Distribuidora Internacional de Alimentación, S.A.

Annual Accounts

31 December 2017

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 Annual Accounts

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

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

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Distribuidora Internacional de Alimentación, S.A. (the "Company"), which comprise the balance sheet at 31 December 2017, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

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 Annual Accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the 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 annual accounts of the current period. These matters were addressed in the context of our audit of the 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 note 4r) and 21 to the annual accounts

Key Audit Matter	*How the Matter was Addressed in Our Audit*
The Company has deferred tax assets of an amount of 87,857 thousand Euros corresponding to tax loss carryforwards. 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 case, the tax planning opportunities considered by the Company, in the context of the tax consolidation group to which the Company belongs. 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 tax group in estimating the future taxable profits necessary for offset; – requested the opinion of the Company's tax advisors on the criteria followed by the Company to determine the Company's tax bases and, in particular, the criteria considered for the Spanish tax group on the basis of the binding rulings received by the Company 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 Company expects to offset these assets; – assessed whether the information disclosed in the annual accounts on the recoverability of the aforementioned deferred tax assets meets the requirements of the financial reporting framework applicable to the Company.

Recoverable amount of non-current assets and equity investments in Group companies

See notes 4e) 4g) note 6 and 11 to the annual accounts

Key Audit Matter	*How the Matter was Addressed in Our Audit*
The Company has property, plant and equipment amounting to Euros 524,754 thousand, goodwill amounting to Euros 54,140 and equity investments in Group companies totalling Euros 760,953 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, including goodwill, may exceed their recoverable amount. For the purposes of calculating impairment, the carrying amount of non-current assets has 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 Company recognised impairment of Euros 2,790 thousand on property, plant and equipment and Euros 3,736 thousand on goodwill allocated to stores. In the case of equity investments in Group companies and related credits receivables from group entities, impairment is assessed for each individual subsidiary. In 2017 the Company recognised impairment of Euros 38,870 thousand on equity investments in Group companies, related to held for sale investment in China. At each reporting date, the Company estimates the recoverable amount of equity investments and store assets 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 Company 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 equity investments in Group companies; – evaluated the operating efficiency of the 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 Company, of impairment of the stores and equity investments in Group companies; – 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 equity investments in Group companies 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 annual accounts meets the requirements of the financial reporting framework applicable to the Company.

Other Information: Directors' Report

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

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

a) A specific level applicable to the 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 directors' report, which consists of assessing and reporting on the consistency of this information with the annual accounts, based on knowledge of the entity 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 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 referred to in paragraph a) above has been provided in the directors' report and that the rest of the information contained in the directors' report is consistent with that disclosed in the 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 Annual Accounts

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

In preparing the annual accounts, the Directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the preparation and presentation of the annual accounts.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the 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 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 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, and not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors[2].

– Conclude on the appropriateness of the 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 Company'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 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 Company to cease to continue as a going concern.

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

We communicate with the audit committee of Distribuidora Internacional de Alimentación, S.A. 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 entity'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 entity, we determine those that were of most significance in the audit of the 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

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

Contract Period

We were appointed as auditor of the Company by the shareholders at the general meeting on 28 April 2017 for a period of one year, for the year ended 31 December 2017. Previously, we were appointed by shareholder´s meetings and we have been auditing uninterrupted the Company's annual accounts since 1990.

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.

Annual Accounts and 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.)

BALANCE

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	December 2017	December 2016
Intangible assets	5	**81,262**	**83,852**
Development		14,974	9,376
Concessions		126	235
Patents, licences, trademarks and similar rights		2,746	4,449
Goodwill		54,140	63,373
Computer software		7,436	4,409
Other intangible assets		1,840	2,010
Property, plant and equipment	6	**524,754**	**569,806**
Land and buildings		275,136	294,448
Technical installations, machinery, equipment, furniture and other items		247,316	270,196
Under construction and advances		2,302	5,162
Non-current investments in group companies and associates		**761,953**	**732,807**
Equity instruments	11	760,953	731,807
Loans to companies	12 (a)	1,000	1,000
Non-curent investments	12 (b)	**25,190**	**23,648**
Equity instruments		36	36
Loans to third parties		192	249
Other financial assets		24,962	23,363
Trade and other receivables		**52,948**	**52,790**
Trade receivables (exceeding operating cycle)	12 (c)	51,182	49,982
Non-current prepayments	14	1,766	2,808
Deferred tax assets	21	**108,534**	**110,796**
Total non-current assets		**1,554,641**	**1,573,699**
Non current held for sale assets	11	**10,013**	**-**
Inventories	13	**194,493**	**246,225**
Goods for resale		185,726	237,422
Raw materials and other supplies		5,953	6,243
Advances to suppliers		2,814	2,560
Trade and other receivables	12 (c)	**382,092**	**369,367**
Current trade receivables	10(d)	50,994	49,288
Trade receivables from group companies and associates		280,147	293,726
Other receivables		50,319	17,400
Personnel		505	612
Current tax assets	21	21	8,158
Public entities, other	21	106	183
Current investments in group companies and associates	12 (a)	**312,490**	**245,880**
Loans to companies		40,000	30,000
Other financial assets		272,490	215,880
Current investments	12 (b)	**11,775**	**10,638**
Loans		51	191
Derivatives		-	123
Other financial assets		11,724	10,324
Prepayments for current assets	14	**407**	**645**
Cash and cash equivalents	15	**158,611**	**162,549**
Cash		158,611	34,501
Cash equivalents		-	128,048
Total current assets		**1,069,881**	**1,035,304**
TOTAL ASSETS		**2,624,522**	**2,609,003**

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

BALANCE

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	December 2017	December 2016
Capital and reserves without valuation adjustments	16	**254,053**	**299,735**
Capital		**62,246**	**62,246**
Registered capital		62,246	62,246
Reserves		**152,495**	**75,662**
Legal and statutory reserves		13,021	13,021
Other reserves		139,474	62,641
(Own shares)		**(60,359)**	**(66,571)**
Profit for the year		**88,898**	**207,385**
Other equity instruments		**10,773**	**21,013**
Valuation adjustments		**(55)**	**92**
Hedging transactions		(55)	92
Grants, donations and bequests received	17	**454**	**726**
Total equity		**254,452**	**300,553**
Non-current provisions	18	**23,288**	**25,521**
Long-term employee benefits		1,655	1,489
Other provisions		21,633	24,032
Non-current payables	20 (b)	**954,657**	**1,048,106**
Bonds and other securities		892,570	794,652
Debt with financial institutions		28,413	218,374
Finance lease payables	7	20,871	24,002
Other financial liabilities		12,803	11,078
Deferred tax liabilities	21	**15,084**	**20,710**
Total non-current liabilities		**993,029**	**1,094,337**
Current provisions		**1,271**	**882**
Current payables	20 (b)	**172,135**	**83,219**
Bonds and other securities		6,021	5,587
Debt with financial institutions		135,732	53,513
Finance lease payables	7	8,597	9,188
Derivatives		73	-
Other financial liabilities		21,712	14,931
Group companies and associates, current	20 (a)	**87,758**	**48,361**
Trade and other payables	20 (c)	**1,115,166**	**1,080,816**
Current suppliers		900,458	920,833
Suppliers, group companies and associates, current		69,064	4,587
Other payables		69,248	77,449
Personnel (salaries payable)		19,169	21,287
Current tax liabilities	21	2,917	9,311
Public entities, other	21	53,491	46,514
Advances to customers		819	835
Current accruals		**711**	**835**
Total current liabilities		**1,377,041**	**1,214,113**
TOTAL EQUITY AND LIABILITIES		**2,624,522**	**2,609,003**

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

INCOME STATEMENT

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)

INCOME STATEMENT	Notes	December 2017	December 2016
Revenues	24 (a)	**4,393,913**	**4,570,550**
Sales		4,248,775	4,432,893
Service Delivery		145,138	137,657
Work carried out by the company for assets		**5,219**	**5,071**
Supplies	24 (b)	**(3,559,612)**	**(3,630,238)**
Merchandise used		(3,503,807)	(3,573,390)
Raw materials and consumables used		(14,883)	(15,714)
Subcontracted work		(41,043)	(40,748)
Impairment of merchandise, raw materials and other supplies	13	121	(386)
Other operationg income		**274,587**	**245,738**
Non-trading and other operating income		273,848	245,091
Operating grants taken to income	17	739	647
Personnel expenses		**(427,259)**	**(451,711)**
Salaries and wages		(336,488)	(360,444)
Employee benefits expense	24 (c)	(90,602)	(91,000)
Provisions		(169)	(267)
Other operating expenses		**(403,730)**	**(384,077)**
External services		(385,652)	(369,803)
Taxes		(9,972)	(9,360)
Losses, impariment and changes in trade provisions		(3,217)	(309)
Other operating expenses		(4,889)	(4,605)
Amortisation and depreciation	5 and 6	**(120,253)**	**(119,567)**
Non-financial and other capital grants	17	**363**	**676**
Impairment and gains/(losses) on disposal of fixed assets	5, 6 and 24 (d)	**(9,386)**	**6,064**
Impairment and losses		(6,534)	(4,630)
Losses on disposal and other		(2,852)	10,694
Results form operating activities		**153,842**	**242,506**
Finance income		**23,032**	**45,831**
Dividends	11	**19,651**	**40,966**
Group companies and associates		19,651	40,966
Other investment income		**3,381**	**4,865**
Group companies and associates		829	1,246
Other		2,552	3,619
Finance expenses		**(19,113)**	**(20,218)**
Other		(18,976)	(20,075)
Provision adjustments		(137)	(143)
Exchange gains		**378**	**98**
Impairment and gains/(losses) on disposal of financial instruments		**(38,870)**	**(2,446)**
Impairment and losses	11 and 12(a)	(38,870)	(2,446)
Net finance income		**(34,573)**	**23,265**
Profit before income tax		**119,269**	**265,771**
Income tax	21	**(30,371)**	**(58,386)**
PROFIT FOR THE YEAR		**88,898**	**207,385**

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

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017
A) Statements of Recognised Income and Expense
(expressed in thousands of Euros)

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

	December 2017	December 2016
Profit for the year	88,898	207,385
Income and expense recognised directly in equity		
Cash flow hedges	(196)	56
Tax effect	49	(14)
Total income and expense recognised directly in equity	(147)	42
Amounts transferred to the income statement		
Grants, donations and bequests	(363)	(565)
Tax effect	91	141
Total amounts transferred to the income statement	(272)	(424)
Total recognised income and expense	88,479	207,003

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

B) Total Statements of Changes in Equity

(expressed in thousands of Euros)

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

	Registered capital	Reserves	(Own shares)	Retained earnings	Profit for the year	Other equity instruments	Valutation adjustments	Grants, donations and bequests received	Total
Balance at 31 December 2015	**62,246**	**(16,630)**	**(53,561)**	**-**	**216,975**	**11,647**	**50**	**1,150**	**221,877**
Recognised income and expense	-	-	-	-	207,385	-	42	(424)	207,003
Transactions with equity holders or owners	-	(2,471)	(13,010)	-	-	9,366	-	-	(6,115)
Issuance of share-based payments	-	-	-	-	-	15,000	-	-	15,000
Acquisitions of own shares (note 16.b (vi))	-	-	(19,903)	-	-	-	-	-	(19,903)
Delivery of own shares	-	(2,471)	6,893	-	-	(5,634)	-	-	(1,212)
Distribution of profit for the year	-	94,763	-	-	(216,975)	-	-	-	(122,212)
Transfer of profit for the previous year	-	-	-	216,975	(216,975)	-	-	-	-
Reserves	-	216,975	-	(216,975)	-	-	-	-	-
Dividends	-	(122,212)	-	-	-	-	-	-	(122,212)
Balance at 31 December 2016	**62,246**	**75,662**	**(66,571)**	**-**	**207,385**	**21,013**	**92**	**726**	**300,553**
Recognised income and expense	-	-	-	-	88,898	-	(147)	(272)	88,479
Transactions with equity holders or owners	-	(2,017)	6,212	-	-	(10,240)	-	-	(6,045)
Issuance of share-based payments	-	-	-	-	-	(4,893)	-	-	(4,893)
Own shares operations	-	(1,458)	1,458	-	-	-	-	-	-
Delivery of own shares	-	(559)	4,754	-	-	(5,347)	-	-	(1,152)
Distibution of profit for the year	-	78,850	-	-	(207,385)	-	-	-	(128,535)
Transfer of profit for the previous year	-	-	-	207,385	(207,385)	-	-	-	-
Reserves	-	207,385	-	(207,385)	-	-	-	-	-
Dividends	-	(128,535)	-	-	-	-	-	-	(128,535)
Balance at 31 December 2017	**62,246**	**152,495**	**(60,359)**	**-**	**88,898**	**10,773**	**(55)**	**454**	**254,452**

