

DiA

Business and Sustainability
Report

Business and Sustainability Report

Presentation



Letter from the Chairwoman

(102-14)

Dear friends,

For yet another year, I am writing to provide some thoughts about how our business is performing. 2017 was a very complex year due to the number of projects we undertook, so I invite you to read our business and sustainability report in which you will find details of everything that took place last year.

During 2017, we made progress in terms of our good corporate governance and transparency obligations that aim to protect the interests of all of our interest groups, adapting ourselves to the demands of the Spanish Capital Companies Law and following all of the Good Corporate Governance recommendations of the Spanish Stock Market Commission. On a daily basis, the Board of Directors is focused on creating and spreading among employees a professional and ethical culture in which the company's values are aligned with employees' actions. Our Code of Ethics (which also encompasses franchisees and suppliers) and our anti-fraud programme (which is already implemented in all the territories in which we operate) serve as a guide to ensure that DIA's activities are carried out within a framework of respect and responsibility.

In 2017, we also felt the need to review and adapt our mission and vision with the aim of thinking more accurately about the company's core purpose, its essence, as well as the pursuit of our objectives for the coming years. As part of our thinking, we have considered our values, strengths, strategic pillars, and our big initiatives, in order to show DIA's public commitment to its customers, employees, franchisees, shareholders, and suppliers. We can be proud of this commitment, which we are all responsible for.

We are aware that corporate responsibility is not merely a concept; it is more of a lever with which to guarantee active listening within the business context in which we operate, allowing us to take decisions that allow us to

continue to create value. Accordingly, we approached 2017 with a view to reflect on and analyse the best way to work to reach this objective, and how to involve the entire company in this process. The analysis of which non-financial aspects are key to continue to create this value and how to quantify the company's performance in this respect are examples of this internal review process that we started in 2017 and which will be completed during 2018.

In turn, I believe that integrating the activity report and the sustainability report into a single report, the Business and Sustainability Report, is a good illustration of this effort **to portray corporate responsibility as a key transversal pillar of the business, and not as a separate function.**

Upon reading this report, the reader will discover the importance and transversal nature of all our projects. One example is digitalisation, which has reached our employees and customers alike, without forgetting how the company's operations are being transformed by digitalisation.

I want to make a particular mention here, with special fondness, of the progress we have made in terms of social partnerships and support for important causes such as gender equality. In 2017, we launched a new project with the Spanish Basketball Federation which has led us to become the sponsor of the professional women's basketball league, the Liga Dia. Behind this support is our wish to ensure that this competition achieves a following and level of visibility equivalent to that of the male basketball league, and which is also based on the success of the female players and technical team of the women's basketball team. I want to congratulate you on your professionalism, good example, and performance. There is still much to be done, but we have undoubtedly made good progress.

Through this sport, we also promote healthy habits among more than 2,000 children from various Autonomous Communities in Spain, and we also include the elderly, as leading a healthy life and sharing team values is something that is not age-related.

We have also made progress with other projects that are mainly related to healthy childhood development and improving the quality of life for people with difficulties. By way of example, I mention here our partnership with the Red Cross and Save the Children in Spain, the campaigns to support children at risk of being excluded in Argentina, and the Futebol de la Rúa in Portugal, among other initiatives.

Of course, none of this would be possible without the participation of all of our interest groups. I extend my thanks to each and every one of the company's more than 42,000 employees, as well as all of our entrepreneurs, franchisees, suppliers, customers, and all the third parties that help us to become better. And of course, I want to thank you, our shareholders, because we can only continue to evolve with your trust and support.

Ana María Llopis Rivas

Non-executive Chairwoman

(102-23)

Letter from the Chief Executive Officer



Dear shareholders,

While 2017 was a year of transformation for the company, we ensured that our commitment to you was constant. Since our stock market listing in 2011, we have distributed more than EUR1bn in dividends, thus rewarding the confidence that the investor community has placed in our company. For 2018, the General Shareholders' Meeting will propose to shareholders the distribution of a gross dividend of EUR0.18 per share, to be charged to the 2017 results.

During 2017, we continued to carry out network conversion operations, with the remodelling and improvement of 613 stores, twice the number of stores that were improved in 2016 (307). This programme, in addition to improving the client's shopping experience, reinforces DIA's offer by including new product categories and a broader range. We are implementing this remodelling initiative in conjunction with consumers; accordingly, we conduct more than 30,000 surveys each month so that we know consumers' main demands first-hand, which then allows us to take corresponding action. This initiative has already borne its first fruits, with a marked improvement in the satisfaction index of our clients in the more than 500 remodelled stores.

Digitalisation remains a priority for us, with the aim of achieving both an improvement in operating efficiency and the combination of new solutions, allowing us to adapt faster to consumer habits. Our exponential e-commerce development, the signing of agreements with third-party online sales specialists, the rollout of technological applications developed in-house to streamline process, the creation of a digital talent search platform, and the digitalisation of commercial services have all led to a change in corporate management, allowing us to make progress in terms of our profitability and efficiency targets.

