La sociedad DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. ("**DIA**" o la "**Sociedad**"), domiciliada en el término municipal de Las Rozas de Madrid (Madrid), Parque Empresarial de Las Rozas, edificio Tripark, calle Jacinto Benavente número 2-A, e inscrita en el Registro Mercantil de Madrid, actualmente al Tomo 22.265, Folio 75, Sección 88, Hoja M-183.762, y con N.I.F. A- 28.164.754,

INFORMA

I. Que, en cumplimiento de la normativa española y de conformidad con lo previsto en el artículo 7.3. del Real Decreto 1362/2007, de 19 de octubre, por el que se desarrolla la Ley 24/1988, de 24 de julio, del Mercado de Valores, en relación con los requisitos de transparencia relativos a la información sobre los emisores cuyos valores estén admitidos a negociación en un mercado secundario oficial o en otro mercado regulado de la Unión Europea (el "**Real Decreto 1362/2007**"), aplicable a la Sociedad, las cuentas anuales consolidadas y el informe de gestión consolidado de la Sociedad y sus sociedades dependientes correspondientes al ejercicio finalizado el 31 de diciembre de 2018, se han publicado en castellano y en inglés. El Consejo de Administración de la Sociedad ha formulado las cuentas anuales y el informe de gestión consolidados de la Sociedad y sus sociedades dependientes correspondientes al ejercicio finalizado el 31 de diciembre de 2018 simultáneamente en castellano y en inglés.

II. Que, asimismo, las cuentas anuales y el informe de gestión individuales de la Sociedad correspondientes al ejercicio finalizado el 31 de diciembre de 2018 han sido formulados y publicados en castellano, habiéndose publicado asimismo una traducción de los mismos al inglés.

III. Que, por su condición de sociedad cotizada sometida a las leyes españolas, DIA ha remitido a la Comisión Nacional del Mercado de Valores las cuentas anuales individuales y consolidadas y los respectivos informes de gestión individual y consolidado correspondientes al ejercicio finalizado el 31 de diciembre de 2018 en su versión en castellano, que serán los que se someterán a la aprobación de la Junta General de Accionistas y se presentarán en el Registro Mercantil para su depósito.

IV. Que las versiones en castellano y en inglés de las cuentas anuales y el informe de gestión consolidados correspondientes al ejercicio finalizado el 31 de diciembre de 2018 son equivalentes y tienen el mismo alcance.

The company DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. ("**DIA**" or the "**Company**"), with corporate address in Las Rozas de Madrid (Madrid), Parque Empresarial de Las Rozas, edificio Tripark, calle Jacinto Benavente number 2-A, and registered in the Commercial Registry of Madrid, at present in Volume 22.265, Folio 75, Section 88, Sheet M-183.762 and with T.I.N. A- 28.164.754,

INFORMS

I. That, in accordance with Spanish legislation and, in particular, with the provisions of article 7.3. of the Royal Decree 1362/2007, of 19 October, implementing Securities Market Law 24/1988, of 24 July, in relation to transparency requirements relating to information on issuers whose securities are admitted to trading on an official secondary market or another regulated market in the European Union (the "**Royal Decree 1362/2007**"), applicable to the Company, the consolidated annual accounts and the consolidated management report of the Company and its subsidiaries for the fiscal year ended on 31 December 2018 have been published in Spanish and English. The Board of Directors of the Company has drafted and approved ("*formulado*") the consolidated annual accounts and management report of the Company and its subsidiaries for the fiscal year ended on 31 December 2018 simultaneously in Spanish and English.

II. That, additionally, the individual annual accounts and management report of the Company for the fiscal year ended on 31 December 2018 have been drafted and approved ("*formulados*") and published in Spanish, and an English loose translation thereof has been also published.

III. That, due to its status as listed company subject to Spanish legislation, DIA has submitted to the National Securities Market Commission the individual and consolidated annual accounts, as well as the respective individual and consolidated management reports for the fiscal year ended on 31 December 2018 in Spanish, which will be the ones to be submitted for approval of the General Annual Meeting and filed with the Commercial Registry.

IV. The Spanish and English consolidated annual accounts and management report for the fiscal year ended on 31 December 2018 are equivalent and have the same scope.

Distribuidora Internacional de Alimentación, S.A. and Subsidiaries

Consolidated Annual Accounts

31 December 2018

Consolidated Directors' Report

2018

(With Independent Auditor's Report Thereon)

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

Independent Auditor's Report on the Consolidated Annual Accounts

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

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Distribuidora Internacional de Alimentación, S.A. (the "Parent" or the "Company") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

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

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

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

KPMG Auditores S.L., sociedad española de responsabilidad limitada y firma miembro de la red KPMG de firmas independientes afiliadas a KPMG International Cooperative ("KPMG International"), sociedad suiza.
Paseo de la Castellana, 259C – Torre de Cristal – 28046 Madrid

Inscrita en el Registro Oficial de Auditores de Cuentas con el nº.S0702, y en el Registro de Sociedades del Instituto de Censores Jurados de Cuentas con el nº.10.
Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
N.I.F. B-78510153

Material Uncertainty Related to Going Concern

We draw attention to notes 1.1, 2.4 and 2.5 to the consolidated annual accounts which indicate that the Group's consolidated equity at 31 December 2018 is negative in an amount of Euros 166,062 thousand and that at that date current assets less current liabilities, excluding assets and liabilities held for sale, are also negative in an amount of Euros 1,125,602thousand, including financial debt totalling Euros 738,814 thousand falling due in the short term. These notes provide details of the circumstances under which the Group incurred significant losses in 2018, the measures that have been implemented with the aim of redressing the equity balance of the Parent and the Group, as well as the process undertaken by the Parent to reach a refinancing agreement with the main financial institutions which will enable the Group to have an adequate debt structure to meet the liquidity needs in the normal course of business as contemplated under the new business plan approved by the Board of Directors on 30 January 2019. These facts and conditions, together with other matters set out in the aforementioned notes, indicate the existence of a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below as the key audit matters which should be communicated in our report.

Restatement of the comparative figures as a result of misstatements due to irregularities and errors

See notes 1.1, 2.3 and 14.4 to the consolidated annual accounts

Key Audit Matter	*How the Matter was Addressed in Our Audit*
As specified in note 1.1 to the accompanying consolidated annual accounts, during the third quarter of 2018, following a review of the year-end estimates for that year, the Group reduced its results forecasts for 2018 and identified misstatements in certain estimates made in prior years, mainly associated with the sales margin. In order to clarify the events that gave rise to these misstatements, the Group launched an investigation that brought to light the existence of irregular accounting practices carried out by certain employees and senior executives in Spain and Brazil by overriding the internal controls implemented by the Group. Note 1.1 provides details of the measures adopted by the Parent's Board of Directors as well as the effects that the events described have had on the Group's financial and equity position which, inter alia, have led to the restatement of the comparative figures to correct the effects thereon of the misstatements identified. Consequently these comparative figures differ from those included in the Group's approved 2017 consolidated annual accounts. Note 14.4 to the consolidated annual accounts provides details of the origin and nature of the adjustments made to the comparative figures. Given the relevance of the implications for the audit approach for 2018, this has been considered a key audit matter.	In the context of our audit, we performed, among others, the following procedures: – Understanding of the process followed by management to identify the misstatements that have led to the restatement of the comparative figures as well as the circumstances in which they took place, in particular those relating to irregular accounting practices with the effect of artificially increasing the sales margin. – Evaluation of the correct recognition of the restatement adjustments made by the Group to the comparative figures. – Analysis of the forensic investigation carried out in Spain and Brazil by the external advisors engaged by the Company to assess the possible implications on our audit approach and on the analysis of our audit evidence. – Special attention to the affected areas, including increasing the tests of detail on the matters identified as presenting a greater risk of material misstatement, obtaining additional audit evidence through confirmations with third parties, increasing the involvement of highly experienced professionals in the audit, identifying those areas in which specialist knowledge is required in order to involve the specialists considered necessary so as to respond appropriately to the risk of misstatement, as well as using computer-assisted audit tools when performing certain audit tests. – Assessment of whether the information disclosed in the consolidated annual accounts in relation to the restatement of the comparative figures meets the requirements of the financial reporting framework applicable to the Group.

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Trade discounts with suppliers See notes 3 r) and 20.3 to the consolidated annual accounts	
Key Audit Matter	*How the Matter was Addressed in Our Audit*
The Group's cost of goods and other consumables used is reduced due to different discounts based on the trade terms and conditions agreed with suppliers. Certain discounts are fixed and others are variable, and their application is subject to the cumulative volume of consumables during a contractually established period or the volume of sales of items from the corresponding suppliers by the Group companies at its establishments. During 2018 the Group recognised a Euros 1,266,366 thousand reduction in goods and other consumables used due to trade discounts applied. Certain discounts remain pending issue at the reporting date and at 31 December 2018 there is a balance of Euros 56,481 thousand receivable from suppliers. Furthermore, as indicated in notes 1 and 14.4 to the accompanying consolidated annual accounts, during 2018 the Group identified irregular accounting practices that have led to a review of the amount of discounts that had been applied. As a result of this review, equity for 2017 has been reduced by Euros 68 million, and the cost of goods and other consumables used for 2018 has been reduced by this amount. There is a risk of misstatement in the amount of the net cost of goods and other consumables recognised in the event that the discount applied does not reflect the terms and conditions actually agreed with the supplier. In these circumstances, the correct recognition of said cost requires that the Group reliably estimates the level of compliance of the terms and conditions that give entitlement to the discount. As a result of the irregularities identified and their effect on the estimate of the trade discounts, in the audit of 2018 we have increased the assessment of the risk of material misstatement and this has therefore been considered a key matter of our audit of the current year.	In the context of our audit, we performed, among others, the following procedures: – Understanding of the process followed by the Group to determine and recognise the discounts to be applied for each supplier based on the terms and conditions agreed. – Selection of a sample of suppliers from which confirmation has been requested of the trade terms and conditions agreed with the Group, as well as confirmation of the invoices issued and balance receivable at the reporting date. – Recalculation, for a sample of suppliers, of the reduction in the cost of supplies recognised in respect of the trade discounts applied, considering the trade terms and conditions agreed with these suppliers. – Tests of details for the purposes of concluding on the reasonableness and recoverability of the balances receivable from suppliers recognised under assets on the statement of financial position. Furthermore, for a selected sample, we verified the subsequent collection or, where appropriate, offset of the balance with subsequent purchases. – Evaluation of the correct recognition of the restatement adjustments made by the Group to the comparative figures. – Assessment of whether the information disclosed in the consolidated annual accounts in relation to the trade discounts meets the requirements of the financial reporting framework applicable to the Group.

Recoverability of the deferred tax assets of the Spanish tax group

See notes 3y) and 17 to the consolidated annual accounts.