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

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	December 2017	December 2016
Cash flows from operating activities			
Profit for the year before tax		**119,269**	**265,771**
Adjustmens for:		**155,067**	**97,740**
Amortisation and depreciation	5 and 6	120,253	119,567
Impairment		48,500	7,771
Changes in provisions		(5,686)	(6,289)
Grants recognised in the income statement	17	(363)	(730)
Gains on disposal of fixed assets	24 (d)	2,852	(10,694)
Finance income		(23,032)	(45,831)
Finance expenses		19,113	20,218
Exchange losses		(378)	(98)
Changes in fair value of financial instruments		(147)	42
Other income and expenses		(6,045)	13,784
Changes in operating assets and liabilities		**65,353**	**195,860**
Inventories		51,853	(21,263)
Trade and other receivables		(28,698)	30,761
Other current assets	14	238	364
Trade and other payables		41,143	196,235
Provisions		1,099	(2,350)
Other current liabilities		(124)	816
Other non-current assets and liabilities	12 (c) and 14	(158)	(8,703)
Other cash flows from operating activities		**(11,655)**	**34,628**
Interest paid		(18,865)	(19,688)
Dividends received	11	19,651	40,966
Interest received		852	1,927
Income tax paid (received)		(13,293)	11,423
Cash flows from operating activities		**328,034**	**593,999**
Cash flows from investing activities			
Payments for investments		**(162,411)**	**(223,848)**
Group companies and associates	11	(69,402)	(49,067)
Intangible assets	5	(13,843)	(8,121)
Property, plant and equipment	6 and 20(b)	(71,019)	(129,065)
Other financial assets	12 (b)	(2,679)	-
Business unit	5 y 6	(5,468)	(37,595)
Proceeds from sale of investments		**17,675**	**34,516**
Group companies and associates	11	1,386	-
Intangible assets	5	35	843
Property, plant and equipment	6	16,009	30,499
Other financial assets		245	3,174
Cash flows used in investing activities		**(144,736)**	**(189,332)**
Cash flows from financing activities			
Proceeds from and payments for equity instruments		**-**	**(19,738)**
Acquisition of own equity instruments		-	(19,903)
Grants, donations and bequests received		-	165
Proceeds form and payments for financial liability intstruments		**(58,701)**	**(125,689)**
Issue		**337,561**	**418,080**
Bonds and other securities	20 (b)	300,000	300,877
Debt with financial institutions		36,785	117,203
Other payables		776	-
Redemption and repayment of		**(396,262)**	**(543,769)**
Obligaciones y otros valores negociables	20 (b)	(201,648)	-
Debt with financial institutions		(148,360)	(474,182)
Group companies and associates		(46,254)	(54,318)
Other debts		-	(15,269)
Dividends and interest on other equity instruments paid		**(128,535)**	**(122,212)**
Dividends	16 (d)	(128,535)	(122,212)
Cash flows used in financing activities		**(187,236)**	**(267,639)**
Net increase/decrease in cash and cash equivalents		**(3,938)**	**137,028**
Cash and cash equivalents at beginning of year		**162,549**	**25,521**
Cash and cash equivalents at year end		**158,611**	**162,549**

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

NOTES TO THE ANNUAL ACCOUNTS FOR 2017

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

(1) Nature and activities of the company and composition of the Group

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

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

(a) The wholesale or retail purchase, sale and distribution of food products and any other consumer goods in both domestic and foreign markets; domestic healthcare, parapharmaceutical, homoeopathic, dietary and optical products, cosmetics, costume jewellery, household products, perfumes and personal hygiene products; and food, health and hygiene products and insecticides, and all other kinds of widely available consumer products for animals.

(b) Corporate transactions; the acquisition, sale and lease of movable property and real estate; and financial transactions as permitted by applicable legislation.

(c) Corporate services aimed at the sale of telecommunication products and services, particularly telephony services, through collaboration agreements with suppliers of telephony products and services. These co-operative services shall include the sale of telecommunication products and services, as permitted by applicable legislation.

(d) All manner of corporate collaboration services aimed at the sale of products and services of credit institutions, payment institutions, electronic money institutions and currency exchange establishments, in accordance with the provisions of the statutory activity and administrative authorisation of these entities. This collaboration shall include, as permitted by applicable legislation and, where appropriate, subject to any necessary prior administrative authorisation, the delivery, sale and distribution of products and services of these entities.

(e) Activities related to internet-based marketing and sales, and sales through any other electronic medium of all types of legally tradable products and services, especially food and household products, small electrical appliances, multimedia and IT products, photography equipment and telephony products, sound and image products and all types of services 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 Market, DIA Maxi, Clarel and Cada DIA brand names. The Company opened its first establishment in Madrid in 1979.

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

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

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Tax ID number: A-28164754 – Company filed with the Mercantile Registry of Madrid on 9 December 1966 in Companies Volume 2.063, sheet 91, page 11.719

On 21 February 2018 the directors of the Company authorised the issue of the consolidated annual accounts of Distribuidora Internacional de Alimentación, S.A. and subsidiaries for 2017 in accordance with the International Financial Reporting Standards endorsed by the European Union ("IFRS-EU") and other applicable financial reporting regulations. The consolidated annual accounts present consolidated profit attributable to the Parent of Euros 109,485 thousand and consolidated equity attributable to the Parent of Euros 325,989 thousand.

(2) Basis of Presentation

(a) True and fair view

The accompanying annual accounts have been prepared on the basis of the accounting records of Distribuidora Internacional de Alimentación, S.A. The annual accounts for 2017 have been prepared in accordance with prevailing legislation and the Spanish General Chart of Accounts to give a true and fair view of the equity and financial position at 31 December 2017 and results of operations, changes in equity, and cash flows for the year then ended.

The directors consider that the annual accounts for 2017, authorised for issue on 21 February 2018, will be approved with no changes by the shareholders at their ordinary general meeting.

(b) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2017 include comparative figures for 2016, which formed part of the annual accounts approved by shareholders at the ordinary general meeting held on 28 April 2017.

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

(c) Functional and presentation currency

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

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

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

Relevant accounting estimates and assumptions

(i) Evaluation of the potential impairment of investments in Group companies: see note 11.

(ii) Evaluation of the potential impairment of non-financial assets subject to amortisation or depreciation: see note 4 (d) and (f)(viii).

(iii) Evaluation of the recoverability of deferred tax assets: see note 21.

(iv) Long-term incentive plan: see note 4 (s) and note 19.

(v) Analysis of possible contingencies or liabilities relating to proceedings in process: see note 4 (p) and note 18.

(3) Distribution of profit

The proposed distribution of profit for 2017 to be submitted to the shareholders for approval at their ordinary general meeting is as follows:

Basis of distribution	Euros
Balance of the Income Statement	88,897,812.34
Voluntary reserves	21,288,446.06
Total	**110,186,258.40**

Distribution	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 Company.

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
Balance of the Income Statement	207,384,982.56
Total	**207,384,982.56**

Distribution	Euros
Dividends	128,535,257.13
Voluntary reserves	78,849,725.43
Total	**207,384,982.56**

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

	Thousands of Euros	
	2017	2016
Legal reserve	13,021	13,021
Capital redemption reserve	5,688	5,688
Other reserves no available	15,170	15,170
Total	**28,191**	**33,879**

(4) Significant accounting policies

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

(a) Foreign currency transactions, balances and cash flows

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

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

(b) Intangible assets

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

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

(i) Development

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

- Costs are clearly allocated, assigned and timed for each project.

- There are sound grounds for considering that the project will be technically successful both in the case of direct operation or sale to a third party, and the economic and commercial profitability is reasonably assured.

-The financing to undertake it, the availability of the proper technical or other resources to complete the project and to use or sell the intangible asset are reasonably assured.

Expenses taken to the income statement in prior years cannot be subsequently capitalised when the conditions are met.

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

(ii) Business combinations and goodwill

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

The business combination cost 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 business combination cost 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 Company recognises the assets acquired and the liabilities assumed at fair value. The excess between the business combination cost 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 or loss.

Goodwill has been generated on the acquisitions of commercial establishments and is calculated as the difference between the price paid for the assets acquired and their fair value. As mentioned in note 4 b)vii), the Company began to amortise goodwill from 1 January 2016 onwards. The Company allocates goodwill on business combinations to the cash-generating units (CGUs) which are expected to benefit and determines the useful life of the goodwill separately for each CGU. Following initial recognition, and until 31 December 2015, goodwill was measured at cost less any accumulated impairment losses. Since 1 January 2016, goodwill has been measured at cost, less any accumulated amortisation and impairment.

(iii) *Computer software*

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

(iv) Leaseholds

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

(v) Patents, licences, trademarks and similar rights

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

(vi) Subsequent costs

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

(vii) Useful life and amortisation rates

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

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

Pursuant to Royal Decree 602/2016 of 2 December 2016, goodwill began to be amortised prospectively from 1 January 2016 onwards.

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

(viii) Impairment losses

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

(c) Property, plant and equipment

(i) Initial recognition

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

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

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

(ii) ***Depreciation***

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

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

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

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

(iii) ***Subsequent costs***

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

(iv) ***Impairment of assets***

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

(d) Non-current assets held for sale

The company recognises in this caption the non-current assets or disposal groups whose carrying amount will be largely recovered through a sale transaction 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 immediate disposal in their current condition, exclusively subject to the usual terms and conditions of sale transactions, and the asset disposal 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 to sell.

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

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

Impairment losses are recognised in the income statement.

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

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

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

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

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

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

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

In addition, if the Company has reasonable doubts as to the technical success or economic and commercial profitability of the development projects in progress, the amounts recognised on the balance sheet are taken directly to losses on the disposal of intangible assets in the income statement, and cannot be reversed.

(f) Leases

(i) Lessor accounting

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

- ***Operating leases***

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

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

(ii) Lessee accounting

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

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

- ***Finance leases***

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

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

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

- ***Operating leases***

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

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

(iii) Sale and leaseback transactions

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

(g) Financial instruments

(i) Classification and separation of financial instruments

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

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

(ii) Offsetting principles

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

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

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

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

(iv) Loans and receivables

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

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

(v) Investments in Group companies

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

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

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

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

(vi) Interest and dividends

Interest is recognised using the effective interest method.

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

(vii) Derecognition of financial assets

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

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

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

(viii) Impairment of financial assets

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

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

- ***Impairment of financial assets carried at amortised cost***

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

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

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

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

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

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

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

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

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

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

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

(ix) Financial liabilities

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

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

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

(x) ***Reverse factoring***

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

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

(xi) ***Security deposits***

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

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

(h) Hedge accounting

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

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

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

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

(i) ***Fair value hedges***

Fair value hedges are accounted for as follows:

- The gain or loss from measuring the hedging instrument at fair value, for a derivative hedging instrument, or the foreign currency component of a monetary item for a non-derivative hedging instrument, is recognised in the same profit or loss caption as the gain or loss on the hedged operation.

- The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss. This applies irrespective of whether the hedged item is measured at cost or if it is an available-for-sale financial asset.

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

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

(ii) Cash flow hedges

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

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

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

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

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

(i) Own equity instruments held by the Company

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

The subsequent redemption of the instruments entails a capital reduction equivalent to the par value of the shares.

Any positive or negative difference between the purchase price and the par value of the shares is debited or credited to reserves. Transaction costs related to own equity instruments, including issue costs related to a business combination, are accounted for as a deduction from reserves, net of any tax effect.

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

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

(j) Inventories

Inventories are initially measured at cost of purchase.

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

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

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

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

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

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

(k) Cash and cash equivalents

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

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

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

(l) Grants, donations and bequests

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

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

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

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

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

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

(m) Defined benefit plans

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

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

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

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

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

(n) Termination benefits

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

(o) Employee benefits

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

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

(p) Provisions

(i) General criteria

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

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

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

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

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

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

(ii) Provisions for taxes

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

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

(q) Revenue from the sale of goods

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

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

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

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

- Revenue from sales

The Company recognises revenue from the sale of goods when:

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

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

(r) Income tax

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

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

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

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

At 31 December 2017 the Company files consolidated tax returns with its subsidiaries Twins Alimentación, S.A., Pe-Tra Servicios a la Distribución, S.L., Beauty by Dia, S.A., Grupo El Árbol, Distribución y Supermercados S.A., Compañía Gallega de Supermercados S.A. and Dia Eshopping S.L., under the special consolidated tax regime set forth in Chapter VI of Title VII of Corporate Income Tax Law 27/2014, of 27 November 2014 (see note 21).

(i) Recognition of deferred tax liabilities

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

(ii) Recognition of deferred tax assets

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

(iii) Measurement

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

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

(iv) Offset and classification

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

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

(s) Share-based payment transactions

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

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

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

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

Equity-settled transactions are recognised as follows:

- If the equity instruments granted vest immediately on the grant date, the services received are recognised in full, with a corresponding increase in equity;

- If the equity instruments granted do not vest until the employees complete a specified period of service, those services are accounted for during the vesting period, with a corresponding increase in equity.

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

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

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

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

(ii) ***Tax effect***

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

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

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

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Company's normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within 12 months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least 12 months after the reporting date.

- Liabilities are classified as current when they are expected to be settled in the Company's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within 12 months after the reporting date or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

- Financial liabilities are classified as current when they are due to be settled within 12 months after the reporting date, even if the original term was for a period longer than 12 months, and an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting date and before the annual accounts are authorised for issue.

(u) Environmental issues

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

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

(v) Transactions between Group companies

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

(5) Intangible assets

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

	Thousands of Euros					
	Development	Concessions	Patents, licences, trademarks and similar rights	Computer software	Other intangible assets	Total
Cost						
At 1 January 2017	**9,376**	**569**	**8,420**	**28,630**	**9,959**	**56,954**
Additions	11,037	-	-	2,794	12	13,843
Disposals	-	(240)	(379)	-	(5,240)	(5,859)
Transfers	(5,439)	-	-	5,439	-	-
At 31 December 2017	**14,974**	**329**	**8,041**	**36,863**	**4,731**	**64,938**
Amortisation						
At 1 January 2017	**-**	**(334)**	**(3,971)**	**(24,221)**	**(7,657)**	**(36,183)**
Amortisation	-	(20)	(1,703)	(5,206)	(263)	(7,192)
Disposals	-	151	379	-	5,199	5,729
Transfers	-	-	-	-	(34)	(34)
At 31 December 2017	**-**	**(203)**	**(5,295)**	**(29,427)**	**(2,755)**	**(37,680)**
Impairment						
At 1 January 2017	**-**	**-**	**-**	**-**	**(292)**	**(292)**
Charge	-	-	-	-	(8)	(8)
Reversal	-	-	-	-	130	130
Transfers	-	-	-	-	34	34
At 31 December 2017	**-**	**-**	**-**	**-**	**(136)**	**(136)**
Carrying amount at 31 December 2017	**14,974**	**126**	**2,746**	**7,436**	**1,840**	**27,122**

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

Additions to development in 2017 and 2016 comprise IT projects generated in-house. Computer software was also acquired.