Our more than 7,000 own-label SKUs remain a fundamental pillar of DIA's strategy. The combined efforts of our more than 4,500 suppliers, of which close to 90% are local, allow us to focus on our proximity proposition, providing immediacy and allow us to adapt fast to consumers' needs. During 2017, we continued to promote innovation, introducing 200 new SKUs, which are always aligned with the listening initiatives and information sharing

with our customers. I highlight here the creation of a new own label, Vital, focused on products linked to a balanced and healthy diet.

Partnerships with third parties allow us to make progress in terms of our efficiency and profitability targets. In addition to our existing partnerships, in 2017 the Red Libra company was created, together with Eroski in Spain, for the joint negotiation with own-label suppliers and CD Supply Innovation with Casino, which is in charge of managing the financial services and logistics for own-label suppliers.

DIA's more than 3,700 franchises have already become an international benchmark thanks to the efforts and dedication of these entrepreneurs, who provide very valuable knowledge thanks to their proximity to the customer and their understanding of the local environment and who contribute significantly to the company's growth and that of the local economy. We are increasingly focused on the DIA franchises, and they deserve all our support and respect.

I am not forgetting our more than 42,000 employees worldwide. 2017 has been a difficult year, and we have launched a lot of projects that are set to bear fruit very soon. I have enormous confidence in our teams; they are the ones whose work and efforts will make it possible for us to achieve our targets.

Turning to results, the fiscal year ended with sales of EUR10.3bn, implying a slight increase of 0.2% versus 2016. Adjusted EBITDA fell by 9.4% in 2017 to EUR568.6m, down 8.9% at constant currency. This decrease was reflected in the 65bp drop in the adjusted EBITDA margin, which amounted to 6.6% in 2017 due to the policy of investing heavily in prices.

In this respect, I would like to highlight that despite the price policy implemented, our Dia banner achieved adjusted EBITDA margins of more than 8% in Spain, while La Plaza and Clarel continued to boost their operating margins.

In the other countries in which we operate (Brazil, Argentina, and Portugal), we have reached the targets we set for the year. I would like to highlight the strong performance of our business in Latin America, where the sharp decrease in inflation and low level of consumer confidence has hampered sales growth. However, these challenging conditions have not stopped DIA from capturing significant market share both in Argentina and Brazil, while also improving their profitability rates.

I am convinced that we are now at a very good starting point. We have recovered in terms of competitively and good prices, and we have a unique opportunity to reinvent the proximity concept. The new commercial propositions in Spain and Portugal, as well as the expansionary pace in Argentina and Brazil, have allowed us to focus on an agile and efficient model that is increasingly customer-centric.

Ricardo Currás de Don Pablos

DIA Group Chief Executive Officer

About this report

The company report of Distribuidora Internacional de Alimentación S.A., DIA aims to communicate to its interest groups how the company manages its current expectations and how they are taken into account to determine its future strategy.

This report includes the information that is traditionally included in the Activity Report and in the Sustainable Development Report. The aim is none other than to provide, in a single document, the necessary information to know and evaluate how the company's strategy contributes to value creation in the short, mid, and long term. The information included in this report is complemented with the Annual Accounts, the Management Report, and the Corporate Governance report, which are available at www.diacorporate.com.

This Report is annual (102-52) and refers to the consolidated data from the entire company¹ for the whole of 2017² (102-50) (although sometimes it also refers to facts and figures from previous years if this provides a broader analytical approach).

The initial chapters provide an overall view of the company, focusing on its corporate governance system, its business model and strategy, and its financial results in the current fiscal year. In order to comply with Royal Decree 18/2017, information is provided about what corporate policies govern each of the main non-financial aspects covered by the decree (chapter II), the associated risks (chapter II), and the key issues on which the company is working, taking into account its entire value chain (chapter IV). The following chapters (from chapter IV to chapter X), which are structured around the

company's relationship with its main interest groups, provide information about the company's specific performance in terms of these key or material issues that have been identified by the company.

As part of a new initiative this year, this document has been prepared in accordance with the GRI Standards: Core option (102-54). Accordingly, the quantitative report does not follow exactly the same structure as last year's sustainability report (102-51), although a special focus has been placed on using concise indicators and showing how the company's performance has evolved. The appendices include information about where to find the key indicators throughout the text of the report.

Document prepared in accordance with the **GRI Standards Core option**

The degree of compliance of this report with the standards of the Global Reporting Initiative has been verified externally by PriceWaterhouseCoopers. (102-56)

Regarding any general questions about this report, the various interest groups can contact the External Relations Department and CSR at Jacinto Benavente 2A, 28232 las Rozas de Madrid (Spain), or by email at rsc@diagroup.com (102-53)

1. In contrast to the Sustainability Development Report in 2016, this report does not include in its consolidated data the activity from its subsidiary in China (102-45; 102-48).

Swiss company DIA World Trade with 5 employees consolidates as Spain. Paraguay S.A, with one employee, consolidates as Argentina

2. The indicators that report information on the floating financial year and not the calendar year are marked accordingly.