and discussing with the Company's auditors any significant weaknesses that may be discovered in the auditing process;

(iv) coordinate the process for the reporting of non-financial and diversity information, in accordance with applicable regulation and international reference standards;

(v) ensure the independence of the unit that undertakes the internal audit; propose the selection, appointment, re-election and dismissal of the person for the internal audit service; propose the budget for this service; approve the orientation and its working plans, ensuring that its activity is focused mainly on risks relevant to the company; receive periodical information about its activities; and verify that senior management takes into account the conclusions and recommendation in its reports;

(vi) submit to the board of directors proposals for the selection, appointment, re-election and replacement of the external account auditors, as well as their hiring conditions and regularly gather information from them about the auditing plan and its execution, preserving the independence in the exercise of their duties;

(vii) establish the appropriate relationships with the external account auditors to receive information regarding questions that may compromise their independence, for examination by the committee, and those of anyone else involved in the process of auditing accounts, and any other communications that may be contemplated in the legislation regarding auditing and audit standards.

In any event, they must receive from the external auditors an annual declaration of their independence of the entity or entities directly or indirectly related to this one, and information on additional services of any kind provided to these entities and the corresponding fees received by the aforesaid external auditors, or by persons or entities related thereto, in accordance with the provisions of the legislation governing the auditing of accounts.

In the event of the resignation of the external auditor, the committee shall examine the circumstances leading to this resignation. It shall ensure that the Company communicates the change of auditor as a relevant fact to the CNMV and accompanies this notification with a declaration regarding the possible existence of disagreement with the outgoing auditor and, if any, the content of such disagreement;

(viii) annually, prior to the issuing of the audit report, publish a report stating an opinion regarding the independence of the auditors. This report must comprise, in any event, the assessment of the provision of additional services referred to in the point above, individually and globally considered, different from the legal audit and in relation to the independence system or the legal provisions on auditing;

(ix) serve as a communications channel between the board of directors and the auditors; evaluate the results of each audit and the responses of the management team to its recommendations and mediate in the event of disputes between the former and the latter in relation to the principles and criteria applicable in the preparation of the Financial statements, and examine the circumstances, if any, behind the resignation of the auditor.

The committee shall ensure that the external auditor holds a meeting annually with the entire board of directors to inform it of the work carried out and the evolution of the accounting situation and the risks the company faces;

(x) report to the board beforehand regarding any matters foreseen by law, the articles of association, the board of directors regulations, and, in particular, on:

- the financial information that the Company must periodically disclose,
- the creation or acquisition of shares in entities with special purposes or domiciled in countries or territories that are considered to be tax havens;

(xi) supervise the compliance with the rules regarding related party transactions with directors or major shareholders or shareholders represented on the board; in particular, it will report to the board regarding such related party transactions and, in general, regarding transactions that imply or may imply conflicts of interest, for purposes of their approval, and will see to it that information in respect thereof is communicated to the market as required by law;

(xii) supervise compliance with internal codes of conduct, in particular the code of conduct for the securities market;

(xiii) review the corporate social responsibility policy, ensuring that it is focused on creating value and monitoring the strategy and practices of corporate social responsibility and evaluating the degree of fulfilment;

(xiv) supervise the communication strategy and relations with shareholders, investors (including small and medium shareholders) and other stakeholders;

(xv) establish an internal mechanism whereby staff can report, confidentially and, if deemed appropriate, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company;

(xvi) prepare and update a declaration of ethical values related to the reliability of financial information in compliance with applicable regulations, which will be approved by the board of directors and communicated to all levels within the organization;

(xvii) establish procedures to ensure that the principles of professional integrity and ethics are respected, as well as measures to identify and correct departures from those values within the organization;

(xviii) the committee shall be informed of operations planned by the Company which produce structural or corporate modifications for their analysis and for a prior report to the board of directors on their economic conditions, their accounting effect and, especially, on the exchange ratio proposed, if any; and

(xix) any others that may be attributed to it by law and other regulations applicable to the Company.

The member of the audit and compliance Committee are Borja de la Cierva Álvarez de Sotomayor, chairperson, and Julián Díaz González, Juan María Nin Génova, Richard Golding and María Luisa Garaña Corces as members.

The main functions of the nominating and compensation Committee are as follows:

(i) evaluate the competence, knowledge, and experience required on the board. To this end, the committee will determine the functions and skills required for candidates to cover a vacancy, and will evaluate the precise time and dedication in order to carry out their tasks effectively;

(ii) make proposals to the board of directors of independent directors to be appointed by co-option or for submission to decision by the general meeting, and proposals for re-election and removal of those directors by the general meeting;

(iii) report on proposals for the appointment of other directors to be appointed by co-option or for submission to decision by the general shareholders meeting, and proposals for re-election and removal of those directors by the general meeting;

(iv) report to the board on proposals for the appointment, re-election and removal of internal positions within the board of directors of the Company (chairperson, viceperson, lead coordinator, secretary and vice- secretary, if any);

(v) report on proposals for the appointment and removal of senior managers and the basic conditions of their contracts;

(vi) report to the board on matters of gender diversity and, in particular, ensure that procedures for the selection of directors and senior managers do not suffer from an implicit bias preventing the selection of women. In particular, the committee shall set a target for representation on the board for the least represented gender, establishing guidelines to achieve this target;

(vii) propose to the board of directors: (a) the remuneration policy for directors and senior managers or any other persons performing senior management duties reporting to the board, the committees or the managing director; (b) the individual compensation of executive directors and the other terms of their contracts, supervising their implementation; and (c) the basic terms of senior managers' contracts;

(viii) analyze, formulate and periodically review the compensation policy applied to executive directors and the management team, including share compensation schemes and the application thereof, and guaranteeing that it is proportionate to the compensation paid to other directors and members of the management team and other personnel of the Company;

(ix) oversee compliance with the compensation policy set by the Company;

(x) examine and organize the succession plan for the Company's chairman of the board and the chief executive officer and, if applicable, suggest proposals to the board of directors to ensure a smooth and organised transition;

(xi) generally supervise compliance with the Company's applicable corporate governance rules, including a periodical evaluation of the Company's corporate governance system, such that it achieves its mission of promoting social interest and to takes into account, as appropriate, the legitimate interests of other stakeholders;

(xii) report to the shareholders on the performance of its duties, attending the general shareholders meeting for this purpose; and

(xiii) assist the board in the preparation of the report on directors' compensation policy and send the board any other reports on compensation contemplated in this regulation, verifying the information on compensation paid to directors and senior management contained in the different corporate documents, including the annual report on directors' remuneration.

The members of the nominating and compensation Committee are Mariano Martín Mampaso, chairperson, and Antonio Urcelay Alonso and Angela Lesley Spindler as members.

1.1.3. Management Committee

As mentioned in point 1.1.2, the Board of Directors of DIA entrusts CEO Ricardo Currás de Don Pablos as well as the Executive Committee of DIA Group, with the ordinary management of the Company, whose members, apart from Ricardo Currás de Don Pablos, are as follows:

- Diego Cavestany de Dalmases: Executive Manager New Business in Spain.
- Faustino Domínguez de La Torre Unceta: Executive Manager DIA Business in Spain.
- Antonio Coto Gutiérrez: Director Executive Manager for Latin America and Partnerships.
- Juan Cubillo Jordán de Urríes: Executive Manager Business and Merchandise DIA Group.
- Javier La Calle Villalón: Chief Resources Officer and Executive of China.
- Amando Sánchez Falcón: Chief Services Officer and Executive of Portugal.

DIA Group is managed by a team with extensive experience in the retail sector and an average tenure in the Group of more than 25 years.

1.1.4. Activity

Distribuidora Internacional de Alimentación S.A., DIA, is a multi-banner, multi-channel, and multi-brand distribution company that sells food, household, health and beauty products to more than 40 million clients worldwide. With more than 7.300 stores in Spain, Portugal, Argentina, and Brazil, the company, which is listed on the Madrid Stock Exchange and in the selective Ibex 35, generates an average annual turnover of more than EUR10bn.

- Turnover of EUR10.33bn
- 7,388 stores:
  - 3,603 own stores
  - 3,785 franchises
- More than 7,500 own-label SKUs (consumer products) sold in 30 countries.
- More than 42,600 employees
- More than 25,000 jobs created in franchises
- More than 40 million clients worldwide
- 32 million clients in the company's loyalty programme
- More than EUR1bn distributed to shareholders since 2011

1.1.5. Segments

For internal management purposes, the Group is organized into business units, based on the countries in which it operates, and has two reporting segments:

Iberia segment includes Spain, Portugal and Switzerland (DWT, ICDC). Spain and Portugal are the oldest countries of the Group and serve as a model for the other countries. They have a very high level of profitability and are very similar. The DWT and ICDC companies are located in Switzerland, DWT provides services to the suppliers of DIA Group companies and ICDC jointly purchases merchandise with Casino.

Emerging Countries segment, includes Brazil, Argentina and Paraguay. These countries are characterized by their significant expansion potential.

Since 2016, the DIA Group operates in Paraguay following the signing of a master franchise agreement with a local partner.

Management monitors the operating results of its business units separately in order to make decisions about resource allocation and performance assessment.

1.1.6. Development and application of corporate Policies

The DIA Group has a Corporate Governance and compliance system that ensures a proper climate of control and compliance with both external and internal regulation. This regulatory system, which has been designed to protect the interests of all the company's interest groups, meets the requirements of the Spanish Capital Companies Law and follows all of the good governance recommendations of the Spanish National Securities Market Commission (the CNMV) .

The DIA Group's Articles of Association, the Board of Directors' Regulations, the Internal Code of Conduct, and the Code of Ethics represent the cornerstones of this corporate system. This set of rules defines the basic principles of action and the responsibilities of all of DIA Group's partners, establishes what the relationship should be like between the main governing corporate bodies, and sets out the basic operating rules to ensure efficient decision-making. In addition, following the recommendations of the CNMV's new Good Governance Code, DIA's relationships with its main interest groups are governed by the company's various corporate policies, all of which are approved by the Board of Directors:

- ***Corporate Social Responsibility Policy***: With the aim of generating a common, well-defined operating framework with the various interest groups, the DIA Group has a CSR Policy based on the values that define it, ensuring that laws and regulations are respected, compliance in good faith with its obligations and contracts, and that the uses and best practice in the sectors in which the company carries out its activity are respected.

- ***Corporate Investor Relations Policy***: The Investor Relations Policy establishes the guidelines of the department in charge of dealing with the stock markets, based on transparency, truthfulness, agility, and constant communication, in accordance with the law, the Internal Code of Conduct, and the rest of the company's internal regulation. Those responsible for investor relations base their actions on these principles, reaching out to the necessary people in order for shareholders, institutional investors, and voting advisors to have clearly identified contact people as well as the means to access the company's information in a regular and simple way.

- ***Corporate Tax Policy***: The DIA Group's tax policy establishes the scope of action necessary to responsibly comply with tax regulations while ensuring that the company's interests are covered and always support the company's business strategy. Accordingly, DIA aspires to create a climate of good faith, transparency, collaboration, and reciprocity in its relationships with the tax authorities, in accordance with the law, while defending its legitimate interests.

- ***Corporate Risk Management Policy***: The company's Risk Management policy establishes guidelines based on an integrated model that aims to improve the company's organisational ability to manage scenarios of uncertainty. This focus allows the organisation to identify events and evaluate, prioritise and respond to risks associated with its main objectives, projects, and operations. The entire organisation plays an important role in achieving the targets of this risk management system.

- ***Corporate Environmental Policy***: The Corporate Environmental Policy establishes the general principles that must govern the management and planning of the company's business, integrating criteria related to efficiency and sustainability. The aim is to define the guidelines to prevent the impacts that DIA's business could generate in areas such as waste management, greenhouse gas emissions, and ecodesign, among others. In a nutshell, this policy aims to promote the responsible use of resources.

- ***Corporate External Relations Policy***: The aim of the Corporate External Relations Policy is to ensure that the media, regulatory bodies, and associative networks are provided with information in a way that is transparent, accessible, and based on mutual respect. This policy is focused on achieving the company's targets that are outlined in its strategic plan, and on better positioning the company in the market.

- ***Corporate Quality and Food Safety Policy***: The company's Corporate Food Quality and Safety Policy aims to generate a climate of confidence among its consumers through a system that scrupulously guarantees the proper production, processing, and management of all the products the company offers. Accordingly, the company keeps control of product quality and safety throughout the supply chain, monitoring the storage, transport, and sales processes.

- ***Corporate Crime Prevention and Anti-Corruption Policy***: The aim of this policy is to define and promote a culture of compliance by means of a model of ethics and integrity and fight against corruption and other illicit behaviour. The Corporate Crime Prevention and Anti-Corruption Policy aims to ensure that each of the Group's subsidiaries, as well as its administrators and employees, exercise their functions with responsibility, diligence, and transparency, ensuring an adequate control system that allows the company to avoid and detect compliance risks, avoiding both the application of penalties and sanctions as well as a deterioration of the DIA Group's image (the perception of the DIA Group by its main interest groups).

- ***Corporate Franchise Policy***: The Corporate Franchise Policy establishes the guidelines related to franchisees, ensuring that each country's legislation is respected, the veracity of the information provided, and compliance with the agreements reached with the entrepreneurs who decide to manage a DIA store through the franchise model.

