

Distribuidora Internacional de Alimentación, S.A.

Annual Accounts

31 December 2016

Directors' Report

2016

(With Independent Auditor's Report Thereon)

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



KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on the Annual Accounts

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

To the Shareholders of
Distribuidora Internacional de Alimentación, S.A.

Report on the Annual Accounts

We have audited the accompanying annual accounts of Distribuidora Internacional de Alimentación, S.A. (the "Company"), which comprise the balance sheet at 31 December 2016, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

Directors' responsibility for the annual accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they present fairly the equity, financial position and financial performance of Distribuidora Internacional de Alimentación, S.A. in accordance with the financial reporting framework applicable to the entity in Spain, specified in note 2 to the accompanying annual accounts, and for such internal control that they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Distribuidora Internacional de Alimentación, S.A. at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein.

Report on other legal and regulatory requirements

The accompanying directors' report for 2016 contains such explanations as the Directors consider relevant to the situation of the Company, its business performance and other matters, and is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 2016. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of the Company.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Carlos Peregrina García

22 February 2017

Distribuidora Internacional de Alimentación, S.A.

Annual Accounts and Directors' Report

31 December 2016

(With Independent Auditor's Report Thereon)

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



BALANCE

for the years ended 31 December 2016 and 2015

(Expressed in thousands of Euros)

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

ASSETS	Notes	December 2016	December 2015
Intangible assets	5	83,852	65,513
Development		9,376	4,924
Concessions		235	266
Patents, licences, trademarks and similar rights		4,449	4,881
Goodwill		63,373	46,814
Computer software		4,409	6,331
Other intangible assets		2,010	2,297
Property, plant and equipment	6	569,806	558,211
Land and buildings		294,448	308,466
Technical installations, machinery, equipment, furniture and other items		270,196	242,469
Under construction and advances		5,162	7,276
Non-current investments in group companies and associates		732,807	733,382
Equity instruments	11	731,807	703,382
Loans to companies	12 (a)	1,000	30,000
Non-current investments	12 (b)	23,648	36,145
Equity instruments		36	36
Loans to third parties		249	490
Other financial assets		23,363	35,619
Trade and other receivables		52,790	44,087
Trade receivables (exceeding operating cycle)	12 (c)	49,982	40,135
Non-current prepayments	14	2,808	3,952
Deferred tax assets	21	110,796	112,306
Total non-current assets		1,573,699	1,549,644
Inventories	13	246,225	225,347
Goods for resale		237,422	215,352
Raw materials and other supplies		6,243	7,411
Advances to suppliers		2,560	2,584
Trade and other receivables	12 (c)	427,025	433,982
Current trade receivables		49,288	45,536
Trade receivables from group companies and associates		293,726	272,481
Other receivables		75,058	65,491
Personnel		612	703
Current tax assets		8,158	49,256
Public entities, other		183	515
Current investments in group companies and associates	12 (a)	245,880	197,958
Loans to companies		30,000	36,137
Other financial assets		215,880	161,821
Current investments	12 (b)	10,638	963
Loans		191	258
Derivatives		123	66
Other financial assets		10,324	639
Prepayments for current assets	14	645	1,009
Cash and cash equivalents	15	162,549	25,521
Cash		34,501	25,521
Cash equivalents		128,048.00	-
Total current assets		1,092,962	884,780
TOTAL ASSETS		2,666,661	2,434,424

The accompanying notes form an integral part of the annual accounts for 2016

BALANCE

for the years ended 31 December 2016 and 2015
(Expressed in thousands of Euros)

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

EQUITY AND LIABILITIES	Notes	December 2016	December 2015
Capital and reserves without valuation adjustments	16	299,735	220,677
Capital		62,246	62,246
Registered capital		62,246	62,246
Reserves		75,662	(16,630)
Legal and statutory reserves		13,021	13,021
Other reserves		62,641	(29,651)
(Own shares)		(66,571)	(53,561)
Profit for the year		207,385	216,975
Other equity instruments		21,013	11,647
Valuation adjustments		92	50
Hedging transactions		92	50
Grants, donations and bequests received	17	726	1,150
Total equity		<u>300,553</u>	<u>221,877</u>
Non-current provisions	18	25,521	32,448
Long-term employee benefits		1,489	1,186
Other provisions		24,032	31,262
Non-current payables	20 (b)	1,048,106	917,343
Bonds and other securities		794,652	495,862
Debt with financial institutions		218,374	387,609
Finance lease payables	7	24,002	9,881
Other financial liabilities		11,078	23,991
Deferred tax liabilities	21	20,710	26,772
Total non-current liabilities		<u>1,094,337</u>	<u>976,563</u>
Current provisions		882	-
Current payables	20 (b)	83,219	283,320
Bonds and other securities		5,587	3,500
Debt with financial institutions		53,513	259,073
Finance lease payables	7	9,188	5,106
Other financial liabilities		14,931	15,641
Group companies and associates, current	20 (a)	48,361	48,679
Trade and other payables	20 (c)	1,138,474	903,966
Current suppliers		978,491	760,794
Suppliers, group companies and associates, current		4,587	8,122
Other payables		77,449	55,711
Personnel (salaries payable)		21,287	24,689
Current tax liabilities	21	9,311	-
Public entities, other	21	46,514	53,664
Advances to customers		835	986
Current accruals		835	19
Total current liabilities		<u>1,271,771</u>	<u>1,235,984</u>
TOTAL EQUITY AND LIABILITIES		<u>2,666,661</u>	<u>2,434,424</u>

The accompanying notes form an integral part of the annual accounts for 2016

INCOME STATEMENTS

INCOME STATEMENTS

for the years ended 31 December 2016 and 2015
(Expressed in thousands of Euros)

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

INCOME STATEMENT	Notes	December 2016	December 2015
Revenues	24 (a)	4,570,550	4,551,735
Sales		4,432,893	4,551,735
Service Delivery		137,657	-
Work carried out by the company for assets		5,071	5,401
Supplies	24 (b)	(3,630,238)	(3,637,985)
Merchandise used		(3,573,390)	(3,586,806)
Raw materials and consumables used		(15,714)	(15,795)
Subcontracted work		(40,748)	(34,985)
Impairment of merchandise, raw materials and other supplies	13	(386)	(399)
Other operating income		245,738	215,489
Non-trading and other operating income		245,091	215,065
Operating grants taken to income	17	647	424
Personnel expenses		(451,711)	(439,339)
Salaries and wages		(360,444)	(352,545)
Employee benefits expense	24 (c)	(91,000)	(86,494)
Provisions		(267)	(300)
Other operating expenses		(384,077)	(358,325)
External services		(369,803)	(346,576)
Taxes		(9,360)	(8,804)
Losses, impairment and changes in trade provisions		(309)	(1,680)
Other operating expenses		(4,605)	(1,265)
Amortisation and depreciation	5 and 6	(119,567)	(104,575)
Non-financial and other capital grants	17	676	821
Impairment and gains/(losses) on disposal of fixed assets	5, 6 and 24 (d)	6,064	(4,975)
Impairment and losses		(4,630)	(1,085)
Gains/(losses) on disposal and other		10,694	(3,890)
Results from operating activities		242,506	228,247
Finance income		45,831	77,304
Dividends	11	40,966	73,681
Group companies and associates		40,966	73,681
Other investment income		4,865	3,623
Group companies and associates		1,246	1,112
Other		3,619	2,511
Finance expenses		(20,218)	(17,989)
Group companies and associates		-	(19)
Other		(20,075)	(17,575)
Provision adjustments		(143)	(395)
Variation on fair value of financial instruments		-	274
Trading portfolio and others		-	274
Exchange gains		98	213
Impairment and gains/(losses) on disposal of financial instruments		(2,446)	(14,910)
Impairment and losses	11 and 12(a)	(2,446)	(14,930)
Gains/(losses) on disposal and other		-	20
Net finance income		23,265	44,892
Profit before income tax		265,771	273,139
Income tax	21	(58,386)	(56,164)
PROFIT FOR THE YEAR		<u>207,385</u>	<u>216,975</u>

STATEMENTS OF CHANGES IN EQUITY

Statements of Changes in Equity
for the years ended 31 December 2016 and 2015
A) Statements of Recognised Income and Expense
(expressed in thousands of Euros)

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

	<u>December</u> <u>2016</u>	<u>December</u> <u>2015</u>
Profit for the year	<u>207,385</u>	<u>216,975</u>
Income and expense recognised directly in equity		
Cash flow hedges	56	(7)
Tax effect	(14)	2
Total income and expense recognised directly in equity	<u>42</u>	<u>(5)</u>
Amounts transferred to the income statement		
Grants, donations and bequests	(565)	(848)
Tax effect	141	212
Total amounts transferred to the income statement (note 17)	<u>(424)</u>	<u>(636)</u>
Total recognised income and expense	<u>207,003</u>	<u>216,334</u>

The accompanying notes form an integral part of the annual accounts for 2016

Statements of Changes in Equity
for the years ended 31 December 2016 and 2015
B) Total Statements of Changes in Equity
(expressed in thousands of Euros)

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

	<u>Registered capital</u>	<u>Share premium</u>	<u>Reserves</u>	<u>(Own shares)</u>	<u>Retained earnings</u>	<u>Profit for the year</u>	<u>Other equity instruments</u>	<u>Valuation adjustments</u>	<u>Grants, donations and bequests received</u>	<u>Total</u>
Balance at 31 December 2014	65,107	618,157	62,431	(58,864)	-	(391,946)	22,827	55	1,786	319,553
Recognised income and expense	-	-	-	-	-	216,975	-	(5)	(636)	216,334
Transactions with equity holders or owners	(2,861)	(144,844)	(47,814)	5,303	-	-	(11,180)	-	-	(201,396)
Reduction Capital	(2,861)	(144,844)	(39,567)	187,272	-	-	-	-	-	-
Issuance of share-based payments	-	-	-	-	-	-	4,249	-	-	4,249
Acquisitions of own shares (note 16.b (vi))	-	-	-	(200,055)	-	-	-	-	-	(200,055)
Delivery of own shares	-	-	(8,247)	18,086	-	-	(15,429)	-	-	(5,590)
Distribution of profit for the year	-	(473,313)	(31,247)	-	-	391,946	-	-	-	(112,614)
Transfer of profit for the previous year	-	-	-	-	(391,946)	391,946	-	-	-	-
Reserves	-	(473,313)	81,367	-	391,946	-	-	-	-	-
Dividends	-	-	(112,614)	-	-	-	-	-	-	(112,614)
Balance at 31 December 2015	62,246	-	(16,630)	(53,561)	-	216,975	11,647	50	1,150	221,877
Recognised income and expense	-	-	-	-	-	207,385	-	42	(424)	207,003
Transactions with equity holders or owners	-	-	(2,471)	(13,010)	-	-	9,366	-	-	(6,115)
Issuance of share-based payments	-	-	-	-	-	-	15,000	-	-	15,000
Acquisitions of own shares (note 16.b (vi))	-	-	-	(19,903)	-	-	-	-	-	(19,903)
Delivery of own shares	-	-	(2,471)	6,893	-	-	(5,634)	-	-	(1,212)
Distribution of profit for the year	-	-	94,763	-	-	(216,975)	-	-	-	(122,212)
Transfer of profit for the previous year	-	-	-	-	216,975	(216,975)	-	-	-	-
Reserves	-	-	216,975	-	(216,975)	-	-	-	-	-
Dividends	-	-	(122,212)	-	-	-	-	-	-	(122,212)
Balance at 31 December 2016	62,246	-	75,662	(66,571)	-	207,385	21,013	92	726	300,553

The accompanying notes form an integral part of the annual accounts for 2016

STATEMENTS OF CASH FLOWS

Statements of Cash Flows

for the years ended 31 December 2016 and 2015
(expressed in thousands of Euros)

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

	<u>Notes</u>	December 2016	December 2015
Cash flows from operating activities			
Profit for the year before tax		265,771	273,139
Adjustments for:		96,094	28,736
Amortisation and depreciation	5 and 6	119,567	104,575
Impairment		7,771	18,094
Changes in provisions		(7,935)	(35,828)
Grants recognised in the income statement	17	(730)	(848)
Gains on disposal of fixed assets	24 (d)	(10,694)	3,890
Gains/(losses) on disposal of financial instruments		-	(20)
Finance income		(45,831)	(77,304)
Finance expenses		20,218	17,989
Exchange losses		(98)	(213)
Changes in fair value of financial instruments		42	(279)
Other income and expenses		13,784	(1,320)
Changes in operating assets and liabilities		195,860	(123,676)
Inventories		(21,263)	(21,792)
Trade and other receivables		30,761	(213,225)
Other current assets	14	364	18
Trade and other payables		196,235	122,503
Provisions		(2,350)	-
Other current liabilities		816	(3)
Other non-current assets and liabilities	12 (c) and 14	(8,703)	(11,177)
Other cash flows from operating activities		34,628	28,280
Interest paid		(19,688)	(16,999)
Dividends received	11	40,966	73,681
Interest received		1,927	1,226
Income tax paid (received)		11,423	(29,628)
Cash flows from operating activities		592,353	206,479
Cash flows from investing activities			
Payments for investments		(223,848)	(363,499)
Group companies and associates	11	(49,067)	(181,046)
Intangible assets	5	(8,121)	(10,255)
Property, plant and equipment	6	(129,065)	(136,456)
Other financial assets	12 (b)	-	(12,106)
Business unit	5 y 6	(37,595)	(23,636)
Proceeds from sale of investments		34,516	3,647
Intangible assets	5	843	9
Property, plant and equipment	6	30,499	3,638
Other financial assets		3,174	-
Cash flows from/(used in) investing activities		(189,332)	(359,852)
Cash flows from financing activities			
Proceeds from and payments for equity instruments		(19,738)	(200,055)
Acquisition of own equity instruments		(19,903)	(200,055)
Grants, donations and bequests received	17	165	-
Proceeds from and payments for financial liability instruments		(124,043)	480,324
Issue		418,080	611,244
Bonds and other securities	20 (b)	300,877	1,265
Debt with financial institutions		117,203	609,979
Redemption and repayment of		(542,123)	(130,920)
Debt with financial institutions		(474,182)	(53,050)
Group companies and associates		(54,318)	(58,306)
Other debts		(13,623)	(19,564)
Dividends and interest on other equity instruments paid		(122,212)	(112,614)
Dividends	16 (d)	(122,212)	(112,614)
Cash flows from/(used in) financing activities		(265,993)	167,655
Net increase/decrease in cash and cash equivalents		137,028	14,282
Cash and cash equivalents at beginning of year		25,521	11,239
Cash and cash equivalents at year end		162,549	25,521

NOTES TO THE ANNUAL ACCOUNTS FOR 2016

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

(1) Nature and Activities of the Company and Composition of the Group

Distribuidora Internacional de Alimentación, S.A. (hereinafter the Company or DIA) was incorporated as a public limited liability company (*sociedad anónima*) for an unlimited period under Spanish law on 24 June 1966, and its registered office is located in Las Rozas (Madrid).

The Company's statutory activity comprises the following activities in Spain and abroad:

- (a) The wholesale or retail purchase, sale and distribution of food products and any other consumer goods in both domestic and foreign markets; domestic healthcare, parapharmaceutical, homoeopathic, dietary and optical products, cosmetics, costume jewellery, household products, perfumes and personal hygiene products; and food, health and hygiene products and insecticides, and all other kinds of widely available consumer products for animals.*
- (b) Corporate transactions; the acquisition, sale and lease of movable property and real estate; and financial transactions as permitted by applicable legislation.*
- (c) Corporate services aimed at the sale of telecommunication products and services, particularly telephony services, through collaboration agreements with suppliers of telephony products and services. These co-operative services shall include the sale of telecommunication products and services, as permitted by applicable legislation.*
- (d) All manner of corporate collaboration services aimed at the sale of products and services of credit institutions, payment institutions, electronic money institutions and currency exchange establishments, in accordance with the provisions of the statutory activity and administrative authorisation of these entities. This collaboration shall include, as permitted by applicable legislation and, where appropriate, subject to any necessary prior administrative authorisation, the delivery, sale and distribution of products and services of these entities.*
- (e) Activities related to internet-based marketing and sales, and sales through any other electronic medium of all types of legally tradable products and services, especially food and household products, small electrical appliances, multimedia and IT products, photography equipment and telephony products, sound and image products and all types of services through internet or any other electronic medium.*
- (f) Wholesale and retail travel agency activities including, inter alia, the organisation and sale of package tours.*
- (g) Retail distribution of petrol, operation of service stations and retail sale of fuel to the public.*
- (h) The acquisition, ownership, use, management, administration and disposal of equity instruments of resident and non-resident companies in Spain through the concomitant management of human and material resources.*
- (i) The management, coordination, advisory and support of investees and companies with which the Company works under franchise and similar contracts.*
- (j) The deposit and storage of goods and products of all types, both for the Company and for other companies.*

Its principal activity is the retail sale of food products through owned or franchised self-service stores under the DIA Market, Fresh by DIA, DIA Maxi, Clarel and Cada DIA brand names. The Company opened its first establishment in Madrid in 1979.

The Company holds interests in subsidiaries. Consequently, in accordance with prevailing legislation, the Company is the parent of a group of companies. Details of investments in Group companies are provided in note 11.

In accordance with generally accepted accounting principles in Spain, consolidated annual accounts must be prepared to give a true and fair view of the financial position of the Group, the results of operations and changes in its equity and cash flows.

On 22 February 2017 the directors of the Company authorised the issue of the consolidated annual accounts of Distribuidora Internacional de Alimentación, S.A. and subsidiaries for 2016 in accordance with the International Financial Reporting Standards endorsed by the European Union ("IFRS-EU") and other applicable financial reporting regulations. These consolidated annual accounts present consolidated profit attributable to the Parent of Euros 174,043 thousand and consolidated equity attributable to the Parent of Euros 392,158 thousand.

(2) Basis of Presentation

(a) True and fair view

The accompanying annual accounts have been prepared on the basis of the accounting records of Distribuidora Internacional de Alimentación, S.A. The annual accounts for 2016 have been prepared in accordance with prevailing legislation and the Spanish General Chart of Accounts to give a true and fair view of the equity and financial position at 31 December 2016 and results of operations, changes in equity, and cash flows for the year then ended.

The directors consider that the annual accounts for 2016, authorised for issue on 22 February 2017, will be approved with no changes by the shareholders at their ordinary general meeting.

(b) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2016 include comparative figures for 2015, which formed part of the annual accounts approved by shareholders at the ordinary general meeting held on 22 April 2016.

The measurement criteria for intangible assets, presentation criteria for emission allowances and certain disclosure requirements have been amended, applicable for annual periods beginning on or after 1 January 2016, by Royal Decree 602/2016 of 2 December 2016, amending the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November 2007; the Spanish General Chart of Accounts for Small and Medium-Sized Enterprises approved by Royal Decree 1515/2007 of 16 November 2007; the standards for the preparation of consolidated annual accounts approved by Royal Decree 1159/2010 of 17 September 2010; and the Spanish General Chart of Accounts for non-profit entities approved by Royal Decree 1491/2011 of 24 October 2011.

Changes to intangible asset amortisation criteria

The Royal Decree stipulates that all intangible assets, including goodwill, are assets with finite useful lives and should therefore be amortised on a straight-line basis over the period in which they are expected to generate a return for the Company, as indicated in notes 2 (e), 4 (b) (ii) and 5 (a).

In accordance with the sole transitional provision, the Company has opted to amortise prospectively goodwill totalling Euros 70,625 thousand (Euros 46,814 thousand at 31 December 2015). There are no other intangible assets considered to have indefinite useful lives. The amortisation has been recognised in the income statement from 1 January 2016 onwards. The amortisation recognised with respect to goodwill amounts to Euros 6,554 thousand. Consequently, the annual accounts for 2016 are not directly comparable to those of the prior year.

(c) Functional and presentation currency

The figures disclosed in the annual accounts are expressed in thousands of Euros, the Company's functional and presentation currency, rounded off to the nearest thousand.

(d) Critical issues regarding the valuation and estimation of relevant uncertainties and judgements used when applying accounting principles

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Company's accounting principles to prepare the annual accounts. A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the annual accounts, is as follows:

(i) Relevant accounting estimates and assumptions

The Company evaluates whether there are indications of possible impairment losses on investments in Group companies and non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount. Impairment of non-financial assets subject to amortisation or depreciation is calculated individually for each cash-generating unit (CGU), as explained in note 4, sections (d) and (f) viii, with each store representing a CGU. The calculation of the recoverable amount requires the use of estimates by management. The recoverable amount is the higher of fair value less costs to sell and value in use. The Company generally uses cash flow discounting methods to calculate these values. Discounted cash flow calculations are based on five-year projections in the budgets approved by management. The cash flows take into consideration past experience and represent management's best estimate of future market performance. From the fifth year cash flows are extrapolated using individual growth rates. The key assumptions employed when determining fair value less costs to sell and value in use include growth rates, the weighted average cost of capital and tax rates. The estimates, including the methodology used, could have a significant impact on values and impairment.

The Company evaluates the recoverability of deferred tax assets that should be recognised by the companies that form part of the tax group based on the financial projections of the subsidiary in question or, where applicable, on the business plan of the tax group to which that subsidiary belongs, and recognises, where appropriate, the tax effect of tax loss carryforwards, credits and deductible temporary differences whose offset against future tax gains appears probable. In order to determine the amount of the deferred tax assets to be recognised, Company management estimates the amounts and dates on which future taxable profits are expected to materialise and the reversal period of temporary differences.

In 2016 the shareholders of DIA, at their annual general meeting, approved a long-term incentive plan for 2016-2018 to be settled through Company shares, having previously approved a long-term incentive plan for 2014-2016 in 2014. Settlement of both plans is through the granting of Company shares. Beneficiaries were informed of the regulations of the plan approved in 2016 in June 2016 and of the plan approved in 2014 between December 2014 and January 2015. The Company has estimated the total obligation derived from these plans and the part of this obligation accrued at 31 December 2016 based on the extent to which the conditions for receipt have been met.

The Company is undergoing tax inspections. At 31 December 2016 some of these inspections have already been completed by the taxation authorities and additional tax assessments have been appealed by the Company. The Company recognises a provision if it is probable that an obligation will exist at year end which will give rise to an outflow of resources embodying economic benefits and the outflow can be reliably measured. As a result, the directors use significant judgement when determining whether it is probable that the process will result in an outflow of resources embodying economic benefits and estimating the amount.

(e) Impact of standards approved in 2016

Royal Decree 602/2016, of 2 December 2016, was published on 17 December 2016 and amends the Spanish General Chart of Accounts approved by Royal Decree 1514/2007, of 16 November 2007, with a view to including in accounting legislation the amendments introduced to the Spanish Code of Commerce and the Revised Spanish Companies Act, by final provisions one and four of Spanish Audit Law 22/2015, of 20 July 2015, applicable for years and interim periods commencing on or after 1 January 2016. One of these amendments consists of the elimination of the concept of intangible

assets with indefinite useful lives, which from now on must be systematically amortised over the period in which they are expected to generate profits. In the absence of evidence to the contrary, it is assumed that the useful life of goodwill is 10 years and that recovery is on a straight-line basis. As indicated in note 5, the Company has not recognised any intangible assets with indefinite useful lives, other than goodwill totalling Euros 46,814 thousand at 31 December 2015, which it began to amortise prospectively on a straight-line basis on 1 January 2016. Furthermore, as indicated in note 16 (b), at 31 December 2015 the Company recognised a goodwill reserve of Euros 12,829 thousand, which following approval of the distribution of profit for 2015 was increased to Euros 15,170 thousand. The amount of this reserve that exceeds the carrying amount of goodwill is distributable. At 31 December 2016, following the publication of the aforementioned Royal Decree, this goodwill reserve of Euros 15,170 thousand has been transferred to voluntary reserves. However, it will continue to be non-distributable for as long as the carrying amount of goodwill exceeds the amount thereof. When this is no longer the case, this balance will be considered an available reserve.

(3) Distribution of Profit

The proposed distribution of profit for 2016 to be submitted to the shareholders for approval at their ordinary general meeting is as follows:

Basis of distribution	Euros
Balance of the Income Statement	207,384,982.56
Total	207,384,982.56
Distribution	Euros
Dividends (*)	128,383,655.19
Voluntary reserves	79,001,327.37
Total	207,384,982.56

(*) The directors have proposed that an ordinary dividend of Euros 0.21 (gross) be distributed for each of the shares with the corresponding economic rights. This figure is an estimate based on there being 611,350,739 shares that confer the right to receive this dividend, following any necessary corrections. This estimate may vary depending on several factors, including the volume of shares held by the Company.

The distribution of profit for 2015, approved by the shareholders at the ordinary general meeting held on 22 April 2016, was as follows:

Basis of distribution	Euros
Balance of the Income Statement	216,975,254.59
Total	216,975,254.59
Distribution	Euros
Dividends	122,211,094.00
Goodwill reserve	2,340,690.06
Voluntary reserves	92,423,470.53
Total	216,975,254.59

At 31 December non-distributable reserves (see note 16 (b)) are as follows:

	Thousands of Euros	
	2016	2015
Legal reserve	13,021	13,021
Goodwill reserve	-	12,829
Capital redemption reserve	5,688	5,688
Other reserves no available	15,170	-
Total	33,879	31,538

(4) Significant Accounting Policies

The significant accounting policies used by the Company in the preparation of the annual accounts are as follows:

(a) Foreign currency transactions, balances and cash flows

Foreign currency transactions have been translated into Euros using the spot exchange rate prevailing at the transaction date.

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into Euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(b) Intangible assets

Intangible assets are measured at cost or cost of production. Capitalised production costs are recognised under self-constructed assets in the income statement. Intangible assets are carried at cost, less any accumulated amortisation and impairment.

Expenditure on activities that contribute to increasing the value of the Company's business as a whole, such as goodwill, trademarks and other similar items generated internally, as well as establishment costs, are recognised as expenses when incurred.

(i) Development

The Company capitalises development expenses incurred by specific projects for each activity – primarily computer software and industrial property development – that meets the following conditions:

- Costs are clearly allocated, assigned and timed for each project.
- There is evidence of the project's technical success and economic-commercial feasibility.

Development expenditure is reclassified to computer software when the project is completed.

(ii) Business combinations and goodwill

The Company applies the acquisition method for business combinations. The acquisition date is the date on which the Company obtains control of the acquiree.

The consideration given for the business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued

and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The consideration given excludes any payments that do not form part of the consideration given in exchange for the acquiree. Acquisition costs are recognised as an expense when incurred.

Any excess of the consideration given over the assets acquired net of the liabilities assumed is recognised as goodwill. Any shortfall, after evaluating the consideration given and the identification and measurement of net assets acquired, is recognised in profit or loss.

Goodwill has been generated on the acquisitions of commercial establishments and is calculated as the difference between the price paid for the assets acquired and their fair value. As mentioned in note 2 (e), the Company began to amortise goodwill on 1 January 2016. The Company allocates goodwill on business combinations to the cash-generating units (CGUs) which are expected to benefit and determines the useful life of the goodwill separately for each CGU. Following initial recognition, and until 31 December 2015, goodwill was measured at cost less any accumulated impairment losses. Since 1 January 2016, goodwill has been measured at cost, less any accumulated amortisation and impairment.