(a) Goodwill and impairment

Details of goodwill and movement are as follows:

	Thousands of Euros	
	2017	2016
Cost		
At 1 January	**71,564**	**47,753**
Additions to the consolidated group	2,920	25,161
Disposals	(1,376)	(1,350)
At 31 December	**73,108**	**71,564**
Amortisation		
At 1 January	**(6,452)**	**-**
Amortisation	(7,543)	(6,554)
Disposals	162	102
At 31 December	**(13,833)**	**(6,452)**
Impairment		
At 1 January	**(1,739)**	**(939)**
Charge	(3,736)	(825)
Reversal	340	25
At 31 December	**(5,135)**	**(1,739)**
Carrying amount at 31 December 2017	**54,140**	**63,373**

In 2017, the Company acquired 23 stores from its subsidiary Grupo El Árbol, Distribución y Supermercados, S.A. for Euros 5,337 thousand, generating an addition to goodwill of Euros 2,920 thousand in respect of the difference vis-à-vis the fair value of the identifiable net assets acquired in each store. In 2016, the Company acquired 128 stores from its subsidiary Grupo El Árbol, Distribución y Supermercados, S.A. for Euros 37,458 thousand, generating an addition to goodwill of Euros 25,024 thousand in respect of the difference vis-à-vis the fair value of the identifiable net assets acquired in each store.

The main assumptions used to estimate the value in use of the CGUs to which the goodwill is assigned are detailed in note 11.

In 2017 and 2016, impairment of Euros 3,736 and Euros 825 thousand, respectively, was recorded (see note 24 (d). The impairment has been recognised at CGU level based on Management estimates, in line with the criteria defined in note 4 (e).

(b) Fully amortised assets

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

	Thousands of Euros	
	2017	2016
Computer software	22,196	19,116
Other intengible assets	1,551	6,796
Total	**23,747**	**25,912**

(6) Property, plant and equipment

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

Thousands of Euros	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
Cost							
At 1 January 2017	62,660	635,256	878,781	37,702	5,162	81,455	1,701,016
Additions	9	18,768	43,924	6,698	4,237	5,094	78,730
Additions to the consolidated group	-	933	1,451	34	-	130	2,548
Disposals	(5,345)	(24,795)	(29,994)	(6,441)	(1,091)	(1,294)	(68,960)
Transfers	-	1,683	4,320	3	(6,006)	-	-
At 31 December 2017	57,324	631,845	898,482	37,996	2,302	85,385	1,713,334
Depreciation							
At 1 January 2017	-	(397,111)	(639,586)	(24,879)	-	(61,113)	(1,122,689)
Depreciation	-	(27,761)	(64,337)	(5,404)	-	(8,016)	(105,518)
Disposals	-	16,699	24,208	6,232	-	825	47,964
Transfers	-	(233)	(203)	(3)	-	-	(439)
At 31 December 2017	-	(408,406)	(679,918)	(24,054)	-	(68,304)	(1,180,682)
Impairment							
At 1 January 2017	-	(6,357)	(2,164)	-	-	-	(8,521)
Charge	-	(3,368)	(1,567)	-	-	-	(4,935)
Disposals	-	2,018	956	-	-	-	2,974
Reversal	-	1,818	327	-	-	-	2,145
Transfers	-	262	177	-	-	-	439
At 31 December 2017	-	(5,627)	(2,271)	-	-	-	(7,898)
Carrying amount at 31 December 2017	57,324	217,812	216,293	13,942	2,302	17,081	524,754

Thousands of Euros	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
Cost							
At 1 January 2016	71,264	625,107	821,888	32,217	7,276	62,721	1,620,473
Additions	2	26,837	67,724	6,111	7,910	20,481	129,065
Additions to the consolidated group	-	4,554	6,832	160	-	888	12,434
Disposals	(8,605)	(23,320)	(25,591)	(786)	(19)	(2,635)	(60,956)
Transfers	(1)	2,078	7,928	-	(10,005)	-	-
At 31 December 2016	62,660	635,256	878,781	37,702	5,162	81,455	1,701,016
Depreciation							
At 1 January 2016	-	(383,952)	(596,721)	(20,249)	-	(55,770)	(1,056,692)
Depreciation	-	(28,203)	(65,570)	(5,274)	-	(7,714)	(106,761)
Disposals	-	15,471	22,776	644	-	2,371	41,262
Transfers	-	(427)	(71)	-	-	-	(498)
At 31 December 2016	-	(397,111)	(639,586)	(24,879)	-	(61,113)	(1,122,689)
Impairment							
At 1 January 2016	-	(3,953)	(1,617)	-	-	-	(5,570)
Charge	-	(3,513)	(1,078)	-	-	-	(4,591)
Disposals	-	169	96	-	-	-	265
Reversal	-	620	257	-	-	-	877
Transfers	-	320	178	-	-	-	498
At 31 December 2016	-	(6,357)	(2,164)	-	-	-	(8,521)
Carrying amount at 31 December 2016	62,660	231,788	237,031	12,823	5,162	20,342	569,806

(a) General

Additions in property, plant and equipment in the Group during 2017 mainly comprise refurbishments and remodelling to new formats and new openings: The additions and business combinations that arose in 2016 mainly consist of the re-conversion of the 128 stores acquired by the Company from its subsidiary Grupo El Árbol, Distribución y Supermercados, S.A, which were transformed from the El

Árbol to the DIA Market format. Details of the technical installations and other fixed assets classified as finance leases at 31 December 2017 and 2016 are provided in note 7.

Disposals for 2017 and 2016 primarily comprise the sale of properties owned by the Company to third parties in both years and also items replaced as a result of the aforementioned improvements and due to store closures. In 2017 a loss of Euros 2,013 thousand was incurred, while capital gains of Euros 11,074 thousand were generated in 2016 (see note 24 (d)).

In both years the Company recognised impairment losses for the CGUs, which in accordance with the Company's accounting policies, presented indications of impairment. Consequently, the Company recognised impairment losses of Euros 2,790 thousand in 2017 and Euros 3,714 thousand in 2016 on the property, plant and equipment of certain CGUs measured at value in use (see note 24 (d)). The impairment has been recognised at CGU level based on Management estimates, in line with the criteria defined in note 4 (e).

The main assumptions used to estimate the value in use of the CGUs are detailed in note 11.

Details of residual useful life, depreciation for the year, accumulated depreciation and the carrying amount of individually significant items of property, plant and equipment at 31 December 2017 and 2016 are as follows:

	Thousands of Euros			
	2017			
Description	**Residual useful life**	**Depreciation for the year**	**Accumulated depreciation**	**Carrying amount**
Warehouse land	-	-	-	22,579
Warehouse buildings	26-31 años	(1,816)	(22,224)	35,800
Total		**(1,816)**	**(22,224)**	**58,379**

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

(b) Fully amortised assets

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

	Thousands of Euros	
	2017	**2016**
Buildings	222,042	212,601
Technical installations and machinery	480,766	453,101
Other installations, equipment and furniture	12,386	13,953
Other property, plant and equipment	52,990	48,877
Total	**768,184**	**728,532**

(c) Insurance

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

(7) Finance leases - Lessee

At 31 December 2017 and 2016 the Company held the following types of property, plant and equipment under finance leases:

	Thousands of Euros			
	2017			
	Technical installations and machinery	Other installations, equipment and furniture	Other assets	Total
Cost	34,004	2	17,708	51,714
Accumulated depreciation	(15,638)	(1)	(6,996)	(22,635)
Carrying amount at 31 December	**18,366**	**1**	**10,712**	**29,079**

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

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

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

	Thousands of Euros	
	2017	2016
Future minimum payments	31,915	36,143
Unaccrued finance expenses	(2,447)	(2,953)
Present value	**29,468**	**33,190**

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

	Thousands of Euros			
	2017		2016	
	Minimum payments	Present value (note 20(b))	Minimum payments	Present value (note 20(b))
Less than one year	6,346	8,597	10,354	9,188
Two to five years	12,835	19,098	22,469	20,774
Over five years	1,221	1,773	3,320	3,228
Total minimum payments and presen	**20,402**	**29,468**	**36,143**	**33,190**
Less current portion	(6,346)	(8,597)	(10,354)	(9,188)
Total non-current	**14,056**	**20,871**	**25,789**	**24,002**

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

(8) Operating leases - Lessee

The Company has approximately 4,400 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 Company has purchase options on several warehouse leases, which are included in off-balance sheet commitments (see note 25 (a)).

During 2017 and 2016 sale and leaseback contracts were signed for certain stores with 25-year terms and a minimum tie-in period of 10 years (see notes 6 and 24 (d)).

Details of the main operating lease contracts in force at 31 December 2017 are as follows:

Warehouse	Minimum term
Miranda de Ebro (Burgos)	2018
Manises (Valencia)	2018
Tarragona	2018
Villanubla (Valladolid)	2019
San Antonio (Barcelona)	2023
Mallén (Zaragoza)	2023
Orihuela (Alicante)	2023
Villanueva de Gállego (Zaragoza)	2023
Mejorada del Campo (Madrid)	2024
Getafe (Madrid)	2026
Dos Hermanas (Sevilla)	2027
Sabadell (Barcelona)	2029

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

Operating lease payments have been recognised as income and expenses for 2017 and 2016 as follows:

	Thousands of Euros	
	2017	2016
Property lease payments	160,656	152,866
Movable goods lease payments	3,418	1,691
Total	**164,074**	**154,557**

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

	Thousands of Euros	
	2017	2016
Less than one year	56,361	55,296
Two to five years	70,407	54,306
Over five years	46,519	27,682
Total minimum property lease payments	**173,287**	**137,284**
Less than one year	558	656
Two to five years	192	490
Total minimum movable goods lease payments	**750**	**1,146**

The majority of the lease contracts signed by the Company 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 less than three months. Total lease commitments amount to a similar amount to annual lease expenses.

Sublease revenues amount to Euros 21,984 thousand (Euros 17,395 thousand at 31 December 2016) and comprise revenues 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 income statement does not include any contingent income in respect of these contracts.

(9) Operating leases - Lessor

Sublease revenues for an amount of Euros 21,984 thousand (Euros 17,395 thousand at 31 December 2016) comprise the amounts received from the concessionaires to carry out their activities, and in turn improve the Company's commercial offering to its customers, as well as those received from subleases to franchisees. 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 income statement does not include any contingent income in respect of these contracts.

(10) Risk management policy

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

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

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

a) Financial risk factors

The Company's activities are exposed to various financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Company's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Company's profits. The Company uses derivatives to mitigate certain risks.

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

b) Currency risk

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

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

In 2017 and 2016 the Company only made non-recurrent transactions in US Dollars, for which it took out exchange rate insurance in this currency.

The hedging transactions, mainly purchases, 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 (66.09% in 2016). At the 2017 reporting date, outstanding hedges in this currency totalled US Dollars 1,809 thousand (US Dollars 1,803 thousand in 2016). These expire in the next 11 months. These transactions are not significant with respect to the Company's total volume of purchases. No significant transactions were carried out in any other currency in 2017 or 2016.

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Tax ID number: A-28164754 – Company filed with the Mercantile Registry of Madrid on 9 December 1966 in Companies Volume 2.063, sheet 91, page 11.719

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

c) Price risk

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

d) Credit risk

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

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

Thousands of Euros	2017	2016
Commercial transactions non current (note 12 (c))	51,182	49,982
Commercial transactions current	50,994	49,288
Guarantees received (note 25 (b))	(40,397)	(45,371)
Total	**61,779**	**53,899**

In 2017 and 2016 the Company entered into agreements to transfer supplier trade payables with and without recourse (see note 4 (g) (vii)). The accrued cost of the transfer of these payables in 2017 and 2016 amounted to Euros 239 thousand and Euros 139 thousand, respectively. The transferred payables that had not yet fallen due at 31 December 2017 and 2016 totalled Euros 99,624 thousand and Euros 85,429 thousand, respectively, and all were considered to be without recourse.

Details of the Company's exposure to credit risk at 31 December 2017 and 2016 are shown below. The tables below reflect the analysis of financial assets by contracted maturity:

Thousands of Euros	Maturity	2017
Loans to group companies	2019	1,000
Loans to third parties	2019-2021	192
Deposits and guarantees	per contract	24,962
Trade receivables and service delivery	2019-2035	51,182
Non-current financial assets		**77,336**
Trade receivables	2018	50,994
Trade receivables from group companies and associates	2018	280,147
Other receivables	2018	50,319
Personnel	2018	505
Loans to group companies	2018	40,000
Current account with group companies	2018	272,490
Loans	2018	51
Deposits and guarantees	2018	11,724
Current financial assets		**706,230**

Thousands of Euros	Maturity	2016
Loans to group companies	2018	1,000
Loans to third parties	2018-2020	249
Deposits and guarantees	per contract	23,363
Trade receivables and service delivery	2018-2035	49,982
Non-current financial assets		**74,594**
Trade receivables	2017	49,288
Trade receivables from group companies and associates	2017	293,726
Other receivables	2017	17,400
Personnel	2017	612
Loans to group companies	2017	30,000
Current account with group companies	2017	215,880
Loans	2017	191
Deposits and guarantees	2017	10,324
Current financial assets		**617,421**

The returns on these financial assets totalled Euros 3,354 thousand in 2017 and Euros 4,178 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			
Non-current	Total	1 - 2 years	3 - 5 years	> 5 years
31 December 2017	51,182	12,916	22,891	15,375
31 December 2016	49,982	13,511	24,087	12,384

	Thousands of Euros				
Current	Total	Not expired	Less than 1 month	2-3 months	4-6 months
31 December 2017	382,092	335,873	6,016	40,192	11
31 December 2016	369,367	329,808	7,890	31,654	15

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

e) Liquidity risk

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

Details of the Company's exposure to liquidity risk at 31 December 2017 and 2016 are shown below. The tables below reflect the analysis of financial liabilities by contracted maturity:

Thousands of Euros	Maturity	2017
Bonds and other securities	2020-2023	892,570
Debt with financial institutions		28,413
Other loans	2019-2022	*28,413*
Finance lease payables	2024	20,871
Guarantees and deposits received	per contract	10,803
Other non current liabilities	2020	2,000
Total non-current financial liabilities		**954,657**
Bonds and other securities	2018	6,021
Debt with financial institutions		135,732
Other loans	*2018*	*101,000*
Interests	*2018*	*111*
Other current liabilities	*2018*	*34,621*
Finance lease payables	2018	8,597
Derivates	2018	73
Suppliers of fixed assets	2018	6,358
Bills payable	2018	11,962
Other debts	2018	3,230
Current interest on payables	2018	22
Guarantees and deposits received	2018	140
Payables to group companies	2018	87,758
Suppliers	2018	900,458
Suppliers, group companies	2018	69,064
Other payables	2018	69,248
Personnel	2018	19,169
Advances to customers	2018	819
Total current financial liabilities		**1,318,651**

Thousands of Euros	Maturity	2016
Bonds and other securities	2019-2021	794,652
Debt with financial institutions		218,374
Syndicated credits (Revolving credit facilities)	*2018*	*97,360*
Other loans	*2018*	*121,014*
Finance lease payables	2023	24,002
Guarantees and deposits received	per contract	9,078
Other non current liabilities	2020	2,000
Total non-current financial liabilities		**1,048,106**
Bonds and other securities	2017	5,587
Debt with financial institutions		53,513
Other loans	*2017*	*10,000*
Interests	*2017*	*387*
Credit facilities drawn down	*2017*	*2,498*
Other current liabilities	*2017*	*40,628*
Finance lease payables	2017	9,188
Suppliers of fixed assets	2017	3,756
Bills payable	2017	6,853
Other debts	2017	4,154
Current interest on payables	2017	20
Guarantees and deposits received	2017	148
Payables to group companies	2017	48,361
Suppliers	2017	920,833
Suppliers, group companies	2017	4,587
Other payables	2017	77,449
Personnel	2017	21,287
Advances to customers	2017	835
Total current financial liabilities		**1,156,571**

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

Thousands of Euros	Total	2019	2020-2022	From 2023
Bonds and other securities	892,570	-	602,766	289,804
Other debts with credit entities	28,413	13,413	15,000	-
Finance lease payables	20,871	7,027	12,071	1,773
Guarantees and deposits received	10,803	-	-	10,803
Other non current liabilities	2,000	-	2,000	-
Total non-current financial debt	**954,657**	**20,440**	**631,837**	**302,380**

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

The finance costs accrued on these outstanding financial liabilities totalled Euros 17,792 thousand in 2017 and Euros 19,411 thousand in 2016.

f) Cash flow and fair value interest rate risks

Interest rate risk arises from non-current borrowings. Borrowings at variable interest rates expose the Company to cash flow interest rate risks. The Company contracts interest rate hedges in accordance with its risk management policy. The objective of these transactions is to mitigate the impact of interest rate fluctuations on its income statement. A 0.5 percentage point rise in interest rates would have reduced profit after tax by Euros 449 thousand (Euros 1,355 thousand at 31 December 2016).

(11) Investments in equity instruments of Group companies

At 31 December 2017 and 2016, all DIA Group companies subject to statutory audit have been audited. Details of investments in Group companies are as follows:

Information on Group companies
for the year ended 31 December 2017
(expressed in thousands of Euros)

Name	Registered Offices	Activity	Auditor	% of ownership % direct interest	Total	Capital	Reserves	Results for the year from continuing operations	Total equity	Carrying amount of investment	Dividends received in 2017
Dia Portugal Supermercados, S.A.	Lisbon	Wholesale and retail sale of food products and the subsidiary sale of toiletries and perfume products.	KPMG	100	100	51,803	10,511	9,282	71,596	50,547	6,600
Dia Argentina, S.A. and Subsidiary	Buenos Aires	Wholesale and retail distribution of food products	KPMG	95	100	132,140	(106,544)	(2,657)	22,939	127,281	-
Dia Brasil Sociedade Limitada and Subsidiary	Sao Paulo	Wholesale and retail distribution of consumer products	KPMG	100	100	211,657	639,357	64,739	915,753	211,657	-
Finandia E.F.C., S.A.	Madrid	Loan and credit operations, including customer credit, mortgage loans and financing of commercial transactions, as well as the issue and management of credit and debit cards.	KPMG	100	100	7,000	1,733	(122)	8,611	7,000	-
Dia Tian Tian Management Consulting Service & Co.Ltd.	Shanghai	Service consultancy	KPMG	100	100	19,300	(21,623)	(717)	(3,040)	-	-
Shanghai Dia Retail Co., Ltd.	Shanghai	Retail distribution of consumer products	KPMG	100	100	134,008	(136,152)	(26,680)	(28,824)	-	-
Twins Alimentación, S.A. and Subsidiary	Madrid	Distribution of food products and toiletries though supermarkets and the subsidiary, sub-lease of premises primarily to its sole shareholder.	KPMG	100	100	36,169	13,406	5,490	55,065	160,748	13,000
Dia World Trade, S.A.	Geneva	Supply services to the companies of the DIA Group.	N/A	100	100	84	889	48	1,021	843	51
Beauty by DIA, S.A.	Madrid	Sale of toiletries and perfume products.	KPMG	100	100	9,616	(2,950)	(4,529)	2,137	51,372	-
Grupo El Árbol, Distribución y Supermercados, S.A. and Subsidiary	Madrid	Wholesale and retail sale of food products and others.	KPMG	100	100	12,000	88,619	(26,827)	73,792	150,000	-
DIA ESHOPPING, S.L.	Madrid	Creation, maintenance and operation of portals in Internet for selling products and services.	KPMG	100	100	10	964	(1,812)	(838)	1,003	-
Red Libra Trading Services, S.L.	Madrid	Negotiation with suppliers of distribution, acquisition of other materials and supplies need for the activity brands, with the purpose of maximize the quality-price balance offer to the customer.	N/A	50	50	3	-	115	118	2	-
CD Supply Innovation S.L.	Madrid	Management of finantial and provisioning services for own brand.	N/A	50	50	1,000	-	38	1,038	500	-
										760,953	19,651

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

Name	Registered Offices	Activity	Auditor	% of ownership % direct interest	Total	Capital	Reserves	Results for the year from continuing operations	Total equity	Carrying amount of investment	Dividends received in 2016
Dia Portugal Supermercados, S.A.	Lisbon	Wholesale and retail sale of food products and the subsidiary sale of toiletries and perfume products.	KPMG	100	100	51,803	10,422	6,690	68,915	50,547	10,925
Dia Argentina, S.A. and Subsidiary	Buenos Aires	Wholesale and retail distribution of food products	KPMG	95	100	132,140	(100,734)	2,666	34,072	128,667	-
Dia Brasil Sociedade Limitada and Subsidiary	Sao Paulo	Wholesale and retail distribution of consumer products	KPMG	100	100	181,627	19,872	17,406	218,905	181,627	-
Finandia E.F.C., S.A.	Madrid	Loan and credit operations, including customer credit, mortgage loans and financing of commercial transactions, as well as the issue and management of credit and debit cards.	KPMG	100	100	7,000	1,645	88	8,733	7,000	-
Dia Tian Tian Management Consulting Service & Co.Ltd.	Shanghai	Service consultancy	KPMG	100	100	19,300	(20,136)	(1,487)	(2,323)	-	-
Shanghai Dia Retail Co., Ltd.	Shanghai	Retail distribution of consumer products	KPMG	100	100	95,138	(123,736)	(14,563)	(43,161)	-	-
Twins Alimentación, S.A. and Subsidiary	Madrid	Distribution of food products and toiletries though supermarkets and the subsidiary, sub-lease of premises primarily to its sole shareholder.	KPMG	100	100	36,169	13,109	13,299	62,577	160,748	30,000
Dia World Trade, S.A.	Geneva	Supply services to the companies of the DIA Group.	N/A	100	100	84	665	36	785	843	41
Schlecker, S.A.	Madrid	Sale of toiletries and perfume products.	KPMG	100	100	9,616	(5,268)	2,317	6,665	51,372	-
Grupo El Árbol, Distribución y Supermercados, S.A. and Subsidiary	Madrid	Wholesale and retail sale of food products and others.	KPMG	100	100	12,000	106,987	(16,947)	102,040	150,000	-
DIA ESHOPPING, S.L.	Madrid	Creation, maintenance and operation of portals in Internet for selling products and services.	KPMG	100	100	10	705	259	974	1,003	-
										731,807	40,966

Details of investments in Group companies and changes in 2017 and 2016 are as follows:

	Thousands of Euros				
Company	Balances at 1 January 2017	Additions	Disposals	Transfers non current held for sale assets	Balances at 31 December 2017
Dia Portugal Supermercados, S.A.	50,547	-	-	-	50,547
Dia Argentina, S.A.	128,667	-	(1,386)	-	127,281
Dia Brasil Sociedade Limitada	181,627	30,030	-	-	211,657
Finandia E.F.C.,S.A.	7,000	-	-	-	7,000
Dia Tian Tian Management Consulting Service & Co.Ltd.	19,300	-	-	(19,300)	-
Shanghai Dia Retail CO., LTD.	95,138	38,870	-	(134,008)	-
Twins Alimentación, S.A.	160,748	-	-	-	160,748
Dia World Trade	843	-	-	-	843
Beauty by DIA S.A	51,372	-	-	-	51,372
Grupo El Árbol, Distribución y Supermercados, S.A.	150,000	-	-	-	150,000
DIA ESHOPPING, S.L.	1,003	-	-	-	1,003
Red Libra Trading Services, S.L	-	2	-	-	2
CD Supply Innovation, S.L	-	500	-	-	500
Total cost	**846,245**	**69,402**	**(1,386)**	**(153,308)**	**760,953**
Impairment	(114,438)	(38,870)	-	153,308	-
Carrying amount	**731,807**	**30,532**	**(1,386)**	**-**	**760,953**

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

In 2017 a capital increase was carried out in DIA Brazil for a total amount of Euros 30,030 thousand (in 2016 a capital increase and a debt-for-equity swap was also carried out for an amount of Euros 36,618 thousand). Furthermore, during 2017 a capital increase was carried out in Shanghai Dia Retail Co. Ltd. for Euros 38,870 thousand. In DIA Argentina a debt-for-equity swap was carried out in 2016 for an amount of Euros 12,449 thousand.

In the first quarter of 2017, the Company began a process to explore strategic alternatives in its China business, classifying the net values of its investments and balances with the group in its companies, DIA Tian Tian Management Consulting Service & Co. Ltd. and Shanghai DIA Retail Co. Ltd., as held for sale.

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 Company and Eroski. The Euros 2 thousand contribution relates to a share capital contribution made by the Company during the year.

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.

Details of the activities of the subsidiaries for 2017 and 2016 are presented in the tables at the beginning of this note.

- Impairment

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

	Thousands of Euros			
Company	Balances at 1 January 2017	Charge	Transfers non current held for	Balances at 31 December 2017
Dia Tian Tian Management Consulting Service & Co.Ltd.	(19,300)	-	19,300	-
Shanghai Dia Retail CO., LTD.	(95,138)	(38,870)	134,008	-
Total non-current	**(114,438)**	**(38,870)**	**153,308**	**-**

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

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

In 2017 the Company recognised impairment of Euros 38,870 thousand on its interest in Shanghai Dia Retail CO., LTD. (Euros 20,642 thousand in 2016). The impairment of the shareholdings in China has been taken to non-current assets held for sale.

The following main assumptions have been 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%

	Argentina		Brazil	
	2017	2016	2017	2016
Sales growth rate (1)	13.10%	15.50%	14.10%	16.60%
Growth rate (2)	2.00%	2.00%	2.00%	2.00%
Discount rate (3)	10.82%	10.26%	9.79%	9.43%

(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.

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.

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

(12) Investments and trade receivables

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

(a) Investments in Group companies

Details of investments in Group companies are as follows:

	Thousands of Euros			
	2017		2016	
Group	Non-current	Current	Non-current	Current
Loans	1,000	40,000	1,000	30,000
Current account with the Group	-	272,490	-	215,880
Total	**1,000**	**312,490**	**1,000**	**245,880**

On 30 June 2015 the Company extended a Euros 30,000 thousand loan to its subsidiary DIA Portugal Supermercados, S.A., which has a single maturity date in 2017 and generates quarterly market-rate interest. At 30 January 2017, the Company signed an agreement to extend the maturity of the aforementioned loan by 15 months, bringing the maturity date to 30 April 2018.

On 25 January 2017 the Company extended a Euros 10,000 thousand loan to its subsidiary DIA Portugal Supermercados, S.A., which has a single maturity date in 2018 and generates quarterly market-rate interest.

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

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

Details of the current accounts with Group companies at 31 December 2017 and 2016 are presented below:

	Thousands of euro					
	2017			2016		
	Account receivable	Tax Credit (VAT)	Tax Credit (Income tax)	Account receivable	Tax Credit (VAT)	Tax Credit (Income tax)
Twins Alimentación S.A.	-	274	6,477	-	-	-
Beauty by DIA S.A.	64,611	2,720	706	50,569	1,604	665
Grupo El Árbol Distribución y Supermercados, S.A.	173,074	3,511	-	141,359	4,331	-
Compañía Gallega de Supermercados, S.A.	725	4	-	940	-	-
DIA ESHOPPING, S.L.	3,404	-	118	356	-	118
Dia World Trade, S.A.	-	-	-	540	-	-
Finandia E.F.C., S.A.	784	-	-	800	-	-
Pe-Tra Servicios a la distribución, S.L.U.	285	-	693	285	-	484
Dia Portugal Supermercados, S.A.	1,896	-	-	2,598	-	-
Dia Brasil Sociedade Limitada	12,305	-	-	5,851	-	-
Dia Argentina, S.A.	903	-	-	1,704	-	-
Dia Tian Tian Management Consulting Service & Co.Ltd.	-	-	-	2,461	-	-
Shanghai Dia Retail Co., Ltd.	-	-	-	1,215	-	-
Total	**257,987**	**6,509**	**7,994**	**208,678**	**5,935**	**1,267**

The nominal annual interest rates applied to current accounts with Group companies in 2017 and 2016 ranged from one-month Euribor plus a spread of between -0.125% (with a 0% floor) for payables and one-month Euribor plus a spread of 0.2% for receivables.

