Distribuidora Internacional de Alimentación, S.A. and Subsidiaries

Consolidated Annual Accounts

31 December 2017

Consolidated Directors' Report

2017

(With Independent Auditor's Report Thereon)

(Free translation from the originals in Spanish. In the event of discrepancy, the Spanish-language versions prevail.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
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 ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Distribuidora Internacional de Alimentación, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2017, 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.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of deferred tax assets

See notes 3v) and 17 to the consolidated annual accounts

Key Audit Matter	*How the Matter was Addressed in Our Audit*
The Group has deferred tax assets of an amount of 219,905 thousand Euros corresponding mainly to tax loss carryforwards pending compensation from the Spanish tax consolidation group. The recognition of deferred tax assets entails a high level of judgement by the Directors in assessing the quantification, probability and sufficiency of future taxable profits against which they may be offset, future reversals of existing taxable temporary differences and, in his case, the tax planning opportunities considered by the Group. Due to the judgement required of the Directors in interpreting the criteria set forth in the tax legislation in force and the risk that may arise from a different interpretation of such legislation, as well as the uncertainty associated with recovering the amounts recognised as deferred tax assets and the expected recovery period, we consider this to be a key audit matter of the current period.	As part of our audit procedures, in the context of our audit work, we have: – evaluated the design and implementation of the controls associated with the process of estimating the recoverability of deferred tax assets; – assessed the reasonableness of the criteria and the main assumptions considered by the Group in estimating the future taxable profits necessary for offset; – requested the opinion of the Group's tax advisors on the criteria followed by the Group to determine the Group's tax bases and, in particular, the criteria considered for the Spanish tax group on the basis of the binding rulings received by the Group from the Spanish Directorate-General of Taxes; – contrasted the profit and loss forecasts used as a basis for recognising tax losses with the actual results obtained and evaluating the reasonableness of the time period in which the Group expects to offset these assets; – assessed whether the information disclosed in the consolidated annual accounts on the recoverability of the aforementioned deferred tax assets meets the requirements of the financial reporting framework applicable to the Group.

Recoverable amount of non-current assets subject to amortisation or depreciation See notes 3 j), 5 and 6.1 to the consolidated annual accounts	
Key Audit Matter	*How the Matter was Addressed in Our Audit*
The Group has property, plant and equipment amounting to Euros 1,363,963 thousand, and goodwill amounting to Euros 553,129 thousand. In those stores whose financial position has declined, there is a risk that the carrying amount of the assets allocated to the cash-generating units may exceed their recoverable amount. In order to calculate the impairment of property, plant and equipment, these assets have been allocated to the corresponding cash-generating units (CGUs), which in the case of the DIA Group are each of the stores. In 2017 the Group recognised impairment of Euros 8,032 thousand on property, plant and equipment and impairment of goodwill of 4,590 thousand Euros related to goodwill allocated to stores. Goodwill is allocated to entities from the Iberia segment, mainly Grupo el Arbol Distribución y Supermercados S.A. and Twins Alimentación S.A, which are therefore cash-generating units for the purposes of analysing the recoverability of goodwill. This should be carried out each year, irrespective of whether there are any indications of impairment. At each reporting date, the Group estimates the recoverable amount of goodwill and of the assets of those stores for which there are indications of impairment. The recoverable amount is determined considering the value in use of the cash-generating units, as applicable. To estimate this amount, the Group has used valuation techniques that require the Directors to exercise judgement and make assumptions and estimates. Due to the uncertainty associated with these estimates, this has been considered a key audit matter of the current period.	As part of our audit procedures, in the context of our audit work, we have: – evaluated the design and implementation of the controls associated with the process of valuing the store assets and goodwill; – evaluating the operating efficiency of some controls relating to the integrity of the source information used in estimating impairment of the stores; – analysed the reasonableness of the indications, identified by the Group, of impairment of the stores; – evaluated the reasonableness of the method used to calculate value in use and the main assumptions considered, with the involvement of our valuation specialists; – contrasted the consistency of the estimated growth in future cash flows, as forecast in calculating the value in use, with the budget approved by the board of directors; – for goodwill and for a sample of selected stores, we have contrasted the cash flow forecasts estimated in previous years with the actual flows obtained; – assessed the sensitivity of certain assumptions to changes that are considered reasonable; – evaluated whether the information disclosed in the consolidated annual accounts meets the requirements of the financial reporting framework applicable to the Group.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2017 Consolidated Directors' Report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility as regards the content of the consolidated directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

a) A specific level applicable to the consolidated statement of non-financial information and to certain information included in the Annual Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which consists solely of verifying that this information has been provided in the directors' report, or where applicable, in a separate report on non-financial information, as provided for in legislation, to which reference is made in the directors' report, and if not, to report on this matter.

b) A general level applicable to the rest of the information included in the consolidated directors' report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. Also, assessing and reporting on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have verified that the information mentioned in paragraph a) above has been provided in the consolidated directors' report and the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2017, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit Committee's Responsibility for the Consolidated Annual Accounts

The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.

– Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Parent regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee of the Parent, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's audit committee dated 21 February 2018.

Contract Period

We were appointed as auditor of the Group by the shareholders at the general meeting on 28 April 2017 for one year, for the year ended 31 December 2017. Previously, we were appointed by shareholder´s meetings from the year ended 31 December 2011and before that year, we have been auditing uninterrupted the Group's consolidated annual accounts since 1995.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors (“ROAC”) with No. S0702

(Signed on original in Spanish)

Maria Lacarra Caminero
On the Spanish Official Register of Auditors (“ROAC”) with number 20,411

21 February 2018

Distribuidora Internacional de Alimentación, S.A. and Subsidiaries

Consolidated Annual Accounts and Consolidated Directors' Report

31 December 2017

(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 2017

(I) CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017
(Expressed in thousands of Euros)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

ASSETS	Notes	2017	2016
Property, plant and equipment	5	1,363,963	1,469,078
Goodwill	6.1	553,129	557,818
Other intangible assets	6.2	42,709	37,505
Investments accounted for using the equity method	9	974	185
Trade and other receivables	8.1	73,084	69,345
Other non-current financial assets	8.2	75,013	58,657
Consumer loans from financial activities	8.3	-	401
Deferred tax assets	17	253,983	270,164
Non-current assets		2,362,855	2,463,153
Inventories	11	569,644	669,592
Trade and other receivables	8.1	221,846	167,279
Consumer loans from financial activities	8.3	1,070	6,220
Current tax assets	17	64,717	71,087
Current income tax assets	17	369	8,832
Other current financial assets	8.2	18,430	19,734
Other assets	10	7,387	8,140
Cash and cash equivalents	12	340,193	364,600
		1,223,656	1,315,484
Non-current assets held for sale	13	39,663	-
Current assets		1,263,319	1,315,484
TOTAL ASSETS		**3,626,174**	**3,778,637**

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

(I) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(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	2017	2016
Capital	14.1	62,246	62,246
Reserves	14.2	304,676	261,108
Own shares	14.3	(60,359)	(66,571)
Other own equity instruments	14.3	10,773	21,013
Net profit for the period		109,579	174,043
Traslation differences	14.7	(100,777)	(59,773)
Value adjustments due to cash flow hedges		(55)	92
Equity attributable to equity holders of the Parent		326,083	392,158
Non-controlling interests	14.6	(100)	(60)
Total Equity		325,983	392,098
Non-current borrowings	15.1	961,945	1,062,273
Provisions	16	42,556	45,841
Other non-current financial liabilities	15.2	2,491	2,785
Deferred tax liabilities	17	2,206	-
Non-current liabilities		1,009,198	1,110,899
Current borrowings	15.1	269,519	180,734
Trade and other payables	15.3	1,710,828	1,859,265
Current tax liabilities	17	85,692	85,494
Current income tax liabilities	17	10,913	15,505
Other current financial liabilities	15.4	148,865	134,642
		2,225,817	2,275,640
Liabilities directly associated with non-current assets held for sale	13	65,176	-
Current liabilities		2,290,993	2,275,640
TOTAL EQUITY AND LIABILITIES		3,626,174	3,778,637

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

DIA

(II) CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

(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	2017	Re-expressed (*) 2016
Sales	4	8,620,550	8,669,257
Other income	19.1	155,660	126,198
TOTAL INCOME		8,776,210	8,795,455
Goods and other consumables used	19.2	(6,808,596)	(6,767,370)
Personnel expenses	19.3	(808,943)	(833,643)
Operating expenses	19.4	(645,071)	(633,513)
Amortisation, depreciation and impairment	19.5	(248,799)	(240,580)
Losses on disposal of fixed assets	19.6	(17,728)	(10,811)
RESULTS FROM OPERATING ACTIVITIES		247,073	309,538
Finance income	19.7	4,830	11,656
Finance expenses	19.7	(65,868)	(62,293)
Profit of companies accounted for using the equity method	9	288	93
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		186,323	258,994
Income tax	17	(55,350)	(69,119)
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		130,973	189,875
Losses net of taxes of discontinued operations	13	(21,434)	(15,874)
NET PROFIT		109,539	174,001
Atributted to:			
Equityholders of the Parent		109,579	174,043
Non-controlling interests		(40)	(42)
Basic and diluted earnings per share, in euros			
Profit on continuing operations		0.21	0.31
Losses on discontinued operations		(0.03)	(0.03)
Profit for the period		0.18	0.28

The accompanying notes form an integral part of the consolidated annual accounts for 2017.
(*) Data restated as a result of discontinuing operations of the business in China (see note 13).

(III) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Expressed in thousands of Euros)

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

	2017	2016
Net profit for the year	**109,539**	**174,001**
Other comprehensive income:		
Items not subject reclassificatios to income statement	**-**	**-**
Items subject to reclassification to income statement		
Translation differences of financial statements of foreign operations	(41,004)	33,910
	(41,004)	33,910
Value adjustments due to cash flow hedges	(197)	56
Tax effect	50	(14)
	(147)	42
Other comprehensive income, net of income tax	**(41,151)**	**33,952**
Total comprehensive income, net of income tax	**68,388**	**207,953**
Attributed to:		
Equityholders of the Parent	68,428	207,995
Non-controlling interests	(40)	(42)
	68,388	**207,953**

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

(IV) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017
(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	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 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 operations	-	-	-	-	-	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 dividends	-	(122,212)	-	-	-	-	(122,212)	-	(122,212)
Issuance of share-based payments	-	-	-	15,000	-	-	15,000	-	15,000
Acquisitions of own shares (note 14.3 (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**
Net profit for the period	-	109,579	-	-	-	-	109,579	(40)	109,539
Other comprehensive income, net of income tax	-	-	-	-	(147)	(41,004)	(41,151)	-	(41,151)
Translation differences of financial statements of foreign operations	-	-	-	-	-	(41,004)	(41,004)	-	(41,004)
Value adjustments due to cash flow hedges	-	-	-	-	(147)	-	(147)	-	(147)
Total comprehensive income for the period	**-**	**109,579**	**-**	**-**	**(147)**	**(41,004)**	**68,428**	**(40)**	**68,388**
Transactions with equityholders or owners	-	(130,475)	6,212	(10,240)	-	-	(134,503)	-	(134,503)
Distribution of dividends	-	(128,535)	-	-	-	-	(128,535)	-	(128,535)
Issuance of share-based payments	-	-	-	(4,893)	-	-	(4,893)	-	(4,893)
Transactions with own shares or equity holdings	-	(1,458)	1,458	-	-	-	-	-	-
Delivery of own shares	-	(559)	4,754	(5,347)	-	-	(1,152)	-	(1,152)
Other adjustments in equity	-	77	-	-	-	-	77	-	77
At 31st December 2017	**62,246**	**414,255**	**(60,359)**	**10,773**	**(55)**	**(100,777)**	**326,083**	**(100)**	**325,983**

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

(V) CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(Expressed in thousands of Euros)

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

	Notes	2017	Re-expressed (*) 2016
Operating activities			
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		186,323	258,994
Loss before tax from discontinued operations		(21,434)	(15,874)
Profit before income tax		*164,889*	*243,120*
Adjustments to Profit and Loss:		*282,540*	*299,334*
Amortisation, depreciation and impairment	19.5	248,799	240,580
Losses on disposal of fixed assets	19.6	17,728	10,811
Gains on disposal of fixed assets	19.1	(31,226)	(16,461)
Finance income	19.7	(4,830)	(11,656)
Finance expenses	19.7	65,868	62,293
Changes of provisions and grants		984	832
Other adjustments of discontinued operations	13	1,923	8,291
Other adjustments to Profit and Loss		(16,418)	4,737
Profit/(loss) of companies accounted for using the equity method net of dividends	9	(288)	(93)
Adjustments to working capital:		*(85,363)*	*285,464*
Changes in trade and other receivables		(48,232)	(30,661)
Changes in inventories		88,349	(106,538)
Changes in trade and other payables		(89,545)	431,251
Changes in consumer loan and refinancing commitments		2,212	(824)
Changes in other assets		(3,607)	(2,635)
Changes in other liabilities		(7,132)	(4,510)
Changes in working capital of discontinued operations	13	(1,578)	5,443
Current income tax paid		(25,830)	(6,062)
Net cash flows from/(used in) operating activities		*362,066*	*827,918*
Investing activities			
Acquisition of intangible assets	6.1 and 6.2	(7,234)	(5,491)
Development cost	6.2	(11,167)	(7,065)
Acquisition of property, plant and equipment	5	(262,195)	(333,428)
Acquisition of financial instruments		(25,794)	(33,124)
Disposals of property, plant and equipment	19.6	68,204	38,302
Payments/(Collections) for other financial assets		(1,073)	2,220
Interest received	19.7	2,045	8,342
Investing flows of discontinued operations	13	1,724	(1,034)
Net cash flows used in investing activities		*(235,490)*	*(331,278)*
Financing activities			
Dividends distributed to shareholders of the Parent	14.4	(128,535)	(122,212)
Acquisition of own shares	14.3 a)	-	(19,903)
Borrowings repaid	15.5	(373,570)	(376,598)
Borrowings made	15.5	405,556	300,000
Payments for other financial liabilities		(6,622)	(6,484)
Interest paid	19.7	(65,683)	(61,797)
Financing flows of discontinued operations	13	(30,443)	6,643
Net cash flows from financing activities		*(199,297)*	*(280,351)*
Net changes in cash and cash equivalents		*(72,721)*	*216,289*
Net foreign exchange differences		48,314	(6,316)
Cash and cash equivalents at 1st January	12	*364,600*	*154,627*
Cash and cash equivalents al 31st December	12	*340,193*	*364,600*

The accompanying notes form an integral part of the consolidated annual accounts for 2017.
(*) Data restated as a result of discontinuing operations of the business in China (see note 13).

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

(VI) Notes to the consolidated annual accounts for 2017

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, DIA Maxi, Minipreço, La Plaza de DIA, City DIA, Clarel, Max Descuento, Cada DIA, 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.), Distribuidora Paraguaya de Alimentos, S.A. (10% owned by DIA Paraguay, S.A.), Red Libra Trading Services, S.L. (50% owned by DIA, S.A.) and CD Supply Innovation, S.L. (50% owned by DIA, S.A.), which are equity-accounted.

The following changes to the Group occurred in 2017 and 2016:

— **2017**

- During the last quarter of 2017, the DIA Group began a process to explore strategic alternatives in the business of its financial entity, Finandia, E.F.C., S.A., classifying the assets and liabilities of this company as held for sale at 31 December 2017, in accordance with IFRS 5 (see notes 13 and 24).

- On 4 December 2017, the DIA Group expanded its collaboration with Casino through the creation of the company CD Supply Innovation, S.L. (hereinafter CDSI), with headquarters in Madrid and which commenced operations on 15 December. This company is 50% owned by DIA, S.A. and its scope is international, excluding Latin America. In order to optimise processes with suppliers and gain efficiency, enabling a better end offering to the consumer, the new company will largely be tasked with purchasing own brand products from its partners on its own behalf. It will also perform, inter alia, logistics management of supplies and quality control of these products, issuing penalties to suppliers where necessary.

- On 12 June 2017, the company DIA Portugal II, S.A. was set up for the purposes of operating one store on a Lisbon market. Its share capital amounts to Euros 50,000, divided into 50,000 shares of Euro 1 par value each, fully subscribed by DIA Portugal, SA.