(iii) Computer software

Computer software acquired and produced by the Company, which comprises all the programs relating to terminals at points of sale, warehouses, offices and microcomputing, is recognised at cost of acquisition or production. Computer software maintenance costs are charged as expenses when incurred.

(iv) Leaseholds

Leaseholds are rights to lease business premises which have been acquired through an onerous contract assumed by the Company. Leaseholds are measured at cost of acquisition. Leaseholds are amortised on a straight-line basis over the shorter of 10 years or the term of the lease contract.

(v) Patents, licences, trademarks and similar rights

Industrial property comprises the trademarks acquired, which are amortised over 10 years, as well as the investment in the development of commercial models and product ranges, which are amortised over a period of four years.

(vi) Subsequent costs

Subsequent costs incurred on intangible assets are recognised in profit and loss, unless they increase the expected future economic benefits attributable to the intangible asset.

(vii) Useful life and amortisation rates

Intangible assets are amortised on a straight-line basis over the following estimated years of useful life:

Computer software	3
Leaseholds	10
Trademarks	10
Other intangible assets	Term of the agreement

Pursuant to Royal Decree 602/2016 of 2 December 2016, goodwill began to be amortised prospectively on 1 January 2016 over a ten-year period, following the elimination of the concept of intangible assets with indefinite useful lives.

The Company reviews the residual value, useful life and amortisation method for intangible assets at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(vii) Impairment losses

The Company measures and determines impairment to be recognised or reversed based on the criteria in section (d) of this note.

(c) Property, plant and equipment

(i) Initial recognition

Property, plant and equipment are measured at cost of acquisition or production. Capitalised production costs are recognised under self-constructed assets in the income statement. Property, plant and equipment are carried at cost less any accumulated depreciation and impairment.

Since the average period to carry out work on warehouses and stores does not exceed 12 months, there are no significant interest and other finance charges that are considered as an increase in property, plant and equipment.

Non-current investments in property held by the Company under operating leases are classified as property, plant and equipment. Assets are depreciated over the shorter of the lease term and their useful life.

Items of property, plant and equipment recognised prior to 31 December 1996 are carried at a revalued amount as permitted by pertinent legislation.

(ii) Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset, less its residual value. The Company determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remainder of the asset.

Property, plant and equipment are depreciated on a straight-line basis over the following estimated years of useful life:

Buildings	40
Installations in leased stores	10 - 20
Technical installations and machinery	3 - 7
Other installations, equipment and furniture	4 - 10
Other property, plant and equipment	3 - 5

The Company reviews estimated residual values and depreciation methods and terms at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(iii) Subsequent costs

Subsequent to initial recognition of the asset, only the costs incurred which increase capacity or productivity or which lengthen the useful life of the asset are capitalised. The carrying amount of parts that are replaced is derecognised. Costs of day-to-day servicing are recognised in profit and loss as incurred.

(iv) Impairment

The Company measures and determines impairment to be recognised or reversed based on the criteria in section (d) of this note.

(d) Impairment of non-financial assets subject to amortisation or depreciation

The Company evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Based on past experience, the Company considers that there are indications of impairment when adjusted EBITDA (taken to mean earnings before depreciation/amortisation and impairment, gains/losses on disposal of fixed assets and other non-recurring income and expense) of a mature store (one that has been in operation for more than two years) have been negative for more than two years. All stores with recognised impairment losses that are pending reversal are tested for impairment.

Impairment losses are recognised in the income statement.

Recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses for cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other non-current assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs to sell, its value in use and zero.

At the end of each reporting period the Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses on goodwill are not reversible. Impairment losses on other assets are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognised in the income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

A reversal of an impairment loss for a CGU is allocated to the non-current assets of each unit, except goodwill, pro rata with the carrying amounts of those assets. The carrying amount of an asset may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods based on its new carrying amount.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the income statement.

(e) Leases

(i) Lessor accounting

The Company has granted the right to use certain spaces within the DIA commercial establishments to concessionaires and leased establishments to franchisees through lease contracts. The risks and rewards incidental to ownership are not substantially transferred to third parties under these contracts.

- Operating leases

Assets leased to concessionaires under operating lease contracts are presented according to their nature, applying the accounting policies set out in section (c) of this note.

Operating lease income, net of incentives granted, is recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits deriving from the leased asset are diminished.

(ii) Lessee accounting

The Company has rights to use certain assets through lease contracts.

Leases in which the Company assumes substantially all the risks and rewards incidental to ownership are classified as finance leases, otherwise they are classified as operating leases.

- **Finance leases**

At the commencement of the lease term, the Company recognises finance leases as assets and liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Initial direct costs are added to the asset's carrying amount. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Interest is expensed using the effective interest method.

Contingent rents are recognised as an expense when it is probable that they will be incurred.

The accounting policies applied to the assets used by the Company by virtue of finance lease contracts are the same as those set out in section (c) of this note. However, if there is no reasonable certainty at the commencement of the lease that the Company will obtain ownership by the end of the lease term, the assets are fully depreciated over the shorter of the lease term and their useful lives.

- **Operating leases**

Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lease's benefit.

Contingent rents are recognised as an expense when it is probable that they will be incurred.

(iii) Sale and leaseback transactions

Asset sale and leaseback transactions that meet the conditions for classification as a finance lease are considered as financing operations and, therefore, the type of asset is not changed and no profit or loss is recognised.

(f) Financial instruments

(i) Classification and separation of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument.

The Company classifies financial instruments into different categories based on the nature of the instruments and the Company's intentions on initial recognition.

(ii) Offsetting principles

A financial asset and a financial liability are offset only when the Company currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iii) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the acquisition or issue are recognised as an expense when incurred.

After initial recognition, they are recognised at fair value through profit or loss. Fair value is not reduced by transaction costs incurred on sale or disposal. Accrual interest and dividends are recognised separately.

(iv) Loans and receivables

Loans and receivables comprise trade and non-trade receivables with fixed or determinable payments that are not quoted in an active market other than those classified in other financial asset categories. These assets are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Nevertheless, financial assets which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

(v) Investments in Group companies

Group companies are those over which the Company, either directly, or indirectly through subsidiaries, exercises control as defined in article 42 of the Spanish Code of Commerce, or when the companies are controlled by one or more individuals or entities acting jointly or under the same management through agreements or statutory clauses.

Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. In assessing control, potential voting rights held by the Company or other entities that are exercisable or convertible at the end of each reporting period are considered.

Investments in Group companies, associates and jointly controlled entities are initially recognised at cost, which is equivalent to the fair value of the consideration given. The cost of investments in Group companies acquired before 1 January 2010 includes any transaction costs incurred.

If an investment no longer qualifies for classification under this category, it is reclassified as available-for-sale and is measured as such from the reclassification date.

(vi) Interest and dividends

Interest is recognised using the effective interest method.

Dividends from investments in equity instruments are recognised when the Company is entitled to receive them. If the dividends are clearly derived from profits generated prior to the acquisition date because amounts higher than the profits generated by the investment since acquisition have been distributed, the carrying amount of the investment is reduced.

(vii) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in recognised income and expense, is recorded in profit or loss.

In particular, the Company derecognises the trade balances held with its suppliers in respect of the trade discounts granted by the latter when they are transferred in factoring operations in which the Company retains no credit or interest rate risk. The Company does not derecognise these trade balances when it retains substantially all the risks and rewards incidental to ownership thereof, but instead recognises a financial liability for the same amount as the consideration received.

(viii) Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Company recognises impairment of loans and receivables when estimated future cash flows are reduced or delayed due to debtor insolvency.

- Impairment of financial assets carried at amortised cost

The amount of the impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For variable income financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used. For held-to-maturity debt instruments the Company uses the market value, providing this is sufficiently reliable to be considered representative of the recoverable amount.

The impairment loss is recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised.

- Impairment of investments in Group companies and equity instruments carried at cost

An asset is impaired when its carrying amount exceeds its recoverable amount, the latter of which is understood as the higher of the asset's value in use and fair value less costs to sell.

Value in use is calculated based on the Company's share of the present value of future cash flows expected to be derived from ordinary activities and from the disposal of the asset, or the estimated cash flows expected to be received from the distribution of dividends and the final disposal of the investment.

The recognition or reversal of an impairment loss is disclosed in the income statement unless it should be recognised in equity in accordance with sub-section (v) Investments in Group companies.

Nonetheless, and in certain cases, unless better evidence of the recoverable amount of the investment is available, when estimating impairment of these types of assets, the investee's equity is taken into consideration, adjusted, where appropriate, to generally accepted accounting principles and standards in Spain, corrected for any net unrealised gains existing at the measurement date.

In subsequent years, reversals of impairment losses in the form of increases in the recoverable amount are recognised, up to the limit of the carrying amount that would have been determined for the investment if no impairment loss had been recognised.

Impairment of an investment is limited to the amount of the investment, except when contractual, legal or constructive obligations have been assumed by the Company or payments have been made on behalf of the companies. In the latter case, provision is made according to the criteria described in section (o) Provisions.

- **Recognition of finance income related to impaired financial assets**

Finance income from impaired financial assets is recognised based on the discount rate used to discount estimated future cash flows.

(ix) Financial liabilities

Financial liabilities, including trade and other payables, that are not classified as held for trading or as financial liabilities at fair value through profit or loss are initially recognised at fair value less any transaction costs directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Company derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

(x) Reverse factoring

The Company has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised in trade payables advanced by financial institutions under trade and other payables in the balance sheet until they are settled, repaid or have expired.

The amounts paid as consideration for the acquisition of invoices or payment documents for the trade payables recorded by the Company are recognised under other operating income in the income statement when the invoices or documents are conveyed.

(xi) Security deposits

Security deposits extended in sublease contracts are measured at nominal amount, since the effect of discounting is immaterial.

Security deposits paid in relation to rental contracts are measured using the same criteria as for financial assets. The difference between the amount paid and the fair value is classified as a prepayment and recognised in profit or loss over the lease term.

(g) Hedge accounting

Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or less any transaction costs directly attributable to the issue of the financial instruments. Nonetheless, transaction costs are subsequently recognised in profit and loss, inasmuch as they do not form part of the changes in the effective value of the hedge.

The Company undertakes fair value hedges, cash flow hedges and hedges of net investments in foreign operations. The Company has also opted to record hedges of foreign currency risk of a firm commitment as a cash flow hedge.

At the inception of the hedge the Company formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, throughout the period for which the hedge was designated (prospective analysis), and the actual effectiveness is within a range of 80%-125% (retrospective analysis) and can be reliably measured.

For cash flow hedges of forecast transactions, the Company assesses whether these transactions are highly probable and if they present an exposure to variations in cash flows that could ultimately affect profit or loss.

(i) Fair value hedges

Fair value hedges are accounted for as follows:

- The gain or loss from measuring the hedging instrument at fair value, for a derivative hedging instrument, or the foreign currency component of a monetary item for a non-derivative hedging instrument is recognised in the same profit or loss caption as the gain or loss on the hedged operation.
- The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss. This applies irrespective of whether the hedged item is measured at cost or if it is an available-for-sale financial asset.

If the hedged item is a financial instrument measured at amortised cost, the Company amortises the adjustment to profit and loss as soon as the item ceases to be hedged, and recalculates the effective interest rate at the date amortisation begins.

The Company prospectively discontinues the accounting of fair value hedges when the hedging instrument expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation.

(ii) Cash flow hedges

The Company recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in recognised income and expense. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised under change in fair value of financial instruments.

The separate component of equity associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value or present value of the expected future cash flows on the hedged item from inception of the hedge. However, if the Company expects that all or a portion of a loss recognised in equity will not be recovered in one or more future periods, it reclassifies into change in fair value of financial instruments the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in equity are reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss and under the same caption of the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the Company reclassifies the associated gains and losses that were recognised in equity and includes them in the initial cost or carrying amount of the non-financial asset or liability.

The Company prospectively discontinues hedge accounting if the foreseen circumstances affecting fair value hedges arise. In these cases, the cumulative gain or loss on the hedging instrument that has been recognised in equity is not recorded in profit or loss until the forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognised in equity is reclassified from equity to profit or loss as change in fair value of financial instruments.

(h) Own equity instruments held by the Company

Equity instruments acquired by the Company are shown separately at cost of acquisition as a reduction in capital and reserves in the balance sheet. Any gains or losses on transactions with own equity instruments are not recognised in profit or loss.

The subsequent redemption of the instruments entails a capital reduction equivalent to the par value of the shares. Any positive or negative difference between the purchase price and the par value of the shares is debited or credited to reserves.

Transaction costs related to own equity instruments, including issue costs related to a business combination, are accounted for as a deduction from reserves, net of any tax effect.

Dividends relating to equity instruments are recognised as a reduction in equity when approved by the shareholders.

Contracts that oblige the Company to acquire own equity instruments in cash or through the delivery of a financial asset, are recognised as a financial liability at the fair value of the amount redeemable against reserves. Transaction costs are likewise recognised as a reduction in reserves. Subsequently, the financial liability is measured at amortised cost or at fair value through profit or loss in line with the redemption conditions. If the Company does not ultimately exercise the contract, the carrying amount of the financial liability is reclassified to reserves.

(i) Inventories

Inventories are initially measured at cost of purchase.

The purchase price comprises the amount invoiced by the seller, after deduction of any discounts, rebates, non-trading income or other similar items, plus any additional costs incurred to bring the goods to a saleable condition and other costs directly attributable to the acquisition and indirect taxes not recoverable from the Spanish taxation authorities.

Trade discounts are recognised as a reduction in the cost of inventories when it is probable that the conditions for discounts to be received will be met. Any unallocated discounts are used to reduce the balance of supplies on the income statement.

Purchase returns are recognised as a reduction in the carrying amount of inventories returned, except where it is not feasible to identify these items, in which case they are accounted for as a reduction in inventories on a weighted average cost basis.

When the cost of inventories exceeds net realisable value, materials are written down to net realisable value. Net realisable value of merchandise is considered as their estimated selling cost, less costs to sell.

The previously recognised write-down is reversed against profit and loss when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the valuation adjustment is limited to the lower of the cost and the revised net realisable value of the inventories.

Write-downs to net realisable value recognised or reversed on inventories are classified under supplies.

(j) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

The Company recognises cash payments and receipts for financial assets and financial liabilities in which turnover is quick on a net basis in the statement of cash flows. Turnover is considered to be quick when the period between the date of acquisition and maturity does not exceed six months.

In the statement of cash flows, bank overdrafts which are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents. Bank overdrafts are recognised in the balance sheet as financial liabilities arising from loans and borrowings.

(k) Grants, donations and bequests

Grants, donations and bequests are recorded in recognised income and expense when, where applicable, they have been officially awarded and the conditions attached to them have been met or there is reasonable assurance that they will be received.

Monetary grants, donations and bequests are measured at the fair value of the sum received, whilst non-monetary grants, donations and bequests received are accounted for at fair value.

In subsequent years, grants, donations and bequests are recognised as income as they are applied.

Capital grants are recognised as income over the same period and in the proportions in which depreciation on those assets is charged or when the assets are disposed of, derecognised or impaired.

Grants related to non-depreciable assets are recognised as income when the assets acquired using the grant are disposed of, derecognised or impaired.

An amount equivalent to the impairment of the subsidised part of the asset is recognised as an irrecoverable loss of the asset directly against its carrying amount.

(l) Defined benefit plans

The Company includes plans financed through the payment of insurance premiums under defined benefit plans where a legal or constructive obligation exists to directly pay employees the committed benefits when they become payable or to pay further amounts in the event that the insurance company does not pay the employee benefits relating to employee service in the current and prior periods.

Defined benefit liabilities recognised in the balance sheet reflect the present value of obligations at the reporting date, minus the fair value at that date of plan assets, minus any past service cost not yet recognised. The Company records actuarial gains and losses in recognised income and expense for the year in which they arise.

In the event that the result of the operations described in the section above is negative, i.e. it results in an asset, the Company measures the resulting asset at the total of unrecognised past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The Company therefore immediately recognises any past service cost of the current year to the extent that it exceeds any reduction in the present value of the economic benefits specified above. If there is no change or an increase in the present value of the economic benefits, the entire past service cost of the current year is recognised immediately. The present value of defined benefit obligations and the related current service cost and past service cost are calculated annually by independent actuaries using the Projected Unit Credit Method.

The discount rate is calculated based on the yield on high quality corporate bonds of a currency and term consistent with the currency and term of the post-employment benefit obligations.

Assets and liabilities arising from defined benefit plans are recognised as current or non-current based on the period of realisation of related assets or settlement of related liabilities.

(m) Termination benefits

Termination benefits are recognised as a liability when the Company has a detailed formal plan for the termination and there is a valid expectation among the affected employees that termination will arise either because the plan has already started to be implemented or because its main characteristics have been published.

(n) Employee benefits

The Company recognises the expected cost of employee benefits in the form of accumulating compensated absences when the employees render service that increases their entitlement to future compensated absences. In the case of non-accumulating compensated absences, the expense is recognised when the absences occur.

The Company recognises the expected cost of profit-sharing and bonus plans when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

(o) Provisions

(i) General criteria

Provisions are recognised when the Company has a present obligation (legal, contractual, constructive or tacit) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligations at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated. The discount rate is a pre-tax rate that reflects the time value of money and the specific risks for which future cash flows associated with the provision have not been adjusted at each reporting date.

The financial effect of provisions is recognised as a finance cost in the income statement.

The tax effect and gains on the expected disposal of assets are not taken into account in measuring a provision.

Rights to reimbursement from third parties of the expenditure required to settle a provision are recognised as a separate asset provided that there is no doubt that the reimbursement will be received. The reimbursement is recognised as income in the income statement based on the nature of the expenditure up to the amount of the provision.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed.

(ii) Provisions for taxes

Provisions for taxes are measured at the estimated amount of tax debt calculated in accordance with the aforementioned criteria.

Provision is made with a charge to income tax for the tax expense for the year, to finance costs for the late payment interest, and to other income for the penalty. The effects of changes in estimates of prior years' provisions are recognised according to their nature, unless they involve the correction of an error.

(p) Revenue from the sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Volume rebates, prompt payment and any other discounts, as well as the interest added to the nominal amount of the consideration, are recognised as a reduction in the consideration.

However, the Company includes interest incorporated in trade balances maturing in less than one year that do not have a contractual rate of interest, when the effect of not discounting future receipts is not material.

Discounts granted to customers are recognised as a reduction in sales revenue when it is probable that the discount conditions will be met.

Advances on account of future sales are measured at the value received.

- Revenue from sales

The Company recognises revenue from the sale of goods when:

- It has transferred to the buyer the significant risks and rewards of ownership of the goods;
- It retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue and the costs incurred or to be incurred can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company has customer loyalty programmes which do not entail credits, as they comprise discounts which are applied when a sale is made and are recognised as a reduction in the corresponding transaction.

(q) Income tax

The income tax expense or tax income for the year comprises current tax and deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Current and deferred tax are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

Government assistance provided in the form of deductions and other tax relief applicable to income tax payable and considered as government grants is recognised applying the criteria described in section (k) Grants, donations and bequests.

At 31 December 2016 the Company files consolidated tax returns with its subsidiaries Twins Alimentación, S.A., Pe-Tra Servicios a la Distribución, S.L., Beauty by Dia, S.A., Grupo El Árbol, Distribución y Supermercados S.A., Compañía Gallega de Supermercados S.A. and Dia Eshopping S.L., under the special consolidated tax regime set forth in Chapter VI of Title VII of Corporate Income Tax Law 27/2014, of 27 November 2014 (see note 21).

(i) Recognition of deferred tax liabilities

The Company recognises deferred tax liabilities in all cases except where they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

(ii) Recognition of deferred tax assets

The Company recognises deferred tax assets provided that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised, unless the differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

(iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted. The tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

For these purposes, the Company has considered the deduction for reversal of the temporary measures provided in transitional provision thirty-seven of Income Tax Law 27/2014 of 27 November 2014 as an adjustment to the tax rate applicable to the deductible temporary difference associated with the non-deductibility of amortisation and depreciation charges in 2013 and 2014.

(iv) Offset and classification

The Company only offsets current tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are recognised in the balance sheet under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

(r) Share-based payment transactions

The Company recognises the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. It recognises an increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability with a balancing entry in the income statement or assets if the goods or services were acquired in a cash-settled share-based payment transaction.

The Company recognises equity-settled share-based payment transactions, including capital increases through non-monetary contributions, and the corresponding increase in equity at the fair value of the goods or services received, unless that fair value cannot be reliably estimated, in which case the value is determined by reference to the fair value of the equity instruments granted.

Equity instruments granted as consideration for services rendered by Company employees or third parties that supply similar services are measured by reference to the fair value of the equity instruments granted.

(i) Equity-settled share-based payment transactions

Equity-settled transactions are recognised as follows:

- If the equity instruments granted vest immediately on the grant date, the services received are recognised in full, with a corresponding increase in equity;
- If the equity instruments granted do not vest until the employees complete a specified period of service, those services are accounted for during the vesting period, with a corresponding increase in equity.

The Company determines the fair value of the instruments granted to employees at the grant date.

If the service period is prior to the plan award date, the Company estimates the fair value of the consideration payable, to be reviewed on the plan award date itself.

Market vesting conditions and non-vesting conditions are taken into account when estimating the fair value of the instrument. Vesting conditions, other than market conditions, are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for services received is based on the number of equity instruments that eventually vest. Consequently, the Company recognises the amount for the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and revises that estimate if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

Once the services received and the corresponding increase in equity have been recognised, no additional adjustments are made to equity after the vesting date, though this does not affect the corresponding reclassifications in equity.

(ii) Tax effect

In accordance with prevailing tax legislation, costs settled through the delivery of share-based instruments are deductible in the tax period in which delivery takes place, in which case a temporary difference arises as a result of the time difference between the accounting recognition of the expense and its tax-deductibility.

(s) Classification of assets and liabilities as current and non-current

The Company classifies assets and liabilities in the balance sheet as current and non-current. Current assets and liabilities are determined as follows:

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Company's normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within 12 months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least 12 months after the reporting date.
- Liabilities are classified as current when they are expected to be settled in the Company's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within 12 months after the reporting date or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.
- Financial liabilities are classified as current when they are due to be settled within 12 months after the reporting date, even if the original term was for a period longer than 12 months, and an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting date and before the annual accounts are authorised for issue.

(t) Environmental issues

The Company takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred. The Company recognises environmental provisions if necessary.

(u) Transactions between Group companies

Transactions between Group companies, except those related to business combinations, mergers, spin-offs and non-monetary contributions from businesses mentioned in the previous sections, are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

(5) Intangible Assets

Details of intangible assets, excluding goodwill, and movement are as follows:

	Thousands of Euros					Total
	Development	Concessions	licences, trademarks and similar	Computer software	Other intangible assets	
<u>Cost</u>						
At 1 January 2016	4,924	569	7,148	26,542	9,942	49,125
Additions	7,065	-	-	978	78	8,121
Disposals	-	-	-	(230)	(62)	(292)
Transfers	(2,613)	-	1,272	1,340	1	-
At 31 December 2016	9,376	569	8,420	28,630	9,959	56,954
<u>Amortisation</u>						
At 1 January 2016	-	(303)	(2,267)	(20,211)	(7,444)	(30,225)
Amortisation	-	(31)	(1,704)	(4,240)	(277)	(6,252)
Disposals	-	-	-	230	64	294
At 31 December 2016	-	(334)	(3,971)	(24,221)	(7,657)	(36,183)
<u>Impairment</u>						
At 1 January 2016	-	-	-	-	(201)	(201)
Charge	-	-	-	-	(91)	(91)
At 31 December 2016	-	-	-	-	(292)	(292)
<u>Carrying amount at 31 December 2016</u>	9,376	235	4,449	4,409	2,010	20,479

	Thousands of Euros					Total
	Development	Concessions	licences, trademarks and similar	Computer software	Other intangible assets	
<u>Cost</u>						
At 1 January 2015	4,864	569	3,076	20,538	9,840	38,887
Additions	4,769	-	1,261	4,114	111	10,255
Disposals	(8)	-	-	-	(9)	(17)
Transfers	(4,701)	-	2,811	1,890	-	-
At 31 December 2015	4,924	569	7,148	26,542	9,942	49,125
<u>Amortisation</u>						
At 1 January 2015	-	(271)	(882)	(16,091)	(7,102)	(24,346)
Amortisation	-	(32)	(1,385)	(4,120)	(349)	(5,886)
Disposals	-	-	-	-	7	7
At 31 December 2015	-	(303)	(2,267)	(20,211)	(7,444)	(30,225)
<u>Impairment</u>						
At 1 January 2015	-	-	-	-	(91)	(91)
Reversal	-	-	-	-	(110)	(110)
At 31 December 2015	-	-	-	-	(201)	(201)
<u>Carrying amount at 31 December 2015</u>	4,924	266	4,881	6,331	2,297	18,699

Additions to development in both years comprise IT projects generated in-house and, in 2015, the investment in product range development. In 2016, transfers to patents, licences, trademarks and similar rights reflect the development of commercial models. In 2015, additions and transfers comprised the investment in the development of commercial models and product ranges. The Company has also acquired computer software amounting to Euros 978 thousand and Euros 4,114 thousand, respectively, in 2016 and 2015.

Transfers from development to computer software in both years have included all internally developed computer software that has entered into use in the Company.

(a) Goodwill and impairment

Details of goodwill and movement are as follows:

	Thousands of Euros	
	2016	2015
<u>Cost</u>		
At 1 January	47,753	36,406
Additions to the consolidated group	25,161	11,397
Disposals	(1,350)	(50)
At 31 December	71,564	47,753
<u>Amortisation</u>		
At 1 January	-	-
Amortisation	(6,554)	-
Disposals	102	-
At 31 December	(6,452)	-
<u>Impairment</u>		
At 1 January	(939)	(989)
Charge	(825)	-
Reversal	25	50
At 31 December	(1,739)	(939)
<u>Carrying amount at 31 December 2016</u>	63,373	46,814

On 9 November 2014 the Company signed a framework agreement (hereinafter the Transaction) with Cecosa Supermercados, S.L., Supermercados Picabo, S.L. and Caprabo, S.A., all companies from the Eroski Group, to acquire assets relating to a maximum of 160 supermarkets that were operating under the Eroski Center, Eroski City and Caprabo brands. At the end of 2014, completion of the Transaction was subject to authorisation being obtained from the Spanish competition authorities, as well as compliance with other terms and conditions usually applicable to this type of acquisition. The agreed maximum price was Euros 146 million and was subject to potential adjustments, depending on the number of establishments finally acquired.

On 9 April 2015 the National Markets and Competition Commission approved the Transaction subject solely to DIA's assumption of several commitments, previously proposed by DIA, related to the obligation to divest three stores, two of which are owned by the Eroski Group and one by the DIA Group. The Company agreed to assume these commitments. On 17 April 2015 the document was signed that established an initial transaction scope of 144 establishments at a price of Euros 135,348 thousand, the effective acquisition of which took place gradually over the following four months. On 28 July 2015 the conveyance of these 144 establishments was completed and on 7 August 2015 an addendum was signed to the framework agreement whereby the scope of the transaction, pending

agreement regarding the possible conveyance of a further two establishments, was finally confirmed at 147 establishments for a total price of Euros 140,548 thousand.