(b) Investments

Details of investments are as follows:

	Thousands of Euros			
	2017		2016	
Unrelated parties	Non-current	Current	Non-current	Current
Equity instruments	36	-	36	-
Loans	192	51	249	191
Hedging derivatives	-	-	-	123
Deposits and guarantees	24,962	11,724	23,363	10,324
Total	**25,190**	**11,775**	**23,648**	**10,638**

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

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

Other financial assets include the security and other deposits pledged to lessors to secure lease contracts. These amounts are measured at present value and any difference with their nominal value is recognised under current or non-current prepayments (see note 14). At 31 December 2017 and 2016 this item also includes the amount of Euros 2,000 thousand withheld from the seller in the acquisition of establishments from the Eroski Group, which will be released after five years, in accordance with the addendum to the framework contract signed on 7 August 2015. Moreover, in 2017 current security and other deposits comprise amounts deposited with franchisees totalling Euros 3,183 thousand (Euros 2,958 thousand in 2016) and other bank deposits totalling Euros 8,541 thousand (Euros 7,366 thousand in 2016).

(c) Trade and other receivables

Details of trade and other receivables are as follows:

	Thousands of Euros			
	2017		2016	
	Non-current	Current	Non-current	Current
Trade receivables (note 10 (d))	51,182	64,188	49,982	58,721
Trade receivables from group companies and associates	-	280,147	-	293,726
Other payables	-	58,015	-	25,012
Personnel	-	505	-	612
Current tax assets (note 21)	-	21	-	8,158
Public entities, other (note 21)	-	106	-	183
Impairment	-	(20,890)	-	(17,045)
Total	**51,182**	**382,092**	**49,982**	**369,367**

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

At 31 December 2017, trade receivables from Group companies basically comprise Euros 80,818 thousand receivable from Twins Alimentación, S.A. (Euros 77,446 thousand at 31 December 2016), Euros 30,901 thousand receivable from Beauty by DIA, S.A. (Euros 39,145 thousand at 31 December 2016) and Euros 133,237 thousand receivable from Grupo el Árbol Distribución y Supermercados, S.A. (Euros 154,211 thousand at 31 December 2016).

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

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

Current tax assets comprise the receivable in relation to the estimated income tax for 2017 and 2016, respectively (see note 21).

(d) Impairment

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

	Thousands of Euros	
	2017	2016
Current		
At 1 January	**(17,045)**	**(16,887)**
Charge	(10,542)	(8,241)
Reversals	6,644	8,083
Transfer	53	-
At 31 December	**(20,890)**	**(17,045)**

In 2017 the Company recognised direct losses due to unrecoverable receivables totalling Euros 179 thousand (Euros 151 thousand in 2016).

(13) Inventories

Details of inventories are as follows:

	Thousands of Euros	
	2017	2016
Goods for resale	185,873	237,551
Other supplies	6,982	7,411
Advances to suppliers	2,814	2,560
Impairment	(1,176)	(1,297)
Total	**194,493**	**246,225**

Inventories essentially comprise goods for resale.

(a) Limitations to availability

At 31 December 2017 and 2016 there are no restrictions to the availability of any inventories.

(b) Insurance

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

(14) Prepayments

Details of prepayments are as follows:

	Thousands of Euros			
	2017		2016	
	Non-current	Current	Non-current	Current
Prepayments on operating leases	-	8	-	8
Prepayments on guarantees and loans (note 12 (b))	1,766	234	2,808	325
Other prepayments	-	165	-	312
Total	**1,766**	**407**	**2,808**	**645**

(15) Cash and cash equivalents

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

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

(16) Equity

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

(a) Capital

At 31 December 2017 and 2016 the Company's share capital amounted to Euros 62,245,651.30, represented by 622,456,513 freely transferable shares of Euros 0.10 par value each, subscribed and fully paid.

The Company's shares are listed on the Spanish stock markets. According to public information filed with the Spanish National Securities Market Commission, the members of the board of directors control approximately 0.245% 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 Company, 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 Company. Hence, at the date of preparation of these annual accounts, Letterone holds 25.001% of the share capital of DIA.

(b) Reserves

Reserves at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Legal Reseve	13,021	13,021
Redeemed Capital Reserve	5,688	5,688
Other reserves non available	15,170	15,170
Voluntary Reserves	118,616	41,783
Total	**152,495**	**75,662**

(i) *Legal reserve*

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

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

At 31 December 2017 the Company has appropriated to this reserve more than the minimum amount required by law.

(ii) *Differences on redenomination of capital to Euros*

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

This reserve amounting to Euros 15,170 thousand 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.

(iv) *Voluntary reserves*

These reserves are freely distributable.

(v) *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 19)	(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 19)	(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.

(c) Other equity instruments

This reserve includes obligations derived from equity-settled share-based payment transactions following the approval by the board of directors and shareholders of the 2014-2016 long-term incentive plan and the 2016-2018 incentive plan (see note 19).

(d) Dividends

Details of dividends paid are as follows:

Thousands of Euros	2017	2016
Dividends on ordinary shares:	128,535	122,212
Dividends per share (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).

(17) Grants, donations and bequests received

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

	Thousands of Euros	
	2017	2016
At 1 January	**726**	**1,150**
Transfers to the income statement	(272)	(424)
At 31 December	**454**	**726**

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

	Thousands of Euros	
	2017	2016
Capital grants	363	676
Operating grants	739	647
Total	**1,102**	**1,323**

(18) Provisions

Details of non-current provisions are as follows:

	Thousands of Euros					
	Provisions for long-term employee benefits	Tax provisions	Labour provisions	Legal provisions	Other provisions	Total
At 1 January 2017	**1,489**	**20,760**	**449**	**1,915**	**908**	**25,521**
Charge	202	3,862	299	865	8	5,236
Applications	-	-	(19)	(73)	-	(92)
Reversals	(36)	(6,422)	(260)	(659)	-	(7,377)
At 31 December 2017	**1,655**	**18,200**	**469**	**2,048**	**916**	**23,288**

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

At 31 December 2017 the tax provisions to cover inspection-related risks amount to Euros 18,200 thousand (Euros 20,760 thousand at 31 December 2016). Reversals include amounts appropriated to cover risks that have not materialised.

At 31 December 2017 this item includes provisions for lawsuits filed by employees (related to social security contributions) amounting to Euros 469 thousand compared with the Euros 449 thousand provision for this item recognised at 31 December 2016.

The provisions related to litigation with third parties (legal provisions) at 31 December 2017 amount to Euros 2,048 thousand. The provisions for this item at 31 December 2016 amounted to Euros 1,915 thousand.

(19) 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 January 2018	2,016,778	5.3950
2016-2018	Detailed in the section A.4 of IAR 2016 pages 6 and 7	April 2019 January 2020	1,715,878	5.9203

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.

(20) Payables and trade payables

For financial liabilities registered to amortized cost or cost, the carrying amount does not differ significantly from the fair value, except for the obligations and non-current bonds, whose fair value, which corresponds to its market price, at December 31 2017 is 918,684 thousand of Euros (823,344 thousands of Euros as of December 31, 2016).

(a) Group companies and associates

Details of Group companies and associates are as follows:

	Thousands of Euros	
	Current	Current
Group	2017	2016
Payables	87,758	48,361
Total	**87,758**	**48,361**

Details of current payables to Group companies at 31 December 2017 and 2016 are presented below:

	Thousands of Euro			
	Current Account	Tax Debit (Income tax)	Current Account	Tax Debit (Income tax)
Group	**2017**		**2016**	
Twins Alimentación S.A.	13,891	21,822	4,297	17,025
Beauty by DIA S.A.	-	1,529	-	295
Grupo El Árbol Distribución y Supermercados, S.A.	-	41,177	-	26,157
Compañía Gallega de Supermercados, S.A.	-	772	-	587
DIA ESHOPPING, S.L.	-	576	-	-
Dia World Trade, S.A.	7,991	-	-	-
Total	**21,882**	**65,876**	**4,297**	**44,064**

The interest rates applied to current accounts with Group companies in 2017 and 2016 ranged from one-month Euribor plus a spread of between -0.125% (with a 0% floor) for payables and one-month Euribor plus a spread of 0.2% for receivables.

(b) Payables

Details of payables are as follows:

	Thousands of Euros			
	2017		2016	
Unrelated parties	**Non-current**	**Current**	**Non-current**	**Current**
Bonds and other securities	892,570	6,021	794,652	5,587
Debt with financial institutions				
Syndicated credits (Revolving credit facilities)	-	-	97,360	-
Other bank loans	28,413	101,000	121,014	10,000
Interest	-	111	-	387
Credit facilities drawn down	-	-	-	2,498
Other financial liabilities	-	34,621	-	40,628
Finance lease payables (note 7)	20,871	8,597	24,002	9,188
Derivatives	-	73	-	-
Suppliers of fixed assets	-	6,358	-	3,756
Bills payable	-	11,962	-	6,853
Other debts	-	3,230	-	4,154
Current interest on payables	-	22	-	20
Guarantees and deposits received	10,803	140	9,078	148
Other financial liabilities	2,000	-	2,000	-
Total	**954,657**	**172,135**	**1,048,106**	**83,219**

- Bonds

The Company 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 Company 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 of debt, 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 differs 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 Company 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.

- Loans and borrowings

Syndicated loans

These types of loans have been extended to the Company by various national and foreign entities. Details at 31 December 2017 and 2016 are as follows:

			Outstandings in thousand of euros				
Description	Limit in thousand of euros	Currency	2017	2016	Signed date	Maturity date in 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 in 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 Company signed a modification to the existing syndicated loan taken out in July 2014 and expiring on 3 July 2019. The new loan reduces the amount of Euros 400,000 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 notes 5 and 16.1 of the consolidated annual accounts.

Bank loans

During 2017 the following operations have been carried out:

- On 15 December 2017, the Company repaid in advance a Euros 30,000 thousand loan with maturity in December 2018.
- On 15 December 2017, the Company entered into a Euros 30,000 thousand loan with maturity in December 2020.

In 2016 the Company 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

At 31 December 2017, the Company has credit facilities with a limit of Euros 67,750 thousand (Euros 68,350 thousand at 31 December 2016), which have not been drawn down at 31 December 2017 (Euros 2,498 thousand at 31 December 2016). At 31 December 2017 and 2016 the Company 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.

- Other current and non-current financial liabilities

Other current financial liabilities include the prevailing equity swap contracts signed by the Company. 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 Company 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.

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.

(c) Trade and other payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	Current	Current
	2017	2016
Suppliers	900,458	920,833
Suppliers with subsidiaries and associated companies (note 23 (b))	69,064	4,587
Other payables	69,248	77,449
Personnel	19,169	21,287
Current tax liabilities (note 21)	2,917	9,311
Public entities, other (note 21)	53,491	46,514
Advances to customers	819	835
Total	**1,115,166**	**1,080,816**

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

In 2017, Suppliers, Group companies mainly include current payables for supplies of goods by CDSI.

The Company has reverse factoring facilities with limits of Euros 490,033 thousand and Euros 560,000 thousand at 31 December 2017 and 2016, respectively. Drawdowns total Euros 273,059 thousand at 31 December 2017 and Euros 258,003 thousand at the prior year end.

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

	2017	2016
	Days	Days
Average payment period to suppliers	48	47
Payment operations ratio	48	48
Pending payment transactions ratio	42	38
	Amount in euros	Amount in euros
Total payments made	4,246,229,980	5,005,977,969
*Total payment pending	536,226,011	514,540,832

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

(21) Taxation

Balances with public entities

Details of balances with public entities are as follows:

	Thousands of Euros			
	2017		2016	
	Non-current	Current	Non-current	Current
Assets				
Deferred tax assets	18,534	-	110,796	-
Current tax assets	-	21	-	8,158
Other receivables from the Administration	-	106	-	183
	18,534	**127**	**110,796**	**8,341**
		(note 12 (c))		**(note 12 (c))**
Liabilities				
Deferred tax liabilities	15,084	-	20,710	-
Current tax liabilities (note 20 (c))	-	2,917	-	9,311
Value added tax and similar taxes	-	38,678	-	32,023
Social Security	-	9,254	-	8,907
Withholdings	-	5,599	-	5,584
	15,084	**56,448**	**20,710**	**55,825**
		(note 20 (c))		**(note 20 (c))**

During January 2018, the Company received a payment from the Navarre and Álava regional tax authorities for an amount of Euros 21 thousand which, at the closing date of these annual accounts, is recognised as a current tax asset. Moreover, in 2017 the Company received a refund from the tax authorities for Euros 8,158 thousand.

Years open to inspection and tax inspections

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

At 31 December 2017, the taxation authorities continue their ongoing inspection of the following taxes and periods:

Tax	Periods
Income tax	2011-2012
Personal income tax	2012

In 2017, the verification and inspection procedures relating to the 2012 Value Added Tax were completed.

Notwithstanding the above, at 31 December 2017 and 2016 the Company has the following main taxes and periods open to inspection:

	Periods	
Tax	2017	2016
Income tax	2013-2016	2013-2015
Value Added tax	2013-2017	2013-2016
Personal income tax	2013-2017	2013-2016
Business activities tax	2013-2017	2013-2016

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

Income tax

At 31 December 2017 the Company files consolidated tax returns as the parent of tax group 487/12. The Group subsidiaries throughout 2017 and 2016 have been Twins Alimentación, S.A, Pe-Tra Servicios a la Distribución, S.L., Beauty By DIA S.A., El Árbol Distribución y Supermercados, S.A., Compañía Gallega de Supermercados, S.A. and DIA Eshopping, S.L.