- ***Corporate Human Resources Policy***: This policy represents the reference framework at a corporate level for the management of people, and includes the guidelines that reflect the DIA Group's commitment to job creation and its professionals within the context of the company's corporate values. This policy also aims to promote the company's long-term commitments with a certain degree of price, adapting to the different cultural, labour, and business contexts in all the countries in which the company operates.

- ***Corporate Marketing and Customer Communication Policy***: The company's Corporate Marketing and Customer Communication Policy bases its guidelines on respecting the commitments undertaken with customers and on honesty in both verbal and written communication, as well as on integrity in all of the company's professional actions in this context. Accordingly, the directives to follow in terms of communication with customers are established, based on the general principles of transparency, proximity, equality, and quality.

All of these policy tools are available to the general public at www.diacorporate.com.

1.2. 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.

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 51.2% of the company's total store network, and 59.5% of the DIA banner.

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 22 stores under the City DIA format in 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 and Minipreço Market) and in rural areas (Cada DIA, Mais Perto and City DIA), 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. **Maximise value for shareholders**: Thanks to a management style that prioritises efficiency and the responsible management of resources. With more than EUR300m invested in openings and a sustained 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.

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:

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.

a) **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.

b) **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.

c) **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.

d) **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.

e) **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.

f) **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 some years ago in Argentina and was then launched in Spain during 2017.

Store formats

Dia Market:

- Proximity format
- Surface area of between 400 and 700 m2
- Expanding the offer in perishable goods

Clarel:

- Specialists in household, health, and beauty
- Close to 6,000 SKUs
- Surface area of between 160 and 260 square metres in urban areas

La Plaza de DIA:

- Family proximity supermarket
- Broad perishables offer and personalised customer service
- More than 7,500 SKUs, of which 1,500 are fresh
- 300, 500, 700, or 1,000 m2 in urban areas

Cada DIA:

- Stores in small towns, especially rural ones that do not require investment in store infrastructure
- Managed by franchisees

Dia Maxi:

- Attraction format
- Surface area of between 700 and 1,000 m2 in suburban areas
- Customer parking
- More than 3,500 SKUs

Max Descuento:

- Specalised in serving professionals and the self-employed in hotels, catering, and groups
- Assortment of over 4,000 SKUs

Mini Preço:

- Minipreço Market: proximity in urban centres: Surface area of 250-400 m2 and assortment of 3,000 SKUs
- Minipreço Family: attraction in the suburbs: Surface area of up to 1,000 m2 with covered parking and up to 4,500 SKUs

Mais Perto:

- Rural stores in the Portuguese market that do not require investment in store infrastructure
- They are run by franchisees

City DIA:

- They are run by franchisees
- They are used for certain agreements to transfer brands to third parties in some countries

2. DEVELOPMENT AND BUSINESS RESULTS

2.1. Main financial indicators

2.1.1. Performance of gross sales under banner:

Group:

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.

Ex-calendar comparable sales growth amounted to 3.4% in 2017. All DIA Group countries have registered a positive growth in comparable sales.

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.

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 impacted by the unclear scenario in Catalonia, a region 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.

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.

In 2017, comparable sales amounted to 8.6% (excluding a -0.2% calendar effect).

Like-for-like summary 2017

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017
Like-for-like					
Iberia	0.7%	-0.5%	-1.3%	-0.1%	-0.3%
Emerging markets	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 markets	-0.1%	-0.3%	0.4%	-1.0%	-0.2%
TOTAL DIA	**-0.1%**	**-1.2%**	**0.3%**	**-1.1%**	**-0.5%**
Like-for-like (ex-calendar)					
Iberia	**0.8%**	**1.2%**	**-1.5%**	**1.1%**	**0.3%**
Emerging markets	**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	%	Change	FX effect	Change (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 MARKETS	**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%**

Net Sales

(€m)	2016	%	2017	%	Change	FX effect	Change (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%
EMERGING MARKETS	**2,922.8**	**33.7%**	**3,114.9**	**36.1%**	**6.6%**	**-3.4%**	**10.0%**
TOTAL DIA	**8,669.3**	**100.0%**	**8,620.6**	**100.0%**	**-0.6%**	**-1.2%**	**0.6%**

2.1.2. Net sales review:

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.

2.1.3. 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.

2.1.4. 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).

2017 Results

(€m)	2016	%	2017	%	Change	FX effect	Change (ex-FX)
Net sales	**8,669.2**	**100.0%**	**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	(759.0)	-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	**259.0**	**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%			
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

2.1.5. Working Capital, investment 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 to the expansion of the franchised activity (EUR21.5m).

In 2017, DIA continued with its policy to provide financial support to its franchise network. The company's total net exposure to franchises after taking into account the portion of the risk that is covered with guarantees amounted to EUR127m at the end of 2017 (vs EUR106m same period last year). This credit risk is extremely diversified among the 3,785 franchised stores of DIA and total of 3,197 franchisees.

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 in 4.2 days from 53.5 in 2016 (adjusted by the discontinuation of DIA China) to EUR 49.3 in 2017.

(€m)	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	221.9	34.5%	43.8%
Trade receivables with franchisees	101.2	122.7	-	-
Trade receivables with suppliers & other	63.7	99.2	-	-
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 and IT.

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.

(€m)	2016	%	2017	%	Change	Change (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**	**100.0%**	**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.

(€m)	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

2.1.6. Store count

At the end of December 2017, DIA operated a total of 7,388 stores, 32 less than in the same period last year (adjusted by the discontinued operations in China).

In Iberia, the number of stores fell by 155 in 2017 to 5,343. This decline is due to the closure of 316 stores during the period, of which 238 Dia, 31 La Plaza, and 47 Clarel stores.

In Spain, the number of supermarkets fell from 355 to 306 during 2017. This decrease of 49 stores was entirely due to the completion of the El Arbol to La Plaza restructuring and upgrading process.

DIA reached a total of 613 store transformations in 2017 (of which 150 in franchised stores), doubling the 307 upgrades completed last year. This process had a temporary impact on sales volumes, as the stores were closed for several weeks while they were being converted into the new commercial models.

Clarel increased its network by 18 stores in 2017 (of which 11 in Spain and 7 in Portugal), reaching a total of 1,251 stores at the end of 2017. This format continues to add new franchisees, reaching a total of 146 stores operated under this model by the end of 2017, 39 more than a year ago. Franchised Clarel stores already represent 11.7% of the network.

In Emerging Markets, DIA operated 2,045 stores at the end of December 2017, 123 more than in the same period last year. With 65 net openings in 2017 and a total of 1,115 stores, Brazil slowed down the expansionary run rates completed in recent years, although still achieving unparalleled growth rates in store selling area in this market. Argentina saw 58 net openings in 2017, reaching a total of 930 stores. With this network expansion, DIA is on track to achieve the store targets set for 2020 both in Argentina (1,100) and Brazil (1,500).

Over the last twelve months, the number of franchised stores operated under the Dia Market and Maxi banners in Iberia increased by 33, totalling 2,069, which represents 58.5% of the total (vs 55.8% in 2016). This ratio does not take into account the Cada Dia and Mais Perto stores (252 at the end of the year) that are operated under a FOFO franchised model in all the cases. On top of these franchised stores, the company operated another 146 Clarel stores under the COFO model, taking the total sum of franchised stores in Iberia to 2,467.

In the Emerging Markets, the number of Dia banner stores increased by 52 to 1,153, representing 61.3% of the total. Including the Cada Dia and Mais Perto stores in the region (also operated under the FOFO model), the total number of franchised stores is 1,318 (71 more than in the same period last year), representing 64.4% of the total.

By the end of December 2017, DIA operated a total of 3,785 franchised stores and 3,603 fully integrated stores.

Number of stores:

IBERIA	31 December 2016 COCO	Franchise	TOTAL	%	31 December 2017 COCO	Franchise	TOTAL	%	Change LTM
Dia Market	938	1,935	2,873	52.3%	810	1,951	2,761	51.7%	-112
Dia Maxi	676	101	777	14.1%	655	118	773	14.5%	-4
Total Dia stores	1,614	2,036	3,650	66.4%	1,465	2,069	3,534	66.1%	-116
% of DIA banner stores	44.2%	55.8%			41.5%	58.5%			
La Plaza	355	0	355	6.5%	306	0	306	5.7%	-49
Clarel	1,126	107	1,233	22.4%	1,105	146	1,251	23.4%	18
% of Clarel stores	91.3%	8.7%			88.3%	11.7%			
Total stores	**3,095**	**2,143**	**5,238**	**95.3%**	**2,876**	**2,215**	**5,091**	**95.3%**	**-147**
Cada Dia / Mais Perto	0	260	260	4.7%	0	252	252	4.7%	-8
Total IBERIA stores	**3,095**	**2,403**	**5,498**	**100%**	**2,876**	**2,467**	**5,343**	**100%**	**-155**

EMERGING MARKETS	COCO	Franchise	TOTAL	%	COCO	Franchise	TOTAL	%	Change LTM
Dia Market	387	1,051	1,438	74.8%	393	1,102	1,495	73.1%	57
Dia Maxi	288	50	338	17.6%	334	51	385	18.8%	47
Total Dia stores	**675**	**1,101**	**1,776**	**92.4%**	**727**	**1,153**	**1,880**	**91.9%**	**104**
% of DIA banner stores	38.0%	62.0%			38.7%	61.3%			
Cada Dia / Mais Perto	0	146	146	7.6%	0	165	165	8.1%	19
Total EMERGING stores	**675**	**1,247**	**1,922**	**100%**	**727**	**1,318**	**2,045**	**100%**	**123**

DIA GROUP	COCO	Franchise	TOTAL	%	COCO	Franchise	TOTAL	%	Change LTM
Dia Market	1,325	2,986	4,311	58.1%	1,203	3,053	4,256	57.6%	-55
Dia Maxi	964	151	1,115	15.0%	989	169	1,158	15.7%	43
Total Dia stores	2,289	3,137	5,426	73.1%	2,192	3,222	5,414	73.3%	-12
% of DIA banner stores	42.2%	57.8%			40.5%	59.5%			
La Plaza	355	0	355	4.8%	306	0	306	4.1%	-49
Clarel	1,126	107	1,233	16.6%	1,105	146	1,251	16.9%	18
% of Clarel stores	91.3%	8.7%			88.3%	11.7%			
Total stores	**3,770**	**3,244**	**7,014**	**94.5%**	**3,603**	**3,368**	**6,971**	**94.4%**	**-43**
Cada Dia / Mais Perto	0	406	406	5.5%	0	417	417	5.6%	11
Total DIA GROUP stores	**3,770**	**3,650**	**7,420**	**100%**	**3,603**	**3,785**	**7,388**	**100%**	**-32**

Stores by country and operational model as of 31 December 2017

	2016			2017			
(# stores)	COCO	Franchise	Total	COCO	Franchise	Total	Change
Spain	2,728	2,147	4,875	2,543	2,170	4,713	-162
Portugal	367	256	623	333	297	630	7
IBERIA	**3,095**	**2,403**	**5,498**	**2,876**	**2,467**	**5,343**	**-155**
Dia	1,614	2,296	3,910	1,465	2,321	3,786	-124
Clarel	1,126	107	1,233	1,105	146	1,251	18
El Arbol / La Plaza	355	0	355	306	0	306	-49
Argentina	296	576	872	303	627	930	58
Brazil	379	671	1,050	424	691	1,115	65
EMERGING MARKETS	**675**	**1,247**	**1,922**	**727**	**1,318**	**2,045**	**123**
TOTAL DIA	**3,770**	**3,650**	**7,420**	**3,603**	**3,785**	**7,388**	**-32**

Store selling area by country as of 31 December 2017

(Million square meters)	2016	2017	Change
Spain	1.8764	1.8023	-3.9%
Portugal	0.2204	0.2249	2.0%
IBERIA	**2.0968**	**2.0272**	**-3.3%**
Dia	1.6199	1.5782	-2.6%
Clarel	0.1997	0.2040	2.2%
El Arbol / La Plaza	0.2772	0.2450	-11.6%
Argentina	0.2387	0.2513	5.3%
Brazil	0.4808	0.4896	1.8%
EMERGING MARKETS	**0.7195**	**0.7409**	**3.0%**
TOTAL DIA	**2.8163**	**2.7681**	**-1.7%**

2.1.7. Review by segment

Iberia

Net sales decreased by 4.2% in 2017 to EUR5.5bn. 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. 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%.

D&A decreased in Iberia for the second year in a row. Depreciation went down by 4.4% in 2017 to EUR170.5m.

Adjusted EBIT fell by 22.3% in 2017 to EUR255.8m, reflecting a 108bps decrease in margin over net sales to 4.6%.

(€m)	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.

Adjusted EBITDA climbed by 18.4% in 2017 to EUR142.3m (+21.4% 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 to EUR61.5m, 27.2% ex-currency. 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-currency). The adjusted EBIT margin improved by 14bps in 2017 to 2.6%.

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 7m DIA Club card users.

(€m)	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

2.1.8. 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.

PURPOSE

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".

APMs

- **Gross sales under banner**: Total turnover value obtained in stores, including indirect taxes (sales receipt value) in all the company's stores, both owned and franchised.

NET SALES TO GROSS SALES UNDER BANNER RECONCILIATION

(€m)	2016	2017	Change
Net sales	8,669.3	8,620.6	-0.6%
VAT and other	1,644.4	1,713.8	4.2%
GROSS SALES UNDER BANNER	**10,313.6**	**10,334.4**	**0.2%**

- **LFL sales growth under banner**: Growth rate of gross sales under banner at constant currency of the stores that have been operating for more than thirteen months under the same business conditions.