At 31 December 2015 the DIA Group had paid a total of Euros 140,548 thousand for the conveyance of 147 establishments, of which 48 were acquired by the Company. Stores were transferred on a weekly basis by each of the selling companies to the two DIA Group companies acquiring them, namely the Company and Grupo El Árbol, Distribución y Supermercados, S.A. The difference between the price paid by each of the acquiring companies at the time of receiving each establishment and the fair value of the identifiable net assets acquired of each store was recognised as goodwill totalling Euros 94,244 thousand. Euros 11,134 thousand of this goodwill was recognised by the Company. In 2016 the Transaction was finally closed with the conveyance of one last store. The DIA Group paid Euros 1,300 thousand, recognising additional goodwill of Euros 1,208 thousand that was allocated between the establishments acquired and Euros 92 thousand as technical installations and machinery. Euros 137 thousand of this goodwill was recognised by the Company.

In 2016, the Company acquired 128 stores from its subsidiary Grupo El Árbol, Distribución y Supermercados, S.A. for Euros 37,458 thousand, generating an addition to goodwill of Euros 25,024 thousand in respect of the difference vis-à-vis the fair value of the identifiable net assets acquired in each store.

As mentioned in note 2 (e) and 4(b) (ii) on 1 January 2016 the Company started to amortise its goodwill.

As detailed in notes 2 (d) (i) and 4 (d), when there are indications of impairment the Company tests the goodwill allocated to the cash-generating units (CGUs) for impairment.

The assumptions employed are detailed in note 11. In 2016 impairment of Euros 825 thousand was recognised (no impairment was recognised in 2015).

(b) Fully amortised assets

The cost of fully amortised intangible assets in use at 31 December is as follows:

	Thousands of Euros	
	2016	2015
Computer software	19,116	13,671
Other intangible assets	6,796	5,177
Total	25,912	18,848

(6) Property, Plant and Equipment

Details of property, plant and equipment and movement are as follows:

Thousands of Euros	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
<u>Cost</u>							
At 1 January 2016	71,264	625,107	821,888	32,217	7,276	62,721	1,620,473
Additions	2	26,837	67,724	6,111	7,910	20,481	129,065
Additions to the consolidated group	-	4,554	6,832	160	-	888	12,434
Disposals	(8,605)	(23,320)	(25,591)	(786)	(19)	(2,635)	(60,956)
Transfers	(1)	2,078	7,928	-	(10,005)	-	-
At 31 December 2016	62,660	635,256	878,781	37,702	5,162	81,455	1,701,016
<u>Depreciation</u>							
At 1 January 2016	-	(383,952)	(596,721)	(20,249)	-	(55,770)	(1,056,692)
Depreciation	-	(28,203)	(65,570)	(5,274)	-	(7,714)	(106,761)
Disposals	-	15,471	22,776	644	-	2,371	41,262
Transfers	-	(427)	(71)	-	-	-	(498)
At 31 December 2016	-	(397,111)	(639,586)	(24,879)	-	(61,113)	(1,122,689)
<u>Impairment</u>							
At 1 January 2016	-	(3,953)	(1,617)	-	-	-	(5,570)
Charge	-	(3,513)	(1,078)	-	-	-	(4,591)
Disposals	-	169	96	-	-	-	265
Reversal	-	620	257	-	-	-	877
Transfers	-	320	178	-	-	-	498
At 31 December 2016	-	(6,357)	(2,164)	-	-	-	(8,521)
<u>Carrying amount at 31 December 2016</u>	62,660	231,788	237,031	12,823	5,162	20,342	569,806
<u>2015</u>							
<u>Cost</u>							
At 1 January 2015	67,511	591,412	755,376	30,612	5,958	59,860	1,510,729
Additions	190	27,469	82,277	7,681	15,096	3,743	136,456
Additions to the consolidated group	3,889	3,332	5,018	-	-	-	12,239
Disposals	(313)	(8,977)	(22,406)	(6,101)	(200)	(954)	(38,951)
Transfers	(13)	11,871	1,623	25	(13,578)	72	-
At 31 December 2015	71,264	625,107	821,888	32,217	7,276	62,721	1,620,473
<u>Depreciation</u>							
At 1 January 2015	-	(363,932)	(551,040)	(20,941)	-	(52,682)	(988,595)
Depreciation	-	(27,016)	(62,519)	(5,126)	-	(4,028)	(98,689)
Disposals	-	7,060	16,847	5,818	-	940	30,665
Transfers	-	(64)	(9)	-	-	-	(73)
At 31 December 2015	-	(383,952)	(596,721)	(20,249)	-	(55,770)	(1,056,692)
<u>Impairment</u>							
At 1 January 2015	-	(3,855)	(1,572)	-	-	-	(5,427)
Charge	-	(1,042)	(555)	-	-	-	(1,597)
Disposals	-	505	254	-	-	-	759
Reversal	-	424	198	-	-	-	622
Transfers	-	15	58	-	-	-	73
At 31 December 2015	-	(3,953)	(1,617)	-	-	-	(5,570)
<u>Carrying amount at 31 December 2015</u>	71,264	237,202	223,550	11,968	7,276	6,951	558,211

(a) General

The additions and business combinations that arose in 2016 mainly consist of the re-conversion of the 128 stores acquired by the Company from its subsidiary Grupo El Árbol, Distribución y Supermercados, S.A, which were transformed from the El Árbol to the DIA Market format. Additions and business combinations in 2015 consisted, *inter alia*, of the acquisition and remodelling of the 48 establishments purchased from the Eroski Group (see note 5 (a)). In both years store formats have also been changed to adapt them to the new DIA designs and general improvements and reforms have been carried out. Details of the technical installations and machinery classified as finance leases at 31 December 2016 and 2015 are provided in note 7.

In 2016 the net disposals mainly consist of the sale of a number of Company-owned properties to third parties. The other disposals in 2016 and 2015 include the items replaced in the aforementioned upgrades and those resulting from store closures carried out in both years. In 2016 capital gains of Euros 11,074 thousand were generated, while a loss of Euros 3,889 thousand was incurred in 2015 (see note 24 (d)).

In both years the Company recognised impairment losses for the CGUs, which in accordance with the Company's accounting policies, presented indications of impairment. Consequently, the Company recognised impairment losses of Euros 3,714 thousand in 2016 and Euros 975 thousand in 2015 on the property, plant and equipment of certain CGUs measured at value in use (see note 24 (d)). The assumptions employed are detailed in note 11.

Details of residual useful life, depreciation for the year, accumulated depreciation and the carrying amount of individually significant items of property, plant and equipment at 31 December 2016 and 2015 are as follows:

Thousands of Euros				
2016				
Description	Residual useful life	Depreciation for the year	Accumulated depreciation	Carrying amount
Warehouse land	-	-	-	22,579
Warehouse buildings	27-32 years	(2,261)	(20,408)	35,738
Total		(2,261)	(20,408)	58,317

Thousands of Euros				
2015				
Description	Residual useful life	Depreciation for the year	Accumulated depreciation	Carrying amount
Warehouse land	-	-	-	22,579
Warehouse buildings	28-33 years	(1,433)	(18,147)	34,413
Total		(1,433)	(18,147)	56,992

(b) Fully depreciated assets

Details of the cost of fully depreciated property, plant and equipment in use at 31 December are as follows:

	Thousands of Euros	
	2016	2015
Buildings	212,601	192,197
Technical installations and machinery	453,101	403,577
Other installations, equipment and furniture	13,953	9,517
Other property, plant and equipment	48,877	47,950
Total	728,532	653,241

(c) Insurance

The Company has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

(7) Finance Leases - Lessee

At 31 December 2016 and 2015 the Company held the following types of property, plant and equipment under finance leases:

	Thousands of Euros			
	2016			
	Technical installations and machinery	Other installations, equipment and furniture	Other assets	Total
Cost	33,316	4	15,902	49,222
Accumulated depreciation	(12,513)	(1)	(3,480)	(15,994)
<u>Carrying amount at 31 December</u>	20,803	3	12,422	33,228

	Thousands of Euros		
	2015		
	Technical installations and machinery	Other installations, equipment and furniture	Total
Cost	26,905	4	26,909
Accumulated depreciation	(10,700)	(1)	(10,701)
<u>Carrying amount at 31 December</u>	16,205	3	16,208

The cost indicated above reflects, in all cases, the fair value of the assets at the date on which the finance lease contracts were signed.

Future minimum lease payments are reconciled with their present value as follows:

	Thousands of Euros	
	2016	2015
Future minimum payments	36,143	18,163
Unaccrued finance expenses	(2,953)	(3,176)
Present value	33,190	14,987

Details of minimum payments and the present value of finance lease liabilities, by maturity date, are as follows:

	Thousands of Euros			
	2016		2015	
	Minimum payments	Present value (note 20(b))	Minimum payments	Present value (note 20(b))
Less than one year	10,354	9,188	6,123	5,106
Two to five years	22,469	20,774	11,915	9,781
Over five years	3,320	3,228	125	100
Total minimum payments and present value	36,143	33,190	18,163	14,987
Less current portion	(10,354)	(9,188)	(6,123)	(5,106)
Total non-current	25,789	24,002	12,040	9,881

Finance lease liabilities are effectively secured. The rights to the leased assets revert to the lessor in the event of default.

(8) Operating Leases - Lessee

The Company holds certain assets under operating leases from third parties.

The main operating lease contracts comprise the rental of business premises at which the Company carries out its principal activity, and certain warehouses.

Details of the main operating lease contracts in force at 31 December 2016 are as follows:

Warehouse	Minimum term
Miranda de Ebro (Burgos)	2017
Getafe (Madrid)	2026
Manises (Valencia)	2018
Mejorada del Campo (Madrid)	2018
Tarragona	2018
Villanubla (Valladolid)	2019
Sabadell (Barcelona)	2022
San Antonio (Barcelona)	2023
Mallén (Zaragoza)	2023
Orihuela (Alicante)	2023
Villanueva de Gállego	2023

The amounts of purchase options are determined by the date at which the Company decides to exercise them.

Operating lease payments have been recognised as income and expenses for 2016 and 2015 as follows:

	Thousands of Euros	
	2016	2015
Minimum property lease payments	152,866	145,974
Minimum movable goods lease payments	1,691	2,289
Sublease payments	(17,395)	(13,486)
Total	137,162	134,777

Future minimum payments under non-cancellable operating leases for property are as follows:

	Thousands of Euros	
	2016	2015
Less than one year	55,296	50,730
Two to five years	54,306	44,729
Over five years	27,682	20,501
Total	137,284	115,960

Future minimum payments under non-cancellable operating leases for furniture and equipment are as follows:

	Thousands of Euros	
	2016	2015
Less than one year	3,874	4,047
Two to five years	3,547	3,830
Over five years	1	2
Total	7,422	7,879

(9) Operating Leases - Lessor

Sublease revenues comprise the amounts received from the concessionaires to carry out their activities, and in turn improve the Company's commercial offering to its customers, as well as those received from subleases to franchisees.

(10) Risk Management Policy

The Company's activities are exposed to market risk, credit risk and liquidity risk.

The Company's senior executives manage these risks and ensure that its financial risk activities are in line with the appropriate corporate procedures and policies and that the financial risks are identified, measured and managed in accordance with DIA Group policies.

A summary of the management policies established by the board of directors for each risk type is as follows:

a) Financial risk factors

The Company's activities are exposed to various financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Company's global risk management programme focuses on uncertainty in the financial markets and

aims to minimise potential adverse effects on the Company's profits. The Company uses derivatives to mitigate certain risks.

Risks are managed by the Company's Finance Department. This department identifies, evaluates and mitigates financial risks in close collaboration with the Company's operational units.

b) Currency risk

The Company operates internationally and is therefore exposed to currency risk when operating with foreign currencies, especially with regard to the US Dollar. Currency risk is associated with future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

In order to control currency risk associated with future commercial transactions and recognised assets and liabilities, the Company uses forward currency contracts negotiated by the Finance Department.

In 2016 and 2015 the Company only made non-recurrent transactions in US Dollars, for which it took out exchange rate insurance in this currency.

Hedging transactions carried out in US Dollars during 2016, mainly purchases, amounted to US Dollars 6,552 thousand (US Dollars 5,359 thousand in 2015), representing 66.09% of transactions in this currency (98.38% in 2015). At the 2016 reporting date, outstanding hedges in this currency totalled US Dollars 1,803 thousand (US Dollars 1,284 thousand in 2015). These expire in the next 11 months. These transactions are not significant with respect to the Company's total volume of purchases. No transactions were carried out in any other currency in 2016 or 2015.

The Company holds several investments in foreign operations, the net assets of which are exposed to currency risk. Currency risk affecting net assets of the Company's foreign operations in Argentinian Pesos, Chinese Yuan and Brazilian Reals is mitigated primarily through borrowings in the corresponding foreign currencies.

c) Price risk

The Company is not significantly exposed to risk derived from the price of equity instruments or listed raw material prices.

d) Credit risk

The Company is not significantly exposed to credit risk. The Company has policies to ensure that wholesale sales are only made to customers with adequate credit records. Retail customers pay in cash or by credit card. Derivative and cash transactions are only performed with financial institutions that have high credit ratings. The Company has policies to limit the amount of risk with any one financial institution.

The credit risk presented by the Company is mainly concentrated in the transactions it carries out with its franchisees, details of which are provided below:

<u>Thousands of Euros</u>	<u>2016</u>	<u>2015</u>
Commercial transactions non current	49,982	40,135
Commercial transactions current	49,288	45,536
Guarantees received	(45,371)	(48,558)
	53,899	37,113

In 2016 the Company entered into agreements to transfer supplier trade payables with and without recourse (see note 4 (f) (vii)). The accrued cost of the transfer of these payables in 2016 amounted to Euros 139 thousand. The transferred payables that had not yet fallen due at 31 December 2016 totalled Euros 85,429 thousand and all were considered to be without recourse.

Details of the Company's exposure to credit risk at 31 December 2016 and 2015 are shown below. The

tables below reflect the analysis of financial assets by contracted maturity:

Thousands of Euros	Maturity	2016
Loans to group companies	2018	1,000
Loans to third parties	2018-2020	249
Deposits and guarantees	per contract	23,363
Trade receivables and service delivery	2018-2035	49,982
Non-current financial assets		74,594
Trade receivables	2017	49,288
and associates	2017	293,726
Other receivables	2017	75,058
Personnel	2017	612
Loans to group companies	2017	30,000
Current account with group companies	2017	215,880
Loans	2017	191
Deposits and guarantees	2017	10,324
Current financial assets		675,079

Thousands of Euros	Maturity	2015
Loans to group companies	2017	30,000
Loans to third parties	2017-2019	490
Deposits and guarantees	per contract	35,619
Trade receivables and service delivery	2017-2031	40,135
Non-current financial assets		106,244
Trade receivables	2016	45,536
and associates	2016	272,481
Other receivables	2016	65,491
Personnel	2016	703
Loans to group companies	2016	36,137
Current account with group companies	2016	161,821
Loans	2016	258
Deposits and guarantees	2016	639
Current financial assets		583,066

The returns on these financial assets totalled Euros 4,178 thousand in 2016 and Euros 3,501 thousand in 2015.

Details of non-current and current trade and other receivables by maturity in 2016 and 2015 are as follows:

Non-current	Thousands of Euros			
	Total	1 - 2 years	3 - 5 years	> 5 years
31 December 2016	49,982	13,511	24,087	12,384
31 December 2015	40,135	11,906	20,904	7,325

Current	Thousands of Euros				
	Total	Not expired	Less than 1 month	2-3 months	4-6 months
31 December 2016	427,025	403,075	7,890	16,045	15
31 December 2015	433,982	398,961	2,487	32,417	117

As a general policy and on the basis of past experience, the Company recognises an impairment loss for the entire amount of any outstanding receivable past due by over six months or earlier if it has evidence of its uncollectibility.

e) Liquidity risk

The Company applies a prudent policy to cover its liquidity risks based on having sufficient cash and marketable securities, as well as sufficient financing through credit facilities, to settle market positions. Given the dynamic nature of its underlying business, the Company's Finance Department aims to be flexible with regard to financing through drawdowns on contracted credit facilities.

Details of the Company's exposure to liquidity risk at 31 December 2016 and 2015 are shown below. The tables below reflect the analysis of financial liabilities by contracted maturity:

Thousands of Euros	Maturity	2016
Bonds and other securities	2019-2021	794,652
Debt with financial institutions		218,374
<i>Syndicated credits (Revolving credit facilities)</i>	2018	97,360
<i>Other loans</i>	2018	121,014
Finance lease payables	2023	24,002
Guarantees and deposits received	per contract	9,078
Other non current liabilities	2020	2,000
Total non-current financial liabilities		1,048,106
Bonds and other securities	2017	5,587
Debt with financial institutions		53,513
<i>Other loans</i>	2017	10,000
<i>Interests</i>	2017	387
<i>Credit facilities drawn down</i>	2017	2,498
<i>Other current liabilities</i>	2017	40,628
Finance lease payables	2017	9,188
Suppliers of fixed assets	2017	3,756
Bills payable	2017	6,853
Other debts	2017	4,154
Current interest on payables	2017	20
Guarantees and deposits received	2017	148
Payables to group companies	2017	48,361
Suppliers	2017	978,491
Suppliers, group companies	2017	4,587
Other payables	2017	77,449
Personnel	2017	21,287
Advances to customers	2017	835
Total current financial liabilities		1,214,229

Thousands of Euros	Maturity	2015
Bonds and other securities	2019	495,862
Debt with financial institutions		387,609
<i>Syndicated credits (Revolving credit facilities)</i>	2018	297,580
<i>Other loans</i>	2017-2018	90,029
Finance lease payables	2022	9,881
Guarantees and deposits received	per contract	7,391
Other non current liabilities	2019	16,600
Total non-current financial liabilities		917,343
Bonds and other securities	2016	3,500
Debt with financial institutions		259,073
<i>Other loans</i>	2016	90,000
<i>Interests</i>	2016	595
<i>Credit facilities drawn down</i>	2016	126,119
<i>Other current liabilities</i>	2016	42,359
Finance lease payables	2016	5,106
Suppliers of fixed assets	2016	9,253
Bills payable	2016	5,827
Other debts	2016	351
Current interest on payables	2016	46
Guarantees and deposits received	2016	164
Payables to group companies	2016	48,679
Suppliers	2016	760,794
Suppliers, group companies	2016	8,122
Other payables	2016	55,711
Personnel	2016	24,689
Advances to customers	2016	986
Total current financial liabilities		1,182,301

Details of non-current financial debt by maturity in 2016 and 2015 are as follows:

Thousands of Euros	Total	2018	2019-2021	From 2022
Bonds and other securities	794,652	-	794,652	-
Syndicated credits (Revolving credit facilities)	97,360	-	97,360	-
Other debts with credit entities	121,014	-	121,014	-
Finance lease payables	24,002	7,881	12,894	3,227
Guarantees and deposits received	9,078	-	-	9,078
Other non current liabilities	2,000	-	2,000	-
Total non-current financial debt	1,048,106	7,881	1,027,920	12,305

Thousands of Euros	Total	2017	2018-2020	From 2021
Bonds and other securities	495,862	-	495,862	-
Syndicated credits (Revolving credit facilities)	297,580	-	297,580	-
Other debts with credit entities	90,029	70,014	20,015	-
Finance lease payables	9,881	3,973	5,808	100
Guarantees and deposits received	7,391	-	-	7,391
Other non current liabilities	16,600	-	16,600	-
Total non-current financial debt	917,343	73,987	835,865	7,491

The finance costs accrued on these outstanding financial liabilities totalled Euros 19,411 thousand in 2016 and Euros 17,575 thousand in 2015.

f) Cash flow and fair value interest rate risks

Interest rate risk arises from non-current borrowings. Borrowings at variable interest rates expose the Company to cash flow interest rate risks. The Company contracts interest rate hedges in accordance with its risk management policy. The objective of these transactions is to mitigate the impact of interest rate fluctuations on its income statement. A 0.5 percentage point rise in interest rates would have reduced profit after tax by Euros 1,912 thousand (Euros 449 thousand at 31 December 2015).

(11) Investments in Equity Instruments of Group Companies

At 31 December 2016 and 2015, all DIA Group companies subject to statutory audit have been audited. Details of investments in Group companies are as follows:

**Information on Group companies
for the year ended 31 December 2016
(expressed in thousands of Euros)**

Name	Registered Offices	Activity	Auditor	% of ownership		Capital	Reserves	Results for the year from continuing operations	Total equity	Carrying amount of investment	Dividends received in 2016
				% direct interest	Total						
Dia Portugal Supermercados, S.A. and Subsidiary	Lisbon	Wholesale and retail sale of food products and the subsidiary sale of toiletries and perfume products.	KPMG	100	100	51,803	10,422	6,690	68,915	50,547	10,925
Dia Argentina, S.A. and Subsidiary	Buenos Aires	Wholesale and retail distribution of food products	KPMG	95	100	132,140	(100,734)	2,666	34,072	128,667	-
Dia Brasil Sociedade Limitada	Sao Paulo	Wholesale and retail distribution of consumer products	KPMG	100	100	181,627	19,872	17,406	218,905	181,627	-
Finandia E.F.C., S.A.	Madrid	Loan and credit operations, including customer credit, mortgage loans and financing of commercial transactions, as well as the issue and management of credit and debit cards.	KPMG	100	100	7,000	1,645	88	8,733	7,000	-
Dia Tian Tian Management Consulting Service & Co.Ltd.	Shanghai	Service consultancy	KPMG	100	100	19,300	(20,135)	(1,487)	(2,323)	-	-
Shanghai Dia Retail Co., Ltd.	Shanghai	Retail distribution of consumer products	KPMG	100	100	95,138	(123,736)	(14,563)	(43,161)	-	-
Twins Alimentación, S.A. and Subsidiary	Madrid	Distribution of food products and toiletries through supermarkets and the subsidiary, sub-lease of premises primarily to its sole shareholder.	KPMG	100	100	36,169	13,109	13,299	62,577	160,748	30,000
Dia World Trade, S.A.	Geneva	Supply services to the companies of the DIA Group.	N/A	100	100	84	665	36	785	843	41
Beauty by DIA, S.A. (Schlecker, S.A. in 2015)	Madrid	Sale of toiletries and perfume products.	KPMG	100	100	9,616	(5,268)	2,317	6,665	51,372	-
Grupo El Árbol, Distribución y Supermercados, S.A. and Subsidiary	Madrid	Wholesale and retail sale of food products and others.	KPMG	100	100	12,000	106,987	(16,947)	102,040	150,000	-
DIA ESHOPPING, S.L.	Madrid	Creation, maintenance and operation of portals in Internet for selling products and services.	KPMG	100	100	10	705	259	974	1,003	-
									<u>731,807</u>	<u>40,966</u>	

**Information on Group companies
for the year ended 31 December 2015
(expressed in thousands of Euros)**

Name	Registered Offices	Activity	Auditor	% of ownership		Capital	Reserves	Results for the year from continuing operations		Carrying amount of investment	Dividends received in 2015
				% direct interest	Total			Total equity	Total equity		
Dia Portugal Supermercados, S.A. and Subsidiary	Lisbon	Wholesale and retail sale of food products and the subsidiary sale of toiletries and perfume products.	KPMG	100	100	51,803	10,050	11,297	73,150	50,547	43,600
Dia Argentina, S.A. and Subsidiary	Buenos Aires	Wholesale and retail distribution of food products	KPMG	95	100	120,140	(98,649)	1,194	22,685	116,218	-
Dia Brasil Sociedade Limitada	Sao Paulo	Wholesale and retail distribution of consumer products Loan and credit operations, including customer credit, mortgage loans and financing of commercial transactions, as well as the issue and management of credit and debit cards.	KPMG	100	100	145,009	(26,096)	9,241	128,155	145,009	-
Finandia E.F.C., S.A.	Madrid		KPMG	100	100	7,000	1,446	199	8,645	7,000	-
Dia Tian Tian Management Consulting Service & Co.Ltd.	Shanghai	Service consultancy	KPMG	100	100	19,300	(20,838)	728	(810)	-	-
Shanghai Dia Retail Co., Ltd.	Shanghai	Retail distribution of consumer products	KPMG	100	100	95,138	(108,796)	(15,990)	(29,648)	20,642	-
Beijing Dia Commercial CO., LTD. (1)	Beijing	Retail distribution of consumer products Distribution of food products and toiletries through supermarkets and the subsidiary, sub-lease of premises primarily to its sole shareholder.	KPMG	100	100	-	-	-	-	-	-
Twins Alimentación, S.A. and Subsidiary	Madrid		KPMG	100	100	36,169	12,662	30,447	79,278	160,748	30,000
Dia World Trade, S.A.	Geneva	Supply services to the companies of the DIA Group.	N/A	100	100	84	775	(29)	830	843	81
Schlecker, S.A.	Madrid	Sale of toiletries and perfume products.	KPMG	100	100	9,616	(1,686)	(3,581)	4,349	51,372	-
Grupo El Árbol, Distribución y Supermercados, S.A. and Subsidiary	Madrid	Wholesale and retail sale of food products and others. Creation, maintenance and operation of portals in Internet for selling products and services.	KPMG	100	100	12,000	4,323	102,665	118,988	150,000	-
DIA ESHOPPING, S.L.	Madrid		N/A	100	100	10	985	(280)	715	1,003	-
										703,382	73,681

(1) This company is in process of liquidating a 31 December 2014.

Details of investments in Group companies and changes in 2016 and 2015 are as follows:

Company	Thousands of Euros		
	Balances at 1 January 2016	Additions	Balances at 31 December 2016
Dia Portugal Supermercados, S.A.	50,547	-	50,547
Dia Argentina, S.A.	116,218	12,449	128,667
Dia Brasil Sociedade Limitada	145,009	36,618	181,627
Finandia E.F.C.,S.A.	7,000	-	7,000
Dia Tian Tian Management Consulting Service & Co.Ltd.	19,300	-	19,300
Shanghai Dia Retail CO., LTD.	95,138	-	95,138
Twins Alimentación, S.A.	160,748	-	160,748
Dia World Trade	843	-	843
Beauty by DIA S.A (Schelecker, S.A. in 2015)	51,372	-	51,372
Grupo El Árbol, Distribución y Supermercados, S.A.	150,000	-	150,000
DIA ESHOPPING, S.L.	1,003	-	1,003
Total cost	797,178	49,067	846,245
Impairment	(93,796)	(20,642)	(114,438)
Carrying amount	703,382	28,425	731,807

Company	Thousands of Euros		
	Balances at 1 January 2015	Additions	Balances at 31 December 2015
Dia Portugal Supermercados, S.A.	50,547	-	50,547
Dia Argentina, S.A.	115,784	434	116,218
Dia Brasil Sociedade Limitada	115,400	29,609	145,009
Finandia E.F.C.,S.A.	7,000	-	7,000
Dia Tian Tian Management Consulting Service & Co.Ltd.	19,300	-	19,300
Shanghai Dia Retail CO., LTD.	95,138	-	95,138
Twins Alimentación, S.A.	160,748	-	160,748
Dia World Trade	843	-	843
Schlecker, S.A.	51,372	-	51,372
Grupo El Árbol, Distribución y Supermercados, S.A.	-	150,000	150,000
DIA ESHOPPING, S.L.	-	1,003	1,003
Total cost	616,132	181,046	797,178
Impairment	(78,866)	(14,930)	(93,796)
Carrying amount	537,266	166,116	703,382

In 2016 a capital increase and a debt-for-equity swap were carried out in DIA Brazil for a total amount of Euros 36,618 thousand (in 2015 a capital increase of Euros 29,609 thousand was carried out). A debt-for-equity swap was also carried out in DIA Argentina for an amount of Euros 12,449 thousand (Euros 434 thousand in 2015).

