Distribuidora Internacional de Alimentación, S.A. and subsidiaries

Consolidated Annual Accounts

31 December 2016

Consolidated 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 Consolidated 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 Consolidated Accounts

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

Directors' responsibility for the consolidated annual accounts

The Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they present fairly the consolidated equity, consolidated financial position and consolidated financial performance of Distribuidora Internacional de Alimentación, S.A. in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control that they determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated annual accounts for 2016 present fairly, in all material respects, the consolidated equity and consolidated financial position of Distribuidora Internacional de Alimentación, S.A. and subsidiaries at 31 December 2016 and their financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and other applicable provisions of the financial reporting framework in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated directors' report for 2016 contains such explanations as the Directors of Distribuidora Internacional de Alimentación, S.A. consider relevant to the situation of the Group, its business performance and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2016. Our work as auditors is limited to the verification of the consolidated 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 Distribuidora Internacional de Alimentación, S.A. and subsidiaries.

KPMG Auditores, S.L.

(*Signed on original in Spanish*)

Carlos Peregrina García

22 February 2017

Distribuidora Internacional de Alimentación, S.A. and Subsidiaries

Consolidated Annual Accounts and Consolidated 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.)

DIA GROUP CONSOLIDATED ANNUAL ACCOUNTS

AT 31 DECEMBER 2016

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (I)

at 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	2016	2015
Property, plant and equipment	6	1,469,078	1,372,010
Goodwill	7.1	557,818	558,063
Other intangible assets	7.2	37,505	34,763
Investments accounted for using the equity method	11	185	92
Trade and other receivables	9.1	69,345	51,291
Other non-current financial assets	9.2	58,657	66,945
Consumer loans from financial activities	9.3	401	458
Deferred tax assets	19	314,273	271,480
Non-current assets		2,507,262	2,355,102
Inventories	13	669,592	562,489
Trade and other receivables	9.2	260,862	221,193
Consumer loans from financial activities	9.1	6,220	6,548
Current tax assets	19	71,087	69,474
Current income tax assets	19	8,832	49,663
Other current financial assets	9.3	19,734	15,718
Other assets	12	8,140	7,815
Cash and cash equivalents	14	364,600	154,627
Current assets		1,409,067	1,087,527
TOTAL ASSETS		3,916,329	3,442,629

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (I)

at 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	2016	2015
Capital	16.1	62,246	62,246
Reserves	16.2	261,108	87,323
Own shares	16.3	(66,571)	(53,561)
Other own equity instruments	16.3	21,013	11,647
Net profit for the period		174,043	299,221
Traslation differences	16.7	(59,773)	(93,683)
Value adjustments due to cash flow hedges		92	50
Equity attributable to equity holders of the Parent		392,158	313,243
Non-controlling interests	16.6	(60)	(18)
Total Equity		392,098	313,225
Non-current borrowings	17.1	1,062,273	920,951
Provisions	18	45,841	51,503
Other non-current financial liabilities	17.2	2,785	17,906
Deferred tax liabilities	19	44,109	3,193
Non-current liabilities		1,155,008	993,553
Current borrowings	17.1	180,734	374,279
Trade and other payables	17.3	1,952,848	1,518,843
Current tax liabilities	19	85,494	92,939
Current income tax liabilities	19	15,505	4,111
Other current financial liabilities	17.4	134,642	145,679
Current liabilities		2,369,223	2,135,851
TOTAL EQUITY AND LIABILITIES		3,916,329	3,442,629

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

CONSOLIDATED INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENTS (II)

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	2016	2015
Sales	5	8,867,621	8,925,454
Other income	21.1	110,976	96,215
TOTAL INCOME		8,978,597	9,021,669
Goods and other consumables used	21.2	(6,942,007)	(7,018,881)
Personnel expenses	21.3	(846,103)	(847,233)
Operating expenses	21.4	(653,549)	(644,034)
Amortisation and depreciation	21.5	(232,953)	(214,026)
Impairment	21.5	(13,262)	(11,013)
Losses on disposal of fixed assets	21.6	4,336	(12,340)
RESULTS FROM OPERATING ACTIVITIES		295,059	274,142
Finance income	21.7	12,089	9,265
Finance expenses	21.7	(64,121)	(65,291)
Profit of companies accounted for using the equity method		93	-
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		243,120	218,116
Income tax	19	(69,119)	82,610
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		174,001	300,726
Gains net of taxes of discontinued operations	15	-	(1,477)
NET PROFIT		174,001	299,249
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITYHOLDERS OF THE PARENT		174,043	299,221
PROFIT FROM CONTINUING OPERATIONS		174,043	300,698
PROFIT FROM DISCONTINUED OPERATIONS		-	(1,477)
Losses from continuing operations attributable to non-controlling interests		(42)	28
Basic and diluted earnings per share, in euros			
Profit for the period		0.28	0.48

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (III)

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.)

	2016	2015
Net profit for the year	174,001	299,249
Other comprehensive income:		
Translation differences of financial statements of foreign operations	33,910	(47,847)
	33,910	(47,847)
Value adjustments due to cash flow hedges	56	(7)
Tax effect	(14)	2
	42	(5)
Transfers to the consolidated income statement	33,952	(47,852)
Total comprehensive income, net of income tax	207,953	251,397
Attributed to:		
Equityholders of the Parent	207,995	251,369
Non-controlling interests (Note 16.6)	(42)	28
	207,953	251,397

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (IV)

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 attributable to equityholders of the Parent									
	Registered capital	Share premium	Reserves and accumulated earnings	Own shares	Other own equity instruments	Value adjustments due to cash flow hedges	Translation differences	Equity attributable to the Parent	Minority interests	Total equity
At 31st December 2014	**65,107**	**618,157**	**(223,830)**	**(58,864)**	**22,827**	**55**	**(45,836)**	**377,616**	**(46)**	**377,570**
Net profit for the period	-	-	299,221	-	-	-	-	299,221	28	299,249
Other comprehensive income net of income tax	-	-	-	-	-	(5)	(47,847)	(47,852)	-	(47,852)
Translation differences of financial statements of foreign	-	-	-	-	-	-	(47,847)	(47,847)	-	(47,847)
Value adjustments due to cash flow hedges	-	-	-	-	-	(5)	-	(5)	-	(5)
Total comprehensive income for the period	**-**	**-**	**299,221**	**-**	**-**	**(5)**	**(47,847)**	**251,369**	**28**	**251,397**
Transactions with equityholders or owners	(2,861)	(618,157)	311,153	5,303	(11,180)	-	-	(315,742)	-	(315,742)
Capital reduction	(2,861)	(144,844)	(39,567)	187,272	-	-	-	-	-	-
Distribution of dividends	-	-	(112,614)	-	-	-	-	(112,614)	-	(112,614)
Distribution of the profit of 2014	-	(473,313)	473,313	-	-	-	-	-	-	-
Issuance of share-based payments	-	-	-	-	4,249	-	-	4,249	-	4,249
Acquisitions of own shares (note 16.3 (a))	-	-	-	(200,055)	-	-	-	(200,055)	-	(200,055)
Delivery of own shares	-	-	(9,979)	18,086	(15,429)	-	-	(7,322)	-	(7,322)
At 31st December 2015	**62,246**	**-**	**386,544**	**(53,561)**	**11,647**	**50**	**(93,683)**	**313,243**	**(18)**	**313,225**
Net profit for the period	-	-	174,043	-	-	-	-	174,043	(42)	174,001
Other comprehensive income net of income tax	-	-	-	-	-	42	33,910	33,952	-	33,952
Translation differences of financial statements of foreign	-	-	-	-	-	-	33,910	33,910	-	33,910
Value adjustments due to cash flow hedges	-	-	-	-	-	42	-	42	-	42
Total comprehensive income for the period	**-**	**-**	**174,043**	**-**	**-**	**42**	**33,910**	**207,995**	**(42)**	**207,953**
Transactions with equityholders or owners	-	-	(125,436)	(13,010)	9,366	-	-	(129,080)	-	(129,080)
Distribution of the profit of 2015	-	-	(122,212)	-	-	-	-	(122,212)	-	(122,212)
Issuance of share-based payments	-	-	-	-	15,000	-	-	15,000	-	15,000
Acquisitions of own shares (note 16.3 (a))	-	-	-	(19,903)	-	-	-	(19,903)	-	(19,903)
Delivery of own shares	-	-	(3,224)	6,893	(5,634)	-	-	(1,965)	-	(1,965)
At 31st December 2016	**62,246**	**-**	**435,151**	**(66,571)**	**21,013**	**92**	**(59,773)**	**392,158**	**(60)**	**392,098**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

CONSOLIDATED STATEMENTS OF CASH FLOWS (V)

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.)

	Notes	2016	2015
Operating activities			
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		243,120	218,116
Loss before tax from discontinued operations		-	(1,477)
Profit before income tax		*243,120*	*216,639*
Adjustments to Profit and Loss:		*291,581*	*248,782*
Amortisation and depreciation	21.5	232,953	214,026
Impairment	21.5	13,262	11,013
Losses on disposal of fixed assets	21.6	(4,336)	12,340
Finance income	21.7	(12,089)	(9,265)
Finance expenses	21.7	64,121	65,291
Net reversals of provisions and grants		(6,921)	(40,374)
Other adjustments to Profit and Loss		4,684	(4,249)
Profit/(loss) of companies accounted for using the equity method net of dividends		(93)	-
Adjustments to working capital:		*283,658*	*(214,148)*
Changes in trade and other receivables		(30,158)	33,826
Changes in inventories		(107,103)	(9,370)
Changes in trade and other payables		434,232	(177,697)
Changes in consumer loan and refinancing commitments		385	(281)
Changes in other assets		(3,464)	(5,111)
Changes in other liabilities		(4,088)	1,669
Current income tax paid		(6,146)	(57,184)
Net cash flows from/(used in) operating activities		*818,359*	*251,273*
Investing activities			
Acquisition of intangible assets	7.1 and 7.2	(5,491)	(103,224)
Acquisition of property, plant and equipment	6	(332,807)	(455,116)
Acquisition of financial instruments		(33,124)	(29,229)
Development cost	7.2	(7,065)	(4,911)
Changes in Fixed Assets Suppliers and financial leases		49	18,180
Disposals of property, plant and equipment	21.6	38,546	2,854
Payments for other financial assets		(161)	15,218
Interest received	21.7	8,775	6,243
Net cash flows used in investing activities		*(331,278)*	*(549,985)*
Financing activities			
Dividends distributed to shareholders of the Parent	16.4	(122,212)	(112,614)
Acquisition of own shares	16.3 a)	(19,903)	(200,055)
Borrowings repaid		(366,603)	(53,050)
Borrowings made	17.1	297,203	598,224
Payments/(Collections) for other financial liabilities		2,542	127
Interest paid	21.7	(63,625)	(64,593)
Net cash flows from financing activities		*(272,598)*	*168,039*
Net changes in cash and cash equivalents		*214,483*	*(130,673)*
Net foreign exchange differences		(4,510)	86,296
Cash and cash equivalents at 1st January	14	*154,627*	*199,004*
Cash and cash equivalents al 31st December	14	*364,600*	*154,627*

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

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016

Notes to the Consolidated Annual Accounts for 2016 (VI)

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

1. NATURE, ACTIVITIES AND COMPOSITION OF THE GROUP

Distribuidora Internacional de Alimentación, S.A. (hereinafter "the Parent" 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 Parent'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 provided via the 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 Parent 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 brand name. The Parent opened its first establishment in Madrid in 1979.

The DIA Group currently trades under the names of DIA Market, Fresh by DIA, DIA Maxi, La Plaza de DIA, Max Descuento, Clarel, El Árbol, Cada DIA, Minipreço and Mais Perto.

The Company is the parent of a group of subsidiaries (hereinafter the DIA Group or the Group) which are all fully consolidated, except for ICDC Services, Sàrl (50% owned by DIA World Trade, S.A.) and Distribuidora Paraguaya de Alimentos, S.A. (10% owned by DIA Paraguay, S.A.), which are equity-accounted.

The following changes to the Group occurred in 2016 and 2015:

- On 2 December 2016, DIA Argentina increased its share capital by Argentine Pesos 197,928 thousand, which was fully subscribed by Group companies.

- In May 2016 the Group acquired 100% of the capital of Hartford, S.A. and on 30 June 2016 this company changed its name to DIA Paraguay, S.A. (hereinafter DIA Paraguay). As a result of this acquisition, the Group now holds a 10% indirect interest in Distribuidora Paraguaya de Alimentos, S.A. (hereinafter DIPASA). The registered offices of DIA Paraguay and DIPASA are both located in Asunción, the capital of Paraguay. The principal activity of DIA Paraguay is to engage in legal trade operations of all kinds and, primarily, the purchase, sale, construction and lease of real estate, and the purchase, sale and exchange of vehicles on its own behalf, on behalf of third parties, or in association with third parties, in both the domestic and foreign markets. The principal activity of DIPASA is to undertake the operations included in the master franchise contract entered into with DIA Paraguay. Both companies commenced their respective activities at the end of 2016.

- On 3 May 2016 and 26 December 2016, DIA Brazil increased its share capital by Brazilian Reais 100,000 thousand and Brazilian Reais 39,439 thousand, respectively. Both increases were fully subscribed by the Parent of the Group.

- 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.

- ICDC Services, Sàrl, was incorporated on 30 November 2015. This company is domiciled in Geneva and its activity consists of negotiating with international suppliers. This company is 50% owned by the DIA and Casino groups.

- On 1 July 2015 the Parent acquired 100% of the capital of Castanola Investments, S.L. and on 13 July 2015 this company changed its name to DIA ESHOPPING,S.L. Its activity consists of the creation, maintenance and operation of websites and web portals for the sale of products and services.

- On 31 May 2015 the merger of Schlecker Portugal (the absorbee) into DIA Portugal (the absorbing company) was signed, with the transfer en bloc of all the assets and liabilities of Schlecker Portugal to DIA Portugal. With effect from that date Schlecker Portugal was wound up.

- On 22 May 2015 a corporate group, CINDIA, was created in Portugal by the companies DIA Portugal and ITMP Alimentar. The statutory activity of this corporate group is to improve the terms and conditions applying to the economic activity of its member companies by negotiating on their behalf with the suppliers that work with both companies the conditions applicable to the purchase of the products needed for their respective businesses. The group was incorporated without any own capital, with each company holding a 50% interest in its assets and liabilities. Decisions are subject to unanimous agreement. At 31 December 2016 and 2015 the Group has included the corresponding proportion of the assets, liabilities, revenues and expenses in these consolidated annual accounts, as permitted by IFRS 11.

Details of the DIA Group's subsidiaries, as well as their activities, registered offices and percentages of ownership at 31 December 2016 and 2015 are as follows:

			% interest	
Name	**Location**	**Activity**	**2016**	**2015**
DIA Portugal Supermercados, Lda.	Lisbon	Wholesale and retail distribution of food products.	100.00	100.00
DIA Argentina, S.A.	Buenos Aires	Wholesale and retail distribution of food products.	100.00	100.00
Distribuidora Internacional, S.A.	Buenos Aires	Services consultancy.	100.00	100.00
DIA Paraguay, S.A.	Asunción	To dedicate on his own, from third parties or associated with terd parties, both in the country or abroad, to any act of lawful commerce and mainly to the sale, construction and lease of real estate: and the purchase, sale and exchange of vehicles.	100.00	-
Distribuidora Paraguaya de Alimentos, S.A.	Asunción	To execute the contract of Master Franchise signed with DIA Paraguay, S.A.	10.00	-
DIA Brasil Sociedade Limitada	Sao Paulo	Wholesale and retail distribution of consumer products.	100.00	100.00
DBZ Serv. Inmobiliario LTDA	Sao Paulo	Administration of real estate property of DIA Brasil	100.00	100.00
Finandia, E.F.C., S.A.	Madrid	Loan and credit transactions, including consumer loans, mortgage loans and finance for commercial transactions, and credit and debit card issuing and management.	100.00	100.00
DIA Tian Tian Management Consulting Service & Co. Ltd.	Shanghai	Services consultancy.	100.00	100.00
Shanghai DIA Retail Co. Ltd.	Shanghai	Wholesale and retail distribution of consumer products.	100.00	100.00
Beijing DIA Commercial Co. Ltd.	Beijing	Wholesale and retail distribution of consumer products.	-	100.00
Twins Alimentación, S.A.	Madrid	Distribution of food and toiletries through supermarkets.	100.00	100.00
Pe-Tra Servicios a la distribución, S.L.	Madrid	Leasing of business premises.	100.00	100.00
DIA World Trade, S.A.	Geneva	Provision of services to suppliers of DIA Group companies.	100.00	100.00
Beauty by DIA, S.A. (Schlecker, S.A. in 2015)	Madrid	Distribution of cleaning and toiletry products.	100.00	100.00
Grupo El Árbol, Distribución y Supermercados, S.A.	Madrid	Wholesale and retail distribution of food products and others.	100.00	100.00
Compañía Gallega de Supermercados, S.A.	Madrid	Wholesale and retail distribution of food products and others.	94.24	94.24
ICDC Services Sàrl	Geneva	Dealing with international suppliers.	50.00	50.00
DIA ESHOOPING, S.L.	Madrid	Creation, maintenance and operation of Internet sites and portals for selling products and services.	100.00	100.00

Subsidiaries are entities over which the Parent exercises control, either directly or indirectly, through subsidiaries. The Parent controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Parent has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Parent is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

Associates are entities over which the Parent, either directly or indirectly through subsidiaries, exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Group or other entities, are considered when assessing the existence of significant influence.

Investments in associates, including joint ventures, are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases.

At 31 December 2016 and 2015, the Group has several master franchise agreements, some of which grant the Group the option, at its discretion and within a specific period, which in some cases covers the full duration of the agreement, to purchase a percentage of the capital of the franchised business. The Group assesses, based on the terms of the agreement, whether these options are derivative financial instruments to be recognised in the consolidated financial statements. If the option entails the Group's control over the franchisee, the Group assesses the impact of the application of IFRS 3 Business combinations. At 31 December 2016 and 2015, the Group considers that the impact of these agreements on these consolidated financial statements is not significant.

2. BASIS OF PRESENTATION

2.1. Basis of preparation of the consolidated annual accounts

The directors of the Parent have prepared these consolidated annual accounts on the basis of the accounting records of Distribuidora Internacional de Alimentación S.A. and consolidated companies and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, to give a true and fair view of the consolidated equity and consolidated financial position of Distribuidora Internacional de Alimentación S.A. and subsidiaries at 31 December 2016 and of consolidated results of operations and consolidated cash flows and changes in consolidated equity for the year then ended.

On 28 February 2011 the DIA Group authorised for issue the consolidated financial statements for 2010, 2009 and 2008, which were the first consolidated financial statements drawn up by the DIA Group. These consolidated financial statements were prepared in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards, taking 1 January 2008 as the date of first-time adoption. Until 5 July 2011 the DIA Group formed part of the Carrefour Group, which has issued consolidated financial statements in accordance with IFRS-EU since 2005. For the purposes of the consolidated financial statements of the Carrefour Group, DIA and its subsidiaries each prepared a consolidation reporting package under IFRS-EU.

In accordance with IFRS 1, considering the DIA Group as a subsidiary that adopted IFRS-EU for the first time, the assets and liabilities included in DIA's opening statement of financial position were recognised at the carrying amounts of the sub-group headed by DIA in the amount reflected in the consolidated financial statements of the Carrefour Group, eliminating its consolidation adjustments.

Consequently, the DIA Group chose the same exemptions from IFRS 1 as those applied by the Carrefour Group:

- Business combinations: the DIA Group did not re-estimate the business combinations carried out prior to 1 January 2004 (see note 3 (a)).
- Cumulative translation differences: the DIA Group recognised the cumulative translation differences of all foreign businesses prior to 1 January 2004 at zero, and transferred the related balances to reserves at that date (see note 3 (d)).
- Financial instruments: the DIA Group opted to apply IAS 32 and IAS 39 from 1 January 2004.

The 2011 consolidated annual accounts, which were the first consolidated annual accounts prepared by the DIA Group, were filed at the Madrid Mercantile Registry in accordance with Spanish legislation.

These consolidated annual accounts were prepared on a historical cost basis, except for derivative financial instruments, financial instruments at fair value through profit or loss and available-for-sale financial assets, which were measured at fair value.

Note 3 includes a summary of all mandatory and significant accounting principles, measurement criteria and alternative options permitted under IFRS.

The Group has opted to present a consolidated income statement separately from the consolidated statement of comprehensive income. The consolidated income statement is reported using the nature of expense method and the consolidated statement of cash flows has been prepared using the indirect method.

The DIA Group's consolidated annual accounts for 2016 were authorised for issue by the board of directors of the Parent on 22 February 2017 and are expected to be approved by the shareholders of the Parent at their ordinary general meeting without any changes.

2.2. Comparative information

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

2.3. Functional and presentation currency

The figures contained in the documents comprising these consolidated annual accounts are expressed in thousands of Euros, unless stated otherwise. The Parent´s functional and presentation currency is the Euro.

2.4. Relevant accounting estimates, assumptions and judgements used when applying accounting principles

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group's accounting principles to prepare the consolidated annual accounts in conformity with IFRS-EU. 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 consolidated annual accounts, is as follows:

a) Relevant accounting estimates and assumptions

The Group 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 (see note 3 (k(ii)). The DIA Group calculates impairment on the basis of the strategic plans of the different cash generating units (CGU), i.e. the stores. The Group tests goodwill for impairment on an annual basis. The calculation of the recoverable amount of each CGU or group of CGUs to which goodwill has been allocated requires the use of estimates by management (see note 3 (k(i)). The recoverable amount is the higher of fair value less costs to sell and value in use. The Group 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 and the weighted average cost of capital. The estimates, including the methodology used, could have a significant impact on values and impairment.

The Group evaluates the recoverability of deferred tax assets that should be recognised by its subsidiaries based on the business plan of each one or, where applicable, 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, Parent management estimates the amounts and dates on which future taxable profits are expected to materialise and the reversal period of temporary differences.

In 2016 a long-term incentive plan for 2016-2018 was approved by DIA's board at their general meeting. A long-term incentive plan for 2014-2016 was approved in 2014. Both plans are to be settled in own shares of the Parent. 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 Parent 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 Group is undergoing legal proceedings and tax inspections in a number of jurisdictions, some of which have been completed by the taxation authorities and additional tax assessments have been appealed by the Group companies at 31 December 2016 (see note 18). The Group 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, management uses significant judgement when determining whether it is probable that the process will result in an outflow of resources and when estimating the amount.

2.5. First-time application of accounting standards

The Group has applied all standards effective as of 1 January 2016. The application of these standards has not required any significant changes in the preparation of this year's consolidated annual accounts.

2.6. Standards and interpretations issued but not applied

At the publication date of this Consolidated Annual Accounts, the following issued standars, that haven't been efectives and the Group plans to apply on 1 January 2018 or later, are:

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future.