- On 18 April 2017, the DIA Group and the EROSKI Group signed an agreement to set up Red Libra Trading Services, S.L., a new company tasked with negotiating with suppliers of distributor brands for both companies, as well as purchasing other materials and supplies necessary for their activity, in order to maximise the price-quality ratio for the consumer. This company will trade from Madrid and its capital is shared equally between the DIA and EROSKI Groups.

- In the first quarter of 2017, the DIA Group began a process to explore strategic alternatives in its China business, classifying the assets and liabilities of its companies, DIA Tian Tian Management Consulting Service & Co. Ltd. and Shanghai DIA Retail Co. Ltd., as held for sale. In accordance with IFRS 5, the Company has discontinued the operations of its China business, re-stating the accounts for the prior year for comparability purposes (see note 13).

— **2016**

- 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 Reals 100,000 thousand and Brazilian Reals 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.

Details of the DIA Group's subsidiaries, as well as their activities, registered offices and percentages of ownership at 31 December 2017 and 2016 are as follows:

Name	Location	Activity	% interest	
			2017	2016
DIA Portugal Supermercados, Lda.	Lisbon	Wholesale and retail distribution of food products.	100.00	100.00
DIA Portugal II	Lisbon	Wholesale and retail distribution of food products.	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	100.00
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
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
DIA ESHOPPING, S.L.	Madrid	Creation, maintenance and exploitation of web pages and portals for the sale of products and services.	100.00	100.00

Details of the DIA Group's associates and joint ventures at 31 December 2017 and 2016 are as follows:

Name	Location	Activity	% interest	
			2017	2016
Distribuidora Paraguaya de Alimentos, S.A.	Asunción	To execute the contract of Master Franchise signed with DIA Paraguay, S.A.	10.00	10.00
ICDC Services Sàrl	Geneva	Dealing with international suppliers.	50.00	50.00
Red Libra Trading Services, S.L.	Madrid	Negociation with suppliers of distribution brands	50.00	-
CD Supply Innovation S.L.	Madrid	Finantial and supplies services management for own brand.	50.00	-

The basis of consolidation applicable to the subsidiaries, associates and joint ventures are set forth in note 2.7.

At 31 December 2017 and 2016, the Group has several master franchise agreements, some of which grant the Group the option, within a specific period, 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 2017 and 2016, 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 2017 and of consolidated results of operations, 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, and they were filed with the Mercantile Registry of Madrid in accordance with current legislation.

The DIA Group chose the following exemptions from IFRS 1:

- 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 (c)).
- Financial instruments: the DIA Group opted to apply IAS 32 and IAS 39 from 1 January 2004.

These consolidated annual accounts were prepared on a historical cost basis, except for derivative financial instruments and financial instruments at fair value through profit or loss, which were measured at fair value (see note 15.5).

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 2017 were authorised for issue by the board of directors of the Parent on 21 February 2018 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 2017 include comparative figures for 2016, which formed part of the consolidated annual accounts approved by the shareholders of the Parent at the ordinary general meeting held on 28 April 2017.

For the purposes of comparability of the consolidated income statement for 2016, it has been restated to classify the different income statement items corresponding to the China business in the consolidated income statement as net gains/losses on discontinued operations (see notes 1 and 13) and to classify the cash flows of this business in the statement of cash flows.

In 2017, the Group presented the items that meet the offsetting criteria at their net amount, restating the 2016 figures for comparative purposes as a result. In particular, deferred tax assets and liabilities and supplier amounts, which are settled at their net amount.

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

a.1) Evaluation of the potential impairment of non-financial assets subject to amortisation or depreciation: see note 3j (ii), note 5 and note 6.2.

a.2) Evaluation of the potential goodwill impairment: see note 3j(i) and note 6.1.

a.3) Evaluation of the recoverability of deferred tax assets (see note 17).

a.4) Long-term incentive plan: see note 3t) and note 18.

a.5) Analysis of possible contingencies or liabilities relating to proceedings in progress: (see note 3s) and note 20b)

2.5. First-time application of accounting standards:

The Group has applied all standards effective as of 01 January 2017. 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 these consolidated annual accounts, the following standards issued, but that haven't become effective and which the Group plans to apply on or after 1 January 2018, are:

IFRS 9 Financial Instruments:

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group will apply this standard for the first time on 1 January 2018.

Given the nature of the Group’s financial assets and liabilities, the change in reporting criteria set forth in IFRS 9 is not significant for the Group. With regard to the new financial asset impairment calculation model based on the model of expected loan losses over the life of the asset, the Group has estimated the impact and it is not significant.

With regard to recognising refinanced financial liabilities issued on the stock market, the IASB has confirmed retrospective application as stated in IFRS 9 and this applies to the refinancing of bonds by the Parent during 2017 (see note 15.1). The Group has identified a minor impact which it will recognise in equity reserves at 1 January 2018, as established by the regulation.

With regard to hedge accounting, the Group uses forward foreign exchange contracts to hedge against fluctuations in fair value foreign exchanges as a result of changes in exchange rates and interest and will continue to apply IAS 39, therefore not expecting any impact on the consolidated financial statements.

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.

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.

The Group has carried out an analysis of its customer loyalty programmes and since discounts are generally granted and applied to customers when the transaction takes place, they are recognised as a reduction in income. Therefore, no significant impacts are expected.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group will apply this standard for the first time on 1 January 2018.

The actual impact of adopting IFRS 15 on the Group's consolidated financial statements in 2018 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 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 completed the quantification of 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.

IFRIC 23 Uncertainty over Income Tax Treatments:

IFRIC 23 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The Group will apply the standard for the first time on 1 January 2019 and it is analysing the potential impact of this standard on the Group's consolidated financial statements for 2019. It believes that the impact will be very limited.

2.7. Basis of consolidation

a) Subsidiaries

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.

d) 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.

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 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.

b) Associates

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 are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases.

c) Joint agreements

Joint agreements are considered to be those in which there exists a contractual agreement to share control of an economic activity, such that decisions regarding significant activities require the unanimous consent of the Group and the rest of the participants or operators. The existence of joint control is evaluated considering the subsidiaries' definition of control.

Joint agreements can be classified as joint ventures or joint operations. Investments in the Group's joint ventures are recorded using the equity method.

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 generally accepted 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.

Note 3j) details the criteria relating to goodwill impairment.

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) 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.

c) 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.

d) 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.

e) 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.

f) Intangible assets

Intangible assets, except for goodwill (see note 3 (a)), are measured at acquisition 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.

g) Property, plant and equipment

Property, plant and equipment are measured at acquisition 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 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.

Note 3j) details the criteria relating to impairment of non-current assets subject to amortisation.

h) 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.

i) Non-current assets held for sale and Discontinued operations

Non-current assets or disposal groups whose carrying amount will be largely recovered through a sale transaction shall be classified as held for sale, instead of recognised at the value in use. In order to classify non-current assets or disposal groups as held for sale, they must be available for disposal in their current condition, exclusively subject to the usual terms and conditions of sale transactions, and the transaction must also be deemed to be highly probable.

Non-current assets and disposal groups classified as held for sale are not amortised or depreciated, and are recorded at their carrying amount or fair value, whichever is lower, less costs of retirement or disposal.

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.

j) Impairment of non-financial assets subject to amortisation or depreciation.

(i) Impairment of Goodwill

Pursuant to the criteria contained in IAS 36, the Group performs a test annually to assess potential impairment 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 each CGU or group of CGUs is the higher of their fair value less costs to sell and their value in use. Determining this recoverable value and the grouping of cash-generating units to which goodwill has been allocated requires judgement on the part of the management and the use of estimates.

The CGU or group of CGUs to which goodwill has been allocated 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 assesses the allocation of goodwill at company level. This choice is based on both organisational and strategic criteria and how implementation decisions are made.

A CGU's value in use is measured based on the future cash flows the Group expects to derive from each company, 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 assets and other factors that market participants would reflect in pricing the future cash flows associated with the assets. Note 6.1 contains some of the main assumptions used to measure the value in use of the CGUs to which goodwill is allocated.

(ii) Impairment of non-financial assets subject to amortisation

Pursuant to IAS 36, the Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation at the end of each reporting period to verify whether the carrying amount of these assets exceeds the recoverable amount.

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. For the purposes of assessing impairment, each store relates to a separate cash-generating unit.

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 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 and also those stores where impairment has been recorded. When indications of impairment exist, the Group estimates the recoverable amount of the assets allocated to each cash-generating unit, 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.

Determining this recoverable value and evaluating whether there exist signs of impairment of the cash-generating units requires judgement on the part of the management and the use of estimates.

In order to estimate the value in use, the Group uses the strategic plans of the different cash-generating units to which the assets are assigned. These strategic plans generally cover a five-year period. For longer periods, projections based on strategic plans are used as of the fifth year, applying a constant expected growth rate. Note 6.1 includes some of the main assumptions considered in determining the value in use of the cash-generating units to which the non-current assets are allocated.

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

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).

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 or cash-generating unit 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 or cash-generating unit is increased to its new recoverable amount, to the limit of the carrying amount this asset or cash-generating unit 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) 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 are 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. Financial derivatives that do not meet the hedge accounting criteria shown below are classified as financial assets and liabilities at fair value through profit and loss. 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.

p) 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, and the posititive or negative difference between the acquisitaion price and the par value of the shares, which should be debited on credited on the reserves account.

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.

q) 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.

r) Employee benefits

<u>Defined benefit plans</u>

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.

s) 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.

The Group is undergoing legal proceedings and tax inspections in a number of jurisdictions. 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, so that the relevant provision can be made if necessary. 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 provided that the outflow can be reliably measured.

Assessments of the existence of 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.

t) Share-based payments for goods and services

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

The Group recognises personnel expenses for services rendered as they are accrued over the period in which the equity instruments vest, as well as the corresponding increase in equity, under the caption Other equity instruments at the fair value of the equity instruments at the award date.

- 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 by reference to the market quotation value at the grant date.

Market conditions and other non-vesting conditions are taken into account when assessing the fair value of the instrument. Other vesting 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.

The average number of shares expected to be delivered is calculated with the help of an independent expert, who performs the following:

- Regular updating of all relevant information for valuations taking into account the characteristics of the Plan, and information on the variable metrics of DIA and comparable companies.
- Application of a mathematical model, jointly modelling the financial variables using stochastic simulation techniques (Monte Carlo) to obtain the average number of shares expected to be handed over.

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.

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.

When the shares are handed over, the difference between the amount at which own shares acquired are booked and the amount recognised as Other equity instruments is taken to reserves. Shares granted to employees are net of withholdings applicable, calculated based on the fair value of the shares at the delivery date.

Management is required to provide an opinion on and estimate the total obligation derived from these plans and the part of this obligation accrued at 31 December 2017 based on the extent to which the conditions for receipt have been met (see note 18).

(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.

u) 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.

v) Income tax

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 while 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.

The Group only offsets tax assets and liabilities if they have a legally enforceable right to offset the recognised amounts and it intends to either settle on a net basis or realise the assets and settle the liabilities simultaneously.

The Group only offsets deferred tax assets and liabilities if the right to offset current tax assets and liabilities has been legally recognised and the deferred tax assets and liabilities are assessed by the same taxation authority and are levied on the same entity, and where the tax authorities permit the entity or a group of entities to settle on a net basis, or to realise the asset and settle the liability simultaneously for each of the future years in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

w) 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.

x) 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.

y) 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.

z) 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.

aa) 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. INFORMATION ON OPERATING SEGMENTS

In terms of the criteria for aggregation of operating segments, the DIA Group’s internal organisation is based on the maturity of the markets in which it operates. These management criteria have led to the existence of two segments, Iberia and Emerging countries, with similar economic characteristics; specifically, commercial penetration of organised distribution in each of the markets, inflation rates and potential overall growth (GDP, consumer spending, etc.). In the Emerging countries segment, the countries are characterised by developing markets with a significant growth potential, whereas in the Iberia segment, the countries are more mature, with more saturated markets, and therefore, less growth potential.

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 (EBITDA). 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 2017	Segment - Iberia -	Segment - Emerging -	Consolidated
Sales (1)	5,505,621	3,114,929	8,620,550
EBITDA	374,868	138,732	513,600
% of sales	6.8%	4.5%	6.0%
Non-current assets	1,861,673	501,182	2,362,855
Liabilities	2,542,695	757,496	3,300,191
Acquisition of non-current assets	165,021	137,626	302,647
Number of outlets (2)	5,343	2,045	7,388

Thousands of Euros at 31st December 2016	Segment - Iberia -	Segment - Emerging -	Consolidated
Sales (1)	5,746,449	2,922,808	8,669,257
EBITDA	446,597	114,332	560,929
% of sales	7.8%	3.9%	6.5%
Non-current assets	1,925,491	537,662	2,463,153
Liabilities	2,517,070	869,469	3,386,539
Acquisition of non-current assets	225,774	119,589	345,363
Number of outlets (2)	5,498	1,922	7,420

(1) Sales eliminations arising from consolidation are included in segment Iberia
(2) Number of own stores and franchised at the closing date excluding China.

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

Thousands of Euros	2017	2016
Results from operating activities	247,073	309,538
Amortisation, depreciation and impairment	(248,799)	(240,580)
Losses on disposal of fixed assets	(17,728)	(10,811)
Total EBITDA	**513,600**	**560,929**

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	2017	2016	2017	2016
Spain	4,827,371	5,064,516	1,281,898	1,336,634
Portugal	678,250	681,932	259,830	264,168
Argentina	1,391,304	1,310,881	140,143	154,407
Paraguay	340	56	-	-
Brazil	1,723,285	1,611,872	277,928	291,056
China	-	-	-	18,133
Switzerland	-	-	2	3
Total	**8,620,550**	**8,669,257**	**1,959,801**	**2,064,401**

5. 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 2016	**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**
Additions	750	70,511	135,024	18,344	43,087	16,530	284,246
Disposals	(18,098)	(44,653)	(35,266)	(11,046)	(309)	(7,290)	(116,662)
Transfers	-	16,238	14,559	2,975	(35,372)	1,494	(106)
Transfers to assets held for sale (note 13)	-	(16,424)	(19,781)	(8,321)	(146)	(3,764)	(48,436)
Translation differences	(1,875)	(46,226)	(46,605)	(13,669)	(4,865)	(7,831)	(121,071)
At 31st December 2017	**120,820**	**1,302,439**	**1,637,155**	**125,931**	**30,960**	**172,600**	**3,389,905**
Depreciation							
At 1st January 2016	**-**	**(579,494)**	**(885,692)**	**(50,613)**	**-**	**(110,524)**	**(1,626,323)**
Amortisation and depreciation (note 19.5)	-	(56,489)	(131,490)	(13,196)	-	(16,968)	(218,143)
Disposals	-	2,281	16,041	1,169	-	7,182	26,673
Transfers	-	(18,844)	(27,245)	(2,784)	-	(555)	(49,428)
Other movements	-	(2,313)	(2,435)	(802)	-	(250)	(5,800)
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)**
Amortisation and depreciation (note 19.5)	-	(55,605)	(135,973)	(14,297)	-	(19,122)	(224,997)
Disposals	-	16,055	23,729	9,360	-	6,671	55,815
Transfers	-	(634)	3,149	(3,422)	-	(8)	(915)
Other movements	-	(421)	(573)	(198)	-	(69)	(1,261)
Transfers to assets held for sale (note 13)	-	10,394	13,619	4,276	-	3,318	31,607
Translation differences	-	7,419	19,717	5,438	-	4,375	36,949
At 31st December 2017	**-**	**(682,011)**	**(1,119,291)**	**(66,533)**	**-**	**(128,870)**	**(1,996,705)**
Impairment							
At 1st January 2016	**(612)**	**(14,711)**	**(4,705)**	**(32)**	**-**	**(3)**	**(20,063)**
Allowance (note 19.5)	-	(9,515)	(5,719)	(1)	-	(2)	(15,237)
Distribution	-	2,002	1,122	-	-	2	3,126
Reversals (note 19.5)	-	1,778	855	-	-	-	2,633
Other movements	-	-	(12)	-	-	-	(12)
Transfers	-	748	24	23	-	-	795
Translation differences	-	(186)	(9)	-	-	-	(195)
At 31st December 2016	**(612)**	**(19,884)**	**(8,444)**	**(10)**	**-**	**(3)**	**(28,953)**
Allowance (note 19.5)	-	(10,183)	(3,296)	(6)	-	(7)	(13,492)
Distribution	-	4,863	1,591	6	-	-	6,460
Reversals (note 19.5)	-	4,598	862	-	-	-	5,460
Transfers	-	529	386	-	-	-	915
Transfers to assets held for sale (note 13)	-	-	193	-	-	-	193
Translation differences	-	175	4	-	-	1	180
At 31st December 2017	**(612)**	**(19,902)**	**(8,704)**	**(10)**	**-**	**(9)**	**(29,237)**
Net carrying amount							
At 31st December 2016	**139,431**	**643,890**	**537,821**	**69,948**	**28,565**	**49,423**	**1,469,078**
At 31st December 2017	**120,208**	**600,526**	**509,160**	**59,388**	**30,960**	**43,721**	**1,363,963**

Additions in property, plant and equipment in the Group during 2017 and 2016 mainly comprise refurbishments, remodelling and the opening of new stores to new formats, as follows:

Thousands of Euro	2017	2016
Iberia	149,846	215,887
Emerging	134,400	116,920
Total	**284,246**	**332,807**

Disposals for 2017 and 2016 primarily comprise the assets relating to the sale of certain warehouses and stores owned by the DIA Group and their subsequent leases and also items replaced as a result of the aforementioned improvements and disposals due to store closures.