On 29 March 2016 the winding up of Beijing DIA Commercial Co. Ltd. was completed. The decision to wind up this company was taken in 2014 and its net assets were liquidated at 31 December 2015.

On 1 July 2015 the Company acquired 100% of the share capital of Castanola Investments, S.L. for Euros 3 thousand. On 13 July 2015 this company changed its name to DIA ESHOPPING, S.L. On 28 July 2015 it acquired the business engaged in the creation, maintenance and operation of websites and web portals to sell products and services from Mobile Dreams Factory Marketing, S.L. for a fixed price of Euros 750 thousand and a variable amount of up to a maximum of Euros 2,313 thousand subject to the fulfilment of the terms, in the amounts and dates indicated in the agreement. On 31 July 2015, the Company, which is the sole shareholder of DIA ESHOPPING, S.L., agreed to increase the latter's share capital by Euros 7 thousand with a share premium of Euros 993 thousand, making a contribution of Euros 1,000 thousand.

On 30 March 2015, the Company, as the sole shareholder of El Árbol, agreed to increase the latter's share capital by Euros 330 thousand with a share premium of Euros 149,670 thousand, making a contribution of Euros 150,000 thousand in this regard.

Details of the activities of the subsidiaries for 2016 and 2015 are presented in the tables at the beginning of this note.

- Impairment

Impairment losses and reversals associated with the different investments are as follows:

Company	Thousands of Euros		
	Balances at 1 January 2016	Charge	Balances at 31 December 2016
Dia Tian Tian Management Consulting Service & Co.Ltd.	(19,300)	-	(19,300)
Shanghai Dia Retail CO., LTD.	(74,496)	(20,642)	(95,138)
Total non-current	(93,796)	(20,642)	(114,438)

Company	Thousands of Euros		
	Balances at 1 January 2015	Charge	Balances at 31 December 2015
Dia Tian Tian Management Consulting Service & Co.Ltd.	(19,300)	-	(19,300)
Shanghai Dia Retail CO., LTD.	(59,566)	(14,930)	(74,496)
Total non-current	(78,866)	(14,930)	(93,796)

As mentioned in notes 2 (d) (i) and 4 (d), the recoverable amount of investments in Group companies is determined based on the value in use or fair value less costs to sell if higher. These calculations are based on cash flow projections from the financial budgets approved by management over a period of five years. Cash flows beyond this five-year period are extrapolated using the estimated growth rates indicated below. The growth rate does not exceed the long-term average growth rate for the retail business in which the Company operates.

In 2016 the Company recognised impairment of Euros 20,642 thousand on its interest in Shanghai Dia Retail CO., LTD. (Euros 14,930 thousand in 2015).

The following main assumptions have been used to calculate value in use:

	Spain		Portugal	
	2016	2015	2016	2015
Sales growth rate (1)	1.60%	3.00%	4.00%	4.90%
Growth rate (2)	2.00%	2.00%	2.00%	2.00%
Discount rate (3)	6.42%	6.88%	7.85%	7.49%

	Argentina		Brazil	
	2016	2015	2016	2015
Sales growth rate (1)	15.50%	20.00%	16.60%	16.80%
Growth rate (2)	2.00%	2.00%	2.00%	2.00%
Discount rate (3)	10.26%	12.20%	9.43%	8.56%

	China	
	2016	2015
Sales growth rate (1)	8.80%	18.50%
Growth rate (2)	2.00%	2.00%
Discount rate (3)	6.81%	7.25%

⁽¹⁾ Weighted average annual growth rate of sales for the five-year projected period

⁽²⁾ Weighted average growth rate used to extrapolate cash flows beyond the budgeted period.

⁽³⁾ Pre-tax discount rate applied to the cash flow projections.

The weighted average growth rates of cash flows in perpetuity are consistent with the forecasts included in industry reports. The discount rates used are pre-tax values calculated by weighting the cost of equity against the cost of debt using the average industry weighting. The cost of equity in each country is calculated considering the following factors: the risk-free rate of the country, the industry adjusted Beta, the market risk differential and the size of the company.

The Company has applied the discount rate assumption for Spain to calculate the value in use of depreciated property, plant and equipment and amortised intangible assets.

(12) Investments and Trade Receivables

The carrying amount of financial assets recognised at cost or amortised cost does not differ significantly from their fair value.

(a) Investments in Group companies

Details of investments in Group companies are as follows:

Group	Thousands of Euros			
	2016		2015	
	Non-current	Current	Non-current	Current
Loans	1,000	30,000	30,000	36,137
Current account with the Group	-	215,880	-	161,821
Total	1,000	245,880	30,000	197,958

On 30 June 2015 the Company extended a Euros 30,000 thousand loan to its subsidiary DIA Portugal Supermercados, S.A., which has a single maturity date in 2017 and generates quarterly market-rate interest.

On 28 December 2015 the Company extended a participating loan of Euros 1,000 thousand to its subsidiary Beauty by DIA, S.A. (Schlecker, S.A. in 2015), which initially matured on 30 June 2016. At that date it was extended as the loan agreement offers the option of extensions for additional six-month periods, up to a final maturity date on 30 June 2019. This loan generates quarterly interest as agreed between the parties.

With the purchase on 31 October 2014 of Grupo El Árbol Distribución y Supermercados, S.A., the Company acquired the participating loan held by certain of its shareholders. The fair value of this loan was determined as Euros 36,989 thousand at the date of acquisition, made up of a fixed and a variable part. On 25 September 2015 the variable price was adjusted and this loan was modified accordingly, being finally valued at Euros 35,137 thousand, including accrued interest. This loan, which fell due on 1 September 2016, was settled at its nominal amount of Euros 53,333 thousand, giving rise to a loss of Euros 18,196 thousand in 2016, which was recognised in impairment and losses on the disposal of financial instruments.

Details of the current accounts with Group companies at 31 December 2016 and 2015 are presented below:

	Thousands of euro					
	2016			2015		
	Account receivable	Tax Credit (VAT)	Tax Credit (Income tax)	Account receivable	Tax Credit (VAT)	Tax Credit (Income tax)
Twins Alimentación S.A.	-	-	-	-	385	-
Beauty by DIA S.A. (Schlecker, S.A. in 2015)	50,569	1,604	665	51,373	4,011	-
Grupo El Árbol Distribución y Supermercados, S.A.	141,359	4,331	-	75,047	3,549	-
Compañía Gallega de Supermercados, S.A.	940	-	-	-	17	-
DIA ESHOPPING, S.L.	356	-	118	-	-	-
Dia World Trade, S.A.	540	-	-	367	-	-
Finandia E.F.C., S.A.	800	-	-	306	-	-
Pe-Tra Servicios a la distribución, S.L.U.	285	-	484	284	-	249
Dia Portugal Supermercados, S.A.	2,598	-	-	2,114	-	-
Dia Brasil Sociedade Limitada	5,851	-	-	10,896	-	-
Dia Argentina, S.A.	1,704	-	-	10,175	-	-
Dia Tian Tian Management Consulting Service & Co.Ltd.	2,461	-	-	2,092	-	-
Shanghai Dia Retail Co., Ltd.	1,215	-	-	956	-	-
Total	208,678	5,935	1,267	153,610	7,962	249

The nominal annual interest rates applied to current accounts with Group companies in 2016 and 2015 ranged from one-month Euribor plus a spread of between -0.125% (with a 0% floor) for payables and one-month Euribor plus a spread of 0.2% for receivables.

(b) Investments

Details of investments are as follows:

Unrelated parties	Thousands of Euros				
	2016		2015		
	Non-current	Current	Non-current	Current	
Equity instruments	36	-	36	-	
Loans	249	191	490	258	
Hedging derivatives	-	123	-	66	
Deposits and guarantees	23,363	10,324	35,619	639	
Total	23,648	10,638	36,145	963	

Equity instruments comprise the Company's interest in Ecoembalajes España, S.A. (Ecoembes).

Loans reflect amounts granted by the Company to its personnel, which earn interest at market rates.

Other financial assets include the security and other deposits pledged to lessors to secure lease contracts. These amounts are measured at present value and any difference with their nominal value is recognised under current or non-current prepayments (see note 14). At 31 December 2016 this item also includes the amount of Euros 2,000 thousand withheld from the seller in the acquisition of establishments from the Eroski Group, which will be released after five years, in accordance with the addendum to the framework contract signed on 7 August 2015. In 2015, this item included an additional Euros 14,600 thousand for the same deposits, which was released to the Eroski Group in 2016 after an agreement was reached with the sellers (see note 20 (b)). Moreover, in 2016 current security and other deposits comprise amounts deposited with franchisees totalling Euros 2,958 thousand and other bank deposits totalling Euros 7,366 thousand.

(c) Trade and other receivables

Details of trade and other receivables are as follows:

	Thousands of Euros			
	2016		2015	
	Non-current	Current	Non-current	Current
Trade receivables	49,982	58,721	40,135	55,449
Trade receivables from group companies and associates	-	293,726	-	272,481
Other payables	-	82,670	-	72,465
Personnel	-	612	-	703
Current tax assets (note 21)	-	8,158	-	49,256
Public entities, other (note 21)	-	183	-	515
Impairment	-	(17,045)	-	(16,887)
Total	49,982	427,025	40,135	433,982

Trade receivables basically comprise those from franchisees and concessionaires for sales of goods. The non-current portion of this balance is recognised at its present value.

At 31 December 2016, trade receivables from Group companies basically comprise Euros 77,446 thousand receivable from Twins Alimentación, S.A. (Euros 74,997 thousand at 31 December 2015), Euros 39,145 thousand receivable from Beauty by DIA, S.A. (Euros 32,979 thousand at 31 December 2015) and Euros 154,211 thousand receivable from Grupo el Árbol Distribución y Supermercados, S.A. (Euros 150,785 thousand at 31 December 2015).

Other receivables mainly reflect non-trading income negotiated with suppliers.

Provisions are made for all such amounts when their recovery is considered doubtful.

Current tax assets comprise the receivable in relation to the estimated income tax for 2016 and 2015, respectively (see note 21).

(d) Impairment

An analysis of the changes in allowance accounts related to impairment of financial assets measured at amortised cost due to credit risk is as follows:

	Thousands of Euros	
	2016	2015
<u>Current</u>		
At 1 January	(16,887)	(15,245)
Charge	(8,241)	(6,588)
Reversals	8,083	4,946
At 31 December	(17,045)	(16,887)

In 2016 the Company recognised direct losses due to unrecoverable receivables totalling Euros 151 thousand (Euros 38 thousand in 2015).

(13) Inventories

Details of inventories are as follows:

	Thousands of Euros	
	2016	2015
Goods for resale	237,551	215,507
Other supplies	7,411	8,168
Advances to suppliers	2,560	2,584
Impairment	(1,297)	(912)
Total	246,225	225,347

Inventories essentially comprise goods for resale.

(a) Limitations to availability

At 31 December 2016 and 2015 there are no restrictions to the availability of any inventories.

(b) Insurance

The Company has taken out insurance policies to cover the risk of damage to its inventories. The coverage of these policies is considered sufficient.

(14) Prepayments

Details of prepayments are as follows:

	Thousands of Euros			
	2016		2015	
	Non-current	Current	Non-current	Current
Prepayments on operating leases	-	8	-	120
Prepayments on guarantees and loans (note 12 (b))	2,808	325	3,952	433
Other prepayments	-	312	-	456
Total	2,808	645	3,952	1,009

(15) Cash and Cash Equivalents

The balances in current accounts accrue interest at market interest for this account.

Cash includes cash on hand and current accounts with financial institutions, and a deposit of Euros 128,048 thousand which matures on 2 January 2017, presented under cash equivalents.

(16) Equity

Details of equity and movement during the year are shown in the statement of changes in equity.

(a) Capital

At 31 December 2016 and 2015 the Company's share capital amounted to Euros 62,245,651.30, represented by 622,456,513 freely transferable shares of Euros 0.10 par value each, subscribed and fully paid.

At the general meeting held on 24 April 2015, the Company's shareholders agreed to reduce share capital by redeeming own shares acquired under a share buy-back programme pursuant to Commission Regulation (EC) 2273/2003 of 22 December 2003. Additionally, the shareholders authorised the board of directors to approve this decrease, with express powers to delegate this authority. On 27 July 2015 the board of directors agreed to delegate the powers conferred by the shareholders at their general meeting to specific legal representatives of the Company, who in exercise of these powers carried out the share capital decrease by redeeming 28,614,045 own shares of DIA held in its portfolio with a par value of Euros 0.10 each, which represented 4.39% of the share capital (see note 16 (c)). On 2 October 2015 the deed of the capital decrease and the change to DIA's articles of association were filed with the Mercantile Registry of Madrid.

The Euros 184,411 thousand difference between the cost incurred to acquire the own shares used in this capital redemption and their par value was recognised with a charge of Euros 144,844 thousand to the share premium and a charge of Euros 39,567 thousand to reserves. DIA also appropriated an amount equal to the par value of the redeemed shares to a redeemed capital reserve, which will only become available if the conditions for reducing share capital set forth in article 335.c) of the Spanish Companies Act are met (see note 16 (b) (iv)).

As the redeemed shares were held by the Company at the redemption date, no contributions were reimbursed as a result of this capital reduction.

The Company's shares are listed on the Spanish stock markets. According to public information filed with the Spanish National Securities Market Commission, the members of the board of directors control approximately 0.256% of the Company's share capital at the date of authorising these annual accounts for issue.

According to the same public information, the most significant shareholdings in the Company at the reporting date of these annual accounts are as follows:

Baillie Gifford & CO	10,488%
Blackrock INC.	4,095%
Black Creek Investment Management INC	3,069%

On 18 May 2015 Citigroup Global Markets Limited informed the Spanish National Securities Market Commission of the accelerated bookbuild offering of DIA shares undertaken on behalf of Cervinia Europe, S.à.r.l. and Blue Partners, S.à.r.l. This accelerated bookbuild offering comprised 55,200,000 DIA shares representing 8.48% of its share capital. On 19 May 2015 the aforementioned company reported the completion of this transaction for a total of Euros 408,480,000, with a price per share of Euros 7.40. This event resulted in the two proprietary directors, Mr. Nicolas Brunel and Mr. Nadra Moussalem, stepping down from the board of directors, having announced their resignation in letters dated 17 June 2015 received at the Company's registered office on 18 June 2015. Mr. Juan María Nin Génova became a member of DIA's board of directors on 15 October 2015.

On 15 February 2016, the Company's board of directors approved the proposal of the Appointment and Remuneration Committee to appoint Ms. Angela Spindler as an independent co-opted director of DIA, thereby filling the vacancy left by the resignation of Mr. Nicolas Brunel on 17 June 2015.

At their annual general meeting on 22 April 2016, in addition to approving re-appointments and ratifications of directors, the shareholders were informed that Mr. Pierre Cuilleret had announced his resignation as independent director of DIA, to coincide with the upcoming expiry of his mandate, due to professional commitments that require his time and full attention. This decision was formalised, effective 22 April 2016, through a letter addressed to the board of directors. Moreover, the board of directors agreed to appoint Ms. Angela Lesley Spindler as a member of the Appointment and Remuneration Committee of DIA, following her ratification and re-appointment as director of DIA by the shareholders at the annual general meeting.

On 5 September 2016, the board of directors of DIA adopted the proposal of the Appointment and Remuneration Committee to appoint Mr. Borja de la Cierva Álvarez de Sotomayor as an independent co-opted director of the Company for the statutory three-year period, in order to fill the vacancy left by the resignation of Mr. Pierre Cuilleret on 22 April 2016.

Through a letter dated 7 September 2016 addressed to the Company and received at its registered office, Ms. Rosalía Portela de Pablo announced her resignation as independent director from the board of directors of DIA and, therefore, as member of the Audit and Compliance Committee, due to her appointment as executive chairwoman of the board of directors of DEOLEO, S.A.

On 14 December 2016, the board of directors of DIA adopted the proposal of the Appointment and Remuneration Committee to appoint Ms. María Luisa Garaña Corces as an independent co-opted director of DIA and member of the Audit and Compliance Committee until the following annual general meeting, in order to fill the vacancy left by the resignation of Ms. Rosalía Portela on 7 September 2016.

(b) Reserves

Reserves at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Legal Reseve	13,021	13,021
Goodwill Reserve	-	12,829
Redeemed Capital Reserve	5,688	5,688
Other reserves non available (note 3)	15,170	-
Voluntary Reserves	41,783	(48,168)
Total	75,662	(16,630)

(i) Legal reserve

The legal reserve has been provided for in compliance with article 274 of the Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital.

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, the reserve must be replenished with future profits.

At 31 December 2016 the Company has appropriated to this reserve more than the minimum amount required by law.

(ii) Differences on redenomination of capital to Euros

This non-distributable reserve of Euros 62.07 reflects the amount by which share capital was reduced in 2001 as a result of rounding off the value of each share to two decimals on the conversion to Euros.

(iii) Goodwill reserve

At 31 December 2015, the Company's goodwill reserve had been appropriated in compliance with the Spanish Companies Act, which required Spanish companies to transfer profits equivalent to 5% of the goodwill presented on their statement of financial position to a non-distributable reserve until this reserve reached an amount equal to recognised goodwill. In the absence of profit, or if profit were insufficient, freely distributable reserves were to be used. At 31 December 2016, this reserve has been transferred to other non-distributable reserves (see notes 2 (e) and 3).

(iv) Redeemed capital reserve

An amount equal to the par value of the own shares redeemed in 2015 and 2013 has been appropriated to this reserve. It will only be available once the Company meets the conditions for reducing share capital set forth in article 335.c) of the Spanish Companies Act (see note 16 (a)).

(v) Other reserves

At 31 December 2015 other reserves were negative in an amount of Euros 48,168 thousand, primarily as a result of the share capital decrease. Nevertheless, this situation was transitory until the distribution of the Company's profit for 2015 set out in the Company's annual accounts was approved by the shareholders at their annual general meeting on 22 April 2016.

(vi) Own shares

On 27 July 2011, in accordance with article 146 and subsequent articles of the Spanish Companies Act, the board of directors of the Company approved an own share buy-back programme, the terms of which are as follows:

- The maximum number of own shares that can be acquired is equivalent to 2% of share capital.
- The maximum duration of the programme is 12 months, unless an amendment to the term is announced in accordance with article 4 of Commission Regulation (EC) No 2273/2003.
- The purpose of the programme is to meet obligations derived from the remuneration plan for board members and from the terms of any share distribution or share option plans approved by the board of directors.
- A financial intermediary will be appointed to manage the programme, in accordance with article 6.3 of Commission Regulation (EC) No 2273/2003.

By 13 October 2011 the Company had acquired 13,586,720 own shares, reaching the maximum number foreseen in the buy-back programme.

On 14 November 2011 the board of directors approved the derivative acquisition of Company shares and the arrangement of any kind of financial instrument or contract to acquire own shares (in addition to those already held by the Company at the date of approval) representing up to 2% of the Company's share capital.

As a result, on 21 December 2011 the Company signed an agreement to acquire 13,586,720 own shares at a reference price of Euros 3.5580 per share. This contract included an option to acquire the shares at the agreed price by settling either in cash or at the difference between this agreed price and the share price on the contract expiry date, 21 January 2013. On expiry of this contract, the Company agreed an extension, changing the contract settlement terms, leaving only the option of acquiring the shares for a price of Euros 5.1 per share on two expiry dates: 8,086,720 shares for Euros 41,242,272 on 21 July 2013, and the remaining 5,500,000 shares for Euros 28,050,000 on 21 January 2014. On the first of these expiry dates, 21 July 2013, the Company exercised the option for 8,086,720 shares at the agreed price. On the second expiry date, 21 January 2014, the Company signed an extension to the contract for the acquisition of 5,500,000 own shares, and undertook to acquire the shares on 21 January 2015. On this date the Company renewed the contract to acquire these shares in two tranches. Tranche 1 for the acquisition of 3,100,000 shares expired on 21 April 2015 and tranche 2 for the acquisition of the remaining 2,400,000 shares expired on 21 January 2016. Finally, on 23 March 2015 the Company acquired all of the first tranche and 1,400,000 shares of the second tranche in advance for a total of Euros 22,950,000. The acquisition of 1,000,000 shares at a price of Euros 5.10 per share was therefore pending (see note 20 (b)). The final tranche was settled on 21 January 2016 in an amount of Euros 5,100,000.

As authorised by the then sole shareholder of the Company in a decision taken on 9 May 2011 and in accordance with the Company's Internal Regulations of Conduct on Stock Markets and the Own Share Policy approved by the board of directors, on 7 June 2012 the board of directors agreed to buy back additional own shares up to a maximum amount equivalent to 1% of the Company's share capital. The scheme to buy back 6,793,360 shares was completed on 2 July 2012. A further 800,000 shares were acquired on 4 April 2013.

At a meeting held on 26 July 2013, the board of directors, in exercise of the powers conferred on it by the shareholders at their general meeting, agreed to decrease DIA's share capital by redeeming 28,265,442 own shares.

On 1 August 2014 the Company signed an equity swap contract with Société Générale whereby the latter acquired 6,000,000 own shares of the Company at a price of Euros 6.1944 per share. The contract was settled on 1 September 2014, when the Company recognised the shares in its own portfolio for a total of Euros 37,166,400. These 6,000,000 shares were acquired as part of the long-term incentive plan for 2014-2016 (see note 20 (b)).

On 20 February 2015 the Company's board of directors agreed to carry out an own share buy-back programme (hereinafter the Buy-back Programme) in accordance with the authorisation conferred on the board of directors on 9 May 2011. The purpose of this Buy-back Programme was to decrease the Company's share capital, following authorisation of the Programme by the shareholders at the general meeting. The share capital decrease was approved at the general shareholders' meeting held on 24 April 2015. The 28,614,045 shares acquired under the Buy-back Programme carried out throughout the year were fully used in the share capital decrease (see note 16 (a)).

The Company purchased 821,000 shares amounting to Euros 4,048 thousand on 30 June 2016 and 3,179,000 shares totalling Euros 15,855 thousand on 31 July 2016 to cover the 2016-2018 long-term incentive plan (LTIP) approved by the shareholders at the general meeting held on 22 April 2016 as remuneration for Group executives.

Other transactions during 2016 and 2015 included the transfer of 1,078,008 shares and 3,324,980 shares, respectively, to the Group's directors and management personnel as remuneration, with charges of Euros 2,471 thousand and Euros 8,247 thousand to other reserves at 31 December 2016 and 2015, respectively. In 2014, 2013, 2012 and 2011, 393,219, 398,019, 115,622 shares and 85,736 shares were transferred, respectively, to the Group's directors and management as remuneration.

As a result, at the 2016 reporting date the Company holds 11,105,774 own shares with an average purchase price of Euros 5.9943 per share, representing a total amount of Euros 66,571,465.29. The

shares will be used to cover the share-based payment obligations with executives in accordance with the Plans described in note 19.

Movement in own shares during 2016 and 2015 is as follows:

	Nº shares	Euros/share	Total
At 31 december 2014	11,508,762	5.1147	58,864,185.94
Acquired shares	28,614,045	6.9915	200,054,641.83
Delivery of shares	(3,324,980)	5.4394	(18,085,767.45)
Repayment of capital	(28,614,045)	6.5448	(187,272,143.00)
At 31 december 2015	8,183,782	6.5548	53,560,917.32
Acquired shares	4,000,000	4.9758	19,903,323.80
Delivery of shares	(1,078,008)	6.3940	(6,892,775.83)
At 31 december 2016	11,105,774	5.9943	66,571,465.29

(c) Other equity instruments

This reserve includes obligations derived from equity-settled share-based payment transactions following the approval by the board of directors and shareholders of the 2011-2014 long-term incentive plan and a multi-year incentive plan for executives. The reserve also includes the long-term 2014-2016 incentive plan and the new 2016-2018 incentive plan, approved by the shareholders at the general meeting held on 22 April 2016, of which the employees were informed in June (see note 19).

(d) Dividends

Details of dividends paid are as follows:

Thousands of Euros	2016	2015
Dividends on ordinary shares:	122,212	112,614
Dividends per share (Euros):	0.20	0.18

Dividends per share (in Euros) are calculated based on the number of shares that entitle the holder to dividends at the distribution date, which in 2016 was 611,055,470 (625,632,815 shares in 2015).

(17) Grants, Donations and Bequests Received

Movement in non-refundable grants, donations and bequests received, net of the tax effect, is as follows:

	Thousands of Euros	
	2016	2015
At 1 January	1,150	1,786
Transfers to the income statement	(424)	(636)
At 31 December	726	1,150

Details of the amounts recognised in the income statement by type of grant are as follows:

	Thousands of Euros	
	2016	2015
Capital grants	676	821
Operating grants	647	424
Total	1,323	1,245

(18) Provisions

Details of non-current provisions are as follows:

	Thousands of Euros					
	Provisions for long-term employee benefits					Total
	Tax provisions	Labour provisions	Legal provisions	Other provisions		
At 1 January 2016	1,186	21,333	4,016	5,017	896	32,448
Charge	308	979	435	1,037	12	2,771
Applications	-	(1,142)	(8)	(496)	-	(1,646)
Reversals	(5)	(410)	(3,994)	(3,643)	-	(8,052)
At 31 December 2016	1,489	20,760	449	1,915	908	25,521

	Thousands of Euros					
	Provisions for long-term employee benefits					Total
	Tax provisions	Labour provisions	Legal provisions	Other provisions		
At 1 January 2015	861	30,728	3,860	11,653	16,867	63,969
Charge	333	4,273	95	1,706	18	6,425
Applications	-	(12,820)	(14)	(2,069)	-	(14,903)
Reversals	(8)	(848)	-	(6,198)	(15,989)	(23,043)
Transfers	-	-	75	(75)	-	-
At 31 December 2015	1,186	21,333	4,016	5,017	896	32,448

Tax, employee benefit and legal provisions

At 31 December 2016 the tax provisions to cover inspection-related risks amount to Euros 20,760 thousand (Euros 21,333 thousand at 31 December 2015). In 2015 the Company applied provisions of Euros 7,020 thousand in respect of tax inspections relating to income tax for 2005 and Euros 5,800 thousand for tax risks deriving from the sale of DIA France.

At 31 December 2016 this item includes provisions for lawsuits filed by employees (related to social security contributions) amounting to Euros 449 thousand compared with the Euros 4,016 thousand provision for this item recognised at 31 December 2015. Reversals in 2016 mainly reflect provisions to cover the risks derived from the sale of DIA France.