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at 31 December 2016, would have had a material impact.

ii. Impairment – Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI.

Under IFRS 9, loss allowances will be measured on either of the following bases: a) 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and b) lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. However, the Group has not yet finalized the impairment methodologies that it will apply under IFRS 9.

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, there are differences between IAS 39 and IFRS 9 regarding fair value changes of liabilities designated as at FVTPL. Nevertheless, the Group has not currently designated any financial liabilities at FVTPL. The Group's preliminary assessment does not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2016.

iv. Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9.

IFRS 9 will require the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements regarding rebalancing of hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting. The Group currently does not undertake hedges of such risk components.

The Group basically uses forward foreign exchange contracts to hedge the variability in the fair value changes of foreign currency borrowings as a result of changes in foreign currency and interest rates.

The Group has not yet decided whether to continue applying IAS 39 or apply the new requirements of IFRS 9.

v. Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group is currently assessing the need to implement the system and controls changes as necessary to capture the required data.

vi. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 may either be applied prospectively or retrospectively. The Group has not made a decision in relation to this election.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

For the sale of products, revenue is currently recognised when the goods are delivered to the customers at the stores, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable (already received in cash transactions) and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods which also takes place when the goods are delivered to the customers at the stores.

Although the customer is allowed to return any item, the impact of this is irrelevant in the Group. Therefore, there is no current impact in the recognition of revenue and will not either under IFRS 15.

For the loyalty programmes operated by the Group, as discounts are granted and applied to customers when the transaction occurs, being recorded as a reduction in revenue, no liability is recognized. No impact is expected under IFRS 15.

The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the prospective approach.

The Group's initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements is that the impact will be very limited.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

The standard is effective for annual periods beginning on or after 1 January 2019 although early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases of warehouse and stores. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

As a lessee, the Group can either apply the standard using a retrospective approach; or a modified retrospective approach with optional practical expedients

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply.

As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease

The Group has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into. The Group considers especially relevant in the application of this standard and its quantification the analysis to be performed on the term of the lease, as well as the discount rate to apply. The Group expects to disclose its transition approach and quantitative information before adoption and, in any case, expects that the impact of the application of this standard will be significant in the group financial statements.

2.7. Basis of consolidation

IFRS 10 requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements and establishes control as the basis for consolidation. An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, an investor controls an investee if and only if the investor has all the following:

a) power over the investee;

b) exposure, or rights, to variable returns from its involvement with the investee; and

c) the ability to use its power over the investee to affect the amount of the investor’s returns.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from their acquisition date, which is the date control commences. Subsidiaries are excluded from the consolidated Group from the date on which this control is lost. For consolidation purposes the annual accounts of subsidiaries are prepared for the same reporting period as those of the Parent, and applying the same accounting policies. All balances, income and expenses, gains, losses and dividends arising from transactions between Group companies are eliminated in full.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Business combinations and goodwill

As permitted by IFRS 1, the Group has recognised only business combinations that occurred on or after 1 January 2004, the date of transition of the Carrefour Group to IFRS-EU, using the acquisition method (see note 2.1). Entities acquired prior to that date were recognised in accordance with the accounting principles applied by the Carrefour Group at that time, taking into account the necessary corrections and adjustments at the transition date.

The Group applies IFRS 3 Business Combinations, revised in 2014, to all such transactions detailed in these consolidated annual accounts.

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

The consideration transferred in a 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 transferred excludes any payment that does not form part of the exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.

At the acquisition date the Group recognises the assets acquired, the liabilities assumed and any non-controlling interest at fair value. Non-controlling interests in the acquiree are recognised at the proportional part of the fair value of the net assets acquired. These criteria are only applicable for non-controlling interests which grant entry into economic benefits and entitlement to the proportional part of net assets of the acquiree in the event of liquidation. Otherwise, non-controlling interests are measured at fair value or value based on market conditions.

The excess between the consideration given and the value of net assets acquired and 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 and loss.

Moreover, for business combinations without consideration, the excess of the value assigned to non-controlling interests, plus the fair value of the previously held interest in the acquiree, over the net value of the assets acquired and liabilities assumed is recognised as goodwill. Any shortfall is recognised in profit or loss, after assessing the amount of non-controlling interests, the previous interest and the identification and measurement of net assets acquired. If the Group has no previously held interest in the acquiree, the amount allocated to net assets acquired is attributed in full to non-controlling interests and no goodwill or negative goodwill is recognised.

b) Joint arrangements

IFRS 11 establishes that a joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint arrangements can be classified as joint ventures or joint operations.

c) Non-controlling interests

Because they were acquired prior to 1 January 2004, non-controlling interests in subsidiaries were recognised at the amount of the Group’s share of the subsidiary’s equity.

Profit and loss and each component of other comprehensive income are allocated to equity attributable to shareholders of the Parent and to non-controlling interests in proportion to their investment, even if this results in the non-controlling interests having a deficit balance. Agreements entered into between the Group and non-controlling interests are recognised as a separate transaction.

Changes in the Group’s percentage ownership of a subsidiary that imply no loss of control are accounted for as equity transactions. When control over a subsidiary is lost, the Group adjusts any residual investment in the entity to fair value at the date on which control is lost.

Group investments and, where applicable, non-controlling interests in subsidiaries or associates are calculated taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently allow access to the economic benefits associated with the interests held, such as entitlement to a share in future dividends and changes in the value of subsidiaries and associates.

d) Translation of foreign operations

The Group has applied the exemption permitted by IFRS 1, First-time Adoption of International Financial Reporting Standards, relating to accumulated translation differences. Consequently, translation differences recognised in the consolidated annual accounts generated prior to 1 January 2004 are recognised in retained earnings (see note 2.1). As of that date, foreign operations whose functional currency is not the currency of a hyperinflationary economy have been translated into Euros as follows:

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, including comparative amounts, are translated at the closing rate at the reporting date.
- Capital and reserves are translated using historical exchange rates.
- Income and expenses, including comparative amounts, are translated at the exchange rates prevailing at each transaction date.
- All resulting exchange differences are recognised as translation differences in other comprehensive income.

For presentation of the consolidated statement of cash flows, cash flows of foreign subsidiaries and joint ventures, including comparative balances, are translated into Euros applying the exchange rates prevailing at the transaction date.

Translation differences recognised in other comprehensive income are accounted for in profit or loss as an adjustment to the gain or loss on the sale using the same criteria as for subsidiaries, associates and joint ventures.

e) Foreign currency transactions, balances and cash flows

Transactions in foreign currency are translated into the functional currency at the spot exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into Euros at the closing rate, while non-monetary assets and liabilities measured at historical cost have been translated at the exchange rate prevailing at the transaction date. Non-monetary assets measured at fair value have been translated into Euros at the exchange rate at the date that the fair value was determined.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into Euros at the exchange rates prevailing at the dates the cash flows occurred. The effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currencies is recognised separately in the statement of cash flows as net exchange differences.

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. However, exchange gains or losses arising on monetary items forming part of the net investment in foreign operations are recognised as translation differences in other comprehensive income.

Exchange gains or losses on monetary financial assets or financial liabilities denominated in foreign currencies are also recognised in profit or loss.

f) Recognition of income and expenses

Income and expenses are recognised in the consolidated income statement on an accruals basis when the actual flow of goods and services they represent takes place, regardless of when the monetary or financial flows derived therefrom arise.

Revenue from the sale of goods or services 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.

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

The Group 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.

The Group 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 Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

g) Intangible assets

Intangible assets, except for goodwill (see note 3 (a)), are measured at cost or cost of production, less any accumulated amortisation and accumulated impairment.

The Group assesses whether the useful life of each intangible asset is finite or indefinite. Intangible assets with finite useful lives are amortised systematically over their estimated useful lives and their recoverability is analysed when events or changes occur that indicate that the carrying amount might not be recoverable. Intangible assets with indefinite useful lives, including goodwill are not amortised, but are subject to analysis to determine their recoverability on an annual basis, or more frequently if indications exist that their carrying amount may not be fully recoverable. Management reassesses the indefinite useful life of these assets on a yearly basis.

The amortisation methods and periods applied are reviewed at year end and, where applicable, adjusted prospectively.

Internally generated intangible assets

Development expenses, which mainly relate to computer software and industrial property, are capitalised to the extent that:

- The Group has technical studies that demonstrate the feasibility of the production process.
- The Group has undertaken a commitment to complete production of the asset, to make it available for sale or internal use.
- The asset will generate sufficient future economic benefits.
- The Group has sufficient technical and financial resources to complete development of the asset and has devised budget control and cost accounting systems that enable monitoring of budgetary costs, modifications and the expenditure actually attributable to the different projects.

Expenditure on activities for which costs attributable to the research phase are not clearly distinguishable from costs associated with the development stage of intangible assets are recognised in profit and loss.

Expenditure on activities that contribute to increasing the value of the different businesses in which the Group as a whole operates is recognised as expenses when incurred. Replacements or subsequent costs incurred on intangible assets are generally recognised as an expense, except where they increase the future economic benefits expected to be generated by the assets.

Computer software

Computer software comprises all the programs relating to terminals at points of sale, warehouses and offices, as well as micro-software. Computer software is recognised at cost of acquisition and/or production and is amortised on a straight-line basis over its estimated useful life, which is usually three years. Computer software maintenance costs are charged as expenses when incurred.

Leaseholds

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

Industrial property

Industrial property essentially comprises the investment in the development of commercial models and product ranges, amortised over four years.

h) Property, plant and equipment

Property, plant and equipment are measured at cost or cost of production, less any accumulated depreciation and accumulated impairment. Land is not depreciated.

The cost of acquisition includes external costs plus internal costs for materials consumed, which are recognised as income in the income statement. The cost of acquisition includes, where applicable, the initial estimate of the costs required to dismantle or remove the asset and to restore the site on which it is located, when the Group has the obligation to carry out these measures as a result of the use of the asset.

Given that 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 made in buildings leased by the Group under operating lease contracts are recognised following the same criteria as those used for other property, plant and equipment. These investments are depreciated over the shorter of their useful life and the lease term, taking renewals into account.

Enlargement, modernisation or improvement expenses that lead to an increase in productivity, capacity or efficiency or lengthen the useful life of the assets are capitalised as an increase in the cost of the assets when recognition criteria are met.

Repair and maintenance costs are recognised in the consolidated income statement in the year in which they are incurred.

The DIA Group assesses whether valuation adjustments are necessary to recognise each item of property, plant and equipment at its lowest recoverable amount at each year end, when circumstances or changes indicate that the carrying amount of property, plant and equipment may not be fully recoverable, i.e. that the revenues generated will not be sufficient to cover all costs and expenses. In this case, the lowest measurement is not maintained if the reasons for recognising the valuation adjustment have ceased to exist.

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 (CGU) to which the asset belongs.

The Group companies depreciate their property, plant and equipment from the date on which these assets enter into service. Property, plant and equipment are depreciated by allocating the cost of the assets over the following estimated useful lives, which are calculated in accordance with technical studies, which are reviewed on a regular basis:

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

Estimated residual values and depreciation methods and periods are reviewed at each year end and, where applicable, adjusted prospectively.

i) Leases

Lessee accounting

Determining whether a contract is, or contains, a lease is based on an analysis of the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset and whether the arrangement conveys a right to use the asset to the DIA Group.

Leases under which the lessor maintains a significant part of the risks and rewards of ownership are classified as operating leases. Operating lease payments are expensed on a straight-line basis over the lease term.

Leases are classified as finance leases when substantially all the risks and rewards incidental to ownership of the assets are transferred to the Group. At the commencement of the lease term, the Group recognises the assets, classified in accordance with their nature, and the associated debt, at the lower of fair value of the leased asset and the present value of the minimum lease payments agreed. Lease payments are allocated proportionally between the reduction of the principal of the lease debt and the finance charge, so that a constant rate of interest is obtained on the outstanding balance of the liability. Finance charges are recognised in the consolidated income statement over the life of the contract.

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

Lessor accounting

The Group has granted the right to use certain spaces within the DIA stores to concessionaires and the right to use leased establishments to franchisees under contracts. The risks and rewards incidental to ownership are not substantially transferred to third parties under these contracts. Operating lease income is taken to the consolidated income statement on a straight-line basis over the lease term. Assets leased to concessionaires are recognised under property, plant and equipment following the same criteria as for other assets of the same nature.

Sale and leaseback transactions

In each sale and leaseback transaction, the Group assesses the classification of finance and operating lease contracts for land and buildings separately for each item, and assumes that land has an indefinite economic life. To determine whether the risks and rewards incidental to ownership of the land and buildings are substantially transferred, the Group considers the present value of minimum future lease payments and the minimum lease period compared with the economic life of the building.

If the Group cannot reliably allocate the lease rights between the two items, the contract is recognised as a finance lease, unless there is evidence that it is an operating lease.

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.

When the leaseback is classed as an operating lease:

- If the transaction is established at fair value, any profit or loss on the sale is recognised immediately in consolidated profit or loss for the year.

- If the sale price is below fair value, any profit or loss is recognised immediately. However, if the loss is compensated for by future lease payments at below market price, it is deferred in proportion to the lease payments over the period for which the asset is to be used.

- If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is to be used.

j) Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held-for-sale, and:

- represents a separate major line of business or geographical area of operations;

- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

- is a subsidiary acquired exclusively with a view to resale.

A component of the Group comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group.

The Group discloses the post-tax profit and loss of discontinued operations and the post-tax gain or loss recognised on the measurement at fair value less costs to sell or distribute or on the disposal of the assets or disposal group(s) constituting the discontinued operation in profit or loss net of taxes of discontinued operations in the consolidated income statement.

If the Group ceases to classify a component as a discontinued operation, the results previously disclosed as discontinued operations are reclassified to continuing operations for all years presented.

k) Impairment of non-financial assets

(i) Impairment of goodwill

Pursuant to IAS 36, impairment testing should be performed annually on each CGU or group of CGUs with associated goodwill, to determine whether the carrying amount of these assets exceeds their recoverable amount.

The recoverable amount of the assets is the higher of their fair value less costs to sell and their value in use.

This CGU or group of CGUs should represent the lowest level at which goodwill is monitored for internal management purposes and should not be larger than an operating segment before aggregation determined in accordance with IFRS 8. The DIA Group reviews the allocation of goodwill at company and/or country level depending on both organisational and strategic criteria and the level at which implementation decisions are taken.

An asset's value in use is measured based on the future cash flows the Group expects to derive from use of the asset, expectations about possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows associated with the asset.

(ii) Impairment of other non-current assets

At the end of each reporting period, the Group assesses whether there are any indications of possible impairment of non-current assets, including intangible assets. Based on past experience, the Group considers that there are indications of impairment when the 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) has been negative for more than two years. All stores with recognised impairment losses are tested for impairment. When indications of impairment exist, or when the nature of the assets requires yearly impairment testing, the Group estimates the recoverable amount of the asset, calculated as the higher of fair value less costs to sell and value in use. Value in use is determined by discounting estimated future cash flows, applying a pre-tax discount rate which reflects the value of money over time, and considering the specific risks associated with the asset. When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is considered to be impaired. In this case the carrying amount is adjusted to the recoverable amount and the impairment loss is recognised in the consolidated income statement. Amortisation and depreciation charges for future periods are adjusted to the new carrying amount during the remaining useful life of the asset. Assets are tested for impairment on an individual basis, except in the case of assets that generate cash flows that are not independent of those from other assets (cash-generating units).

The Group calculates impairment on the basis of the strategic plans of the different cash generating units to which the assets are allocated, which are generally for a period of five years. For longer periods, projections based on strategic plans are used as of the fifth year, applying a constant expected growth rate. The assumptions on which the projections are based are fundamentally the result of internal estimates taking into account past performance and extrapolating expected performance. For this purpose, factors are considered which are beyond the control of Group management, such as macroeconomic data and GDP growth, consumer spending, population growth, unemployment and inflation. External market research reports and market shares are also consulted.

The discount rates used are calculated before tax and are adjusted for the corresponding country and business risks.

When new events or changes in existing circumstances arise which indicate that an impairment loss recognised in a previous period could have disappeared or been reduced, a new estimate of the recoverable amount of the asset is made. Previously recognised impairment losses are only reversed if the assumptions used in calculating the recoverable amount have changed since the most recent impairment loss was recognised. In this case, the carrying amount of the asset is increased to its new recoverable amount, to the limit of the carrying amount this asset would have had had the impairment loss not been recognised in previous periods. The reversal is recognised in the consolidated income statement and amortisation and depreciation charges for future periods are adjusted to the new carrying amount.

l) Advertising and catalogue expenses

The cost of acquiring advertising material or promotional articles and advertising production costs are recognised as expenses when incurred. However, advertising placement costs that can be identified separately from advertising production costs are accrued and expensed as the advertising is published.

m) Financial instruments – assets

Regular way purchases and sales of financial assets are recognised in the consolidated statement of financial position at the trade date, when the Group undertakes the commitment to purchase or sell the asset. At the date of first recognition, the DIA Group classifies its financial instruments into the following four categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The only significant financial assets are classified under loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are not classified in any other financial asset categories. Assets of this nature are recognised initially at fair value, including transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Results are recognised in the consolidated income statement at the date of settlement or impairment loss, and through amortisation. Trade receivables are initially recognised at fair value and subsequently adjusted where objective evidence exists that the debtor may default on payment. The provision for bad debts is calculated based on the difference between the carrying amount and the recoverable amount of receivables. Current trade balances are not discounted.

Guarantees 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 consolidated profit and loss over the lease term.

All or part of a financial asset is derecognised when one of the following circumstances arises:

- The rights to receive the cash flows associated with the asset have expired.
- The Group has assumed a contractual obligation to pay the cash flows received from the asset to a third party.
- The contractual rights to the cash flows from the asset have been transferred to a third party and all of the risks and rewards of ownership have been transferred.

In particular, the DIA Group derecognises trade balances held with its suppliers in respect of trade discounts granted by the latter when they are transferred in factoring operations in which the Group retains no credit or interest rate risk. Conversely, the Group 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.

n) Inventories

Inventories are initially measured at cost of purchase based on the weighted average cost method.

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, 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 merchandise and other consumables used in the consolidated 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.

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 merchandise and other consumables used.

o) Cash and cash equivalents

Cash and cash equivalents recognised in the consolidated statement of financial position include cash in hand and in bank accounts, demand deposits and other highly liquid investments maturing in less than three months. These items are recognised at historical cost, which does not differ significantly from their realisable value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents reflect the items defined in the paragraph above. Any bank overdrafts are recognised in the consolidated statement of financial position as financial liabilities from loans and borrowings.

p) Financial liabilities

Financial liabilities are initially recognised at the fair value of the consideration given, less any directly attributable transaction costs. In subsequent periods, these financial liabilities are carried at amortised cost using the effective interest method. Financial liabilities are classified as non-current when their maturity exceeds 12 months or the DIA Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial liabilities are derecognised when the corresponding obligation is settled, cancelled or has expired. When a financial liability is substituted by another with substantially different terms, the Group derecognises the original liability and recognises a new liability, taking the difference in the respective carrying amounts to the consolidated income statement.

The Group considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

The Group 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 under trade and other payables in the consolidated statement of financial position until they have been settled, repaid or have expired.

The amounts paid by the financial institutions as consideration for the acquisition of invoices or payment documents for the trade payables recorded by the Group is recognised under other income in the consolidated income statement when the invoices or documents are conveyed.

Guarantees received in sublease contracts are measured at nominal amount, since the effect of discounting is immaterial.

Derivative financial products and hedge accounting

Derivative financial instruments are initially recognised using the same criteria as those described for financial assets and financial liabilities. Derivative financial instruments are classified as current or non-current depending on whether their maturity is less or more than 12 months. Derivative instruments that qualify to be treated as hedging instruments for non-current assets are classified as non-current assets or liabilities, depending on whether their values are positive or negative.

The criteria for recognising gains or losses arising from changes in the fair value of derivatives depend on whether the derivative instrument complies with hedge accounting criteria and, where applicable, on the nature of the hedging relationship.

Changes in the fair value of derivatives that qualify for hedge accounting, have been allocated as cash flow hedges and are highly effective, are recognised in equity. The ineffective portion of the hedging instrument is taken directly to consolidated profit and loss. When the forecast transaction or the firm commitment results in the recognition of a non-financial asset or liability, the gains or losses accumulated in equity are taken to the consolidated income statement during the same period in which the hedging transaction has an impact on the net profit or loss.

At the inception of the hedge the Group formally allocates and documents the hedging relationship between the derivative and the hedged item, as well as the objectives and risk management strategies applied on establishing the hedge. This documentation includes the identification of the hedging instrument, the hedged item or transaction and the nature of the hedged risk. The documentation also considers the measures taken to assess the effectiveness of the hedge in terms of covering the exposure to changes in the hedged item, whether with respect to its fair value or attributable cash flows. The effectiveness of the hedge is assessed prospectively and retrospectively, both at the inception of the hedging relationship and systematically over the period of allocation.

Hedge accounting criteria cease to be applied when the hedging instrument expires or is sold, cancelled or settled, or when the hedging relationship no longer complies with the criteria to be accounted for as such, or the instrument is no longer designated as a hedging instrument. In these cases, the accumulated gain or loss on the hedging instrument that has been recognised in equity is not taken to profit or loss until the forecast or committed transaction impacts on the Group's results. However, if the transaction is no longer considered probable, the accumulated gains or losses recognised in equity are immediately transferred to the consolidated income statement.

The fair value of the Group's derivatives portfolio reflects estimates based on calculations performed using observable market data and the specific tools used widely among financial institutions to value and manage derivative risk.

q) Parent own shares

The Group's acquisition of equity instruments of the Parent is recognised separately at cost of acquisition in the consolidated statement of financial position as a reduction in equity, irrespective of the reason for the purchase. Any gains or losses on transactions with own equity instruments are not recognised in consolidated profit and loss.

The subsequent redemption of the Parent 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 reduction in equity, net of any tax effect.

Parent own shares are recognised as a component of consolidated equity at their total cost.

Contracts that oblige the Group to acquire own equity instruments, including non-controlling interests, 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 consolidated profit or loss in line with the redemption conditions. If the Group does not ultimately exercise the contract, the carrying amount of the financial liability is reclassified to reserves.

r) Distributions to shareholders

Dividends, whether in cash or in kind, are recognised as a reduction in equity when approved by the shareholders at their annual general meeting.

s) Employee benefits

Defined benefit plans

The Group 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 consolidated statement of financial position reflect the present value of defined benefit obligations at the reporting date, minus the fair value at that date of plan assets.

In the event that the result of the operations described in the paragraph above is negative, i.e. it results in an asset, the Group recognises the resulting asset up to the limit of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Economic benefits are available to the Group when they are realisable at some point during the life of the plan or on settlement of plan liabilities, even when not immediately realisable at the reporting date.