Key Audit Matter	*How the Matter was Addressed in Our Audit*
As mentioned in note 17 to the accompanying consolidated annual accounts, the Spanish Group companies file consolidated tax returns and at 31 December 2018 have tax loss carryforwards pending offset amounting to Euros 257,165 thousand, of which Euros 48,513 thousand has been recognised by the Group as deferred tax assets. As a result of the reduction in the future result forecast in the new business plan (see note 1.1), the Group has evaluated the recoverability of the amounts of the deferred tax assets considering that the probable recovery period does not exceed ten years. As a result of this analysis, deferred tax assets of the Spanish tax group amounting to Euros 170,513 thousand were derecognised during 2018. Due to the uncertainty associated with the recoverability of the amounts recognised as deferred tax assets and the expected recovery period, as well as the judgement required of the Directors in interpreting the criteria set out in prevailing tax legislation and the risks that could derive from a different interpretation of the aforementioned legislation, we consider this to be a key matter in our audit of the current year.	In the context of our audit, we performed, among others, the following procedures: – Understanding of the analysis and evaluation process carried out by the Group, in the current situation, in order to consider that the recovery of the deferred tax assets recognised at 31 December 2018 is probable. – Assessment of the reasonableness of the criteria and the main assumptions considered by the tax group in estimating the future taxable profits necessary for offset. – Contrasting of the consistency of the profit and loss forecasts used as a basis for the analysis of the recoverability of the deferred tax assets with the business plan approved by the Board of Directors on 30 January 2019 and evaluation of the reasonableness of the time period in which the Group expects to offset these assets. – Request of the opinion of the Group's tax advisors on the criteria followed to determine the tax bases of the Spanish tax group on the basis of the binding rulings received by the Group from the Spanish Directorate-General of Taxes, and analysis of their reasonableness with the assistance of our tax specialists. – Assessment of whether the information disclosed in the consolidated annual accounts in relation to the aforementioned deferred tax assets meets the requirements of the financial reporting framework applicable to the Group.

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Recoverable amount of non-current assets subject to amortisation or depreciation

See notes 3k), 5.1 and 6.1 to the consolidated annual accounts

Key Audit Matter	*How the Matter was Addressed in Our Audit*
At 31 December 2018 the Group has recognised property, plant and equipment amounting to Euros 1,268,600 thousand, and goodwill amounting to Euros 492,765 thousand. At each reporting date, the Group estimates the recoverable amount of goodwill and of the property, plant and equipment associated with those stores for which there are indications of impairment. The recoverable amount of the assets of the stores has been determined using the discounted cash flow method, considering the reduction in profit and loss and the other assumptions foreseen in the new business plan. As a result of the valuation carried out, impairment totalling Euros 68,164 thousand was recognised on property, plant and equipment in 2018, of which Euros 32,755 thousand relates to stores that are expected to close in the context of the new business plan, and impairment of Euros 11,773 thousand was recognised on goodwill assigned to stores. The recoverable amount of goodwill on consolidation and other corporate assets that have not been assigned to stores is calculated considering the future cash flows of each subsidiary as a cash-generating unit. Furthermore, the recoverable amount of store assets and other non-current assets that form part of the disposal group of assets held for sale (Clarel and Cash and Carry) has been determined as their fair value less costs to sell. Following the adjustment of the assets of the Clarel business to their fair value less costs to sell, the Group recognised a loss of Euros 37,672 thousand in 2018. As a result, to estimate the recoverable amount of the cash-generating units, the Group uses valuation techniques that require the Directors to exercise judgement and make assumptions and estimates. Due to the judgement required and the uncertainty associated with these estimates, this has been considered a key audit matter of the current period.	In the context of our audit, we performed, among others, the following procedures: – Understanding of the analysis and evaluation process carried out by the Group, in the current situation, in order to identify the stores with indications of impairment and, therefore, to calculate their recoverable amount. – Assessment, with the involvement of our valuation specialists, of the reasonableness of the methodology used to calculate the recoverable amount and the main assumptions considered. – Contrasting of the consistency of the future profit and loss forecasts used as a basis for the calculation of the recoverable amount of the stores with the business plan approved by the Board of Directors on 30 January 2019, challenging the main assumptions therein. – Sensitivity analysis of certain assumptions in the model to changes that are considered reasonable. – For the assets included in the disposal group of assets held for sale, procurement of the valuation performed and assessment of the reasonableness of the methodology used for their calculation. – Assessment of whether the information disclosed in the consolidated annual accounts in relation to the impairment of non-current assets meets the requirements of the financial reporting framework applicable to the Group.

KPMG

Tax provisions and contingencies

See note 17.3 to the consolidated annual accounts.

Key Audit Matter	*How the Matter was Addressed in Our Audit*
The Group is exposed to possible claims and disputes, primarily of a tax nature, in the course of its activity. Assessing and monitoring lawsuits, claims and disputes, including contingencies and, where applicable, the related provisions, is a complex process that entails evaluating future developments in these proceedings. Furthermore, these proceedings may be ongoing for a long period of time, which increases the complexity in relation to their evaluation. Note 17.3 provides details of the conclusions reached by the Group as regards the expected outcome of the proceedings underway. As indicated in said note, DIA Brazil has received additional assessments as a result of tax inspections of 2010 and 2014 amounting to Euros 93,098 thousand and Euros 97,012 thousand, respectively. The Group, based on the opinion of its advisors, considers that there are grounds for concluding that the risk of loss is possible or remote and, therefore, no provision has been made in this regard. Due to the judgement inherent in assessing these different matters and the uncertainty associated with the estimates relating to the ongoing tax proceedings, this has been considered a key audit matter of the current period.	Our audit procedures included the following: – Understanding of the process carried out by the Group to identify tax contingencies, as well as the process for estimating the probability and impact thereof on the consolidated annual accounts. – Tests of detail in order to conclude on the completeness of the source information used in the process to identify and estimate the tax contingencies. – Procurement of confirmations from the Group's external tax advisors that provide an evaluation of the risk in relation to the resolution of the aforementioned tax inspections. – As regards the tax inspections in Brazil, our own assessment of the grounds put forward by the Group and its advisors, considering the circumstances and progress of the proceedings up to the date of authorisation for issue of the consolidated annual accounts. – Assessment of whether the information disclosed in the consolidated annual accounts, including the related subsequent events, meets the requirements of the financial reporting framework applicable to the Group.

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Hyperinflation in the Argentine economy

See notes 2.6 and 14.1 to the consolidated annual accounts.

Key Audit Matter	*How the Matter was Addressed in Our Audit*
As of 1 July 2018, the Argentine economy meets the criteria for consideration as a hyperinflationary economy, for the purposes of applying International Accounting Standard (IAS) 29. This standard must be applied from the start of 2018, as if the Argentine economy had always been inflationary, i.e. retrospectively. However, as mentioned in note 2.3 to the consolidated annual accounts, the comparative figures for the Group have not been restated in accordance with the criteria laid down in IFRS-EU and, as a result, the effect of the hyperinflation is presented as an adjustment to equity at 1 January 2018. This fact must be taken into account for the purpose of analysing comparability, as the comparative figures for 2017 of the Argentine subsidiary, which are included in the Group's consolidated annual accounts, are presented without the adjustment for hyperinflation. In accordance with the criteria set out in IAS 29, non-monetary items in the statement of financial position of the Argentine subsidiary are expressed in the monetary unit current at 31 December 2018. As the economy is hyperinflationary, in accordance with IAS 21, all statement of financial position and income statement items must be translated to the Group's presentation currency (the Euro) at the closing rate. As detailed in note 2.6 to the consolidated annual accounts, the Group has opted to transfer the opening translation differences of the Argentine subsidiary to reserves without adapting the comparative figures and, as a result, the total effect of the adjustment for hyperinflation is presented in this item. As a result of applying these accounting criteria, the Group has increased its equity by Euros 55,650 thousand. Due to the significance of the adjustment for hyperinflation made to the figures for 2018 and the complexity associated with the calculation of this adjustment, we have considered this to be a key audit matter.	In the context of our audit, we performed, among others, the following procedures: – Understanding of the methodology used by the Group in the adjustment of the financial position at 1 January and 31 December 2018. – Corroborate, through an inspection of the Group's working papers, that the criteria set out in IAS 29 have been applied for the adjustment of the financial position at 1 January and 31 December 2018 to the monetary unit current at those dates. In this regard, our work was focused on: ▪ Identifying the monetary and non-monetary assets and liabilities. ▪ Check that the inflation rates applied reflect those published by the National Institute of Statistics and Censuses of the Argentine Republic (INDEC). ▪ Recalculating the net deferred position for income tax at 31 December 2018. ▪ Performing tests of detail in relation to the revaluation of the non-monetary assets in order to check that the adjusted amount does not exceed their recoverable amount. ▪ Calculating at 1 January and 31 December 2018 the cumulative adjustment in reserves due to first-time application of IAS 29. – Corroborate, through an inspection of the Group's working papers, that the criteria set out in IAS 29 for the calculation of the adjustment of the net monetary position have been applied. – Corroborate that the financial statements of the Argentine subsidiary, adjusted for inflation, have been translated at the closing rate, and check the transfer of opening translation differences to reserves. – Assessment of whether the information disclosed in the consolidated annual accounts in relation to the hyperinflation meets the requirements of the financial reporting framework applicable to the Group.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2018 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

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

a) A specific level applicable to the consolidated non-financial information statement 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 consolidated directors' report, or where applicable, that the consolidated directors' report makes reference to the separate report on non-financial information, as provided for in legislation, and if not, to report on this matter.

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

Based on the work carried out, as described above, we have verified that the information mentioned in a) above has been provided in the consolidated directors' report and that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2018 and the content and presentation of the report are in accordance with applicable legislation.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

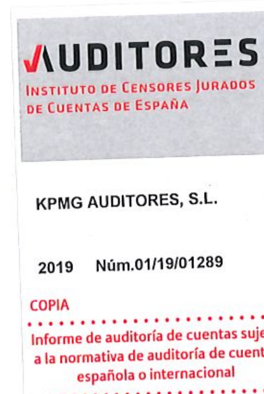
Additional Report to the Audit Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's audit committee dated 7 February 2019.

Contract Period

We were appointed as auditor of the Group by the shareholders at the general meeting on 20 April 2018 for a period of three years, for the years ending 2018, 2019 and 2020. Previously, we were appointed as auditor from 2011 onwards, by consensus of the shareholders at their general meeting, and have been auditing the consolidated annual accounts of the Group since 1995.

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



María Lacarra
Inscrito en el R.O.A.C: nº 20.411

7 February 2019

Distribuidora Internacional de Alimentación, S.A. and Subsidiaries

Consolidated Annual Accounts and Consolidated Management Report

31 December 2018

(Together with the Audit Report)

DIA

CONSOLIDATED ANNUAL ACCOUNTS OF DIA GROUP

AT 31 DECEMBER 2018

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Appendix 1

DIA

(I) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Thousands of euro)

ASSETS	Notes	2018 31 December	Restated (*) 2017 31 December	Restated (*) 2017 1 January
Property, plant and equipment	5	1,268,600	1,410,739	1,492,476
Goodwill	6.1	492,765	553,129	557,818
Other intangible assets	6.2	47,297	43,492	37,560
Investments accounted for using the equity method	9	9,182	380	185
Trade and other receivables	8.1	63,306	73,084	69,345
Other non-current financial assets	8.2	74,056	80,296	59,996
Non-current tax assets	17	43,888	33,248	-
Consumer loans from financial activities		-	-	401
Deferred tax assets	17	73,346	272,349	287,004
Non-current assets		**2,072,440**	**2,466,717**	**2,504,785**
Inventories	11	531,664	609,004	665,792
Trade and other receivables	8.1	192,278	198,791	162,426
Consumer loans from financial activities	8.3	20	1,070	6,220
Current tax assets	17	38,030	57,847	67,760
Current income tax assets	17	10,143	3,525	11,988
Other current financial assets	8.2	11,302	9,896	12,375
Other assets	10	7,355	7,387	8,140
Cash and cash equivalents	12	239,843	346,516	363,266
		1,030,635	**1,234,036**	**1,297,967**
Non-current assets held for sale	13	168,738	39,604	-
Current assets		**1,199,373**	**1,273,640**	**1,297,967**
TOTAL ASSETS		**3,271,813**	**3,740,357**	**3,802,752**