At 31 December 2016 provisions related to litigation with third parties (legal provisions) amount to Euros 1,915 thousand compared with Euros 5,017 thousand at 31 December 2015. During 2016 reversals of this type of provision mostly reflect those recorded by the Company to cover the risks derived from the sale of DIA France. In 2015 the Company released Euros 2,010 thousand of the provision made to cover risks derived from the sale of DIA France. The use and reversals of this provision in 2015 included movements in the provision made at 31 December 2014 by the Company related to the sale of DIA Turkey after the agreement was signed with the buyers on 22 June 2015.

Other provisions

Reversals in this item in 2015 related to the variable price for the acquisition of Grupo El Árbol Distribución y Supermercados, S.A., based on the estimate calculated by an independent expert.

(19) Share-based Payment Transactions

On 7 December 2011 the DIA board of directors approved a long-term incentive plan for 2011-2014 and a multi-year variable remuneration plan proposed by the Appointment and Remuneration Committee. Both of these plans are settled in Company shares. The shareholders approved these plans at their general meeting and beneficiaries were informed of the plan regulations on 11 June 2012.

Under the long-term incentive plan, executives (including the executive director) of the Company were entitled to variable remuneration settled through shares in the Company. The receipt of these incentives was dependent on whether the Company met certain business targets over the 2011-2014 period, as well as certain indicators relating to the value of these shares. Beneficiaries were also required to remain as employees of or maintain their commercial relationship with the Company and/or its subsidiaries on the plan reference dates. The settlements for the 2011-2014 plan were made in 2015 and 2016.

Under the multi-year variable remuneration plan, executives of the Company were awarded variable remuneration settled through shares in the Company. Amounts relating to 2011 and 2012 were settled in 2013 and January 2014 and remuneration for 2013 and 2014 was to be settled in 2015 and January 2016, dependent on the Company meeting certain business targets. Beneficiaries are also required to remain in the employment of or maintain their commercial relationship with the Company and/or its subsidiaries on the plan settlement dates.

On 25 April 2014 the shareholders at their general meeting approved a long-term incentive plan for 2014-2016, to be settled with a maximum of 6,981,906 Company shares, for the current and future executive directors, senior management and other key personnel of DIA and its subsidiaries, as determined by the board of directors. To receive the shares, the personnel who voluntarily join the plan must meet the requirements in its general terms and conditions. The purpose of the plan is to award and pay variable remuneration in DIA shares, according to compliance with business objectives for the Company. At 31 December 2016 the Company estimates that 5,333,908 shares is the maximum number that will be awarded under this plan.

On 22 April 2016 the shareholders at their general meeting approved a long-term incentive plan for 2016-2018, to be settled with a maximum of 9,560,732 Company shares, for the current and future executive directors, senior management and other key personnel of DIA and its subsidiaries, as determined by the board of directors. To receive the shares, the personnel who voluntarily join the plan must meet the requirements in its general terms and conditions. The purpose of the plan is to award and pay variable remuneration in DIA shares, according to compliance with business objectives for the Company. At 31 December 2016 the Company estimates that 4,311,286 shares is the maximum number that will be awarded under this plan.

In 2016 the costs recognised in respect of these plans amount to Euros 15,000 thousand (Euros 4,249 thousand in 2015). The balancing entry was recognised under other own equity instruments. The payments made in relation to the long-term incentives plan for 2011-2014 and the multi-year incentive plan amounted to Euros 5,634 thousand and Euros 15,429 thousand in 2016 and 2015, respectively, with transfers of 998,772 and 3,242,482 own shares, respectively.

(20) Payables and Trade Payables

The carrying amount of financial liabilities recognised at cost or amortised cost does not differ significantly from their fair value, with the exception of non-current bonds (see note 20 (b)).

(a) Group companies and associates

Details of Group companies and associates are as follows:

Group	Thousands of Euros	
	Current	Current
	2016	2015
Payables	48,361	48,679
Total	48,361	48,679

Details of current payables to Group companies at 31 December 2016 and 2015 are presented below:

Group	Thousands of Euro			
	Current	Tax Debit	Current	Tax Debit
	Account	(Income tax)	Account	(Income tax)
	2016		2015	
Twins Alimentación S.A.	4,297	17,025	28,546	6,122
Beauty by DIA S.A. (Schlecker, S.A. in 2015)	-	295	-	297
Grupo El Árbol Distribución y Supermercados, S.A.	-	26,157	-	13,301
Compañía Gallega de Supermercados, S.A.	-	587	96	313
DIA ESHOPPING, S.L.	-	-	4	-
Total	4,297	44,064	28,646	20,033

The interest rates applied to current accounts with Group companies in 2016 and 2015 ranged from one-month Euribor plus a spread of between -0.125% (with a 0% floor) for payables and one-month Euribor plus a spread of 0.2% for receivables.

(b) Payables

Details of payables are as follows:

	Thousands of Euros			
	2016		2015	
	Non-current	Current	Non-current	Current
Unrelated parties				
Bonds and other securities	794,652	5,587	495,862	3,500
Debt with financial institutions				
Syndicated credits (Revolving credit facilities)	97,360	-	297,580	-
Other bank loans	121,014	10,000	90,029	90,000
Interest	-	387	-	595
Credit facilities drawn down	-	2,498	-	126,119
Other financial liabilities	-	40,628	-	42,359
Finance lease payables (note 7)	24,002	9,188	9,881	5,106
Suppliers of fixed assets	-	3,756	-	9,252
Bills payable	-	6,853	-	5,827
Other debts	-	4,154	-	352
Current interest on payables	-	20	-	46
Guarantees and deposits received	9,078	148	7,391	164
Other financial liabilities	2,000	-	16,600	-
Total	1,048,106	83,219	917,343	283,320

- Bonds

The Company has outstanding bonds with a nominal value of Euros 800,000 thousand at 31 December 2016 (Euros 500,000 thousand at 31 December 2015), all of which were issued as part of a Euro Medium Term Note programme approved by the Central Bank of Ireland. Details of bond issues are as follows:

Issuing Company	Currency	Issue date	Amount in thousand of euros	Voucher	Maturity date
DIA, S.A.	EUR	22,07,2014	500,000	1.50%	22,07,2019
DIA, S.A.	EUR	28,04,2016	300,000	1.00%	28,04,2021

On 18 April 2016, the Company successfully completed a second bond issue amounting to Euros 300,000 thousand with a maturity of five years, a coupon of 1.00% and an issue price of 99.424%. These bonds were issued on the Irish Stock Exchange.

The fair value of these instruments is Euros 823,344 thousand at 31 December 2016, compared with a carrying amount of Euros 794,652 thousand.

- Loans and borrowings
Syndicated loans

These types of loans have been extended to the Company by various national and foreign entities. Details at 31 December 2016 and 2015 are as follows:

Description	Limit in thousand of euros	Currency	Outstandings in thousand of euros				
			2016	2015	Signed date	Maturity date	
Syndicated (*)	300,000	EUR	99,000	300,000	21,04,2015	75,000 225,000	21,04,2018 21,04,2019
Syndicated	400,000	EUR	-	-	03,07,2014		03,07,2019

(*) May be extended for a further two years up to 2020, subject to agreement between the parties.

In March 2016 the first extension to the syndicated loan arranged in April 2015 was carried out for Euros 225,000 thousand maturing in April 2019.

These loans are subject to compliance with certain covenant ratios linked thereto, as defined in the agreement. At 31 December 2016 all covenant ratios, which are calculated on the basis of the DIA Group's consolidated annual accounts, have been met. Details are as follows:

Financial covenant	Syndicated loans in 2014 and 2015
Total net debt / EBITDA	< 3.50x

Total net debt and Ebitda figures are calculated according to the definition included in the syndicated contract. Thus, these figures do not agree with the figures included in the notes 5 and 16.1 in this document.

Bank loans

In 2016 the Company repaid in advance a Euros 60,000 thousand loan signed in December 2015 and another Euros 50,000 thousand loan entered into in 2016. A new loan amounting to Euros 101,000 thousand was entered into in December 2016. At 31 December 2016 the outstanding balances on these loans fall due as follows: Euros 10,000 thousand in 2017 and Euros 121,000 thousand in 2018.

Credit facilities

At 31 December 2016 the Company has credit facilities with a total limit of Euros 68,350 thousand (Euros 188,600 thousand at 31 December 2015) on which Euros 2,498 thousand has been drawn down (Euros 126,119 thousand at 31 December 2015). At 31 December 2016 the Company has other uncommitted credit facilities, with a limit of Euros 210,000 thousand (limit of Euros 90,000 thousand at 31 December 2015). The credit facilities that the Group held in 2016 and 2015 accrued interest at market rates.

- Other current and non-current financial liabilities

Other current financial liabilities include the prevailing equity swap contracts signed by the Company. Details of operations carried out in 2016 are as follows:

Start date	Expiration date	Number of share	Nominal amount in
30,09,2016	22,12,2016	10,000,000	57,063
22,12,2016	22,03,2017	1,000,000	5,706
22,12,2016	22,12,2017	6,000,000	34,238

Details of operations carried out in 2015 were as follows:

Start date	Expiration date	Number of share	Nominal amount in
21,01,2015	21,01,2016	1,000,000	5,100
01,09,2015	30,09,2015	6,000,000	37,166
30,09,2015	30,09,2016	6,000,000	37,166

At 31 December 2016 other non-current financial liabilities of Euros 2,000 thousand reflect the amounts withheld from the seller in the acquisition of establishments from the Eroski Group, which will be released after five years, in accordance with the addendum to the framework contract signed on 7 August 2015. In 2015, in addition to this amount, this line item included deposits totalling Euros 14,600 in respect of the same transaction. These deposits were released in 2016 after an agreement was reached with the seller (see note 12 (b)).

(c) Trade and other payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	Current	Current
	2016	2015
Suppliers	978,491	760,794
Suppliers, group companies	4,587	8,122
Other payables	77,449	55,711
Personnel	21,287	24,689
Current tax liabilities (note 21)	9,311	-
Public entities, other (note 21)	46,514	53,664
Advances to customers	835	986
Total	1,138,474	903,966

Suppliers and trade payables essentially include current payables to suppliers of goods and services, including those represented by accepted giro bills and promissory notes.

The Company has reverse factoring facilities with limits of Euros 560,000 thousand and Euros 565,000 thousand at 31 December 2016 and 2015, respectively. Drawdowns total Euros 258,003 thousand at 31 December 2016 and Euros 226,162 thousand at the prior year end.

The information required by the reporting requirement established in Law 15/2010 of 5 July 2010, which amended Law 3/2004 of 29 December 2004 and introduced measures to combat late payments in commercial transactions, is as follows:

	2016	2015
	Days	Days
Average payment period to suppliers	47	47
Payment operations ratio	48	47
Pending payment transactions ratio	38	39

	Amount in euros	Amount in euros
	Total payments made	5,005,977,969
*Total payment pending	514,540,832	361,741,115

* Receptions unbilled and invoices included in the confirming lines at the year end previously mentioned, are not included in this amount.

(21) Taxation
- Balances with public entities

Details of balances with public entities are as follows:

	Thousands of Euros			
	2016		2015	
	Non-current	Current	Non-current	Current
Assets				
Deferred tax assets	110,796	-	112,306	-
Current tax assets	-	8,158	-	49,256
Other receivables from the Administration	-	183	-	515
	110,796	8,341	112,306	49,771
		(note 12 (c))		(note 12 (c))
Liabilities				
Deferred tax liabilities	20,710	-	26,772	-
Current tax liabilities (note 20 (c))	-	9,311	-	-
Value added tax and similar taxes	-	32,023	-	38,649
Social Security	-	8,907	-	9,152
Withholdings	-	5,584	-	5,863
	20,710	55,825	26,772	53,664
		(note 20 (c))		(note 20 (c))

On 20 January 2017 the Company received a refund of Euros 8,011 thousand from the taxation authorities. At the reporting date of these annual accounts this amount was recognised as a current tax asset. Furthermore, on 29 January 2016 the Company received a Euros 40,764 thousand income tax refund from the taxation authorities.

- Years open to inspection and tax inspections

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed.

On 30 June 2016, the Company was informed by the taxation authorities of the commencement of an inspection of the following taxes for the following periods:

Tax	Periods
Income tax	2011-2012
Value Added tax	2012
Personal income tax	2012

The inspection is ongoing at the reporting date, although no probable contingencies for the Company have been identified at the date on which these annual accounts were authorised for issue.

Consequently, at 31 December 2016 and 2015 the Company has the following main taxes and periods open to inspection:

Tax	Periods	
	2016	2015
Income tax	2013-2015	2011-2014
Value Added tax	2013-2016	2012-2015
Personal income tax	2013-2016	2012-2015
Business activities tax	2013-2016	2012-2015

Due to different interpretations of prevailing tax legislation, additional tax liabilities could arise in the event of inspection. In any case, the Company's directors do not consider that any such liabilities that could arise would have a significant effect on the annual accounts.

- **Income tax**

At 31 December 2016 the Company files consolidated tax returns as the parent of tax group 487/12. The tax group's subsidiaries until 2015 were Twins Alimentación, S.A., Pe-Tra Servicios a la Distribución, S.L., Beauty By DIA S.A., El Árbol Distribución y Supermercados, S.A. and Compañía Gallega de Supermercados, S.A. In 2016 the Group company DIA Eshopping S.L. joined the consolidated tax group.

All of the companies in the tax group determine corporate income tax due on a joint basis as a single taxable person, then distribute the tax burden among the individual companies.

A reconciliation of net income and expenses for 2016 and 2015 with DIA's taxable income is as follows:

2016	Thousands of Euros						
	Income statement			Income and expense taken to equity			
	Increases	Decreases	Net	Increases	Decreases	Net	Total
Income and expenses for the period	207,385	-	207,385	-	(382)	(382)	207,003
Income tax	58,386	-	58,386	-	(127)	(127)	58,259
Profit before tax	265,771	-	265,771	-	(509)	(509)	265,262
Permanent differences:							
individual company	38,435	(77,583)	(39,148)	-	-	-	(39,148)
Temporary differences:							
individual company							
originating during the year	17,678	-	17,678	-	-	-	17,678
originating in prior years	23,735	(12,361)	11,374	509	-	509	11,883
Taxable income	345,619	(89,944)	255,675	509	(509)	-	255,675

The permanent negative adjustment to income tax for 2016 of Euros 77,583 thousand primarily consists of the exemption to avoid double taxation in respect of the dividends distributed by DIA Portugal and Twins Alimentación, S.A., pursuant to article 21 of the Spanish Corporate Income Tax Law 27/2014 and the tax incentive related to the reduction in income obtained from certain intangible assets in accordance with article 23 of that Law.

The permanent positive adjustment to income tax for 2016 of Euros 38,435 thousand basically comprises the impairment recorded on the investment in DIA Shanghai which is considered to be permanently non-deductible, pursuant to Royal Decree-Law 3/2016 of 2 December 2016 (see note 11).

Temporary differences that increase taxable income in 2016 mainly reflect the reversal of the accelerated amortisation/depreciation performed in 2011 and 2012 in accordance with Royal Decree 13/2010 of 3 December 2010, and the reversal of the tax-deductible impairment on the investment in DIA Argentina, pursuant to Royal Decree-Law 3/2016 of 2 December 2016. These temporary differences also reflect differences in goodwill amortisation criteria and the non-deductibility of the equity-settled remuneration plans.

Temporary differences that decrease taxable income in 2016 mainly reflect the reversal of provisions related to the sale of DIA France that were non-tax deductible in prior years, and the reversal of a tenth of the Company's amortisation/depreciation charge, which was considered non-tax deductible, in accordance with Law 16/2012 of 27 December 2012.

Notes to the Annual Accounts for 2016

2015	Thousands of Euros						
	Income statement			Income and expense taken to equity			
	Increases	Decreases	Net	Increases	Decreases	Net	Total
Income and expenses for the period	216,975	-	216,975	-	(641)	(641)	216,334
Income tax	56,164	-	56,164	-	(214)	(214)	55,950
Profit before tax	273,139	-	273,139	-	(855)	(855)	272,284
Permanent differences:							
individual company	634	(86,983)	(86,349)	-	-	-	(86,349)
Temporary differences:							
individual company							
originating during the year	7,486	(54,580)	(47,094)	-	-	-	(47,094)
originating in prior years	21,698	(275)	21,423	855	-	855	22,278
Taxable income	302,957	(141,838)	161,119	855	(855)	-	161,119

The permanent negative adjustment to income tax for 2015 of Euros 86,893 thousand primarily consists of the exemption to avoid double taxation in respect of the dividends distributed by DIA Portugal and Twins Alimentación, S.A., pursuant to article 21 of the Spanish Corporate Income Tax Law 27/2014 and the tax incentive related to the reduction in income obtained from certain intangible assets in accordance with article 23 of that Law.

Temporary differences that increase taxable income in 2015 mainly reflect the reversal of the accelerated amortisation/depreciation performed in 2011 and 2012 in accordance with Royal Decree 13/2010 of 3 December 2010, and the charge to the provision on the investment in DIA Shanghai, the expense on which is considered non-tax deductible.

Temporary differences that decrease taxable income in 2015 mainly reflect the winding up of DIA Beijing, the reversal of provisions related to the sale of DIA Turkey and DIA France that were non-tax deductible in prior years, and the reversal of a tenth of the Company's amortisation/depreciation charge, which was considered non-tax deductible, in accordance with Law 16/2012 of 27 December 2012.

A reconciliation of total income tax and tax payable/recoverable is as follows:

	Thousands of Euros	
	2016	2015
Taxable income	255,675	161,119
Tax at (25-28%)	63,919	45,113
Deductions	(2,896)	(3,098)
Tax payable	61,023	42,015
Total tax payable	(28,785)	(30,092)
Withholdings and payments on account	(22,927)	(19,784)
Tax payable (+) recoverable (-) by the Company	9,311	(7,861)

The tax refund included in the definitive income tax return filed for 2015 was not Euros 7,861 thousand but Euros 8,296 thousand, once the final adjustments to this tax became known.

The relationship between the tax expense and accounting profit for 2016 and 2015 is as follows:

	Thousands of Euros			Thousands of Euros		
	2016			2015		
	Profit and loss	Equity	Total	Profit and loss	Equity	Total
Income and expenses for the period before tax	265,771	(509)	265,262	273,139	(855)	272,284
Tax at 25% (28% in 2015)	66,443	(127)	66,316	76,479	(239)	76,240
Positive permanent differences	9,609	-	9,609	177	-	177
Negative permanent differences	(19,396)	-	(19,396)	(24,355)	-	(24,355)
Deductions and credits for the current year	(762)	-	(762)	(662)	-	(662)
Income tax expenses in prior years	(493)	-	(493)	(208)	-	(208)
Other adjustments	2,985	-	2,985	3,920	-	3,920
Adjustment of tax rates	-	-	-	813	25	838
Income tax expenses / (income) from continuing operations	58,386	(127)	58,259	56,164	(214)	55,950

Details of accumulated temporary differences at 31 December 2016 and the corresponding deferred tax asset or liability, in thousands of Euros, are as follows:

	TEMPORARY DIFFERENCE					TAX EFFECT					
	2015	Origin	Reversal	Other	2016	2015	Origin	Reversal	Other	Adj. tax rts.	2016
	Onerous Contracts	-	882	-	-	882	-	221	-	-	-
Provision for textiles	154	-	(24)	-	130	38	-	(6)	-	-	32
Amortization differences on goodwill	-	4,217	-	-	4,217	-	1,054	-	-	-	1,054
Leaseholds	807	-	-	(33)	774	201	-	-	(8)	-	193
Provision for franchising operations	2,835	395	-	-	3,230	709	99	-	-	-	808
Hedge depreciation 2013/2014	48,792	-	(5,367)	(9,596)	33,829	14,476	-	(1,342)	(2,399)	-	10,735
Provision sale Turkey	75	-	-	-	75	19	-	-	-	-	19
Other provisions	435	-	(170)	-	265	109	-	(43)	-	-	66
Amortization intragroup goodwill	-	1,513	-	-	1,513	-	378	-	-	-	378
Equity instruments	8,008	6,806	-	-	14,814	2,002	1,702	-	-	-	3,704
Holding Asia	5,568	-	-	(5,568)	-	1,392	-	-	(1,392)	-	-
Pension commitments	1,186	304	-	-	1,490	297	76	-	-	-	373
Non-deductible goodwill on acq. of invest.	1,584	-	-	-	1,584	396	-	-	-	-	396
Non-deductible impairment of fixed assets	1,707	3,561	-	(198)	5,070	427	890	-	(50)	-	1,267
Shanghai	4,548	-	-	(4,548)	-	1,136	-	-	(1,136)	-	-
Provision sale France	12,990	-	(6,800)	-	6,190	3,247	-	(1,700)	-	-	1,547
DEFERRED TAX ASSETS RECOGNIZED	88,689	17,678	(12,361)	(19,943)	74,063	24,449	4,420	(3,091)	(4,985)	-	20,793
Dia Tian Tian Management Consulting Service & Co.Ltd.	-	-	-	8,720	8,720	-	-	-	2,181	-	2,181
Shanghai Dia Retail Co., Ltd.	-	-	-	39,178	39,178	-	-	-	9,795	-	9,795
DEFERRED TAX ASSETS NON RECOGNIZED	-	-	-	47,898	47,898	-	-	-	11,976	-	11,976
TOTAL DEFERRED TAX ASSETS	88,689	17,678	(12,361)	27,955	121,961	24,449	4,420	(3,091)	6,991	-	32,769

	TEMPORARY DIFFERENCE					TAX EFFECT					
	2015	Origin	Reversal	Other	2016	2015	Origin	Reversal	Other	Adj. tax rts.	2016
	Accelerated depreciation 2011	21,461	-	(7,690)	-	13,771	5,351	-	(1,923)	-	-
Accelerated depreciation 2012	12,867	-	(2,819)	-	10,048	3,233	-	(705)	-	-	2,528
Goodwill deductible purchases from third parties	5,033	-	-	(7)	5,026	1,258	-	-	(2)	-	1,256
Argentina	66,137	-	(13,226)	-	52,911	16,533	-	(3,307)	-	-	13,226
Hedging operations	59	-	-	58	117	16	-	-	15	-	31
Grants	1,619	-	-	(565)	1,054	381	-	-	(140)	-	241
TOTAL DEFERRED TAX LIABILITIES	107,176	-	(23,735)	(514)	82,927	26,772	-	(5,935)	(127)	-	20,710

The unrecognised temporary differences detailed above reflect the net balance of unrecognised deductible temporary differences for the accounting impairment of Shanghai DIA Retail C.Ltd. and DIA Tian Tian Management Consulting Service, amounting to Euros 95,137 thousand and Euros 19,299 thousand, respectively, and unrecognised taxable temporary differences pending inclusion due to application of Royal Decree-Law 3/2016 of 2 December 2016, amounting to Euros 55,959 thousand and Euros 10,579 thousand, respectively.

The tax loss carryforwards of Euros 87,857 thousand generated in 2014 and the deduction of Euros 2,146 thousand resulting from application of transitional provision thirty-seven of Spanish Income Tax Law 27/2014 should be added to the deferred tax assets reflected in the above tables for 2016.

In accordance with Royal Decree-Law of 3/2016 of 2 December 2016, from 2016 onwards, the Company may offset tax loss carryforwards up to a maximum of 25% of the taxable income of the tax group to which it belongs, prior to offset, in the year in which they were generated, which extends the period of recovery of the deferred tax asset; the company has carried out extensive tests to ascertain the probable recovery of such tax credits.

Details of accumulated recognised temporary differences at 31 December 2015 and the corresponding deferred tax asset or liability, in thousands of Euros, are as follows:

	TEMPORARY DIFFERENCE				TAX EFFECT						
	2014	Origin	Reversal	Other	2015	2014	Origin	Reversal	Other	Adj. tax rts.(*)	2015
Provision for textiles	141	13	-	-	154	35	4	-	-	(1)	38
Leaseholds	815	-	-	(8)	807	203	-	-	(2)	-	201
Provision for franchising operations	2,581	254	-	-	2,835	645	71	-	-	(7)	709
Hedge depreciation 2013/2014	54,213	-	(5,421)	-	48,792	16,264	-	(1,518)	(270)	-	14,476
Provision sale Turkey	5,673	-	(5,598)	-	75	1,418	-	(1,567)	-	-	19
Other provisions	444	-	(9)	-	435	111	-	(2)	-	-	109
Equity instruments	15,710	-	(7,702)	-	8,008	3,927	-	(2,156)	-	231	2,002
Beijing	28,040	-	(28,040)	-	-	7,852	-	(7,852)	-	-	-
Holding Asia	4,845	640	-	83	5,568	1,211	179	-	25	(23)	1,392
Pension commitments	862	324	-	-	1,186	217	91	-	-	(11)	297
Non-deductible goodwill on acq. of invest.	1,584	-	-	-	1,584	396	-	-	-	-	396
Non-deductible impairment of fixed assets	-	1,707	-	-	1,707	-	478	-	-	(51)	427
Shanghai	-	4,548	-	-	4,548	-	1,273	-	-	(137)	1,136
Provision sale France	20,800	-	(7,810)	-	12,990	5,200	-	(2,187)	-	234	3,247
TOTAL DEFERRED TAX ASSETS	135,708	7,486	(54,580)	75	88,689	37,479	2,096	(15,282)	(247)	403	24,449

	TEMPORARY DIFFERENCE				TAX EFFECT						
	2014	Origin	Reversal	Other	2015	2014	Origin	Reversal	Other	Adj. tax rts.(*)	2015
Accelerated depreciation 2011	29,554	-	(8,093)	-	21,461	7,689	-	(2,266)	-	(72)	5,351
Accelerated depreciation 2012	16,090	-	(3,223)	-	12,867	4,143	-	(902)	-	(8)	3,233
Goodwill deductible purchases from third parties	4,758	275	-	-	5,033	1,190	76	-	-	(8)	1,258
Argentina	71,240	-	-	(5,103)	66,137	17,809	-	-	(1,531)	255	16,533
Shanghai	10,382	-	(10,382)	-	-	2,596	-	(2,907)	-	-	311
Hedging operations	88	-	-	(29)	59	24	-	-	(8)	-	16
Grants	2,380	-	-	(761)	1,619	594	-	-	(213)	-	381
TOTAL DEFERRED TAX LIABILITIES	134,492	275	(21,698)	(5,893)	107,176	34,045	76	(6,075)	(1,752)	478	26,772

(*) Includes income/expenses derived from the adjustment of prior years' tax rates.

The tax reform approved by Law 27/2014 of 27 November 2014 introduced a gradual reduction in the rates of corporate income tax (28% in 2015 and 25% in 2016 and subsequent years). The tax impact on deferred tax assets and liabilities for 2015 is shown in the column "Rates regul."

The tax loss carryforwards of Euros 87,857 thousand generated in 2014 should be added to the deferred tax assets reflected in the above tables for 2015. Also, in 2015 the amount of the deferred tax assets for deductions generated in prior years was reduced by Euros 2,327 thousand.