Note 19.5 includes the impairment of property, plant and equipment recorded in 2017 and 2016 under the income statement caption Amortisation and impairment. The impairment has been recognised at CGU level based on Management estimates, in line with the criteria defined in note 3 j) (ii).

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	2017	2016
Buildings	341,822	341,068
Equipment, fixtures and fittings and machinery	742,273	718,841
Other installations, utensils and furniture	25,207	29,501
Other fixed assets	90,558	95,398
Total	**1,199,860**	**1,184,808**

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.

The composition of payments for investments in property, plant and equipment recorded in the cash flow statement is as follows:

Thousands of Euro	2017	2016
Adictions property, plant and equipment	284,246	332,807
Variation suppliers of fixed assets	(22,051)	621
	262,195	**333,428**

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 (vehicles). Details of items of property, plant and equipment under finance leases and hire purchase contracts are as follows:

Thousands of Euros	2017	2016
Land	176	176
Cost	176	176
Buildings	435	481
Cost	527	527
Accumulated depreciation	(92)	(46)
Equipment, fixtures and fittings and machinery	25,267	29,350
Cost	47,567	46,407
Accumulated depreciation	(22,300)	(17,057)
Other installations, utensils and furniture	-	3
Cost	-	4
Accumulated depreciation	-	(1)
Other fixed assets (transports)	10,712	12,422
Cost	17,708	15,902
Accumulated depreciation	(6,996)	(3,480)
Net carrying amount	**36,590**	**42,432**

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

Interest incurred on finance leases totalled Euros 2,317 thousand in 2017 and Euros 3,532 thousand in 2016 (see note 19.7).

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

Thousands of Euros	2017 Minimum payments	2017 Present value	2016 Minimum payments	2016 Present value
Less than one year	11,978	10,547	13,420	11,634
Two to five years	26,063	24,109	30,088	27,480
More than 5 years	2,177	2,120	3,963	3,825
Total minimum payments and present value	**40,218**	**36,776**	**47,471**	**42,939**
Less current portion (note 15.1)	(11,978)	(10,547)	(13,420)	(11,634)
Total non-current (note 15.1)	**28,240**	**26,229**	**34,051**	**31,305**

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

Thousands of Euros	2017	2016
Minimum future payments	40,195	47,448
Purchase option	23	23
Unaccrued finance expenses	(3,442)	(4,532)
Present value	**36,776**	**42,939**

6. INTANGIBLE ASSETS

6.1. 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 31/12/2015	**518,309**	**39,754**	**558,063**
Additions to the consolidated group	1,208	-	1,208
Disposals	(1,158)	-	(1,158)
Provision for impairment (note 19.5)	(295)	-	(295)
Net goodwill at 31/12/2016	**518,064**	**39,754**	**557,818**
Disposals	(99)	-	(99)
Provision for impairment (note 19.5)	(4,590)	-	(4,590)
Net goodwill at 31/12/2017	**513,375**	**39,754**	**553,129**

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

Thousands of Euros	Generarion year	Thousands of Euros
Acquisition of stores to Grupo Eroski	2015	91,695
Acquisition of assets to Mobile Dreams Factory Marketing, S.L.	2015	2,174
Acquisition company Grupo El Arbol, S.A.	2014	155,112
Acquisition of stores to Schlecker, S.A.	2013	48,591
Acquisition company Plus Supermercados, S.A.	2007	160,553
Acquisition of stores to Champion, S.A. and Supeco, S.L.	2006	15,100
Acquisition of stores to Dinosol, S.L.	2006	10,944
Acquisition company Distribuciones Reus, S.A.	1991	26,480
Other acquisitions of stores	Various	2,726
Total goodwill arising on consolidation in Spain		**513,375**
Acquisition company Portuguesa de Lojas de Desconto,S.A.	1998	39,754
Total goodwill arising on consolidation in Portugal		**39,754**

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 impairment provision in 2017, amounting to Euros 4,590 thousand, corresponds to 11 stores, (in 2016 impairment was Euros 295 thousand and corresponded to one store which was closed in 2017).

The following main assumptions are used to calculate value in use:

	Spain		Portugal	
	2017	2016	2017	2016
Sales growth rate (1)	3.80%	1.60%	3.70%	4.00%
Growth rate (2)	2.00%	2.00%	2.00%	2.00%
Discount rate (3)	7.11%	6.42%	8.70%	7.85%

(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.

The rise in the average annual growth rate for Spain is due to the increased number of store openings planned for the coming years in the new formats.

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 for the industry's expected evolution. 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 bps 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.

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	
	2017	2016	2017	2016
Growth rate (2)	2.00%	2.00%	2.00%	2.00%
Discount rate (3)	10.82%	10.26%	9.79%	9.43%

6.2. 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 2016	**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**
Additions/Internal development	11,167	1,156	-	5,024	1,054	18,401
Disposals	-	(925)	(4,000)	(788)	(2,368)	(8,081)
Transfers	(5,439)	21	2,688	5,436	(2,600)	106
Transfers to assets held for sale (note 13)	-	-	-	(3,048)	-	(3,048)
Translation differences	-	-	-	(1,149)	(437)	(1,586)
At 31st December 2017	**15,104**	**10,197**	**23,135**	**45,247**	**14,261**	**107,944**
Depreciation						
At 1st January 2016	**-**	**(2,897)**	**(21,879)**	**(24,609)**	**(5,308)**	**(54,693)**
Amortisation and depreciation (note 19.5)	-	(1,839)	(1,065)	(5,780)	(503)	(9,187)
Disposals	-	-	345	386	-	731
Other movements	-	-	-	(495)	-	(495)
Translation differences	-	-	-	(323)	(133)	(456)
At 31st December 2016	**-**	**(4,736)**	**(22,599)**	**(30,821)**	**(5,944)**	**(64,100)**
Amortisation and depreciation (note 19.5)	-	(2,033)	(975)	(6,966)	(541)	(10,515)
Disposals	-	925	3,869	787	2,093	7,674
Transfers	-	-	(34)	-	(3)	(37)
Transfers to assets held for sale (note 13)	-	-	-	2,000	-	2,000
Other movements	-	-	-	(137)	-	(137)
Translation differences	-	-	-	578	112	690
At 31st December 2017	**-**	**(5,844)**	**(19,739)**	**(34,559)**	**(4,283)**	**(64,425)**
Impairment						
At 1st January 2016	**-**	**-**	**(51)**	**-**	**(343)**	**(394)**
Allowance (note 19.5)	-	-	(13)	-	(338)	(351)
Distribution	-	-	-	-	198	198
At 31st December 2016	**-**	**-**	**(64)**	**-**	**(483)**	**(547)**
Allowance (note 19.5)	-	-	(10)	-	(655)	(665)
Distribution	-	-	3	-	362	365
Transfers	-	-	34	-	3	37
At 31st December 2017	**-**	**-**	**(37)**	**-**	**(773)**	**(810)**
Net carrying amount						
At 31st December 2016	**9,376**	**5,209**	**1,784**	**8,951**	**12,185**	**37,505**
At 31st December 2017	**15,104**	**4,353**	**3,359**	**10,688**	**9,205**	**42,709**

Additions in intangible assets in the Group during 2017 and 2016 mainly comprise the development of IT projects carried out in-house in Iberia. Computer software was also acquired. Details are as follows:

Thousands of Euro	2017	2016
Iberia	15,175	9,887
Emerging	3,226	2,669
Total	**18,401**	**12,556**

Note 19.5 includes the impairment of intangible assets recorded in 2017 and 2016 under the income statement caption Amortisation and impairment.

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

Thousands of Euros	2017	2016
Computer software	26,363	32,382
Leaseholds and other	3,437	15,053
Total	**29,800**	**47,435**

7. OPERATING LEASES

The Group has approximately 8,000 operating leases in place. In general terms, the operating leases on stores only establish the payment of a fixed monthly charge which is reviewed annually in line with and index linked to the rate of inflation. Operating leases generally do not include clauses establishing variable amounts such as turnover-based fees, or contingent rent amounts.

Leases on warehouses generally have the same characteristics as for stores. The Group has purchase options on several warehouse leases, which are included in off-balance sheet commitments (see note 20.1).

During 2017 and 2016 sale and leaseback contracts were signed for certain warehouses and stores with terms of between 20 and 25 years and a minimum tie-in period of between 2 and 10 years (see notes 5 and 19.1).

Details of the main operating lease contracts in force at 31 December 2017 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	Dos Hermanas	SPAIN	2,027
Manises	SPAIN	2,018	Santiago	SPAIN	2,020
Mejorada del Campo	SPAIN	2,024	Albufeira	PORTUGAL	2,018
Miranda	SPAIN	2,018	Loures	PORTUGAL	2,020
Orihuela	SPAIN	2,023	Grijó	PORTUGAL	2,021
Sabadell	SPAIN	2,029	Anhanghera	BRAZIL	2,018
San Antonio	SPAIN	2,023	Guarulhos	BRAZIL	2,018
Tarragona	SPAIN	2,018	Americana	BRAZIL	2,018
Villanubla	SPAIN	2,019	Porto Alegre	BRAZIL	2,018
Villanueva de Gállego	SPAIN	2,023	Ribeirao Preto	BRAZIL	2,018
Santander	SPAIN	2,018	Belo Horizonte	BRAZIL	2,018
Granda-Siero	SPAIN	2,020	Mauá	BRAZIL	2,020
Almería	SPAIN	2,018	Avellaneda	ARGENTINA	2,018
Salamanca	SPAIN	2,018			

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

Thousands of Euros	2017	2016
Lease payments, property (note 19.4)	316,611	297,296
Lease payments, furniture and equipment (note 19.4)	5,997	5,563
Total	**322,608**	**302,859**

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

Thousands of Euros	2017	2016
Less than one year	109,030	103,823
One to five years	117,356	93,931
Over five years	60,234	39,792
Total minimum lease payments, property	**286,620**	**237,546**
Less than one year	1,737	1,870
One to five years	1,406	2,244
Over five years	-	26
Total minimum lease payments, furniture and equipment	**3,143**	**4,140**

The majority of the lease contracts signed by the Group contain clauses allowing them to be terminated at any time throughout their useful lives, once the mandatory tie-in period has elapsed, by informing the lessor of this decision with the agreed period of notice, which is generally under three months. Total lease commitments amount to a similar amount to annual lease expenses.

Sublease revenues amount to Euros 30,455 thousand (Euros 26,415 thousand at 31 December 2016) (see note 19.1) and comprise revenues from rights-of-use transferred to franchisees, as well as the amounts received from concessionaires to carry out their activities. In general terms, the duration of these contracts is under one year, tacitly renewable in those that establish a monthly fixed rent with an additional turnover-based fee. The consolidated income statement does not include any contingent income in respect of these contracts.

8. FINANCIAL ASSETS

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

Thousands of Euros	2017	2016
Non-current assets		
Trade and other receivables	73,084	69,345
Non-current financial assets	75,013	58,657
Consumer loans from financing activities	-	401
Current assets		
Trade and other receivables	221,846	167,279
Consumer loans from financing activities	1,070	6,220
Other current financial assets	18,430	19,734
TOTAL	**389,443**	**321,636**

8.1. Trade and other receivables

Details of trade and other receivables are as follows:

Thousands of Euros	2017	2016
Trade and other receivables	73,084	69,345
Total non-current	**73,084**	**69,345**
Trade and other receivables	122,656	102,558
Other receivables	20,963	19,099
Receivables from suppliers	72,709	38,061
Advances to suppliers	2,840	2,709
Receivables from associates companies (note 21)	2,678	4,852
Total current	**221,846**	**167,279**

a) Trade receivables

This balance comprises current and non-current trade receivables for merchandise sales to customers. Details are as follows:

Thousands of Euros	2017	2016
Trade and other receivables non current (note 22d))	73,084	69,345
Trade and other receivables current (note 22d))	157,149	132,303
Total Trade and other receivables	**230,233**	**201,648**
Impairment loss (note 8.1 d))	(34,493)	(29,745)
Total	**195,740**	**171,903**

These trade balances are measured at present value and have generated interest of Euros 2,382 thousand in 2017 (Euros 2,743 thousand in 2016), which has been recognised in the consolidated income statement.

b) Receivables from suppliers

This caption includes balances receivable from suppliers.

In 2017 the Group entered into agreements to transfer supplier trade receivables with and without recourse (see notes 3 (l) and 22 d)). The accrued finance cost of the transfer of these receivables amounted to Euros 240 thousand in 2017 (Euros 139 thousand in 2016) (see note 19.7). The transferred receivables that had not yet fallen due at 31 December 2017 totalled Euros 99,624 thousand (Euros 88,449 thousand in 2016) and all were considered to be without recourse.

c) Trade debts with other related parties

During 2017, transactions have been carried out with the companies ICDC, Red Libra and CD Supply Innovation (see note 21), mainly corresponding to trade operations.

d) Impairment

Movements in the provision for impairment of receivables (see other disclosures on credit risk in note 22 d)) were as follows:

2017

Thousands of Euros	Customer for sales (note 8.1 a) and 22 d))	Other debtors	Credits receivable from suppliers	Total
At 1st January	**(29,745)**	**(7,446)**	**(6,288)**	**(43,479)**
Charge	(16,914)	(983)	(2,990)	(20,887)
Applications	5,258	417	2,902	8,577
Reversals	2,655	-	245	2,900
Transfers	(33)	33	-	-
Transfers to assets held for sale	-	-	189	189
Translation differences	4,286	-	25	4,311
At 31st December	**(34,493)**	**(7,979)**	**(5,917)**	**(48,389)**

2016

Miles de euros	Customer for sales (note 8.1 a) and 22 d))	Other debtors	Credits receivable from suppliers	Total
A 1 de enero	**(21,444)**	**(8,478)**	**(7,091)**	**(37,013)**
Charge	(13,771)	(786)	(3,940)	(18,497)
Applications	126	-	-	126
Reversals	5,995	1,818	4,838	12,651
Other movements	(47)	-	-	(47)
Translation differences	(604)	-	(95)	(699)
A 31 de diciembre de 2016	**(29,745)**	**(7,446)**	**(6,288)**	**(43,479)**

8.2. Other financial assets

Miles de euros	2017	2016
Equity instruments	88	88
Guarantees	57,998	46,269
Other guarantees	2,000	2,000
Other loans	524	572
Other non-current financial assets	14,403	9,728
Total non-current	**75,013**	**58,657**
Franchise deposits (note 22 d))	3,256	2,958
Other deposits	8,541	7,366
Credits to personnel	3,027	2,920
Other loans	1,016	1,219
Loans on the sale of fixed assets	498	-
Other finantial assets	2,092	5,271
Total current	**18,430**	**19,734**

"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 2017 amounted to Euros 293 thousand (Euros 495 thousand in 2016).