The accompanying notes form an integral part of the consolidated annual accounts for 2018.
(*) Restated figures. See details in note 2.3 and 14.4

DIA

(I) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Thousands of euro)

EQUITY AND LIABILITIES	Notes	2018 31 December	Restated (*) 2017 31 December	Restated (*) 2017 1 January
Capital	14.1	62,246	62,246	62,246
Reserves	14.2	246,701	244,256	245,915
Own shares	14.3	(55,861)	(60,359)	(66,571)
Other own equity instruments	14.3	6,820	10,773	21,013
Net (losses)/profit for the period		(352,587)	101,208	128,816
Traslation differences	14.8	(73,394)	(100,777)	(59,773)
Value adjustments due to cash flow hedges		13	(55)	92
Equity attributable to equity holders of the Parent		(166,062)	257,292	331,738
Non-controlling interests	14.7	-	(100)	(60)
Total Equity		(166,062)	257,192	331,678
Non-current borrowings	15.1	919,070	961,945	1,062,273
Provisions	16	45,908	44,057	46,779
Other non-current financial liabilities	15.2	2,291	2,491	2,785
Deferred tax liabilities	17	-	2,206	-
Non-current liabilities		967,269	1,010,699	1,111,837
Current borrowings	15.1	772,354	330,013	173,375
Trade and other payables	15.3	1,442,496	1,785,186	1,920,597
Current tax liabilities	17	74,338	89,927	86,281
Current income tax liabilities	17	664	7,571	13,810
Other current financial liabilities	15.4	157,647	207,657	165,174
		2,447,499	2,420,354	2,359,237
Liabilities directly associated with non-current assets held for sale	13	23,107	52,112	-
Current liabilities		2,470,606	2,472,466	2,359,237
TOTAL EQUITY AND LIABILITIES		3,271,813	3,740,357	3,802,752

The accompanying notes form an integral part of the consolidated annual accounts for 2018.
(*) Restated figures. See details in note 2.3 and 14.4

(II) CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

(Thousands of euro)

INCOME STATEMENT	Notes	2018	Restated (*) 2017
Sales	19	7,288,825	8,217,670
Other income	20.1	134,531	153,075
Profit on the sale of subsidiaries	20.2	9,265	-
TOTAL INCOME		7,432,621	8,370,745
Goods and other consumables used	20.3	(5,817,011)	(6,520,434)
Personnel expenses	20.4	(713,370)	(743,470)
Operating expenses	20.5	(628,429)	(614,611)
Depreciation and amortization	20.6	(235,206)	(223,719)
Impairment of non-current assets	20.6	(79,937)	(12,053)
Impairment of trade debtors	8.1	(27,795)	(21,277)
Losses on disposal of fixed assets	20.7	(25,414)	(17,214)
RESULTS FROM OPERATING ACTIVITIES		(94,541)	217,967
Finance income	20.8	6,480	12,197
Finance expenses	20.8	(90,205)	(65,687)
Gain from net monetary positions	20.9	67,505	-
Profit/(losses) of companies accounted for using the equity method	9	(1,183)	194
(LOSSES)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		(111,944)	164,671
Income tax	17	(186,924)	(52,013)
(LOSSES)/PROFIT AFTER TAX FROM CONTINUING OPERATIONS		(298,868)	112,658
Losses net of taxes of discontinued operations	13	(53,719)	(11,490)
NET (LOSSES) / PROFIT		(352,587)	101,168
Atributted to:			
Equity holders of the Parent		(352,587)	101,208
Non-controlling interests		-	(40)
Basic and diluted earnings per share, in euros			
(Losses)/Profit on continuing operations		(0.48)	0.18
Losses on discontinued operations		(0.09)	(0.02)
(Losses)/Profit for the period		(0.58)	0.16

The accompanying notes form an integral part of the consolidated annual accounts for 2018.
(*) Restated figures. See details in note 2.3 and 14.4

DIA

(III) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Thousands of euro)

	Notes	2018	Restated (*) 2017
(Losses) / net profit for the year		(352,587)	101,168
Other comprehensive income:			
Items not subject reclassificatios to income statement		-	-
Items subject to reclassification to income statement			
Translation differences sale companies in China	14.8	3,318	-
Translation differences of financial statements of foreign operations	14.8	(21,113)	(41,004)
		(17,795)	(41,004)
Value adjustments due to cash flow hedges		91	(197)
Tax effect		(23)	50
		68	(147)
Other comprehensive income, net of income tax		(17,727)	(41,151)
Total comprehensive income, net of income tax		(370,314)	60,017
Attributed to:			
Equityholders of the Parent		(370,314)	60,057
Non-controlling interests		-	(40)
		(370,314)	60,017

The accompanying notes are an integral part of the 2018 consolidated annual accounts.
(*) Restated figures. See details in note 2.3 and 14.4

(IV) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Thousands of euro)

		Equity attributable to equityholders of the Parent									
	Notes	Registered capital	Reserves and accumulated earnings	Net (losses)/profit	Own shares	Other own equity instruments	Value adjustments due to cash flow hedges	Translation differences	Equity attributable to the Parent	Minority interests	Total equity
At 31 December 2016		**62,246**	**261,108**	**174,043**	**(66,571)**	**21,013**	**92**	**(59,773)**	**392,158**	**(60)**	**392,098**
Restatement adjustments	2.3 and 14.4	-	(15,193)	(45,227)	-	-	-	-	(60,420)	-	(60,420)
At 1 January 2017 (Restated)		**62,246**	**245,915**	**128,816**	**(66,571)**	**21,013**	**92**	**(59,773)**	**331,738**	**(60)**	**331,678**
Transfer of the (losses)/profit of the previous year		-	128,816	(128,816)	-	-	-	-	-	-	-
Net profit for the period		-	-	101,208	-	-	-	-	101,208	(40)	101,168
Other comprehensive income, net of income tax		-	-	-	-	-	(147)	(41,004)	(41,151)	-	(41,151)
Translation differences of financial statements of foreign operations	14.8	-	-	-	-	-	-	(41,004)	(41,004)	-	(41,004)
Value adjustments due to cash flow hedges		-	-	-	-	-	(147)	-	(147)	-	(147)
Total comprehensive income for the period		**-**	**-**	**101,208**	**-**	**-**	**(147)**	**(41,004)**	**60,057**	**(40)**	**60,017**
Transactions with equityholders or owners		-	(130,475)	-	6,212	(10,240)	-	-	(134,503)	-	(134,503)
Dividends distribution	14.5	-	(128,535)	-	-	-	-	-	(128,535)	-	(128,535)
Issuance of share-based payments	18	-	-	-	-	(4,893)	-	-	(4,893)	-	(4,893)
Transactions with own shares or equity holdings	14.3 a)	-	(1,458)	-	1,458	-	-	-	-	-	-
Delivery of own shares	18	-	(559)	-	4,754	(5,347)	-	-	(1,152)	-	(1,152)
Other variations in equity		-	77	-	-	-	-	-	77	-	77
At 31 December 2017 (Restated)		**62,246**	**244,256**	**101,208**	**(60,359)**	**10,773**	**(55)**	**(100,777)**	**257,292**	**(100)**	**257,192**
At 1 January 2018		**62,246**	**244,256**	**101,208**	**(60,359)**	**10,773**	**(55)**	**(100,777)**	**257,292**	**(100)**	**257,192**
Transfer of translation differences to reserves (Argentina)	14.8	-	(45,178)	-	-	-	-	45,178	-	-	-
Argentina hyperinflation adjustments	14.2	-	55,650	-	-	-	-	-	55,650	-	55,650
Transfer of the (losses)/profit of the previous year		-	101,208	(101,208)	-	-	-	-	-	-	-
Net profit/(losses) for the period		-	-	(352,587)	-	-	-	-	(352,587)	-	(352,587)
Other comprehensive income, net of income tax		-	-	-	-	-	68	(17,795)	(17,727)	-	(17,727)
Translation differences of financial statements of foreign operations	14.8	-	-	-	-	-	-	(17,795)	(17,795)	-	(17,795)
Value adjustments due to cash flow hedges		-	-	-	-	-	68	-	68	-	68
Total comprehensive income for the period		**-**	**-**	**(352,587)**	**-**	**-**	**68**	**(17,795)**	**(370,314)**	**-**	**(370,314)**
Transactions with equityholders or owners		-	(109,235)	-	4,498	(3,953)	-	-	(108,690)	100	(108,590)
Dividends distribution	14.5	-	(110,324)	-	-	-	-	-	(110,324)	-	(110,324)
Issuance of share-based payments	18	-	-	-	-	1,602	-	-	1,602	-	1,602
Transactions with own shares or equity holdings	14.3 a)	-	(134)	-	4,498	(5,555)	-	-	(1,191)	-	(1,191)
Settlement of subisidiary Compañía Gallega de Supermercados, S.A.	1	-	1,223	-	-	-	-	-	1,223	100	1,323
At 31 December 2018		**62,246**	**246,701**	**(352,587)**	**(55,861)**	**6,820**	**13**	**(73,394)**	**(166,062)**	**-**	**(166,062)**

The accompanying notes form an integral part of the consolidated annual accounts for 2018.

(V) CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

(Thousands of euro)

	Notes	2018	Restated (*) 2017
Operating activities			
LOSS/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		(111.944)	164.671
Loss before tax from discontinued operations		(55.235)	(11.325)
Loss/profit before income tax		*(167.179)*	*153.346*
Adjustments to Profit and Loss:		*413.105*	*298.793*
Amortisation and depreciation	20.6	235.206	223.719
Impairment of non current assets	20.6	79.937	12.053
Impairment of trade debtors	8.1	27.795	21.277
Losses on disposal of non current assets	20.7	25.414	17.214
Gains on disposal of fixed assets	20.1	(28.115)	(31.226)
Profit on the sale of subsidiaries	20.2	(9.265)	-
Finance income	20.8	(6.480)	(12.197)
Finance expenses	20.8	90.205	65.687
Changes of provisions and grants		(4.579)	1.318
Other adjustments of discontinued operations	13	9.879	15.826
Other adjustments to Profit and Loss		(8.075)	(14.684)
Share of (Profit)/loss of companies accounted for using the equity method net of dividends	9	1.183	(194)
Adjustments to working capital:		*(386.719)*	*(81.240)*
Changes in trade and other receivables		7.128	(130.270)
Changes in inventories		77.340	47.085
Changes in trade and other payables		(358.535)	27.038
Changes in consumer loan and refinancing commitments		1.051	2.212
Changes in other assets		(19.903)	1.600
Changes in other liabilities		(23.659)	(3.711)
Changes in working capital of discontinued operations	13	(51.297)	2.538
Current income tax payable		(18.844)	(27.732)
Net cash flows from/(used in) operating activities		*(140.793)*	*370.899*
Investing activities			
Purchases of intangible assets	6.1 and 6.2	(6.151)	(7.234)
Development cost	6.2	(14.958)	(11.167)
Payments of property, plant and equipment	5	(322.651)	(262.195)
Payments of financial instruments		(8.097)	(25.794)
Disposals of property, plant and equipment	20.7	93.892	68.204
(Payments)/Collections for other financial assets		7.096	(1.073)
Interest received	20.8	3.322	2.045
Investing flows of discontinued operations	13	(11.109)	3.596
Net cash flows used in investing activities		*(258.656)*	*(233.618)*
Financing activities			
Dividends paid to the shareholders of the Parent Company	14.4	(110.324)	(128.535)
Borrowings repaid	15.5	(225.141)	(373.570)
Borrowings made	15.5	646.874	405.556
Payments from other financial liabilities		(2.660)	(6.622)
Interest paid	20.8	(83.606)	(65.683)
Financing flows of discontinued operations	13	-	(33.491)
Net cash flows from/(used in) financing activities		*225.143*	*(202.345)*
Net changes in cash and cash equivalents		*(174.306)*	*(65.064)*
Net foreign exchange differences		67.633	48.314
Cash and cash equivalents at 1st January	12	*346.516*	*363.266*
Cash and cash equivalents at 31st December	12	*239.843*	*346.516*

The accompanying notes form an integral part of the consolidated annual accounts for 2018.
(*) Restated figures. See details in note 2.3 and 14.4

(VI) Notes to the Consolidated Annual Accounts for 2018

1. NATURE, ACTIVITIES AND COMPOSITION OF THE GROUP

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

The Parent's objectives comprise the following activities in Spain and abroad:

(a) The wholesale and retail purchase, sale and distribution of food products and any other consumer goods in both domestic and foreign markets; household and personal hygiene, 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 other kinds of 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) Business collaboration services aimed at the sale of telecommunication products and services, particularly telephony services, through collaboration agreements with suppliers of telephony products and services. The said collaboration shall include in any event the sale of telecommunication products and services, as permitted by applicable legislation.