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

A reconciliation of net income and expenses for 2017 with DIA's taxable income is as follows:

	Thousands of Euros						
2017	Income statement			Income and expense taken to equity			
	Increases	Decreases	Net	Increases	Decreases	Net	Total
Income and expenses for the period	**88,898**	**-**	**88,898**	**-**	**(419)**	**(419)**	**88,479**
Income tax	30,371	-	30,371	-	(140)	(140)	30,231
Profit before tax	119,269	-	119,269	-	(559)	(559)	118,710
Permanent differences:							
individual company	57,159	(57,680)	(521)	-	-	-	(521)
Temporary differences:							
individual company							
originating during the year	10,753	-	10,753	-	-	-	10,753
originating in prior years	21,942	(18,773)	3,169	559	-	559	3,728
Taxable income	**209,123**	**(76,453)**	**132,670**	**559**	**(559)**	**-**	**132,670**

The permanent negative adjustment to income tax for 2017 of Euros 57,680 thousand primarily consists of the exemption to avoid double taxation in respect of the dividends distributed by DIA Portugal and Twins Alimentación, S.A., pursuant to article 21 of the Spanish Corporate Income Tax Law 27/2014 and the tax incentive related to the reduction in income obtained from certain intangible assets in accordance with article 23 of that Law.

The permanent positive adjustment to income tax for 2017 of Euros 57,159 thousand basically comprises the impairment recorded on the investment in DIA Shanghai and the reversal of impairment considered tax deductible in prior years, which is considered to be permanently non-deductible, pursuant to Royal Decree-Law 3/2016 of 2 December 2016 (see note 11).

Temporary differences that increase taxable income in 2017 mainly reflect the reversal of the accelerated amortisation/depreciation performed in 2011 and 2012 in accordance with Royal Decree 13/2010 of 3 December 2010, the reversal of the tax-deductible impairment on the investment in DIA Argentina, pursuant to Royal Decree-Law 3/2016 of 2 December 2016, and the application of several goodwill amortisation criteria.

Temporary differences that decrease taxable income in 2017 mainly reflect the reversal of provisions related to the sale of DIA France that were non-tax deductible in prior years; differences arising from the reversal of a tenth of the Company's amortisation/depreciation charge, which was considered non-tax deductible in accordance with Law 16/2012 of 27 December; and differences resulting from the fulfilment during the year of the tax deductibility requirements of the equity-settled remuneration plans, positively adjusted in prior years.

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

	Thousands of Euros			Thousands of Euros		
	2017			2016		
	Profit and loss	Equity	Total	Profit and loss	Equity	Total
Income and expenses for the period before tax	**119,269**	**(559)**	**118,710**	**265,771**	**(509)**	**265,262**
Tax at 25%	29,817	(140)	**29,677**	66,443	(127)	**66,316**
Positive permanent differences	14,290	-	**14,290**	9,609	-	**9,609**
Negative permanent differences	(14,420)	-	**(14,420)**	(19,396)	-	**(19,396)**
Deductions and credits for the current year	(2,120)	-	**(2,120)**	(762)	-	**(762)**
Income tax expenses in prior years	(784)	-	**(784)**	(493)	-	**(493)**
Other adjustments	3,588	-	**3,588**	2,985	-	**2,985**
Income tax expenses / (income) from continuing operations	**30,371**	**(140)**	**30,231**	**58,386**	**(127)**	**58,259**

Details of accumulated temporary differences at 31 December 2017 and the corresponding deferred tax asset or liability, in thousands of Euros, are as follows:

	TEMPORARY DIFFERENCE					TAX EFFECT				
	2016	Origin	Reversal	Other	2017	2016	Origin	Reversal	Other	2017
Onerous Contracts	882	389	-	-	1,271	221	97	-	-	318
Provision for textiles	130	16	-	-	146	32	4	-	-	36
Amortization differences on goodwill	4,217	5,720	-	88	10,025	1,054	1,430	-	22	2,506
Leaseholds	774	-	-	(44)	730	193	-	-	(11)	182
Provision for franchising operations	3,230	160	-	-	3,390	808	40	-	-	848
Hedge depreciation 2013/2014	42,940	-	(5,367)	-	37,573	10,735	-	(1,343)	-	9,392
Provision sale Turkey	75	-	(75)	-	-	19	-	(19)	-	-
Other provisions	265	79	-	-	344	66	20	-	-	86
Amortization intragroup goodwill	1,513	3,630	-	-	5,143	378	908	-	-	1,286
Equity instruments	14,814	133	(7,140)	-	7,807	3,704	33	(1,785)	-	1,952
Pension commitments	1,490	166	-	-	1,656	373	42	-	-	415
Non-deductible goodwill on acq. of invest.	1,584	-	-	-	1,584	396	-	-	-	396
Non-deductible impairment of fixed assets	5,070	460	-	-	5,530	1,267	115	-	-	1,382
Provision sale France	6,190	-	(6,190)	-	-	1,547	-	(1,547)	-	-
DEFERRED TAX ASSETS RECOGNIZED	83,174	10,753	(18,772)	44	75,199	20,793	2,689	(4,694)	11	18,799
Dia Tian Tian Management Consulting Service & Co.Ltd.	8,720	2,645	-	-	11,365	2,181	661	-	-	2,842
Shanghai Dia Retail Co., Ltd.	39,178	52,859	-	-	92,037	9,795	13,215	-	-	23,010
DEFERRED TAX ASSETS NON RECOGNIZED	47,898	55,504	-	-	103,402	11,976	13,876	-	-	25,852
TOTAL DEFERRED TAX ASSETS	131,072	66,257	(18,772)	44	178,601	32,769	16,565	(4,694)	11	44,651

	TEMPORARY DIFFERENCE					TAX EFFECT				
	2016	Origin	Reversal	Other	2017	2016	Origin	Reversal	Other	2017
Accelerated depreciation 2011	13,771	-	(6,477)	-	7,294	3,428	-	(1,619)	-	1,809
Accelerated depreciation 2012	10,048	-	(2,239)	-	7,809	2,528	-	(560)	-	1,968
Goodwill deductible purchases from third parties	5,026	-	-	-	5,026	1,256	-	-	-	1,256
Argentina	52,911	-	(13,226)	-	39,685	13,226	-	(3,307)	-	9,919
Others	1,171	-	-	(559)	612	272	-	-	(140)	132
TOTAL DEFERRED TAX LIABILITIES	82,927	-	(21,942)	(559)	60,426	20,710	-	(5,486)	(140)	15,084

The unrecognised temporary differences detailed above reflect the net balance of unrecognised deductible temporary differences for the accounting impairment of Shanghai DIA Retail C.Ltd. and DIA Tian Tian Management Consulting Service, amounting to Euros 134,008 thousand and Euros 19,300 thousand, respectively, and unrecognised taxable temporary differences pending inclusion due to application of Royal Decree-Law 3/2016 of 2 December 2016, amounting to Euros 41,969 thousand and Euros 7,934 thousand, respectively.

The tax loss carryforwards of Euros 87,857 thousand generated in 2014 and the deduction of Euros 1,878 thousand resulting from application of transitional provision thirty-seven of Spanish Income Tax Law 27/2014 should be added to the deferred tax assets reflected in the above tables for 2017.

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 of 3/2016 of 2 December 2016, the Company may offset tax loss carryforwards up to a maximum of 25% of the taxable income of the tax group to which it belongs, prior to offset, 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.

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

	TEMPORARY DIFFERENCE					TAX EFFECT				
	2016	Origin	Reversal	Other	2017	2016	Origin	Reversal	Other	2017
Onerous Contracts	-	882	-	-	882	-	221	-	-	221
Provision for textiles	154	-	(24)	-	130	38	-	(6)	-	32
Amortization differences on goodwill	-	4,217	-	-	4,217	-	1,054	-	-	1,054
Leaseholds	807	-	-	(33)	774	201	-	-	(8)	193
Provision for franchising operations	2,835	395	-	-	3,230	709	99	-	-	808
Hedge depreciation 2013/2014	57,903	-	(5,367)	(9,596)	42,940	14,476	-	(1,342)	(2,399)	10,735
Provision sale Turkey	75	-	-	-	75	19	-	-	-	19
Other provisions	435	-	(170)	-	265	109	-	(43)	-	66
Amortization intragroup goodwill	-	1,513	-	-	1,513	-	378	-	-	378
Equity instruments	8,008	6,806	-	-	14,814	2,002	1,702	-	-	3,704
Holding Asia	5,568	-	-	(5,568)	-	1,392	-	-	(1,392)	-
Pension commitments	1,186	304	-	-	1,490	297	76	-	-	373
Non-deductible goodwill on acq. of invest.	1,584	-	-	-	1,584	396	-	-	-	396
Non-deductible impairment of fixed assets	1,707	3,561	-	(198)	5,070	427	890	-	(50)	1,267
Shanghai	4,548	-	-	(4,548)	-	1,136	-	-	(1,137)	(1)
Provision sale France	12,990	-	(6,800)	-	6,190	3,247	-	(1,700)	-	1,547
DEFERRED TAX ASSETS RECOGNIZED	97,800	17,678	(12,361)	(19,943)	83,174	24,449	4,420	(3,091)	(4,986)	20,792
Dia Tian Tian Management Consulting Service & Co.Ltd.	-	-	-	8,720	8,720	-	-	-	2,180	2,180
Shanghai Dia Retail Co., Ltd.	-	-	-	39,178	39,178	-	-	-	9,795	9,795
DEFERRED TAX ASSETS NON RECOGNIZED	-	-	-	47,898	47,898	-	-	-	11,975	11,975
TOTAL DEFERRED TAX ASSETS	97,800	17,678	(12,361)	27,955	131,072	24,449	4,420	(3,091)	6,989	32,767

	TEMPORARY DIFFERENCE					TAX EFFECT				
	2016	Origin	Reversal	Other	2017	2016	Origin	Reversal	Other	2017
Accelerated depreciation 2011	21,461	-	(7,690)	-	13,771	5,351	-	(1,923)	-	3,428
Accelerated depreciation 2012	12,867	-	(2,819)	-	10,048	3,233	-	(705)	-	2,528
Goodwill deductible purchases from third parties	5,033	-	-	(7)	5,026	1,258	-	-	(2)	1,256
Argentina	66,137	-	(13,226)	-	52,911	16,533	-	(3,307)	-	13,226
Others	1,678	-	-	(507)	1,171	397	-	-	(125)	272
TOTAL DEFERRED TAX LIABILITIES	107,176	-	(23,735)	(514)	82,927	26,772	-	(5,935)	(127)	20,710

The unrecognised temporary differences detailed above reflect the net balance of unrecognised deductible temporary differences for the accounting impairment of Shanghai DIA Retail C.Ltd. and DIA Tian Tian Management Consulting Service, amounting to Euros 95,138 thousand and Euros 19,300 thousand, respectively, and unrecognised taxable temporary differences pending inclusion due to application of Royal Decree-Law 3/2016 of 2 December 2016, amounting to Euros 55,959 thousand and Euros 10,579 thousand, respectively.

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

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

Law 16/2013, which introduced a number of tax measures, repealed article 12.3 of the Revised Corporate Income Tax Law approved by Royal Legislative Decree 4/2004, which allowed impairment losses on securities held in the capital of companies to be deducted from taxable income. At the same time a transitional regime was established whereby it became compulsory to include impairment losses generated prior to this new rule in taxable income. Royal Decree-Law 3/2016 has amended this transitional regime and stipulated a minimum amount of impairment losses to be reversed that must be included each year. Consequently, the amount to be included in taxable income will be the greater of the resulting positive difference in the investee's capital and reserves and a fifth of the amount pending reversal. In 2017 the amount included in taxable income was a fifth of the amount pending reversal for each of the companies. Details are as follows:

	Thousands of Euros		
Company	Difference in Equity	Integrated amount in tax base	Amount pending of Intregation
Dia Argentina, S.A.	non application	13,226	39,678
Shanghai Dia Retail Co.Ltd.	non application	13,990	41,969
Dia Tian Tian Management Consulting Service & Co.Ltd	non application	2,645	7,934

In 2016 the increase in the capital and reserves of DIA Tian Tian Management Consulting Service entailed, under the same terms, the reversal of a fifth of the tax impairment made in prior years with respect to this investment.

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

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

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

(22) Environmental information

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

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

The Company's board of directors considers that there are no significant contingencies in connection with the protection and improvement of the environment and that it is not necessary to recognise any provisions for environmental liabilities and charges in the annual accounts at 31 December 2017 and 2016.

(23) Related party balances and transactions

(a) Related party balances

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

(b) Transactions with subsidiaries and associates

The Company's transactions with subsidiaries are as follows:

	Thousands of euros	
Balances with subsidiaries and associated companies	**2017**	**2016**
Sales	869,832	945,962
Other services rendered	143,617	122,849
Finance income	829	1,246
Dividends	19,651	40,966
TOTAL REVENUES	**1,033,929**	**1,111,023**
Purchases	(32,283)	(16,287)
Work carried out by the company for assets	33,965	34,010
External services	18,734	9,943
Finance expenses	-	-
TOTAL EXPENSES	**20,416**	**27,666**
Goodwill	2,920	25,023
Buildings	1,503	4,644
Machinery, installations, furniture and other fixed assets	2,570	9,293
TOTAL COST	**6,993**	**38,960**
Intangible fixed assets	(34)	(842)
Buildings	(238)	(189)
Machinery, installations and furniture	(674)	(964)
Other fixed assets	(1,078)	(14)
TOTAL CARRYING AMOUNT	**(2,024)**	**(2,009)**

During 2017, transactions were carried out with the company Red Libra totalling Euros 1,157 thousand and the company CDSI for Euros 56,466 thousand, mainly relating to trade transactions (see note 20 (c)).