Income or expense related to defined benefit plans is recognised as employee benefits expense and is the sum of the net current service cost and the net interest cost of the net defined benefit asset or liability. Remeasurements of the net defined benefit asset or liability are recognised in other comprehensive income, comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability or asset. The costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions, are deducted when determining the return on plan assets. Any amounts deferred in other comprehensive income are reclassified to retained earnings during that year.

The Group recognises the past service cost as an expense for the year at the earlier of when the plan amendment or curtailment occurs and when the Group recognises related restructuring costs or termination benefits.

The present value of defined benefit obligations is calculated annually by independent actuaries using the Projected Unit Credit Method. The discount rate of the net defined benefit asset or liability 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.

The fair value of plan assets is calculated applying the principles of IFRS 13 Fair Value Measurement. In the event that plan assets include insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of the insurance policies is equal to the present value of the related obligations.

The Group only offsets an asset relating to one plan against the liability of another plan provided that it has a legally enforceable right to use a surplus in one plan to settle its obligation under the other plan, and when it intends to settle the obligation on a net basis, or to realise the surplus on one plan and settle its obligation under the other plan simultaneously.

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.

Termination benefits

Termination benefits paid or payable that do not relate to restructuring processes in progress are recognised when the Group is demonstrably committed to terminating the employment of current employees prior to retirement date. The Group is demonstrably committed to terminating the employment of current employees when it has a detailed formal plan and is without realistic possibility of withdrawing or changing the decisions made.

Restructuring-related termination benefits

Restructuring-related termination benefits are recognised when the Group has a constructive obligation, that is, when it has a detailed formal plan for the restructuring and there is valid expectation on the part of those affected that the restructuring will be carried out because the Group has already started to implement the plan or has announced its main features to those affected by it.

Employee benefits

The Group recognises the expected cost of short-term 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.

t) Provisions

Provisions are recognised when the Group has a present obligation (legal or implicit) as a result of a past event, the settlement of which requires an outflow of resources which is probable and can be estimated reliably. If it is virtually certain that some or all of a provisioned amount will be reimbursed by a third party, for example through an insurance contract, an asset is recognised in the consolidated statement of financial position and the related expense is recognised in the consolidated income statement, net of the foreseen reimbursement. If the time effect of money is material, the provision is discounted, recognising the increase in the provision due to the time effect of money as a finance cost.

Provisions for onerous contracts are based on the present value of unavoidable costs, determined as the lower of the contract costs, net of any income that could be generated, and any compensation or penalties payable for non-completion.

u) Share-based payments for goods and services

The Group 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 Group 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 Group employees or third parties that supply similar services are measured by reference to the fair value of the equity instruments offered.

(i) ***Equity-settled share-based payment transactions***

Equity-settled payment 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 Group 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 Group 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 expected to vest. Consequently, the Group 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, although any necessary reclassifications in equity may be made.

(ii) ***Tax effect***

In accordance with prevailing tax legislation in Spain and other countries in which the Group operates, 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.

v) Grants, donations and bequests

Grants, donations and bequests are recorded as a liability 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.

w) Income taxes

Income tax in the consolidated income statement comprises total debits or credits deriving from income tax paid by Spanish Group companies and those of a similar nature of foreign entities.

The income tax expense for each year comprises current tax and, where applicable, deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to calculate these amounts are those that have been enacted or substantially enacted at the reporting date.

Deferred tax liabilities reflect income tax payable in future periods in respect of taxable temporary differences. Deferred tax assets reflect income tax recoverable in future periods in respect of deductible temporary differences, tax loss carryforwards pending offset and unused tax credits. Temporary differences are differences between the carrying amount of an asset or liability and its tax base.

The Group calculates deferred tax assets and liabilities using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the end of the reporting period.

Deferred tax assets and liabilities are not discounted at present value and are classified as non-current irrespective of the reversal date.

At each close the Group analyses the carrying amount of the deferred tax assets recognised and makes the necessary adjustments where doubts exist regarding their future recovery. Deferred tax assets not recognised in the consolidated statement of financial position are also re-evaluated at each accounting close and are recognised when their recovery through future tax profits appears likely, as specified in note 2.4 (a).

Current and deferred tax are recognised as income or 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.

Deferred tax assets and liabilities are presented at their net amount only when they relate to income taxes levied by the same taxation authority on the same taxable entity, and when the Group has a legally established right to offset these current tax assets and liabilities or intends to realise the assets and settle the liabilities simultaneously.

x) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

y) Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated statement of financial position 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 Group'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 Group'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 Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

z) Environmental issues

The Group 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 Group recognises environmental provisions if necessary.

aa) Related party transactions

Sales to and purchases from related parties are carried out under the same conditions as those existing in transactions between independent parties.

ab) Interest

Interest is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of a financial instrument to the net carrying amount of that financial instrument based on the contractual terms of the instrument and not considering future credit losses.

4. BUSINESS COMBINATIONS

a) Acquisition of Eroski Group stores

On 4 November 2014 the Company entered into a framework agreement with Cecosa Supermercados, S.L.; Supermercados Picabo, S.L. and Caprabo, S.A., entities belonging to the Eroski Group, for the sale and purchase of the assets of a maximum of 160 supermarkets that operated under the commercial names Eroski Center, Eroski City and Caprabo, (hereinafter "the Transaction"). At 2014 year end, completion of the Transaction was subject to authorisation being obtained from the 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 Parent agreed to assume these commitments. On 17 April 2015 the Group signed the document establishing 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 transfer of 147 establishments. The difference between the price paid and the fair value of the identifiable net assets acquired (land of Euros 11,578 thousand, buildings of Euros 12,921 thousand and technical installations and machinery of Euros 21,805 thousand) was recognised as goodwill totalling Euros 94,244 thousand. In 2016, with the conveyance of a final establishment marking the definitive conclusion of the transaction, the DIA Group paid Euros 1,300 thousand, recognising additional goodwill of Euros 1,208 thousand, which was allocated between the establishments acquired, and technical installations and machinery of Euros 92 thousand (see note 7.1).

Had the business combination taken place on 1 January 2015, the Group’s revenue and net profit for the year attributable to equity holders of the Parent would have increased by Euros 177,800 thousand and decreased by Euros 2,400 thousand, respectively.

b) Acquisition of a business from Mobile Dreams Factory Marketing, S.L.

In July 2015 the Group acquired the assets of Mobile Dreams Factory Marketing, S.L., in relation to the internet sale of products, for a fixed price of Euros 750 thousand and a variable price, up to a maximum of Euros 2,313 thousand, linked to sales made during the period from 1 July 2015 to 30 June 2017. This contingent consideration, which at the time of the acquisition was valued by an independent expert at Euros 1,755 thousand and at the reporting date of these annual accounts at Euros 1,890 thousand, was recognised under non-current provisions in other provisions at 31 December 2015. At the reporting date of these annual accounts the amount of the contingent consideration has been reversed (see note 18.2 Other Provisions).

Details of the consideration given, the fair value of the net assets acquired and the goodwill on this business combination are as follows:

Thousands of Euros	2015
Price agreed (contingent part included)	2,505
Value of the net assets adquired	331
Goodwill (Excess of net assets acquired over the acquisition cost) (note 7.1)	**2,174**

Had the business combination taken place on 1 January 2015, the Group’s revenue and net profit for the year attributable to equity holders of the Parent would have increased by Euros 1,031 thousand and decreased by Euros 203 thousand, respectively.

5. INFORMATION ON OPERATING SEGMENTS

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

- Iberia (Spain, Portugal and Switzerland).
- Emerging Countries (Brazil, Argentina, Paraguay and China).

Management monitors the operating results of its business units separately in order to make decisions on resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group financing (including finance costs and finance income) and income taxes are managed at Group level and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties.

Details of the key indicators expressed by segment are as follows:

Thousands of Euros at 31st December 2016	Segment - Iberia -	Segment - Emerging -	Consolidated
Sales (1)	5,745,948	3,121,673	8,867,621
EBITDA	433,641	103,297	536,938
% of sales	7.5%	3.3%	6.1%
Non-current assets	1,969,600	537,662	2,507,262
Liabilities	2,636,161	888,070	3,524,231
Acquisition of non-current assets	225,774	119,589	345,363
Number of outlets (2)	5,498	2,301	7,799

Thousands of Euros at 31st December 2015	Segment - Iberia -	Segment - Emerging -	Consolidated
Sales (1)	5,754,673	3,170,781	8,925,454
EBITDA	414,462	97,059	511,521
% of sales	7.2%	3.1%	5.7%
Non-current assets	1,933,945	421,157	2,355,102
Liabilities	2,457,796	671,608	3,129,404
Acquisition of non-current assets	381,996	181,255	563,251
Number of outlets (2)	5,562	2,156	7,718

(1) Sales eliminations arising from consolidation are included in segment Iberia

(3) Number of stores at the closing date.

Details of EBITDA by consolidated income statement item are as follows:

Thousands of Euros	2016	2015
Results from operating activities	295,059	274,142
Amortisation	(232,953)	(214,026)
Impairment	(13,262)	(11,013)
Losses on disposal of fixed assets	4,336	(12,340)
Total EBITDA	**536,938**	**511,521**

Details of revenues and non-current assets (except for financial assets and deferred tax assets), by country, are as follows:

	Sales		Tangible and intangible assets	
Thousands of Euros	**2016**	**2015**	**2016**	**2015**
Spain	5,064,016	5,076,646	1,336,634	1,327,307
Portugal	681,932	678,027	264,168	267,628
Argentina	1,310,881	1,532,301	154,407	144,990
Paraguay	56	-	-	-
Brazil	1,611,872	1,435,627	291,056	203,960
China	198,864	202,853	18,133	20,918
Switzerland	-	-	3	33
Total	**8,867,621**	**8,925,454**	**2,064,401**	**1,964,836**

6. PROPERTY, PLANT AND EQUIPMENT

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

Thousands of Euros	Land	Buildings	Equipment, fixtures and fittings and machinery	Other installations, utensils and furniture	Tangible assets in progress and advances given	Other fixed assets	Total
Cost							
At 1st January 2015	**139,180**	**1,101,611**	**1,277,044**	**109,566**	**44,523**	**129,513**	**2,801,437**
Additions	845	67,372	159,987	22,422	149,722	8,461	408,809
Disposals	(158)	(24,273)	(39,412)	(9,807)	(74)	(6,415)	(80,139)
Transfers	(13)	93,843	1,502	7,100	(101,006)	9,785	11,211
Additions to the consolidated group	11,578	12,921	21,805	3	-	-	46,307
Other movements	-	14,197	(16,475)	(20)	(188)	(8)	(2,494)
Translation differences	(4,593)	(65,352)	(51,923)	(19,904)	(15,755)	(9,208)	(166,735)
At 31st December 2015	**146,839**	**1,200,319**	**1,352,528**	**109,360**	**77,222**	**132,128**	**3,018,396**
Additions	802	72,484	159,344	21,860	47,037	31,280	332,807
Disposals	(10,055)	(17,394)	(24,567)	(2,837)	(334)	(7,606)	(62,793)
Transfers	107	49,384	81,529	4,786	(100,470)	12,280	47,616
Other movements	-	-	-	(15)	-	-	(15)
Translation differences	2,350	18,200	20,390	4,494	5,110	5,379	55,923
At 31st December 2016	**140,043**	**1,322,993**	**1,589,224**	**137,648**	**28,565**	**173,461**	**3,391,934**
Depreciation							
At 1st January 2015	**-**	**(540,096)**	**(821,273)**	**(51,699)**	**-**	**(106,947)**	**(1,520,015)**
Amortisation and depreciation (note 21.5)	-	(58,398)	(122,243)	(12,998)	-	(11,525)	(205,164)
Disposals	-	19,030	30,178	8,402	-	6,160	63,770
Transfers	-	(1,184)	(4,733)	(788)	-	(4,747)	(11,452)
Other movements	-	(8,324)	10,833	(34)	-	7	2,482
Translation differences	-	9,478	21,546	6,504	-	6,528	44,056
At 31st December 2015	**-**	**(579,494)**	**(885,692)**	**(50,613)**	**-**	**(110,524)**	**(1,626,323)**
Amortisation and depreciation (note 21.5)	-	(58,130)	(133,929)	(13,994)	-	(17,218)	(223,271)
Disposals	-	2,281	16,041	1,169	-	7,182	26,673
Transfers	-	(18,844)	(27,245)	(2,784)	-	(555)	(49,428)
Other movements	-	(672)	4	(4)	-	-	(672)
Translation differences	-	(4,360)	(12,138)	(1,464)	-	(2,920)	(20,882)
At 31st December 2016	**-**	**(659,219)**	**(1,042,959)**	**(67,690)**	**-**	**(124,035)**	**(1,893,903)**
Impairment							
At 1st January 2015	**(612)**	**(8,333)**	**(2,121)**	**-**	**-**	**-**	**(11,066)**
Allowance (note 21.5)	-	(8,248)	(3,844)	(11)	-	(3)	(12,106)
Distribution	-	1,245	279	-	-	-	1,524
Reversals (note 21.5)	-	569	756	2	-	-	1,327
Other movements	-	(165)	163	-	-	-	(2)
Transfers	-	(3)	47	(23)	-	-	21
Translation differences	-	224	15	-	-	-	239
At 31st December 2015	**(612)**	**(14,711)**	**(4,705)**	**(32)**	**-**	**(3)**	**(20,063)**
Allowance (note 21.5)	-	(9,515)	(5,731)	(1)	-	(2)	(15,249)
Distribution	-	2,002	1,122	-	-	2	3,126
Reversals (note 21.5)	-	1,778	855	-	-	-	2,633
Transfers	-	748	24	23	-	-	795
Translation differences	-	(186)	(9)	-	-	-	(195)
At 31st December 2016	**(612)**	**(19,884)**	**(8,444)**	**(10)**	**-**	**(3)**	**(28,953)**
Net carrying amount							
At 31st December 2015	**146,227**	**606,114**	**462,131**	**58,715**	**77,222**	**21,601**	**1,372,010**
At 31st December 2016	**139,431**	**643,890**	**537,821**	**69,948**	**28,565**	**49,423**	**1,469,078**

Additions for 2016 include Euros 188,880 thousand invested in Spain in respect of new store openings, refurbishments and the remodelling of existing stores to new formats (Euros 243,436 thousand at 31 December 2015, of which total investments of Euros 115,263 thousand related to store openings and, primarily, the remodelling of 99 stores purchased from the Eroski Group to the “La Plaza de DIA” format). In Portugal, investments in 2016 totalled Euros 27,007 thousand, and related to the remodelling of stores to new formats (Euros 32,061 thousand at 31 December 2015). As in the preceding year, additions in the emerging countries in 2016 were primarily due to opening new establishments, carrying out refurbishments and remodelling existing stores to new formats. In Argentina these investments amounted to Euros 49,915 thousand (Euros 92,532 thousand at 31 December 2015) and in Brazil to Euros 62,390 thousand (Euros 76,906 thousand at 31 December 2015).

Disposals for 2016 and 2015 primarily comprise the sale of properties owned by the DIA Group to third parties in 2016 and items replaced as a result of the aforementioned improvements and disposals due to store closures in both years. Assets with a total carrying amount of Euros 25,621 thousand were derecognised in Spain in 2016, primarily due to the sale of the aforementioned properties (Euros 7,526 thousand at 31 December 2015). Other disposals for 2016 and 2015 relate to the adaptation of stores in other countries in which the DIA Group operates.

The Group has written down the assets of certain CGUs to their value in use, with a net impact on property, plant and equipment of Euros 12,616 thousand in 2016 and Euros 10,779 thousand in 2015.

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

Thousands of Euros at 31 December	2016	2015
Buildings	341,068	264,217
Equipment, fixtures and fittings and machinery	718,841	572,999
Other installations, utensils and furniture	29,501	18,483
Other fixed assets	95,398	85,959
Total	**1,184,808**	**941,658**

Buildings include the Seville warehouse of Twins Alimentación S.A., which is subject to a financing arrangement. Furthermore, land and buildings include three mortgage loans secured on three warehouses in Tarragona, Zaragoza and Cuenca (see note 17.1).

The Group 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.

Finance leases

Finance leases have been arranged for the stores at which the Group's principal activities are carried out. There are also finance leases for technical installations, machinery and other fixed assets.

During 2016 the most significant additions reflect contracts for motor vehicles in the Parent which have been considered as finance leases. The Group has included the following items of property, plant and equipment under finance leases and hire purchase contracts:

Thousands of Euros	2016	2015
Land	176	115
Cost	176	115
Buildings	481	316
Cost	527	344
Accumulated depreciation	(46)	(28)
Equipment, fixtures and fittings and machinery	29,350	26,652
Cost	46,407	40,403
Accumulated depreciation	(17,057)	(13,751)
Other installations, utensils and furniture	3	3
Cost	4	4
Accumulated depreciation	(1)	(1)
Other fixed assets (transports)	12,422	-
Cost	15,902	-
Accumulated depreciation	(3,480)	-
Net carrying amount	**42,432**	**27,086**

The amount of the cost indicated in the previous detail corresponds, in every case, with the fair value of the assets in the date in which the financial lease contracts were signed.

Interest incurred on finance leases totalled Euros 3,628 thousand in 2016 and Euros 1,589 thousand in 2015 (see note 21.7).

Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments, are as follows:

	2016		2015	
Thousands of Euros	**Minimum payments**	**Present value**	**Minimum payments**	**Present value**
Less than one year	13,420	11,634	9,312	7,736
Two to five years	30,088	27,480	21,947	18,191
More than 5 years	3,963	3,825	1,196	994
Total minimum payments and present value	**47,471**	**42,939**	**32,455**	**26,921**
Less current portion (note 17.1)	(13,420)	(11,634)	(9,312)	(7,736)
Total non-current (note 17.1)	**34,051**	**31,305**	**23,143**	**19,185**

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

Thousands of Euros	**2016**	**2015**
Minimum future payments	47,448	32,432
Purchase option	23	23
Unaccrued finance expenses	(4,532)	(5,534)
Present value	**42,939**	**26,921**

7. INTANGIBLE ASSETS

7.1 Goodwill

Details of goodwill by operating segment before aggregation and movement during the period are as follows:

Thousands of Euros	SPAIN	PORTUGAL	TOTAL
Net goodwill at 01/01/2015	**424,888**	**39,754**	**464,642**
Additions to the consolidated group (note 4)	93,695	-	93,695
Disposals	(274)	-	(274)
Net goodwill at 31/12/2015	**518,309**	**39,754**	**558,063**
Additions to the consolidated group (note 4)	1,208	-	1,208
Disposals	(1,158)	-	(1,158)
Provision for impairment (note 21.5)	(295)	-	(295)
Net goodwill at 31/12/2016	**518,064**	**39,754**	**557,818**

The goodwill reported by the Group primarily relates to the following business combinations:

- In 2016 goodwill in Spain increased by Euros 1,208 thousand due to the acquisition of the Eroski Group stores in 2015. There was also a disposal of Euros 1,104 thousand due to the closure of a store. Goodwill rose from Euros 94,244 thousand in 2015 to Euros 94,348 thousand at 31 December 2016 (see note 4). Also in 2015 after the acquisition of the assets of Mobile Dreams Factory Marketing, S.L (see note 4) goodwill rose by Euros 2,174 thousand. In 2014, goodwill increased by Euros 157,839 thousand due to the acquisition of Grupo El Árbol on 31 October 2014. In 2015, after an adjustment of Euros 2,727 thousand in the acquisition price the related goodwill was also adjusted to Euros 155,112 thousand. Goodwill generated in prior years mainly relates to the acquisition of Plus Supermercados S.A. for Euros 160,553 thousand in 2007, the acquisition of Distribuciones Reus, S.A. for Euros 26,480 thousand in 1991 and the acquisition of Schlecker for Euros 48,591 thousand in 2013. Also, in Spain additional goodwill has been generated in the past as a result of the various acquisitions of stores and groups of stores. The Euros 295 thousand provision for impairment recognised in 2016 relates to a store that the Group plans to close in 2017.

- In Portugal, goodwill was generated on the business combination arising from the acquisition of Companhia Portuguesa de Lojas de Desconto, S.A. in 1998.

For impairment testing purposes, goodwill has been allocated to DIA's cash-generating units up to country level.

The recoverable amount of a group of CGUs is determined based on its value in use. These calculations are based on cash flow projections from the five-year financial budgets approved by management. Cash flows beyond this five-year period are extrapolated using the estimated growth rates indicated below. The growth rate should not exceed the average long-term growth rate for the distribution business in which the Group operates.

The following main assumptions are 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%

[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 cash flow projections.

These assumptions have been used to analyse each group of CGUs within the business segment.

The Group determines budgeted weighted average sales growth based on estimated future performance and market forecasts.

Group management considers that the average weighted growth rates for sales over the next five years are consistent with past performance, taking into account expansion plans, store refits to new formats and trends in macroeconomic indicators (population, inflation in food prices, etc.).

According to the assumptions used to forecast cash flows, the gross margin will remain stable throughout the budgeted period.

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.

In all cases sensitivity analyses are performed in relation to the discount rate used and the growth rate of cash flows in perpetuity to ensure that reasonable changes in these assumptions would not have an impact on the possible recovery of the goodwill recognised. Specifically, a variation of 200 basis points in the discount rate used, a 0% growth rate of income in perpetuity, a 20 b.p. fall in the EBITDA margin or a 1% reduction in the average growth rate of sales, would not result in the impairment of any of the goodwill recognised, except that of the Grupo El Árbol .