- **Other items excluded from adjusted EBIT**: Volume of costs and revenues the company isolates in the management accounts to gain a better understanding of the underlying performance of the core business during the period. Items usually excluded from adjusted EBIT are classified between "Other cash items" (Expenses relating to acquisitions, expenses for restructuring and efficiency projects, expenses relate to the transfer of own stores to franchises, and gains on disposal of assets), "Expenses related to share-based payments transactions" and "Other non-cash items" (Losses on write-down of fixed assets, impairment of fixed assets and amortization related to the closing of stores).

OTHER ITEMS EXCLUDED FROM ADJUSTED EBIT

(€m)	2016	2017	Change
Other cash items	52.3	59.8	14.4%
Expenses relating to acquisitions	14.5	26.0	79.2%
Expenses for restructuring and efficiency projects	25.6	52.3	104.5%
Expenses related to the transfer of own stores to franchises	28.7	12.7	-55.7%
Gains on disposal of assets	(16.5)	(31.2)	89.7%
Expenses related to share-based payments transactions	14.6	-4.9	-133.2%
Other non-cash items	24.6	34.5	40.1%
Losses on write-down of fixed assets	10.8	17.7	64.0%
Impairment of fixed assets	13.3	13.3	0.3%
Amortization related to the closing of stores	0.6	3.5	502.2%
OTHER ITEMS EXCLUDED FROM ADJUSTED EBIT	**91.6**	**89.5**	**-2.3%**

- **Adjusted EBITDA**: Operating profit after adding back depreciation and amortization (including amortization related to the closing of stores and impairment of fixed assets), losses on write down of fixed assets, "Other cash items" and "Expenses related to share-based payments transactions".

OPERATING PROFIT TO ADJUSTED EBITDA RECONCILIATION

(€m)	2016	2017	Change
Operating profit (EBIT)	309.5	247.1	-20.2%
Depreciation & Amortization	226.7	232.0	2.3%
Amortization related to the closing of stores	0.6	3.5	502.2%
Impairment of fixed assets	13.3	13.3	0.3%
Losses on write-down of fixed assets	10.8	17.7	64.0%
Gross operating profit (EBITDA)	**560.9**	**513.6**	**-8.4%**
Other cash ítems	52.3	59.8	14.4%
Expenses related to share-based payments transactions	14.6	-4.9	-133.2%
ADJUSTED EBITDA	**627.9**	**568.6**	**-9.4%**

- **Adjusted EBIT**: Operating profit after adding back "Other cash items", "Expenses related to share-based payments transactions" and "Other non-cash items".

OPERATING PROFIT TO ADJUSTED EBIT RECONCILIATION

(€m)	2016	2017	Change
Operating profit (EBIT)	309.5	247.1	-20.2%
Other cash items	52.3	59.8	14.4%
Expenses relating to share based payments transactions	14.6	-4.9	-133.2%
Other non-cash items	24.6	34.5	40.1%
ADJUSTED EBIT	**401.2**	**336.6**	**-16.1%**

- **Underlying net profit**: Net income calculated on net profit attributable to the parent company, adjusted by "Other items excluded from adjusted EBIT", "Items excluded from financial income and expenses", "Items excluded from income tax" and "Losses net of taxes of discontinued operations".

NET PROFIT TO UNDERLYING NET PROFIT RECONCILIATION

(€m)	2016	2017	Change
Net attributable profit	174.0	109.6	-37.0%
Other items excluded from adjusted EBIT	91.6	89.5	-2.3%
Items excluded from financial income and expenses	2.1	9.0	334.9%
Items excluded from income tax	-15.2	-12.5	-17.4%
Losses net of taxes of discontinued operations	15.9	21.5	34.9%
UNDERLYING NET PROFIT	**268.5**	**217.0**	**-19.2%**

- **Basic EPS**: Fraction of the company's profit calculated as net attributable profit divided by the weighted average number of shares.

BASIC EARNINGS PER SHARE RECONCILIATION

(€m)	2016	2017	Change
Net attributable profit (EURm)	174.0	109.6	-37.0%
Weighted average number of shares (million)	613.18	611.89	-0.2%
Average number of treasury shares (million)	9.28	10.57	14.0%
BASIC EARNINGS PER SHARE (Euro)	**0.28**	**0.18**	**-36.9%**

- **Underlying EPS**: Fraction of the company's profit calculated as underlying net profit divided by the weighted average number of shares.

UNDERLYING EARNINGS PER SHARE RECONCILIATION (€m)	2016	2017	Change
Underlying net profit (EURm)	268.5	217.0	-19.2%
Weighted average number of shares (million)	613.18	611.89	-0.2%
Average number of treasury shares (million)	9.28	10.57	14.0%
UNDERLYING EARNINGS PER SHARE (Euro)	**0.44**	**0.36**	**-19.0%**

- **Net financial debt**: Overall financial situation of the company that results by subtracting the total value of company's short-term, long-term financial debt, other financial liabilities from the total value of its cash, cash equivalents, and other liquid assets. All the information necessary to calculate the company's net debt is included in the balance sheet.

NET FINANCIAL DEBT RECONCILIATION (€m)	2016	2017	Change
Long-term debt	1,062.3	961.9	-9.4%
Short-term debt	180.7	269.5	49.1%
Cash & Cash equivalents	-364.7	-340.2	-6.7%
NET FINANCIAL DEBT	**878.3**	**891.3**	**1.5%**

- **Cash from operations**: Adjusted EBITDA less "Other cash items", less Capex excluding acquisitions. This internally calculated cash flow measure is included as one of the key financial metrics of the long-term incentive plan for the company's top management.

CASH FROM OPERATIONS RECONCILIATION (€m)	2016	2017	Change
Adjusted EBITDA	627.9(1)	568.6	-9.4%
Other cash items	52.3(2)	59.8	14.3%
Capex (excluding acquisitions)	340.2(3)	301.8	-11.3%
CASH FROM OPERATIONS	**235.4**	**207.0**	**-12.1%**

(1) EUR2.8m adjustment from DIA China discontinuation.
(2) EUR20.7m adjustment from DIA China and gains on disposal of fixed assets.
(3) EUR5.2m adjustment from DIA China discontinuation.

2.2. Non-financial information

2.2.1. Environment

The DIA Group's commitment to the environment is defined in its Environmental Policy, endorsed by the Board of Directors in 2016. This policy includes the general principles that govern the management and planning of the company's activity, as well as the objectives that the DIA Group has in this area.

The integration of the efficiency and sustainability criteria is the basis on which the main commitments are established:

- Comply with existing regulations.
- Promote the responsible use of resources
- Manage waste by following the waste hierarchy model, prioritising waste prevention and avoiding waste disposal where possible
- Adopt measures to reduce the emission of greenhouse gases
- Actively work on identifying improvement opportunities
- Encourage staff through training and awareness initiatives so that they can actively participate in the application of these commitments

All of the above is under the premise of working toward continuous improvement and minimising the environmental impact of the Group's activity. In order to achieve the objectives set out in each of these areas, the DIA Group has set up an Environmental Management system that is applicable to all of the company's facilities and activities.

Although the DIA Group's operations do not pose a serious environmental risk, the company's Risk Committee periodically analyses and monitors the incidents that may arise. No fines related to any regulatory infringement were recorded during 2017 (GRI indicator 307-1).

ECO-EFFICIENCY, ONE OF THE LARGEST CONTRIBUTIONS

The company's activity related to the distribution and commercialisation of products entails a high level of consumption of energy sources and materials. Accordingly, the technical, supply chain, and product development teams actively work to continuously improve the company's facilities and procedures, and in 2017 they managed to avoid the release of 7,786.88 tonnes of CO2 into the atmosphere (GRI indicator 305-5), and a reduction in the use of materials that amounted to -1,074,461kg (5.5% less, despite the increase in plastic consumption). The environmental budget associated with the adoption of these measures amounts to 17,838,211 euros.

Energy consumption of the organisation (GRI indicators 302-1, 305-1, 305-2, 305-3):

	Energy consumption (Kwh)	Emissions (tonnes of CO2 equivalent)
Scope 1	Fixed source consumption: 6,680.6 Gj Mobile sources: - primary and secondary transport: 54,288,729 - company cars: 1,219,078 liters - Refrigerant gas emissions (305-6): 153,633,5 Kg(1)	Fixed source consumption: 556.72 Mobile sources: - primary and secondary transport: 145,548.08 - company cars: 3,181 liters - Refrigerant gas emissions: 301,392.25
Scope 2	Indirect electricity consumption: 4,157,091.44 Gj	Indirect electricity consumption: 346,424,29
Scope 3		Business trips: 12,157

[1] Gas consumption R134A, R290, R404A, R407A, R407C, R410A, R417, R422D, R449A, R507A, R22 . Mobile year data Dec2016-Nov2017.

Materials used in 2017 and variation compared to 2016, by large group (GRI indicators 301-1):

	Paper and cardboard		Plastic		Others	
	Consumption in 2017 (kg)	Difference vs. 2016 (Kg)	Consumption in 2017 (kg)	Difference vs. 2016 (kg)	Consumption in 2017 (kg)	Difference vs. 2016 (kg)
Spain	6,484,961	-2,021,375	5,457,170	1,676,070	362,813	-796
Portugal	1,448,505	-885,696	26,061	2,509	6,974	671
Argentina	1,032,430	18,300	1,394,900	-128,100		-1,758
Brazil	3,191,345	238,816	160,230	26,898	9,650	0
Total	12,157,241	-2,649,955	7,038,361	+1,577,377	379,437	-1,883

Eco-efficiency in the energy consumption of facilities

The DIA Group has been a pioneer in the introduction of energy efficiency systems in stores, and has been working for over a decade on three main improvement areas: freezer and refrigeration systems, air conditioning, and lighting.

The DIA Group's stores have condenser batteries to offset energy consumption. Savings of 77% in energy consumption are achieved by using freezer cabinets with sliding doors, variable speed compressors, and propane as a freezing agent. Moreover, the "free cooling" systems make use of outside air to achieve the desired temperature inside the store, the use of floating condensation systems in the central refrigeration unit, and the installation of automation control boxes. The latter, in addition to offering the intelligent control of the air conditioning, adapt interior and exterior lighting according to work timetables and natural light coming in from outside.

Several energy improvement projects were carried out in 2017 in the company's stores and warehouses in the countries in which DIA has a presence. Of these improvements, we highlight the closing of cold cabinets in the stores in Brazil, the use of electronic valves in Argentina, and the use of more efficient fans in Portugal and Spain. In total, these improvements have saved 18,620,630 kilowatt-hours, equating to 5,586.2 tonnes of carbon dioxide.

Despite the progress made in terms of in-store eco-efficiency, the DIA Group continues to test the most innovative systems that appear in the market in what are known as "eco-sustainable stores". These are pilot stores where the operation and efficiency of new measures are verified, such as the use of new coolants and the use of dual air curtains in the doorless wall cabinets, before they are rolled out to the rest of the store network.

	ARGENTINA	BRAZIL	SPAIN	PORTUGAL	TOTAL
Estimate of KWh saved as a result of the various initiatives compared to 2016	2,904,260	4,493,400	10,410,509	812,461	18,620,630

With these sustainable measures implemented in stores and warehouses, at a constant surface area, the company has generated accumulated energy savings of up to 25% compared to previous systems, which equates to a reduction of 20 tonnes of CO2 emissions released into the atmosphere for each store (GRI indicator 302-4).

Moreover, it is estimated that the emission of an additional 996 tonnes of CO2 into the atmosphere was avoided thanks to the increased use of videoconferences and the promotion of shared transport systems.

100% of the DIA, Maxi DIA and La Plaza stores have energy efficiency measures in place, such as systems to improve the efficiency of its refrigeration units, LED lighting, and automation systems for the intelligent rationalisation of energy consumption.

Eco-efficiency in logistics

According to data from the European Environmental Agency, logistics operations are responsible for 25% of CO2 emissions in Spain. Given that the DIA Group is aware of the impact that these activities have on the environment (with daily deliveries from its 38 logistics centres to over 7,300 stores), it is constantly striving to improve its environmental footprint through projects that allow it to optimise the logistics processes.

	INITIATIVE	LITRES SAVED vs. 2016	Tonnes of CO2 equivalent
ARGENTINA	Balancing of stores between warehouses	36,105	96.8
BRAZIL	Hybrid truck	370,184	994.15
	BITREM project (road train)	22,551	60.46
PORTUGAL	Fleet renewal	6,939	18.6
SPAIN	Fleet renewal	12,936	34.68
	Total	448,715	1,204.69

Specifically, the company has renewed some of its fleet, with 30 new vehicles with lower fuel consumption and that are compliant with the most recent Euro 6 emissions standards, the use of high-capacity combined trucks such as mega trailers megatrailers and the use of hybrid trucks, have led to fuel savings of 448,715 litres and more than 1,200 tonnes of CO2 that are not released into the atmosphere. Despite these improvements, the overall fuel consumption of primary and secondary transport has increased by 2%, due to the increased frequency of deliveries demanded by the new commercial models.

However, the company's commitment goes further than that, with a target of an additional 20% reduction in energy consumption over the next five years. This is the objective of Lean&Green, an interprofessional European initiative, and its Commission is presided over by the DIA Group. As part of this initiative, companies must present an action plan with the initiatives that they intend to implement to reduce emissions, and the level of compliance will be audited by an independent company.

Reduction in the consumption of other inputs

The growing digitalisation of processes allows DIA to make great strides forward in reducing paper and toner consumption in its offices, warehouses, and stores.