The taxation authorities' right to examine or investigate tax loss carryforwards (whether available or already offset), double taxation relief and tax credits aimed at incentivising certain activities (whether applied or available) becomes statute-barred ten years as from the day after the filing deadline for the tax return or self-assessment for the tax period in which the right of offset or application was generated. After this period, the Company must justify the tax loss carryforwards or tax credits by presenting the assessment or self-assessment and its accounts, together with evidence of their having been filed during the aforementioned period at the Mercantile Registry.

Law 16/2013, which introduced a number of tax measures, repealed article 12.3 of the Revised Corporate Income Tax Law approved by Royal Legislative Decree 4/2004, which allowed impairment losses on securities held in the capital of companies to be deducted from taxable income. At the same time a transitional regime was established whereby it became compulsory to include impairment losses generated prior to this new rule in taxable income. Royal Decree-Law 3/2016 has amended this transitional regime and stipulated a minimum amount of impairment losses to be reversed that must be included each year. Consequently, the amount to be included in taxable income will be the greater of the resulting positive difference in the investee's capital and reserves and a fifth of the amount pending reversal. In 2016 the amount included in taxable income was a fifth of the amount pending reversal for each of the companies. Details are as follows:

Company	Thousands of Euros		
	Difference in Equity	Integrated amount in tax base	Amount pending of Intregation
Dia Argentina, S.A.	non application	13,226	52,904
Shanghai Dia Retail Co.Ltd.	non application	13,990	55,959
Dia Tian Tian Management Consulting Service & Co.Ltd	non application	2,645	10,579

In 2015 the increase in the capital and reserves of DIA Tian Tian Management Consulting Service entailed the reversal of a portion of the adjustments made in prior years with respect to this investment. Furthermore, the winding up of DIA Beijing Commercial Co.Ltd entailed the reversal of the adjustments made in previous years in relation to this investment.

Company	Thousands of Euros		
	Difference in Equity	Integrated amount in tax base	Amount pending of Intregation
Beijing Dia Commercial Co.Ltd.	-	(28,040)	-
Dia Tian Tian Management Consulting Service & Co.Ltd	640	640	(5,569)

In 2011, pursuant to additional provision eleven of the Revised Spanish Income Tax Law, applying the wording presented in Royal Decree-Law 6/2010 of 9 April 2010 and Royal Decree-Law 13/2010 of 3 December 2010, DIA applied accelerated depreciation to new property, plant and equipment and investment property acquired during the year.

In 2012, pursuant to additional provision eleven of the Revised Spanish Income Tax Law, applying the wording presented in Royal Decree-Law 6/2010 of 9 April 2010 and Royal Decree-Law 13/2010 of 3 December 2010, as well as the single repealing provision included in Royal Decree-Law 12/2012 of 30 March 2012, DIA applied accelerated depreciation to new property, plant and equipment and investment property acquired before 31 March of that year.

(22) Environmental Information

The Company takes steps to prevent and mitigate the environmental impact of its activities.

The expenses incurred during the year in managing this environment impact are not significant.

The Company's board of directors considers that there are no significant contingencies in connection with the protection and improvement of the environment and that it is not necessary to recognise any provisions for environmental liabilities and charges in the annual accounts at 31 December 2016 and 2015.

(23) Related Party Balances and Transactions

(a) Related party balances

Balances receivable from and payable to Group companies, and the main details of these balances, are provided in notes 12 (a) and (c) and 20 (a) and (c).

(b) Transactions with subsidiaries

The Company's transactions with subsidiaries are as follows:

	Thousands of euros	
	2016	2015
Balances with subsidiaries		
Sales	945,962	888,830
Other services rendered	122,849	108,362
Finance income	1,246	1,112
Dividends	40,966	73,681
TOTAL REVENUES	1,111,023	1,071,985
Purchases	(16,287)	(14,649)
Work carried out by the company for assets	34,010	26,559
External services	9,943	11,076
Finance expenses	-	19
TOTAL EXPENSES	27,666	23,005
Goodwill	25,023	-
Buildings	4,644	67
Machinery, installations, furniture and other fixed assets	9,293	703
TOTAL COST	38,960	770
Intangible fixed assets	(842)	(18,514)
Buildings	(189)	(435)
Machinery, installations and furniture	(964)	(1,324)
Other fixed assets	(14)	(189)
TOTAL CARRYING AMOUNT	(2,009)	(20,462)

(c) Information on the directors and senior management personnel

Details of remuneration received by the directors and senior management of the Company in 2016 and 2015 are as follows:

Thousands of Euros			
2016		2015	
Directors	Senior mgt.	Directors	Senior mgt.
2,756	4,747	5,235	11,012

In 2016 and 2015 the Company's directors accrued remuneration of Euros 1,188 thousand and Euros 1,089 thousand, respectively, in their capacity as board members.

In 2016 and 2015 the shares of the four-year incentive plan for 2011-2014 were awarded and the value of the shares awarded to one executive who is both a board member and a member of senior management was recognised as remuneration earned in those years.

Article 39.5 of the Company's articles of association requires the disclosure of the remuneration earned by each of the present members of the board of directors in 2016 and 2015. Details are as follows:

2016	Thousands of Euros			
	Financial instruments	Fixed remuneration	Variable remuneration	Others
Members of the Board				
Ms. Ana María Llopis Rivas	51.4	124.2	-	-
Mr. Ricardo Currás de Don Pablos (*)	522.7	669.4	462.8	7.2
Mr. Julián Díaz González	38.3	81.6	-	-
Mr. Juan María Nin Genova	32.7	92.1	-	-
Mr. Richard Golding	35.9	98.8	-	-
Mr. Mariano Martín Mampaso	41.9	94.7	-	-
Mr. Pierre Cuilleret	11.8	26.9	-	-
Ms. Rosalía Portela de Pablo	22.4	64.1	-	-
Mr. Antonio Urcelay Alonso	32.7	94.1	-	-
Ms. Angela Lesley Spindler	34.0	72.7	-	-
Mr. Borja de la Cierva	10.5	28.6	-	-
Ms. María Luísa Garaña	1.2	2.6	-	-
Total	836	1,450	463	7

(*) Remuneration as director, plus remuneration as Board member.

2015	Thousands of Euros			
	Financial instruments	Fixed remuneration	Variable remuneration	Others
Members of the Board				
Ms. Ana María Llopis Rivas	46.1	123.6	-	-
Mr. Ricardo Currás de Don Pablos (*)	1,731.3	667.1	1,831.0	6.8
Mr. Julián Díaz González	36.6	80.9	-	-
Mr. Juan María Nin Genova	6.3	22.9	-	-
Mr. Richard Golding	31.1	93.0	-	-
Mr. Mariano Martín Mampaso	37.5	85.6	-	-
Mr. Pierre Cuilleret	36.6	85.9	-	-
Ms. Rosalía Portela de Pablo	26.0	78.8	-	-
Mr. Antonio Urcelay Alonso	26.0	79.8	-	-
Mr. Nadra Moussalem	17.2	34.3	-	-
Mr. Nicolas Brunel	17.2	34.3	-	-
Total	2,012	1,386	1,831	7

(*) Remuneration as director, plus remuneration as Board member.

During 2016 and 2015 the members of the board of directors and senior management personnel of the Company have not carried out operations with the Parent or Group companies other than ordinary operations under market conditions.

The civil liability insurance premiums paid by the Company in respect of directors and senior management personnel totalled Euros 29 thousand.

The directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

(24) Income and Expenses
(a) Revenues
Sales

Details of revenues by geographical market are as follows:

	<u>Thousands of Euros</u>	
	<u>2016</u>	<u>2015</u>
East Spain	1,773,903	1,880,960
West Spain	2,618,131	2,626,966
Comunitary	2,959	4,112
Abroad	37,900	39,697
Total	4,432,893	4,551,735

Services delivery

In 2016 services rendered include the amounts of the rights licensed by DIA, ancillary services pertaining to the technical and commercial assistance provided to its franchisees and the revenues generated on home deliveries by its establishments.

(b) Supplies

Details of merchandise, raw materials and other supplies used are as follows:

	<u>Thousands of Euros</u>	
	<u>2016</u>	<u>2015</u>
Merchandise used		
Purchases	4,681,152	4,631,650
Purchase discounts, non-trade income and returns	(1,085,716)	(1,026,051)
Change in inventories	(22,046)	(18,793)
Total	3,573,390	3,586,806
Raw materials and consumables used		
Purchases	14,956	17,283
Change in inventories	758	(1,488)
Total	15,714	15,795
Subcontracted work		
Subcontracted work	40,748	34,985
Impairment of merchandise, raw materials and other suppliers	386	399
Total	3,630,238	3,637,985

(c) Employee benefits expense

Details of the employee benefits expense are as follows:

	<u>Euros</u>	
	<u>2016</u>	<u>2015</u>
Social Security payable by the Company	87,716	83,963
Other employee benefits expenses	3,284	2,531
Total	91,000	86,494

(d) Impairment and gains/losses on the disposal of fixed assets

Details of impairment and gains/losses on the disposal of fixed assets are as follows:

	<u>2016</u>	<u>2015</u>
	Impairment of intangible assets (note 5)	91
Impairment of property, plant and equipment (note 6)	3,714	975
Impairment of goodwill (note 5 (a))	825	-
Disposals and retirements of intangible assets (note 5)	380	1
Disposals and retirements of property, plant and equipment (note 6)	(11,074)	3,889
Total	(6,064)	4,975

Proceeds from the sale of these fixed assets totalled Euros 31,342 thousand in 2016 (Euros 3,647 thousand in 2015) and mostly derived from the sale of properties owned by the Company.

(25) Commitments and Contingencies

The off-balance-sheet commitments pledged and received by the Company comprise contractual obligations which have not yet been executed. The two types of commitments relate to cash and growth operations. Additionally, the Company has lease contracts which also represent future commitments made and received.

These off-balance-sheet cash commitments comprise:

- available credit facilities which were unused at year end and
- bank commitments received.

Commitments were acquired to carry out business expansion processes.

Finally, commitments relating to lease contracts for property and furniture are described in note 8 Operating Leases.

Itemised details of commitments at 31 December 2016 and 2015 are as follows:

(a) Pledged

In thousands of Euros - 31 December 2016	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Guarantees	205	250	1,183	8,552	10,190
Cash	205	250	1,183	8,552	10,190
Purchase option on warehouses and stores	9,630	14,643	5,999	36,300	66,572
Commercial contract commitments	13,881	1,565	47	-	15,493
Other commitments	2,118	2,009	2,502	169	6,798
Operations / property / expansion	25,629	18,217	8,548	36,469	88,863
Total	25,834	18,467	9,731	45,021	99,053

In thousands of Euros - 31 December 2015	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Guarantees	8,134	-	625	6,389	15,148
Cash	8,134	-	625	6,389	15,148
Purchase option on warehouses and stores	-	9,630	22,626	36,300	68,556
Commercial contract commitments	13,740	1,972	221	-	15,933
Other commitments	2,302	2,917	3,487	1,260	9,966
Operations / property / expansion	16,042	14,519	26,334	37,560	94,455
Total	24,176	14,519	26,959	43,949	109,603

The Company is the guarantor of the drawdowns made on the credit facilities by its Spanish subsidiaries, which at 31 December 2016 and 2015 amounted to Euros 1,687 thousand and Euros 1,270 thousand, respectively.

At 31 December 2016 and 2015, as the Parent of the DIA Group, the Company has guaranteed the financing granted to its subsidiaries in China, amounting to Euros 30,049 thousand and Euros 19,162 thousand, respectively.

(b) Received

In thousands of Euros - 31 December 2016	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Unused credit facilities	65,852	-	-	-	65,852
Unused revolving lines of credit	601,000	-	-	-	601,000
Unused confirming lines	301,997	-	-	-	301,997
Cash	968,849	-	-	-	968,849
Commercial contract commitments	24,833	4,246	5,948	10,344	45,371
Operations / property / expansion	24,833	4,246	5,948	10,344	45,371
Total	993,682	4,246	5,948	10,344	1,014,220

In thousands of Euros - 31 December 2015	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Unused credit facilities	62,481	-	-	-	62,481
Unused revolving lines of credit	400,000	-	-	-	400,000
Unused confirming lines	338,838	-	-	-	338,838
Cash	801,319	-	-	-	801,319
Commercial contract commitments	25,118	6,127	6,617	10,696	48,558
Operations / property / expansion	25,118	6,127	6,617	10,696	48,558
Total	826,437	6,127	6,617	10,696	849,877

(26) Employee Information

The average headcount of full-time-equivalent personnel in 2016 and 2015, distributed by professional category, is as follows:

	2016	2015
Management	138	138
Middle management	586	578
Other employees	14,742	14,602
Total	15,466	15,318

At year end the distribution by gender of Company personnel and the members of the board of directors is as follows:

	2016		2015	
	Female	Male	Female	Male
Board members	3	7	2	7
Management	47	90	47	88
Middle management	312	294	290	285
Other employees	10,745	4,673	10,610	4,775
Total	11,107	5,064	10,949	5,155

In 2016 the Company employed one executive, two middle management personnel and 121 other employees with a disability rating of 33% or above (or an equivalent local classification). In 2015 the Company employed one executive, two middle management personnel and 133 other employees with this disability rating.

The Company's senior management is formed by ten executives at 31 December 2016 and 2015. One executive is a member of the board of directors at 31 December 2016 and 2015.

(27) Audit Fees

KPMG Auditores, S.L., the auditor of the Company's annual accounts, and other affiliates of KPMG International invoiced the following fees for professional services during the years ended 31 December 2016 and 2015:

Thousands of Euros	2016		
	KPMG Auditores, S.L.	Other companies associated with	
		KPMG International	Total
Audit services	131	-	131
Other accounting review services	107	-	107
Other services	-	47	47
Total	238	47	285

Thousands of Euros	2015		
	KPMG Auditores, S.L.	Other companies associated with	
		KPMG International	Total
Audit services	131	-	131
Other accounting review services	104	-	104
Other services	-	505	505
Total	235	505	740

The amounts detailed in the above tables include the total fees for services rendered in 2016 and 2015, irrespective of the date of invoice.

(28) Events after the Reporting Period

At the date of authorisation for issue of these annual accounts, no events have occurred that require disclosure in this note.

DIRECTORS' REPORT

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

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%, and ICDC Services Sarl, of which it owns 50%. It also owns 50% of CINDIA, A.C.E. and 10% of Distribuidora Paraguaya de Alimentos, S.A.

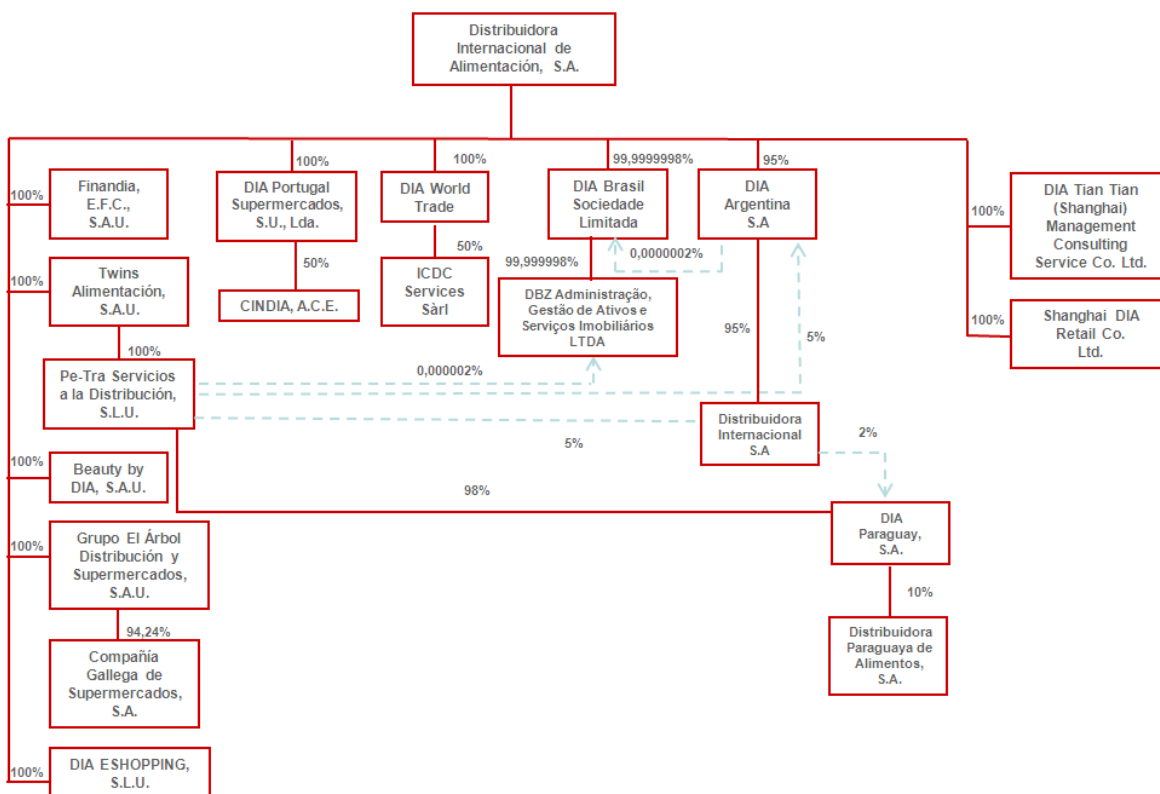
The Company's and subsidiaries main activity is the retail and wholesale sale of food products and other consumer products, through owned or franchised stores. DIA World Trade, S.A. is located in Geneva, Switzerland, and provides services to the suppliers of the DIA Group companies. Finandia E.F.C., 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 Administração, Gestão de ativos e Serviços Imobiliários Ltda., domiciled in Sao Paulo, is involved in managing the real estate belonging to DIA Brasil.

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 eight are independent, one is executive, and one is 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: Vice-Chairman qualified as independent.
- Ricardo Currás de Don Pablos: CEO qualified as executive.
- Julián Díaz González: Director qualified as independent.
- Richard Golding: Director qualified as independent.
- Antonio Urcelay Alonso: Director qualified as independent.
- Juan María Nin Génova: Director qualified as independent.
- Ángela Spindler: Director qualified as independent.
- Borja de la Cierva Álvarez de Sotomayor: Director qualified as independent.
- María Garaña: Director qualified as independent.

On 22 April 2016 and 7 September 2016 respectively, Pierre Cuilleret and Rosalía Portela de Pablo ceased to be Board Members.

Ángela Spindler joined the Board of Directors on 22 April 2016 (co-opted appointment on 15 February 2016, and ratified in the AGM on 22 April 2016).

Borja de la Cierva Álvarez de Sotomayor and María Garaña Corces joined the Board of Directors on 5 September 2016 and 14 December 2016 respectively. On these dates, they were appointed by co-optation, and these appointments will be submitted for approval at the next Junta General Shareholders Meeting of Distribuidora Internacional de Alimentación, S.A.

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; and
- (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.

The main functions of the audit and compliance Committee are as follows:

- report to the general shareholders meeting in relation to issues within the scope of its responsibilities;
 - 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;
 - 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;
 - coordinate the process for the reporting of non-financial and diversity information, in accordance with applicable regulation and international reference standards;
 - 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;
 - 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;
 - make a request to the judge for the revocation of the auditor or auditors or the auditing company or auditing companies designated by the General Meeting or by the Company Register and the appointment of another or others, when there is a just cause;
 - 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;
- 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;
 - 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;
- 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;
- (xii) 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;
- (xiii) supervise compliance with internal codes of conduct, in particular the code of conduct for the securities market;
- (xiv) 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;
- (xv) supervise the communication strategy and relations with shareholders, investors (including small and medium shareholders) and other stakeholders;
- (xvi) 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;
- (xvii) 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;
- (xviii) 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;
- (xix) 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
- (xx) 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 Richard Golding, chairperson, and Julián Díaz González, Juan María Nin Génova, Borja de la Cierva Álvarez de Sotomayor and María 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 Spindler as members.

1.1.3. Activity

The DIA Group is a company involved in the distribution of food, household, and beauty and health products, specialised in the management of proximity stores. The company has a presence in five countries: Spain, Portugal, Brazil, Argentina, and China, and operates more than 7,700 stores with various formats including DIA Market, DIA Maxi, Clarel, La Plaza de DIA, DIA Fresh, Max Descuento, Cada DIA, City DIA, Minipreço and Mais Perto. All of these stores are managed either directly or through a franchise model.

The company is listed on the Madrid Stock Exchange, and is part of the Ibex 35, the reference index of the Spanish stock market.

1.1.4. Development and application of corporate Policies

As a result of the new Code of Good Conduct set up by the National Securities Commission in Spain and approved in 2015, since then DIA has been working on adapting and publishing its corporate policies. The first stage, implemented in December 2015, involved the approval by the Board of Directors of a new Corporate Social Responsibility policy that is at the core of all the company's actions and includes the principles included voluntarily by DIA in relation to its various stakeholders.

The Corporate Social Responsibility Policy is set up as the reference framework prior to developing the other policies that the company has in connection with its relations with its stakeholders.

On 11 December 2015, DIA's Board of Directors approved its Shareholder Communication Policy, Fiscal Policy, Risk Management Policy, Media Relations in the Information Environment Policy, and its Environmental Policy. In 2016, the policies relating to Franchise Relations and the Corporate Food Quality and Safety policies were approved and published, as were the Crime Prevention and Anticorruption Policy, all of which are available on the company's corporate website.

At the time of publication of this report, the two remaining policies had been approved and published: the Human Resources policy and the Client Relations policy.

To gauge the application of each of the policies and ensure that the CNMV's Recommendations of the Code of Good Governance are complied with, the DIA Group has developed a series of indicators that are reported to the Audit Committee of the Board of Directors, which is responsible for the company's Social Responsibility.

All of these policies are available on DIA's corporate website www.diacorporate.com, where they can be referred to.

1.2. Operation

1.2.1. Strategy

The DIA Group has a multi-brand and a multi-format business model that places the customer at the heart of its business, based on an innovative system of continuous improvement that integrates the concept of profitability for all the players in its value chain. Its geographical expansion in Iberia and LatAm offers endless opportunities to grow organically and inorganically in both regions, driving a business model that boasts solid cash flow generation, an attractive return on investment, and offering shareholders a level of profitability that is above the sector average.

Since its listing in July 2011, DIA's business plans have always revolved around its strategy of reaching organic growth by leveraging its business consolidation in Iberia (its main market) and an unprecedented rate of expansion in the Latin American market. The company always ensures that priority is given to efficiency and a responsible use of resources.

Accordingly, the DIA Group has three transversal business priorities for the coming years:

The first priority is essential, and involves keeping the customer at the centre of all of the company's decisions. The second priority is to undertake a digital transformation within the group that spans all levels. The third priority is to develop new avenues of growth by searching for new business opportunities. All of these priorities tie in with the company's consolidated focus on the DIA franchise, the best operating model to manage proximity commerce, and a fundamental pillar of profitable growth.

The DIA Group's strategy is based on the following pillars:

(a) Specialist in the proximity segment:

The DIA Group boasts a unique business model that has allowed it to become an unrivalled specialist in the proximity segment. This proximity model allows the company to cater to each shopper's everyday grocery requirements without them having to travel far, saving money and time in the process. Underpinned by the tenets of sustainable mobility and integration in the urban environment, the sales model makes life easier and is environmentally friendly, helping to preserve existing urban cohesion and the dynamism of the broader retail trade.

More than 86% of the stores operated by DIA Group are in urban and rural areas under the following banners: DIA Market, DIA Fresh, Clarel, El Árbol, La Plaza de DIA, Cada DIA, Minipreço and Mais Perto, and offering the best prices in the area of influence.

To encourage daily shopping, DIA Market, La Plaza de DIA, El Árbol and DIA Fresh stores offer more perishable products, as produce quality is of increasing importance to consumers. The DIA Group responds swiftly to its customers' demands, which is why its stores are devoting more shelf space and prominence to fresh produce. The aim is to be the leading specialist in perishables: fruit, vegetables and bakery area offering freshly baked bread and pastries are the strengths that the DIA Group is actively developing.

(b) Customer-focused:

In the more than 35 years of DIA's activity, it has always been focused on its customers' needs. The company has leveraged the new digital tools and the opportunities available in the new environment to further develop its two-way relationship with its customers, offering a more complete shopping experience.

2016 saw the implementation of several projects aimed at offering DIA's more than 40 million customers a total shopping experience. During the year, the company devoted a large part of its efforts to developing and implementing the advantages of digitalisation in the broad sense, with the aim of adapting rapidly and efficiently to changing consumer habits, as well as enhancing its listening and relationship channels.

In Spain, the DIA Group has a listening system that aims to gain first-hand knowledge of customers' shopping experience, both in the offline and online channels. Accordingly, customers who use the Club DIA card to make a purchase in one of the group's stores receive an email with a brief questionnaire that evaluates the service received from the store employees, as well as their final experience at the cash desks. During 2016, the company

made progress with the implementation of its system of direct listening in its stores in Spain, with more than nine million surveys sent in 2016 and a response ratio of more than 7%. Furthermore, a similar listening model has been implemented in the group's stores in Argentina, where in the first three months more than 50,000 clients replied to the survey. These replies are sent to a committee in charge of transferring customers' conclusions to the relevant departments so that they can take the appropriate action.

This system provides DIA with information that is used to develop initiatives related to service and efficiency improvements.

The company's direct and continuous communication with customers also plays a key role in the work carried out on social media and the commercial channels that the company has in all the countries in which it is present. The issues dealt with through these channels include real-time information, questions related to the operation of the stores, and product news, also helping to enhance customer loyalty.

(c) Offer the best value for money

Boosting shoppers' purchasing power by offering the best quality at the best price in the market means that the DIA Group aims to continuously improve its efficiency, resulting in its undisputed price leadership. Quality food that everyone can afford is a priority for the company. The DIA Group has the best price image in its most important markets: Spain, Portugal, Brazil, and Argentina.

The company has continuously monitored its brands and different formats, both in terms of positioning and customer perception. In conjunction with the international consultant Kantar Worldpanel, it carries out a periodical listening and customer monitoring process throughout the year, in order to gain first-hand knowledge of customer perception in relation to its commercial offer and price image in all the countries in which it operates. This allows the company to react fast to the changing needs of its customers, and better adjust its commercial processes.

The search for synergies in pursuit of efficiency has also led DIA to reach negotiating agreements with other players in the sector with the aim of improving purchasing conditions, thus favouring customers through better prices. Agreements such as those signed last year with Eroski in Spain, Intermarché in Portugal, and Casino for its private label in all of its markets have allowed the company to continue to offer the best prices to its customers, boosting the amount of cash available to invest in improved promotions.

(d) A quality own brand:

The own brand is essential to achieve a good price image and represent a single link with consumers, helping to make them loyal to our stores. The DIA Group's own brand is constantly evolving to better adapt to customers' needs, providing them with an increasing amount of information, and innovating with the aim of achieving the same quality as the leading product in the market (or even beating it on quality), at an unbeatable price.

DIA's private-label catalogue includes 7,500 SKUs, representing an international range (present in five countries) that meets the requirements of a broad customer base with differing tastes and sensitivities.