For all the other countries, the following assumptions are used to calculate value in use of property, plant and equipment and intangible assets:

	Argentina		Brazil	
	2016	2015	2016	2015
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
Growth rate (2)	2.00%	2.00%
Discount rate (3)	6.81%	7.25%

7.2. Other intangible assets

Details of other intangible assets and movements are as follows:

Thousands of Euros	Development cost	Industrial property	Leaseholds	Computer software	Other intangible assets	Total
Cost						
At 1st January 2015	**5,133**	**5,252**	**27,491**	**26,385**	**15,863**	**80,124**
Additions/Internal development	5,410	40	-	5,810	128	11,388
Disposals	-	-	(389)	(25)	(106)	(520)
Transfers	(5,725)	3,311	-	2,522	82	190
Additions to the consolidated group	-	-	-	328	-	328
Other movements	-	(407)	-	-	(8)	(415)
Translation differences	-	-	-	(836)	(409)	(1,245)
At 31st December 2015	**4,818**	**8,196**	**27,102**	**34,184**	**15,550**	**89,850**
Additions/Internal development	7,065	477	-	3,409	397	11,348
Disposals	-	-	(345)	(423)	(197)	(965)
Transfers	(2,507)	1,272	(2,310)	2,049	2,513	1,017
Translation differences	-	-	-	553	349	902
At 31st December 2016	**9,376**	**9,945**	**24,447**	**39,772**	**18,612**	**102,152**
Depreciation						
At 1st January 2015	**-**	**(1,908)**	**(21,021)**	**(19,315)**	**(5,027)**	**(47,271)**
Amortisation and depreciation (note 21.5)	-	(1,396)	(1,143)	(5,814)	(509)	(8,862)
Disposals	-	-	318	25	-	343
Transfers	-	-	(34)	-	64	30
Other movements	-	407	1	(1)	8	415
Translation differences	-	-	-	496	156	652
At 31st December 2015	**-**	**(2,897)**	**(21,879)**	**(24,609)**	**(5,308)**	**(54,693)**
Amortisation and depreciation (note 21.5)	-	(1,839)	(1,065)	(6,275)	(503)	(9,682)
Disposals	-	-	345	386	-	731
Translation differences	-	-	-	(323)	(133)	(456)
At 31st December 2016	**-**	**(4,736)**	**(22,599)**	**(30,821)**	**(5,944)**	**(64,100)**
Impairment						
At 1st January 2015	**-**	**-**	**(48)**	**-**	**(238)**	**(286)**
Allowance (note 21.5)	-	-	(76)	-	(324)	(400)
Distribution	-	-	73	-	30	103
Reversals (note 21.5)	-	-	-	-	166	166
Translation differences	-	-	-	-	23	23
At 31st December 2015	**-**	**-**	**(51)**	**-**	**(343)**	**(394)**
Allowance (note 21.5)	-	-	(13)	-	(338)	(351)
Distribution	-	-	-	-	198	198
At 31st December 2016	**-**	**-**	**(64)**	**-**	**(483)**	**(547)**
Net carrying amount						
At 31st December 2015	**4,818**	**5,299**	**5,172**	**9,575**	**9,899**	**34,763**
At 31st December 2016	**9,376**	**5,209**	**1,784**	**8,951**	**12,185**	**37,505**

Additions to development costs in 2016 reflect IT projects developed internally in Spain (Euros 3,426 thousand for IT projects and a Euros 1,984 thousand investment in the development of commercial models and product ranges at 31 December 2015). The Group also acquired computer software in Spain for Euros 1,056 thousand in 2016 (Euros 4,498 thousand at 31 December 2015). In addition, transfers of development costs in 2016 and 2015 relate to industrial property from the investment in the development of commercial models, product ranges and computer software.

As indicated in note 7.1, in 2016 and 2015 the DIA Group recognised impairment losses on its intangible assets. These impairment losses have been included in the income statement under amortisation, depreciation and impairment (see note 21.5).

Details of fully amortised intangible assets at each year end are as follows:

Thousands of Euros	2016	2015
Computer software	32,382	24,233
Leaseholds and other	15,053	7,253
Total	**47,435**	**31,486**

8. OPERATING LEASES

The Group has leased certain assets under operating leases from third parties.

The main operating leases are linked to some of its warehouses and the business premises where the Group carries out its principal activity.

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

Warehouse	Country	Minimum lease period	Warehouse	Country	Minimum lease period
Getafe	SPAIN	2,026	Azuqueca	SPAIN	2,018
Mallén	SPAIN	2,023	Albufeira	PORTUGAL	2,017
Manises	SPAIN	2,018	Loures	PORTUGAL	2,017
Mejorada del Campo	SPAIN	2,018	Grijó	PORTUGAL	2,021
Miranda	SPAIN	2,017	Fengshujinda	CHINA	2,017
Orihuela	SPAIN	2,023	Anhanghera	BRAZIL	2,017
Sabadell	SPAIN	2,022	Guarulhos	BRAZIL	2,017
San Antonio	SPAIN	2,023	Americana	BRAZIL	2,017
Tarragona	SPAIN	2,018	Porto Alegre	BRAZIL	2,017
Villanubla	SPAIN	2,019	Ribeirao Preto	BRAZIL	2,018
Villanueva de Gállego	SPAIN	2,023	Belo Horizonte	BRAZIL	2,017
Santander	SPAIN	2,017	Mauá	BRAZIL	2,020
Granda-Siero	SPAIN	2,020	Avellaneda	ARGENTINA	2,017
Almería	SPAIN	2,017			
Salamanca	SPAIN	2,017			

Operating lease payments are recognised in the consolidated income statement as follows:

Thousands of Euros	2016	2015
Minimum lease payments, property (note 21.4)	310,880	299,769
Minimum lease payments, furniture and equipment (note 21.4)	5,585	7,045
Sublease payments (note 21.1)	(26,415)	(23,025)
Total	**290,050**	**283,789**

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

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

Thousands of Euros	2016	2015
Less than one year	103,823	100,907
One to five years	93,931	80,458
Over five years	39,792	31,556
Total	**237,546**	**212,921**

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

Thousands of Euros	2016	2015
Less than one year	5,094	4,804
One to five years	5,321	4,722
Over five years	26	-
Total	**10,441**	**9,526**

9. FINANCIAL ASSETS

Details of financial assets in the consolidated statements of financial position at 31 December are as follows:

Thousands of Euros	2016	2015
Non-current assets		
Trade and other receivables	69,345	51,291
Non-current financial assets	58,657	66,945
Consumer loans from financing activities	401	458
Current assets		
Trade and other receivables	260,862	221,193
Consumer loans from financing activities	6,220	6,548
Other current financial assets	19,734	15,718
TOTAL	**415,219**	**362,153**

9.1 Trade and other receivables

Details of trade and other receivables are as follows:

Thousands of Euros	2016	2015
Trade and other receivables	69,345	51,291
Total non-current	**69,345**	**51,291**
Trade and other receivables	121,657	103,696
Receivables from suppliers	131,644	114,777
Advances to suppliers	2,709	2,720
Receivables from associates companies (note 23)	4,852	-
Total current	**260,862**	**221,193**

a) Trade and other receivables

This balance primarily comprises current and non-current trade receivables for merchandise sales. The Group provides financing to its franchisees, the present value of which at 31 December 2016 amounts to Euros 86,381 thousand (Euros 71,154 thousand at 31 December 2015), as a result of the rise in sales to franchisees. These trade balances have generated interest of Euros 2,743 thousand in 2016 (Euros 2,099 thousand in 2015), which has been recognised in the consolidated income statement.

b) Receivables from suppliers

Balances receivable from suppliers mainly reflect non-trading income negotiated with suppliers.

In 2016 the Group entered into agreements to transfer supplier trade receivables with and without recourse (see notes 3 (m) and 24 d)). The accrued cost of the transfer of these receivables amounted to Euros 139 thousand in 2016 (see note 21.7). The transferred receivables that had not yet fallen due at 31 December 2016 totalled Euros 88,449 thousand and all were considered to be without recourse.

c) Trade receivables from associates

In 2016 transactions were carried out with ICDC. These were basically commercial transactions and the related balance receivable at 31 December 2016 was Euros 4,852 thousand (see note 23).

d) Impairment

Movements in the provision for impairment of receivables (see other disclosures on credit risk in note 24 d)) were as follows:

Thousands of Euros	2016	2015
At 1st January	**(37,013)**	**(32,863)**
Charge	(19,318)	(16,483)
Applications	126	617
Reversals	13,425	8,688
Transfers	-	(1,075)
Translation differences	(699)	4,103
At 31st December	**(43,479)**	**(37,013)**

9.2. Other financial assets

Thousands of Euros	2016	2015
Equity instruments	88	88
Security and other deposits	46,269	42,648
Other guarantees	2,000	16,600
Other loans	572	881
Other financial assets	9,728	6,728
Total non-current	**58,657**	**66,945**
Security and other deposits	10,324	640
Other loans	4,139	3,741
Derivatives (note 10)	123	8,203
Other financial assets	5,148	3,134
Total current	**19,734**	**15,718**

Non-current security and other deposits are the amounts pledged to lessors to secure lease contracts. These amounts are measured at present value and any difference with their nominal value is recognised under prepayments for current or non-current assets. The interest on these assets included in the consolidated income statement in 2016 amounted to Euros 495 thousand (Euros 658 thousand in 2015). Current security and other deposits comprise amounts deposited with franchisees totalling Euros 2,958 thousand and other bank deposits totalling Euros 7,366 thousand.

At 31 December 2016 other guarantees consist of the amount withheld from the sellers 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 thousand in respect of this transaction. These deposits were released to the Eroski Group in 2016 after an agreement was reached with the seller (see notes 4 and 17.2).

In both years other loans mainly consisted of loans extended by the Group to employees.

An asset derived from sales tax in Brazil is the main component of both the current and the non-current balance under other financial assets, totalling Euros 14,876 thousand in 2016 and Euros 9,862 thousand in 2015.

9.3 Current and non-current consumer loans from financing activities

These balances mainly reflect loans granted by FINANDIA, EFC and DIA Argentina to individuals resident in Spain and Argentina, respectively, and are calculated at amortised cost, which does not differ from their fair value.

In 2016, as in the preceding period, in Spain the effective interest rate of credit card receivables ranged from 0% for customers with charge cards to a variable nominal monthly rate of 2.16% for customers making use of revolving credit facilities. These rates may be changed subject to prior individual notification to the customer. In Argentina the nominal annual rate for customers using revolving credit facilities in 2016 was 52.75% and the annual nominal rate for financing purchases in 2-24 instalments was 20.31%.

Interest and similar income from these assets recognised in the consolidated income statement at 31 December 2016 amounted to Euros 1,700 thousand (Euros 2,087 thousand at 31 December 2015) (see note 21.1).

10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

Details of derivative financial instruments at the 2016 and 2015 reporting dates are as follows:

Thousands of Euros	2016	2015
Exchange derivatives - Cash flows hedges (note 9.2)	123	66
Exchange and interest derivatives - Fair value hedges (note 9.2 and 17.1)	(6,589)	8,137
Exchange derivatives - Cash flows hedges (note 17.1)	(11)	(40)
Total	**(6,477)**	**8,163**

The DIA Group holds various hedging instruments to mitigate possible adverse effects of exchange rates and interest rates. In both years the balance of the principal derivative financial instrument is that of a derivative arranged in Brazil in respect of bank loans from third parties.

The effect of these instruments on the consolidated income statements in the two periods was not significant.

11. OTHER EQUITY-ACCOUNTED INVESTEES

The balance under equity-accounted investees in 2016 and 2015 reflects the 50% investment in ICDC Services Sàrl (see note 1). This company commenced its activities in 2016. Also in 2016, DIA Paraguay's entry into the consolidated Group resulted in the acquisition of an indirect 10% interest in DIPASA.

12. OTHER ASSETS

Details of other assets are as follows:

	2016	2015
Thousands of Euros	Current	Current
Prepayments for operating leases	3,191	3,339
Prepayments for guarantees	481	667
Prepayments for insurance contracts	657	809
Other prepayments	3,811	3,000
Total other assets	**8,140**	**7,815**

13. INVENTORIES

Details of inventories are as follows:

Thousands of Euros	2016	2015
Goods for resale	662,640	554,276
Other supplies	6,952	8,213
Total inventories	**669,592**	**562,489**

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

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

14. CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents are as follows:

Thousands of Euros	2016	2015
Cash and current account balances	165,778	117,642
Cash equivalents	198,822	36,985
Total	**364,600**	**154,627**

Balances in current accounts earn interest at applicable market rates. Current investments are made for daily, weekly and monthly periods and have generated interest ranging from 0.05% to 0.15% in 2016 and from 0.1% to 0.97% in 2015.

The balance of cash equivalents at 31 December 2016 reflects the deposits maturing at under three months in Spain and Brazil. At 31 December 2015 this item consisted of deposits in Brazil.

15. DISCONTINUED OPERATIONS

In 2014 the Group decided to wind up Beijing DIA Commercial Co. Ltd. In 2015 the Group liquidated its net assets, including the cumulative translation differences, at an amount of Euros 1,477 thousand. The process to wind up this company was completed on 29 March 2016 (see notes 1 and 16.7).

16. EQUITY

16.1. Capital

At 31 December 2016 and 2015 share capital was Euros 62,245,651.30, represented by 622,456,513 shares of Euros 0.10 par value each, subscribed and fully paid. These shares are freely transferable.

At the Parent's general shareholders' meeting held on 24 April 2015, a share capital decrease was agreed through the redemption of own shares acquired under a share buy-back programme pursuant to Commission Regulation (EC) 2273/2003 of 22 December 2003. At the same general meeting, the shareholders authorised the board of directors to approve this decrease, with express powers to delegate this authority. On 27 July 2015 the Parent's board of directors agreed to delegate the powers conferred by the shareholders at their general meeting to specific legal representatives of the Parent, 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 16.3). On 2 October 2015 the deed of the capital decrease and the change to DIA's articles of association was 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 16.2).

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

The Parent'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 Parent's share capital at the date of authorising these annual accounts for issue.

According to the same public information, the most significant shareholdings 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 offeringcomprised 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 Parent'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 Parent'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 Parent 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.

The Group manages its capital with the aim of safeguarding its capacity to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other stakeholders, while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders, reimburse capital, issue shares or dispose of assets to reduce debt.

Like other groups in the sector, the DIA Group controls its capital structure on a debt ratio basis. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is the sum of financial debt less cash and other items. Adjusted EBITDA comprises earnings before depreciation and amortisation, impairment and gains/losses on disposal of fixed assets and other non-current income and expenses.

In view of the ratios for 2016 and 2015, net debt has been calculated as follows:

Thousands of Euros	2016	2015
Total borrowings (note 17)	1,243,007	1,295,230
Less: cash and cash equivalents (notes 10 and 14)	(364,723)	(162,830)
Net debt	878,284	1,132,400
Adjusted EBITDA (*)	625,083	610,162
Debt ratio	**1,4x**	**1.9x**

(*) Adjusted EBITDA = EBITDA in note 5 plus non-current income/expenses in note 21.9

In the calculation of the debt ratio presented in the table above, derivatives recognised as assets in the consolidated statement of financial position are presented as a reduction in cash and cash equivalents (see notes 10 and 14), whereas those presented under liabilities in the consolidated statement of financial position are included under total borrowings (see note 17).

16.2. Reserves and retained earnings

Details of reserves and retained earnings 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	242,399	55,785
Profit attributable to equityholders ot the parent	174,043	299,221
Total	**435,151**	**386,544**

The Parent's legal reserve has been appropriated 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, subsequent to the share capital decrease carried out in 2015, the Parent has appropriated to this reserve more than the minimum amount required by law.

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. At 31 December 2015, the Parent'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, following publication of the aforementioned Royal Decree, no further appropriations are required to this goodwill reserve, which may be transferred to non-distributable voluntary reserves and, subsequently, the amount of the reserve that exceeds the carrying amount of goodwill may be transferred to freely distributable reserves.

An amount equal to the par value of the own shares redeemed in 2015 and 2013 has been appropriated to the redeemed capital reserve. It will only be available once the Parent meets the conditions for reducing share capital set forth in article 335.c) of the Spanish Companies Act (see note 16.1).

Other reserves include the reserves of the Parent and consolidation reserves, as well as the reserve for the translation of capital into Euros, totalling Euros 62.07. This non-distributable reserve 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.

At 31 December 2015 the Parent's distributable voluntary reserves remained 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 Parent's profit for 2015 set out in its annual accounts was approved by the shareholders at their annual general meeting on 22 April 2016.

16.3. Other own equity instruments

a) 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 Parent 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 will be 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 the Parent's shares and the arrangement of any kind of financial instrument or contract to acquire own shares (in addition to those already held by the Parent at the date of approval) representing up to 2% of the Parent’s share capital.

As a result, on 21 December 2011 the Parent 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 Parent 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 Parent exercised the option on 8,086,720 shares at the agreed price. On the second expiry date, 21 January 2014, the Parent 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 Parent renewed the contract to acquire these shares in two tranches. Tranche 1 for the purchase of 3,100,000 shares ended on 21 April 2015 and tranche 2 for the purchase of the remaining 2,400,000 shares matured on 21 January 2016. Finally, on 23 March 2015 the Parent 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 17.1 (c)). On 21 January 2016 this last tranche was acquired for Euros 5,100,000 thousand.

As authorised by the then sole shareholder of the Parent in a decision taken on 9 May 2011 and in accordance with the Parent’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 Parent’s share capital. This scheme to buy back 6,793,360 shares ended on 2 July 2012. A further 800,000 shares were acquired on 4 April 2013.

At a meeting held on 26 July 2013, the Parent's 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 Parent signed an equity swap contract with Société Générale whereby the latter acquired 6,000,000 own shares at a price of Euros 6.1944 per share. The contract was settled on 1 September 2014, when the Parent 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 17.1 (c)).

On 20 February 2015 the Parent'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 Parent's share capital, following authorisation of the Programme by the shareholders at the general meeting. The shareholders of the Parent approved this share capital decrease at the general meeting held on 24 April 2015. The 28,614,045 shares acquired under the Buy-back Programme carried out throughout the previous year were fully used in the share capital decrease (see note 16.1).

The Parent 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 3,224 thousand and Euros 9,979 thousand to other reserves at 31 December 2016 and 2015, respectively. In 2014, 2013, 2012 and 2011, 393,219, 398,019, 115,622 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 Parent 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. These own shares are to be used to meet obligations to deliver shares to executives under the plans described in note 20.

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

	Number of shares	Euros/share	Total
31st December 2014	**11,508,762**	**5.1147**	**58,864,185.94**
Purchase of shares	28,614,045	6.9915	200,054,641.83
Delivery of shares	(3,324,980)	5.4394	(18,085,767.45)
Capital reduction	(28,614,045)	6.5448	(187,272,143.00)
31st December 2015	**8,183,782**	**6.5448**	**53,560,917.32**
Purchase of shares	4,000,000	4.9758	19,903,323.80
Delivery of shares	(1,078,008)	6.3940	(6,892,775.83)
31st December 2016	**11,105,774**	**5.9943**	**66,571,465.29**

b) Other own 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 2014-2016 long-term 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 20).

16.4. Dividends

Details of dividends paid are as follows:

Thousands of Euros	2016	2015
Dividends on ordinary shares	122,212	112,614
Dividend per share (in 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).

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

Basis of distribution	Euros
Profit for the year	207,384,982.56
Total	**207,384,982.56**

Basis of allocation	Euros
Dividends	128,383,655.19
Other 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 Parent.

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
Profit for the year	216,975,254.59
Total	**216,975,254.59**

Basis of allocation	Euros
Dividends	122,211,094.00
Goodwill reserve	2,340,690.06
Other reserves	92,423,470.53
Total	**216,975,254.59**

16.5. Earnings per share

Basic earnings per share are calculated by dividing net profit for the period attributable to the Parent by the weighted average number of ordinary shares in circulation throughout the period, excluding own shares.

The weighted average number of ordinary shares outstanding is determined as follows:

	Weighted average ordinary shares in circulation at 31/12/2016	Ordinary shares at 31/12/2016	Weighted average ordinary shares in circulation at 31/12/2015	Ordinary shares at 31/12/2015
Total shares issued	622,456,513	622,456,513	644,015,040	622,456,513
Own shares	(9,276,954)	(11,105,774)	(18,069,243)	(8,183,782)
Total shares available and diluted	**613,179,559**	**611,350,739**	**625,945,797**	**614,272,731**

Details of the calculation of basic earnings per share are as follows:

	2016	2015
Average number of shares	**613,179,559**	**625,945,797**
Profit for the period in thousands of Euros	174,043	299,221
Profit per share in Euros	0.28	0.48

There are no equity instruments that could have a dilutive effect on earnings per share. Diluted earnings per share are therefore equal to basic earnings per share.

16.6. Non-controlling interests

Non-controlling interests at 31 December 2016 and 2015 reflect that held in Compañía Gallega de Supermercados, S.A.

16.7. Translation differences

Details of translation differences at 31 December 2016 and 2015 are as follows:

Thousands of Euros	2016	2015
Argentina	(36,384)	(33,110)
Brazil	(17,131)	(53,262)
China (*)	(6,258)	(7,311)
Total	**(59,773)**	**(93,683)**

(*) The translation differences relating to Beijing DIA Commercial Co. Ltd., included in China, whose assets and liabilities were liquidated at 31 December 2015, were recognised as gains/losses on discontinued operations at 31 December 2015 (see note 15).

17. FINANCIAL LIABILITIES

Details of financial liabilities in the consolidated statement of financial position at 31 December are as follows:

Thousands of Euros	2016	2015
Non-current liabilities		
Non-current borrowings	1,062,273	920,951
Other non-current financial liabilities	2,785	17,906
Current liabilities		
Current borrowings	180,734	374,279
Trade and other payables	1,952,848	1,518,843
Other financial liabilities	134,642	145,679
Total financial liabilities	**3,333,282**	**2,977,658**

17.1. Borrowings

Details of borrowings are as follows:

Thousands of Euros	2016	2015
Debentures and bonds long term	794,652	495,862
Syndicated credits (Revolving credit facilities)	97,360	297,580
Mortgage loans	2,632	4,834
Other bank loans	126,351	95,652
Finance lease payables (note 6)	31,305	19,185
Guarantees and deposits received	9,469	7,838
Other non-current borrowings	504	-
Total non-current borrowings	**1,062,273**	**920,951**
Debentures and bonds long term	5,587	3,500
Mortgage loans	2,218	2,145
Other bank loans	61,819	137,468
Other financial liabilities	39,944	42,266
Finance lease payables (note 6)	11,634	7,736
Credit facilities drawn down	41,355	175,073
Expired Interests	520	778
Guarantees and deposits received	5,817	4,760
Liabilities derivatives (note 10)	6,600	40
Other current borrowings	5,240	513
Total current borrowings	**180,734**	**374,279**

a) Bonds

The Parent 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 Parent successfully completed a second bond issue amounting to Euros 300,000 thousand, with an issue price of 99.424%. These bonds were issued on the Irish Stock Exchange.

b) Loans and borrowings

Syndicated loans

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

			Outstandings in thousand of euros			
Description	Limit in thousand of euros	Currency	2016	2015	Signed date	Maturity date
Sindicated (*)	300,000	EUR	99,000	300,000	21,04,2015	75,000 21,04,2018 225,000 21,04,2019
Sindicated	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.

Mortgage and other bank loans

Details of the maturity of mortgage and other bank loans, grouped by type of operation and company, at 31 December 2016 and 2015 are as follows:

2016			Maturity in thousand of euros				
Type	Owner	Currency	2017	2018	2019	2020	Total
Mortgage	Beauty by DIA	EUR	1,324	632	421	394	2,771
Mortgage	Twins Alimentación	EUR	894	942	243	-	2,079
	Mortgage Loans	EUR	2,218	1,574	664	394	4,850
Loan	DIA	EUR	10,017	121,014	-	-	131,031
Loan	DIA Brasil	EUR	46,637	-	-	-	46,637
Loan	Grupo El Arbol	EUR	1,805	500	2,000	-	4,305
Loan	DIA Argentina	EUR	3,360	2,270	567	-	6,197
	Other Loans	EUR	61,819	123,784	2,567	-	188,170

2015			Maturity in thousand of euros				
Type	Owner	Currency	2016	2017	2018	2019	Total
Mortgage	Beauty by DIA	EUR	1,296	1,324	632	799	4,051
Mortgage	Twins Alimentación	EUR	849	894	942	243	2,928
	Mortgage Loans	EUR	2,145	2,218	1,574	1,042	6,979
Loan	DIA	EUR	90,008	69,973	20,000	-	179,981
Loan	DIA Brasil	EUR	34,294	-	-	-	34,294
Loan	Grupo El Arbol	EUR	2,359	1,805	500	2,000	6,664
Loan	DIA Argentina	EUR	2,807	1,374	-	-	4,181
Commercial paper	DIA Portugal	EUR	8,000	-	-	-	8,000
	Other Loans	EUR	137,468	73,152	20,500	2,000	233,120

Mortgage loans have been secured by certain properties owned by the Group and accrue interest at rates between 2.00% and 5.07% at 31 December 2016.