In addition to the setting up of online process management system (BPMS - Business Process Management Suite), the company has digitalised its loyalty coupons, which has been very well received by customers. These two initiatives led to an estimated saving of 200 tonnes of paper in 2017. In fact, since 2015, in Spain, the company has saved almost 8 million kilograms of paper that were used to print advertising leaflets.

For yet another year, the DIA Group's experience in optimising its packaging, ready for sale, and applying eco-design techniques, has allowed it to obtain both quantitative and qualitative improvements in this area, optimising the consumption of raw materials and reducing the company's environmental impact.

IMPROVEMENT OF ENVIRONMENTAL INFORMATION

In 2016, the DIA Group obtained an A- score in the **Carbon Disclosure Project** (CDP), and is one of the leading Spanish companies in terms of initiatives to reduce emissions and mitigate climate change, as well as transparency in the publication of its results. In 2017, the DIA Group's environmental management allowed it to retain this score, and DIA is among the 22% of companies with the highest score (Leadership), exceeding the average worldwide score of the distribution sector, as well as the average of Spanish companies, both corresponding to a C score.

WASTE MANAGEMENT

Proper waste management has become increasingly important in the day-to-day running of the environmental department, in parallel with the DIA Group's focus on fresh produce and ready meal solutions. This change in activity has led to the need to invest more in staff training, both in stores and warehouses, and in the strengthening of procedures used for the separation and valuation of waste.

As a result of this initiative, during 2017 the company managed to reduce its landfill waste thanks to the recovery of useable fractions and the implementation of new options such as biomethanisation and the evaporation of the remaining fraction. In general terms, including the other categories, the DIA Group has managed to reduce its waste by 123,961 tonnes (5.7% less than in 2016) and slightly improved the percentage of landfill waste, which is now at 32.6%. In other words, 67.4% of the non-hazardous waste generated by DIA is recycled or reused.

	Non-hazardous waste								
	Toner	Remaining fraction	Scrap metal	Plastics	Wood	Paper/Card board	RAEE	Others	TOTAL
Total Kg generated	6,694	44,754,212	1,096,747	5,430,264	1,712,880	66,623,666	39,974	4,296,514	123,960,951
% recycled	0	19.19	97.61	100	0	100	100	0.11	65.96
% reused	68.12	0	2.39	0	100	0	0	0	1,407
% landfill	31.88	80.81	0	0	0	0	0	99.89	32.64

	Hazardous waste		
	Batteries (Kg)	Fluorescentes (Kg)	Total hazardous waste
Total Kg generated	70,601	1,603	72,204
% recycled	91.52	96.88	91.64
% reused	0	0	0
% landfill	8.48	3.12	8.36

(GRI indicator 302-6)

Hazardous waste (batteries and fluorescent lamps and tubes), which amounted to 72,204kg, is managed in accordance with the regulations in each country.

Our modern lifestyle has increased the consumption of resources, as is the case with expanded polystyrene (EPS), leading to an exponential increase in the quantity of landfill waste (1.3m tonnes a year in Europe).

In 2017, the LIFE COLRECEPS project ended, in which DIA participated as an industrial partner of the consortium. The aim of this project was to build a prototype plant to recycle EPS waste and convert it into packaging used by other sectors. This plant, which is unique in Europe, is able to recycle 500kg of waste and produce 25,500 boxes of packaging a year. DIA has played a key role in this project, where it is responsible for the logistics and collection of EPS waste. More information is available on the project website: http://lifecolreceps.eu/

The fight against food waste

For a retail distribution company, the fight against waste is a key issue for its business profitability. Possibly because of this, distribution may be the link in the food chain that generates the least amount of waste, representing 5% of total food waste in Europe.

In the case of DIA, the company is fighting waste through three main courses of action: prevention, providing food to the most disadvantaged people, and public awareness. Regarding the first course of action, the restocking and stock management systems allow the company to only place the necessary amount of products in stores, and link commercial activities with their expiry dates. Thanks to this system, which aims to be improved on the back of one of the projects financed by the Nexus programme on dynamic prices, the DIA Group has already achieved shrinkage levels that are below the sector average.

Despite these efforts, there is always some excess product that cannot be sold but is okay to be consumed. These products are donated to various organisations through a system that is integrated into DIA's logistics process. In Spain, DIA has had an agreement with the Spanish Federation of Food Banks since 2009 whereby it makes periodic deliveries to various soup kitchens nationwide. In 2017, the total amount of food donations was 808,900.5Kg from stores and warehouses.

Raising awareness is key in the fight against waste. Since its creation, DIA has been involved in the "La Alimentación no tiene desperdicio" initiative led by AECOC, in which more than 350 manufacturers and distributors are currently involved. The project has three main objectives: to establish prevention and efficiency practices along the entire food chain; to maximise the use of excess products along the entire value chain (redistribution, reuse, and recycling); and raise public awareness about this problem. In addition, the support of projects such as that of Plant Jammer, and of Nexus by DIA, will help consumers to improve their meal planning and make the most of the ingredients in their kitchens, which could imply a significant reduction in food waste at the very end of the chain.

2.2.2. Personnel

2.2.2.1. Human resources

At the end of 2017, the DIA Group had a workforce of 42,613 employees (GRI indicator 401-1) across four countries: Spain, Portugal, Brazil, and Argentina. Out of the total number of workers at DIA, 70% are based on the European continent, and 30% are in Latin America. Looking at the split by workplace, 73.7% work in stores, 13.6% work in warehouses, and 12.7% work in offices. This workforce is complemented by people working for the DIA Group on different employment contracts, such as the logistics distributors and the purchasing area, which outsourced some of its functions in 2017 (GRI indicator 102-8).

	GROUP	%
OFFICES	5,407	12.7%
WAREHOUSES	5,795	13.6%
STORES	31,411	73.7%
TOTAL	**42,613**	

WORKFORCE END OF YEAR	SPAIN	PORTUGAL	ARGENTINA	BRAZIL	GROUP
31/12/2017	26,035	3,646	4,539	8,393	**42,613**
31/12/2016	26,616	3,899	4,755	8,198	**43,468**
31/12/2015	28,847	3,751	4,873	7,013	**44,484**

As we have seen in recent years, the company has grown its business to the extent that it has had repercussions for the Human Resources department. Some of the key objectives in this area now include promoting the development of new skills among employees, capturing new professional profiles with an omni-channel focus, and adapting to customers' new consumption habits.

The company has a 2017-2020 Human Resources Strategic Plan, approved by the Board of Directors. This Plan is based on three main pillars:

- Customer focus: Provide continuity and support the initiatives started in recent years to increase employees' focus on customers, which is one of the DIA Group's basic strategic pillars.

- Digital transformation: Promote the necessary organisational and cultural changes to digitally transform the organisation.

- Employee focus: Work on employee satisfaction in the context of the "100% love my job" project, which includes a series of actions focused on employees, aiming to achieve a higher degree of employee commitment to the project.

Customer focus

During 2017, the Client Attitude project (set up a year ago) was developed further, and is now one of the company's key training pillars. This transversal programme aims to improve consumers' shopping experience, promoting the direct involvement of employees at all levels through training programmes, interdepartmental meetings, and several specific initiatives.

A new feature of this project is that it was expanded in 2017 to Portugal, developing a programme based on a cultural change in the management of people, leadership, selection, and digitalisation. In Spain, the programme includes a new initiative aimed at getting closer to the customer, which involves all the headquarter employees at all levels, whereby they visit stores and conduct personalised surveys, participating in day-to-day store operations.

Since the start of the project, more than 23,067 hours of training have been given in the context of this programme, involving more than 3,000 employees from the headquarters, warehouses, and stores across Spain.

Digital transformation

During 2017, the company continued to work on providing its employees with the necessary tools and knowledge to deal with the digital transformation in which the company has been immersed for years.

The main new feature here relates to the creation in 2017 of the "Digital Transformation School", where digitalisation is tackled through cultural change in the company, and employees are provided with the necessary tools and concepts to implement this transformation. Through a blend of e-learning and classroom teaching, the headquarter employees have the chance to participate in various workshops and talks given by experts in technology and digitalisation (both in-house and external), where the content is adapted to suit participants' needs.

The Digital Transformation School is aimed at all of the company's structure, and its content covers both specific areas and transversal ones. Accordingly, since October 2017, training has been given in areas such as Big Data, robotics, digital marketing, and e-commerce, involving more than 400 employees. In the coming years, the company intends to export this concept to the other countries in which it operates.

In addition, the digital transformation allows the company to promote its headquarter training through e-learning platforms, acquired in 2017. Of note is the language training (20% of which is online) and the Code of Ethics training.

This digital adaptation also applies to store employees. In Spain, digital training in stores is focused on providing supervisors with the necessary tools to tackle the digitalisation of daily business management (including optimising stock management, the store management application, the franchise application, invoicing and franchisee reports) and to improve knowledge of the customer through tools that measure customer satisfaction, such as Qualtrics.

Of note in 2017 was the training processes for Clarel staff based on managing the product ranges. The first "demo trivial pursuit game" has been developed, whereby employees challenge each other to gauge their level of knowledge about Clarel as a banner, sales techniques, and store operating processes, with a total of 5,200 challenges in the last quarter of 2017. In 2018, this will be rolled out across all Clarel stores.

In the Human Resources area, there is a focus on new technologies and social networks to streamline talent attraction in order to create the Employer Brand. Accordingly, the company has a corporate profile on LinkedIn, which serves as a recruiting platform and source of information for potential candidates interested in the profiles requested. This platform is managed by the Group Human Resources talent attraction team. During 2017, this project was extended to include Brazil, with the aim of supporting the rapid business growth in the country. Thus, DIA Brazil has its own LinkedIn profile where it publishes its job openings and then carries out its recruiting work.

In Portugal, an in-house application was also launched in 2017 that focuses on managing candidates and streamlines the recruitment processes, in line with the Group's digitalisation strategy.

Employee focus

The DIA Group is aware that an improvement in employee satisfaction leads to higher levels of employee commitment towards the company's projects. This is why employee satisfaction is one of the objectives of the Human Resources Master Plan, and is focused on at all levels, from the most basic (related to needs such as remuneration or equal opportunities) to higher levels related to facilitating better employee performance and ensuring greater employee recognition.

Quality work practices

In 2017, 89.7% of all of the group's employment contracts were permanent, while average employee turnover (understood to be voluntary resignations) was 1.01%. 100% of the group's employees are protected by a collective labour agreement, either at company level (in the case of Spain) or at sector level (in the case of Portugal, Argentina, and Brazil), and the company has 1,113 trade union representatives worldwide (102-41). These data, coupled with an average employee seniority of 8.3 years, represents a good indicator of the quality of labour relations between the DIA Group and its employees.

2017			2016		
Total number of contracts	Temporary contracts	Permanent contracts	Total number of contracts	Temporary contracts	Permanent contracts
42,613	4,384 (10.3%)	38,229 (89.7%)	43,468	4,901 (11.3%)	38,567 (88.7%)

		Men		Woman	
		Permanent	Temporary	Permanent	Temporary
Number of contracts the 31 December 2017	Argentina	2,735	141	1,573	90
	Brazil	3,719	8	4,661	5
	Spain	6,063	1,223	16,596	2,153
	Portugal	977	278	1,905	486

	ARGENTINA		BRAZIL		SPAIN		PORTUGAL		Total
	Man	Woman	Man	Woman	Man	Woman	Man	Woman	
Partial time contracts	272	333	99	53	636	7804	96	185	**9,478**
Full time contracts	2,604	1,330	3,628	4,613	6,640	10,942	1,159	2,206	**33,122**

(GRI indicator 102-8)

In relation to the number of jobs created, the average workforce of the DIA Group has been reduced slightly compared to 2016, due not only to the decrease in commercial area in Spain, but also due to the outsourcing of some of its stores.

	Number of new contracts						
	Less than 30		30-50		More than 50		Total
	Man	Woman	Man	Woman	Man	Woman	
Argentina	509 (52.4%)	228 (23.5%)	135 (13.9%)	86 (8.8%)	5 (0.5%)	9 (0.9%)	972
Brazil	1.684 (32.1%)	1,834 (35.0%)	739 (14.1%)	973 (18.5%)	12 (0.2%)	6 (0.1%)	5,248
Spain	2,118 (19.8%)	3,117 (29.4%)	1,360 (12.7%)	3,678 (34.6%)	96 (0.9%)	282 (2.6%)	10,651
Portugal	532 (36.2%)	674 (45.9%)	85 (5.8%)	172 (11.7%)	5 (0.3%)	2 (0.1%)	1,470

(Indicador GRI 404-1)

	Rotation and rotation rate					
	Less than 30		30-50		More than 50	
	Man	Woman	Man	Woman	Man	Woman
Argentina	592 (1.06)	282 (0.5)	179 (0.32)	118 (0.21)	9 (0.016)	3 (0.005)
Brazil	1,418 (1.4)	1,721 (1.7)	644 (0.63)	989 (0.98)	18 (0.017)	19 (0.018)
Spain	2,447 (0.76)	3,729 (1.16)	1,541 (0.48)	4,418 (1.37)	213 (0.06)	538 (0.17)
Portugal	582 (1.24)	742 (1.58)	119 (0.25)	278 (0.59)	8 (0.017)	4 (0.008)

2.2.2.2. Health and safety in the workplace

DIA is aware that preventing work-related risks among its employees is the leading indicator in terms of measuring its quality as an employer. Across the entire group, the number of hours lost due to work-related accidents is 0.53%, which is a low percentage given the nature of the work in stores and warehouses.