(d) All manner of business 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. The said 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 other 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 core business is the retail sale of food products through owned or franchised self-service stores under the DIA brand name. The Parent opened its first establishment in Madrid in 1979.

Distribuidora Internacional de Alimentación, S.A. and its subsidiaries (hereinafter “the DIA Group” or “the Group”) currently trades under the names of DIA Market, DIA Maxi, Minipreço, La Plaza de DIA, City DIA, Clarel, Max Descuento, Cada DIA, and Mais Perto. A new flagship brand was developed in 2018 using the DIA & go logo and the first stores were opened to the public.

The Company together with its subsidiaries form the Group. The subsidiaries are all fully consolidated, except for ICDC Services, Sàrl (50% owned by DIA World Trade, S.A.), Distribuidora Paraguaya de Alimentos, S.A. (10% owned by DIA Paraguay, S.A.), Red Libra Trading Services, S.L. (50% owned by DIA, S.A.) and FINANDIA E.F.C., S.A. (50% owned DIA, S.A.), which are equity-accounted and CD Supply Innovation, S.L. (50% owned by DIA, S.A.), which is accounted for as a joint operation.

1.1 Relevant events in 2018

On 15 October 2018, the Company informed the Spanish National Securities Market Commission (CNMV) by means of a Significant Event that "*as a result of a review of the estimates for the 2018 financial year end, the Group is lowering its earnings forecast for the current year*" and that "*certain adjustments must also be included in the 2017 consolidated annual accounts, which could have a negative effect on equity of approximately Euro 70 million*".

Subsequently, on 22 October 2018, the Company issued a second Significant Event as a continuation of the one mentioned above, in which it reported that "*after calculating its tax effect, the Company has concluded that the negative equity effect is reduced to approximately Euro 56 million and is largely attributable to the Iberia business"* and that, "*In accordance with current accounting regulations, once the process of validation and confirmation of the aforementioned amount is completed, and in the 2018 consolidated annual accounts, the Company will proceed to restate the 2017 figures, which will be presented for comparison purposes*".

Further, as reported in a Significant Event of 28 December 2018, in view of its duty of diligence and maximum transparency, the Company decided to extend the review to its foreign operating subsidiaries (Portugal, Brazil and Argentina).

As a result of this review, further adjustments were identified and therefore deemed necessary to be made to the 2017 consolidated annual accounts, adjustments which are attributable to the subsidiary in Brazil and which have an aggregate negative effect on consolidated equity of Euro 11.3 million.

As a consequence of the above, with the support of forensic advisors, the Company has commenced the relevant investigations in Spain and Brazil aimed to clarify the events that gave rise to the adjustments mentioned above (attributable to both irregularities and assumed errors) and to identify, if appropriate, the responsible individuals. The investigation in Spain is complete. In Brazil the investigation is ongoing. As a result of these investigations, no adjustments have been detected in addition to those described in note 14.4.

The investigations performed revealed the existence of irregular practices carried out by certain employees and management (including several former certain Senior Executives of the former executives of the Group) aimed to override the internal controls established in the Group.

As a consequence, the Company, under the advice of its attorneys, has adopted and will continue to adopt the disciplinary and legal measures that are appropriate against irregular conducts or behaviours, in accordance with the Group's compliance policies and the applicable legislation. Likewise, although the Group has adequate and diligent internal control systems, it will proceed to review and, where appropriate, implement some additional internal policies and procedures with the aim of further strengthening its internal control.

The effects of these events on the consolidated annual accounts are indicated in detail in the relevant notes, as follows:

a) The identified inaccuracies have led to the restatement of the comparative figures for 2017. Notes 2.3 and 14.4 include information regarding the nature and the final amount of those adjustments and their effects on each of the line items in the 2016 and 2017 consolidated annual accounts.

b) The downward revision of the profit outlook for 2018 has led the Company to bring forward the relevant impairment tests for non-current assets and to perform a recovery analysis on deferred tax assets, subsequently updated with the business plan formally approved by the Board of Directors on 30 January 2019 which resulted in:

- the recognition of impairment affecting property, plant and equipment, intangible assets and goodwill totalling Euro 66,488 thousand, Euro 1,676 thousand and Euro 11,773 thousand, respectively. See further details in Notes 5, 6.1 and 20.6.
- the recognition of adjustments totalling Euro 170 million to deferred tax assets based on a recovery analysis (see Note 17).

The Group has commenced a process to refinance its bank borrowings. See further details regarding the financing process in Notes 2.4 and 15.

The Company has reclassified the Clarel and Cash & Carry (Max Descuento) businesses as held-for-sale in the consolidated statement of financial position and as discontinued operations in the consolidated income statement, as was reported in the Relevant Event dated 28 December 2018. See further details in Notes 2.4, 3 and 13. In addition, the Clarel business assets (goodwill) have been impaired for Euro 38 million as a result of the need to measure assets held for sale at fair value less cost to sell. No impairment needed to be applied to the Cash & Carry assets. See note 5.1.

With respect to business performance in 2018, net sales fell by 11.3% to Euro 7,289 million, triggered primarily by the general drop in sales volume in the different territories and the devaluation of the Argentinean peso and Brazilian real. A sales performance analysis by country shows a fall in net sales in Spain of 3.6% largely brought about by a 2.3% drop in comparable sales and an almost stable evolution in average sales space during the period. In terms of format, La Plaza and Dia&Go sales grew but other stores saw volumes drop, particularly those stores in suburban areas. In Portugal net sales fell by 7.3% as a result of a 5.0% decrease in comparable sales and the net closure of 27 stores in 2018. In Argentina, net sales fell by 30.3%, however, excluding the effect of hyperinflation, the decrease would amount to 23%. Despite the difficult macroeconomic environment in the country and the sharp fall in private consumption due to the disproportionate rise in inflation and depreciation of the Argentinean peso, in local currency, the business posted a favourable performance in 2018, the Group growing its market share in this territory. In the case of Brazil, net sales fell by 18.2% triggered by a series of extraordinary effects such as the transport strike, deflation, and other business problems arising during the year.

The net loss for the year compared with the profit posted in 2017, following restatement, reflects the impact of several factors, mainly fall in the gross commercial margin, 13.2%,(Euro 1,606 million in 2018 vs Euro 1,850 million) the impact of the adjustment for hyperinflation in the Argentinean subsidiaries and the discontinuation of the Clarel business in Spain and Portugal and of the Cash &Carry business (Max Descuento).

The decline in the Group's profits and the effects of the aforementioned impairments on profits have given rise to a negative equity situation at the Parent Company and its consolidated group. Those circumstances, together with the financing conditions under which the Group currently operates, require an assessment as to the Company's and Group's capacity to continue as a going concern. See details of the analysis performed by the Company in Note 2.5.

In the context of the strategic analysis initiated by the Group during the first half of 2018 with the support of a world-class global consultant and in the light of the decline in the profit outlook, the Group made advances during 2018 to prepare a new business plan for the coming five years. The provisional results of that work have been used to negotiate refinancing agreements with main creditor banks of the Group. On 30 January 2019, the Board of Directors formally approved the new Business Plan for the period 2019-2023, which has been used to perform impairment tests on non-current assets and analysis of the recoverability of deferred tax assets.

The new business plan has been prepared according to the following main premises: improvement in the offer of fresh food, build an innovative and distinguishing new brand, rationalize and improve the product assortment and improve price perception. The plan includes in Spain the closing of stores, 300 of which have been individually identified to be closed during 2019, and the relaunch of the franchising model. According to the plan, a significant effort in implementation during the first years and in refurbishment of stores from 2020 onwards will be required, which is expected to result in a sales volumen increase and an improvement in commercial margins during 2020 and in the coming years.

1.2 Changes in the Group's structure

The following changes to the Group occurred in 2018 and 2017:

— 2018

- In June 2018, the DIA Group launched a plan to sell the Cash & Carry business, the flagship brand being Max Descuento. The brand's assets and liabilities are carried as held for sale, while the cash flows and income statement items for 2017 and 2018 are presented as discontinued operations (see notes 3 and 13). As part of the bank debt refinancing agreement, the Group reaffirmed its commitment to sell this business and the Clarel business (see notes 2.3 and 13).
- On 28 June 2018, the sale of 50% of the shares in FINANDIA E.F.C., S.A. to CaixaBank Consumer Finance E.F.C., S.A.U. was completed. At 31 December 2018, the remaining shareholding is carried under the equity method (see note 13.1 and 20.2).
- On 10 August 2018, the conditions precedent applicable to the sale of 100% of the shares in the Chinese companies Shanghai Dia Retail CO. Ltd and DIA Tian Tian Management Consulting Service & Co. Ltd were fulfilled, entailing the DIA Group's exit from the Chinese market (see note 13).
- On 28 December 2018, as required by the bank debt refinancing agreement described in note 2.4, the Group made a commitment to sell its Clarel business, which does not form part of the core business. At 31 December 2018, the assets and liabilities related to Clarel are carried as held for sale and its results and cash flows for 2017 and 2018 are presented as discontinued operations (see notes 3 and 13).

- At 31 December 2018, the company Compañía Gallega de Supermercados, S.A. is in liquidation and its business has been discontinued, the Group bearing the costs necessary to complete the liquidation process (see note 14.7).

— **2017**

- In the first quarter of 2017, the DIA Group began a process to explore strategic alternatives in its China business, classifying the assets and liabilities of its companies DIA Tian Management Consulting Service & Co. Ltd. and Shanghai DIA Retail Co. Ltd. as held for sale. In accordance with IFRS 5, the Group has classified the operations of its China business as discontinued operations (see note 13).
- 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 value for money for consumers. This company trades from Madrid and its capital is shared equally between the DIA and EROSKI Groups.
- On 12 June 2017, the company DIA Portugal II, S.A. was set up to operate a store in a Lisbon market. Its share capital amounted to Euro 50,000, divided into 50,000 shares with a par value of Euro 1 each, fully subscribed by DIA Portugal, S.A.
- In the final quarter of 2017, the DIA Group began a process to explore strategic alternatives in the business of its financial entity, FINANDIA, E.F.C., S.A., classifying the assets and liabilities of this company as held for sale at 31 December 2017, in accordance with IFRS 5 (see note 13).
- On 4 December 2017, the DIA Group expanded its collaboration with Tevir, S.A., subsidiary of the Group Casino Group through the creation of the company CD Supply Innovation, S.L. (hereinafter CDSI), with headquarters in Madrid, its operations having commenced on 15 December 2017. This company is 50% owned by DIA and its scope is international, excluding Latin America. In order to optimise processes with suppliers and gain efficiency, enabling a better offering for consumers, the new company is largely tasked with purchasing own brand products from its partners on its own behalf. It also performs, inter alia, logistics management of supplies and quality control of these products, imposing penalties on suppliers where necessary.