The company boasts an extensive portfolio of brands. Thanks to these brands, and by offering the most comprehensive ranges at unbeatable prices, shoppers recognize DIA as a genuine specialist in a broad number of product categories.

In addition to the DIA brand, the company sells products under other private-label brands such as Bonté, specialised in personal care and hygiene products, Basic Cosmetics, focused on the make-up and cosmetics segments, BabySmile, devoted to all things baby-related, AS, the pet food brand, and Delicious, a range of premium products.

DIA's own brands are present in the product lines in all of the countries in which the company operates, representing 46% of turnover during 2016. In Spain, own-brand sales accounted for 49% of the total product range, and this figure was 54% in Portugal. Of note is the Group's excellent penetration in emerging countries, mainly in Brazil and Argentina, which have a weaker purchasing track record in this segment. In both countries, the sales of own brands represented 38% and 37% of total sales respectively, and the Chinese market accounted for an additional 7%.

The DIA Group exports its own brands from its markets in Spain and Portugal, which represents an unbeatable opportunity to expand and grow the business in countries in which the company does not have a physical presence.

In addition to further consolidating the DIA brand worldwide, exports in turn allow its local suppliers with which it works to broaden their operating scope and boost their image internationally. During 2016, more than EUR19m were invoiced through these exports, which were delivered to 31 markets worldwide.

Producers' main brands are also present in the Group's product lines, further meeting customers' needs and providing them with free choice. At the end of 2016, sales of producers' brands represented 54% of the total, mainly supported by the innovation of the most consolidated formats and the development of the recently added banners such as La Plaza de DIA and Clarel.

(e) A unique loyalty program

The "ClubDIA" card allows customers to benefit from immediate discounts at the cash desk on more than 300 products. Furthermore, monthly coupons are issued offering additional discounts within a product family, a specific brand of products or a new product that has recently been launched. The use of these coupons can represent an additional discount of up to 6% on the ticket purchase value. This tool is critical for the company's price image and allows it to implement more efficient sales plans with suppliers that are more efficient and beneficial for all involved.

Currently, 76% of the company's total sales are generated through the use of the loyalty card, making Club DIA an essential tool when it comes to growth and business consolidation.

Despite the differences and peculiarities of consumption habits in different countries, the Club DIA card continues to show that it is a valid, exportable model that is attracting new members each year in the markets in which it is present. Of note are the more than one million new members in Spain and Argentina, and the 4 million members in Brazil.

At the end of 2016, more than 1.7bn coupons had been generated, compared to 1.65bn in the previous year.

2016 also saw the start of the digitalisation of a large part of these coupons with the aim of meeting the needs of customers who are increasingly used to operating online. This project was launched in Spain, where, at the end of the fiscal year, 46m digital coupons had been issued.

(f) Continuous efficiency and process improvement:

Process improvement, continuous reviews, and the constant search for excellence, are part of the DIA Group's DNA. Efficiency is the best guarantee of sustainability, allowing the company to offer the most competitive prices.

All of this transformation process and rapid adaptation to customer needs would not have been possible without an agile, efficient, and profitable logistics network. DIA has 38 logistics platforms with a total of 764,526 square metres across the five countries in which it operates, which are part of an integrated system equipped with the latest technology.

In this system, each stage of the logistics process is designed according to the following step in the cycle, from the supplier to the store, with an optimal degree of adaptation thanks to the proprietary development carried out by the group. Accordingly, all the systems and IT programs used in its logistics network are designed and developed in-house, thus offering a rapid response to the changing needs of its markets and allowing the company to adjust and operate with the highest degree of efficiency within its proximity model.

In order to keep up with its exponential business growth, this year the DIA Group has opened two new logistics centres in Spain and Brazil, which add more than 53,000 square metres to its current logistics network.

All of the merchandise prepared in the warehouses for the stores is delivered on a single multi-temperature truck which carries all the perishable, frozen, dry and 0+ temperature products. The warehouses are managed using state-of-the-art technology such as "voice-picking" (orders placed verbally), or radiofrequency technology, which has eliminated the use of paper.

In line with this focus on innovation and continuous improvement in service levels, in 2016 the company began to test articulated vehicles (called Megatrucks) that are over 25 metres long, and which can carry up to 60 tonnes at a time. For now, this project is at the testing stage at the Spanish warehouses of Azuqueca de Henares and Dos Hermanas, allowing for a logical increase in transport efficiency and an improvement in emissions.

In order to become efficient and reduce costs, the DIA Group develops all of its strategic IT programs in-house, including the cash desk software, the warehouse management program, and the above-mentioned loyalty program. In addition, these programs are designed to better adapt to the specific requirements of the proximity business.

Furthermore, in the stores, everything is designed to optimize employees' tasks, starting with product allocation facilitated by packaging and conditioning. At the cash desks, prices are scanned faster and more easily thanks to bioptic scanners, as barcodes are printed in several places on each product and keyboards are optimized by removing unnecessary keys and enlarging the most commonly used ones.

The organization is focused on efficiency, allowing it to lower costs and offer the best prices to customers.

(g) The franchise:

The DIA Group sees the franchise concept as an essential pillar of its business model, allowing it to consistently expand its stores and generate value in all the countries in which it operates. At the end of 2016, the group had 3,969 franchised stores, accounting for 51% of its total network of stores.

Since it opened its first franchise in Spain 27 years ago, DIA has made progress with its franchise model, and it is now the leading franchiser in Spain and number three in Europe in the distribution sector, as well as number three by turnover in Brazil.

The success of its franchise model stems from the close ties that the company has with the franchisees from the outset. DIA provides its historical expertise of the sector, brand strength, and solid logistics network, while the franchisee brings commercial commitment and knowledge of the local market, which is essential to develop the proximity model.

Therefore, this is a solid professional relationship that not only generates profits for the parties involved, but it also brings value and wealth to the environment in which the franchise operates. Thus, at the end of 2016, the DIA franchises generated a total of 25,135 jobs across the five countries in which it is present.

Accordingly, the franchise model is suitable to manage proximity stores and is a key factor to improve and strengthen the company's model.

(h) Profitable growth:

Since its creation in 1979, the DIA Group has grown steadily. Its international aspirations, capacity for innovation and high degree of versatility have been at the heart of the company's growth in recent years.

The DIA Group's focus is always on profitable growth, which sometimes implies closing unprofitable businesses with little prospect of improvement, as happened with the sale of the activities in Turkey, France, and Peking in previous years. This divestiture went hand in hand with subsequent new acquisitions of companies and establishments with an attractive track history that shows a willingness to grow, as long as they offer a perfect fit with the company's strategy.

As for organic growth, the company is not looking for faster growth that could affect the profitability of the emerging countries as happened in Brazil, where profitable growth is ensured by the opening of a new region each year and a half, whilst looking for alternatives with master franchise contracts.

(i) Focus on an omni-channel approach

DIA's focus on an omni-channel approach over the last few years has also allowed the company to make significant progress in terms of e-commerce, mainly in the Spanish and Chinese markets. While so far online sales in Spain have represented 1% of total sales in the food sector, the growth potential and opportunities in relation to customers are currently infinite. The company now offers an online service in 19 Spanish provinces, and its

smartphone app has been downloaded more than 300,000 times. In addition, the company is increasingly developing its non-food channel with the Clarel website, which sells all over Spain, and the 'Oportunidades DIA' ('DIA Opportunities') flash sales website, which mainly sells electronic and technological products. The company has exported this strategy to other countries, with the start of e-commerce operations in China and the launch of 'Oportunidades' ('Opportunities') in Argentina.

Complementary to this multi-channel strategy, during 2016 the company initiated several digital projects and agreements with third parties, which has propelled the company to the forefront of the sector in terms of e-commerce and digital services, with a focus on further meeting the needs of customers who are increasingly going online. A few examples of the company's efforts to open up new channels through which to reach customers include: the agreement with Amazon to integrate La Plaza de DIA products into Amazon's Prime Now service in Spain; the joint project with ING Direct to offer customers the possibility of obtaining cash in-store; and the agreement with the online sales platforms Netease and Tmall in China.

1.2.2. Business Model

DIA Group operates multi-format stores with a commercial offer that combines own brands with the main national brands. The company operates in three different types of businesses: the proximity business, the supermarket business, and the household and personal care, cosmetics and perfume business.

(a) Store formats:

The DIA Group's different store formats are grouped under the following businesses:

(a.1) Proximity business

The discount business is currently the largest unit in terms of volume, representing 80% of the DIA Group's total stores worldwide. The main proximity store formats operated by the Group in its markets are as follows:

DIA Market: DIA Market stores have a floor space of between 400 and 700 square metres, and have a great ability to adapt to the needs of local demand. They aim to be as close as possible to customers, with a broad range of products and offering the best value for money. Of special note is the store's focus on perishable goods. This is the ideal store for everyday shopping, selling around 2,800 products.

DIA Maxi: DIA Maxi stores allow the company to better adapt supply and the level of service offered to customers characterized by making larger and less frequent purchases, even going to the store by car, compared to the proximity segment. This is the DIA Group's largest store format, with floor space of up to 1,000m². At DIA Maxi stores, consumers can shop for a wide range of around 3,500 SKUs at the best market prices.

DIA Fresh: This commercial model works as a store where fresh products are managed. Within the proximity shopping concept, DIA Fresh is a smaller format, with average floor space of 150m² and a product offering based on fresh products such as fruit, vegetables and a bakery area (an area offering freshly baked bread and pastries). Another feature of the DIA Fresh store concept is its long opening hours, which allows shoppers to stop by at any time between 09:30am and 9:30pm.

Cada DIA: This retail format, under the franchise model, targets smaller towns, particularly in rural areas. Under this formula, franchisees can offer DIA products without having to transform their stores into full-blown DIA stores. Typically, this is the town's longstanding store managed by a small shopkeeper.

Minipreço: Minipreço is the brand that DIA operates in Portugal. There are convenience stores in urban centres and larger stores in city suburbs. DIA brand products are offered in these stores.

Mais Perto: This is the most rural concept of DIA store in Portugal, equivalent to the Cada DIA stores in Spain. The stores are located in small towns and are managed by local franchisees, allowing greater proximity to customers.

(a.2) Supermarket business:

This unit represents 4% of total DIA Group stores. The main supermarket formats operated under this business are as follows:

La Plaza de DIA: La Plaza de DIA represents the concept of a traditional nearby family supermarket in which customers can carry out their daily shopping with a wide range of products, with special importance given to fresh produce. This store provides daily solutions for consumers with a wide range of over 5,000 SKUs.

Max Descuento: This store specializes in providing services to professionals and self-employed workers in the hotel, catering and food industries and to groups, with a range of over 4,000 SKUs with formats aligned with consumption levels in this channel. The service is supplemented by a telephone sales service, orders by email and distribution to customers through a transport network that optimises customer processing time.

(a.3) Household and personal care, cosmetics and perfume business:

This business represents 16% of total DIA Group stores.

Clarel: This is a new store concept that aims to become the benchmark proximity store for shoppers looking to buy beauty, health, household and personal care, baby and pet care items, with around 6,000 SKUs.

Clarel was created following the acquisition of Schleckers stores in Spain and Portugal, and underwent an intensive process of remodelling to transform them into the new banner with a more modern proximity image.

(b) Management models:

The stores are managed either in a proprietary manner (COCO Stores – Company Owned Company Operated), or through franchises (FOFO Stores – Franchised Owned Franchised Operated or COFO Stores – Company Owned Franchised Operated).

COCO Stores (Company Owned Company Operated): This is the DIA Group's initial management model, and therefore the most widely used, although in recent years it has become less prevalent than the franchise management model. The main advantages of this management model are the greater ease of adapting the business model, making changes and managing the personnel that work in the retail stores. In particular, the "DIA Maxi" retail stores for the most part operate under this model, due to their greater size, high sales potential and greater management complexity. New business concepts are first tested in COCO stores before being replicated in franchise stores.

At the end of December 2016, COCO stores represented close to 49% of total DIA Group stores.

FOFO Stores (Franchised Owned Franchised Operated): For the DIA Group, franchising is a management model and not a different retail model, so this model is treated from the point of view of the end customer in the same way as a COCO or company-owned store. This model that has become much stronger in recent years, and is of special significance to the DIA Group, and this change in strategy is mainly based on the proximity between franchisees and customers that provides a proximity service adapted to their needs. The franchisee manages the store in an optimal and efficient manner, and is an entrepreneur who manages the business with all of DIA's expertise, generating wealth in the environment in which it operates.

At the end of December 2016, FOFO stores represented 19% of total DIA Group stores.

COFO Stores (Company Owned Franchised Operated): This management model began to be implemented in Spain in 2006 with isolated tests. Since 2009, it has been implemented in a significant way. The principal advantage of this system is that the DIA Group fits out premises meeting all investment requirements and with all the necessary equipment and they are subsequently transferred to a third party for management and operation, which allows profitability to be generated for both parties thanks to the franchisee's involvement in the operation of the point of sale.

At the end of December 2016, COFO stores represented 32% of total DIA Group stores.

The current franchised banners are: DIA Market, DIA Maxi, Clarel, Cada DIA, Minipreço and Mais Perto.

2. DEVELOPMENT AND BUSINESS RESULTS

2.1. Main financial and non-financial indicators

In 2016, the Company generated a net turnover of EUR4.57bn. Accordingly, and jointly with its foreign subsidiaries, it generated sales of EUR8.87bn in 2016 (EUR8.92bn in 2015).

In 2016, the Company's operating income was EUR242.5m, representing a 6.3% increase compared to 2015.

During 2016, a provision was made for the deterioration in the portfolio stake of the Shanghai subsidiary amounting to EUR20.6m (EUR14.9m in 2015); this impact was due to the fact that the Company has re-evaluated the projections of subsidiary corporations to reflect their economic performance. With the purchase on 31 October 2014 of Grupo El Árbol Distribución and Supermercados S.A., the Company acquired the equity loan of which some of its partners were holders. This loan, which was made up of a fixed part and a variable part, was given a reasonable value at the time of purchase of EUR36.989m. As of 25 September 2015, the variable price was adjusted, and the loan was modified accordingly, finally valued at EUR35.137m, including the accrued interest. This loan, which matured on 1 September 2016, was paid according to its nominal value of EUR53.333m, generating an income in 2016 of EUR18.196m, included in the line item "Impairment losses from disposals of financial instruments".

DIA: FY RESULTS 2016

(EURm)	2015	%	2016	%	INC
Sales	4,551.7	100%	4,570.6	100.0%	0.4%
Works carried out by the company for as	5.4	0.1%	5.1	0.1%	-5.6%
Supplies	(3,638.0)	-79.6%	(3,630.3)	-79.4%	-0.2%
Other operating income	215.4	4.7%	245.7	5.4%	14.1%
Personnel expenses	(439.3)	-9.6%	(451.7)	-9.9%	2.8%
Other operating expenses	(358.3)	-7.8%	(384.1)	-8.4%	7.2%
Amortisation and depreciation	(104.6)	-2.3%	(119.6)	-2.6%	14.3%
Non financial and other capital grants	0.8	0.0%	0.7	0.0%	-12.5%
Impairment and gains on disposal of fi	(5.0)	-0.1%	6.1	0.1%	-222.0%
Results form operating activities	228.2	5.0%	242.5	5.3%	6.3%
Net finance income (excluding financial	59.8	1.3%	25.7	0.6%	-57.0%
Impairment and gains on disposal of fi	(14.9)	-0.3%	(2.4)	-0.1%	-83.9%
Net finance result	44.9	1.0%	23.3	0.5%	-48.1%
Profit before income tax	273.1	6.0%	265.8	5.8%	-2.7%
Income tax	(56.2)	-1.2%	(58.4)	-1.3%	3.9%
PROFIT OF THE YEAR FORM RECURRING OPERATIONS	216.9	4.7%	207.4	4.5%	-4.4%

In 2016, net business turnover per employee amounted to EUR295,522 (EUR297,149 in 2015).

WORKING CAPITAL AND NET DEBT

The Company's negative working capital was EUR465.3m at the end of 2016, implying a 90.1% rise versus the same period in the previous year. Stock value was 9.3% higher than the figure recorded in the previous year. This growth is due to an increase in the product range, the greater weight of perishable products in the remodelled stores, and lastly, the Company's efforts to reduce the number of defects in stores. Accounts payable grew by 25.9% to EUR1.138bn.

WORKING CAPITAL

(EURm)	2015	2016	INC
Inventories	225.3	246.2	9.3%
Trade and other receivables	434.0	427.0	-1.6%
Trade and other payables	(904.0)	(1,138.5)	25.9%
Trade working capital	(244.7)	(465.3)	90.1%

In 2016, the Company's net debt fell by EUR206.6m. During 2016, DIA invested EUR19.9m in the acquisition of treasury stock linked to commitments acquired as part of the 2016-18 long-term incentive programme. In addition, in July 2016, DIA distributed EUR122m in dividends among its shareholders.

NET DEBT

(EURm)	2015	2016	INC
<i>Long-term debt</i>	917.3	1,048.1	14.3%
<i>Short-term debt</i>	332.0	131.6	-60.4%
Total debt	1,249.3	1,179.7	-5.6%
Cash and equivalents	(25.5)	(162.5)	537.3%
Net debt	1,223.8	1,017.2	-16.9%

INVESTMENT AND NUMBER OF STORES

At the end of 2016, the DIA Group operated a total of 7,799 stores, 81 more than in the same period last year. Regarding the El Árbol and La Plaza formats, the number of supermarkets fell from 520 to 355 during 2016. This decrease of 165 stores is due to the closure of 46 El Árbol stores (almost all of them at the start of the year), the transformation of 125 stores into the DIA format, and the opening of 6 new La Plaza stores in 2016.

In 2016, 38 new stores were added to the Clarel network, reaching a total of 1,233 stores at the end of 2016. The weight of franchises continues to rise in this format, ending the year with a total of 107 franchises, 76 stores more than a year before, which represents 8.7% of the total number of stores in this format.

In the last twelve months, the number of DIA stores operated with local entrepreneurs rose by 196, from 3,666 to 3,862, and the weight of franchise stores rose accordingly from 61.1% to 62.2%.

	31 December 2015				31 December 2016				Change
	COCO	Franchise	TOTAL	%	COCO	Franchise	TOTAL	%	
TOTAL DIA									
DIA Market	1,515	2,965	4,480	58.0%	1,385	3,192	4,577	58.7%	97
Cada Dia / Mais Perto	0	519	519	6.7%	0	519	519	6.7%	0
Dia Market	1,515	3,484	4,999	64.8%	1,385	3,711	5,096	65.3%	97
DIA Maxi	822	182	1,004	13.0%	964	151	1,115	14.3%	111
DIA banner stores	2,337	3,666	6,003	77.8%	2,349	3,862	6,211	79.6%	208
% of DIA banner	38.9%	61.1%	100.0%		37.8%	62.2%	100.0%		
El Arbol / La Plaza	520	0	520	6.7%	355	0	355	4.6%	-165
Schlecker / Clarel	1,164	31	1,195	15.5%	1,126	107	1,233	15.8%	38
TOTAL DIA stores	4,021	3,697	7,718	100.0%	3,830	3,969	7,799	100.0%	81
% of stores	52.1%	47.9%	100.0%		49.1%	50.9%	100.0%		

2.2. Questions related to the environment and personnel

2.2.1. Environment

POLICY, ENVIRONMENTAL MANAGEMENT AND AUDITING SYSTEM

The environmental commitments taken on by the Company and reflected in its Environmental Policy are put into practice through the procedures included in the Environmental Management System, and the level of compliance is supervised by means of an environmental assessment of activities and facilities.

The DIA's environmental commitments are as follows:

- Comply with existing environmental legislation.
- Promote the responsible use of resources.
- Apply sustainability and ecodesign criteria to the development of products and packaging.
- Manage the waste generated following the waste hierarchy model, prioritising the prevention, reuse, recycling, and recovery.
- Adopt measures to reduce greenhouse gas emissions.
- Actively work to identify improvement opportunities by developing and implementing procedures that allow for environmental self-assessment.
- Encourage staff through training and awareness so that they actively participate in the application of these commitments.

SGMA (Environmental Management System)

During 2016, the Company finished defining the procedures and working guidelines that make up its Environmental Management System, standardising aspects such as the supervision of regulatory requirements, waste management, reporting of indicators, efficient energy management, emissions supervision, calculation of the carbon footprint, and the environmental assessment of facilities and activities.

Environmental assessment

In order to ensure that the DIA facilities and activities are managed in accordance with legal requirements and internal regulation, the Environmental department periodically audits the conduct of offices, warehouses and stores in relation to waste management, emissions and waste control, and consumption of resources.

The identification of improvement areas and the implementation of procedures and action plans have allowed the Company to gradually improve its environmental conduct, allowing it to post an overall improvement in the ratings obtained from environmental audits in relation to its warehouses.

ENVIRONMENTAL INDICATORS. VERIFICATION OF THE SUSTAINABILITY REPORT

Having an appropriate degree of supervision of the environmental conduct of its facilities and activities allows the company to identify the areas on which it needs to place particular emphasis to achieve a continuous improvement in terms of environmental issues.

In line with this objective, DIA works to identify environmental aspects that are relevant both for the company and for its stakeholders, establishing a series of indicators that allow it to supervise the progress made on these aspects.

The Company has a reporting system that is structured around a series of key management indicators (KPI – Key Performance Indicators) that are defined following the recommendations of the GRI international standard (Global Reporting Initiative). GRI is the measuring system that is most widely used internationally by listed companies for non-financial reporting.

The periodical gathering of the values of these indicators is carried out using “Enablon”, a 100% web-based software tool accredited by GRI and used in over 130 countries by leading companies in all sectors.

Year after year, DIA has worked to improve the quality and traceability of reported information, and in 2016 the company submitted part of its Sustainability Report for external verification.

Furthermore, DIA has a register of environmental regulation and non-compliance that allow it to act fast when faced with any contingency. During 2016, there were no significant fines related to non-compliance with environmental legislation.

In order to improve monitoring, regulatory updates (which are received periodically) are analysed and distributed to the relevant departments if they are applicable to DIA's activity.

In addition, the company works with several associations and specialised bodies to improve the management and regulation of environmental issues.

DIA Group's corporate website (www.diacorporate.com) makes available to its stakeholders all the Sustainability Reports published since the company's listing in 2011.

EMISSIONS

Calculation and external verification of the carbon footprint

The DIA's commitment to the challenge of reducing its carbon footprint has led the company to carry out a lot of work in this area in recent years, driving several emission reduction initiatives and developing a proprietary tool with which to calculate the carbon footprint of its facilities and activities in all geographical and operational areas.

During 2016, DIA's 2015 Greenhouse Gas Emission Inventory was submitted for external verification, obtaining a favourable report.

Accordingly, the calculation and verification of its carbon footprint allows DIA to better supervise the main emissions hotspots, and adopt measures to reduce its carbon footprint and evaluate its efficiency.

CDP (Carbon Disclosure Project)

During 2015, DIA took the step of publicly sharing information about its emissions of greenhouse gases and its measure to mitigate them, answering the CDP-climate change questionnaire, obtaining the highest score of all the companies that replied for the first time to the questionnaire.

In 2016, DIA renewed its commitment to transparency by again answering the CDP Climate Change questionnaire, improving its score versus the previous year, obtaining an A- level.

2.2.2. Personnel

2.2.2.1. HUMAN RESOURCES

At the end of 2016, DIA employed 16,171 people. The business performance, coupled with the company's focus on innovation with various formats, has led the company to develop new competencies and adapt to customers' new requirements at all levels.

In December 2016, the Board of Directors approved the Human Resources Strategic Plan, applicable to all the countries in which the group is present, and aligned with the main business objectives. Furthermore, in 2016 the Company has worked on developing an integrated training program for the entire workforce with the aim of placing the customer at the heart of all operations, and it carried out an employee satisfaction survey among all employees in order to listen and act according to their needs.

Strategic Human Resources Program 2017-2019

In July 2016, DIA Group's Strategic Human Resources Program was presented to the Board of Directors. The main pillar of this program, which covers a three-year period, is the company's strategic program, and it focuses on three key aspects in order to achieve its objectives:

- Customer focus: Provide continuity and strengthen the actions initiated in recent years to enhance the level of customer focus of its employees, which is a basic pillar of DIA Group's strategy.
- Digital transformation: Drive the necessary organisation and cultural changes to achieve a digital transformation of the organisation.
- Employee focus: Work on employee satisfaction within the framework of the "100% love my job" project, which includes a series of actions focused on the employee and designed to achieve greater employee commitment to the company's project.

2.2.2.2. Training

DIA has an active policy in terms of talent retention and training that identifies, recognises and promotes the value that the different job profiles generate for the organisation. Accordingly, the company applies an ongoing, differentiated focus on continuous training for all of its staff.

The Company has training centres for store employees. The training centres train new employees to carry out store functions in a very practical way. Specific training is also given in the logistics centres, focused on the efficient use of tools and machinery, and (as for other job profiles) guarantee employees' occupational safety.

Accordingly, 2016 was characterised by numerous actions focused on updating store operations, which has allowed training teams to roll out new operating procedures to all employees in the store network, to be immediately adopted by the teams.

During 2016, a transversal training project aimed at all of the Company's employees was also undertaken; this project involves the use of short informational videos that explain how tools work, as well as the Google applications that the company uses to improve collaborative work and communication, as well as providing technological solutions that help to streamline employee tasks.

2016 saw the launch of an e-learning program on the new Ethical Code and the ethical principles behind it, with the aim of aligning all of the Company's employees with this new code. This training program, was launched for staff at the Headquarters and Regional Centres in November and December.

The "Actitud CLIENTE" ('CLIENT Attitude') project was one of the key training initiatives during 2016. This project is a transversal program aimed at enhancing the shopping experience of DIA customers, mainly focusing on two parameters: in-store experience with the "Experiencia Cliente" ('Client Experience') project, and employee engagement at all levels with the "Actitud Cliente" ('Client Attitude') project.

Training at the headquarters and in offices

During 2016, employees at the Headquarters and in offices started to be trained in new work methodologies such as:

- * Design Thinking and other methodologies related to innovation projects applied to Customer experience.
- * Product Owner Methodology Agile.
- * Individual and Team Coaching.

New training methods have been included, such as "serious game" e-learning to develop employees' negotiating and time management skills.

Training in stores and warehouses

DIA provides high-quality, practical occupational training for people in store roles. This training teaches staff how to use the cash registers, instils DIA's values, and shows them basic concepts such as stock replenishment, customer service, and teamwork.

In order to implement this growing demand for warehouse and store staff training, during 2016 a new National Training Centre was opened, which has traditional training rooms and new types of classrooms such as an “Aula de la Tierra” (‘butcher’s classroom’) and an “Aula del Mar” (‘fishmonger’s classroom’). These classrooms are used for the theoretical and practical training of our butchers and fishmongers, and include all the equipment necessary to train our professionals.

In the warehouses, a leadership training program was launched for middle management, with the aim of establishing and standardising the leadership styles of the warehouse teams.

2.2.2.3. Talent recruitment and promotion

The publication of all vacancies that arise at the DIA headquarters through the DIA portal has led to an increase in internal job opportunities, thus boosting job profiles with a greater global and transversal vision of the Company.