(c) Information on the directors and senior management personnel

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

Thousands of Euros			
2017		**2016**	
Directors	**Senior mgt.**	**Directors**	**Senior mgt.**
2,237	6,578	2,756	4,747

In 2017 and 2016 the Company's directors accrued remuneration of Euros 1,174 thousand and Euros 1,188 thousand, respectively, 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 Company'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			
Members of the Board	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 Genova	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 Luísa Garaña Corces	21.3	73.5	-	-
Total	**302**	**1,472**	**456**	**7**

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

2016	Thousands of Euros			
Members of the Board	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 Genova	32.7	92.1	-	-
Mr. Richard Golding	35.9	98.8	-	-
Mr. Mariano Martín Mampaso	41.9	94.7	-	-
Mr. Pierre Cuilleret	11.8	26.9	-	-
Ms. Rosalía Portela de Pablo	22.4	64.1	-	-
Mr. Antonio Urcelay Alonso	32.7	94.1	-	-
Ms. Angela Lesley Spindler	34.0	72.7	-	-
Mr. Borja de la Cierva Álvarez de Sotomayor	10.5	28.6	-	-
Ms. María Luísa 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 Company have not carried out operations with the Parent or Group companies other than ordinary operations under market conditions.

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

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

(24) Income and Expenses

(a) Revenues

Sales

Details of revenues by geographical market are as follows:

	Thousands of Euros	
	2017	2016
East Spain	1,711,024	1,773,903
West Spain	2,499,452	2,618,131
Comunitary	3,435	2,959
Abroad	34,864	37,900
Total	**4,248,775**	**4,432,893**

Services delivery

In 2017 and 2016 services rendered include the amounts of the rights licensed by DIA, ancillary services pertaining to the technical and commercial assistance provided to its franchisees and the revenues generated on home deliveries by its establishments.

(b) Supplies

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

	Thousands of Euros	
	2017	**2016**
Merchandise used		
Purchases	4,517,626	4,681,152
Purchase discounts, non-trade income and returns	(1,065,501)	(1,085,716)
Change in inventories	51,682	(22,046)
Total	**3,503,807**	**3,573,390**
Raw materials and consumables used		
Purchases	14,455	14,956
Change in inventories	428	758
Total	**14,883**	**15,714**
Subcontracted work	41,043	40,748
Impairment of merchandise, raw materials and other suppliers	(121)	386
Total	**3,559,612**	**3,630,238**

(c) Employee benefits expense

Details of the employee benefits expense are as follows:

	Euros	
	2017	**2016**
Social Security payable by the Company	87,552	87,716
Other employee benefits expenses	3,050	3,284
Total	**90,602**	**91,000**

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

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

	Thousands of Euros	
	2017	**2016**
Impairment of intangible assets (note 5)	8	91
Impairment of property, plant and equipment (note 6)	2,790	3,714
Impairment of goodwill (note 5 (a))	3,736	825
Dispossals and retirements of intangible assets (note 5)	839	380
Dispossals and retiremens of property, plant and equipment (note 6)	2,013	(11,074)
Total	**9,386**	**(6,064)**

Proceeds from the sale of these fixed assets totalled Euros 16,044 thousand in 2017 (Euros 31,342 thousand in 2016) and mostly derived from the sale of properties owned by the Company.

(25) Commitments and Contingencies

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

These off-balance-sheet cash commitments comprise:

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

Commitments were acquired to carry out business expansion processes.

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

Itemised details of commitments at 31 December 2017 and 2016 are as follows:

(a) Pledged

In thousands of Euros - 31 December 2017	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Guarantees	578	510	2,185	10,030	13,303
Cash	**578**	**510**	**2,185**	**10,030**	**13,303**
Purchase option on warehouses and stores	7,212	24,084	2,219	46,292	79,807
Commercial contract commitments	11,102	1,254	76	-	12,432
Other commitments	4,151	1,870	6,775	236	13,032
Operations / property / expansion	**22,465**	**27,208**	**9,070**	**46,528**	**105,271**
Total	**23,043**	**27,718**	**11,255**	**56,558**	**118,574**

In thousands of Euros - 31 December 2016	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Guarantees	205	250	1,183	8,552	10,190
Cash	**205**	**250**	**1,183**	**8,552**	**10,190**
Purchase option on warehouses and stores	9,630	14,643	5,999	36,300	66,572
Commercial contract commitments	13,881	1,565	47	-	15,493
Other commitments	4,538	3,318	3,672	169	11,697
Operations / property / expansion	**28,049**	**19,526**	**9,718**	**36,469**	**93,762**
Total	**28,254**	**19,776**	**10,901**	**45,021**	**103,952**

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

At 31 December 2017 and 2016, as the Parent of the DIA Group, the Company has guaranteed the financing granted to its subsidiaries in China, amounting to Euros 22,813 thousand and Euros 30,049 thousand, respectively.

(b) Received

In thousands of Euros - 31 December 2017	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Unused credit facilities	67,750	-	-	-	67,750
Unused revolving lines of credit	600,000	-	-	-	600,000
Unused confirming lines	216,974	-	-	-	216,974
Cash	**884,724**	**-**	**-**	**-**	**884,724**
Commercial contract commitments (note 10 d)	20,238	4,902	5,718	9,539	40,397
Other commitments	4,000	-	-	-	4,000
Operations / property / expansion	**24,238**	**4,902**	**5,718**	**9,539**	**44,397**
Total	**908,962**	**4,902**	**5,718**	**9,539**	**929,121**

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

(26) Employee information

The average headcount of full-time-equivalent personnel in 2017 and 2016, distributed by professional category, is as follows:

	2017	2016
Management	132	138
Middle management	595	586
Other employees	14,288	14,742
Total	**15,015**	**15,466**

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

	2017		2016	
	Female	Male	Female	Male
Board members	3	7	3	7
Management	41	85	47	90
Middle management	297	311	312	294
Other employees	10,478	4,431	10,745	4,673
Total	**10,819**	**4,834**	**11,107**	**5,064**

In 2017 the Company employed one executive, two middle management personnel and 113 other employees with a disability rating of 33% or above (or an equivalent local classification). In 2016 the Company employed one executive, two middle management personnel and 121 other employees with this disability rating.

The Company's senior management is formed by sixteen executives at 31 December 2017 and ten at 31 December 2016. One executive is a member of the board of directors at 31 December 2017 and 2016.

(27) Audit fees

KPMG Auditores, S.L., the auditor of the Company's annual accounts, and other affiliates of KPMG International invoiced the following fees for professional services during the years ended 31 December 2017 and 2016:

	2017		
Thousands of Euros	KPMG Auditores, S.L.	Other companies associated with KPMG International	Total
Audit services	175	-	175
Other services relating to audit	124	-	124
Other services	-	21	21
Total	**299**	**21**	**320**

Thousands of Euros	KPMG Auditores, S.L. (2016)	Other companies associated with KPMG International (2016)	Total (2016)
Audit services	131	-	131
Other services relating to audit	107	-	107
Other services	-	47	47
Total	**238**	**47**	**285**

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. during the year ended 31 December 2017.

The information relating to services other than the audit of the annual accounts rendered by KPMG Auditores, S.L. to the companies controlled by DIA S.A. during the year ended 31 December 2017 is included in the consolidated annual accounts for DIA S.A. and subsidiaries at 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.

(28) 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.

DIRECTORS' REPORT 2017

(Free translation 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) have prepared this 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).

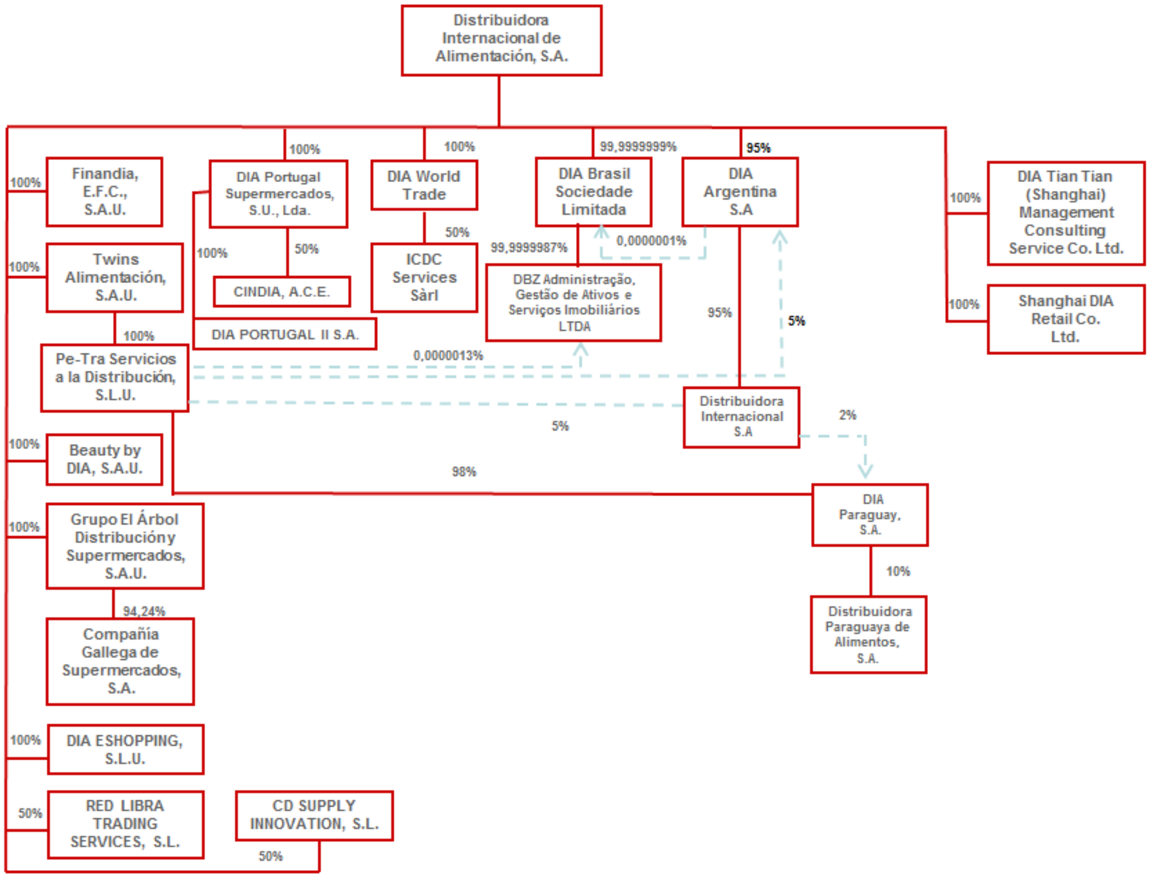
DIA E-Shopping creates, maintains and operates websites and internet portals for the sale of products and services.

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.

<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. 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

1.1.4. 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 62.4% 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

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Tax identification number A-28164754 – company filed with the Madrid Mercantile Registry on 9 December 1966, volume 2,063 of companies, page 91, sheet 11,719

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

In 2017, the Company generated a net turnover of EUR4,393.9m. Accordingly, and jointly with its foreign subsidiaries, it generated sales of EUR8,620.6m in 2017 (EUR8,669.3m in 2016).

In 2017, the Company's operating income was EUR153.9m, representing a 36.5% decrease compared to 2016.

In 2017 the Company recognised impairment of Euros 38,870 thousand on its interest in Shanghai Dia Retail CO., LTD. (Euros 20,642 thousand in 2016). The impairment of the shareholdings in China has been taken to non-current assets held for sale. With the purchase on 31 October 2014 of Grupo El Árbol Distribución and Supermercados S.A., the Company acquired the equity loan of which some of its partners were holders. This loan, which was made up of a fixed part and a variable part, was given a reasonable value at the time of purchase of EUR36.989m. As of 25 September 2015, the variable price was adjusted, and the loan was modified accordingly, finally valued at EUR35.137m, including the accrued interest. This loan, which matured on 1 September 2016, was paid according to its nominal value of EUR53.333m, generating an income in 2016 of EUR18.196m, included in the line item "Impairment losses from disposals of financial instruments".

DIA: FY RESULTS 2017

(EURm)	2016	%	2017	%	INC
Sales	**4,570.6**	**100.0%**	**4,393.9**	**100.0%**	**-3.9%**
Works carried out by the company for as	5.1	0.1%	5.2	0.1%	2.0%
Supplies	(3,630.3)	-79.4%	(3,559.6)	-81.0%	-1.9%
Other operating income	245.7	5.4%	274.6	6.2%	11.8%
Personnel expenses	(451.7)	-9.9%	(427.3)	-9.7%	-5.4%
Other operating expenses	(384.1)	-8.4%	(403.7)	-9.2%	5.1%
Amortisation and depreciation	(119.6)	-2.6%	(120.2)	-2.7%	0.5%
Non financial and other capital grants	0.7	0.0%	0.4	0.0%	-42.9%
Impairment and gains on dispossal of fi	6.1	0.1%	(9.4)	-0.2%	-254.1%
Results form operating activities	**242.5**	**5.3%**	**153.9**	**3.5%**	**-36.5%**
Net finance income (excluding financial	25.7	0.6%	4.3	0.1%	-83.3%
Impairment and gains on dispossal of fi	(2.4)	-0.1%	(38.9)	-0.9%	1520.8%
Net finance result	**23.3**	**0.5%**	**(34.6)**	**-0.8%**	**-248.5%**
Profit before income tax	**265.8**	**5.8%**	**119.3**	**2.7%**	**-55.1%**
Income tax	(58.4)	-1.3%	(30.4)	-0.7%	-47.9%
PROFIT OF THE YEAR FORM RECURRING OPERATIONS	**207.4**	**4.5%**	**88.9**	**2.0%**	**-57.1%**

In 2017, net business turnover per employee amounted to EUR292,635 (EUR295,522 in 2016).

WORKING CAPITAL AND NET DEBT

The Company's negative working capital was EUR538.6m at the end of 2017, implying a 15.8% rise versus the same period in the previous year. Thanks to the new initiatives implemented to optimize stocks, the value of inventories declined by EUR51.7m in 2017, 21.0% down in Euros to EUR194.5m. The material reduction of stocks was attributable to the Double E-Project.