		Men	Women
ARGENTINA	Annual hours worked	6,751,250	3,556,858
	Number of accidents with sick leave	65	26
	Accidents rate	0.18	0,00
	Time lost due to accidents (%)	0.23	0.22
	Time lost due to absenteeism (%)	2.02	3.24
	Number of deceased workers due to work accidents	0	0
BRAZIL	Annual hours worked	6,894,299	8,954,211
	Number of accidents with sick leave	50	77
	Accidents rate	0.12	0.13
	Time lost due to accidents (%)	0.22	0.27
	Time lost due to absenteeism (%)	5.77	10.7
	Number of deceased workers due to work accidents	0	0
SPAIN	Annual hours worked	13,344,522	29,079,587
	Number of accidents with sick leave	751	1,069
	Accidents rate	0.83	0.46
	Time lost due to accidents (%)	0.77	0.64
	Time lost due to absenteeism (%)	4.25	7.79
	Number of deceased workers due to work accidents	0	0
PORTUGAL	Annual hours worked	2,500,788	4,577,381
	Number of accidents with sick leave	169	307
	Accidents rate	1.04	1,00
	Time lost due to accidents (%)	0.72	0.64
	Time lost due to absenteeism (%)	2.99	3.36
	Number of deceased workers due to work accidents	0	0

(GRI indicator 403-2)

In each of the countries in which the group operates, training is provided in new stores and in relation to new processes, such that the company can guarantee that all of its employees have been trained in occupational health and safety, including employees who are already with the company and who are updating their knowledge, and new employees who are just joining.

Number of hours of occupational risk prevention training per employee	ARGENTINA	BRAZIL	SPAIN	PORTUGAL	Total investment in occupational risk prevention training (EUR)
2017	1.2	4.49	6.1	1.9	288,057
2016	1.2	5.98	3.2	1.35	369,779

In 2017 in Brazil, the company launched a training programme for store managers on the prevention of occupational risks, with the aim of involving all teams and foster an understanding of the importance of working safely. Warehouse operators also took part in this programme; intotal, more than 2,600 employees participated, with over 14,900 hours of training given.

In Portugal, the company also gave courses to store and warehouse employees related to health and safety in the workplace, with 1,100 employees taking part. The courses, which included over 3,400 hours of training, covered areas such as load ergonomics, fire safety, ergonomics, first aid, and prevention of occupational risks.

In order to help improve the healthy lifestyle habits of its employees, for the seventh year in a row, the DIA group organised a Healthy Week ("Semana Saludable"), both at its headquarters in Las Rozas de Madrid and at its regional centres, involving its store, warehouse, and office staff. Accordingly, employees could enjoy activities based on physical exercise, healthy eating, hydration, and emotional wellbeing.

In the context of health surveillance, the company has developed other campaigns that have been used in previous years in all the countries in which it operates, such as the Flu Vaccination Campaign, initiated and promoted by the public health services, and which DIA also got involved in, to provide vaccinations to any people interested.

Along the same strategic lines, health surveillance is integrated into the company's global Prevention Plan: through the Health Assessment and Monitoring programme, employees' state of health can be evaluated in relation to the risks they are exposed to in their workplace, allowing them to adopt any preventative measures by adapting the workplace if necessary, and monitoring their health over time in order to detect any signs of possible and potential injuries early, thus avoiding them turning into professional illnesses.

Accordingly, DIA has integrated procedures into its Global Prevention Plan to detect the repercussions of working conditions on employees' health, identifying employees who are particularly exposed to such risks in order to adapt their workplaces to the needs of each person.

2.2.2.3. Performance and remuneration

DIA's remuneration system attracts, motivates, and retains a workforce that is trained to face the challenges that arise in the retail distribution sector. Accordingly, the company has developed a process aimed at the fair weighting of excellence among employees. The remuneration policy is established by the Group's management, according to local market practices, inflation, agreements with unions, and collective agreements.

DIA's remuneration policy is based on the following principles:

- Moderate and align remuneration according to local trends seen in companies of a similar size and activity, guaranteeing that they are aligned with the best practices in the market
- Reward the quality of work, dedication, responsibility, business knowledge, and commitment to the Company for employees who hold key positions and lead the organisation
- Establish a close link between remuneration and the Company's results, such that the weight of the variable remuneration is sufficient to efficiently compensate the individual achievement of targets, as well as the value added to the Company and its shareholders
- Internal equality and external competitiveness

The company has performance evaluation mechanisms in place for 100% of its workforce (GRI Indicator 404-3) that vary according to job title and position. In the case of store and warehouse employees, they are evaluated on their performance and productivity, both on an individual level and in their overall workplace. In the case of offices, the personal objectives are focused on individual performance and values, and aligned with the Company's results.

Merit is the main driver behind salary growth. This merit is calculated based on an annual appraisal of values, skills, and compliance with previously set objectives. All of these appraisals conclude with one of the following results: Excellent, Good, Satisfactory, or Room for improvement, which have a bearing on salary increases.

In 2017, there was a change in the variable remuneration system applied in Spain for more than 10,000 employees in the own stores. The new remuneration system is more aligned with the company's strategy, and takes customers' views into account by including their degree of satisfaction as a measurement factor. Accordingly, the addition of new assisted sales and fresh produce sections in the DIA banner stores, as well as in the La Plaza de DIA supermarkets, is now linked to the good management of these sections. Therefore, there is an ongoing flow of the above-mentioned commercial activities and recruitment of professionals. This new variable remuneration system for this group therefore complements overall remuneration of delicatessen, meat, and fish professionals.

The rest of the store and warehouse personnel continue with the previous tranche system according to their performance and category in relation to the variable remuneration.

In Spain, 100% of the store and warehouse staff benefit from the variable remuneration system, which is above the minimum salary levels established in the collective agreement.

As for employees working in offices, managers, and directors, the variable remuneration is split as follows: 60% is linked to the company's targets (EBIT, gross sales under banner, like for like, and merchandise cash and 40% is linked to personal objectives, which include targets that are agreed with the employee's direct superior, as well as the improvement in the customer satisfaction index. In 2017, a new feature is that the improvement in the franchise satisfaction index has been included in these personal objectives, and which is applicable to all the office staff in Spain and the directors in other countries.

2.2.2.4. Equal opportunities in the workplace

The DIA Group is committed to ensuring equal opportunities in the workplace. Women accounted for 64.4% of the total workforce, and 36.5% of people in management positions at Group level, reaching 43.8% in countries like Spain. On the Board of Directors, the proportion remains around 30%, while at Director level this ratio is 26.4%, slightly below last year's figure (29.2%).

At the end of 2017, the workforce split, by gender, hierarchical level, and country, was as follows:

	Staff breakdown by gender and by job type	
	Man	Woman
Board	70%	30%
Director	73%	27%
Manager	62%	38%
Employee	34%	66%

	Staff breakdown by age and by job type		
	Less than 30	30-50	More than 50
Board	0%	10%	90%
Director	0%	60%	40%
Manager	11%	77%	12%
Employee	33%	59%	8%

(GRI Indicator 405-1)

	Staff breakdown by gender and by country	
	Man	Woman
Spain	28%	72%
Portugal	34%	66%
Argentina	63%	37%
Brazil	48%	52%
Total	36%	64%

The DIA Group openly publishes its processes of selection, promotion and occupational training, and guarantees salary equality in jobs of equal value. There were no cases of discrimination in this area in 2017 (GRI Indicator 406-1)

The company has an Equality Programme, which was approved in 2012 in Spain, which aims to delve even further into the equality of professional opportunities at all levels of the workforce. During 2017, at manager and director level, women employees accounted for 34.23% of promotions to professional groups different to their original group.

On 8, 9, and 10 of March 2017, to celebrate International Women's Day, the DIA Group launched an information and awareness campaign based on two main pillars: talent and digitalisation. This initiative involved the company sending infographics to its entire workforce in Spain, with data and statistics about equality and digitalisation, as well as an article about women and digital transformation. The company also circulated among its employees the United Nations objectives for Gender Equality, and it convened the "Mujeres que dejaron huella" ("Women who left a mark") competition, whereby DIA employees submitted their selfies with contributions such as inventions created by women or literary works written by women throughout history.

Since 2016, the company has also participated in the Universo Mujer (Women's Universe) programme in Spain, an initiative focused on the development of women and their personal progress within society. This was set up to develop initiatives that can contribute to improvement and social transformation through the values of female sports. DIA, which is also involved in other initiatives to promote gender equality and female leadership, is concentrating its efforts into this programme to promote women, and, in partnership with the FEB (Spanish Basketball Federation), will develop a series of projects that will contribute to the objectives defined, and in which customers and employees will participate.

2.2.2.5. Diversity and integration

The DIA Group is focused on raising awareness in our environment and throughout the year to ensure that people with disabilities live and work in a more inclusive society, in which everyone can enjoy equal opportunities. In total, among DIA's workforce at the end of 2017, there were 542 people with some type of physical or intellectual disability, DIA Brazil having the highest number (308) of people with disabilities in their workforce.

	2017		2016	
	Average number of people with disabilities	% Equivalent full-time employees	Average number of people with disabilities	% Equivalent full-time employees
ARGENTINA	1	0.02%	1	0.02%
BRAZIL	308	3.64%	267	3.53%
SPAIN	212	0.87%	238	0.93%
PORTUGAL	21	0.57%	19	0.51%
GROUP	**542**	**1.34%**	**525**	**1.27%**

At the end of 2017, the DIA Group renewed the Inserta agreement with the Fundación Once in Spain. This project was started in 2012, and has led to 90 people with disabilities being employed by the DIA Group in Spain. The company has now committed to hiring another 150 people with disabilities over the next four years. The DIA Group will continue to rely on Inserta Empleo, the training and employment entity of the Fundación ONCE, to cover new positions that the company needs to fill, pre-select candidates that fit the required profiles, and provide personalised training that allows them to carry out the tasks assigned. The agreement also aims to promote other actions that indirectly favour the integration into the workplace of people with disabilities, through the acquisition of goods and services from the special employment centres.

Along the same lines, and for the sixth consecutive year, in Spain the company celebrated the International Day of Persons with Disabilities, contributing to the dissemination and awareness of integrating people with different capacities into our company.

2.2.2.6. Internal communication

The DIA Group is in constant communication with its employees at all levels, allowing it to transfer its corporate identity to the workforce, building confidence and good relations between employees.

More active listening to employees

In addition to the direct contact with employees that the company is promoting through the tools mentioned in this section, every two years the DIA Group conducts a survey involving 100% of its workforce in all the countries in which it operates. This is a voluntary project, which, through a third party, guarantees the total anonymity and privacy of all the answers given by employees.

The last survey was conducted in the last quarter of 2016, in which more than 44,000 people took part. The results of this survey allowed the company to identify several improvement areas that are being worked on, at the Group level as well as in each country and in the regional centres.

During 2017, the company once again took stock of the mood among more than 150 headquarter staff due to the new internal organisation by banner, and of the commercial and purchasing areas that are being developed. The aim of this was to determine (through specific surveys conducted through mobile applications) employees' opinions regarding organisational and structural issues.

New tools to improve communication

2017 was the year of the deployment at the company's headquarters and a pilot project for stores involving the new Corporate Portal for employees, a space created to promote communication with employees, to generate professional knowledge, to share free time, and to disseminate corporate information. Among other content, the new portal, which works like an internal social network, includes:

- Information about the Group's services, structure, policies, products, brands, and media campaigns
- Information about the Group's companies
- News about the Group
- Employment information
- Offers for employees and social benefits
- Free membership spaces for exchanging information.

In Argentina, this new portal (which is more dynamic and intuitive) has started to be developed, with a first pilot project at the end of 2017, in which 1,400 employees have already been involved. Brazil and Portugal are still in the preparation phase, and plan to roll it out in 2018.

In addition, internal two-way communication has been strengthened with the creation of new two-way communication spaces, sometimes face-to-face, or leveraging the latest technologies, which allow employees to express their questions or concerns to management. Twice a year, the CEO and the entire management team give a presentation about the company's performance, with questions in an open format through videoconferences with employees in all countries. These informative meetings cover both operational and strategic issues and objectives, which are shared with most of the workforce.

In turn, the Group directors have three meetings a year with the Management Committee, in which they analyse the results and share various questions about the business.

The webcast with analysts and the presentation of results to the press can be followed by employees on the corporate website (for the webcast) and on Periscope (for the press conference).

2.2.2.7. Development of human capital

<u>Talent training and development</u>

The DIA Group has an active policy in terms of talent retention and training, which identifies, recognises, and promotes the value that different profiles generate for the organisation. Ongoing training is a priority in a context of constant change and innovation, mainly focused on adapting to new customer needs.

Accordingly, the company has placed an ongoing focus on training its workforce. During 2017, 479,143 hours of training were given to more than 34,300 store, warehouse and headquarter employees in the four countries in which the company operates.

In addition to external training, the DIA Group has 31 own training centres for employees and franchisees who work in stores. These centres are involved in training sales people at all levels to carry out functions such as checkout operations, new services, and more specific tasks such as the running of the meat and fish sections. The company also runs specific training programmes in its logistics centres, mainly focused on the efficient use of tools and machinery, and (as for the other profiles) on guaranteeing the occupational safety of its workers.