In 2016 the Parent repaid in advance a Euros 60,000 thousand loan signed in December 2015 and another Euros 50,000 thousand loan arranged in 2016. A new loan amounting to Euros 101,000 thousand was arranged in December 2016.

At 31 December 2015 this item included Euros 8,000 thousand in drawdowns on current debt instruments defined as “commercial paper” that DIA Portugal had negotiated with the banks. There were no outstanding drawdowns at 31 December 2016.

Credit facilities

The Group has arranged credit facilities with various financial institutions, subject to the following limits (in thousands of Euros):

Year	Limit granted	Amount available	Amount used
31,12,2016	133,357	92,002	41,355
31,12,2015	280,074	105,001	175,073

Moreover, at 31 December 2016 the Parent 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.

c) Other financial liabilities

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

Start date	Expiration date	Number of shares	Nominal amount in thousand of euros
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 shares	Nominal amount in thousand of euros
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

d) Maturity of borrowings

The maturities of borrowings are as follows:

Thousands of Euros	2016	2015
Less than one year	180,734	374,279
One to two years	232,976	82,716
Three to five years	816,003	829,404
Over five years	13,294	8,831
Total	**1,243,007**	**1,295,230**

17.2. Other non-current financial liabilities

Details of other non-current financial liabilities are as follows:

Thousands of Euros	2016	2015
Capital grants	785	1,306
Other non-current financial liabilities	2,000	16,600
Total grants and other non-current financial liabilities	**2,785**	**17,906**

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 to the Eroski Group in 2016 after an agreement was reached with the seller (see notes 4 and 9.2).

17.3. Trade and other payables

Details are as follows:

Thousands of Euros	2016	2015
Suppliers	1,754,389	1,376,937
Advances received from receivables	2,454	1,172
Trade payables	196,005	140,734
Total Trade and other payables	**1,952,848**	**1,518,843**

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

Trade and other payables do not bear interest.

The Group has reverse confirming operations with limits of Euros 678,061 thousand and Euros 673,209 thousand at 31 December 2016 and 2015, respectively. Drawdowns total Euros 333,258 thousand at 31 December 2016 and Euros 286,149 thousand at 31 December 2015.

The information required from Spanish DIA Group companies under the reporting requirement established in Spanish Law 15/2010 of 5 July 2010, which amended Spanish 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	45	45
Paid operations ratio	46	45
Pending payment transactions ratio	40	40
	Amount (euros)	Amount (euros)
Total payments made	4,881,824,952	4,066,913,971
* Total payment pending	509,127,690	366,286,558

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

17.4. Other financial liabilities

Details of other financial liabilities are as follows:

Thousands of Euros	2016	2015
Personnel	69,262	65,905
Suppliers of fixed assets	60,300	77,235
Other current liabilities	5,080	2,539
Total other liabilities	**134,642**	**145,679**

17.5. Fair value estimates

The fair value of financial assets and liabilities is determined by the amount for which the instrument could be exchanged between willing parties in a normal transaction and not in a forced transaction or liquidation.

The Group generally applies the following systematic hierarchy to determine the fair value of financial assets and financial liabilities:

- **Level 1**: Firstly, the Group applies the quoted prices of the most advantageous active market to which it has immediate access, adjusted where appropriate to reflect any differences in credit risk between instruments traded in that market and the one being valued. The current bid price is used for assets held or liabilities to be issued and the asking price for assets to be acquired or liabilities held. If the Group has assets and liabilities with offsetting market risks, it uses mid-market prices for the offsetting risk positions and applies the bid or asking price to the net position, as appropriate.

- **Level 2:** When current bid and asking prices are unavailable, the price of the most recent transaction is used, adjusted to reflect changes in economic circumstances.

- **Level 3:** Otherwise, the Group applies generally accepted valuation techniques using, insofar as is possible, market data and, to a lesser extent, specific Group data.

Assets and liabilities at fair value have been measured using Level 2 inputs, except in the case of non-current bonds and debentures, which belong to level 1. Specifically:

- Trade and other receivables, trade and other payables and other current financial assets and liabilities approximate their carrying amounts, due, largely, to the short-term maturities of these instruments.

- The fair value of unlisted instruments, bank loans, finance lease payables and other non-current financial assets and liabilities is estimated by discounting future cash flows, using the available rates for debts with similar terms, credit risk and maturities, and is very similar to their carrying amount.

- Derivative financial instruments are contracted with financial institutions with sound credit ratings. The fair value of derivatives is calculated using valuation techniques based on observable market data for forward contracts.

- The fair value of non-current listed instruments and bonds has been measured based on listed market prices and amounts to Euros 823,344 thousand at 31 December 2016 (compared with a carrying amount of Euros 794,652 thousand).

18. PROVISIONS

Details of provisions are as follows:

Thousands of Euros	Provisions for long-term employee benefits under defined benefit plans	Tax provisions	Social security provisions	Legal contingencies provisions	Other provisions	Total provisions
At 1st January 2015	**2,270**	**33,021**	**14,007**	**16,890**	**19,912**	**86,100**
Translation differences	-	(72)	(2,519)	(923)	(97)	**(3,611)**
Charge	486	4,622	5,874	5,245	2,023	**18,250**
Applications	-	(12,820)	(3,068)	(3,680)	(1,349)	**(20,917)**
Reversals	(109)	(848)	(2,430)	(9,168)	(16,188)	**(28,743)**
Transfers	-	60	230	927	(1,217)	**-**
Other movements	53	353	-	-	18	**424**
At 31st December 2015	**2,700**	**24,316**	**12,094**	**9,291**	**3,102**	**51,503**
Translation differences	-	(20)	1,334	381	(45)	**1,650**
Charge	423	870	8,585	4,419	773	**15,070**
Applications	-	(1,142)	(4,021)	(2,325)	(265)	**(7,753)**
Reversals	(441)	(925)	(6,493)	(5,043)	(1,891)	**(14,793)**
Other movements	43	109	-	-	12	**164**
At 31st December 2016	**2,725**	**23,208**	**11,499**	**6,723**	**1,686**	**45,841**

18.1. Provisions for taxes, legal contingencies and employee benefits

As regards the provisions for taxes deriving from the risk of tax inspections, in 2015 the Parent 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.

In 2016, charges and applications of provisions for lawsuits filed by employees (related to social security contributions) include charges of Euros 5,914 thousand for social security contingencies and applications of Euros 3,430 thousand for similar contingencies in Brazil. Reversals mainly comprise provisions of Euros 3,690 thousand recognised by the Parent to cover the risks derived from the sale of DIA France.

Reversals of provisions for legal contingencies in 2016 primarily comprise a Euros 2,881 thousand provision made by the Parent to cover legal risks derived from the sale of DIA France. In 2015 the Parent 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 Parent related to the sale of DIA Turkey after the agreement was signed with the buyers on 22 June 2015.

18.2. Other provisions

Reversals of other provisions in 2016 reflect the cancellation of the contingent consideration for which provision was made in 2015 in connection with business acquisitions (see note 4 (b)).

In 2015, other provisions totalling Euros 16,188 thousand were released, including that for the variable price arising from the acquisition of Grupo El Árbol, considering the appraisal made by an independent expert.

19. TAX ASSETS AND LIABILITIES AND INCOME TAX

- **INCOME TAX**

Details of the income tax expense/income are as follows:

Thousands of Euros	2016	2015
Current income taxes		
Current period	69,179	50,270
Prior periods' current income taxes	(1,802)	958
Total current income taxes	**67,377**	**51,228**
Deferred taxes		
Source of taxable temporary differences	12,200	4,240
Source of deductible temporary differences	(29,456)	(158,046)
Reversal of taxable temporary differences	(6,438)	(9,658)
Reversal of deductible temporary differences	25,436	29,626
Total deferred taxes	**1,742**	**(133,838)**
TOTAL INCOME TAX	**69,119**	**(82,610)**

Due to the different treatment of certain transactions permitted by tax legislation, the accounting profit of each Group company differs from taxable income.

A reconciliation of accounting profit for the year with the total taxable income of the Group (calculated as the sum of the taxable income stated in the tax return of each Group company) is as follows:

Thousands of Euros	2016	2015
Profit for the period before taxes from continuing operations	243,120	218,116
Share in profit/(loss) for the year of equity accounted investees	(93)	-
Profit for the period before tax	243,027	218,116
Tax calculated at the tax rate of each country	58,017	58,164
Unrecognised tax credits	3,743	3,577
Non-taxable income	(1,894)	(3,691)
Non-deductible expenses	7,757	1,654
Deductions and credits for the current period	(1,009)	(4,647)
Adjustments for prior periods	(1,802)	958
Adjustments for prior periods - deferred taxes	1,827	(142,280)
Unrecognised deferred taxes	1,857	(1,126)
Other adjustments	407	4,385
Tax rate's change adjustment	216	396
Total income tax	**69,119**	**(82,610)**

The tax rates of each of the different countries or jurisdictions in which the Group operates have been taken into account to perform this reconciliation. Details of these rates are as follows:

DIA, Twins, Beauty by DIA, Petra, GEA, Cía. Gallega, Eshopping	25%
Finandia	30%
Portugal	26.42%
Argentina	35%
Brazil	34%
China	25%
Switzerland	24%

The Spanish companies Distribuidora Internacional de Alimentación, S.A. (parent) and 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. (subsidiaries) filed consolidated tax returns in 2016 as part of tax group 487/12, pursuant to Title VII, Chapter VI of the Spanish Corporate Income Tax Law 27/2014 of 27 November 2014.

- **TAX ASSETS AND TAX LIABILITIES**

Details of the tax assets and liabilities for 2016 and 2015 recognised in the consolidated statement of financial position at 31 December are as follows:

Thousands of Euros	2016	2015
Deferred tax assets	314,273	271,480
Taxation authorities, VAT	39,816	41,160
Taxation authorities	31,271	28,314
Current income tax assets	8,832	49,663
Total tax assets	**394,192**	**390,617**
Deferred tax liabilities	44,109	3,193
Taxation authorities, VAT	46,448	55,475
Taxation authorities	39,046	37,464
Current income tax liabilities	15,505	4,111
Total tax liabilities	**145,108**	**100,243**

On 20 January 2017 the Parent 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 Parent received a refund of Euros 40,764 thousand from the taxation authorities.

A reconciliation of details of deferred tax assets and liabilities (before consolidation adjustments) with the deferred taxes recognised in the consolidated statement of financial position (after consolidation adjustments) is as follows:

	2016	2015
Capitalised tax loss carryforwards	226,172	240,060
+ Deferred tax assets	91,535	70,253
Total deferred tax assets	317,707	310,313
Assets offset	(3,434)	(38,833)
Deferred tax assets	**314,273**	**271,480**
Deferred tax liabilities	47,543	42,026
Liabilities offset	(3,434)	(38,833)
Deferred tax liabilities	**44,109**	**3,193**

Details of and movements in the Group's tax assets and liabilities (before consolidation adjustments) are as follows:

DEFERRED TAX ASSETS

		Adjustments	Profit/(loss)			Exchange	
Thousands of Euros	1 Jan 2015	to tax rate	Additions	Disposals	Others	gains/losses	31 Dec 2015
Provision	21,015	(145)	12,392	(1)	242	(7,440)	26,063
Onerous contracts	234	8	450	(176)	-	-	516
Portfolio provisions	9,063	(156)	1,399	(6,399)	-	-	3,907
Share-based payments	4,007	229	31	(2,199)	174	-	2,242
Other remuneration	258	85	332	-	-	-	675
Loss carryforwards	117,648	(529)	135,190	(12,274)	25	-	240,060
Other	41,143	147	8,613	(8,577)	(441)	(4,035)	36,850
Total non-curent deferred tax asset	**193,368**	**(361)**	**158,407**	**(29,626)**	**-**	**(11,475)**	**310,313**

		Adjustments	Profit/(loss)			Exchange	
Thousands of Euros	1 Jan 2016	to tax rate	Additions	Disposals	Others	gains/losses	31 Dec 2016
Provisions	26,063	(4)	10,217	(1,034)	-	2,248	37,490
Onerous contracts	516	(2)	224	(440)	-	-	298
Portfolio provisions	3,907	-	-	(3,907)	-	-	-
Share-based payments	2,242	(1)	2,049	-	-	-	4,290
Other remuneration	675	-	71	(79)	-	-	667
Loss carryforwards	240,060	(216)	120	(13,792)	-	-	226,172
Deductions activation	-	-	2,315	-	540	-	2,855
Difference between depretation tax-accounting	25,897	-	11,074	(102)	(7)	1,384	38,246
Other	10,953	(5)	3,614	(6,082)	-	(791)	7,689
Total non-curent deferred tax asset	**310,313**	**(228)**	**29,684**	**(25,436)**	**533**	**2,841**	**317,707**

DEFERRED TAX LIABILITIES

		Adjustments	Profit/(loss)		Net Equity		Exchange	
Thousands of Euros	1 Jan 2015	to tax rate	Additions	Disposals	Disposals	Others	gains/losses	31 Dec 2015
Goodwill	1,427	(9)	80	(113)	-	-	-	1,385
Amortisation and depreciation	26,970	(229)	1,640	(5,337)	-	(28)	(512)	22,504
Portfolio provisions	20,405	311	-	(4,183)	-	-	-	16,533
Other	(575)	(40)	2,487	(25)	(2)	(242)	1	1,604
Total non-current deferred tax liabilities	**48,227**	**33**	**4,207**	**(9,658)**	**(2)**	**(270)**	**(511)**	**42,026**

		Adjustments	Profit/(loss)		Net Equity		Exchange	
Thousands of Euros	1 Jan 2016	to tax rate	Additions	Disposals	Disposals	Others	gains/losses	31 Dec 2016
Goodwill	1,385	-	54	(5)	-	-	-	1,434
Amortisation and depreciation	22,504	(6)	6,937	(3,052)	-	(7)	(80)	26,296
Portfolio provisions	16,533	-	-	(3,307)	-	-	-	13,226
Strore sales	-	-	4,413	-	-	-	-	4,413
Other	1,604	(6)	808	(74)	(153)	-	(5)	2,174
Total ID de Pasivo No Corriente	**42,026**	**(12)**	**12,212**	**(6,438)**	**(153)**	**(7)**	**(85)**	**47,543**

Furthermore, the consolidated Group has not recognised deductible temporary differences totalling Euros 53,585 thousand deriving from the impairment of the investments held by the Parent and Grupo El Árbol Distribución y Supermercados.

Based on the tax returns, the Group companies have the following accumulated tax losses, deductions and exemptions to be offset in future years amounting to Euros 997,847 thousand in 2016 and Euros 1,047,637 thousand in 2015.

			Limitation period (years)							Loss	Loss
	Years in which	Not subjetc to								carryforwards	carryforwards
Thousands of Euros	generated	limitation	2017	2018	2019	2020	2021	> 2021	TOTAL	activated	non-activated
Distribuidora Internacional de Alimentación, S.A.	2014	351,423	-	-	-	-	-	-	351,423	351,423	-
Twins Alimentación, S.A.	2004-2007	91,405	-	-	-	-	-	-	91,405	91,405	-
Pe-Tra Servicios a la distribución, S.L.	1997-1999	18,549	-	-	-	-	-	-	18,549	-	18,549
Beauty by DIA, S.A. (Schlecker, S.A. in 2015)	2012	945	-	-	-	-	-	-	945	945	-
Grupo El Árbol, Distribución y Supermercados, S.A.	2000-2014	453,780	-	-	-	-	-	-	453,780	453,780	-
Compañía Gallega de Supermercados, S.A.	2002-2014	3,497	-	-	-	-	-	-	3,497	3,497	-
DIA ESHOPPING, S.L.U.	2015	393	-	-	-	-	-	-	393	393	-
Dia Tian Tian Manag. Consulting Service & Co.Ltd.	2012-2016	-	3,527	-	-	-	1,487	-	5,014	-	5,014
Shanghai DIA Retail Co.Ltd.	2012-2016	-	8,135	16,415	14,441	15,424	14,563	-	68,978	-	68,978
Dia Portugal Supermercados S.U., Lda	2012-2014	-	-	922	-	-	-	2,941	3,863	3,863	-
Total tax loss carryforwards		**919,992**	**11,662**	**17,337**	**14,441**	**15,424**	**16,050**	**2,941**	**997,847**	**905,306**	**92,541**

In accordance with Royal Decree-Law of 3/2016 of 2 December 2016, from 2016 onwards, the Spanish consolidated tax group may offset tax loss carryforwards up to a maximum of 25% of taxable income prior to offset, 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.

In 2015 the following subsidiaries included in the consolidated tax group of DIA in Spain capitalised tax loss carryforwards generated in years prior to joining the tax group:

- Grupo El Árbol, Distribución y Supermercados S.A.: an amount of Euros 113,445 thousand.
- Compañía Gallega de Supermercados S.A.: an amount of Euros 933 thousand.
- Twins Alimentación S.A.: an amount of Euros 19,793 thousand.

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

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

The inspection is ongoing at the reporting date, although no probable contingencies for the Parent have been identified at the date on which these consolidated annual accounts were authorised for issue. The directors do not expect that any major additional liabilities in relation to the consolidated annual accounts taken as a whole will arise as a result of these inspections, the years open to inspection or the appeals submitted.

20. 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 Parent 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 Group were entitled to variable remuneration settled though shares in the Parent. The receipt of these incentives was dependent on whether the Parent and the Group 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 Parent 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 Group were awarded variable remuneration settled though shares in the Parent. 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 Parent and the Group meeting certain business targets. Beneficiaries were also required to remain in the employment of or maintain their commercial relationship with the Parent 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 Parent shares, for the 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 Parent and the Group. At 31 December 2016 the Parent 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 Parent shares, for the 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 Parent and the Group. At 31 December 2016 the Parent 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) and are recognised in personnel expenses in the consolidated income statement. The balancing entry was recognised under other own equity instruments. The payments made in relation to the long-term incentive 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.

21. OTHER INCOME AND EXPENSES

21.1. Other income

Details of other income are as follows:

Thousands of Euros	2016	2015
Fees and interest to finance companies (note 9.2)	1,700	2,087
Service and quality penalties	34,729	30,646
Revenue from lease agreements (note 8)	26,415	23,025
Other revenue from franchises	14,639	11,365
Revenue from commercial fees from concessions	828	827
Other income	32,665	28,265
Total other operating income	**110,976**	**96,215**

Penalties for service and quality include the income obtained by the Group from the collection of penalties charged to suppliers for lack of service or lack of quality in accordance with the agreements established with them.

21.2. Merchandise and other consumables used

This item includes purchases, less volume discounts and other trade discounts, and changes in inventories, as well as the cost of products sold by the finance company.

21.3. Personnel expenses

Details of personnel expenses are as follows:

Thousands of Euros	2016	2015
Salaries and wages	646,272	653,742
Social Security	164,901	168,739
Defined contribution plans	(63)	324
Other employee benefits expenses	19,484	19,751
Parcial total personnel expenses	**830,594**	**842,556**
Expenses for share-based payment transactions	15,509	4,677
Total personnel expenses	**846,103**	**847,233**

The increase in expenses of share-based payment transactions is mostly attributable to the expense accrued in connection with the new 2016-2018 incentive plan (see note 20).

21.4. Operating expenses

Details of operating expenses are as follows:

Thousands of Euros	2016	2015
Repairs and maintenance	48,358	52,829
Utilities	90,180	86,147
Fees	23,315	23,220
Advertising	56,265	55,055
Taxes	22,579	23,576
Rentals, property (note 8)	310,880	299,769
Rentals, equipment (note 8)	5,585	7,045
Other general expenses	96,387	96,393
Total operating expenses	**653,549**	**644,034**

21.5. Amortisation, depreciation and impairment

Details are as follows:

Thousands of Euros	2016	2015
Amortisation of intangible assets (note 7.2)	9,682	8,862
Depreciation of property, plant and equipment (note 6)	223,271	205,164
Total amortisation and depreciation	**232,953**	**214,026**
Impairment of intangible assets and goodwill (note 7)	646	234
Impairment of property, plant and equipment (note 6)	12,616	10,779
Total impairment	**13,262**	**11,013**

21.6. Gains and losses on the disposal of fixed assets

Net gains of Euros 4,336 thousand were generated on asset disposals in 2016, compared with net losses of Euros 12,340 thousand incurred in 2015. In Spain, the net gains totalled Euros 9,253 thousand in 2016 (net losses of Euros 7,230 thousand in 2015). In Portugal, net losses recognised in 2016 amounted to Euros 166 thousand (Euros 1,078 thousand in 2015). In Argentina, net losses recognised in 2016 amounted to Euros 4,572 thousand (Euros 3,156 thousand in 2015). These losses are mainly due to stores being remodelled to the new DIA Maxi, DIA Market and Clarel formats.

These amounts mainly pertain to property, plant and equipment.

Proceeds from the sale of these fixed assets totalled Euros 38,546 thousand in 2016 (Euros 2,854 thousand in 2015) and mostly derived from the sale of certain properties owned by the DIA Group to third parties.

21.7. Finance income and finance costs

Details of finance income are as follows:

Thousands of Euros	2016	2015
Interest on other loans and receivables	2,794	2,446
Dividends received	-	2
Exchange gains (note 21.8)	4,567	2,791
Change in fair value of financial instruments	-	274
Other finance income	4,728	3,752
Total financial income	**12,089**	**9,265**

Details of finance costs are as follows:

Thousands of Euros	2016	2015
Interest on bank loans	25,193	22,314
Intereses on debentures and bonds	11,181	8,872
Finance expenses for finance leases (note 6)	3,628	1,589
Exchange losses (note 21.8)	4,193	9,899
Financial expenses assigment of receivables operations (notes 9.1 (b) and 24 (d))	139	-
Other finance expenses	19,787	22,617
Total financial expenses	**64,121**	**65,291**

At 31 December 2016 and 2015, interest on bank loans includes the finance costs associated with bank loans, primarily in Spain, Brazil and Argentina.

Interest on bonds includes the accrued interest and costs as a result of the bond issues described in note 17.1 (a).