At 31 December 2017 and 2016, "Other non-current 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 (see note 15.2).

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 the non-current balance under "Other financial assets" in 2017 and 2016.

8.3. Current and non-current consumer loans from financing activities

In 2017, after transferring these loans to non-current assets held for sale of the company FINANDIA, EFC, the balance of this caption solely relates to DIA Argentina and comprises loans granted to individuals resident in Argentina; calculated at amortised cost, which does not differ from their fair value.

Interest and similar income from these assets recognised in the consolidated income statement at 31 December 2017 amounted to Euros 2,033 thousand (Euros 1,700 thousand at 31 December 2016) (see note 19.1).

9. OTHER EQUITY-ACCOUNTED INVESTEES

The balance under equity-accounted investees in 2017 and 2016 reflects the 50% investment of ICDC Services Sàrl, which began operations in the first half of 2016. In addition, in 2017 this balance includes the 50% ownership interests of the companies Red Libra Trading Services, S.L. and CD Supply Innovation, S.L., which commenced activity in the second half of 2017. Also in 2016, DIA Paraguay's entry into the consolidated Group resulted in the acquisition of an indirect 10% interest in DIPASA (see note 1).

The key financial indicators of these companies in 2017 are as follows:

Thousands of Euros	2017	2016
Assets	255,806	28,654
Net equity	1,786	367
Sales	104,325	2,975
Profit for the period	578	187

10. OTHER ASSETS

Details of other assets are as follows:

Thousands of Euros	2017 Current	2016 Current
Prepayments for operating leases	2,967	3,191
Prepayments for guarantees	373	481
Prepayments for insurance contracts	717	657
Other prepayments	3,330	3,811
Total other assets	**7,387**	**8,140**

11. INVENTORIES

Details of inventories are as follows:

Thousands of Euros	2017	2016
Goods for resale	562,966	662,640
Other supplies	6,678	6,952
Total inventories	**569,644**	**669,592**

At 31 December 2017 and 2016 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.

12. CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents are as follows:

Thousands of Euros	2017	2016
Cash and current account balances	288,882	165,778
Cash equivalents	51,311	198,822
Total	**340,193**	**364,600**

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 0.04% to 0.10% in 2017 and from 0.05% to 0.15% in 2016.

The balance of cash equivalents at 31 December 2017 mainly reflects the deposits maturing at under three months in Brazil. At 31 December 2016 it included deposits maturing at under three months in Spain and Brazil.

13. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS

In the first quarter of 2017, the DIA Group began a process to explore strategic alternatives in its China business, classifying the assets and liabilities of its companies, DIA Tian Tian Management Consulting Service & Co. Ltd. and Shanghai DIA Retail Co. Ltd., as held for sale. In accordance with IFRS 5, the Company has discontinued the operations of its China business, re-stating the accounts for the prior year for comparability purposes (see note 1).

Furthermore, during the last quarter of 2017, the DIA Group began a process to explore strategic alternatives in the business of its financial entity, Finandia, E.F.C., S.A., classifying the assets and liabilities of this company as held for sale at 31 December 2017, in accordance with IFRS 5 (see notes 1 and 24).

The results of the Group's discontinued operations, which correspond to the activity of the China business are as follows for 2017 and 2016:

Thousands of Euros	2017	2016
Income	181,511	199,603
Amortisation and depreciation	(1,345)	(5,623)
Expenses	(200,152)	(208,459)
Gross Margin	**(19,986)**	**(14,479)**
Financial income	869	433
Financial expenses	(2,317)	(1,828)
Loss before taxes of discontinued operations	**(21,434)**	**(15,874)**

The effect on the cash flow of the Group's discontinued operations in 2017 and 2016 is as follows:

Thousands of Euros	2017	2016
Adjustments to Profit and Loss	1,923	8,291
Changes in working capital	(1,578)	5,443
Net cash flows used in investing activities	1,724	(1,034)
Net cash flows used in financing activities	(30,443)	6,643
Total cash flows	**(28,374)**	**19,343**

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The results of activities discontinued by the Group in both years correspond in their entirety to the Parent.

Assets and liabilities classified as held for sale in 2017 are as follows:

Thousands of Euros	2017
Assets	
Tangible fixed assets	16,862
Other Intangible assets	1,069
Other non-current financial assets	1,378
Consumer loans from financial activities	297
Deferred tax assets	117
Inventories	9,461
Trade and other receivables	3,683
Consumer loans from financial activities	2,590
Current tax assets	2,794
Other current financial assets	272
Other assets	1,140
Non-current assets held for sale	**39,663**
Liabilities	
Non-current borrowings	384
Current borrowings	13,280
Trade and other payables	48,778
Deferred tax liabilities	1,082
Other financial liabilities	1,652
Liabilities directly associated with non-current assets held for sale	**65,176**

14. EQUITY

14.1. Capital

At 31 December 2017 and 2016 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.

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 0.245% 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:

Letterone Investment Holdings, S.A.	25.001%
Baillie Gifford & CO	10.488%
Black Creek Investment Management INC	4.988%
Morgan Stanley	4.444%
The Goldman Sachs Group, INC	4.258%
Norges Bank	3.032%
Blackrock INC.	3.012%
LSV Asset Management	3.003%

On 28 July 2017, Letterone Investment Holdings, S.A. (hereinafter "Letterone") reached a collateralised agreement to buy in instalments 62.2 million ordinary shares, which represents 10.0% of the share capital of the Parent, through LTS Investment S.à.r.l., a solely-owned direct subsidiary of Letterone. On 19 January 2018, the termination date of this agreement, Letterone has increased its ownership stake in DIA to 93.4 million ordinary shares, equivalent to 15.0% of the share capital of the Parent. Hence, at the date of preparation of these annual accounts, Letterone holds 25.001% of the share capital of DIA.

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 assets and other excluded elements, as stated in note 19.9.

In view of the ratios for 2017 and 2016, net debt has been calculated as follows:

Thousands of Euros	2017	2016
Total borrowings (note 15)	1,231,464	1,243,007
Less: cash and cash equivalents (note 12)	(340,193)	(364,723)
Net debt	891,271	878,284
Adjusted EBITDA (*)	568,590	627,896
Debt ratio	**1,6x**	**1.4x**

(*) Adjusted EBITDA in note 19.9

14.2. Reserves and retained earnings

Details of reserves and retained earnings are as follows:

Thousands of Euros	2017	2016
Legal reserve	13,021	13,021
Capital redemption reserve	5,688	5,688
Other reserves non available	15,170	15,170
Other reserves	270,797	227,229
Profit attributable to equityholders ot the parent	109,579	174,043
Total	**414,255**	**435,151**

The Parent's legal reserve is 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 2017, the Parent has appropriated to this reserve more than the minimum amount required by law.

An amount equal to the par value of the own shares redeemed in 2015 and 2013 was 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.

Other non-distributable reserves include a Parent company reserve amounting to Euros 15,170 thousand, which is non-distributable and arose as a result of the entry into force of Royal Decree 602/2016, which eliminated the concept of intangible assets with indefinite useful lives, establishing that from 1 January 2016, these would be subject to amortisation. At 31 December 2016, after the publication of this Royal Decree, this reserve, which up to that date was on account of goodwill, was transferred to voluntary reserves, remaining non-distributable. Once the net amount of the goodwill exceeds the carrying amount, it may be transferred to freely distributable reserves.

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 2017 and 2016, the Parent's distributable reserves amount to Euros 118,616 thousand and Euros 41,783 thousand, respectively.

14.3. Other own equity instruments

a) Own shares

Changes in own shares in 2017 and 2016 are as follows:

	Number of shares	Euros/share	Total
31st December 2015	**8,183,782**	**6.5448**	**53,560,917.32**
Acquired shares	821,000		4,047,871.51
Acquired shares	3,179,000		15,855,452.31
Delivery of shares to Board Members	(79,236)		(478,732.54)
Delivery of shares to incentives plans 2011-2014 (note 18)	(998,772)		(6,414,043.32)
31st December 2016	**11,105,774**	**5.9943**	**66,571,465.29**
Liquidation equity swap	(2,100,000)		(12,588,053.49)
Formalisation equity swap	2,100,000		11,130,000.00
Delivery of shares to Board Members	(73,227)		(428,672.64)
Delivery of shares to incentives plans 2014-2016 (note 18)	(721,914)		(4,326,043.04)
31st December 2017	**10,310,633**	**5.8540**	**60,358,696.13**

Purchases carried out in 2016 were to cover the needs of 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.

Shares transferred during 2017 and 2016 generated charges of Euros 559 and 3,224 thousand to other reserves.

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 2014-2016 long-term incentive plan and the 2016-2018 incentive plan (see note 18).

14.4. Dividends

Details of dividends paid are as follows:

Thousands of Euros	2017	2016
Dividends on ordinary shares	128,535	122,212
Dividend per share (in Euros)	0.21	0.20

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 2017 was 612,072,653 (611,055,470 shares in 2016).

The proposed distribution of the Parent's 2017 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	88,897,812.34
Other reserves	21,288,446.06
Total	**110,186,258.40**

Basis of allocation	Euros
Dividends (*)	110,186,258.40
Total	**110,186,258.40**

(*) The directors have proposed that an ordinary dividend of Euros 0.18 (gross) be distributed for each of the shares with the corresponding economic rights. This figure is an estimate based on there being 612,145,880 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 2016, approved by the shareholders at the ordinary general meeting held on 28 April 2017, was as follows:

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

Basis of allocation	Euros
Dividends	128,535,257.13
Other reseves	78,849,725.43
Total	**207,384,982.56**

14.5. 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 31/12/2017	Ordinary shares at 31/12/2017	Weighted average ordinary shares in circulation at 31/12/2016	Ordinary shares at 31/12/2016
Total shares issued	622,456,513	622,456,513	622,456,513	622,456,513
Own shares	(10,571,332)	(10,310,633)	(9,276,954)	(11,105,774)
Total shares available and diluted	**611,885,181**	**612,145,880**	**613,179,559**	**611,350,739**

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

	2017	2016
Average number of shares	**611,885,181**	**613,179,559**
Profit for the period in thousands of Euros	109,579	174,043
Profit per share in Euros	0.18	0.28

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.

14.6. Non-controlling interests

Non-controlling interests at 31 December 2017 and 2016 reflect that held in Compañía Gallega de Supermercados, S.A.

14.7. Translation differences

Details of translation differences at 31 December 2017 and 2016 are as follows:

Thousands of Euros	2017	2016
Argentina	(45,178)	(36,384)
Brazil	(52,281)	(17,131)
China	(3,318)	(6,258)
Total	**(100,777)**	**(59,773)**

15. FINANCIAL LIABILITIES

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

15.1. Borrowings

Details of borrowings are as follows:

Thousands of Euros	2017	2016
Debentures and bonds long term	892,570	794,652
Syndicated credits (Revolving credit facilities)	-	97,360
Mortgage loans	814	2,632
Other bank loans	30,842	126,351
Finance lease payables	26,229	31,305
Guarantees and deposits received	11,148	9,469
Other non-current borrowings	342	504
Total non-current borrowings	**961,945**	**1,062,273**
Debentures and bonds long term	6,021	5,587
Mortgage loans	633	2,218
Other bank loans	144,268	61,819
Other financial liabilities (note 15.1 c)	34,238	39,944
Finance lease payables	10,547	11,634
Credit facilities drawn down	65,809	41,355
Expired Interests	132	520
Guarantees and deposits received	2,813	5,817
Liabilities derivatives	4,339	6,600
Other current borrowings	719	5,240
Total current borrowings	**269,519**	**180,734**

a) Debentures and bonds

The Parent has outstanding bonds with a nominal value of Euros 905,700 thousand at 31 December 2017 (Euros 800,000 thousand at 31 December 2016), 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:

					Maturity date in thousands of euros					
Issuing Company	Issue date	Term (years)	Currency	Voucher	2019	2020	2021	2022	2023	Amount in thousands of euros
DIA, S.A.	07/04/2017	6	EUR	0.875%	-	-	-	-	300,000	300,000
DIA, S.A.	28/04/2016	5	EUR	1.000%	-	-	300,000	-	-	300,000
DIA, S.A.	22/07/2014	5	EUR	1.500%	305,700	-	-	-	-	305,700

Movement in bond issues during 2017 and 2016 is as follows:

Thousands of euros	Bonds
At 1 January 2016	500,000
Issues	300,000
At 31 December 2016	800,000
Issues	300,000
Amortization	(194,300)
At 31 December 2017	905,700

On 27 March 2017, the Parent successfully completed a bond issue amounting to Euros 300,000 thousand, with an issue price of 99.092% and an annual coupon of 0.0875% . These bonds were issued on the Irish Stock Exchange.

On 7 April 2017, a bond swap was performed on a portion of the bonds from the previous placement issued on the same day, for 1,943 bonds (nominal amount of Euros 194,300 thousand) of the issue carried out on 22 July 2014. Once the swap was completed, the acquired bonds were amortised and written off, leaving 3,057 current bonds from that placement in circulation.

This swap has been treated as a renegotiation under IAS 39, whereby an exchange of financial instruments between the borrower and the lender is carried out, the latter assuming the risk of the new issue, the risk of not completing the exchange of the amortised and issued debt and the risk of a variation in price between the bonds acquired and issued. Furthermore, the new contract is not substantially different to the original, given that the current discounted value of the cash flows on the bonds swapped under the new issue using the original interest rate differ by less than 10% from the present value of the discounted cash flows still remaining from the original swapped bonds.

As a result the original swapped bonds have been written off at their carrying value and the associated expenses have not had an impact on profit and loss.

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% and an annual coupon of 1.000%. 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 2017 and 2016 are as follows:

			Outstandings in thousand of euros				
Description	Limit in thousand of euros	Currency	2017	2016	Signed date	Maturity date and thousands of euros	
Sindicated	300,000	EUR	-	99,000	21/04/2015	75,000	21/04/2018
						225,000	21/04/2019
Sindicated	300,000	EUR	-	-	03/07/2014	28/06/2022	

			Outstandings in thousand of euros				
Description	Limit in thousand of euros	Currency	2016	2015	Signed date	Maturity date and thousands of euros	
Sindicated	300,000	EUR	99,000	300,000	21/04/2015	75,000	21/04/2018
						225,000	21/04/2020
Sindicated	400,000	EUR	-	-	03/07/2014	03/07/2019	

On 28 June 2017, the Parent signed a modification to the existing syndicated loan taken out in July 2014 and expiring on 3 July 2019. The new loan is not substantially different to the original; the amount of Euros 400,000 is reduced to Euros 300,000 and the term of the loan is extended for 5 years until 28.06.2022.

In March 2017 the second and final extension to the syndicated loan arranged in April 2015 was carried out for Euros 225,000 thousand maturing in April 2020. In March 2016 the first extension to the syndicated loan was carried out.

These loans are subject to compliance with certain covenant ratios linked thereto, as defined in the agreement. At 31 December 2017 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 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 4 and 14.1 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 2017 and 2016 are as follows:

At 31 December 2017			Maturity in thousand of euros				
Type	Owner	Currency	2018	2019	2020	2021	Total
Mortgage	Beauty by DIA	EUR	633	421	393	-	1,447
	Mortgage Loans	**EUR**	**633**	**421**	**393**	**-**	**1,447**
Loan	DIA	EUR	101,046	13,413	15,000	-	129,459
Loan	DIA Brasil	EUR	40,273	-	-	-	40,273
Loan	Grupo El Arbol	EUR	501	2,000	-	-	2,501
Loan	DIA Argentina	EUR	2,448	429	-	-	2,877
	Other Loans	**EUR**	**144,268**	**15,842**	**15,000**	**-**	**175,110**

At 31 December 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**

Mortgage loans have been secured by certain properties owned by the Group and accrue interest at rates between 1.84% and 2.00% at 31 December 2017.

During 2017 the following operations have been carried out:

- On 15 December 2017, the Parent repaid in advance a Euros 30,000 thousand loan with maturity in December 2018.
- On 15 December 2017, the Parent entered into a Euros 30,000 thousand loan with maturity in December 2020.
- On 30 November 2017, the company Twins Alimentación repaid in advance a mortgage loan of Euros 1,285 thousand signed in March 2017 with maturity on 23 March 2019.
- On 7 April 2017, the company Beauty by DIA repaid in advance a mortgage loan of Euros 543 thousand signed in November 2010 with maturity on 23 November 2017.