Details of the DIA Group's subsidiaries, as well as their activities, registered offices and percentages of ownership at 31 December 2018 are as follows: The country of incorporation is also its main business centre.

Name	Location	Activity	% interest	
			2018	2017
DIA Portugal Supermercados, Lda. (*)	Lisbon	Wholesale and retail distribution of food products.	100.00	100.00
DIA Portugal II (*)	Lisbon	Wholesale and retail distribution of food products.	100.00	-
DIA Argentina, S.A. (*)	Buenos Aires	Wholesale and retail distribution of food products.	100.00	100.00
Distribuidora Internacional, S.A. (*)	Buenos Aires	Consulting services	100.00	100.00
DIA Paraguay, S.A.	Asunción	Wholesale and retail distribution of food products.	100.00	100.00
DIA Brasil Sociedade Limitada (*)	Sao Paulo	Wholesale and retail distribution of consumer products.	100.00	100.00
DBZ Serv. Inmobiliario LTDA (*)	Sao Paulo	Administration of real estate property of DIA Brasil	100.00	100.00
DIA Tian Tian Management Consulting Service & Co. Ltd. (*)	Shanghai	Consulting services	-	100.00
Shanghai DIA Retail Co. Ltd. (*)	Shanghai	Wholesale and retail distribution of consumer products.	-	100.00
Twins Alimentación, S.A.(*)	Madrid	Distribution of food and toiletries through supermarkets.	100.00	100.00
Pe-Tra Servicios a la distribución, S.L.	Madrid	Leasing of business premises.	100.00	100.00
DIA World Trade, S.A.	Geneva	Provision of services to suppliers of DIA Group companies.	100.00	100.00
Beauty by DIA, S.A. (*)	Madrid	Distribution of cleaning and toiletry products.	100.00	100.00
Grupo El Árbol, Distribución y Supermercados, S.A. (*)	Madrid	Wholesale and retail distribution of food products and others.	100.00	100.00
Compañía Gallega de Supermercados, S.A.	Madrid	Wholesale and retail distribution of food products and others.	100.00	94.24
DIA ESHOPPING, S.L.(*)	Madrid	Creation, maintenance and exploitation of web pages and portals for the sale of products and services.	100.00	100.00

(*) Audited companies

Details of the DIA Group's associates and joint ventures at 31 December 2018 are as follows:

Name	Location	Activity	% interest 2018	% interest 2017
Distribuidora Paraguaya de Alimentos, S.A.	Asunción	To execute the contract of Master Franchise signed with DIA Paraguay, S.A.	10.00	10.00
CD Supply Innovation S.L.	Madrid	Finantial and supplies services management for own brand.	50.00	50.00
ICDC Services Sàrl	Geneva	Dealing with international suppliers.	50.00	50.00
Red Libra Trading Services, S.L.	Madrid	Negociation with suppliers of distribution brands	50.00	50.00
Finandia, E.F.C., S.A	Madrid	Loan and credit transactions, including consumer loans, mortgage loans and finance for commercial transactions, and credit and debit card issuing and management.	50.00	100.00
CINDIA, A.C.E	Lisbon	Negociation with suppliers of distribution brands	-	50.00

On 12 April 2018, the agreement between the DIA Group and the EROSKI Group that gave rise to the creation of Red Libra Trading Services S.L. was terminated after the first year and this company became dormant. From this moment on, the Parent Company is the one that negotiates directly the purchase price of the own brand products with the suppliers.

The joint venture CINDIA, A.C.E. was dissolved on 31 July 2018.

At 31 December 2018 and 2017, the Group had several master franchise agreements, some of which grant the Group the option, within a specific period, to purchase a percentage of the capital of the franchised business. The Group assesses, based on the terms of the agreement, whether these options are derivative financial instruments to be recognised in the consolidated annual accounts. If the option entails the Group's control over the franchisee, the Group assesses the impact of the application of IFRS 3 Business Combinations. The master franchise arrangements have a duration of around 10 and 30 years and the purchase options are normally 20% - 25% over share capital executable during a period, normally between 6 and 8 years from the signing of the agreement having eminently protective nature. In one of these agreements the option is up to 86.7% exercisable for a period of 20 years from the signing of the agreement. At 31 December 2018, the equity of the master franchise with which DIA has this significant option is negative and it is estimated to amount to approximately Euro 4,744 thousand. At 31 December 2018 and 2017, the Group considered that the impact of these agreements on the consolidated annual accounts is not material.

During the month of December 2018, pursuant to the shareholders' agreement for the incorporation of CDSI, the Parent Company was notified by Tevir, S.A (50% shareholder in together with DIA) its decision to terminate the joint venture. This termination shall take place within six months from the date of notification. As a consequence, both DIA and Casino are taking the necessary steps to terminate the joint venture, as well as to properly inform the suppliers of both distributors.

The basis of consolidation applicable to the subsidiaries, associates and joint ventures is set forth in note 2.11.

2. BASIS OF PRESENTATION

2.1. Basis of preparation of the consolidated annual accounts

The directors of the Parent Company have prepared these consolidated annual accounts on the basis of the accounting records of Distribuidora Internacional de Alimentación S.A. and of the consolidated companies, and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, to give a true and fair view of the consolidated equity and consolidated financial position of Distribuidora Internacional de Alimentación S.A. and subsidiaries at 31 December 2018 and of consolidated results of operations, consolidated cash flows and changes in consolidated total equity for the year then ended.

These consolidated annual accounts were prepared on a historical cost basis, except for derivative financial instruments (see note 15.5). It should be noted that the balances of the Group's Argentinian companies were reported at current cost before being included in the DIA Group's consolidated annual accounts, as per IAS 29 "Financial reporting in hyper-inflationary economies", on the basis that Argentina has a hyperinflationary economy (see note 2.6).

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

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

The DIA Group's consolidated annual accounts for 2018 were authorised for issue by the Parent's Board of Directors on 7 February 2019 and are expected to be approved at the Parent's Annual General Shareholders´ Meeting without changes.

2.2. Functional and presentation currency

The figures contained in the documents comprising these consolidated annual accounts are expressed in thousands of euros, unless stated otherwise. The Parent's functional and presentation currency is the euro. The items included in the financial statements of each of the Group companies are measured using the currencies of the principal economic environments in which the companies operate.

2.3. Comparability

These consolidated annual accounts for 2018 present, for comparative purposes, for each item in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated annual accounts for 2018, the figures for the previous year, which are different from those approved at the Parent's Annual General Shareholders´ Meeting on 20 April 2018, as a result of the modifications detailed in sections below.

All the figures relating to 2017 included in the notes to these consolidated annual accounts are shown restated, where applicable.

- Changes to comparative balances

		Restatement			
		a)	b)	c)	
Statement of financial position	**At 31 December 2017**	**Irregularities/Errors**	**Discontinued operations**	**CDSI**	**At 31 December 2017 (Restated)**
Non current assets	2,362,855	104,456	-	(594)	2,466,717
Current assets	1,223,656	(43,184)	(9,051)	62,615	1,234,036
Non-current assets held for sale	39,663	-	(59)	-	39,604
Total Assets	3,626,174	61,272	(9,110)	62,021	3,740,357
Total Equity	325,983	(68,340)	-	(451)	257,192
Non-current liabilities	1,009,198	1,501	-	-	1,010,699
Current liabilities	2,225,817	128,111	3,954	62,472	2,420,354
Liabilities directly associated with non-current assets held for sale	65,176	-	(13,064)	-	52,112
Total Equity and Liabilities	3,626,174	61,272	(9,110)	62,021	3,740,357

		Restatement			
		a)	b)	c)	
Income Statement	**At 31 December 2017**	**Irregularities/Errors**	**Discontinued operations**	**CDSI**	**At 31 December 2017 (Restated)**
TOTAL INCOME	8,776,210	(4,943)	(400,642)	120	8,370,745
RESULTS FROM OPERATING ACTIVITIES	247,073	(18,780)	(10,074)	(252)	217,967
Profit/ (Losses) before tax from continuing operation	186,323	(11,182)	(10,109)	(361)	164,671
Income tax	(55,350)	3,262	165	(90)	(52,013)
Profit/ (Losses) after tax from continuing operation	130,973	(7,920)	(9,944)	(451)	112,658
Losses net of taxes of discontinued operations	(21,434)	-	9,944	-	(11,490)
NET PROFIT/(LOSSES)	109,539	(7,920)	-	(451)	101,168

Appendix 1, which forms part of this note, sets out at both 31 December 2017 and 31 December 2016, the consolidated statement of financial position, the consolidated income statement and the consolidated cash flow statement, before and after, adjustments restated at both 31 December 2017 and 31 December 2016 in order to include the previous corrections, together with the main figures expressed by segments for 2016.

a) Irregularities and correction of errors

The irregularities and errors identified in 2018 disclosed in note 1.1, have led to the restatement of the comparative figures for 2017.

Basic and diluted earnings per share were also restated. The adjustment to basic and diluted earnings was a decrease of Euro (0.02) per share in 2017.

The total impact in equity amounts to Euro 68.3 million. Note 14.4 includes more details of the nature of the corrections, by concept and country.

b) Discontinued operations

In 2018, the Group classified its Cash & Carry and Clarel businesses as discontinued operations and therefore in accordance with IFRS 5, has restated the figures for 2017 in order to classify the results of both businesses in a single line in the consolidated income statement under Profit /Loss on discontinued operations with a view to facilitating comparison. Similarly, cash flows from these activities for 2017 are reflected separately in the consolidated cash flow statement. See details of discontinued operations in note 13.

As described in note 3j), in connection with the operations in China, the 2017 figures have been modified to write off Euro 12.9 million in the consolidated statement of financial position, and Euro 10.6 million have been written off in the consolidated income statement.

c) Joint arrangement in CD Supply Innovation, S.L.

As a result of what is described in note 2.11 c) at 31 December 2018, the Group has accounted for CDSI as a joint operation instead of as a joint venture, as it was accounted for in 2017. With the purpose of comparability of the financial figures of the current year with those of 2017, the Group has modified the figures as of and for the year ended 31 December, 2017, being the impact, mainly, an increase in inventories, cash and cash equivalents and financial debt for amounts of Euro 44 million, Euro 9 million and Euro 10 million, respectively.

<u>Other considerations</u>

d) Modification of segment reporting

Taking into account the Group's current scenario, the redefinition of the new business plan and the changes to the composition of its main management bodies, the Group has reviewed its segmentation criteria and identified as independent operating segments each of the countries in which it operates (see additional information in note 4 for 2018 and 2017 and see Appendix 1 for the information related to the operating segments in 2016).

e) Effects on the comparability of Argentina's consideration as a hyperinflationary economy

Additionally, the treatment of Argentina as a hyper-inflationary country should also be taken into account for the purposes of analysing the comparability of both years. As detailed in note 2.6, the financial statements of the subsidiaries in Argentina whose functional currency is the Argentinian peso, were restated in terms of the current measurement unit at the end of the reporting period before including them in the consolidated annual accounts. In accordance with IFRS-EU, the comparative figures for 2017 were not restated.

2.4. Financing process

There follows a description of the events of the final quarter of 2018 up to the date on which these consolidated annual accounts are authorised for issue in connection with the financing process and the agreements reached by the Group.