Annual average hours of training by worker							
ARGENTINA	Men	Directors	1.88	SPAIN	Men	Directors	12.56
		Managers	22.59			Managers	19.27
		Employees	9.98			Employees	5.18
	Women	Directors	10,00		Women	Directors	21.87
		Managers	26.49			Managers	21.46
		Employees	10.47			Employees	6.29
	Total		12.07		Total		6.40
BRAZIL	Men	Directors	0,00	PORTUGAL	Men	Directors	15.31
		Managers	16.45			Managers	20,00
		Employees	19.57			Employees	16.68
	Women	Directors	0,00		Women	Directors	23.50
		Managers	15.29			Managers	15.11
		Employees	25.44			Employees	13.83
	Total		22.71		Total		14.88

(GRI Indicator 404-1)

In addition to the focus on digital transformation training in Spain, in Argentina the "Escuela de Excelencia operativa DIA" ("DIA School of Operational Excellence"), is involved in training employees in daily operations in the regional centres. During 2017, close to 700 employees were trained at this school, taking part in more than 800 specialised courses.

In Brazil, progress has been made in developing initiatives within the framework of the "Universidad DIA" ("DIA University") project. This is a strategic pillar for the training of employees in Brazil, offering ongoing training to transform their skills and knowledge into business results.

Portugal continued to provide training on skills related to the new services implemented in its stores, focusing on aspects such as the management and handling of fresh produce, new applications, and digitalisation. During 2017, more than 6,000 store and warehouse employees participated in these training courses with the aim of ensuring that they have the correct knowledge in relation to the new proximity and attraction formats.

Internal promotion

DIA has tools to identify and recognise the value that different functions generate for the organisation. This more flexible system, in addition to offering organisation coherence, allows the company to recognise the strategic business areas and identify the employees who add value to the company, based on the parameters of system with common criteria.

Year after year, the DIA Group keeps a constant focus on internal promotion and long-term professional development, leveraging employee profiles with a bigger global and transversal vision of the company. During 2017, 47% of vacant positions in offices were covered internally, implying a shift of 9% of the workforce.

2.2.3. Compliance and ethical management

DIA compliance model is based on intimately connected regulations, procedures and areas responsible for supervision and control in which the following 3 organisational levels can be identified:

1. Strict regulatory body in the area of Good Governance: statutes and regulations of the company governing bodies.

2. Internal control system and risk management that ensures an adequate control environment: risk management control system, annual update of regulations implementation and the internal financial information control system policy (SCIIF).

3. Fraud prevention and detection of bad conduct: DIA Group code of ethics, crime prevention model, and anti-fraud and anti-corruption programmes are creating and wide spreading between DIA employees a professional and ethical culture.

DIA Compliance model

CORPORATE GOVERNANCE	INTERNAL CONTROL AND LEGAL SECURITY	FRAUD PREVENTION AND DETECTION
	OBJECTIVES	
To have a strict regulatory body in the area of Good Governance • UGA, CdA and RIQ Statutes and Regulations • Issue of AGC, IAR and Relevant Facts • Control of Securities and Treasury Stock operations and Privileged Information	To have an internal control system and risk management that ensures an adequate control environment • Risk Management Control System • Implementation of Regulations • Internal Control (SCIIF + operations) • Corporate and Local Insurance Programmer	To embody a culture of compliance through an ethical model for employees • Code of Ethics • Crime Prevention Model (Spain) • Anti-Fraud and Anti-Corruption Programmer
Adoption of company agreements in accordance with the Law • Control and coordination of Subsidiaries • Design of a framework for the delegation of safe powers (centralization of powers, joint signature and financial restrictions) (centralization of powers, joint signature and financial restrictions)	Provide legal certainty to the company in business trade • Regulatory Map • Contractual Control (standard model) • Data Protection (Consultation Office)	To have channels for the detection of bad conduct • Ethical Channel • Forensic actions (DD in compliance in M&A)
	AREAS RESPONSIBLE FOR SUPERVISION AND CONTROL	
SECRETARY OF THE BOARD LEGAL COUNSEL AND COMPLIANCE DEPARTMENT	INTERNAL AUDIT FINANCIAL DEPARTMENT LEGAL COUNSEL AND COMPLIANCE DEPARTMENT	ETHICS COMMITTEES LEGAL COUNSEL AND COMPLIANCE

With its corporate values (Effectiveness, Initiative, Respect, Team and Customer) serving as the foundation, the DIA Group has a **Code of Ethics** as one of the main tools to promote this ethical culture, yet it draws up the conduct guidelines that must be followed by the people participating in the company's activity. As the rest of the regulations implemented by the company, the Code must be followed in all the countries and by all the employees.

A Corporate Ethics Committee and an Ethics Committee in each country are responsible for implementing the Code of Ethics with the following duties:

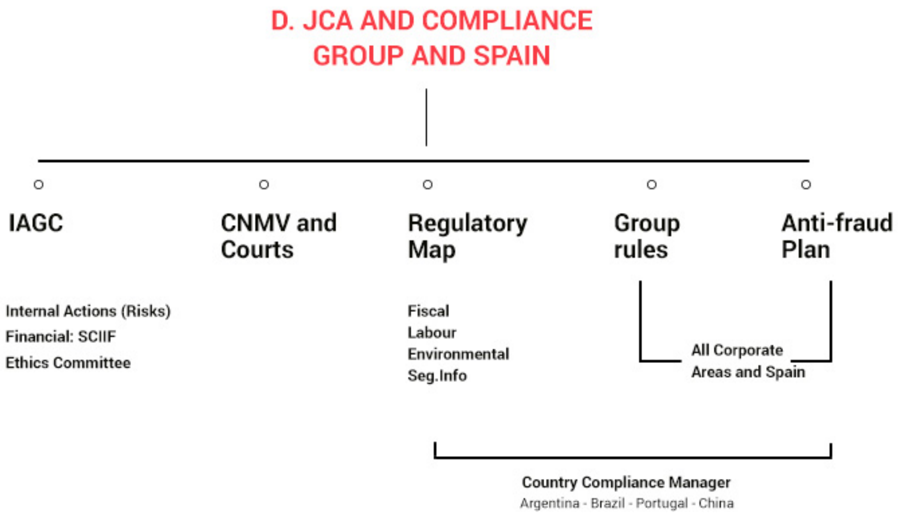
- Spread the Code of Ethics values and enable its comprehension.
- Ensure that the Ethical Channel, created to facilitate the implementation of the Code of Ethics, works properly.
- Analyse and respond to all communications received through the Ethics Channel, whether these are questions of interpretation or complaints, in accordance with applicable internal and external regulations.
- Prepare quarterly reports on compliance and performance, which are consolidated and presented annually to the Audit Committee of the Board of Directors.

100% of DIA employees have been trained about the key points of the Code of Ethics (GRI Indicator 205-2). The Ethical Channel enabled (via email and postal address) allows anonymous consultation and complaints, although whoever identifies will continue to have the maximum guarantees of confidentiality and non-reprisal. Suppliers, franchisees and contractors, who have been proactively informed of the existence of the Code of Ethics, also have access to this communication channel with the Ethics Committee and can use it with the same guarantees as any other employee (GRI Indicator 102-17).

As reinforcement to the Code of Ethics, the DIA Group has developed and implemented a C**rime Prevention Model** with the aim of establishing the most adequate internal control procedures and policies to prevent the commission of acts contrary to legality. This model is based on the "regulatory map", which identifies and details all the regulations applicable to DIA, with special attention to key legislation in the main supply chain processes. The risk of committing crimes is then evaluated for each of the areas and each region has a prevention officer who reports to the Ethics Committee and the DIA Group Regulatory Compliance Officer.

The company also has a **specific anti-fraud program**, which has been implemented in all jurisdictions in which the company operates according to a risk matrix developed for each geography. In this sense, each country has designated an antifraud prevention officer, who, in turn, is responsible for crime prevention.

DIA Compliance Structure



During 2017, a case of corruption was detected in the Group, which triggered the worker's dismissal. In total, for the current reporting period, there are two litigation of this nature opened (GRI Indicator 205-3).

2.2.4. Non-profit organisations and other associations

DIA has maintained its commitment to responsibility and respect for the environment in which it operates and for the people with whom it works, in line with what has been written in this report. Furthermore, given the high level of penetration of its store network in the neighbourhoods and towns in the countries in which it operates, the company feels the obligation to position itself and support certain social causes that are important for its customers and partners. Accordingly, every year, in partnership with various non-profit entities and associations, it implements a series of social initiatives through its own CSR policy, through which it clearly and transparently sets out the procedures for these partnerships.

During 2017, the company focused once again on its social projects and making food reach the largest number of people possible, in line with its main business activity, which it knows how to do efficiently. Moreover, in Spain, the DIA Group has historically promoted awareness of the fight against rare diseases that mainly affect children, and it has sponsored the Spanish Basketball Federation. Pursuant to this sponsorship, the several projects related with the causes that the company identifies the most with have been launched: promoting sports, gender equality, and support for the most vulnerable children. In turn, Argentina, Brazil and Portugal have invested in various social awareness programmes, both for employees and customers worldwide.

Deliveries to food banks

During 2017, the DIA Group delivered more than 3,8 million kilos of food to the Food Bank in Spain, implying an increase of more than 6% versus the previous year, and seven times more than in 2012. This figure was possible thanks to the solidary participation of its customers, the company's own employees, DIA franchisees, and the suppliers of products and logistics services. This figure includes deliveries from the company's warehouses (more than 860,000 kilos), the "Gran Recogida de Alimentos" – "Big Food Collection" (2.8 million kilos), and the various "Operaciones kilo" – "Kilo campaigns" carried out during the year (145,500 kilos).

Sports sponsorship

In September 2017, the DIA Group signed an agreement for the next two seasons whereby the company has become the main sponsor of the Spanish women's basketball league, which is now called "LigaDIA de Baloncesto" (the DIA basketball league"). This agreement represents a new step forward in relation to the partnership signed a year ago between both entities in the context of the Universo Mujer Baloncesto project, a comprehensive programme for the development of women in society and sports, headed up by the Spanish Basketball Federation. The aim of this programme is to develop initiatives that contribute to social improvement and transformation through the values of women's sports as a whole. DIA is focused on this programme to promote women, and in partnership with the Spanish Basketball Federation, it will develop a series of projects that will contribute to the objectives defined, and in which both customers and employees will participate.

In the context of the agreement that the DIA Group has with the Spanish Basketball Federation (FEB), with whom the company signed the first sports sponsorship deal in its history a year ago, during 2017 the company developed social action initiatives aimed at promoting the values of this sport among such diverse groups as young children and retirees. This gave rise to the "Superliga DIA" a children's basketball competition in the school context, which in its first edition saw 192 teams from all over Spain take part, made up of 2,300 boys and girls aged between 9 and 10. In line with the promotion of the values of sports and a healthy lifestyle, a programme called "SuperSenior" was also launched, for people over the age of 50, focused on tackling physical inactivity and promoting active and healthy ageing using basketball as the main tool, and with the work of technical experts. In both cases, in addition to the close partnership with the Spanish Basketball Federation, the Regional Federations, Autonomous Regions, and town halls also got involved.

Most prominent social initiatives (GRI Indicator 102-12)

DIA maintains close ties with several national and international non-profit organisations focused on improving the lives of vulnerable children.

Main initiatives in Spain:

- Snacks together with the Red Cross in Galicia and Extremadura for children at risk of exclusion:

  This is a programme to guarantee that more than 800 children whose families are facing economic hardship can have snacks. Specifically, the agreement stipulates that the DIA Group distributes, on a weekly basis, a menu that is appropriate for children participating in the "Éxito Escolar de Cruz Roja" ("Red Cross Academic Success") project in Extremadura and Galicia, including healthy regional products.

  The menus change daily and have been prepared by a Red Cross nutritionist to guarantee that they are rich in nutrients, varied, and appropriate for the children's development stage. The menus include juices, cereals, dairy products, fresh fruit, dried fruit, and water.

- Agreement with the Fundación Altius to provide professional training to young unemployed people:

  The DIA Group and the Fundación Altius Francisco from Vitoria presented the '1 Kilo de Ayuda + Cena para Dos' ("1 kilo of Help and Dinner for Two") project, an initiative that has helped to train 650 young unemployed people in the Madrid region during 2017. The aim of this agreement reached between both organisations is the social integration and employability of young unemployed people through personalised development paths.

  Accordingly, the DIA Group's customers could acquire a "1 kilo of help" card at the checkout when paying for their shopping, at a cost of 1 euro. By buying this card, in addition to helping those most in need, the customers participated in a monthly lottery of five dinners for two, valued at 100 euros per person, to be chosen from a list of the best restaurants across all the Spanish provinces.

- Campaign for children without alcohol, a challenge for everyone:

  The DIA group implemented the "Menores sin alcohol, un reto de todos" ("Children without alcohol, a challenge for everyone") campaign, an initiative aimed at finding solutions to the growing problem of alcohol consumption among children, and which institutions, civil society, and the general public have been condemning for a while.

  This is a transversal campaign in which employees, franchisees, and suppliers participate, raising awareness through posters in stores and other initiatives, about this problem affecting one segment of society. In order to publicise this, a website has been created (www.menoresinalcohol.com) which includes the key figures, as well as information about the objective of the campaign, as well as news related to the project, which will ensure it continues during 2018. The aim is to try to provide more than 20,000 employees with the necessary tools to ensure that children do not purchase alcohol in their stores, thus trying to curtail possible early consumption of alcohol among children.