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.

Credit facilities

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

Year	Limit granted	Amount available (note 20.2)	Amount used
31/12/2017	237,875	165,173	72,702
31/12/2016	178,357	137,002	41,355

Moreover, at 31 December 2017 and 2016 the Parent has other uncommitted credit facilities, with a limit of Euros 210,000 thousand in both years. The credit facilities that the Group held in 2017 and 2016 accrued interest at market rates.

c) Other financial liabilities

Other financial liabilities include the prevailing "Equity Swap" contracts signed by the Parent. The main characteristics of the contracts held at 31 December 2017 and 2016 are as follows:

At 31 December 2017							
Start date	Expiration date	Number of shares	Nominal amount in thousand of euros	Counterpart	Strike	Interest rate	Liquidation
22/12/2017	21/12/2018	6,000,000	34,238	Santander	Fixed	Variable	Physical

At 31 December 2016							
Start date	Expiration date	Number of shares	Nominal amount in thousand of euros	Counterpart	Strike	Interest rate	Liquidation
22/12/2016	22/03/2017	1,000,000	5,706	Santander	Fixed	Variable	Physical
22/12/2016	22/12/2017	6,000,000	34,238	Santander	Fixed	Variable	Physical

Since the contract settlement is by means of physical liquidation, the Parent undertakes to repurchase the shares at the maturity date of each "Equity Swap", with no transferability restrictions.

The valuation method for each contract is determined on the basis of the evolution of the share price with respect to the price set in the contract and the coupon accrued.

d) Maturity of borrowings

The maturities of borrowings are as follows:

Thousands of Euros	2017	2016
Less than one year	269,519	180,734
One to two years	25,360	232,976
Three to five years	633,515	816,003
Over five years	303,070	13,294
Total	**1,231,464**	**1,243,007**

15.2.Other non-current financial liabilities

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

Thousands of Euros	2017	2016
Capital grants	491	785
Other non-current financial liabilities	2,000	2,000
Total grants and other non-current financial liabilities	**2,491**	**2,785**

At 31 December 2017 and 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 (see note 8.2).

15.3.Trade and other payables

Details are as follows:

Thousands of Euros	2017	2016
Suppliers	1,510,152	1,660,806
Suppliers, other related parties	64,308	-
Advances received from receivables	2,920	2,454
Trade payables	133,448	196,005
Total Trade and other payables	**1,710,828**	**1,859,265**

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

Suppliers, other related parties mainly include current payables for supplies of goods by its associate CDSI.

“Trade and other payables” do not bear interest.

The Group has payables discounting operations with limits of Euros 616,898 thousand and Euros 678,061 thousand at 31 December 2017 and 2016, respectively. Drawdowns total Euros 367,294 thousand at 31 December 2017 and Euros 333,258 thousand at 31 December 2016.

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:

	2017	2016
	Days	Days
Average payment period to suppliers	46	45
Paid operations ratio	46	46
Pending payment transactions ratio	42	40
	Amount (euros)	**Amount (euros)**
Total payments made	4,134,004,583	4,881,824,952
* Total payment pending	542,911,981	509,127,690

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

15.4.Other financial liabilities

Details of other financial liabilities are as follows:

Thousands of Euros	2017	2016
Personnel	59,198	69,262
Suppliers of fixed assets	85,992	60,300
Other current liabilities	3,675	5,080
Total other liabilities	**148,865**	**134,642**

15.5.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.

The carrying amount of financial assets of the Group, based on the different categories, is as follows:

Thousands of euros	Loans and receivables	
	2017	2016
Financial assets		
Trade and other receivables	294,930	236,624
Other financial assets	93,443	78,391
Consumer loans from financial activities	1,070	6,621
Total	**389,443**	**321,636**

The carrying amount of the assets classified as loans and receivables does not significantly differ from their fair value.

The carrying amount and the fair value of financial liabilities of the Group, based on the different categories and hierarchy levels, is as follows:

Thousands of euros	Carrying amount				Fair value	
	Debts and items payable		Hedge derivatives			
	2017	2016	2017	2016	2017	2016
Financial liabilities						
Trade and other payables	1,710,828	1,859,265	-	-		
Debentures and bonds	898,591	800,239	-	-	918,684	823,344
Bank loans and credits	242,366	331,735	-	-		
Finance lease payables	36,776	42,939	-	-		
Guarantees and deposits received	13,961	15,286	-	-		
Financial derivative instruments	-	-	4,339	6,600	4,339	6,600
Contract "Equity Swap"	34,238	39,944	-	-	25,818	32,655
Other financial liabilities	152,549	143,691	-	-		
Total	**3,089,309**	**3,233,099**	**4,339**	**6,600**	**948,841**	**862,599**

The carrying amount of the liabilities classified as loans and payables does not significantly differ from their fair value.

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 (level 2).

The fair value of non-current listed instruments and bonds has been measured based on listed market prices (level 1).

The fair value of the equity swaps based on their quoted price at 31 December 2017 and 2016 (level 1).

The reconciliation between financial liabilities on the balance sheet and the cash flows from financing activities is as follows:

Thousands of euros	Financial debt non current	Financial debt current	TOTAL
At 31st December 2016	**1,062,273**	**180,734**	**1,243,007**
Net cash flows from financing activities (payments)	(316,767)	(56,803)	(373,570)
Net cash flows from financing activities (charges)	338,950	66,606	405,556
Changes non-monetarys:			
Reclassification to short term	(122,578)	122,578	-
Exchange differences	(360)	(8,919)	(9,279)
Transfer held for sale	(379)	(34,312)	(34,691)
Other Change non-monetarys	806	(365)	441
At 31st December 2017	**961,945**	**269,519**	**1,231,464**

16. 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 2016	**2,700**	**24,316**	**12,094**	**9,291**	**3,102**	**51,503**
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**
Translation differences	-	(20)	1,334	381	(45)	**1,650**
At 31st December 2016	**2,725**	**23,208**	**11,499**	**6,723**	**1,686**	**45,841**
Charge	358	4,142	10,153	4,708	491	**19,852**
Applications	-	(85)	(6,425)	(1,410)	(554)	**(8,474)**
Reversals	(63)	(7,740)	(2,394)	(1,885)	-	**(12,082)**
Other movements	34	110	-	-	8	**152**
Translation differences	-	(9)	(1,814)	(752)	(158)	**(2,733)**
At 31st December 2017	**3,054**	**19,626**	**11,019**	**7,384**	**1,473**	**42,556**

As regards the provisions for taxes deriving from the risk of tax inspections, in 2017 the Parent has made provisions of Euros 3,751 thousand.

In 2017 and 2016, charges and applications of provisions for lawsuits filed by employees (related to social security contributions) include labour contingencies mainly in Brazil and Argentina.

With regard to legal provisions, in 2017 provisions of Euros 2,033 thousand were made in Brazil and Euros 1,402 thousand in Spain to cover litigations with third parties.

The reversals of these provisions in both years were due to contract risks that did not materialise.

17. TAX ASSETS AND LIABILITIES AND INCOME TAX

- **INCOME TAX**

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

Thousands of Euros	2017	2016
Current income taxes		
Current period	45,188	69,179
Prior periods' current income taxes	(1,221)	(1,802)
Total current income taxes	**43,967**	**67,377**
Deferred taxes		
Source of taxable temporary differences	7,230	12,200
Source of deductible temporary differences	(4,928)	(29,456)
Reversal of taxable temporary differences	(6,464)	(6,438)
Reversal of deductible temporary differences	15,545	25,436
Total deferred taxes	**11,383**	**1,742**
TOTAL INCOME TAX	**55,350**	**69,119**

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	2017	2016
Profit for the period before taxes from continuing operations	186,323	258,994
Share in profit/(loss) for the year of equity accounted investees	(288)	(93)
Profit for the period before tax	186,035	258,901
Tax calculated at the tax rate of each country	49,983	61,986
Unrecognised tax credits	(19)	(252)
Non-taxable income	(2,343)	(1,894)
Non-deductible expenses	6,878	7,757
Deductions and credits for the current period	(1,306)	(1,009)
Adjustments for prior periods	(1,221)	(1,802)
Capitalised tax loss carryforwards and other adjustments of deferred taxes	(139)	1,827
Unrecognised deferred taxes	(3,148)	1,884
Other adjustments	3,669	406
Tax rate's change adjustment	2,996	216
Total income tax	**55,350**	**69,119**

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	25.85%
Portugal II	21%
Argentina	35%
Brazil	34%
China	25%
Switzerland	24%
Paraguay	10%

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 2017 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.

In 2018, the tax rate applicable in Argentina is to decrease from the rate of 35% applicable in 2017 to 30%. This reduction has caused a decrease of Euros 2,989 thousand in deferred tax assets at the closing date of these annual accounts.

- **TAX ASSETS AND TAX LIABILITIES**

Details of the tax assets and liabilities for 2017 and 2016 recognised in the consolidated statement of financial position at 31 December are as follows:

Thousands of Euros	2017	2016
Deferred tax assets	253,983	270,164
Taxation authorities, VAT	40,330	39,816
Taxation authorities	24,387	31,271
Current income tax assets	369	8,832
Total tax assets	**319,069**	**350,083**
Deferred tax liabilities	2,206	-
Taxation authorities, VAT	51,924	46,448
Taxation authorities	33,768	39,046
Current income tax liabilities	10,913	15,505
Total tax liabilities	**98,811**	**100,999**

During 2017 the Parent received a refund of Euros 8,158 thousand from the taxation authorities. At the reporting date of last year's annual accounts this amount was recognised as a current tax asset.

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:

	2017	2016
Capitalised tax loss carryforwards	219,905	226,172
+ Deferred tax assets	79,669	91,535
Total deferred tax assets	299,574	317,707
Assets offset	(45,591)	(47,543)
Deferred tax assets	**253,983**	**270,164**
Deferred tax liabilities	47,797	47,543
Liabilities offset	(45,591)	(47,543)
Deferred tax liabilities	**2,206**	**-**

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

DEFERRED TAX ASSETS

Thousands of Euros	1 Jan 2016	Adjustments to tax rate	Profit/(loss) Additions	Profit/(loss) Disposals	Net Equity Disposals	Transfers to assets held	Others	Exchange gains/losses	31 Dec 2016
Provision	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**

Thousands of Euros	1 Jan 2017	Adjustments to tax rate	Profit/(loss) Additions	Profit/(loss) Disposals	Net Equity Disposals	Transfers to assets held for sale	Others	Exchange gains/losses	31 Dec 2017
Provisions	37,490	(1,687)	3,042	(5,617)	-	(1)	-	(5,043)	28,184
Onerous contracts	298	(1)	152	(75)	-	-	-	-	374
Share-based payments	4,290	(9)	-	(2,084)	-	(36)	-	-	2,161
Other remuneration	667	-	96	-	-	-	-	-	763
Loss carryforwards	226,172	34	78	(6,301)	-	(78)	-	-	219,905
Deductions activation	2,855	-	176	-	-	-	(176)	-	2,855
Difference between depretation tax-accounting	38,246	-	3,489	(638)	-	-	7	(1,237)	39,867
Other	7,689	(1,368)	926	(830)	-	(2)	(5)	(945)	5,465
Total non-curent deferred tax asset	**317,707**	**(3,031)**	**7,959**	**(15,545)**	**-**	**(117)**	**(174)**	**(7,225)**	**299,574**

In addition, the Parent has unrecognised temporary differences deriving from the impairment of the investments in the Chinese companies for an amount of Euros 103,402 thousand, and in the El Árbol Distribución y Supermercados Group for an amount of Euros 3,255 thousand.

DEFERRED TAX LIABILITIES

Thousands of Euros	1 Jan 2016	Adjustments to tax rate	Profit/(loss) Additions	Profit/(loss) Disposals	Net Equity Disposals	Transfers to assets held for sale	Others	Exchange 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
Store Sales	-	-	4,413	-	-	-	-	-	4,413
Other	1,604	(6)	808	(74)	(153)	-	-	(5)	2,174
Total non-current deferred tax liabilities	**42,026**	**(12)**	**12,212**	**(6,438)**	**(153)**	**-**	**(7)**	**(85)**	**47,543**

Thousands of Euros	1 Jan 2017	Adjustments to tax rate	Profit/(loss) Additions	Profit/(loss) Disposals	Net Equity Disposals	Transfers to assets held for sale	Others	Exchange gains/losses	31 Dec 2017
Goodwill	1,434	-	55	-	-	-	-	-	1,489
Amortisation and depreciation	26,296	(11)	6,797	(2,367)	-	-	-	(339)	30,376
Portfolio provisions	13,226	-	-	(3,306)	-	-	-	-	9,920
Strore sales	4,413	-	191	-	-	-	-	-	4,604
Other	2,174	(24)	222	(791)	(140)	-	-	(33)	1,408
Total ID de Pasivo No Corriente	**47,543**	**(35)**	**7,265**	**(6,464)**	**(140)**	**-**	**-**	**(372)**	**47,797**

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 983,165 thousand in 2017 and Euros 997,847 thousand in 2016.

Thousands of Euros	Years in which generated	Not subjetc to limitation	Limitation period (years) 2018	2019	2020	2021	2022	> 2022	TOTAL	Loss carryforwards activated	Loss carryforwards non-activated
Distribuidora Internacional de Alimentación, S.A.	2014	351,423	-	-	-	-	-	-	351,423	351,423	-
Finandia E.F.C., S.A.U.	2017	259	-	-	-	-	-	-	259	259	-
Twins Alimentación, S.A.	2006-2007	91,248	-	-	-	-	-	-	91,248	91,248	-
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	429,454	-	-	-	-	-	-	429,454	429,454	-
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.	2016-2017	-	-	-	-	1,395	672	-	2,067	-	2,067
Shanghai DIA Retail Co.Ltd.	2013-2017	-	15,396	13,545	14,467	13,659	25,024	-	82,091	-	82,091
Dia Portugal Supermercados S.U., Lda	2013-2014	-	225	-	-	-	-	2,941	3,166	3,166	-
DIA Portugal II, S.A.	2017	-	-	-	-	-	73	-	73	-	73
Total tax loss carryforwards		**895,768**	**15,621**	**13,545**	**14,467**	**15,054**	**25,696**	**2,941**	**983,165**	**880,385**	**102,780**

Spanish Corporate Income Tax Law 27/2014 establishes that for the purposes of determining the gross tax base of the tax group and in relation to write-offs, the accounting standards shall apply, whereby intra-group income and expenses are eliminated before calculating the individual tax base, based on which the amount of pre-consolidation tax loss carryforwards which can be offset against each of the companies during the year is obtained. For these purposes, the Parent carried out a binding consultation to the Tax Authorities to confirm the criteria for calculating the tax loss carryforwards of the Group, and management confirmed this criteria.

In accordance with Royal Decree-Law 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.

Considering the stability of the positive results obtained by the Group, the Management considers that there is evidence that allows to recover the assets for deferred taxes in a period of more than ten years.

At 31 December 2017, Spain's taxation authorities continue their ongoing inspection of the following taxes for the following periods:

Tax	Periods
Income tax	2011-2012
Personal income tax	2012

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.

During 2017, the verification and inspection procedures for the Company's 2012 Value Added Tax were completed.

18. SHARE-BASED PAYMENT TRANSACTIONS

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.

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.

Both plans are for the current and future executive directors, senior management and other key personnel of DIA and its subsidiaries, determined by the Board of Directors, who meet the requirements established in the general conditions and choose to voluntarily adopt the Plan. The purpose of these plans is to award and pay variable remuneration in DIA shares, according to compliance with business objectives for the Parent and the Group. The key features of these incentive plans are as follows:

Incentive Plans	Terms and Compliance objectives	Timetable for delivey of shares	Maxium number of shares at 31st December	Price
2014-2016	Detailed in the section A.4 of IAR 2014 pages 5 and 6	April 2017	2,016,778	5.3950
		January 2018		
2016-2018	Detailed in the section A.4 of IAR 2016 pages 6 and 7	April 2019	1,715,878	5.9203
		January 2020		

In 2017 the profit/(loss) recognised in respect of these plans amount to Euros (4,893) thousand and Euros 15,000 thousand in 2016 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 2014-2016 Long-Term Incentives Plan during 2017 amounted to Euros 5,347 thousand, entailing the transfer of 721,914 own shares. The payments made in relation to the 2011-2014 Long-Term Incentives Plan and the Multi-Year Variable Remuneration Plan in 2016 amounted to Euros 5,634 thousand, entailing the transfer of 998,772 own shares.