Other finance costs at 31 December 2016 and 2015 primarily reflect the bank debit and credit interest rates in Argentina linked to its revenues.

21.8. Foreign currency transactions

Details of the exchange differences on foreign currency transactions are as follows:

Thousands of Euros	2016	2015
Currency exchange losses (note 21.7)	(4,193)	(9,899)
Currency exchange gains (note 21.7)	4,567	2,791
Trade exchange losses	(562)	(1,167)
Trade exchange gains	849	888
Total	**661**	**(7,387)**

21.9. Non-recurring income and expenses

Details of non-recurring income and expenses classified according to their nature in the consolidated income statement are as follows:

Thousands of Euros	2016	2015
Commercial margin	(4,591)	(6,032)
Personnel expenses	61,859	71,656
Operating expenses	15,706	28,643
Parcial total non-current expenses	72,974	94,267
Share-based payments transactions expenses	15,171	4,374
Amortisation and depreciation	584	-
Total non-current expenses	**88,729**	**98,641**

Such income and expense comprise non-recurring items such as those associated with the reorganisation of the Group, improvements in the productivity and efficiency of processes, the business combinations carried out and incentive plans.

22. COMMITMENTS AND CONTINGENCIES

a) Commitments

Commitments pledged and received by the Group but not recognised in the consolidated statement of financial position comprise contractual obligations which have not yet been executed. The two types of commitments relate to cash and expansion operations. The Group also has lease contracts that represent future commitments undertaken and received.

Off-balance-sheet cash commitments comprise:

- available credit facilities which were unused at the reporting date;

- credit commitments undertaken by the Group's finance company with customers within the scope of its operations, and banking commitments received.

Expansion operation commitments were undertaken for expansion at Group level.

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:

22.1. Pledged:

Thousands of Euros at 31st December 2016	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	>5 YEARS	TOTAL
Guarantees	30,500	250	1,183	10,506	42,439
Credit facilities to customers (finance companies)	79,129	-	-	-	79,129
Cash	**109,629**	**250**	**1,183**	**10,506**	**121,568**
Purchase options	9,630	14,643	5,999	37,716	67,988
Commitments related to commercial contracts	16,743	4,016	1,469	117	22,345
Other commitments	2,118	2,009	2,502	16,578	23,207
Transactions / properties / expansion	**28,491**	**20,668**	**9,970**	**54,411**	**113,540**
Total	**138,120**	**20,918**	**11,153**	**64,917**	**235,108**

Thousands of Euros at 31st December 2015	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	>5 YEARS	TOTAL
Guarantees	27,483	59	625	9,112	37,279
Credit facilities to customers (finance companies)	77,700	-	-	-	77,700
Cash	**105,183**	**59**	**625**	**9,112**	**114,979**
Purchase options	-	9,630	22,626	37,930	70,186
Commitments related to commercial contracts	16,914	3,917	2,784	28	23,643
Other commitments	2,302	2,917	3,487	19,419	28,125
Transactions / properties / expansion	**19,216**	**16,464**	**28,897**	**57,377**	**121,954**
Total	**124,399**	**16,523**	**29,522**	**66,489**	**236,933**

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

22.2. Received:

Thousands of Euros at 31st December 2016	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Available credit facilities	92,002	-	-	-	92,002
Available sindicated revolving credit facilities	601,000	-	-	-	601,000
Available confirming lines	344,803	-	-	-	344,803
Available commercial paper facilities	45,000	-	-	-	45,000
Cash	**1,082,805**	**-**	**-**	**-**	**1,082,805**
Guarantees received for commercial contracts	28,300	5,950	25,961	38,726	98,937
Other commitments	-	-	49	199	248
Transactions / properties / expansion	**28,300**	**5,950**	**26,010**	**38,925**	**99,185**
Total	**1,111,105**	**5,950**	**26,010**	**38,925**	**1,181,990**

Thousands of Euros at 31st December 2015	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Available credit facilities	105,000	-	-	-	105,000
Available revolving credit facilities	400,000	-	-	-	400,000
Available confirming lines	387,060	-	-	-	387,060
Available commercial paper facilities	62,000	-	-	-	62,000
Cash	**954,060**	**-**	**-**	**-**	**954,060**
Guarantees received for commercial contracts	31,611	7,380	20,124	27,300	86,415
Other commitments	-	-	-	163	163
Transactions / properties / expansion	**31,611**	**7,380**	**20,124**	**27,463**	**86,578**
Total	**985,671**	**7,380**	**20,124**	**27,463**	**1,040,638**

b) Contingencies

In 2014 DIA Brazil was inspected by the local taxation authorities, as a result of which it has received two additional tax assessments, one amounting to Euros 12,549 thousand (Brazilian Reais 43,054 thousand) in relation to a discrepancy concerning tax on income from discounts received from suppliers, and another amounting to Euros 73,030 thousand (Brazilian Reais 250,551 thousand) in relation to the recognition of movements of goods and the consequent impact on inventories.

In 2016, the initial administrative ruling on the discrepancy concerning income from suppliers was unfavourable. A legal defence is being mounted and the legal counsel believe there are sufficient grounds to win a ruling favourable to DIA Brazil. As regards the latter proceedings, an unfavourable decision was handed down via administrative channels, despite the stock movements having been shown to be in line with the criteria followed in all the countries in which the DIA Group operates. A ruling has yet to be handed down on the appeal filed against this ruling. Nevertheless, based on the reports from the external legal counsel, the probability of losing this lawsuit continues to be considered remote.

23. RELATED PARTIES

Transactions other than ordinary business or under terms differing from market conditions carried out by the directors of the Parent

In 2016 and 2015 the directors of the Parent have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Parent or any other Group company.

Transactions and balances with ICDC

Transactions with ICDC in 2016 totalled Euros 18,433 thousand and primarily consisted of commercial transactions. At 31 December 2016 the balance receivable from ICDC amounts to Euros 4,852 thousand (see note 9.1 (c)).

Transactions with directors and senior management personnel

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

Thousands of Euros			
2016		2015	
Directors	Senior management personnel	Directors	Senior management personnel
2,756	4,175	5,235	10,912

In 2016 and 2015 the directors of the Parent earned Euros 1,188 thousand and Euros 1,089 thousand, respectively, (included in the table above) 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 Parent'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:

Board members	Financial instruments	Fixed remuneration	Variable remuneration	Others
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 Génova	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 Luisa Garaña	1.2	2.6	-	-
Total	**836**	**1,450**	**463**	**7**

2015	Thousands of Euros			
Board members	Financial instruments	Fixed remuneration	Variable remuneration	Others
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 Génova	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**

During 2016 and 2015 the members of the board of directors and senior management personnel of the Group have not carried out transactions other than ordinary business or applying terms that differ from market conditions with the Parent or Group companies.

The civil liability insurance premiums paid by the Group in respect of directors and senior management personnel totalled Euros 29 thousand in 2016.

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

24. FINANCIAL RISK MANAGEMENT: OBJECTIVES AND POLICIES

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

The Group'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 risks are identified, measured and managed in accordance with DIA Group policies.

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

a) Financial risk factors

The Group'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 Group's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Group's profits. The Group uses derivatives to mitigate certain risks.

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

b) Currency risk

The Group 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, Group entities use forward currency contracts negotiated with the Treasury Department. Currency risk arises on future commercial transactions in which the recognised assets and liabilities are presented in a foreign currency other than the Company's functional currency.

In 2016 and 2015 the Group has performed no significant transactions in currencies other than the functional currency of each company. However, the Group has contracted exchange rate insurance policies for non-recurrent transactions in US Dollars.

The hedging transactions carried out in US Dollars during 2016 amounted to US Dollars 6,552 thousand (US Dollars 5,359 thousand in 2015). This amount represented 66.09% of the transactions carried out in this currency in 2016 (98.38% in 2015). At 2016 year end, outstanding hedges in this currency total US Dollars 1,803 thousand (US Dollars 1,284 thousand in 2015) and expire in the next 11 months. These transactions are not significant with respect to the Group's total volume of purchases.

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

In 2016, had the Euro strengthened/weakened by 10% against the US Dollar, with the other variables remaining constant, consolidated post-tax profit would have been Euros 328 thousand higher/lower (Euros 271 thousand in 2015), mainly as a result of translating trade receivables and debt instruments classified as available-for-sale financial assets.

The translation differences included in other comprehensive income are significant due to the major depreciation of the Argentinian Peso and, above all, the strong appreciation of the Brazilian Real in 2016. Had the exchange rates in the countries where the Group operates that use a currency other than the Euro depreciated/appreciated by 10% the translation differences would have varied by +32.71% / -32.71%, respectively, in the equity of the DIA Group.

The Group's exposure to currency risk at 31 December 2016 and 2015 in respect of the balances outstanding in currencies other than the functional currency of each country is immaterial:

c) Price risk

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

d) Credit risk

The Group does not have significant concentrations of credit risk. The Group 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 Group has policies to limit the amount of risk with any one financial institution.

The credit risk presented by the Group is attributable to the transactions it carries out with the majority of its franchisees and is mitigated through the bank and other guarantees received, which are described in note 22. Details are as follows:

Thousands of Euros	2016	2015
Trade operations non-current	69,345	51,291
Trade operations current	135,261	112,054
Guarantees received	(98,937)	(86,415)
	105,669	**76,930**

Non-current commercial transactions reflect the financing of the starting inventory of the franchisees, which is repaid monthly based on the cash generation profile of the business. Current commercial transactions entail the financing of supplies.

In 2016 the Group entered into agreements to transfer supplier trade payables with and without recourse (see notes 3 (m) and 9.1 (b)). The accrued cost of the transfer of these payables in 2016 amounted to Euros 139 thousand (see note 21.7). Undue balances at 31 December 2016 amount to Euros 88,449 thousand, all of which are without recourse.

The Group's exposure to credit risk at 31 December 2016 and 2015 is shown below. The accompanying tables reflect the analysis of financial assets by remaining contractual maturity dates:

Thousands of Euros	Maturity	2016
Guarantees	per contract	46,269
Other guarantees	2,020	2,000
Equity instruments	-	88
Other loans	2018-2021	572
Trade receivables	2018-2035	69,345
Other non-current financial assets	2018-2020	9,728
Consumer loans from finance companies	2018	401
Non-current assets		**128,403**
Guarantees	2017	10,324
Other loans	2017	4,139
Other finantial assets	2017	5,148
Trade receivables	2017	256,010
Receivables from group companies	2017	4,852
Consumer loans from finance companies	2017	6,220
Current assets		**286,693**

Thousands of Euros	Maturity	2015
Guarantees	per contract	42,649
Other guarantees	2,020	16,600
Equity instruments	-	88
Other loans	2017-2020	881
Trade receivables	2017-2032	51,290
Other non-current finantial assets	2017-2020	6,728
Consumer loans from finance companies	2017	458
Non-current assets		**118,694**
Guarantees	2016	640
Other loans	2016	3,741
Other finantial assets	2016	3,134
Trade receivables	2016	221,193
Consumer loans from finance companies	2016	6,548
Current assets		**235,256**

The Group has taken out credit and surety insurance policies to ensure the collectability of certain trade receivables for sales. The trade receivables covered by these policies totalled Euros 6,037 thousand at 31 December 2016 (Euros 2,772 thousand at 31 December 2015).

The returns on these financial assets totalled Euros 5,015 thousand in 2016 and Euros 5,109 thousand in 2015.

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

	Thousands of Euros					
Current	Total	Unmatured	Between 0 and 1 month	Between 2 and 3 months	Between 4 and 6 months	Between 7 and 12 months
31st December 2016	**260,862**	195,814	30,784	30,353	1,607	2,304
31st December 2015	**221,193**	166,024	13,046	36,214	3,213	2,696

	Thousands of Euros			
Non-current	Total	Between 1 and 2 years	Between 3 and 5 years	Over five years
31st December 2016	**69,345**	21,895	33,866	13,584
31st December 2015	**51,290**	14,552	28,529	8,209

The Group's general policy is to recognise an impairment loss for the entire amount of any outstanding receivable past due by over six months, including any amounts insured with Crédito y Caución.

e) Liquidity risk

The Group 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 Group's Finance Department aims to be flexible with regard to financing through drawdowns on contracted credit facilities.

The Group's exposure to liquidity risk at 31 December 2016 and 2015 is shown below. These tables reflect the analysis of financial liabilities by remaining contractual maturity dates:

Thousands of Euros	Maturity	2016
Debentures and bonds long term	2019-2021	794,652
Syndicated credits (Revolving credit facilities)	2018	97,360
Mortgage loan	2018-2020	2,632
Other bank loans	2018-219	126,351
Finance lease payables	2,027	31,305
Guarantees and deposits received	per contract	9,469
Other non-current financial debt	2022	504
Other non-current financial liabilities	2020	2,785
Total non-current financial liabilities		**1,065,058**
Debentures and bonds long term	2017	5,587
Mortgage loan	2017	2,218
Other bank loans	2017	61,819
Other financial liabilities	2017	39,944
Finance lease payables	2017	11,634
Credit facilities drawn down	2017	41,355
Expired interest	2017	520
Guarantees and deposits received	2017	5,817
Derivatives	2017	6,600
Other financial debts	2017	5,240
Trade and other payables	2017	1,952,848
Suppliers of fixed assets	2017	60,300
Personnel	2017	69,261
Other current liabilities	2017	5,081
Total current financial liabilities		**2,268,224**

Thousands of Euros	Maturity	2015
Debentures and bonds long term	2019	495,862
Syndicated credits (Revolving credit facilities)	2018	297,580
Mortgage loan	2017-2020	4,834
Other bank loans	2017-2018	95,652
Finance lease payables	2017-2027	19,185
Guarantees and deposits received	per contract	7,838
Other non-current financial liabilities	2020	17,906
Total non-current financial liabilities		**938,857**
Debentures and bonds long term	2016	3,500
Mortgage loan	2016	2,145
Other bank loans	2016	137,468
Other financial liabilities	2016	42,266
Finance lease payables	2016	7,736
Credit facilities drawn down	2016	175,073
Expired interest	2016	778
Guarantees and deposits received	2016	4,760
Derivatives	2016	40
Other financial debts	2016	513
Trade and other payables	2016	1,518,843
Suppliers of fixed assets	2016	77,235
Personnel	2016	65,905
Other current liabilities	2016	2,539
Total current financial liabilities		**2,038,801**

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

	Thousands of Euros			
2016	**Total**	**2018**	**2019-2021**	**Over 2022**
Debentures and bonds long term	794,652	-	794,652	-
Syndicated credits (Revolving credit facilities)	97,360	97,360	-	-
Mortgage loan	2,632	1,558	1,074	-
Bank loan	126,351	123,784	2,567	-
Finance lease payables	31,305	10,149	17,334	3,822
Guarantees and deposits received	9,469	-	-	9,469
Other non-current financial debt	504	126	375	3
Total non-current debt	**1,062,273**	**232,977**	**816,002**	**13,294**

	Thousands of Euros			
2015	**Total**	**2017**	**2018-2020**	**Over 2021**
Debentures and bonds long term	495,862	-	495,862	-
Syndicated credits (Revolving credit facilities)	297,580	-	297,580	-
Mortgage loan	4,834	2,217	2,617	-
Bank loan	95,652	73,137	22,515	-
Finance lease payables	19,185	7,362	10,830	993
Guarantees and deposits received	7,838	-	-	7,838
Total non-current debt	**920,951**	**82,716**	**829,404**	**8,831**

The finance costs accrued on these financial liabilities totalled Euros 28,755 thousand and Euros 25,068 thousand in 2016 and 2015, respectively.

f) Cash flow and fair value interest rate risks

The Group’s interest rate risk arises from interest rate fluctuations that affect the finance cost of non-current borrowings issued at variable rates.

The Group contracts different interest rate hedges to mitigate its exposure, in accordance with its risk management policy. At 31 December 2016 and 2015 there were no outstanding derivatives contracted with external counterparties to hedge interest rate risk related to long-term financing.

During 2016 fixed-rate debt as a percentage of the volume of average gross debt totalled 59.33%, compared with 78.70% in the previous year.

Group policy is to keep financial assets liquid and available for use. These balances are held in financial institutions with high credit ratings.

A 0.5 percentage point rise in interest rates would have led to a variation in profit after tax of Euros 1,355 thousand in 2016 (Euros 513 thousand in 2015).

25. OTHER INFORMATION

25.1. Employee information

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

	2016	2015
Management	209	206
Middle management	1,719	1,568
Other employees	40,739	40,850
Total	**42,667**	**42,624**

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

	2016		2015	
	Female	Male	Female	Male
Board members	3	7	2	7
Senior management	1	8	1	8
Other management	60	141	61	140
Middle management	688	1,079	609	993
Other employees	28,020	14,488	29,276	14,635
Total	**28,772**	**15,723**	**29,949**	**15,783**

During 2016 the Group employed an average of one executive (one in 2015), six middle management personnel (five in 2015) and 518 other employees (469 in 2015) with a disability rating of 33% or above (or an equivalent local classification).

25.2. Audit fees

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

	2016		
Thousands of Euros	KPMG Auditores, S.L.	Other companies associated with KPMG International	Total
Audit services	409	227	636
Other accounting review services	109	71	180
Tax advisory services	-	40	40
Other services	-	47	47
Total	**518**	**385**	**903**

	2015		
Thousands of Euros	KPMG Auditores, S.L.	Other companies associated with KPMG International	Total
Audit services	410	224	634
Other accounting review services	105	86	191
Tax advisory services	-	62	62
Other services	-	510	510
Total	**515**	**882**	**1,397**

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

25.3. Environmental information

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

The expenses incurred during the year to manage this environmental impact are not significant.

The Parent'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 environmental provisions.

26. EVENTS AFTER THE REPORTING PERIOD

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

CONSOLIDATED DIRECTORS' REPORT 2016

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

1. COMPANY PROFILE

1.1. Organizational structure

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

1.1.1. Corporate structure

Distribuidora Internacional de Alimentación, S.A. owns, directly or indirectly, 100% of all its subsidiaries, except for Compañía Gallega de Supermercados, S.A. of which it owns 94.24%, 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 DIA Group's main activity is the retail and wholesale sale of food products and other consumer products, through owned or franchised stores.

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

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

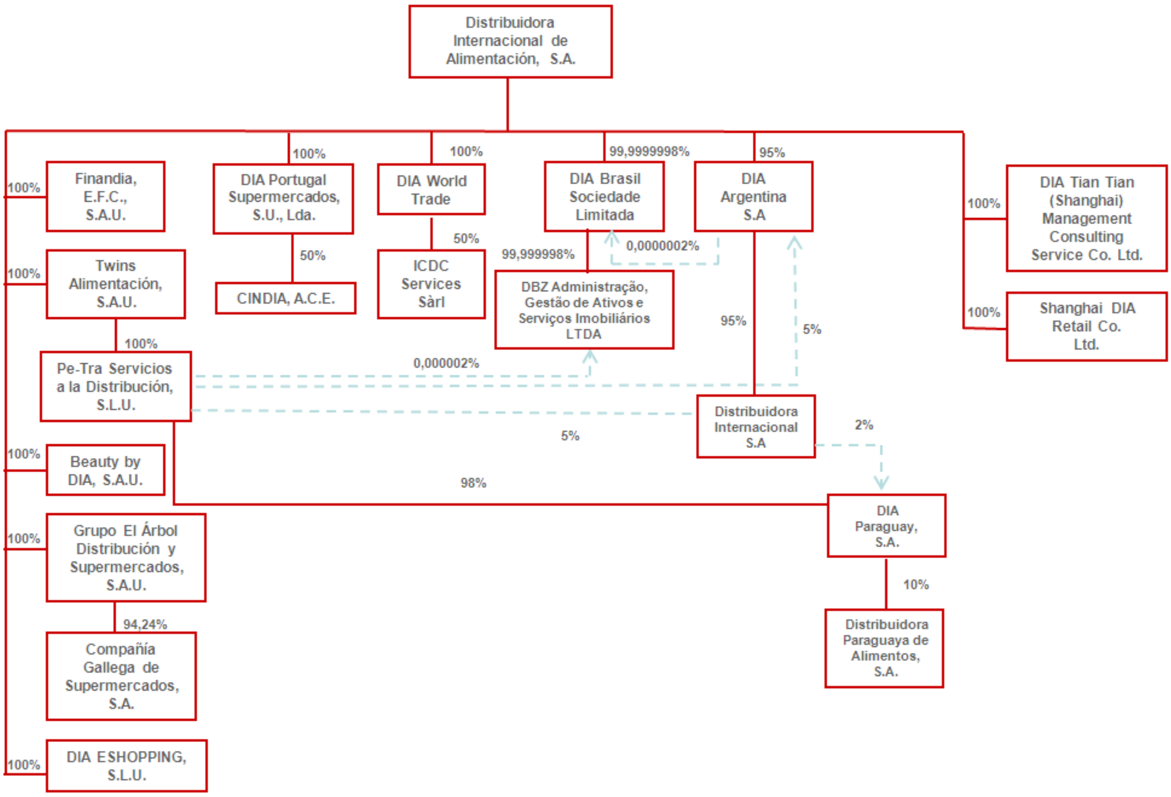
Distribuidora Internacional, S.A., located in Buenos Aires, Argentina, is specialised in services consultancy.

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

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

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

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


Distribuidora Internacional de Alimentación, S.A.
100%
Finandia, E.F.C., S.A.U.
100%
DIA Portugal Supermercados, S.U., Lda.
50%
CINDIA, A.C.E.
100%
DIA World Trade
50%
ICDC Services Sàrl
99,9999998%
DIA Brasil Sociedade Limitada
99,999998%
0,0000002%
DBZ Administração, Gestão de Ativos e Serviços Imobiliários LTDA
95%
DIA Argentina S.A
95%
5%
100%
DIA Tian Tian (Shanghai) Management Consulting Service Co. Ltd.
100%
Shanghai DIA Retail Co. Ltd.
100%
Twins Alimentación, S.A.U.
100%
Pe-Tra Servicios a la Distribución, S.L.U.
0,000002%
5%
Distribuidora Internacional S.A
2%
98%
DIA Paraguay, S.A.
10%
Distribuidora Paraguaya de Alimentos, S.A.
100%
Beauty by DIA, S.A.U.
100%
Grupo El Árbol Distribución y Supermercados, S.A.U.
94,24%
Compañía Gallega de Supermercados, S.A.
100%
DIA ESHOPPING, S.L.U.

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:

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

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

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

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

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

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

(vii) 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;

(viii) 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;

(ix) 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;

(x) 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;

(xi) 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. Management Committee

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

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

DIA Group is managed by a team with extensive experience in the retail sector and an average tenure in the Group of more than 20 years.

1.1.4. 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.

1.1.5. Segments

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

Segment 1, Iberia, includes Spain, Portugal and Switzerland (DWT, ICDC). Spain and Portugal are the oldest countries of the Group and serve as a model for the other countries. They have a very high level of profitability and are very similar. The DWT companies are located in Switzerland, and provide services to the suppliers of DIA Group companies and ICDC, who jointly purchase merchandise with Casino.