As part of this agreement, the DIA Group and the Federación Española de Bebidas Espirituosas (FEBE – the Spanish Federation of Spirituous Beverages) reached a pioneering partnership agreement to implement initiatives aimed at trying to prevent alcohol consumption among children, in the context of the respective campaigns with this aim in mind. Through this partnership, the first of its kind among companies in the sector and a distribution company, FEBE is involved in the DIA Group's campaign 'Menores sin alcohol, un reto de todos' ("Children without alcohol, a challenge for everyone"), and the DIA Group is involved in the 'Menores ni una Gota' ("Children, not a drop") campaign, an initiative promoted by the FEBE. This partnership aims to carry out activities focused on information and prevention directed at both children and families, with the aim of providing them with the tools to tackle possible early consumption of alcohol among children.

- 1st Race against child poverty together with Save the Children in Sevilla:

  The DIA Group and Save the Children started the `I Carrera Solidaria contra la Pobreza Infantil' in Seville. This family-focused social sports event, for people of all ages, aimed to raise funds for projects that Save the Children is involved in to help poverty-stricken children in Seville. This initiative (in which, in addition to these two entities, the regional government of Andalusia, the town hall of Seville, and one of DIA's suppliers, Jolca, also participated) is established within the Alliance against Child Poverty in Andalusia, set up in June 2015, and to which the regional administration and 31 entities and organisations from civil society in Andalusia have put their name. Its aim is to counteract the effects of the crisis, exclusion, and child poverty. The common challenge was to improve the lives of boys and girls in Andalusia and minimise the impact that the economic crisis could have on them.

- 8th Race against rare diseases in Madrid:

  For yet another year, the Federación Española de Enfermedades Raras (FEDER) organised the 8th Madrid race for Hope in the Casa de Campo of Madrid, with the aim of raising awareness about these pathologies through sports. The DIA Group, which has sponsored this event since its first edition, continued its commitment to this event for yet another year, inviting all of its employees and customers to join in the cause.

  This activity represents the final touch to the Rare Disease Day that was initiated worldwide on 28 February (the "most special day of the year") and in which more than 5,000 people were involved during a morning of sports, fun, and family activities.

- Comprehensive programme against Gender Violence:

  The DIA Group is part of the Empresas por una Sociedad Libre de Violencia de Género programme that is promoted by the Spanish Ministry of Health, Equality, and Social Services. This agreement aims to raise awareness about equality, respect for basic rights and the creation of a society free of violence against women. These messages are sent out both internally and externally, also involving customers.

- Initiative for responsible animal adoption organised by Clarel:

  Clarel, the DIA Group's banner specialised in personal and household care, set up an initiative called Forever Friends, which aims to find families for abandoned dogs. Under the slogan "A walk can be the start of a great friendship", the Asociación Protectora de Animales de Granollers, in Catalonia, took some abandoned dogs to a public area and allowed members of the public to taken them for a walk along an agility circuit together with one of the association's volunteers. In addition, free samples of AS products (the DIA Group's exclusive pet food and pet care brand) and 50% discount coupons for the purchase of AS products, both in Clarel and DIA stores.

- Agreement with Labdoo to send technology to third-world schools:

  The DIA Group and the Labdoo collaborative platform signed an agreement to send discarded laptops to children and schools in the third world, with the aim of providing new solutions to the educational systems in those regions, and giving a second life to devices that are considered obsolete. The computers sent are previously reformatted and loaded with educational software that include exercises and activities in maths, science, and other subjects.

  In addition, DIA employees who are interested in this initiative could also take part by sending their own devices, or could even take on a more active role by delivering the computers themselves to third-world countries if they had a trip planned that coincided with one of the areas where the platform operates.

- Family solidarity walks in Avilés and Gijón in favour of the most needy members of the population:

  For yet another year, the DIA Group and its employees took part in solidary walks organised by the El Comercio newspaper, providing provisioning for those handing out water, juices, and fruit, both in Gijón and Avilés. The initiatives were carried out in favour of the Asociación Gijonesa de Caridad Cocina Económica and Cáritas Asturias, which were in charge of providing basic needs (food, accommodation, and clothing) and social assistance to the people most in need.

Main initiatives in Brazil:

- Dreams race in favour of children with cancer:

  In 2017, the DIA Group in Brazil organised once again, together with GRAACC (Support Group for teenagers and children with cancer), the sponsorship of the "Carrera del Sueño" (the "Dreams race"), which aims to raise funds to treat children and teenagers with cancer. During the race, a range of DIA brand products were handed out to participants, and the winners of all categories were given some of the company's own-label products.

- Clothes collection campaign among employees in Brazil:

  For yet another year, Brazil started the do Agasalho campaign to collect clothes among group employees. In 2017, more than 4,500 items of clothing were collected, to be donated to the most deprived families during the winter period.

  All of the company's regional centres in Brazil took part. The clothing was delivered to the Núcleo Assitencial Anjos da Noite association. Employees who volunteered to help were involved in collecting and delivering the clothing.

- "Un golazo de Solidaridad" ("A Solidarity Goal"):

  DIA Brazil organised a football cup in which 24 teams participated, made up of employees, and several of the company's suppliers were invited to take part. Both DIA and the suppliers were involved in providing products, managing to collect more than 500 kilos of food, which were distributed among the children's charities that selected the three winning teams.

- "DIA para hacer el Bien" ("Day to do Good") in the fight against hunger

  DIA Brazil was involved in its first solidarity initiative directly focused on store customers. The aim was to promote and mobilise society in favour of a cause, generating resources and visibility. Accordingly, it was decided that for each bag of rice sold, one Brazilian real (also converted into rice) would be donated to the "Amigos del Bem" ("Friends of the Good") association. With the participation of 670 in the state of Sao Paulo, more than 30 tonnes of rice were collected, providing food for more than 21,000 people for an entire month.

- Christmas gifts for children in Brazil:

  Once more, the DIA employees decided to provide gifts to destitute children so they did not go without presents at Christmas. For the third year, the gifts collected as part of the campaign were donated to the children in need of the Lar do Alvorecer association.

Main initiatives in Argentina:

- Children day: Let's add smiles

  As previous years, during the month of August, the company organized a collection of money and toys among the employees of DIA Argentina that were donated to the new pediatric ward of the Muñiz Hospital in Buenos Aires, where the children were admitted. The company doubled the amount collected by its own employees.

- "Ponete el guardapolvo" campaign:

  Once again, the employees of DIA Argentina organized a campaign to buy cloths that were donated to the "Sembrando Sonrisas" picnic area in Merlo, in the province of Buenos Aires. DIA Argentina also transferred different school supplies.

- "Christmas is Share" campaign:

  Like every year, DIA Argentina organized a Christmas campaign among its employees to be able to reach many children with toys and celebrate their Christmas Eve. This year, the donation went to children abandoned by their families or victims of mistreatment living in the "Palestra" home in Mar del Plata.

3. LIQUIDITY AND CAPITAL RESOURCES

3.1. Liquidity

The Group applies a prudent policy to cover its liquidity risks, ensuring the fulfilment of the payment commitments acquired, both commercial and financial, for a minimum period of 12 months, covering its financial needs by recurring cash flow generation from its business, as well as the engagement of long-term loans and credit facilities.

As of 31 December 2017, available liquidity amounted to EUR1,105.4m, including cash, cash equivalents, and available credit facilities.

Liquidity analysis (in millions of euros)			
Class	Total	Used	Available
Revolving lines of credit	600.0	-	600.0
Credit facilities	231.0	65.8	165.2
Cash and other cash equivalents	340.2	-	340.2
TOTAL	1,171.2	65.8	1,105.4

3.2. Capital resources

In recent years, the DIA Group has invested between EUR300m and EUR350m, excluding the acquisitions of shares and a number of stores from competitors. The Group's strategy is focused on mainly investing in markets with higher returns and in store openings and store remodelling. Accordingly, between 40% and 50% of the investments are allocated to opening stores and warehouses. In 2017, the Group invested EUR303m. The objective of the Group for the coming years is to invest between 3.5% and 4.0% of net sales.

Each business unit prepares an annual investment plan that is submitted to the Group Management through an Investment Committee. At the same time, senior management submits it for approval to the Board of Directors.

In financial terms, return on investment targets are set.

3.3 Analysis of contractual obligations and off-balance sheet transactions

In the current development of the activity, the DIA Group has carried out certain operations that are not included in the balance sheet and that can imply a cash inflow or outflow in the case of having to deal with the commitments arising from these operations. These are mainly operating leases for stores and warehouses.

The total commitments acquired by the Group as of 31 December 2017, and that can affect its liquidity, amount to EUR475.2m (31 December 2016: EUR418m). The most significant item corresponds to lease contract commitments signed for the premises where the DIA Group carries out its activity.

Lease contract commitments of premises amounted to EUR284.7m as of 31 December 2017 (31 December 2016: EUR237.5m).

The DIA Group has obligations linked to furniture and equipment rental (vehicles, equipment, cleaning contracts, etc.) amounting to EUR3.1m as of 31 December 2017 (EUR4.1m as of 31 December 2016).

The rest of the obligations are classified between Treasury and Expansion transactions, totalling EUR187.4m as of 31 December 2017 (EUR176.2m as of 31 December 2016).

Treasury operations include open credit facilities for customers in stores, which amounted to EUR79.6m as of 31 December 2017 (EUR79.1m as of 31 December 2016). These credit facilities are related to limits granted originally to customers on payment cards.

Commitments related to expansion operations amounted to EUR107.8m as of 31 December 2017, and EUR97.1m in the same period in the previous year. These operations include primarily call and put options for properties, mainly warehouses, and obligations related to commercial operations and contracts, mainly with franchisees.

The DIA Group also received commitments that can involve a future cash inflow amounting to EUR1,014.8m (EUR1,082.8m as of 31 December 2016). These received commitments are related to Treasury and include the amounts of the credit facilities, revolving credit and confirming credit, granted and unused.

With these credit facilities, the Group covers its financial needs for daily operations and does not foresee any circumstances that could affect the granting of these credit facilities by financial institutions.

4. RISK MANAGEMENT

The DIA Group's risk management model

The DIA Group has established a risk management model (hereinafter, "RMM") with a systematic, detailed focus that allows it to identify, evaluate, and respond to risks related to the achievement of its business objectives.

This model, which is based on the COSO II Integrated Corporate Risk Management Framework (Committee of Sponsoring Organizations of the Treadway Commission), ensures the identification of different types of risks (both financial and non-financial, such as operational, technological, social, environmental, and reputational risks).

The DIA Group's RMM has a risk management policy which is applicable to the company and all of its subsidiaries, approved by the Group's board of directors.

In the RMM application, DIA has contemplated all of its activities carried out in the different levels of the organisation, from the corporate level to those in the units and business processes, and are therefore applicable to the following levels: (i) execution of DIA's strategy; (ii) achievement of the business objectives; and (iii) the proper execution of operations.

Organisational structure

The DIA Group's Board of Directors, the Audit and Compliance Commission, and the Management Committee are responsible for ensuring the proper running of the RMM.

Main Responsibilities

Body	Key responsibilities
Board of Directors	▪ Approval and setting of the risk control and management policy. ▪ Evaluation of the working quality and efficiency of the Board of Directors and the Commissions, approaching the risk management and supervision function as a key section.
Audit and Compliance Commission	▪ Supervision and periodic review of the Risk Management System ▪ Specific monitoring of the DIA Group's financial risks. ▪ Supervision of the internal control systems of financial information. ▪ Supervision and periodic review of the efficiency of DIA's internal control and internal audit procedures.
Management Committee	▪ Internal implementation of the RMM and creation of the strategy, culture, people, and technology that make up the RMM.
Corporate Risks Committee	▪ Analysis of the environment and new projects that can have a direct or indirect impact on DIA's risks. ▪ Consideration of the inclusion of new risks and/or the disappearance of some of the existing risks. ▪ Recommendation of the development of specific action plans, monitoring planning, and continuity of existing plans. ▪ Continuous monitoring of key risks identified on the risk map, and in particular those that are closely related to DIA's main interest groups, such as clients, franchisees, and suppliers. ▪ Evaluation and detailed analysis of DIA's risks.
Internal Audit Department	▪ Review of the functioning of the risk control and management system, and the effectiveness of the control activities implemented.
Risk managers	▪ Continuous risk monitoring, through previously defined indicators.

Level of risk tolerance

DIA's Executive Committee reviews DIA's level of risk tolerance, which is presented to the Board of Directors to be reviewed and approved each year.

The risk valuation scales (probability and impact) are updated at least once a year, so that they can be adapted to the business strategy and circumstances. These valuation scales contemplate the different dimensions of the risk impact and likelihood of happening (financial, sales, operations, regulatory framework, human resources, and reputation) and allow the company to value the risks in each country and at the corporate level. These scales form the basis for the definition of the Group's level of tolerance.

The DIA Group's Risk Management Model defines tolerance as "the acceptable level of variation that DIA is prepared to accept in the achievement of its objectives". This is therefore the maximum specific risk that the Organisation is prepared to take.

Main risks that can affect the achievement of business objectives

The DIA Group's main activity is the distribution of food, household, beauty and health products. In this context, the Group defines risk as any contingency, internal or external, which, if they materialise, would prevent or hamper the achievement of the objectives set by the organisation. Accordingly, it considers that a risk arises as a result of the loss of opportunities and/or strengths, as well as the materialisation and/or the strengthening of a weakness.