19. OTHER INCOME AND EXPENSES

19.1. Other income

Details of other income are as follows:

Thousands of Euros	2017	2016
Fees and interest to finance companies (note 8.3)	2,033	1,700
Service and quality penalties	38,380	34,701
Revenue from lease agreements (note 7)	30,455	26,415
Other revenue from franchises	8,622	14,411
Revenue from information services to suppliers	25,359	14,814
Revenue from the sale of packaging	9,306	8,547
Gains for the sale of fixed assets (nota 19.9)	31,226	16,461
Other income	10,279	9,149
Total other operating income	**155,660**	**126,198**

Contractual penalties for service include the income obtained by the Group from the collection of penalties charged to suppliers.

Proceeds from the disposal of fixed assets correspond to sale and leaseback contracts of certain DIA Group warehouses and stores (see notes 5 and 7). In 2017 the Group has classified proceeds from the sale of Group properties to third parties as Other income for the purposes of better understanding, adapting the 2016 figures accordingly for comparative purposes.

19.2. 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.

Details of borrowings are as follows:

Miles de euros	2017	2016
Goods and other consumables used	6,336,585	6,472,424
Inventory variation	42,052	(97,085)
Other sales costs	429,959	392,031
Total consumo de mercaderias y otros consumibles	**6,808,596**	**6,767,370**

19.3. Personnel expenses

Details of personnel expenses are as follows:

Thousands of Euros	2017	2016
Salaries and wages	630,290	636,784
Social Security	164,964	162,539
Defined contribution plans	300	(63)
Other employee benefits expenses	17,946	19,402
Parcial total personnel expenses	**813,500**	**818,662**
Expenses for share-based payment transactions	(4,557)	14,981
Total personnel expenses	**808,943**	**833,643**

The decrease in expenses of share-based payment transactions is attributable to the income accrued in connection with the 2016-2018 incentive plan (see note 18).

19.4. Operating expenses

Details of operating expenses are as follows:

Thousands of Euros	2017	2016
Repairs and maintenance	48,113	47,795
Utilities	82,656	88,062
Fees	23,053	22,893
Advertising	51,548	55,607
Taxes	23,379	22,056
Rentals, property (note 7)	316,611	297,296
Rentals, equipment (note 7)	5,997	5,563
Other general expenses	93,714	94,241
Total operating expenses	**645,071**	**633,513**

19.5. Amortisation and impairment

Details are as follows:

Thousands of Euros	2017	2016
Amortisation of intangible assets (note 6.2)	10,515	9,187
Depreciation of property, plant and equipment (note 5)	224,997	218,143
Total amortisation and depreciation	**235,512**	**227,330**
Impairment of intangible assets and goodwill (note 6)	5,255	646
Impairment of property, plant and equipment (note 5)	8,032	12,604
Total impairment	**13,287**	**13,250**

19.6. Losses on disposal of assets

The losses recorded on these transactions in 2017 and 2016 derive from the closures and remodelling operations mentioned in note 5.

19.7. Finance income and finance costs

Details of finance income are as follows:

Thousands of Euros	2017	2016
Interest on other loans and receivables	571	2,775
Exchange gains (note 19.8)	520	4,153
Change in fair value of financial instruments	7	-
Other finance income	3,732	4,728
Total financial income	**4,830**	**11,656**

Details of finance costs are as follows:

Thousands of Euros	2017	2016
Interest on bank loans	25,946	23,911
Intereses on debentures and bonds	12,994	11,181
Finance expenses for finance leases (note 5)	2,317	3,532
Exchange losses (note 19.8)	2,914	3,743
Change in fair value of financial instruments	14	-
Financial expenses assigment of receivables operations (notes 8.1 (b) and 22 (d))	240	139
Other finance expenses	21,443	19,787
Total financial expenses	**65,868**	**62,293**

At 31 December 2017 and 2016, 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 15.1 (a).

Other finance costs at 31 December 2017 and 2016 primarily reflect the bank debit and credit interest rates in Argentina linked to its revenues.

19.8. Foreign currency transactions

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

Thousands of Euros	2017	2016
Currency exchange losses (note 19.7)	(2,914)	(3,743)
Currency exchange gains (note 19.7)	520	4,153
Trade exchange losses	(441)	(562)
Trade exchange gains	1,513	849
Total	**(1,322)**	**697**

19.9. Non-IFRS performance measures

In order to give shareholders an additional overview of the business' underlying evolution, certain items recognised on the consolidated income statement that, due to their size, origin or nature, do not reflect the evolution of the business, are excluded from the adjusted results.

Thousands of Euros	2017	2016
Operating Profit (EBIT)	**247,073**	**309,538**
Expenses relating to acquisitions	26,022	14,520
Expenses for restructuring and efficiency process	52,339	25,590
Expenses related to the transfer of own stores to franchises	12,713	28,675
Gains for the sale of fixed assets (note 19.1)	(31,226)	(16,461)
Parcial total of other cash elements (1)	59,848	52,324
Expenses relating to share based payments transactionss	(4,858)	14,643
Losses on disposal of fixed assets (note 19.6)	17,728	10,811
Impairment of fixed assets (note 19.5)	13,287	13,250
Amortizations related to the closing of stores	3,517	584
Total of other excluded items to analyze ordinary performance (2)	89,522	91,612
Operating Profitn ajusted (EBIT ajusted)	**336,595**	**401,150**

Thousands of Euros	2017	2016
Operating Profit (EBIT)	**247,073**	**309,538**
Amortisation, depreciation and impairment (note 19.5)	248,799	240,580
Losses on disposal of fixed assets (note 19.6)	17,728	10,811
Gross operating profit (EBITDA)	**513,600**	**560,929**
Other cash elements (1)	59,848	52,324
Expenses relating to share based payments transactions	(4,858)	14,643
Gross operating profit ajusted (EBITDA ajusted)	**568,590**	**627,896**

Thousands of Euros	2017	2016
Net Profit atributted to equityholders of the parent	**109,579**	**174,043**
Other excluded items to analyze ordinary performance (2)	89,522	91,612
Items excluded from financial income and expenses	9,039	2,085
Items excluded from income tax	(12,545)	(15,188)
Losses net of taxes of discontinued operations (note 13)	21,434	15,874
Net Profit ajusted atributted to equityholders of the parent	**217,029**	**268,426**

Costs of acquisition comprise expenses incurred integrating the businesses acquired and stores bought from third parties. In both years these are expenses associated with the purchase from El Árbol Distribución y Supermercados Group, S.A. and stores bought from the Eroski Group, which include the cost of closing down non-profitable stores, as well as productivity measures permitting the guaranteed continuity of the stores and the cost of remodelling the stores to adapt them to the Plaza and DIA design.

Expenses incurred in restructuring and efficiency processes correspond to costs of improving productivity and efficiency, which include the cost of closing down stores and/or warehouses and the expenses borne by the company during the temporary closure of stores for remodelling into the new formats.

Expenses relating to the transfer of own stores to franchises are costs mainly borne during the transfer of the store to the franchise for management on a franchised basis and chiefly relate to employee termination expenses.

The items excluded from corporation tax mainly correspond to the tax effect of the other items excluded for the purposes of analysing ordinary income and those items excluded from financial income and expenses.

20. 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 2017 and 2016 are as follows:

20.1. Pledged:

Thousands of Euros at 31st December 2017	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	>5 YEARS	TOTAL
Guarantees	23,409	510	2,185	12,057	38,161
Credit facilities to customers (finance companies)	79,550	-	-	-	79,550
Cash	**102,959**	**510**	**2,185**	**12,057**	**117,711**
Purchase options	7,212	24,084	2,219	48,089	81,604
Commitments related to commercial contracts	13,820	2,468	1,846	1,130	19,264
Other commitments	4,530	2,217	7,209	17,117	31,073
Transactions / properties / expansion	**25,562**	**28,769**	**11,274**	**66,336**	**131,941**
Total	**128,521**	**29,279**	**13,459**	**78,393**	**249,652**

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	4,717	3,353	3,672	16,578	28,320
Transactions / properties / expansion	**31,090**	**22,012**	**11,140**	**54,411**	**118,653**
Total	**140,719**	**22,262**	**12,323**	**64,917**	**240,221**

The Parent is the guarantor of the drawdowns on the credit facilities made by its Spanish subsidiaries, which at 31 December 2017 amounted to Euros 2,777 thousand (Euros 1,687 thousand in 2016).

20.2.Received:

Thousands of Euros at 31st December 2017	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Available credit facilities (note 15.1 b))	165,173	-	-	-	165,173
Available sindicated revolving credit facilities	600,000	-	-	-	600,000
Available confirming lines	249,604	-	-	-	249,604
Cash	**1,014,777**	**-**	**-**	**-**	**1,014,777**
Guarantees received for commercial contracts (note 22 d))	24,394	5,415	20,950	55,610	106,369
Other commitments	4,000	-	-	-	4,000
Transactions / properties / expansion	**28,394**	**5,415**	**20,950**	**55,610**	**110,369**
Total	**1,043,171**	**5,415**	**20,950**	**55,610**	**1,125,146**

Thousands of Euros at 31st December 2016	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Available credit facilities (note 15.1 b))	137,002	-	-	-	137,002
Available revolving credit facilities	601,000	-	-	-	601,000
Available confirming lines	344,803	-	-	-	344,803
Cash	**1,082,805**	**-**	**-**	**-**	**1,082,805**
Guarantees received for commercial contracts (note 22 d))	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**

b) Contingencies

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 2017 (see note 17). 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.

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 17,238 thousand (Brazilian Reals 68,483 thousand) in relation to a discrepancy concerning tax on income from discounts received from suppliers, and another amounting to the updated figure of Euros 82,782 thousand (Brazilian Reals 328,885 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 at 31 December 2017.

21.RELATED PARTIES

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

In 2017 and 2016 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.

Related party balances and transactions

During 2017 and 2016 the Group has carried out the following related party transactions: ICDC, Red Libra and CD Supply Innovation, mainly corresponding to trade operations and the balance receivable of which at 31 December 2017 and 2016 is show in note 8.1 and note 15.3. The transactions carried out with related parties during both years are as follows:

Thousands of Euros	2017	2016
ICDC	23,522	18,433
Red Libra	(1,157)	-
CDSI	(56,466)	-
Total transactions	**(34,101)**	**18,433**

Transactions with directors and senior management personnel

Details of remuneration received by the directors and senior management of the Group in 2017 and 2016 are as follows:

Thousands of Euros			
2017		2016	
Directors	Senior management personnel	Directors	Senior management personnel
2,237	4,257	2,756	4,175

In 2017 and 2016 the directors of the Parent earned Euros 1,174 thousand and Euros 1,188 thousand, respectively, (included in the table above) in their capacity as board members.

In 2017 shares from the 2014-2016 Long-Term Incentives Plan were handed over to members of Senior Management, recognised in remuneration accrued for the year.

In 2016 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 this year.

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 2017 and 2016. Details are as follows:

2017	Thousands of Euros			
Board members	Financial instruments	Fixed remuneration	Variable remuneration	Others
Ms Ana María Llopis Rivas	43.9	120.2	-	-
Mr Ricardo Currás de Don Pablos (*)	21.3	667.5	456.4	7.4
Mr Julián Díaz González	32.7	81.8	-	-
Mr. Juan María Nin Génova	28.0	86.6	-	-
Mr Richard Golding	28.9	88.8	-	-
Mr. Mariano Martín Mampaso	34.7	89.7	-	-
Mr Antonio Urcelay Alonso	28.0	90.6	-	-
Ms Angela Lesley Spindler	34.8	83.7	-	-
Mr Borja de la Cierva Álvarez de Sotomayor	28.0	89.6	-	-
Ms María Luisa Garaña Corces	21.3	73.5	-	-
Total	**302**	**1,472**	**456**	**7**

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

2016	Thousands of Euros			
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 Álvarez de Sotomayor	10.5	28.6	-	-
Ms María Luisa Garaña Corces	1.2	2.6	-	-
Total	**836**	**1,450**	**463**	**7**

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

During 2017 and 2016 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 both years.

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

22. 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 2017 and 2016 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 2017 amounted to US Dollars 7,529 thousand (US Dollars 6,552 thousand in 2016). This amount represented 68.76% of the transactions carried out in this currency in 2017 (66.09% in 2016). At 2017 year end, outstanding hedges in this currency total US Dollars 1,809 thousand (US Dollars 1,803 thousand in 2016) 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 Argentine Pesos, Chinese Yuan and Brazilian Reals is mitigated primarily through borrowings in the corresponding foreign currencies.

In 2017, 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 555 thousand higher/lower (Euros 328 thousand in 2016), 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 Argentine Peso and the Brazilian Real in 2017. 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 +22.34% / -22.34%, respectively, in the equity of the DIA Group.

The Group's exposure to currency risk at 31 December 2017 and 2016 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 20. Details are as follows:

Thousands of Euros	2017	2016
Trade operations non-current (note 8.1 a))	73,084	69,345
Trade operations current (notes 8.1 a))	157,149	132,303
Franchise deposits (note 8.2)	3,256	2,958
Guarantees received (note 20.2)	(106,369)	(98,937)
	127,120	**105,669**

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 comprise financing of goods supplies and amounts falling due less than 12 months from the initial financing.

In 2017 the Group entered into agreements to transfer supplier trade payables with and without recourse (see notes 3 (l) and 8.1 (b)). The accrued cost of the transfer of these receivables amounted to Euros 240 thousand in 2017

(Euros 139 thousand in 2016) (see note 19.7). Undue balances at 31 December 2017 amount to Euros 99,624 thousand (Euros 88,449 thousand at 31 December 2016), all of which are without recourse.
The Group's exposure to credit risk at 31 December 2017 and 2016 is shown below. The accompanying tables reflect the analysis of financial assets by remaining contractual maturity dates:

Thousands of Euros	Maturity	2017
Guarantees	per contract	57,998
Other guarantees	2020	2,000
Equity instruments	-	88
Other loans	2019-2021	524
Trade receivables	2019-2035	73,084
Other non-current financial assets	2019-2024	14,403
Non-current assets		**148,097**
Franchise deposit (note 8.2)	2018	3,256
Other deposits	2018	8,541
Credits to personnel	2018	3,027
Other loans	2018	1,016
Loans on the sale of fixed assets	2018	498
Other finantial assets	2018	2,092
Trade receivables	2018	219,168
Receivables from group companies	2018	2,678
Consumer loans from finance companies	2018	1,070
Current assets		**241,346**

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 finantial assets	2018-2020	9,728
Consumer loans from finance companies	2018	401
Non-current assets		**128,403**
Franchise deposit (note 8.2)	2017	2,958
Other deposits	2017	7,366
Credits to personnel	2017	2,920
Other loans	2017	1,219
Other finantial assets	2017	5,271
Trade receivables	2017	162,427
Receivables from group companies	2017	4,852
Consumer loans from finance companies	2017	6,220
Current assets		**193,233**

The Group has taken out credit insurance policies to ensure the collectability of certain trade receivables for sales. The trade receivables covered by these policies totalled Euros 4,855 thousand at 31 December 2017 (Euros 6,037 thousand at 31 December 2016).

The returns on these financial assets totalled Euros 4,818 thousand in 2017 and Euros 5,015 thousand in 2016.

Details of non-current and current trade and other receivables by maturity in 2017 and 2016 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 2017	**221,846**	151,982	20,826	44,223	3,547	1,267
31st December 2016	**167,279**	105,518	29,585	29,504	1,320	1,352

Non-current	Total	Thousands of Euros Between 1 and 2 years	Between 3 and 5 years	Over five years
31st December 2017	73,084	23,198	32,029	17,857
31st December 2016	69,345	21,895	33,866	13,584

The Group's accounting policies establish that as a rule amounts receivable with a maturity of over six months are impaired. However, the Group assesses, based on historical data, all accounts receivable, recording impairments when a loss is incurred.