Segment 2, Emerging Countries, includes Brazil, Argentina and China. These countries are characterized by their significant expansion potential.

In 2016, the DIA Group began operating in Paraguay following the signing of a master franchise agreement with a local partner. The project is currently in its initial stages, with only two stores open.

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

1.1.6. Development and application of corporate Policies

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.diacoporate.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-temperate 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 Schlecker 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

2.1.1. Performance of gross sales under banner:

Group:

In 2016, gross sales under banner increased by 10.2% (ex-currency) to EUR10.55bn. Comparable sales growth amounted to 8.7%, the highest annual rate reported by DIA since its listing in 2011.

In local currency, gross sales under banner and comparable sales grew in every DIA country in full-year 2016.

Iberia:

2016 gross sales under banner grew by 1.1% to EUR6.81bn, with 1.0% comparable sales growth and a very limited contribution from new openings and acquisitions.
During 2016, DIA continued to make progress in its network with the upgrade of 307 stores. This upgrade plan, apart from improving the customer experience, reinforces DIA's product offering with new categories.

In 2016, 143 El Arbol stores were converted into La Plaza de DIA, well ahead of the 95 stores initially planned for the year.
During 2016, DIA extended its perishable offering with the addition of meat and fish counters in almost 250 stores.
Clarel's gross sales under banner in Iberia increased by 6.5% to EUR349m in 2016.
Gross sales under banner of La Plaza de DIA stores amounted to EUR866m in 2016.

Emerging Markets:

In 2016, gross sales under banner declined by 1.9% in Euros to EUR3.74bn. In local currency, they rose by 26.3%.
Comparable sales growth was 19.1% in 2016 (excluding a +0.3% calendar effect).
In 2016, the negative FX effect of the Brazilian Real over gross sales was -5.1%.
DIA China remained in positive growth territory in the last quarter of 2016, delivering a healthy 3.4% comparable sales growth rate in the year (excluding a positive 0.3% calendar effect).

Gross Sales under Banner

(€m)	FY 2016	%	Change	FX effect	Change (ex-FX)
Spain	5,966.6	56.6%	0.9%	0.0%	0.9%
Portugal	848.0	8.0%	3.0%	0.0%	3.0%
IBERIA	6,814.6	64.6%	1.1%	0.0%	1.1%
Argentina	1,642.6	15.6%	-14.5%	-51.0%	36.4%
Brazil	1,856.5	17.6%	12.8%	-5.1%	17.9%
China	236.5	2.2%	-1.8%	-5.3%	3.6%
EMERGING MARKETS	3,735.6	35.4%	-1.9%	-28.3%	26.3%
TOTAL DIA	10,550.1	100.0%	0.0%	-10.2%	10.2%

Net sales

(€m)	FY 2016	%	Change	FX effect	Change (ex-FX)
Spain	5,064.0	57.1%	-0.2%	0.0%	-0.2%
Portugal	681.9	7.7%	0.6%	0.0%	0.6%
IBERIA	5,745.9	64.8%	-0.2%	0.0%	-0.2%
Argentina	1,310.9	14.8%	-14.4%	-50.9%	36.5%
Brazil	1,611.9	18.2%	12.3%	-5.0%	17.3%
China	198.9	2.2%	-2.0%	-5.3%	3.4%
EMERGING MARKETS	3,121.7	35.2%	-1.5%	-27.2%	25.7%
TOTAL DIA	8,867.6	100.0%	-0.6%	-9.7%	9.0%

2.1.2. Net sales review:

In local currency, all the DIA countries posted positive growth in gross sales under banner in 2016.

Net sales decreased by 0.6% in Euros to EUR8.87bn (fully explained by the detrimental effect on net sales figures of the steady expansion of the franchised activities), and grew by 9.0% in local currency in 2016.

Currency depreciation was reflected in a FX effect of 9.7% on 2016 net sales growth, although they reflected a much more stable performance at the end of the year, especially in the case of the Brazilian Real.

2.1.3. Operating results:

Excluding the currency effect, adjusted EBITDA climbed by 8.6% in 2016, with increases of 1.4% and 41.9% in Iberia and Emerging Markets, respectively.

In Euros, adjusted EBITDA grew by 2.4% to EUR625.1m, supported by positive growth both in Iberia (+1.4%) and Emerging Markets (+7.3%).

Adjusted EBITDA margin expanded by 21bps to 7.0%, as a result of the solid execution of costs driven by purchasing synergies and the positive effect of scale in our business in Emerging Markets.

Depreciation and amortization increased by 8.6% to EUR232.4m, above sales growth primarily due to the recent acquisitions and, to a lesser extent, the remodeling process carried out in recent years.

Adjusted EBIT slid by 0.9% in Euros to EUR392.7m, with 5.8% growth at constant currency. This operating result translates into a stable margin over net sales of 4.4%.

Non-recurring items declined by 19.9% to EUR97.7m. Accrued expenses related to the Long-Term Incentive Plans amounted to EUR15.2m in 2016. With regard to non-recurring cash items, they decreased by 22.6% to EUR73.0m.

EBIT increased by 7.6% to EUR295.1m (+15.5% ex-currency).

Despite the increase in interest rates in Argentina and Brazil, consolidated net financial expenses decreased by 7.1% in 2016 to EUR52m. Total financial costs related to the factoring activity of the company amounted to EUR0.14m.

2.1.4. Profits

Income taxes in the period amounted to EUR69.1m, reflecting an effective tax rate of 28.4% in 2016.

Net attributable profit declined by 41.8% to EUR174.0m, due to the activation of EUR140.4m in deferred tax assets in 2015 mainly related to losses carried forward from El Árbol.

Adjusted by these exceptional effects, DIA's underlying net profit amounted to EUR258.6m in 2016, 1.8% higher than last year (+3.9% ex-currency).

FY 2016 Results

(€m)	FY 2016	%	Change	FX effect	Change (ex-FX)
Net sales	**8,867.6**	**100.0%**	**-0.6%**	**-9.7%**	**9.0%**
Cost of sales & other income	-6,834.7	-77.1%	-1.3%	-10.2%	8.9%
Gross profit	**2,032.9**	**22.9%**	**1.8%**	**-7.8%**	**9.5%**
Labour costs	-769.1	-8.7%	-0.2%	-7.8%	7.6%
Other operating expenses	-331.5	-3.7%	1.6%	-13.9%	15.6%
Real estate rents	-307.3	-3.5%	5.7%	-4.1%	9.9%
Adjusted EBITDA (1)	**625.1**	**7.0%**	**2.4%**	**-6.2%**	**8.6%**
D&A	-232.4	-2.6%	8.6%	-5.3%	13.9%
Adjusted EBIT (1)	**392.7**	**4.4%**	**-0.9%**	**-6.7%**	**5.8%**
Non-Recurring items	-97.7	-1.1%	-19.9%	-3.9%	-16.1%
Non-Recurring cash items	*-73.0*	*-0.8%*	*-22.6%*		
Long-Term Incentive Plans	*-15.2*	*-0.2%*	*246.8%*		
Other Non-Recurring items	*-9.5*	*-0.1%*	*-59.3%*		
EBIT	**295.1**	**3.3%**	**7.6%**	**-7.9%**	**15.5%**
Net financial income/expenses	-52.0	-0.6%	-7.1%	-33.4%	26.2%
EBT	**243.1**	**2.7%**	**11.5%**	**-1.4%**	**12.8%**
Income taxes	-69.1	-0.8%	-183.7%	1.9%	-185.6%
Consolidated profit	**174.0**	**2.0%**	**-42.1%**	**-0.5%**	**-41.7%**
Minorities & discontinuing operations	0.0	0.0%		0.0%	
Net attributable profit	**174.0**	**2.0%**	**-41.8%**	**-0.5%**	**-41.4%**
Underlying net profit	**258.6**	**2.9%**	**1.8%**	**-2.1%**	**3.9%**

(1) Adjusted by non-recurring items

FY 2016 Underlying Net Profit

(€m)	FY 2015	FY 2016	Change	FX effect	Change (ex-FX)
Net attributable profit	299.2	174.0	-41.8%	-0.5%	-41.4%
Non-recurring items	122.0	97.7	-19.9%	-3.9%	-16.1%
Other financials	3.9	2.1	-46.3%		
Taxes	-171.0	-15.2	-91.1%		
Underlying Net Profit	**254.1**	**258.6**	**1.8%**	**-2.1%**	**3.9%**

2.1.5. WORKING CAPITAL, INVESTMENT AND DEBT

Trade Working Capital

DIA's negative trade working capital increased by 39.1% in Euros to EUR1.02bn, 38.7% ex-currency.

Inventories were 19.0% higher than last year (17.3% higher ex-currency). The value of stock was higher due to the expansion of the assortment, a greater focus on perishable products at the upgraded stores, and because of the company's effort to reduce its out-of-stock ratio.

Trade and other receivables increased by 17.9% in 2016, or 16.4% at constant currency. This growth in debtors is half explained by the expansion of the franchised activity and the other half by the superior conditions negotiated with suppliers.

In 2016 almost three fourths of the increase in inventories and debtors values came from the DIA activities in the Emerging Markets.

During 2016, DIA supported its franchise network with incremental funding based on strict business criteria (to improve sales) and full recoverability of the credits. DIA is comfortable with the total credit risk borne with its franchised network due to the healthy performance of this activity, the total volume of guarantees received, and the enormous risk fragmentation.

The value of trade and other payables increased by 28.6% to EUR1.95bn, 27.5% up at constant currency.

Non-recourse factoring from receivables from our suppliers amounted to EUR88.4m by the end of December 2016.

The equivalent number of days of negative trade working capital (over COGS) increased by 15.5 to 53.8 days in 2016. This change would have been reduced to 10.9 (to 49.1 days) in the absence of any factoring facility to better manage the company's working capital.

(€m)	31 Dec 2016	Change	Change (ex-FX)
Inventories (A)	669.6	19.0%	17.3%
Trade & other receivables (B)	260.9	17.9%	16.4%
Trade & other payables (C)	1,952.8	28.6%	27.5%
Trade Working Capital [1]	**-1,022.4**	**39.1%**	**38.7%**

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

Capex

DIA invested EUR345.4m in 2016, 5.7% lower than in the same period last year after excluding the investment related to the Eroski asset deal.

In Iberia, capital expenditure increased by 22.0% to EUR225.8m. Remodeling efforts in the Maxi and El Árbol banners continued during the year, although openings represented a significant portion of the total investment in the region (almost 25%). During 2016 in Iberia, DIA also capitalised EUR25m of store and logistics equipment that was previously operated under leasing agreements.

In Emerging Markets, investment declined by 34.0% in Euros (15.8% in local currency). Investment fall in all of the emerging countries in which DIA operates, but particularly in Argentina, namely due to the demanding 2015 comparison base, a period in which the company displayed an exceptional investment effort.

New openings represented half of the total investment in Argentina and Brazil. Over the last three years, DIA has invested a total of EUR445m in its emerging markets unit.

(€m)	2016	%	Change	Change (ex-FX)
Iberia	225.8	65.4%	22.0%	22.0%
Emerging markets	119.6	34.6%	-34.0%	-15.8%
TOTAL Capex	**345.4**	**100.0%**	**-5.7%**	**3.3%**

Net Debt

Net debt at the end of December 2016 amounted to EUR878m.

In 2016, the company invested EUR19.9m in the acquisition of treasury shares to hedge the liabilities related to the 2016-18 LTIP. Additionally, last July DIA paid EUR122.2m in dividends to shareholders.

The ratio of net debt over the last twelve months' adjusted EBITDA was 1.4x, while DIA's estimate for the leased adjusted leverage ratio calculated under the S&P methodology stands at 2.1-2.2x versus 2.5x in 2015. Both ratios imply significant scope for potential additional leverage without threatening the company's corporate investment grade rating.

In 2016, DIA obtained proceeds of EUR38.5m from asset disposals, namely related to a group of stores divested in the last quarter of 2016.

(€m)	31 Dec 2014	31 Dec 2015	31 Dec 2016
Net debt	**533.4**	**1,132.4**	**878.3**
Net debt / Adjusted EBITDA	0.9x	1.9x	1.4x

2.1.6. STORE COUNT

At the end of December 2016, DIA operated a total of 7,799 stores, 81 more than in the same period last year.

In Iberia, the number of stores fell by 64 in 2016 to 5,498. This decline is due to the closure of 46 El Arbol stores at the start of the year, and the reclassification of 34 very low sales Cada DIA stores in Spain at the end of 2016.

In Iberia (Spain), the number of supermarkets declined from 520 to 355 during 2016. This decrease of 165 stores is due to the closure of 46 stores (almost all of them at the start of the year), the transformation of 125 stores into DIA format stores, and the opening of six new La Plaza stores in 2016.

Clarel increased its network by 38 stores in 2016, reaching a total of 1,233 at the end of the year. This format continues to add new franchisees, reaching a total of 107 stores operated under this model by the end of 2016, 76 more than a year ago. Franchised Clarel stores already represent 8.7% of the total.

In Emerging Markets, DIA operated 2,301 stores at the end of December 2016, 145 more than in the same period last year. Brazil continued with its rapid expansion, with the net addition of 121 stores during the year. Argentina also maintained a dynamic rate of expansion with 96 gross openings, although net openings in 2016 amounted to 26 due to the discontinuation of 70 small sales stores, of which 34 correspond to effective closures and 36 to very low sales Cada DIA stores reclassified.

Over the last twelve months, the number of Dia banner stores operated under franchised models in Iberia increased by 113, totaling 2,296, which represents 58.7% of the banner. In the Emerging Markets, the number of stores franchised increased by 83 in this period, to a total of 1,566 stores, representing 68.1% of the total.

Number of stores:

	31 December 2015				31 December 2016				
IBERIA	**COCO**	**Franchise**	**Total**	**%**	**COCO**	**Franchise**	**Total**	**%**	**Change**
Dia Market	991	1,805	2,796	50.3%	938	1,935	2,873	52.3%	77
Cada Dia / Mais Perto	0	288	288	5.2%	0	260	260	4.7%	-28
Dia Market	991	2,093	3,084	55.4%	938	2,195	3,133	57.0%	49
Dia Maxi	673	90	763	13.7%	676	101	777	14.1%	14
Dia banner stores	**1,664**	**2,183**	**3,847**	**69.2%**	**1,614**	**2,296**	**3,910**	**71.1%**	**63**
% of Dia banner	43.3%	56.7%	100%		41.3%	58.7%	100%		
El Arbol / La Plaza	520	0	520	9.3%	355	0	355	6.5%	-165
Clarel	1,164	31	1,195	21.5%	1,126	107	1,233	22.4%	38
Total IBERIA stores	**3,348**	**2,214**	**5,562**	**100%**	**3,095**	**2,403**	**5,498**	**100%**	**-64**
% of stores	60.2%	39.8%	100%		56.3%	43.7%	100%		

E. MARKETS	**COCO**	**Franchise**	**Total**	**%**	**COCO**	**Franchise**	**Total**	**%**	**Change**
Dia Market	524	1,160	1,684	78.1%	447	1,257	1,704	74.0%	20
Cada Dia / Mais Perto	0	231	231	10.7%	0	259	259	11.3%	28
Dia Market	524	1,391	1,915	88.8%	447	1,516	1,963	85.3%	48
Dia Maxi	149	92	241	11.2%	288	50	338	14.7%	97
Total EM stores	**673**	**1,483**	**2,156**	**100%**	**735**	**1,566**	**2,301**	**100%**	**145**
% of stores	31.2%	68.8%	100%		31.9%	68.1%	100%		

TOTAL DIA	**COCO**	**Franchise**	**Total**	**%**	**COCO**	**Franchise**	**Total**	**%**	**Change**
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%		37.8%	62.2%	100%		
El Arbol / La Plaza	520	0	520	6.7%	355	0	355	4.6%	-165
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%**	**3,830**	**3,969**	**7,799**	**100%**	**81**
% stores	52.1%	47.9%	100%		49.1%	50.9%	100%		

Stores by country and operational model as of 31 December 2016

(# stores)	COCO	Franchise	Total DIA	Change
Spain	2,728	2,147	4,875	-66
Portugal	367	256	623	2
IBERIA	**3,095**	**2,403**	**5,498**	**-64**
Dia	*1,614*	*2,296*	*3,910*	*63*
Clarel	*1,126*	*107*	*1,233*	*38*
El Arbol / La Plaza	*355*	*0*	*355*	*-165*
Argentina	296	576	872	26
Brazil	379	671	1,050	121
China	60	319	379	-2
EMERGING MARKETS	**735**	**1,566**	**2,301**	**145**
TOTAL DIA	**3,830**	**3,969**	**7,799**	**81**

Store selling area by country as of 31 December 2016

(Million square meters)	2015	2016	Change
Spain	1.9399	1.8764	-3.3%
Portugal	0.2193	0.2204	0.5%
IBERIA	**2.1592**	**2.0968**	**-2.9%**
Dia	*1.5833*	*1.6199*	*2.3%*
Clarel	*0.1928*	*0.1997*	*3.6%*
El Arbol / La Plaza	*0.3831*	*0.2772*	*-27.6%*
Argentina	0.2308	0.2387	3.4%
Brazil	0.4204	0.4808	14.4%
China (Shanghai)	0.0788	0.0786	-0.3%
EMERGING MARKETS	**0.7300**	**0.7981**	**9.3%**
TOTAL DIA	**2.8892**	**2,8948**	**0.2%**

2.1.7. REVIEW BY SEGMENT

Iberia

Net sales slid by 0.2% in 2016 to EUR5.75bn. This negative performance is due to the closure of some underperforming El Árbol and DIA stores in Spain (reflected in a 2.9% decline in store selling area), the store upgrading activity conducted throughout the year (in El Árbol and DIA Maxi, namely) and the ongoing process of transferring COCO stores to the franchised network (a total of 243 transfers were completed during 2016).

Adjusted EBITDA grew by 1.4% in 2016 to EUR508m. The adjusted EBITDA margin remained almost flat in 2016, accumulating a limited expansion of 13bps to 8.8%.

In the full-year 2016, D&A in Iberia increased by 8.3% to EUR178.4m, namely due to the recently completed acquisitions.

Adjusted EBIT slid by 2.0% in 2016 to EUR329.6m, reflecting an 11bps decrease in margin over net sales to 5.7%. The decline in operating margins is mainly due to Portugal's performance, although the increased weight of supermarket sales has also impacted profitability.

(€m)	FY 2016	Change
Net sales	**5,745.9**	**-0.2%**
Adjusted EBITDA	**508.0**	**1.4%**
Adjusted EBITDA margin	8.8%	13 bps
D&A	-178.4	8.3%
Adjusted EBIT	**329.6**	**-2.0%**
Adjusted EBIT margin	5.7%	-11 bps

(1) Adjusted by non-recurring items

Emerging Markets

In 2016, net sales in Emerging Markets climbed by 25.7% in local currency, but declined by 1.5% in Euros to EUR3.12bn due to the average depreciation of currencies (-4.8% Brazilian Real, -37.4% Argentinean Peso and -5.2% Chinese Yuan).

In 2016, adjusted EBITDA rose by 41.9% (ex-currency) and by 7.3% in Euros to EUR117.1m. Adjusted EBITDA margin improved by 31bps in 2016 to 3.8%.

D&A increased by 24.4% in Q4 2016 to EUR15.2m and by 9.4% in 2016 to EUR54.0m due to the higher level of investment activity carried out in recent years.

In spite of the challenging market backdrops in all of DIA's emerging markets, the company managed to close another outstanding year of business. Market share figures continued their solid upward trend in Argentina and Brazil, the commercial offer has been improved across the board, private label keeps improving its offer, penetration rates, and the number of SKUs, and the DIA Club loyalty program is fully implemented in the state of Sao Paulo.

(€m)	FY 2016	Change	Change (ex-FX)
Net sales	**3,121.7**	**-1.5%**	**25.7%**
Adjusted EBITDA [(1)]	**117.1**	**7.3%**	**41.9%**
Adjusted EBITDA margin	3.8%	31 bps	44 bps
D&A	-54.0	9.4%	32.5%
Adjusted EBIT [(1)]	**63.1**	**5.6%**	**49.7%**
Adjusted EBIT margin	2.0%	14 bps	36 bps

(1) Adjusted by non-recurring items

2.1.8. GLOSSARY

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

Net sales: sum of the net sales generated in our integrated stores and sales to franchises.

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

Adjusted EBITDA: operating profit after adding back non-recurring costs, impairments, re-estimation of useful life and gains/losses arisen on the disposal of assets and depreciation and amortization of fixed assets.

Adjusted EBIT: operating profit after adding back non-recurring costs, impairment and re-estimation of useful life and gains/losses arisen on the disposal of assets.

Underlying net profit: net income calculated on net profit attributable to the parent company, excluding non-recurring items (restructuring costs, impairment and re-estimation of useful life, gain/losses on disposal of assets, tax litigations, exceptional financial expenses and equity derivatives), discontinued operations and the corresponding tax impact.

Reported EPS: fraction of the company's profit calculated as net attributable profit divided by the weighted average number of shares.

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

Cash from operations: adjusted EBITDA less non-recurring cash items less recurrent capex.

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 DIA Group 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 Group's environmental commitments are as follows:

- Comply with existing environmental legislation, applicable in each of the countries in which the DIA Group is present.
- 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 DIA Group 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 Group's 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 Group 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 in Spain.

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, the DIA Group 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, the DIA Group 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, the DIA Group 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 Group'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 Group employed 44,495 people across five countries: Spain, Portugal, Brazil, Argentina and China. 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.

Out of DIA's 44,495 employees, 69% work in Europe, 29% in Latin America, and 2% in Asia. By workplace, 73% of employees work in stores, 14% in warehouses, and 13% in offices.

The company's ongoing focus on permanent contracts and talent retention means that at the end of fiscal 2016, 87% of employee contracts at group level were permanent, and the average workforce turnover (understood as voluntary termination) was 0.9%, with an average tenure of 8.2 years.

In America, the workforce has grown compared to last year, as there has been a return to growth, mainly in Brazil, where the selection team has been reorganised, with experts in the operations and commercial areas. In addition, a new recruitment centre was opened in Río de Janeiro, and two new talent acquisition programs were launched: 'Talento Joven Día' (DIA Young Talent') and 'Talento Futuro-Joven Aprendiz' ('Future Talent – Young Apprentice').

In China, the company has continued to focus on the efficiency of the structure in Shanghai to give the business unit the best competitive position. Progress in Portugal was significant, where the staff has been increased mainly due to the stability of the Clarel banner and the transformation to new supermarkets with fresh over-the-counter products. In Spain, store personnel is still being adapted due to the new acquisitions to increase profitability, and there was an increase in the number of stores being converted from COCO to COFO.

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.