New, more digital job profiles

Work has also been done on new technological job profiles in line with the digitalisation process at all levels implemented by the Company. Thus, during 2016 new professionals were hired, specialised in Big Data processes, technology, and e-commerce, among others.

The evaluation of potential at Manager level continues to be carried out by means of Assessment as a tool to evaluate skills.

2.2.2.4. Internal communication

Regarding communication with employees, there has been an ongoing increase in the number of people who have subscribed to DIA’s Internal Portal. During 2016, a new Social Portal was developed for all Company employees, and it will be launched in the second half of 2017, providing a service to all Company employees either on PCs or on smartphones, by means of an app.

“Paz social” (‘Social peace’) is one of our company’s objectives, and year by year we manage to avoid the impact of external factors on the Company’s activity, while guaranteeing employee rights. The Employee Relations teams and the employee representatives are aware that unity between both parties is the most favourable option for the company overall.

2.2.2.5. Health and safety at work

As part of its Human Resources policies, DIA has set the safety, health and wellbeing of its employees as one of its top priorities. Thus, DIA has established as one of its commitments the promotion of health and safety, committing to including preventative management in all areas of its activity.

Aware of the importance of maintaining appropriate risk prevention conditions, DIA complies strictly with existing legislation.

The aim during 2016 has been to achieve a safe and healthy work environment in all areas of the company: offices, stores, and warehouses. The company’s Risk Prevention Service aims to reduce workplace accidents and improve the safety of workers in all areas of activity. Each country has developed and adapted training in new stores and new processes, in order to ensure that all employees are trained in health and safety in the workplace. This applies to employees who are already working for the company (updating their knowledge), and to new hires.

In the warehouses and stores, a high degree of importance is given to training related to the prevention of occupational risk, and all employees are trained to operate specific machinery that they use in their workplace.

During 2016, the "Semana Saludable" ('Healthy Week') event was held once again, both at the Headquarters and at the Regional Centres. All the proceedings were focused on improving staff wellbeing, promoting an active and healthy lifestyle, and included issues related to food, emotional wellbeing, and physical activity.

Moreover, 2016 saw a continuation of information and awareness campaigns related to information security, which is an ever-growing risk due to the high degree of technological connectivity, both in the workplace and in our private lives.

2.2.2.6. Equal opportunities

DIA is committed to equal opportunities in the workplace, with a balanced proportion of women, who account for 69% of the total workforce. Women account for 34% of management positions.

In order to ensure gender equality, the group appropriately monitors and publicises selection processes, promotions, and workplace training, and also ensures salary equality in jobs of equal value.

In order to promote equal opportunities for all staff, an Equality Program has been in place since 2012.

In line with the company's commitment to disclose equal opportunities, in March 2016, in the context of International Women's Day, DIA participated in the "Decálogo Compromiso por la Igualdad" ('Commitment to Equality Guidelines'), of the Fundación Madrid Woman's Week.

2.2.2.7. Diversity and integration

DIA works to integrate staff with disabilities in all the countries in which it operates. At the end of 2016, a total of 124 people with some form of physical or intellectual disability were part of the Company's workforce.

On 3 December, for the fifth year running, DIA celebrated International Disability Day, helping to integrate people with disabilities.

DIA works closely with several Foundations and Associations, in particular Fundación Once, with which it works to integrate people into the Company by means of internships, direct or indirect hiring of goods and services, and reaching agreements with Special Employment Centres (companies with a minimum of 70% of staff with some sort of disability).

2.2.2.8. Performance and remuneration

DIA has in place performance evaluation mechanisms for all staff. In the case of store and warehouse staff, performance and productivity objectives are evaluated, both in relation to the workplace and individually. In the case of office staff, personal objectives are focused on individual performance and aligned with the Company's results.

During 2016, the Company continued to review and modify its performance evaluation system. These changes aim to increase the level of differentiation in terms of merit and talent recognition throughout the organisation, and improve the tool as an instrument for the professional development of employees and increase the weight of the DIA's values in everyday decision-making and the performance of the Company's employees.

The Company has continued to develop its talent management system for key roles within the organisation, with a particular emphasis on the development of horizontal careers, coaching, and the role of supervisors as people developers. Furthermore, a market-leading technological solution has been implemented to support the process and make it more accessible and productive for users.

Within DIA, the remuneration policy is established by the Group's Management, in accordance with local market practices, inflation, agreements with trade unions and collective bargaining agreements.

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

- Moderation and adaptation to the trends and references in matters of remuneration followed in companies of similar size and activity in a local way, ensuring that they are aligned with the best practices in the market.
- Reward the quality of work, dedication, responsibility, knowledge of the business and commitment to the Company of employees in key positions who lead the organisation.
- Close links between remuneration and the Company's results, such that the weight of variable remuneration is adapted to effectively reward the attainment of individual objectives as well as the contribution of value to the Company and its shareholders.
- Internal equity and external competitiveness.

3. LIQUIDITY AND CAPITAL RESOURCES

3.1. Liquidity

The Company 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 2016, available liquidity amounted to EUR 829.4m, including cash, cash equivalents, and available credit facilities.

Liquidity Analysis (EURm)

Class	Total	Used	Available
Revolving credit lines	700.0	99.0	601.0
Credit lines	68.4	2.5	65.9
Cash and other cash equivalents	162.5	-	162.5
Total	930.9	101.5	829.4

3.2. Capital resources

In recent years, the Company has invested close to EUR350m, excluding the acquisitions of shares and a number of stores from competitors. The Company's strategy is focused on mainly investing in markets with higher returns and in store openings and store remodelling.

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 Company 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 Company as of 31 December 2016, and that can affect its liquidity, amount to EUR233.5m (31 December 2015: EUR218.2m). The most significant item corresponds to lease contract commitments signed for the premises where the Company carries out its activity.

Lease contract commitments of premises amounted to EUR137.3m as of 31 December 2016 (31 December 2015: EUR116.0m).

The Company has obligations linked to furniture and equipment rental (vehicles, equipment, cleaning contracts, etc.) amounting to EUR7.4m as of 31 December 2016 (EUR7.9m as of 31 December 2015).

Commitments related to expansion operations amounted to EUR88.9m as of 31 December 2016, and EUR94.5m 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 Company also received commitments that can involve a future cash inflow amounting to EUR968.8m (EUR801.3m as of 31 December 2015). These received commitments are related to Treasury and include the amounts of the credit facilities, revolving credit, commercial paper and confirming credit, granted and unused. The increase in these commitments between 2016 and 2015 is mainly due to lower utilisation levels in 2016 of revolving credit in the Company.

With these credit facilities, the Company 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. MAIN RISKS AND UNCERTAINTIES

4.1. Operating risks

4.1.1 Risk of liability for defective products

In order to minimise the risk of placing defective products in the markets, the Company guarantees the quality and safety of its products, both private label and national brands, through an advanced quality management program that is certified under ISO 9001:2008 which covers every stage of the supply chain, from the point when each product is negotiated and developed until it reaches the store:

- DEVELOPMENT:

Supplier selection:

During the final selection stage of private-label suppliers, candidates must pass a strict initial homologation audit that guarantees the safety of all the factories where DIA products are manufactured.

All of these audits to private label suppliers follow DIA's own standards or well-recognized standards such as IFS and BRC.

Thanks to auditing, the general management of activities, space and equipment, and specific conditions of production and quality management system are evaluated.

Product validation:

The technical department supervises the specifications of each product before it is placed in the market.

As a requirement for a product to be added to the private-label range, each product must be submitted to, and a consumer tasting needs to be passed that evaluates consumer perception of the sensory and design characteristics of the products. All DIA product tastings are carried out following the UNE 87004:1979, UNE 87023:1995 rules.

Supplier audits and consumer tastings are also performed periodically once the product is placed in the market, in order to guarantee quality and safety, and to ensure that customer perception towards DIA products is maintained over time.

- QUALITY CONTROL

During the development stage, with the signing of the Quality Policy and the Quality Program, an agreement is reached with suppliers regarding the frequency of analysis, control parameters and tolerances that will be applied in the quality control of the products received by DIA.

All of DIA's warehouses have a quality laboratory which conducts quality control processes on the articles receives.

The Company has internal laboratories equipped with scales, pH meters, thermometers, refractometers, penetrometers, volumetric material (test tubes and volumetric flasks), equipment to measure dimensions (rulers, callipers, micrometers, go-no go gauge type rings and loop calibrators, sieves) and laboratory consumables.

In addition, DIA cooperates with approved external laboratories where it carries out further analyses, in addition to the internal control process.

- QUALITY ASSURANCE

The warehouse and store self-monitoring systems define the hygiene and sanitary conditions for the Company to guarantee that the quality and safety of products is maintained throughout the supply chain.

In order to ensure the application of these standards, the Quality Control Department carries out continuous controls and periodical audits in warehouses and stores during which it supervises and evaluates aspects such as order and cleanliness, expiry management, and the cold chain.

These audits allow the Company to identify and correct ahead of time any circumstance that could have an effect on the processes, thus guaranteeing the safety and quality of the products, which are stored in optimum conditions throughout the supply chain, thus offering customers safe, quality products.

- SAC – CLIENT SATISFACTION AND SERVICE

The Company's main objective is to satisfy its customers, and we think that the information we receive through the SAC is an important source of information to identify defective products and avoid, as far as possible, proceeding with their distribution.

Contact with customers allows us to engage in direct management, at times limiting the risk arising from customer dissatisfaction with defective products.

With the aim of mitigating this risk, the Company has an insurance policy with tailored coverage in terms of civil responsibility related to defective products.

The quality documents include details of suppliers' responsibility regarding product safety and legality.

4.1.2 Risks associated with production, supply, and distribution

The products sold by DIA are produced or come mainly from Spain or from neighbouring countries.

Given that some of the products distributed are perishable, an incorrect evaluation of demand or the impossibility of preserving the products in stock can complicate stock management and have a negative impact on the DIA's operating results.

Regarding the distribution of products, the company has a series of transport and distribution contracts (it fully entrusts these activities to third parties). Any significant interruption in the operations of the transport network, or

insolvency of its suppliers or transport companies, can lead to delays in the distribution of products and a possible destocking in stores. In addition, non-compliance with tax or social security obligations by the transport companies could imply additional costs related to eventual subsidiary responsibility in countries where the law so stipulates.

If external suppliers and transport companies do not carry out deliveries, or do not fulfil their tasks, or deliver late, or if there are any other additional costs associated with these delays or shortcomings, could generate further costs and have an unfavourable impact on our activities.

In order to mitigate the above risks, the Company relies on the following management systems or tools:

- DIA bases its competitive strategy on operating efficiency across the entire value chain, based on high-tech logistics and IT systems.
- In terms of the transport of goods from the DIA's logistics platform to stores, a standard contract is used to hire the transport companies that are responsible for the loading, transportation and unloading of goods. This contract establishes the internal rules required for the performance of the service in terms of quality and prevention of workplace risks.
- A strict and ongoing control procedure has been established to ensure that the tax and employment obligations of the transport companies are complied with. This is guaranteed by means of periodical checks to ensure that they are always up to date with their payments.
- To reduce risks in case of problems with transport companies, DIA has a policy of diversification and distribution of the warehouse bulks among a significant number of companies. Thus, a specific problem can be quickly resolved by the others or by new companies, limiting the impact on DIA's business.
- DIA has established binding corporate rules to be accomplished to guarantee quality throughout the supply chain, as well as contingency plans and the diversification of operations. All of these procedures allow the necessary actions plans to be implemented immediately in the event of incidents that pose a risk to DIA's business.
- The logistics platforms and warehouses are provided with software that gives real-time information about stocks and allows a daily production and transport plan to be established.
- In order to manage the stores, the Group has developed an Automatic Ordering tool (APT2), which places product orders according to stock levels, sales forecasts, expiry dates, and positioning in the store. This program also optimises truck loading, improving transport costs and reacting to changes in the service model.

4.1.3. Regulatory risk

The DIA's business is subject to a broad range of regulations (labor, environmental, tax, data protection, retail trade, franchising, food handling and safety, competition and other legislation) in the different jurisdictions in which it operates. The differences in regulatory requirements applicable in each jurisdiction may present a significant challenge from an operational point of view, by requiring that DIA adjust its business to varying regulatory schemes.

The operations of DIA could also be affected by changes in the rules applicable to it, in particular in relation to any amendments of regulations affecting opening hours, the construction and opening of new stores, or the establishment of prices and taxes. Any violation of the applicable rules could result in fines, penalties, administrative sanctions, and even potential sanctions of a criminal nature.

DIA is responsible for identifying, measuring and minimizing legal risks, continuously observing the applicable regulatory framework and reporting on compliance with legal obligations to the internal operations heads.

To develop and properly fulfil this function, the Company has an organizational structure consisting of Human Resource Management, Financial and Fiscal Management and Legal Departments in all jurisdictions in which it operates, which identify applicable regulations and monitor compliance.

To properly perform the functions of identification of the regulatory and supervisory framework of compliance, has undertaken the following actions:

1.- Establishment of a process control and monitoring rules.

The Legal Department has what has been termed a "regulation map", which identifies and details all regulations applicable to the Group, with a focus on key legislation in the main processes of the supply chain, and which has been classified into six sections:

- Legislation applicable to the negotiating process of the product: the DIA Group's relationship with its suppliers of services and goods, competitors, regulatory boards, brands, etc.;
- legislation applicable to the logistics activity: to the exercise of the activities of warehousing, distribution and transportation of goods;
- legislation applicable to the wholesale and retail trade;
- legislation applicable to business premises, urban leases, condominiums, local taxes, business hours, etc.;
- legislation applicable to the relationship between DIA and its customers, protection of personal data, consumption, payment methods, advertising and sales promotion, etc.;
- legislation applicable to DIA, as a listed company, on stock market issues, internal code of conduct, etc.;

In turn, the Legal Department is responsible for informing the rest of the Company on the content and scope of the new and/or regulatory changes, designing and holding training sessions, either in classroom or e-learning mode, when legislative developments have a significant impact on the activity of DIA.

In order to carry out this function, the Legal Department has established a procedure for monitoring and updating policy and communication to carry out this function, and have defined the resources, responsibilities and internal and external tools needed to perform this function and achieve the dual objective of having a regulatory map updated and an organization informed about their legal obligations.

2.- Implementation of Regulatory System Compliance.

DIA has established policies and procedures to inform and train employees on certain principles of behavior and to prevent and detect misconduct. Accordingly, it is worth highlighting the following:

(i) Code of Ethics and Ethics Consultation and Information Channel

On 27 July 2015, DIA's Board of Directors approved the Second Code of Ethics, which came into effect on 1 January 2016 (available at www.diacorporate.com).

The Company has decided that the Code of Ethics is the best instrument to implement an enforcement policy from the top down, leading by example for employees with certain types of conduct or behavior. As with the other standards defined by the Company, all employees must comply with the principles of conduct contained in this Code.

The main new updates on the Second Code of Ethics is the communication of the code to franchisees and to goods and services providers who can consult and report unethical practices carried out by DIA's employees and administrators.

One of the other main updates is the ability to consult and report anonymously, although anyone who identifies themselves will still be guaranteed full confidentiality, with no reprisals.

DIA has also established an Ethics Consultation and Information Channel (via email and postal address) at group level and at the level of each jurisdiction in which DIA operates to clarify questions of interpretation and analyze and resolve potential breaches of the Code, in accordance with internal and external regulations that are applicable.

(ii) Crime Prevention Model

DIA has implemented a crime prevention model to establish the most appropriate procedures and internal control policies to prevent the commission of acts contrary to the law and, where appropriate, to reduce or hold harmless the Company in accordance with Organic Law 1-2015 of 30 March, which modifies the Organic Law 10/1995 of 23 November of the Penal Code.

To this end, the organization has designated a person responsible for the prevention of crimes; this person is to permanently report to and assist the Director of the Compliance and Ethics Committee at corporate level and is responsible for the maintenance and proper operation of the crime prevention model. During 2016, the crime prevention model was analysed and assessed by a consulting firm with forensic experience. Accordingly, the model implemented in DIA has appropriate and efficient control measures in place to try to prevent and detect the commission of offenses that could entail criminal liability for DIA.

(iii) Anti-fraud and Anti-corruption Program

In May 2016, the Board of Directors approved the Policy for Crime Prevention and Antifraud, which is available at www.diacorporate.com.

DIA has implemented an Anti-fraud and Anti-corruption Program in all the jurisdictions in which it operates. As a result of this program, the Company has a fraud risk matrix analysed in terms of frequency and impact that includes controls to avoid this type of conduct. The Company has designated a person responsible for fraud prevention, and who is in turn responsible for crime prevention.

4.2. Financial risks

The Group's Global Risk Management program focuses on uncertainty in the financial markets and aims to minimize potential adverse effects on Group and shareholder profitability.

Risks are managed by the Group's Finance Department. This department identifies, evaluates and mitigates financial risks in close collaboration with the Group's business units.

The DIA's activities are exposed to various financial risks: market risk (exchange rate risk, interest rate risk), credit risk and liquidity risk.

4.2.1. Market risk

A- Interest-rate risk

The Company interest-rate risk arises from the fluctuations in interest rates that affect the financial costs of non-current borrowings issued at variable interest rates.

In line with its risk management policy, DIA arranges various interest rate hedges to mitigate its risk exposure. As of 31 December 2016 and 2015, there were no outstanding derivatives with external counterparties to hedge the interest rate of long-term financing.

The DIA's policy for financial assets is to keep ready cash to use. These balances are held in financial institutions with high credit ratings.

B- Currency risk

- Operational: cash flows

Fluctuations in currencies, other than the local currency, may have a positive or negative impact on the consolidated accounts. DIA seeks to minimize the risk through the negotiation of forward currency contracts managed by the Group's Treasury Department. The amount of annual hedging transactions carried out during 2016 amounted to USD6.552m and USD5.359m in 2015. This amount represented 66.09% of the transactions carried out in this currency in 2016 (98.38% in 2015). At the end of 2016, outstanding hedges in dollars amounted to USD1.803m (USD1.284m in 2015), and expire in the next eleven months. These transactions are not significant in comparison with the Company's total purchases. No transactions were carried out in any other currency in 2016 or 2015.

- Subsidiaries

The Group holds investments in foreign operations, the net assets of which are exposed to currency risk. Currency risk affecting net assets of the foreign operations in Argentinian Pesos, Chinese Yuan and Brazilian Real is mitigated primarily through borrowings in the corresponding foreign currencies.

C- Risk on financial instruments

The Company has "Equity Swap" contracts worth EUR39.944m. At the end of 2015, they amounted to EUR42.266m. Both operations have been performed to meet the payment obligations arising from the LTIP program (Long-Term Incentive Plan) to the Group Executives. Details are included in note 16 of the Notes of the Consolidated Annual Accounts. The derivative financial instrument is registered in the consolidated Net Equity.

4.2.2. Credit risk

DIA is not significantly exposed to credit risk. DIA has active risk policies to ensure that its wholesale customers have adequate credit quality. Retail sales pose less risk in that they are settled in cash or by credit card.

Derivative and cash transactions are performed with financial institutions that have high credit ratings, with minimum ratings of BBB. In countries where the rating is below that rating, it operates with local financial entities that are considered high credit quality by local standards.

Also, DIA places cash surplus in high credit quality assets and maximum liquidity. Policies established by the Executive Management of the Group are based on criteria of liquidity, solvency and diversification, establishing maximum amounts invested by counterparty, within a maximum term of 90 days of investment duration and definition of the instruments to which the surplus placement is authorized.

4.2.3. Liquidity risk

Recommendations regarding the information on this type of risk, its possible impact on the Company and the policies carried out by the same in order to mitigate it, are included in note 3 "Liquidity and capital resources" in section 3.1. Liquidity. We refer to this section.

5. IMPORTANT EVENTS AFTER THE REPORTING DATE

As of the date of formulation of the annual accounts and the management report of this fiscal year, there are no important events that must be included in this management report.

6. OUTLOOK

DIA forecasts mid-single-digit growth in gross sales under banner (in local currency) in 2017 and reiterates its 7% CAGR target for the 2016-18 period.

The adjusted EBITDA margin for the group should remain stable for the full-year 2017 figures.

The company confirms its EUR750m Cash From Operations target for the 2016-18 period.

DIA's third Capital Markets Day will be held on 22 June 2017.

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 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 2016 are, as a percentage, smaller compared to the rest of the costs arising from the development of activities aligned with its social objectives.

EUR7.1m was activated during 2016, corresponding to the capitalization of IT developments (EUR3.3m, as well as EUR1.5m corresponding to the development of commercial models and assortments in 2015).

8. TREASURY STOCK AND EARNINGS PER SHARE

As of 31 December 2016, DIA held 11.1 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.

(€)	2015	2016	Change	Change (Ex-FX)
Number of shares outstanding	622,456,513	622,456,513	0.0%	-
Average number of treasury shares	18,069,243	9,276,954	-48.7%	-
End of period number of treasury shares	8,183,782	11,105,774	35.7%	-
Weighted average number of shares	625,945,797	613,179,559	-2.0%	-
EPS	€0.478	€0.284	-40.6%	-40.2%
Underlying EPS	€0.406	€0.422	3.9%	6.1%

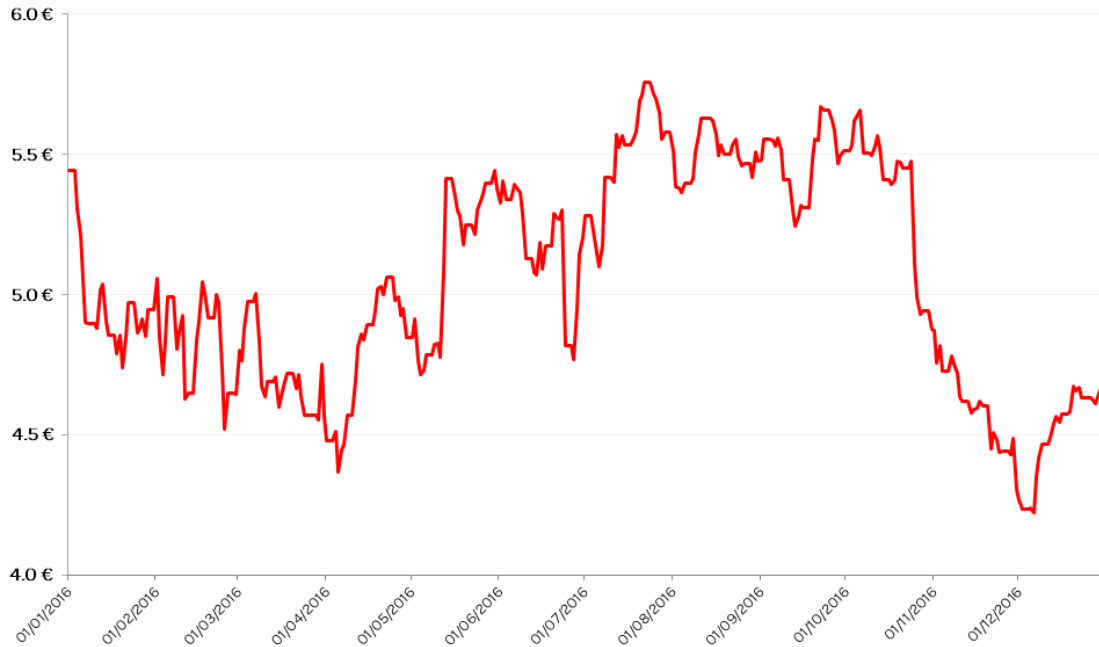
Underlying EPS grew by 3.9% in 2016 to EUR0.422, while at constant currency it grew by 6.1%.

9. OTHER RELEVANT INFORMATION

9.1. Stock market information

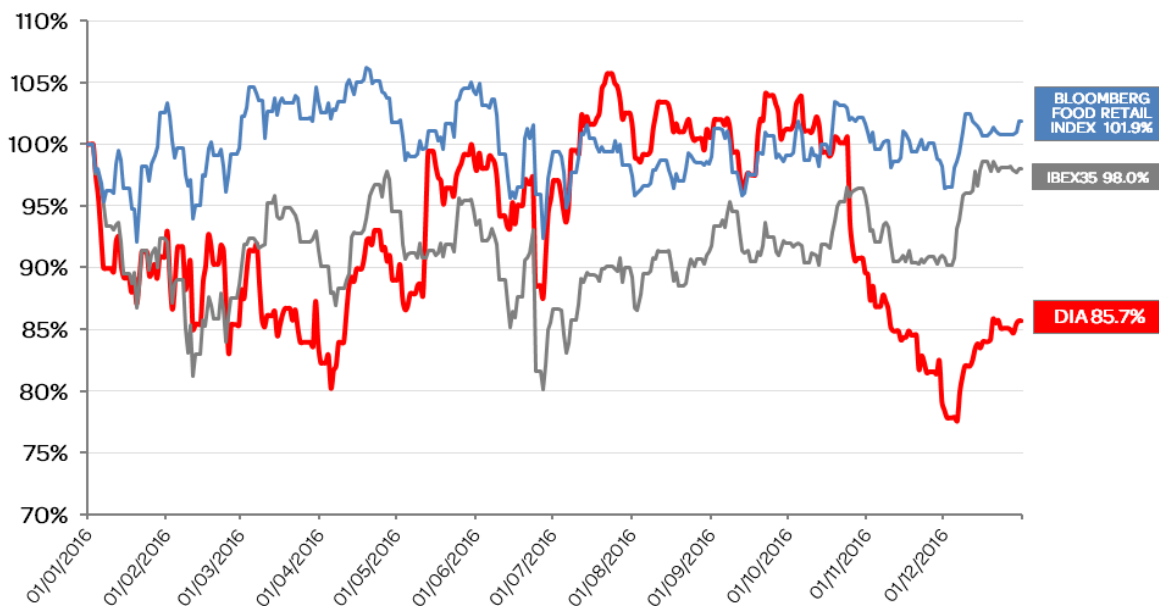
DIA SHARE PRICE PERFORMANCE

(From 1 January 2016 to 31 December 2016)



DIA SHARE PRICE VERSUS STOCK MARKET INDICES

(From 1 January 2016 to 31 December 2016)



During 2016, DIA's share price fell by 14.3%, versus the 1.9% appreciation recorded in the Bloomberg Food Retail Index, and underperforming the 2.0% drop recorded by the Ibex 35, the Spanish stock market's main reference

index. During 2016, the company saw a minimum price per share of EUR4.224 on 6 December, and a maximum of EUR5.755 on 22 July, closing the year at a price of EUR4.665 per share. During 2016, the liquidity of DIA's shares remained high, and with the upward trend maintained since its listing, it accumulated a total of 854 million shares traded in the year, with a total traded value of EUR4.258bn.

9.2. Dividend policy

DIA 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 five sole ordinary dividends charged against preceding years. The cumulated gross amount of these dividends was EUR0.78 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 EUR0.21 per share, 5.0% higher than the EUR0.20 per share paid on 14 July 2016. This amount represents a 49.8% payout ratio over underlying net profit and will imply the distribution of a maximum amount of EUR128.4m in dividends to shareholders.

This 2016 dividend means that DIA's total shareholder remuneration since its 2011 listing has now reached EUR935m, of which EUR623m 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- with stable outlook and Baa3 with positive outlook respectively. 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.