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 2017 and 2016 is shown below. These tables reflect the analysis of financial liabilities by remaining contractual maturity dates:

Thousands of Euros	Maturity	2017
Debentures and bonds long term	2019-2023	892,570
Mortgage loan	2019-2020	814
Other bank loans	2019-2020	30,842
Finance lease payables	2019-2027	26,229
Guarantees and deposits received	per contract	11,148
Other non-current financial debt	2019-2021	342
Other non-current financial liabilities	2019	2,491
Total non-current financial liabilities		**964,436**
Debentures and bonds long term	2018	6,021
Mortgage loan	2018	633
Other bank loans	2018	144,268
Other financial liabilities (note 15.1 c))	2018	34,238
Finance lease payables	2018	10,547
Credit facilities drawn down	2018	65,809
Expired interest	2018	132
Guarantees and deposits received	2018	2,813
Derivatives	2018	4,339
Other financial debts	2018	719
Trade and other payables	2018	1,710,828
Suppliers of fixed assets	2018	85,992
Personnel	2018	59,198
Other current liabilities	2018	3,675
Total current financial liabilities		**2,129,212**

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	2018-2019	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 (note 15.1 c))	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	1,859,265
Suppliers of fixed assets	2017	60,300
Personnel	2017	69,262
Other current liabilities	2017	5,080
Total current financial liabilities		**2,174,641**

Details of non-current financial debt by maturity in 2017 and 2016 are as follows:

	Thousands of Euros		
2017	**2019**	**2020-2022**	**>2023**
Debentures and bonds long term	315,911	313,875	302,625
Mortgage loan	432	396	-
Other bank loans	17,595	15,063	-
Finance lease payables	9,912	15,974	2,354
Guarantees and deposits received	-	-	11,148
Other non-current financial debt	126	216	-
Total non-current financial debt	**343,976**	**345,524**	**316,127**

	Thousands of Euros		
2016	**2018**	**2019-2021**	**> 2022**
Debentures and bonds long term	10,500	816,500	-
Syndicated credits (Revolving credit facilities)	97,360	-	-
Mortgage loan	1,638	1,095	-
Other bank loans	124,272	2,587	-
Finance lease payables	11,391	18,083	4,577
Guarantees and deposits received	-	-	9,469
Other non-current financial debt	126	375	3
Total non-current financial debt	**245,287**	**838,640**	**14,049**

The finance costs accrued on these financial liabilities totalled Euros 41,257 thousand and Euros 38,624 thousand in 2017 and 2016, 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 2017 and 2016 there were no outstanding derivatives contracted with external counterparties to hedge interest rate risk related to long-term financing.
During 2017 fixed-rate debt as a percentage of the volume of average gross debt totalled 84.25%, compared with 59.33% 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 111 thousand in 2017 (Euros 1,911 thousand in 2016).

23. OTHER INFORMATION

23.1. Employee information

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

	2017	2016
Management	204	209
Middle management	1,759	1,719
Other employees	39,591	40,739
Total	**41,554**	**42,667**

The average headcount in 2017 includes 815 employees in China (1,080 in 2016). Personnel expenses for these employees are recorded under discontinued operations in the income statement.

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

	2017		2016	
	Female	Male	Female	Male
Board members	3	7	3	7
Senior management	1	7	1	8
Other management	55	135	60	141
Middle management	679	1,074	688	1,079
Other employees	27,143	14,242	28,020	14,488
Total	**27,881**	**15,465**	**28,772**	**15,723**

At year end, the headcount includes 733 employees in China in 2017 (321 men and 412 women) and 1,027 employees in China in 2016 (403 men and 624 women).

During 2017 the Group employed an average of one executive (one in 2016), six middle management personnel (six in 2016) and 550 other employees (518 in 2016) with a disability rating of 33% or above (or an equivalent local classification).

23.2. 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 2017 and 2016:

	2017		
Thousands of Euros	KPMG Auditores, S.L.	Other companies associated with KPMG International	Total
Audit services	380	233	613
Other services relating to audit	148	49	197
Tax advisory services	-	55	55
Other services	-	27	27
Total	**528**	**364**	**892**

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

Other audit-related services invoiced by KPMG Auditores, S.L. comprise limited reviews of six-monthly financial statements, comfort letters relating to securities issues and financial information agreed procedures services rendered to DIA, S.A. and its subsidiaries during the year ended 31 December 2017.

The amounts detailed in the above tables include the total fees for services rendered in 2017 and 2016, irrespective of the date of invoice.

23.3. 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.

24. EVENTS AFTER THE REPORTING PERIOD

On February 20, 2018, DIA has signed a strategic alliance with CaixaBank, structured through the purchase by CaixaBank Consumer Finance of the 50% of the shares of Finandia, E.F.C., S.A. The purchase is subject to the authorization processes of the competent authorities (see notes 1 and 13).

CONSOLIDATED DIRECTORS' REPORT 2017

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

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

1. COMPANY PROFILE

1.1. Organizational structure

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

1.1.1. Corporate structure

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

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

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

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

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

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

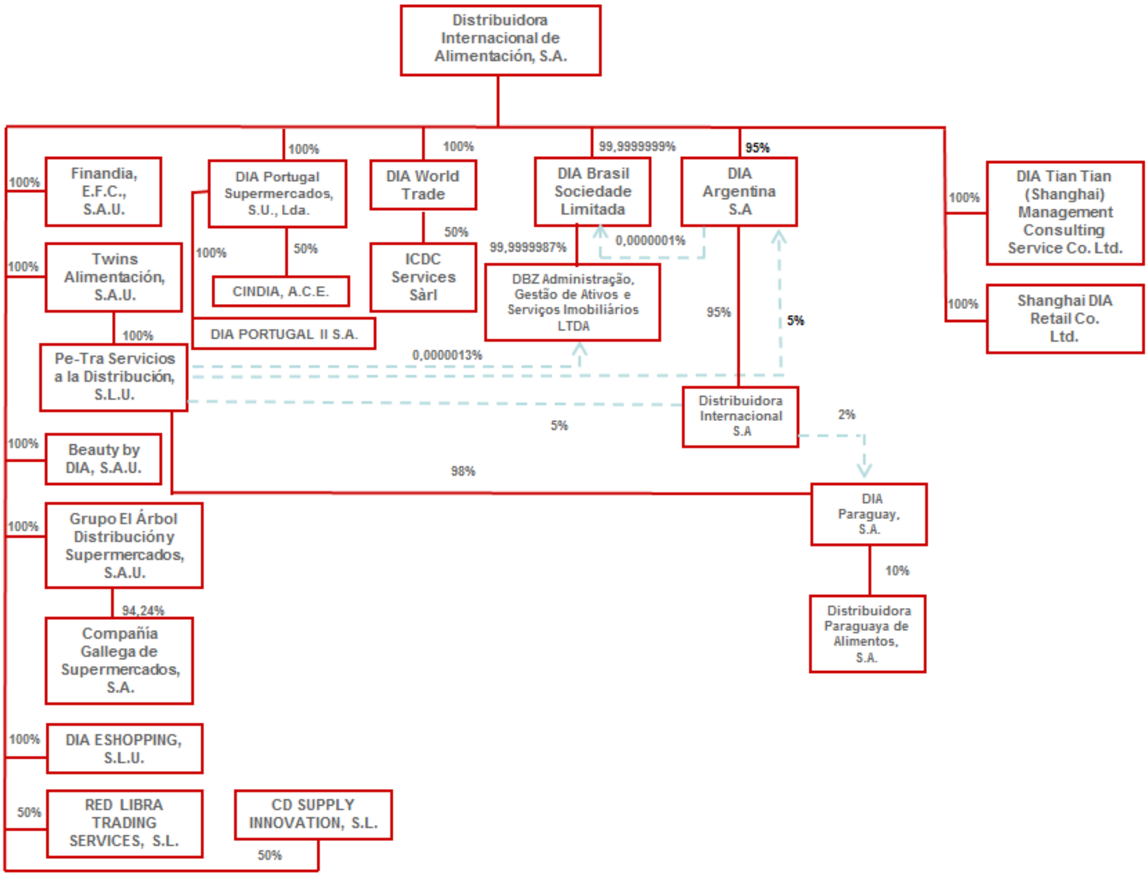
DIA E-Shopping creates, maintains and operates websites and internet portals for the sale of products and services.

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

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

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

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



1.1.2. Board of Directors

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

The composition of the Board of Directors is as follows:

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

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

<u>The main responsibilities of the Board of Directors include the following</u>:

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

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

(ii) the investment and financing policy;

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

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

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

(vi) the corporate social responsibility policy;

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

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

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

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

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

b) the approval of the following operating decisions:

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

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

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

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

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

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

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

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

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

(x) approving and amending this regulation;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.1.3. Management Committee

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

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

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

1.1.4. Activity

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

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

1.1.5. Segments

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

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

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

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

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

1.1.6. Development and application of corporate Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.2. Business model and strategy

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

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

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

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

The franchise is an essential part of DIA's business model and a key tool for its profitable growth. The company has promoted the franchise concept for decades, considering it to be an unbeatable model to efficiently manage the proximity business. Thanks to this focus, the company is now the leading franchiser in Spain and Argentina, number three in Europe in the retail distribution sector, and number three in Brazil in terms of turnover. At the end of 2017, franchises represented 51.2% of the company's total store network, and 59.5% of the DIA banner.

In addition to the franchise, the DIA Group operates the master franchise masterfranquicia model in countries such as Paraguay and has trademark assignment agreements with local partners in Africa and the Middle East, which have led to the setting up of 22 stores under the City DIA format in Nigeria (6), Ivory Coast (9), Guinea-Conakry (3) and Ghana (4).

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

1. **Keep the customer at the heart of the business**: This is a key priority for the company, and its projects and courses of action are always clearly focused on meeting the changing needs and habits of its increasingly demanding and specialised customers.

2. **Focus on the multi-banner and multi-country model**: The company is opening several types of stores both in urban areas (DIA Market, La Plaza de DIA and Minipreço Market) and in rural areas (Cada DIA, Mais Perto and City DIA), attraction supermarkets such as DIA Maxi (Minipreço Family), stores with new ranges of personal care, health, and beauty products (Clarel), and new sales channels such as cash&carry (Max Descuento). This model allows the company to gain access to a wide range of consumers, adapting its offer to local or regional tastes with one single premise that remains constant: quality at the best price in the market.

3. **Maximise value for shareholders**: Thanks to a management style that prioritises efficiency and the responsible management of resources. With more than EUR300m invested in openings and a sustained debt level of EUR891.3m at the end of the year, DIA is an attractive company for investors.

4. **Focus on digital transformation**: The development of e-commerce, the signing of agreements with third-party specialists in the online sales segment, the rollout of technological applications developed in-house to streamline processes, the creation of a digital platform to search for talent in-house, and the digitalisation of commercial services imply a real change in corporate management, allowing the company to forge ahead with its profitability and efficiency targets.

5. **Develop the best professional talent**: Another of the company's priorities in order to grow its business has been to ensure it develops the best professional talent, with several training and talent search programmes ongoing in the various countries in which the company operates. This allows it to adapt the professional profiles of its employees to new requirements and customer needs.

Digital and technological transformation with a focus on efficiency

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

Reinforced commitment to online sales

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

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

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

Improved time to market

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

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

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

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

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

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

Stock management project

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

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

1) Improve the setting up of parameters related to automatic orders

2) In-store stock management

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

Talent search and digital training

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

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

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

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

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

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

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

Investment in customer-centric and store management applications

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

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

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

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

d) **Direct purchase application**: In line with the company's objective to improve the online experience, during 2017 DIA launched a new exclusive mobile application that streamlines the buying process and adds new functions that help customers to simplify the procedure.

This new application allows users to quickly add products to their virtual shopping baskets by means of a powerful search function. The main new developments related to the technology used in this application include the fact that customers can use the microphones on their mobile devices to add products to their shopping baskets using a voice-activated system (in addition to the traditional keyboard input option). Furthermore, the system allows customers to scan product barcodes using the mobile device's camera and add them to the virtual shopping basket. It also includes a new system that offers alternative options if a product is not available at that time in the product catalogue available at www.dia.es. This application also uses technology that allows users to recover old orders or saved lists to place a new order more quickly.

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

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

Store formats

Dia Market:

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

Clarel:

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

La Plaza de DIA:

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

Cada DIA:

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

Dia Maxi:

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

Max Descuento:

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

Mini Preço:

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

Mais Perto:

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

City DIA:

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

2. DEVELOPMENT AND BUSINESS RESULTS

2.1. Main financial indicators

2.1.1. Performance of gross sales under banner:

Group:

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

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

Iberia:

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

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

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

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

Emerging Markets:

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

Comparable sales growth in emerging markets slowed down in 2017 versus 2016 due to the significant decline in inflation seen in both Argentina and Brazil throughout the year.

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

Like-for-like summary 2017

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017
Like-for-like					
Iberia	0.7%	-0.5%	-1.3%	-0.1%	-0.3%
Emerging markets	10.0%	10.4%	6.5%	7.3%	8.4%
TOTAL DIA	**3.9%**	**3.4%**	**1.6%**	**2.8%**	**2.9%**
Calendar effect					
Iberia	-0.1%	-1.7%	0.2%	-1.2%	-0.6%
Emerging markets	-0.1%	-0.3%	0.4%	-1.0%	-0.2%
TOTAL DIA	**-0.1%**	**-1.2%**	**0.3%**	**-1.1%**	**-0.5%**
Like-for-like (ex-calendar)					
Iberia	**0.8%**	**1.2%**	**-1.5%**	**1.1%**	**0.3%**
Emerging markets	**10.1%**	**10.7%**	**6.1%**	**8.3%**	**8.6%**
TOTAL DIA	**4.1%**	**4.6%**	**1.3%**	**3.9%**	**3.4%**

Gross Sales Under Banner

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

Net Sales

(€m)	2016	%	2017	%	Change	FX effect	Change (ex-FX)
Spain	5,064.5	58.4%	4,827.4	56.0%	-4.7%	0.0%	-4.7%
Portugal	681.9	7.9%	678.3	7.9%	-0.5%	0.0%	-0.5%
IBERIA	**5,746.5**	**66.3%**	**5,505.6**	**63.9%**	**-4.2%**	**0.0%**	**-4.2%**
Argentina	1,310.9	15.1%	1,391.6	16.1%	6.2%	-15.0%	21.2%
Brazil	1,611.9	18.6%	1,723.3	20.0%	6.9%	6.1%	0.8%
EMERGING MARKETS	**2,922.8**	**33.7%**	**3,114.9**	**36.1%**	**6.6%**	**-3.4%**	**10.0%**
TOTAL DIA	**8,669.3**	**100.0%**	**8,620.6**	**100.0%**	**-0.6%**	**-1.2%**	**0.6%**

2.1.2. Net sales review:

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

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

2.1.3. Operating results:

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

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

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

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

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

2.1.4. Profits

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

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

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

2017 Results

(€m)	2016	%	2017	%	Change	FX effect	Change (ex-FX)
Net sales	**8,669.2**	**100.0%**	**8,620.6**	**100.0%**	**-0.6%**	**-1.2%**	**0.6%**
Cost of goods sold & other income	(6,660.7)	-76.8%	(6,692.7)	-77.6%	0.5%	-1.2%	1.7%
Gross profit	**2,008.5**	**23.2%**	**1,927.9**	**22.4%**	**-4.0%**	**-1.0%**	**-3.0%**
Labour costs	(759.0)	-8.8%	(744.8)	-8.6%	-1.9%	-1.2%	-0.6%
Other operating expenses	(326.1)	-3.8%	(312.7)	-3.6%	-4.1%	-2.1%	-2.1%
Leased property expenses	(295.5)	-3.4%	(301.7)	-3.5%	2.1%	-0.1%	2.2%
Adjusted EBITDA (1)	**627.9**	**7.2%**	**568.6**	**6.6%**	**-9.4%**	**-0.6%**	**-8.9%**
D&A	(226.7)	-2.6%	(232.0)	-2.7%	2.3%	0.0%	2.3%
Adjusted EBIT (1)	**401.2**	**4.6%**	**336.6**	**3.9%**	**-16.1%**	**-0.9%**	**-15.2%**
Other items excluded from adj. EBIT	(91.6)	-1.1%	(89.5)	-1.0%	-2.3%	-1.6%	-0.7%
Other cash items	(52.3)	-0.6%	(59.8)	-0.7%	14.4%		
Long-Term Incentive Plans	(14.6)	-0.2%	4.9	0.1%	-133.2%		
Other non-cash items	(24.6)	-0.3%	(34.5)	-0.4%	40.1%		
EBIT	**309.5**	**3.6%**	**247.1**	**2.9%**	**-20.2%**	**-0.7%**	**-19.5%**
Net financial income/expenses	(50.6)	-0.6%	(61.0)	-0.7%	20.6%	-7.4%	28.0%
EBT	**259.0**	**3.0%**	**186.3**	**2.2%**	**-28.1%**	**0.6%**	**-28.7%**
Income taxes	(69.1)	-0.8%	(55.4)	-0.6%	-19.9%	0.2%	-20.2%
Consolidated profit	**189.9**	**2.2%**	**131.0**	**1.5%**	**-31.0%**	**0.8%**	**-31.8%**
Minorities & discontinuing operations	(15.9)	-0.2%	(21.5)	-0.2%			
Net attributable profit	**174.0**	**2.0%**	**109.6**	**1.3%**	**-37.0%**	**1.3%**	**-38.3%**
Underlying net profit	**268.5**	**3.1%**	**217.0**	**2.5%**	**-19.2%**	**0.0%**	**-19.2%**

(1) Adjusted by other items excluded from adjusted EBIT

2.1.5. Working Capital, investment and debt

Trade Working Capital

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

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

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

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

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

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

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

(€m)	31 Dec 2016 (2)	31 Dec 2017	Change	Change (ex-FX)
Inventories (A)	658.0	569.6	-13.4%	-6.1%
Trade & other receivables (B)	164.9	221.9	34.5%	43.8%
Trade receivables with franchisees	101.2	122.7	-	-
Trade receivables with suppliers & other	63.7	99.2	-	-
Trade & other payables (C)	1,815.1	1,710.8	-5.7%	0.6%
Trade Working Capital (1)	**-992.2**	**-919.3**	**-7.3%**	**-2.1%**

(1) Trade working capital defined as (A+B-C),
(2) Figures adjusted by the discontinuation of DIA China.