The Group has conducted a process of dialogue with the main financial institutions since October 2018. As a result, on 18 November 2018 the referred financial institutions reached an initial (phase 1) agreement in order to maintain the Group's bank borrowings and re-establish certain credit facilities, with initial maturity on 30 November 2018, subsequently extended to 31 December 2018. Following maturity, an agreement was reached that was set out in a Financing Contract (phase II), whose main terms and conditions are as follows:

DIA Spain

i) *Total amount:* Euro 894.7 million, divided into several tranches depending on the financial instrument, the amount and the lender banks which facilitate it.

ii) *Purpose of the agreement:* obtain access to short-term financing to allow DIA Group attend DIA Spain and Group working capital needs. The agreement also gave rise to the cancellation of some lines of credit that had not been drawn down.

iii) *Final maturity date:* 31 May 2019, except for various tranches maturing in 2020 and 2022.

iv) *Main commitments and obligations:*

   a. Personal obligations of what to do and what not to do as well as handing in information commonly needed in this type of financing operations in accordance with the Company's current rating.
   b. No distribution of dividends by DIA to its shareholders without the consent of the financial institutions until the entire amount of the debt with them has been repaid.
   c. Continue with the divestment of the "Clarel" and "Cash & Carry" (MAX Descuento) businesses, assets that are not part of DIA's core business.
   d. Propose to a General Shareholders Meeting during the first quarter of 2019, a capital increase of Euro 600 million, before the first maturity date stipulated in the financing agreement. In this regard, the Group has entered into an agreement with Morgan Stanley & Co. International plc to underwrite the capital increase for Euro 600 million whereby, subject to certain conditions (see note 14.1).

v) *Guarantees given as of 31 December 2018:*

   a. Personal guarantee from Distribuidora Internacional de Alimentación, S.A., Twins Alimentación, S.A.U., Beauty By DIA, S.A.U., DIA E-shopping, S.L., Pe-Tra Servicios a la Distribución, S.L., Grupo El Árbol Distribución y Supermercados, S.A.U.
   b. Pledge on the shares owned by Distribuidora Internacional de Alimentación, S.A., in Twins Alimentación, S.A.U., Beauty By DIA, S.A.U., DIA E-shopping, S.L., Grupo El Árbol Distribución y Supermercados, S.A.U., as well as on the shares owned by Twins Alimentación, S.A.U. in Pe-Tra Servicios a la Distribución, S.L.
   c. Pledge on the shares owned by Distribuidora Internacional de Alimentación, S.A. in DIA Portugal Supermercados, Sociedade Unipersossoal, LDC.
   d. Pledge on the shares owned by Distribuidora Internacional de Alimentación, S.A. and Petra Servicios Distribución SL in DIA Argentina, S.A.
   e. Pledge on the debt claims derived from intra-group financing agreements granted by Distribuidora Internacional de Alimentación, S.A.
   f. Pledge on certain current bank accounts owned by Distribuidora Internacional de Alimentación, S.A., Twins Alimentación, S.A.U., Beauty By DIA, S.A.U., DIA E-shopping, S.L. and Pe-Tra Servicios a la Distribución, S.L.

vi) *Guarantees given as of 31 January 2019:*

   a. Personal guarantee from DIA World Trade S.A.
   b. Pledge of the shares owned by Distribuidora Internacional de Alimentación, S.A. of DIA Brasil Sociedade Ltda. and DIA World Trade S.A.

vii) Guarantees to take place during the month of February 2019:

a. Secondary pledge of the shares owned by Distribuidora Internacional de Alimentación, S.A. of DIA Portugal Supermercados, Sociedade Unipersossoal, LCD.

b. Mortgage securities on certain real estate assets sited in Spain, as well as certain guarantees on certain rights of intellectual property registered in Spain.

viii) *Financial Ratios (Covenant):* the restated Total Net Debt to restated EBITDA ratio, as defined within the agreement, must not exceed 3.50x.

The following table summarises the new financing structure, which is supplemented by the other information set out in these notes to the consolidated annual accounts, specifically in note 15 "Financial liabilities" and the "Liquidity risk" item in the management report.

Thousands of Euro	Facility A	Facility B		Facility C		Facility D		Facility E	Facility F		Total
Amount	92,652	194,117		242,687		336,878		-	28,347		894,681
Maturity	May-19	May-19		May-19		Apr-20	154,768	May-19	May-19	3,347	
						Jun-20	182,110		Apr-20	25,000	
Instrument	RCF (*)	RCF (*)	124,350	Loans may be balanced with confirming	101,000	RCF (*)	229,222	Guarantees and documentary credits	RCF (*)	25,000	
		Credits	5,000	Confirming	141,687	Loans may be balanced with reverse factoring	107,656		Confirming	3,347	
		Loans may be balanced with confirming	64,766								

(*) Revolving credit facility

Once Phase II ends with the signing of this Financing Agreement, the Group is open to the participating banks proposals to reach future agreements related to the first maturity of the Financing Agreement . During January 2019, it also commenced negotiations with these entities to enter into phase III of the refinancing process, the objective of which is to define a new debt structure that will allow to finance working capital requirements on the ongoing course of business derived from the new business plan of the Group and to successfully execute the share capital increase to be proposed in the General Shareholders Meeting.

As a result of these negotiations, on 6 February 2019 the Company informs that its syndicated facility lenders have notified the Company, subject to certain conditions including the completion of a share capital increase in the form of a right issue and for an amount of Euro 600 million, of their indicative support for an extension of the final maturity date in relation to the existing syndicated facilities which will remain post rights issue in the amount of Euro 765 million until March 2023.

Foreign subsidiaries: DIA Argentina, DIA Brazil and DIA Portugal

As part of the Facilities Agreement, a commitment was made with the lending banks to maintain certain bilateral and reverse factoring agreements in force. It was agreed that the agreements maturing in the first half of 2019 would mature on 31 May 2019.

2.5. Going concern

As explained below, the Company has drawn up these 2018 consolidated annual accounts on a going concern basis.

At 31 December 2018, consolidated total equity is negative in the amount of Euro (166) million (Euro 257 million at 31 December 2017 after restatement), and the Working capital, calculated as current assets less current liabilities, excluding assets and liabilities held for sale, is also negative in the amount of Euro (1,417) million (Euro (1,186) million at 31 December 2017). The results for the period are losses of Euro 353 million (profit of Euro 101 million in 2017) and the net changes in cash and cash equivalents are negative by Euro 174 million (negative by Euro 65 million in 2017).

In accordance with the Spanish Companies Act, when losses cause the Company's equity to fall below half of share capital, unless capital is increased or reduced in a sufficient amount, the Company comes under a cause for

winding-up, in which case the directors must call a general shareholders' meeting within two months in order to adopt an agreement for the resolution of the cause of winding-up.

In the current context of the bank debt refinancing process, on 31 December 2018 the Company announced the signing of a Credit Agreement for up to Euro 894.7 million, which included several working capital lines (factoring, reverse factoring and bilateral credit facilities), maturing mainly on 31 May 2019 (except for some minor tranches maturing in 2020 and 2022).

Under the Credit Agreement, among other aspects, the Company agreed to submit to the Annual General Shareholders Meeting (scheduled to be held before 31 March 2019) a capital increase with pre-emptive subscription rights of at least Euro 600 million. If approved and successful, this will contribute to restore the Company's negative equity before the maturity date of the Credit Agreement.

The Credit Agreement therefore gives the Company a reasonable time to carry out a capital increase in the second quarter of 2019 which will allow to restore the negative equity and to change its capital structure and financial profile.

On 28 November 2018, in order to mitigate the risk of execution of the capital increase, the Company entered into an agreement with Morgan Stanley whereby Morgan Stanley commits to underwrite a capital increase for Euro 600 million, subject to certain conditions (among others, that Morgan Stanley and the Company must conclude a definitive underwriting agreement on the usual terms and conditions for transactions of this kind) (see note 2.4).

The shareholder LetterOne Investment Holdings, S.A., that indirectly owns 29.001% of share capital (see note 14.1) has stated, at the date of the public announcement of a voluntary takeover bid for the Company *(Oferta Pública de Adquisición)*, that it does not intend to support any decision of the Company which implies the issuance of shares or convertible bonds or instruments before the results of the voluntary takeover bid are published by the Spanish National Securities Market Commision (CNMV).

Among other aspects, this agreement entered into with Morgan Stanley requires that, prior to the signing of the definitive underwriting agreement; the Company's existing capital structure must be refinanced by means of new long-term funding facility that provides the Company with a sustainable capital structure able to support the capital increase.

The Company is currently open to proposals from the financial institutions that are the lenders under the Credit Agreement to reach a new agreement to extend to a longer-term date the current maturity date of the debt set at 31 May 2019. In this sense, on 6 February 2019 the Company informed the market that its principal syndicated creditors had notified, subject to certain conditions, including the disbursement of a share capital increase with pre-emptied subscription rights (derecho de suscripción preferente) for an amount of Eur 600 millions, its indicative support to a deferral in the maturity date of its current financing lines, wich will remain after the capital increase, for an amount of 765 millions of Euros, until March 2023 (subject to an obligation of early repayment of up to Eur 100 million with the proceeds of the sales of non strategic assets as Clarel and Max Descuento).

In turn, this new credit agreement with the banks will contribute to the successful completion of the capital increase.

On this basis the Company, as agreed with its lenders on 31 December 2018, has continued to promote the Right Issue, which, as currently structured, would address in a timely fashion the net equity concerns and the long-term capital structure of the Company.

Considering the factors explained above, and given the current state of the negotiations, although it is impossible to ensure that the capital increase and new financing structure will be completed on time and therefore there are material uncertainties regarding the Company's ability to continue as a going concern, in this regard, the Company's directors, currently expect that: (i) a timely agreement formalised with the banks to refinance the debt under the current Credit Agreement in the long term, as the indicative support communicated to the Company (ii) the definitive capital increase underwriting agreement with Morgan Stanley will be concluded and (iii) the capital increase will be approved and successful, all resulting in a sustainable capital structure and a new long-term date for the Company that is consistent with its new Business Plan and will ultimately allow the Company to continue as a going concern and to achieve its long-term objectives.

Consequently, the Company remains fully committed to the plan described previously and is taking all measures and actions necessary to meet the milestones pending in order for the plan to be successful.

2.6. Classification of Argentina as a hyperinflationary country

Various factors arose during 2018 in Argentina's economy leading to the need to reconsider the treatment adopted by DIA regarding the translation of its investees' financial statements and to the recovery of financial investments in that country. These factors include the rate of inflation reached in 2018 and accumulated in the past three years and, finally, the depreciation of the Argentine peso in recent months.

Consequently, in accordance with IFRS-EU, Argentina is regarded as a hyperinflationary economy for accounting purposes in periods ending on or after 1 July 2018**.** The application of IAS 29 for the first time in the Group's 2018 consolidated annual accounts is based on the following criteria:

- The comparative figures for 2017 have not been changed.

- Hyperinflation accounting has been applied to all the assets and liabilities of the subsidiary Dia Argentina prior to translation.

- The historical cost of this company's non-monetary assets and liabilities and equity items from the date they were acquired or included in the consolidated statement of financial position to the year end has been adjusted to reflect changes in the currency's purchasing power as a result of inflation.

- Equity at the beginning of the period presented in stable currency is affected by the accumulative effect of restatement due to inflation of non-monetary items since the date of first recognition and the effect of the translation of those balances at the year-end rate. The Group has opted to recognise the difference between equity at the previous year end and equity at the beginning of the present in reserves, together with the cumulative translation adjustments as of 1 January 2018.

- The Group has adjusted the 2018 income statement to reflect the financial profit arising from the impact of inflation on net monetary assets.