The main risks can be grouped into the following categories:

Category	Main sources of risk	Main management / control mechanisms
Environmental risks *Risks and/or questions related to the environment in which the Group operates, including, among others, Political, Economic, Social, Technological, and Legal aspects.*		
Market / competition-related risks	▪ Alignment with market needs ▪ Concentration ▪ Relations with third parties ▪ Practices of the competition	▪ Corporate Franchise Policy ▪ Development of research and periodic market/country surveys ▪ Implementation of obligatory internal regulation related to commercial issues
Regulatory risks	▪ Relations with franchisees ▪ Regulatory non-compliance, including fiscal regulation ▪ Lawsuits	▪ Regulatory control and monitoring procedure (regulatory map) ▪ Implementation of Regulatory Compliance Systems ▪ Constitution of the Regulatory Compliance Unit ▪ Implementation of the Crime Prevention Model (CPM) ▪ Corporate Tax Policy ▪ Implementation of best practices in terms of fiscal and tax issues
Risks in the political and social context	▪ Country risk	▪ Development of research and periodic market/country surveys

Corporate Governance and Ethics Risks *Risks and/or issues related with the corporate structure, the governance model, unethical irresponsible employee behaviour, or corporate social responsibility.*		
Corporate Social Responsibility	▪ Non-compliance or bad practices in terms of CSR	▪ Corporate Social Responsibility Policy ▪ Integration of social and environmental values in all management areas
Integrity, fight against corruption and bribery, and reputation	▪ Unethical or fraudulent behaviour ▪ Corruption and bribery ▪ Improper management of brands / patents ▪ Inadequate communication initiatives	▪ Implementation of the Code of Ethics and Ethics Channel for queries and information ▪ Corporate crime prevention and anticorruption policy ▪ Anti-fraud and anti-corruption programme ▪ Corporate Investor Relations Policy ▪ External Corporate Relations Policy ▪ Corporate Policy in Marketing and Communication with Customers
Equity market risks	▪ Conduct/practices that are contrary to the market	▪ Internal Conduct Regulation in terms of Equity Markets

Operating Risks *Risks and/or issues related to the Group's business model and the execution of key activities in its value chain, including, among other areas, product quality and safety, the supply chain, environmental, health and security issues, human resources, and social or IT issues.*		
Product quality and safety	▪ Loss / shrinkage ▪ Food alerts ▪ Interruption of key processes ▪ Stock management / valuation ▪ Food incidents (food poisoning)	▪ Corporate Food Quality and Safety Policy ▪ Corporate Social Responsibility Policy - *Quality and price. Offer consumers solutions to their needs related to food and consumer goods with a unique commitment in the market to quality and price.*
Environment	▪ Non-compliance with environmental regulation	▪ Corporate Environmental Policy ▪ Corporate Social Responsibility Policy - *Care of the environment. DIA innovates in its daily work to cut its energy consumption, reduce the environmental footprint of its logistics activities, and properly manage its emissions, consumption, and waste.*
Issues related to social aspects, people, and Human Resources	▪ Labour disputes ▪ Prevention of occupational risks ▪ Loss of key personnel ▪ Employee training ▪ Violation of human rights	▪ Corporate Human Resources Policy ▪ Corporate Social Responsibility Policy - *Commitment to the people and groups with which it works. The generation of jobs, franchise development, agreements with suppliers, collaboration with humanitarian aid programmes, and value creation for shareholders and the company.*
Information systems	▪ Risk of key information leakage ▪ Failure of key information systems ▪ Cybersecurity	▪ Implementation of internal regulation that must be complied with in terms of systems and Information security ▪ Design and creation of preventative and detective measures in terms of information security (e.g. system redundancy, back-ups, etc.) ▪ Development of Systems Audits
Financial Risks The Group's activities are exposed to market, credit, and liquidity risks. For more details, see section 22 of the Notes to the Consolidated Annual Accounts 2017.		

The Group has a risk monitoring and updating system which allows it to identify and include in the company's risk map any new risk that is identified, ensuring that all risks are reviewed at least once a year.

5. IMPORTANT EVENTS AFTER THE REPORTING DATE

On February 20th 2018, DIA has signed a strategic alliance with CaixaBank, structured through the purchase by CaixaBank Consumer Finance of the 50% of the shares of Finandia, E.F.C., S.A.

The purchase is subject to the authorization processes of the antitrust authorities.

6. OUTLOOK

IBERIA

- The company forecasts top-line growth with positive LFL throughout the year.
- DIA expects adjusted EBITDA to grow in 2018.

EMERGING MARKETS

- The expansion of stores in Brazil and Argentina is set to accelerate in 2018.

GROUP OBJECTIVES

- Continued cost-efficiency improvement in 2018.
- Double-digit growth of Cash from Operations.
- Capex aligned with 3.5% to 4.0% over net sales long-term guidance, with growing weight of Emerging Markets.

7. R&D+I ACTIVITIES

Since its creation, DIA has placed a strong emphasis on developing knowledge, management methods and business models that have allowed the Company to generate sustainable competitive advantages. Through franchising, DIA transfers all of its expertise to franchisees so that they can run a profitable and efficient business.

As established in the IAS 38, DIA Group includes the development costs generated internally in the assets, once the project has reached a development phase, as long as they are clearly identifiable and linked to new commercial model projects and IT developments, to the extent that it can be justified that they will result in an increase in future profit for the Company.

The costs associated with R&D+i incurred by DIA during 2017 are, as a percentage, smaller compared to the rest of the costs arising from the development of activities aligned with its social objectives.

EUR11.2m was activated during 2017, corresponding to the capitalization of IT developments in Spain (EUR7.1m in 2016).

8. TREASURY STOCK AND EARNINGS PER SHARE

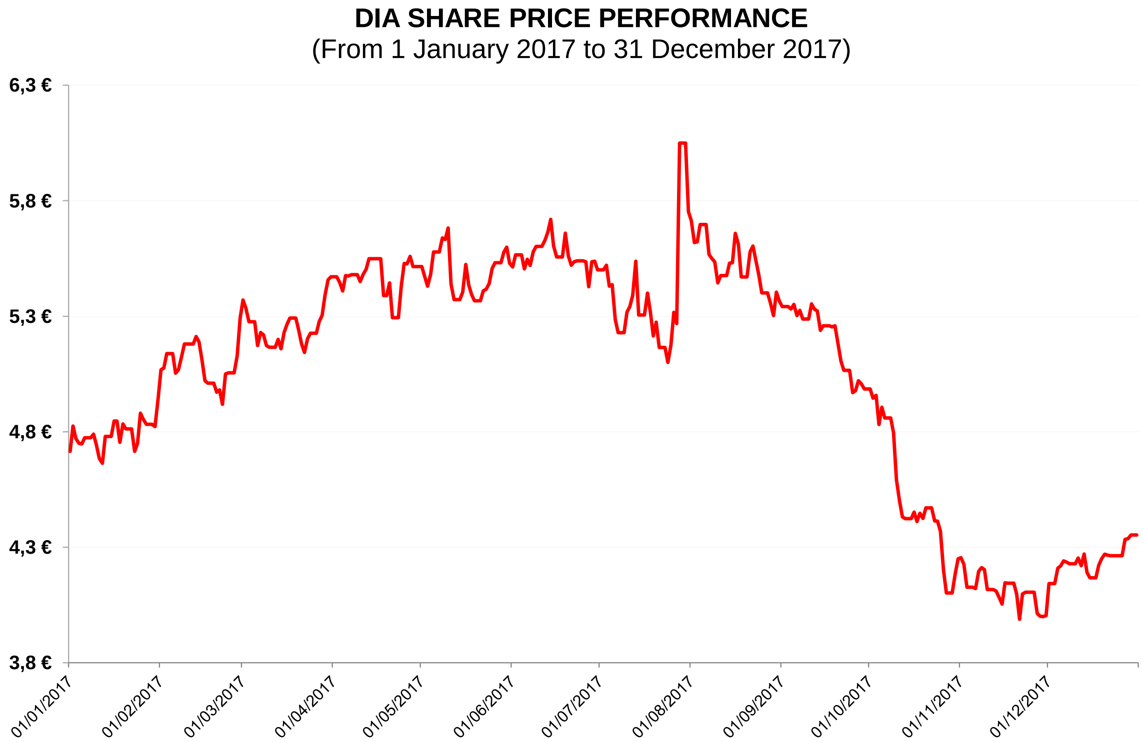
As of 31 December 2017, DIA held 10.3 million shares as treasury stock for the purpose of covering the different share remuneration commitment the company has in its Incentive Plan for the Company's management team.

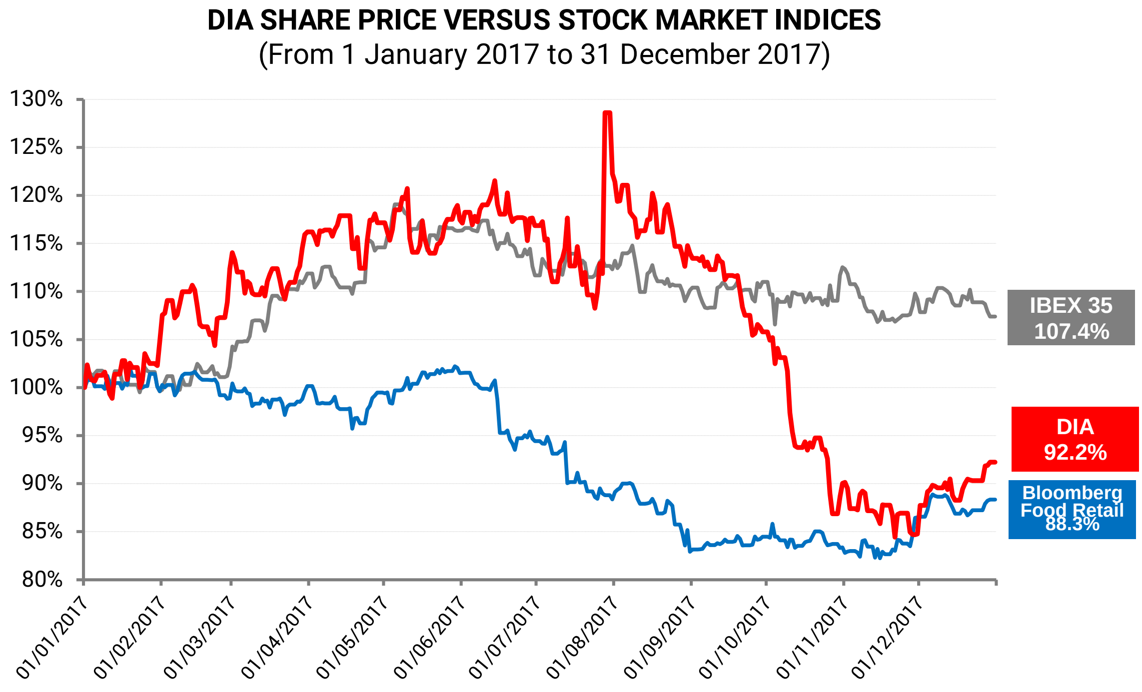
(€m)	2016	2017	Change	Change (Ex-FX)
Number of shares outstanding (millón)	622,46	622,46	0,0%	-
Average number of treasury shares (millón)	9,28	10,57	14,0%	-
End of period number of treasury shares (millón)	11,11	10,31	-7,2%	-
Weighted average number of shares (millón)	613,18	611,89	-0,2%	-
EPS	**€0,28**	**€0,18**	**-36,9%**	**-38,2%**
Underlying EPS	**€0,44**	**€0,36**	**-19,0%**	**-19,0%**

Underlying EPS grew by 19.0% in 2017 to EUR0.36.

9. OTHER RELEVANT INFORMATION

9.1. Stock market information





During 2017, DIA's share price fell by 7.8%, versus the 7.4% appreciation recorded in the Ibex 35 (the Spanish stock market's main reference index) and underperforming the 11.7% drop recorded by the Bloomberg Food Retail Index. During 2017, the company saw a minimum price per share of EUR3.938 on 31 November, and a maximum of EUR6.00 on 28 July, closing the year at a price of EUR4.303 per share. During 2017, the liquidity of DIA's shares remained high, and with the upward trend maintained since its listing, it accumulated a total of 1,311 million shares traded in the year, with a total traded value of EUR6.513bn.

9.2. Dividend policy

The DIA Group has defined a dividend distribution policy consisting of the distribution to its shareholders of between 40% and 50% of underlying net profit.

Since Distribuidora Internacional de Alimentación S.A. was listed on the stock market on 5 July 2011, it has distributed six sole ordinary dividends charged against preceding years. The cumulated gross amount of these dividends was EUR0.99 per share, at the top of the range of the dividend policy communicated by the Company.

At the AGM, the Board of Directors will propose a dividend payout of EUR0.18 per share. This amount represents a 50.7% payout ratio over underlying net profit and will imply the distribution of a maximum amount of EUR110.2m in dividends to shareholders.

This 2017 dividend means that DIA's total shareholder remuneration since its 2011 listing has now reached EUR1,045m, of which EUR733m in dividends and EUR312m in share buyback programs that were finally amortised.

9.3. Management of credit rating

Credit rating agencies Standard and Poor's (S&P) and Moody's attributed to DIA a long-term rating of BBB- and Baa3 respectively, both with stable outlook. The Company aims to keep its corporate rating within "investment grade" range and not achieve financial leverage above 2.0x net debt on adjusted EBITDA.

9.4. Other information

DIA's Corporate Governance Report is part of the Director's Report and is available at www.diacorporate.com and published as price-sensitive information on the CNMV (Spanish National Securities Market Commission) website.