Capex

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

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

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

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

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

Net Debt

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

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

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

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

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

(1) Company estimate

2.1.6. Store count

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

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

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

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

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

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

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

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

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

Number of stores:

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

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

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

Stores by country and operational model as of 31 December 2017

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

Store selling area by country as of 31 December 2017

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

2.1.7. Review by segment

Iberia

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

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

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

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

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

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

(1) Adjusted by other items excluded from adjusted EBIT

Emerging Markets

In 2017, net sales in Emerging Markets rose by 6.6% to EUR3.11bn, +10.0% in local currency, reflecting a negative 3.4% effect from currencies.

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

D&A rose by 27.1% in 2017 to EUR61.5m, 27.2% ex-currency. These growth rates are entirely due to the higher level of capital allocated in these markets in recent years.

In 2017, adjusted EBIT grew by 12.5% to EUR80.8m (+17.4% ex-currency). The adjusted EBIT margin improved by 14bps in 2017 to 2.6%.

Last year was another challenging year for food retailers in these countries, but particularly in Brazil. Despite the tough conditions, DIA continued to expand its store network in both countries, gaining market share fast (+ 40bps in Argentina to 14.1%, and +60bps in Brazil to 7.8%). 2017 was DIA's twentieth anniversary in Argentina, a milestone that was celebrated with even more intense promotional activity and the further development of private-label products. In Brazil, the loyalty program is now fully implemented and is up and running in all regions, accounting for 84% of sales with its 7m DIA Club card users.

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

(1) Adjusted by other items excluded from adjusted EBIT

2.1.8. Definition of APMs

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

PURPOSE

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

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

CHANGES TO APMs

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

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

APMs

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

NET SALES TO GROSS SALES UNDER BANNER RECONCILIATION

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

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

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

OTHER ITEMS EXCLUDED FROM ADJUSTED EBIT

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

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

OPERATING PROFIT TO ADJUSTED EBITDA RECONCILIATION

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

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

OPERATING PROFIT TO ADJUSTED EBIT RECONCILIATION

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

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

NET PROFIT TO UNDERLYING NET PROFIT RECONCILIATION

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

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

BASIC EARNINGS PER SHARE RECONCILIATION

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

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

UNDERLYING EARNINGS PER SHARE RECONCILIATION

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

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

NET FINANCIAL DEBT RECONCILIATION

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

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

CASH FROM OPERATIONS RECONCILIATION

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

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

2.2. Non-financial information

2.2.1. Environment

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

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

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

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

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

ECO-EFFICIENCY, ONE OF THE LARGEST CONTRIBUTIONS

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

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

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

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

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

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

Eco-efficiency in the energy consumption of facilities

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

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

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

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

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

With these sustainable measures implemented in stores and warehouses, at a constant surface area, the company has generated accumulated energy savings of up to 25% compared to previous systems, which equates to a reduction of 20 tonnes of CO_2 emissions released into the atmosphere for each store (GRI indicator 302-4).

Moreover, it is estimated that the emission of an additional 996 tonnes of CO_2 into the atmosphere was avoided thanks to the increased use of videoconferences and the promotion of shared transport systems.

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

Eco-efficiency in logistics

According to data from the European Environmental Agency, logistics operations are responsible for 25% of CO_2 emissions in Spain. Given that the DIA Group is aware of the impact that these activities have on the environment (with daily deliveries from its 38 logistics centres to over 7,300 stores), it is constantly striving to improve its environmental footprint through projects that allow it to optimise the logistics processes.

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

Specifically, the company has renewed some of its fleet, with 30 new vehicles with lower fuel consumption and that are compliant with the most recent Euro 6 emissions standards, the use of high-capacity combined trucks such as mega trailers megatrailers and the use of hybrid trucks, have led to fuel savings of 448,715 litres and more than 1,200 tonnes of CO_2 that are not released into the atmosphere. Despite these improvements, the overall fuel consumption of primary and secondary transport has increased by 2%, due to the increased frequency of deliveries demanded by the new commercial models.

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

Reduction in the consumption of other inputs

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

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

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

IMPROVEMENT OF ENVIRONMENTAL INFORMATION

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

WASTE MANAGEMENT

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

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

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

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

(GRI indicator 302-6)

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

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

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

The fight against food waste

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

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

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

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

2.2.2. Personnel

2.2.2.1. Human resources

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

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

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

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

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

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

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

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

Customer focus

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

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

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

Digital transformation

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

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

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

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

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

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

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

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

Employee focus

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

Quality work practices

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

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

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

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

(GRI indicator 102-8)

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

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

(Indicador GRI 404-1)

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

2.2.2.2. Health and safety in the workplace

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

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

(GRI indicator 403-2)

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

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

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

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

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

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

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

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

2.2.2.3. Performance and remuneration

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

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

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

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

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

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

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

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

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

2.2.2.4. Equal opportunities in the workplace

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

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

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

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

(GRI Indicator 405-1)

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

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

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

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

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

2.2.2.5. Diversity and integration

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

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

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

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

2.2.2.6. Internal communication

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

More active listening to employees

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

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

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

New tools to improve communication

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

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

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

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

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

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

2.2.2.7. Development of human capital

<u>Talent training and development</u>

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

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

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

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

(GRI Indicator 404-1)

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

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

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

Internal promotion

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

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

2.2.3. Compliance and ethical management

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

1. Strict regulatory body in the area of Good Governance: statutes and regulations of the company governing bodies.
2. Internal control system and risk management that ensures an adequate control environment: risk management control system, annual update of regulations implementation and the internal financial information control system policy (SCIIF).
3. Fraud prevention and detection of bad conduct: DIA Group code of ethics, crime prevention model, and anti-fraud and anti-corruption programmes are creating and wide spreading between DIA employees a professional and ethical culture.

DIA Compliance model

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

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

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

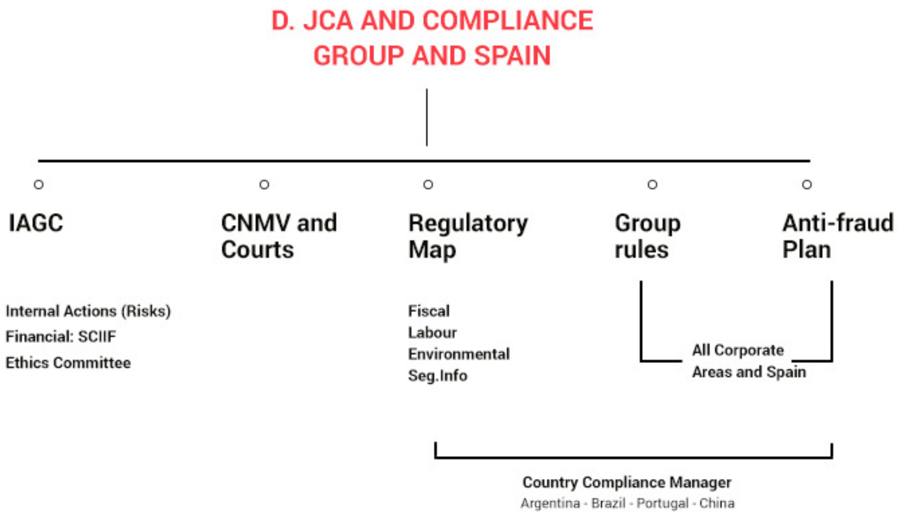
- Spread the Code of Ethics values and enable its comprehension.
- Ensure that the Ethical Channel, created to facilitate the implementation of the Code of Ethics, works properly.
- Analyse and respond to all communications received through the Ethics Channel, whether these are questions of interpretation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

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

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

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

DIA Compliance Structure



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

2.2.4. Non-profit organisations and other associations

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

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

Deliveries to food banks

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

Sports sponsorship

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

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

Most prominent social initiatives (GRI Indicator 102-12)

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

Main initiatives in Spain:

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

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

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

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

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

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

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

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

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

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

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

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

- 8th Race against rare diseases in Madrid:

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

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

- Comprehensive programme against Gender Violence:

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

- Initiative for responsible animal adoption organised by Clarel:

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

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

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

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

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

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

Main initiatives in Brazil:

- Dreams race in favour of children with cancer:

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

- Clothes collection campaign among employees in Brazil:

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

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

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

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

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

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

- Christmas gifts for children in Brazil:

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

Main initiatives in Argentina:

- Children day: Let's add smiles

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

- "Ponete el guardapolvo" campaign:

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

- "Christmas is Share" campaign:

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

3. LIQUIDITY AND CAPITAL RESOURCES

3.1. Liquidity

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

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

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

3.2. Capital resources

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

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

In financial terms, return on investment targets are set.

3.3 Analysis of contractual obligations and off-balance sheet transactions

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

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT

The DIA Group's risk management model

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

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

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

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

Organisational structure

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

Main Responsibilities

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

Level of risk tolerance

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

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

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

Main risks that can affect the achievement of business objectives

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

The main risks can be grouped into the following categories:

Category	Main sources of risk	Main management / control mechanisms
Environmental risks *Risks and/or questions related to the environment in which the Group operates, including, among others, Political, Economic, Social, Technological, and Legal aspects.*		
Market / competition-related risks	▪ Alignment with market needs ▪ Concentration ▪ Relations with third parties ▪ Practices of the competition	▪ Corporate Franchise Policy ▪ Development of research and periodic market/country surveys ▪ Implementation of obligatory internal regulation related to commercial issues
Regulatory risks	▪ Relations with franchisees ▪ Regulatory non-compliance, including fiscal regulation ▪ Lawsuits	▪ Regulatory control and monitoring procedure (regulatory map) ▪ Implementation of Regulatory Compliance Systems ▪ Constitution of the Regulatory Compliance Unit ▪ Implementation of the Crime Prevention Model (CPM) ▪ Corporate Tax Policy ▪ Implementation of best practices in terms of fiscal and tax issues
Risks in the political and social context	▪ Country risk	▪ Development of research and periodic market/country surveys
Corporate Governance and Ethics Risks *Risks and/or issues related with the corporate structure, the governance model, unethical irresponsible employee behaviour, or corporate social responsibility.*		
Corporate Social Responsibility	▪ Non-compliance or bad practices in terms of CSR	▪ Corporate Social Responsibility Policy ▪ Integration of social and environmental values in all management areas
Integrity, fight against corruption and bribery, and reputation	▪ Unethical or fraudulent behaviour ▪ Corruption and bribery ▪ Improper management of brands / patents ▪ Inadequate communication initiatives	▪ Implementation of the Code of Ethics and Ethics Channel for queries and information ▪ Corporate crime prevention and anticorruption policy ▪ Anti-fraud and anti-corruption programme ▪ Corporate Investor Relations Policy ▪ External Corporate Relations Policy ▪ Corporate Policy in Marketing and Communication with Customers
Equity market risks	▪ Conduct/practices that are contrary to the market	▪ Internal Conduct Regulation in terms of Equity Markets

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

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

5. IMPORTANT EVENTS AFTER THE REPORTING DATE

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

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

6. OUTLOOK

IBERIA

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

EMERGING MARKETS

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

GROUP OBJECTIVES

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

7. R&D+I ACTIVITIES

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

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

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

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

8. TREASURY STOCK AND EARNINGS PER SHARE

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

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

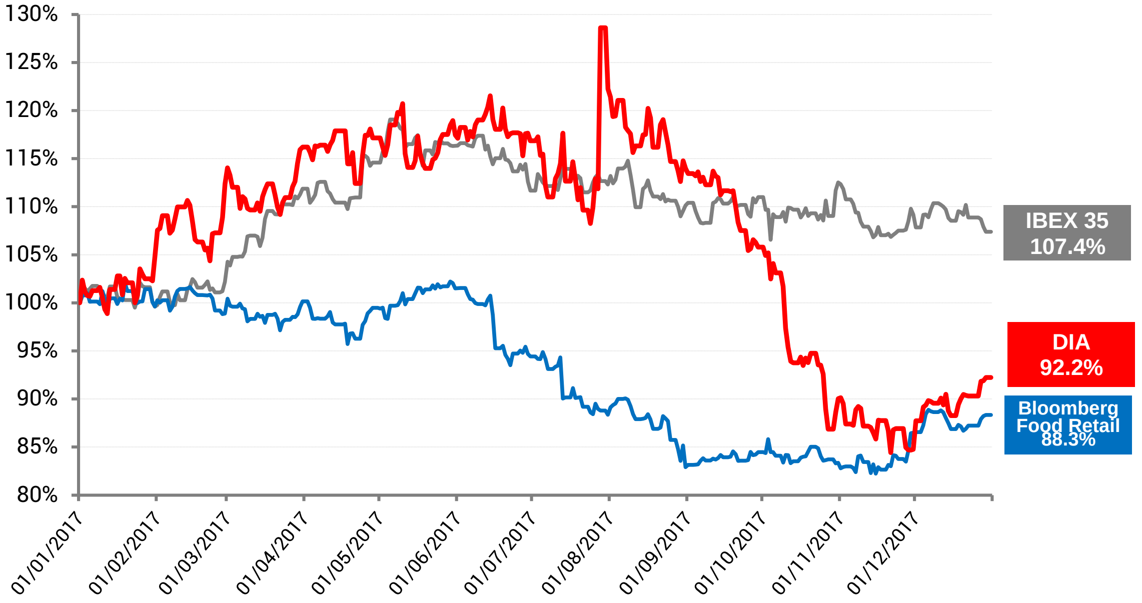
Underlying EPS grew by 19.0% in 2017 to EUR0.36.

9. OTHER RELEVANT INFORMATION

9.1. Stock market information

DIA SHARE PRICE PERFORMANCE
(From 1 January 2017 to 31 December 2017)

DIA SHARE PRICE VERSUS STOCK MARKET INDICES
(From 1 January 2017 to 31 December 2017)



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

9.2. Dividend policy

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

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

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

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

9.3. Management of credit rating

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

9.4. Other information

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