- The income statement and cash flow statement items for 2018 have been adjusted for inflation since they were generated, with a balancing item in financial income/(expense) and in net exchange gains/(losses), respectively.

The inflation rate used in this calculation in 2018 was 47.9%. This rate is obtained from the information published by the National Institute of Statistics and Census (INDEC for its Spanish abbreviation), a public institution, which publishes the Consumer Price Index that measures the variation in prices of goods and services representing household consumer spending.

The monthly evolution in the price index during 2018 and 2017 is as follows:

Month	Monthly Index	Month	Monthly Index
Jan-17	1.015859	Jan-18	1.26989
Feb-17	1.036859	Feb-18	1.30061
Mar-17	1.061476	Mar-18	1.33105
Apr-17	1.089667	Apr-18	1.36751
May-17	1.105301	May-18	1.39589
Jun-17	1.118477	Jun-18	1.44805
Jul-17	1.137852	Jul-18	1.49297
Aug-17	1.153819	Aug-18	1.55103
Sep-17	1.175719	Sep-18	1.65238
Oct-17	1.193528	Oct-18	1.74147
Nov-17	1.209940	Nov-18	1.79639
Dec-17	1.247956	Dec-18	1.84255

The most significant impacts on the consolidated statement of financial position for 2018 of inflation in Argentina are the restatement of property, plant and equipment (see note 5) and the resulting effect on deferred taxes (see note 17). The impact of inflation on non-monetary items has been included in reserves.

The impact of the variation in the net monetary position in 2018 has been recognised as a financial gain (note 20.10).

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

The preparation of consolidated annual accounts in accordance with IFRS-EU requires the application of significant accounting estimates and judgements, estimates and assumptions when applying the Group's accounting policies. There follows a summary of aspects that have entailed a greater degree of judgement or complexity, or in which the assumptions and estimates are relevant to the preparation of the consolidated annual accounts.

- Assessment of the potential impairment of non-financial assets subject to amortisation or depreciation: see note 3k (ii) and note 5.
- Assessment of potential goodwill impairment: see note 3k (i) and note 6.1.
- Assessment of the recoverability of deferred tax assets (see note 17).
- Long-term incentive plan: see note 3x) and note 18.
- Analysis of possible contingencies or liabilities relating to proceedings in progress: (see note 3w) and note 20).

These estimates and judgements are evaluated on a continuous basis. They are based on past experience and other factors, including expectations of future events that could have a financial impact on the Group and are believed reasonable in the circumstances.

2.8. First-time application of accounting standards

The Group has applied the following standards and interpretations for the first time in its consolidated annual accounts for the year commencing 1 January 2018:

IFRS 15 Revenue from contracts with customers

IFRS 15 lays down the criteria for recognising revenue from contracts with customers, providing a new five-step model (which is referred to as sales in these consolidated annual accounts):

• Step 1: Identify the contract(s) with the customer.

• Step 2: Identify the performance obligations in the contract.

• Step 3: Determine the transaction price.

• Step 4: Allocate the transaction price to the contract's performance obligations.

• Step 5: Recognise the revenue from ordinary activities when (or as) the entity fulfils a performance obligation.

This standard supersedes the following standards: (a) IAS 11 Construction contracts; (b) IAS 18 Revenue and related interpretations: IFRIC 13 Customer loyalty programmes; IFRIC 15 Agreements for the construction of real estate; IFRIC 18 Transfers of assets from customers; and SIC 31 Revenue - Barter transactions involving advertising services.

In accordance with IFRS 15, revenue is recognised in an amount that reflects the consideration an entity expects to be entitled to receive for the transfer of goods or services to a customer when the customer obtains control of the goods or services supplied. The consideration stipulated in a contract with a customer may include fixed or variable amounts, or both. The amount of the consideration may vary due to discounts, refunds, reimbursements, credits, price reductions, incentives, performance bonuses, penalties or other similar items. A contingent consideration in the transaction price is only included when it is highly likely that the amount of ordinary income recognised is not subject to significant future reversals.

Although customers are entitled to return any article, this is not common practice in our stores and has had no relevant impact on the Group.

The standard requires an analysis to determine the timing of the transfer of control: at a point in time or over time.

The Group recognises the revenue when the goods are handed over to customers in the stores or, in the case of sales to franchises, when the goods are delivered, so there are no sales giving rise to revenue recognised over time.

Loyalty programme points are generally exchangeable in the same period the revenue accrues, so the Group recognises them as a reduction in revenue at the transaction date.
The impact of the adoption of IFRS 15 on the Group's 2018 consolidated annual accounts has been very limited.

IFRS 9 Financial instruments

(i) Recognition and classification of financial instruments

Financial instruments are recognised when the Group becomes bound under a contract or legal business in accordance with the contractual provisions.

The financial asset classification approach will depend both on the way an entity manages its financial instruments (its business model) and on the existence and characteristics of the contractual cash flows from the financial assets. Accordingly, the asset will be measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss for the period, as follows:

- If the purpose of the business model is to hold a financial asset to collect contractual cash flows and, under the terms of the agreement, cash flows are received on specific dates and are exclusively payments of principal plus interest on that principal, the financial asset will be carried at amortised cost.

- If the aim of the business model is both to obtain contractual cash flows and to sell the asset and, under the terms of the agreement, cash flows are received on specific dates and are exclusively payments of principal plus interest on that principal, the financial asset will be carried at fair value through other comprehensive income (equity).

  Outside these scenarios, other assets will be measured at fair value through profit or loss. All equity instruments (e.g. shares) are carried in this category by default. This is because the contractual flows are not only payments of principal and interest. Financial derivatives are also classified as financial assets at fair value through profit or loss, unless they are designated as hedging instruments.

For measurement purposes, financial assets must be classified in one of the following categories, the relevant accounting policies being described below:

a) Financial assets at amortised cost: Following initial recognition, these assets are measured at amortised cost using the effective interest method. Amortised cost will be reduced by any impairment loss (see (ii) below). Gains or losses will be recognised in profit or loss for the period when the financial asset is derecognised or has become impaired, or as a result of exchange differences. Interest calculated using the effective interest method is recognised in the income statement under financial income.

b) Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss are initially recognised at fair value, excluding transaction costs, which are taken to the income statement. Gains or losses from fair value changes are presented in the income statement in “other financial income/(expenses)” in the period they arise. Any dividend or interest is also taken to financial income/(expenses).

c) Debt instruments at fair value through other comprehensive income: They are subsequently measured at fair value, recognising any fair value changes in “Other comprehensive income””. Interest income, impairment losses and exchange differences are taken to the income statement. When they are sold or derecognised, accumulated fair value adjustments carried in “Other comprehensive income” are included in the income statement item “other financial income/(expenses)”.

d) Equity instruments at fair value through other comprehensive income: They are subsequently measured at fair value. Only dividends are taken to the income statement, unless they clearly represent a recovery of the cost of the investment. Other gains or losses are taken to “Other comprehensive income” and are never reclassified to the income statement.

Given the nature of the Group's financial assets, the change of presentation approach contained in IFRS 9 has not been relevant.

(ii) Impairment of financial assets

The impairment model applies to financial assets at amortised cost, which include the item “Trade and other receivables”.

The impairment model is based on a dual measurement approach whereby an impairment provision is posted based on expected losses for the following 12 months or based on lifetime expected losses. The shift from the first approach to the second is triggered by a significant worsening of credit quality.

For trade receivables, the Group applies the expected loss accounting policy calculated for each individual company based on the estimated percentage of bad debts in recent years with respect to historical sales.

In order to determine whether a financial asset's credit risk has increased significantly since initial recognition, or to estimate lifetime expected credit losses, the Group takes into consideration all reasonable, sustainable information that is relevant and available without a disproportionate effort or cost. This includes both quantitative and qualitative information, based on the historical credit loss experience of the Group or of other entities and on observable market information on credit risk affecting the specific financial instrument or similar financial instruments.

The Group applies the simplified approach permitted by IFRS 9, which requires losses expected over the life of the receivables to be recognised at the time they are initially recognised. As regards the new financial asset impairment

calculation model based on lifetime expected credit losses, the Group has implemented this new method at 1 January 2018, no impact having been identified.

(iii) Hedge accounting

IFRS 9 eases the requirements for hedges to be effective. Under the former IAS 39, a hedge had to be highly efficient both prospectively and retrospectively. IFRS 9 replaces this approach by requiring an economic relationship between the hedged item and the hedging instrument, and that the ratio covered is the same as that actually used by the entity in its risk management. The standard aims to reconcile hedge accounting with risk management through a target-based approach and seeking to remove the former model's inconsistencies and weaknesses.

The Group employs forward foreign exchange contracts to hedge the variability of exchange rates at fair value in a foreign currency as a result of fluctuating exchange rates and interest rates. Hedge accounting is aligned with the Group's risk management model, so it has not been affected.

(iv) Refinancing of financial liabilities

Applying the IASB's interpretation of the treatment of the refinancing of financial liabilities under IFRS 9 in 2017, the contractual flows of refinanced debt must be discounted at the original effective interest rate, revised to account for associated fees, instead of at the new rate resulting from the refinancing operation.

The difference obtained will affect the consolidated income statement as an expense or income at the refinancing date, although, given the retrospective nature of this interpretation, the difference is taken to reserves in the case of operations completed before 1 January 2018.

In this regard, the Parent's 2017 refinancing of bonds had an immaterial impact at 1 January 2018.

Although there have been a series of amendments to other standards such as IFRS 1 "First - time adoption of International Reporting Standards" amendments and IAS 28 "Investments in Associates and Joint Ventures", amendments to IFRS 2 "Classification and measurement of share-based payment transactions", amendments to IAS 40 "Transfers of investment property" and amendments to IFRIC 22 "Foreign currency transactions and advance consideration", their application has not had a relevant impact on these consolidated annual accounts.

2.9. Standards and interpretations issued which have not yet come into effect but which may be adopted early

At the date these consolidated annual accounts are authorised for issue, the Group expects to adopt, on or after 1 January 2019, the following standards, which have been issued but are not yet in effect, on or after 1 January 2019:

IFRS 16 Leases

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

IFRS 16 replaces existing lease guidance including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases-Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease.