WORKING CAPITAL

(EURm)	2016	2017	INC
Inventories	246.2	194.5	-21.0%
Trade and other receivables	369.4	382.1	3.4%
Trade and other payables	(1,080.8)	(1,115.2)	3.2%
Trade working capital	**(465.2)**	**(538.6)**	**15.8%**

Net debt at the end of December 2017 amounted to EUR1,056.0, EUR38.8m higher than same period last year. During 2016, DIA invested EUR19.9m in the acquisition of treasury stock linked to commitments acquired as part of the 2016-18 long-term incentive programme. Regarding dividends, in July 2017 DIA paid EUR128.5m to shareholders, which was EUR6.3m more than in 2016.

NET DEBT

(EURm)	2016	2017	INC
Long-term debt	*1,048.1*	*954.7*	*-8.9%*
Short-term debt	*131.6*	*259.9*	*97.5%*
Total debt	1,179.7	1,214.6	*3.0%*
Cash and equivalents	(162.5)	(158.6)	-2.4%
Net debt	**1,017.2**	**1,056.0**	**3.8%**

INVESTMENT AND NUMBER OF STORES

At the end of 2017, the DIA Group operated a total of 7,388 stores, 32 less than in the same period last year (adjusted by the discontinued operations in China). Regarding the El Árbol and La Plaza formats, the number of supermarkets fell from 355 to 306 during 2017. This decrease of 49 stores was entirey explained by the completion of the El Arbol to La Plaza restructuration and upgrading process.

Clarel increased its network by 18 stores in 2017 (of which 11 in Spain and 7 in Portugal), reaching a total of 1.251 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.

Over the last twelve months, the number of franchised stores operated under the DIA banners increased by 85 from 3,137 to 3,222, and the weight of franchise stores rose accordingly from 57.8% to 59.5%.

	31 December 2016				31 December 2017				
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
DIA banner 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**	**100.0%**	**3,603**	**3,785**	**7,388**	**100.0%**	**-32**

2.2. Non-financial information

2.2.1. Environment

The Company'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

DIA 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.

DIA'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.

Despite the progress made in terms of in-store eco-efficiency, DIA 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 DIA is aware of the impact that these activities have on the environment, 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'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, DIA 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, DIA'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 Company'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,DIA 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 Company'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.

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.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.

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 Human Resources talent attraction team.

Employee focus

DIA 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

(GRI indicator 404-1)

	Rotation and rotation rate					
	Menores de 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)
Brasil	1,418 (1.4)	1,721 (1.7)	644 (0.63)	989 (0.98)	18 (0.017)	19 (0.018)
España	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 .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

(Indicador GRI 403-2)

In the Company 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.

In order to help improve the healthy lifestyle habits of its employees, for the seventh year in a row, DIA 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 Company'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 for the 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, 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.

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.

2.2.2.4. Equal opportunities in the workplace

DIA is committed to ensuring equal opportunities in the workplace. Women accounted for 69.1% of the total workforce, and 32.4% of people in management positions at Group level. On the Board of Directors, the proportion remains around 30%, while at Director level this ratio is 32.5%, slightly below last year's figure (34.3%).

At the end of 2017, the DIA Group's 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 which aims to delve even further into the equality of professional opportunities at all levels of the workforce.

On 8, 9, and 10 of March 2017, to celebrate International Women's Day, DIA 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, 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), 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

DIA 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.

At the end of 2017,DIA renewed the Inserta agreement with the Fundación Once. This project was started in 2012, and has led to 90 people with disabilities being employed by DIA. The company has now committed to hiring another 150 people with disabilities over the next four years. DIA 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, 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

DIA 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 DIA 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.

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

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. 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

Talent training and development

DIA 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.

In addition to external training, DIA has 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)

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, DIA 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.

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.

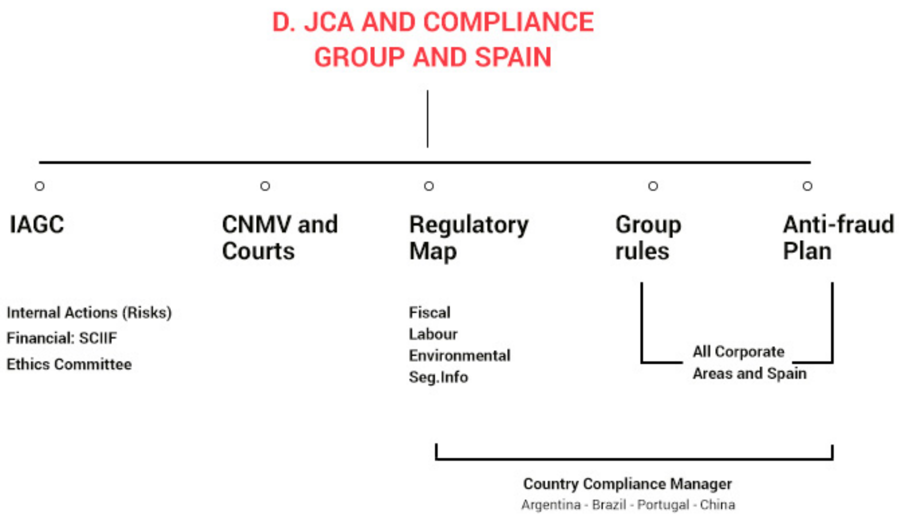
A Corporate Ethics Committee and an Ethics Committee in each country are responsible for implementing the Code of Ethics with the following duties:

- 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, DIA has developed and implemented a **Crime 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.



During 2017, a case of corruption was detected in DIA, 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 DIA 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.

Deliveries to food banks

During 2017, DIA delivered more than 3,8 million kilos of food to the Food Bank, 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, DIA 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 DIA 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:

- 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 DIA 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:

  DIA 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 Company'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:

  DIA 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, DIA 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 Company's campaign 'Menores sin alcohol, un reto de todos' ("Children without alcohol, a challenge for everyone"), and DIA 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:

  DIA 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. DIA, 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:

  DIA 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.

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

  DIA 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, DIA 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.

3. LIQUIDITY AND CAPITAL RESOURCES

3.1. Liquidity

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

As of 31 December 2017, available liquidity amounted to EUR826.4m, including cash, cash equivalents, and available credit facilities.

Liquidity Analysis (EURm)

Class	Total	Used	Avaible
Revolving credit lines	600.0	-	600.0
Credit lines	67.8	-	67.8
Cash and other cash equivalents	158.6	-	158.6
Total	**826.4**	**-**	**826.4**

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 Company's strategy is focused on mainly investing in markets with higher returns and in store openings and store remodelling.

DIA 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, DIA 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 DIA as of 31 December 2017, and that can affect its liquidity, amount to EUR273.2m (31 December 2016: EUR227.3m). The most significant item corresponds to lease contract commitments signed for the premises where DIA carries out its activity.

Lease contract commitments of premises amounted to EUR173.3m as of 31 December 2017 (31 December 2016: EUR137.3m).

DIA has obligations linked to furniture and equipment rental (vehicles, equipment, cleaning contracts, etc.) amounting to EUR0.8m as of 31 December 2017 (EUR1.2m as of 31 December 2016).

Commitments related to expansion operations amounted to EUR99.2m as of 31 December 2017, and EUR88.9m 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.

DIA also received commitments that can involve a future cash inflow amounting to EUR884.7m (EUR968.8m 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's risk management model

The Company 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 Company's level of tolerance.

The DIA'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 Company'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 10 of the Notes to the Annual Accounts 2017.		

DIA 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 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.

6. OUTLOOK

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

7. R&D+I ACTIVITIES

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

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

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

EUR11.0m was activated during 2017, corresponding to the capitalization of IT developments (EUR7.1m in 2016).

8. TREASURY STOCK AND EARNINGS PER SHARE

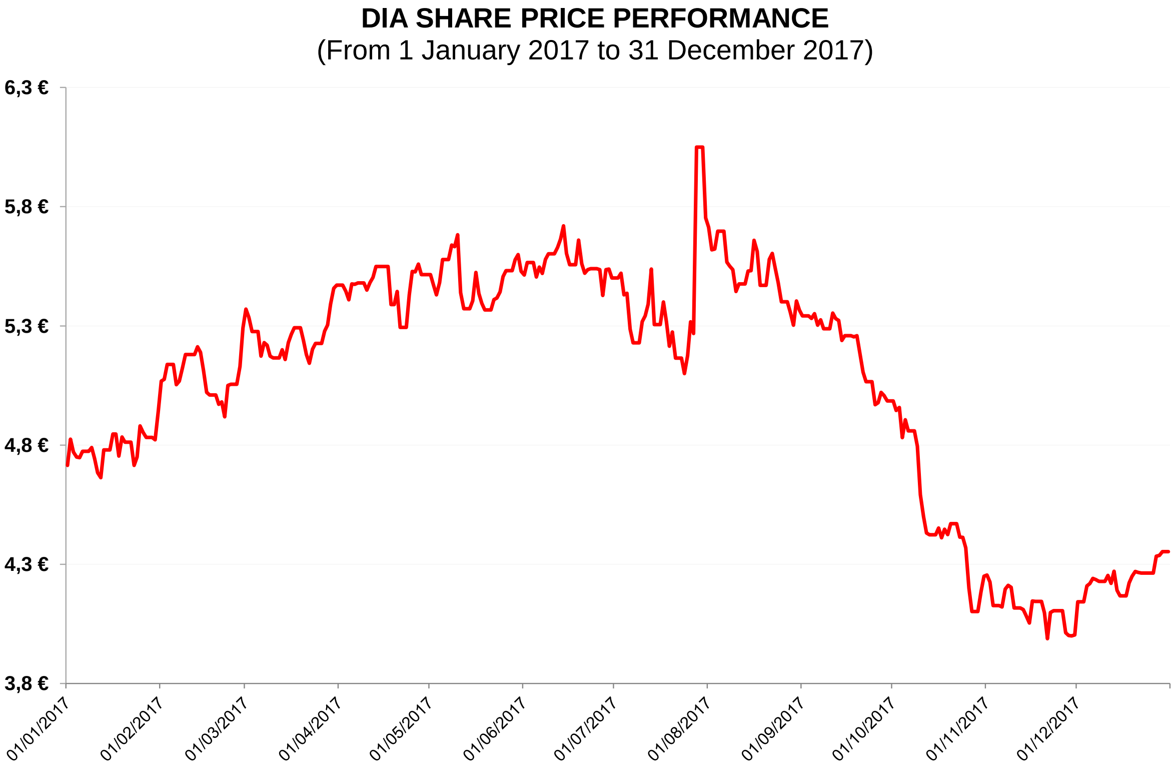
As of 31 December 2017, DIA held 10.3 million shares as treasury stock for the purpose of covering the different share remuneration commitment the company has in its Incentive Plan for the Company's management team.

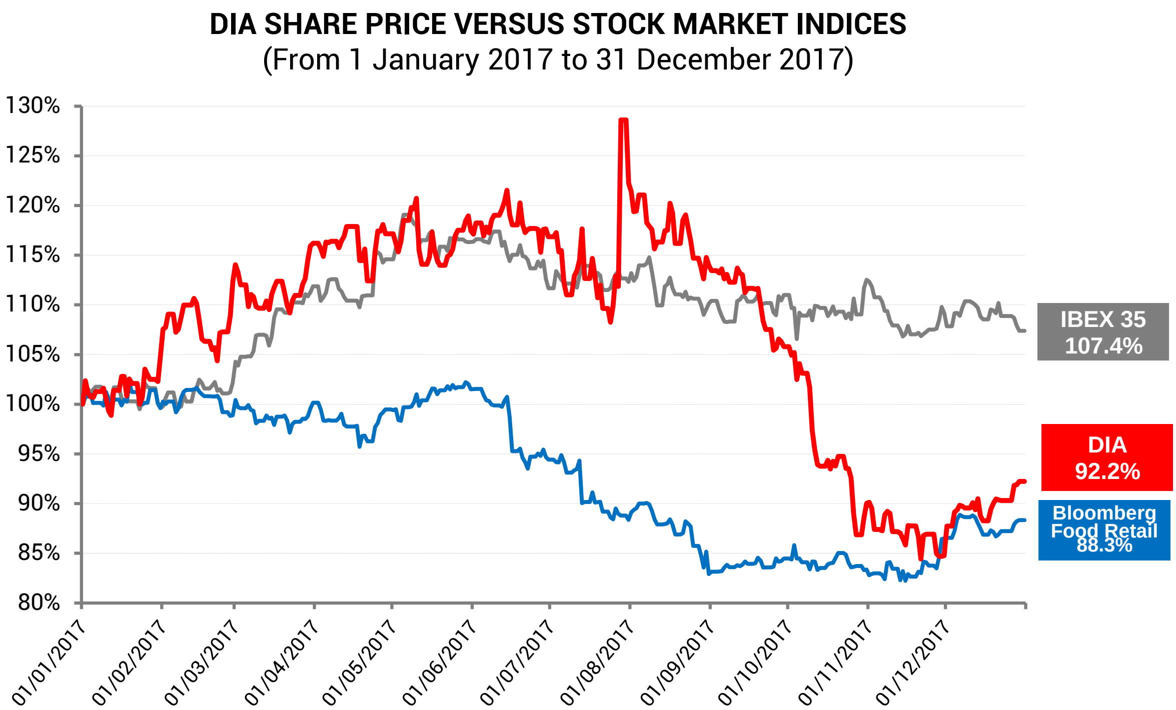
(€m)	2016	2017	Change	Change (Ex-FX)
Number of shares outstanding (millón)	622,46	622,46	0,0%	-
Average number of treasury shares (millón)	9,28	10,57	14,0%	-
End of period number of treasury shares (millón)	11,11	10,31	-7,2%	-
Weighted average number of shares (millón)	613,18	611,89	-0,2%	-
EPS	**€0,28**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

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

9. OTHER RELEVANT INFORMATION

9.1. Stock market information





During 2017, DIA's share price fell by 7.8%, versus the 7.4% appreciation recorded in the Ibex 35 (the Spanish stock market's main reference index) and underperforming the 11.7% drop recorded by the Bloomberg Food Retail Index. During 2017, the company saw a minimum price per share of EUR3.938 on 30 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.