Employee satisfaction survey

In September and October 2016, the second employee satisfaction survey was carried out at Group level, in which more than 22,000 people participated, equating to 48% of the current workforce. This figure represents a 10% increase versus the last employee satisfaction survey conducted in 2013.

Of note in 2016 was the degree of employee participation, which was over 70% in some countries, such as China, Argentina and Brazil.

Overall, the category that improved the most is the client category, which has risen by 9% since 2013, and the degree of satisfaction with employees' immediate supervisors also improved, reaching levels similar to those seen among other large retail sector companies worldwide, and in some cases above the levels of other companies in the countries in which DIA Group operates.

The results, along with the associated action plans, started to be communicated to all employees in December 2016 and will continue during the first quarter of 2017.

2.2.2.2. Training

2016	ARGENTINA	BRAZIL	CHINA	SPAIN	PORTUGAL	DIA GROUP
Hours of training	60,279	234,405	6,543	111,086	58,995	**471,308**
Number of employees trained	4,868	10,495	468	9,767	4,268	**29,866**
Number of training actions	845	16,928	81	483	851	**19,188**

The DIA Group 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. During 2016, more than 471,000 hours of training were given to more than 29,800 employees in stores, warehouses, and headquarters across all the countries in which the company operates.

The company has a total of 31 training centres for store employees across all countries. In 2016, two new training centres were opened in Spain and Brazil, with the aim of complementing and strengthening the training of new job profiles. The group's 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 Group’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, translated into four different languages, was launched in Spain and China for staff at the Headquarters and Regional Centres in November and December, and will be rolled out in America and Portugal during the first quarter of 2017. At the end of 2016, 2,981 employees had received training on the Ethical Code.

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.

As with all the projects developed internally by the company, there was an initial implementation and development stage in Spain, and a subsequent rollout in the following years to the rest of the group’s countries.

Also of note is the language training provided, with 16% of employees already participating in online training.

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

For the Clarel banner, training has also been increased both in terms of products and sales techniques, linked to a new sales incentive system.

In Portugal, progress has been made in terms of the staff training with the "Market III" project, which is an integral part of the strategy to boost sales and offer our customers a better shopping experience: "Atención y Ventas" ('Customer Service and Sales') and "Perecederos" ('Perishables').

In Brazil, the 'Universidad Corporativa DIA' ('DIA Corporate University') is still working at full capacity, updating professionals' knowledge at all levels. 2016 saw the launch of expansion team training as well as training for the area and operations managers, with the aim of improving the levels of service to franchisees, which is one of the pillars of our company.

During 2016, Argentina launched the DIA Academy, which includes three schools that are focused on staff training.

Employee training focused on franchises

With the aim of raising employee awareness in the franchise business and making them more participative, DIA Group launched a series of training programs aimed at understanding and improving processes.

Accordingly, during 2016 in Argentina, a new videoconference-based franchisee training and communication resource was launched, whereby employees provide support to franchises, and franchisees cover important issues such as business management.

In Portugal, an "Initial training and opening monitoring program" has been launched. This program lasts for three years from the time that a franchisee starts.

In DIA China, training is focused on the Service Managers, who supervise groups of stores, both owned and franchised, and relates to people management to improve employee recruitment and retention.

2.2.2.3. Talent recruitment and promotion

The publication of all vacancies that arise at the DIA Group's 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. In 2016, 28% of vacancies were covered internally, which implies that 2% of the headquarters staff change jobs internally. In Brazil, 27 people changed jobs at the headquarters during 2016. Portugal is also managing vacancies internally at its headquarters, thus covering 12% of vacancies. In 2016, Argentina and China started to use this recruitment method at their headquarters.

Increasingly, new technologies and socialisation processes are leading recruitment teams to find new ways to recruit staff, with the creation of 'Marca Empleador' ('Employer Brand'). Two examples of initiatives that are already in place are the launch of DIA Group's corporate website on LinkedIn, with links to the company's country websites, where vacancies are published. DIA China is recruiting through a smartphone app, as this is the way to reach a younger age group due to the fast growth in smartphone use.

Due to rapid labour market growth, Brazil has made progress in recruiting staff able to fill positions at the new centres and at its headquarters. The aim is to train DIA professionals aligned with the company's strategy and values, and with the objectives of each business area.

During 2016, Portugal continued to renew strategic and tactical positions at all levels, hiring and promoting professionals both internally and externally. This enhances its ability to respond in an efficient and dynamic way to the company's current and future challenges. In the operations area, the teams have been strengthened with the hiring of new Store Heads who have considerable expertise in the retail sector and university degrees, as well as qualified professionals for the over-the-counter sections (fishmonger's, butcher's, take-away).

Clarel Portugal has strengthened its store coordination team, and all employees and their families have been given health insurance cover.

DIA China has created a dedicated team to deal with the logistics requirements of the e-commerce project (online sales on its own platform and on Tmall), with its own incentive system and with seasoned professionals among its middle management.

During 2016 in Brazil, the human resources teams started to support the selection process for Franchise candidates, something that was already being done in Argentina. The Franchise is one of DIA's basic business pillars, with very successful results.

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 in Spain and Brazil by means of Assessment as a tool to evaluate skills.

2.2.2.4. Internal communication

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

With the aim of reinforcing employee pride in belonging to the DIA Group, a 15th Anniversary celebration was organised by DIA Brazil. The initiative presented 15 years of history, told by our staff. This was the first simultaneous action carried out across all locations, with celebrations in all offices, warehouses, and stores.

In Brazil, the use of social networks has been promoted, with the aim of allowing immediate communication with employees (mainly in stores) regarding information on our internal campaigns. Furthermore, other campaigns have been developed to boost employee participation and commitment to the company. These initiatives include the Reduction and Prevention of Losses campaign and the Economy Experts campaign.

With the aim of detecting employee problems in stores, the Human Resources teams in Brazil launched a campaign to increase their presence in DIA stores in Brazil. Thanks to this initiative, they managed to get closer to employees, improving issues related to health and safety, internal communication, and people management.

In Argentina the "Un DIA en Familia" ('A Family DAY') campaign was continued for employees at the Headquarters and in the Warehouses, with more than 1,700 people taking part. The initiative aimed to reach out to employees and boost a sense of belonging to the company.

"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 in each country and the employee representatives are aware that unity between both parties is the most favourable option for the company overall. By way of example, at DIA, 80% of work contacts are permanent, and the company's salary policies are aligned with each country's practices.

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 accident rate at work in terms of the percentage of hours off work due to accidents is 0.49%, which is low taking into account the nature of the work in stores and warehouses and despite the integration of new banners and new stores and warehouses with staff that have limited experience with DIA's work systems.

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 in Spain, 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.

Of note is the updated carried out in Portugal in all areas (auditing, training, procedures, etc.) of Risk Prevention and Health for all staff.

DIA China carried out the same initiative with its service providers (cleaning, transport, security, maintenance, etc.) to ensure that everyone working at DIA do so under full safety conditions.

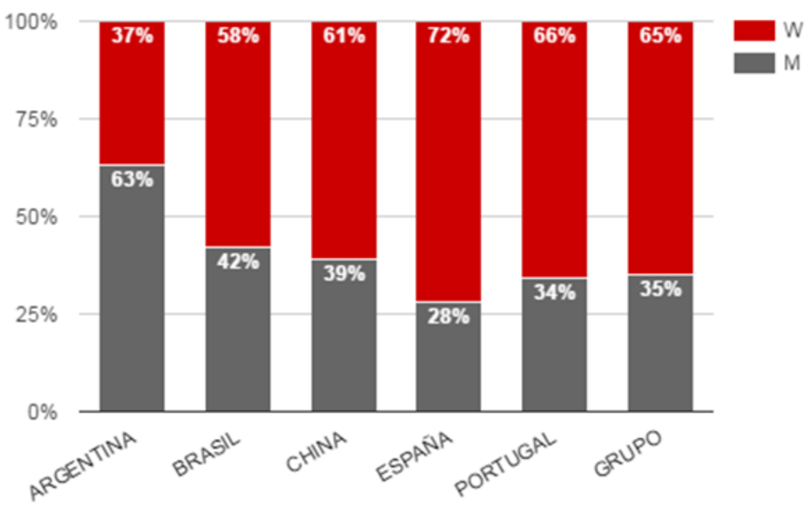
Moreover, 2016 saw a continuation of information and awareness campaigns related to information security, which is an ever-growing risk due to the high degree of technological connectivity, both in the workplace and in our private lives.

2.2.2.6. Equal opportunities

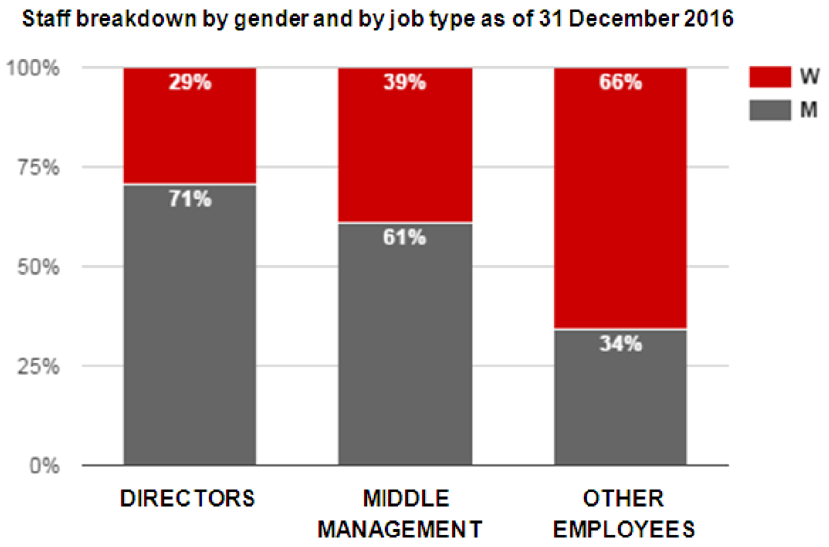
The DIA Group is committed to equal opportunities in the workplace, with a balanced proportion of women, who account for 65% of the total workforce. Women account for 38% of management positions at Group level, and this percentage rises to 46% in countries such as Spain, and 60% in China.

At the end of 2016, the gender breakdown by country was as follows:

Staff breakdown by gender and by country as of 31 December 2016



The gender breakdown by job type was as follows:



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 in Spain, an Equality Program has been in place since 2012. Proof of how well it works is that in 2016, women accounted for 39% of promotions to different professional groups.

In line with the company's commitment to disclose equal opportunities, in March 2016, in the context of International Women's Day, DIA Group in Spain 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

The DIA Group works to integrate staff with disabilities in all the countries in which it operates. At the end of 2016, a total of 525 people with some form of physical or intellectual disability were part of the company's workforce, and DIA Brasil had the highest number (264) of employees with some form of disability.

On 3 December, for the fifth year running, DIA celebrated International Disability Day, helping to integrate people with disabilities in all of the Group's countries.

In Spain, 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 direct 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).

In 2016, the Chinese government introduced a law that requires companies to ensure that at least 1.5% of their workforce is made up of people with disabilities. Since the start of 2016, DIA China offered the opportunity for people with disabilities to join the company, and as of 31 December 2016, people with disabilities accounted for 1.5% of the workforce.

Furthermore, DIA China has integrated all of the people who belonged to five different service providers, offering them employment contracts as DIA employees with the same conditions as their colleagues. The company's aim is to not only comply with the regulation, but achieve a higher degree of commitment with the company.

2.2.2.8. Performance and remuneration

The DIA Group 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 Group's values in everyday decision-marking and the performance of the group's employees.

Last year saw the end of the review and modification process relating to the Performance Evaluation System in Portugal. A single methodology has been implemented across the entire company (stores, warehouses, Portugal headquarters), with the same principles, and aligned with DIA's Values. In 2016, training was given to those conducting the assessments and those being assessed in relation to the new methodology, IT application, and communication & feedback.

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 the DIA Group, 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.

In Brazil, the company implemented new rules for promotion linked to a performance evaluation and positioning in the salary range. It has also conducted a review of the internal mobility policy for employees, adapting itself to the best practices in the market in Brazil. In order to guarantee the job profile management system, the company updated all the job profile descriptions for all of the Regional Centres and Warehouses.

DIA Brasil signed a contract with SAP's Success Factors to implement the following modules: Performance Management, Objective Management, Recruiting, Learning, Development, Succession Planning, Remuneration and integration with SOC (a Health and Safety system) in order to improve and digitalise the management of the Human Resources systems.

DIA Argentina relaunched its Internal Development Program for Stores in order to continue to identify talent among its staff.

As part of the "Expertos en Clientes" ('Client Experts') project, the group of customers called "Expertas en Ahorro" ('Savings Experts') voted for their favourite checkout person according to their quality of service. The winner received an overseas holiday. This initiative aims to provide a high degree of visibility to customer service; a DIA customer was also given a prize.

In 2016, DIA Argentina also relaunched its ‘Propuesta de Valor al Empleado’ (‘Employee Value Proposal’) campaign, called "Sé el director de tu propia película" (‘Be the director of your own movie’), so that all of its employees were made aware of, and benefited from, its social benefits, while improving the sense of pride in belonging to the Company.

DIA China set up new incentives to favour the retention of its most experienced staff, both in stores and in warehouses, at times of peak workload prior to the main holiday periods.

3. LIQUIDITY AND CAPITAL RESOURCES

3.1. Liquidity

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

As of 31 December 2016, available liquidity amounted to EUR1,102.6m, including cash, cash equivalents, and available credit facilities.

Liquidity analysis (in millions of euros)			
Class	Total	Used	Available
Revolving lines of credit	700,0	99,0	601,0
Credit facilities	133,4	41,4	92,0
Commercial paper facilities	45,0	-	45,0
Cash and other cash equivalents	364,6	-	364,6
TOTAL	1.243,0	140,4	1.102,6

3.2. Capital resources

In recent years, the DIA Group has invested close to EUR350m, excluding the acquisitions of shares and a number of stores from competitors. The Group’s strategy is focused on mainly investing in markets with higher returns and in store openings and store remodelling. Accordingly, between 40% and 50% of the investments are allocated to opening stores and warehouses. In 2016, the Group invested EUR345m.

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

In financial terms, return on investment targets are set.

3.3 Analysis of contractual obligations and off-balance sheet transactions

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

The total commitments acquired by the Group as of 31 December 2016, and that can affect its liquidity, amount to EUR424.13m (31 December 2015: EUR403.9m). The most significant item corresponds to lease contract commitments signed for the premises where the DIA Group carries out its activity.

Lease contract commitments of premises amounted to EUR237.5m as of 31 December 2016 (31 December 2015: EUR212.9m).

The DIA Group has obligations linked to furniture and equipment rental (vehicles, equipment, cleaning contracts, etc.) amounting to EUR10.4m as of 31 December 2016 (EUR9.5m as of 31 December 2015).

The rest of the obligations are classified between Treasury and Expansion transactions, totalling EUR176.23m as of 31 December 2016 (EUR181.5m as of 31 December 2015).

Treasury operations include open credit facilities for customers in stores, which amounted to EUR79.13m as of 31 December 2016 (EUR77.7m as of 31 December 2015). These credit facilities are related to limits granted originally to customers on payment cards.

Commitments related to expansion operations amounted to EUR97.1m as of 31 December 2016, and EUR103.8m in the same period in the previous year. These operations include primarily call and put options for properties, mainly warehouses, and obligations related to commercial operations and contracts, mainly with franchisees.

The DIA Group also received commitments that can involve a future cash inflow amounting to EUR1,082.8m (EUR954.1m 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 Parent company.

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

4. 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 DIA Group 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 DIA Group has a total of 43 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.

  The Quality Control Department is made up of 267 professionals, of which a total of 126 work in the abovementioned internal laboratories.

  In 2016, a total of 743,616 internal analyses were conducted as part of this quality control program.

  In addition, the DIA Group cooperates with approved external laboratories where it carries out further analyses, in addition to the internal control process. The number of external analyses managed in 2016 amounted to 21,365.

- QUALITY ASSURANCE

  The warehouse and store self-monitoring systems define the hygiene and sanitary conditions for the DIA Group 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 DIA Group 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 DIA Group'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 DIA Group 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 the DIA Group are produced or come mainly from the country in which it operates, or from neighbouring countries. This implies a risk in countries that are more exposed to situations of political and economic instability, a high degree of workplace conflict, and possible contingencies arising from natural disasters.

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 Group'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 were 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 Group 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 Group'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, the DIA Group 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 by the entire DIA Group 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 Group'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 the DIA Group adjust its business to varying regulatory schemes.

The operations of the DIA Group 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.

The DIA Group 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, the DIA Group 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 the DIA Group.

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.

The DIA Group 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. The Ethics Committee at the corporate level is responsible for managing the Ethics Consultation and Information Channel, advertising its existence and overseeing its proper functioning.

(ii) Crime Prevention Model

The DIA Group 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, in each country the DIA Group 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 Group'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 Group 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, the Group 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.

During 2016, the percentage of fixed-interest debt on the average gross debt volume was 59.33% versus 78.70% in the previous year.

The Group'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. The Group 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 Group's total purchases.

- 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 Group's foreign operations in Argentinian Pesos, Chinese Yuan and Brazilian Real is mitigated primarily through borrowings in the corresponding foreign currencies.

The translation differences included in other comprehensive income are significant due to the sharp devaluations of the Argentinian Peso and the Brazilian Real. If the exchange rates in the countries where the Group operates that use a currency other than the Euro had depreciated/appreciated by 10%, the translation differences would have varied by +32.71% / -32.71%, respectively, in the equity of the DIA Group.

C- Risk on financial instruments

The Parent 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

The Group is not significantly exposed to credit risk. The Group 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, the Group 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 consolidated accounts and the consolidated 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 Group includes the development costs generated internally in the assets, once the project has reached a development phase, as long as they are clearly identifiable and linked to new commercial model projects and IT developments, to the extent that it can be justified that they will result in an increase in future profit for the Company.

The costs associated with R&D+i incurred by DIA during 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 in Spain (EUR2.0m), as well as EUR3.4m 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%**

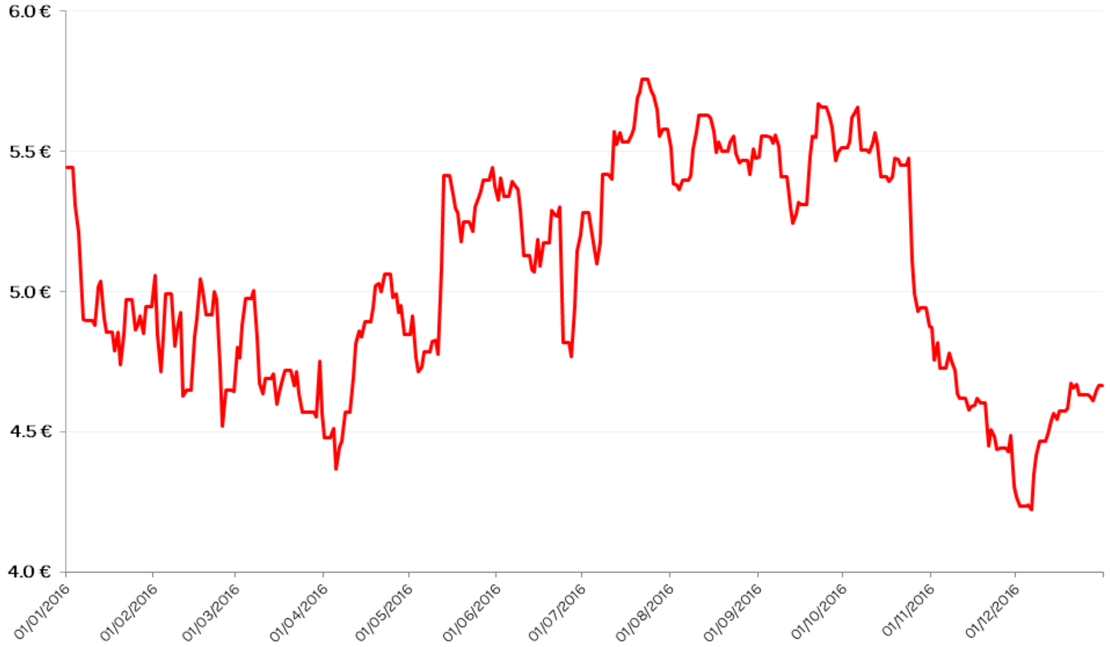
Underlying EPS grew by 3.9% in 2016 to EUR0.422, while at constant currency it grew by 6.1%.

9. OTHER RELEVANT INFORMATION

9.1. Stock market information

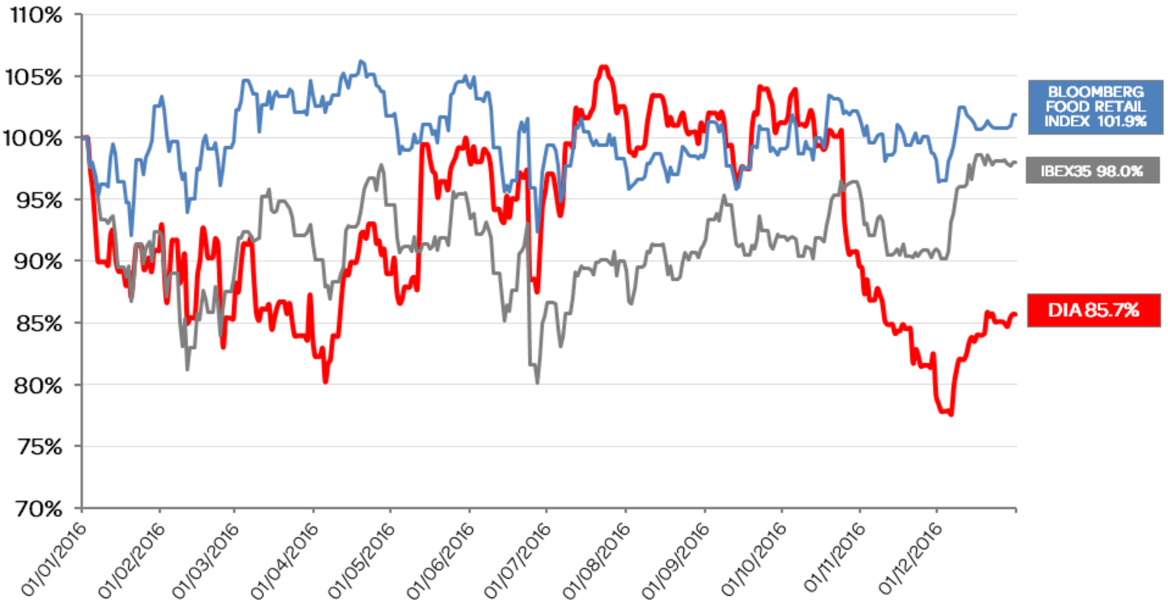
DIA SHARE PRICE PERFORMANCE

(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

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

Since Distribuidora Internacional de Alimentación S.A. was listed on the stock market on 5 July 2011, it has distributed 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.