IFRS 16 is mandatory for all financial years starting on or after 1 January 2019. It may be early adopted by companies that already use IFRS 15 Revenue from contracts with customers prior to the date of first-time application of IFRS 16. The Group will first-time adopt IFRS 16 on 1 January 2019 and during 2018 it has carried out a process for its implementation in order to, among other things, quantify the impact of this new standard on the consolidated annual accounts of 2019. The main policies, estimates and criteria for the application of IFRS 16 are as follows:

- Transition approach: The Group has opted to implement IFRS 16 using the modified retrospective approach, whereby the right-of-use asset is recognised in an amount equal to the lease liability. When applying this approach, the Group does not restate the comparative information.
- Discount rates: the lease liability has been initially measured using the incremental interest rate, which is the rate that a lessee would have to pay to borrow the funds necessary to obtain an asset similar to the right-of-use asset over a similar period, with a similar degree of collateral and in a similar economic environment. The Group has calculated the incremental borrowing rate based on the rate of bond issues of companies with similar ratings, applying such differentials to the risk free curve of the countries where each contract is negotiated. When no bond issues for certain periods were available, the Group has performed a linear interpolation of such differentials.
- Lease term taken into account for each contract: the lease term considered primarily depends on whether the lease contract contains or not a non-cancellable period, as well as unilateral termination and / or renewal clauses that grant the Group the right to terminate the lease early or extend it. Also, when considering the economic interests that impact the determination of the lease term for each store, the Group has considered as key factor, the average period returns on the investments for a portfolio of stores at country level and their subsequent investment cycles. As a result of this analysis, the Group has determined cycle lenghts by country, so that the probable end date for each lease is that which results from applying the assigned cycle length from the lease commencement date and which falls after 1 January 2019 as a result applying recursively, from the lease commencement date, such period. For warehouses and offices, the probable end date is determined based on a reasonable period of permanence. Nonetheless, the probable end dates will not be less than the mandatory compliance term under the contract.
- Accounting policies applied during transition: The Group has decided to employ the following practical solutions when applying the simplified method to leases previously carried as operating leases under IAS 17 Leases:
    - Non-application of IFRS 16 to agreements that were not previously deemed to contain a lease under IAS 17 and IFRIC 4 “Determining whether an arrangement contains a lease”.
    - Use of a single discount rate for a portfolio of stores at the country level.
    - Exclusion of the initial direct costs from the measurement of the right-of-use asset on the date of first-time adoption.
    - Exclusion of leases that expire within 12 months as from the date of first-time adoption.
    - Exclusion of leases in which the underlying asset has a low value.
    - Instead of reviewing the impairment at the date of initial application, the Group has based its assessment of whether leases qualify as onerous contracts in accordance with IFRS 37 Provisions, contingent liabilities and contingent assets, immediately before the initial application date. The right of use asset is adjusted at the initial application date by the amount of the onerous contracts provision recorded, if applicable, in the statement of financial position right before the initial application date.
- Estimated effect of implementation: At 31 December 2018 the Group has irrevocable operating lease commitments for real estate amounting to Euro 282 million (see note 7). In addition to these irrevocable commitments the Group expects to recognise liabilities for lease periods where there is no commitment but where it is considered reasonably certain that it will not exercise the right of early termination of the lease such that the Group expects to recognise right of use assets and real estate lease liabilities in a range of approximately Euro 675-700 million at 1 January 2019.

The Group expects net profit after tax to fall by approximately Euro 6 million in 2019 due to the adoption of the new standard. Results from operating activities is expected to increase between approximately Euro 30-40 million.

Finally, the Group’s activities as a lessor are immaterial and the new standard does not change significantly the accounting treatment for lessors. Therefore, no significant impact on the consolidated annual accounts is envisaged.

IFRIC 23 Uncertainty over income tax treatments:

The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 23 on how to recognise and measure deferred and current tax assets and liabilities where there is uncertainty regarding the tax treatment to be afforded. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty with respect to whether or not the approach will be accepted by the tax authority. The interpretation:

- addresses how to determine the appropriate unit of account and whether each uncertain tax treatment must be considered separately or as a whole, depending on the approach that best predicts the outcome of the uncertainty.
- states that the entity must assume that a tax authority will examine the uncertain tax treatments and will have full knowledge of all related information, i.e. risk of detection must be ignored.
- indicates that the entity must reflect the effect of the uncertainty in its accounting treatment of income tax when the tax authority is not likely to accept the treatment.
- states that the impact of the uncertainty must be assessed using the most likely amount method or expected value method, depending on which best predicts the outcome of the uncertainty, and that the judgements and estimates made must be reassessed whenever the circumstances change or new information affecting the judgements is obtained.

This interpretation is in effect in years starting on or after 1 January 2019. Early application is permitted. An entity may opt to apply this interpretation on early adoption as follows: 1) apply IAS 8 retrospectively, if possible without the use of hindsight; or 2) retrospectively, together with the cumulative effect of initially applying the interpretation recognised at the date of first-time adoption as an adjustment to the opening balance of retained earnings (or other equity components, as applicable). The Group will first-time adopt the standard on 1 January 2019 and does not expect the application of the interpretation to affect the consolidated annual accounts.

IFRS 9 (Amendment) "Prepayment features with negative compensation":

The terms of instruments having prepayment features with negative compensation, where the lender could be required to accept a prepayment substantially lower than the amounts of unpaid principal and interest, were incompatible with the notion of "reasonable additional compensation" for the early termination of a contract as per IFRS 9. Consequently, these instruments would not have contractual cash flows consisting solely of payments of capital and interest, which led them to be recognised at fair value through profit or loss. The amendment to IFRS 9 clarifies that a party may pay or receive a reasonable compensation when a contract is terminated in advance, which could allow the instruments to be measured at amortised cost or at fair value through other comprehensive income. The amendment will have effect in financial years starting on or after 1 January 2019, although early adoption is possible.

The Group considers that the application of this amendment will not significantly affect the consolidated annual accounts.

2.10. Standards, amendments and interpretations of existing standards that cannot be early adopted or have not been adopted by the European Union:

As of the date of authorisation for issue of these consolidated annual accounts, the IASB and IFRIC had published the standards, amendments and interpretations described below, which are pending adoption by the European Union.

- IAS 19 (amendment) - "Plan amendment, curtailment or settlement"
- IAS 28 (amendment) –""Long-term interests in associates and joint ventures"
- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associate or joint venture" (the effective date of these amendments has currently been postponed since the IASB is planning a broader review that may result in the simplification of the accounting for these transactions and other aspects of accounting for associates and joint ventures.
- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material"

- IFRS 3 (Amendment) “Definition of a business”
- IFRS annual improvements - Cycle 2015-2017

In view of the Group’s activities, the impact of the application of the new standards, amendments or interpretations on the consolidated annual accounts on first-time adoption is expected to be immaterial for the Group.

2.11. Basis of consolidation

a) Subsidiaries

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

a) power over the investee;

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

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

d) The annual accounts of the subsidiaries used in the consolidation process relate to the same presentation date and same period as those of the parent company.

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

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

Non-controlling interests in the profit/(loss) and equity of subsidiaries are shown separately in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of financial position.

b) Associates

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

Investments in associates are accounted for initially at cost and subsequently using the equity method to the date on which the Parent cannot continue to justify the existence of significant influence.

c) Joint arrangements

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

Joint arrangements can be classified as joint ventures or joint operations. The classification depends on each investor's contractual rights and obligations rather than on the legal structure of the joint arrangement. The Group's investments in joint ventures are carried using the equity method (see note (2.11(d) below), following initial recognition at cost in the consolidated statement of financial position.

As it relates to joint operations, the Group recognizes in the consolidated annual accounts its share of assets, including its participation in the assets which are jointly controlled, its share of liabilites, including its participation in the liabilities incurred jointly with other operators, the revenue obtained from the sale of its share of the production of the joint operation, its share of the revenue obtained from the sale of the production derived from the joint operation, its share of expenses, including the corresponding part of the joint expenses. In purchase transactions from the joint operations, the Group only recognizes the results when the assets purchased are sold to third parties, except when the assets acquired are impaired or a loss arises, in which case the Group recognizes inmediately its corresponding proportional loss.

On 4 December 2017, the DIA Group and Tevir, S.A., a subsidiary of the Casino Group, formed the company CD Supply Innovation, S.L. (CDSI), which started its operations on 15 December 2017. The purpose of this agreement was to manage the "own brand" product supply chain in order to generate synergies in relation to suppliers, logistics and quality control. The arrangement did not include price negotiations with suppliers, which were already carried out through the DIA-EROSKI joint venture (see note 1), although the purchases from third party suppliers and the sales to the shareholders would be carried out by CDSI. Both venturers initially contributed their own brand inventories and personnel. As a result of the analysis carried out at the inception of the agreement, based on the existing contractual conditions, the Group accounted for this entity using the equity method, considering it as a joint venture. This consideration was mainly based on the fact that the venturers did not have a contractual right to receive substantially all the economic benefits of the agreement, as well as the autonomy of CDSI not depending on the venturers on a continuing basis to be able to cancel its obligations.

During 2018, based on the economic reality of the transactions carried out by CDSI, such as the factual segregation by CDSI of its operations with each one of the venturers, and the plan to terminate the joint agreement in the near future (see Note 1.2), the Group now considers this joint agreement as a joint operation, including in the consolidated statement of financial position its share of the assets and liabilities. As a result, the Group has included in the consolidated statement of financial position as of 31 December 2018 inventories, cash and cash equivalents and financial debt for an amount of Euro 40 million, Euro 17 million and Euro 13 million, respectively.

Prior to consolidation, the annual accounts of DIA, S.A. already included inventories and accounts payable amounting to Euro 40 million and Euro 34 million, respectively, the Parent Company being considered the principal with respect to suppliers.

d) Equity method

Under the equity method, investments are adjusted to recognise in the income statement the Group's share of the investee's post-acquisition results, as well as the Group's shares of movements in other comprehensive income. Dividends received or receivable from associates and joint ventures are carried as a reduction in the investment's carrying amount.

When the Group's share of losses on an investment carried under the equity method is equal to or exceeds its shareholding in the entity, including any other unsecured long-term receivable, the Group does not recognise additional losses, unless obligations have been incurred or payments have been made on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred. The accounting policies of equity-consolidated investees are changed when necessary to ensure consistency with the policies adopted by the Group.

e) Changes in ownership interests

The Group reflects transactions with non-controlling interests that do not result in the loss of control as transactions with the Group's equity holders. A change in an ownership interest gives rise to an adjustment to the carrying amounts of controlling and non-controlling interests to reflect their relative shareholdings in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate equity reserve attributable to the Group's owners.

When the Group discontinues consolidation or equity consolidation of an investment due to the loss of control, joint control or significant influence, any interest retained in the entity is remeasured to fair value, recognising the change in the carrying amount in the income statement. This fair value then becomes the initial carrying amount for the purposes of the subsequent recognition of the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amount previously recognised in other comprehensive income in relation to the entity concerned is recorded as if the Group had directly disposed of the related assets or liabilities. This could entail that the amounts previously recognised in other comprehensive income are reclassified to the income statement.

If its ownership interest in a joint venture or associate is reduced but joint control or significant influence is retained, only the proportionate part of the amounts previously recognised in other comprehensive income is reclassified to the income statement, if appropriate.

3. MAIN ACCOUNTING POLICIES

a) Business combinations and goodwill

As permitted by IFRS 1, the Group has recognised only business combinations that occurred on or after 1 January 2004, the date of the Carrefour Group transition to IFRS-EU, using the acquisition method (see note 2.1) (DIA Group was spun-off in 2011 from the French Carrefour Group). Entities acquired prior to that date were recognised in accordance with the generally accepted accounting principles applied by the Carrefour Group at that time, taking into account the necessary corrections and adjustments at the transition date.

The Group applies IFRS 3 Business combinations (revised in 2014) to all such transactions detailed in these consolidated annual accounts.

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

The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the business acquired, and any prior equity interest in the subsidiary.

The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.
At the acquisition date the Group recognises the assets acquired, the liabilities assumed and any non-controlling interest at fair value. Non-controlling interests in the acquiree are recognised in the proportionate part of the fair value of the net assets acquired. These criteria are only applicable for non-controlling interests which carry a current share of economic benefits and entitlement to the proportionate part of the net assets of the acquiree in the event of liquidation. Otherwise, non-controlling interests are measured at fair value or value based on market conditions.

Any excess of: a) the consideration transferred, b) the amount of any non-controlling interest in the acquired company and c) the acquisition-date fair value of any prior equity interest in the acquired company, over the fair value of the assets acquired and liabilities assumed, is recorded as goodwill. Any shortfall, after evaluating the consideration given and the identification and measurement of net assets acquired, is recognised in profit and loss.

Note 3k) (i) describes the approach to goodwill impairment.

When settlement of any part of the cash consideration is deferred, amounts payable in the future are discounted to present value at the exchange date. The discount rate used is the incremental interest rate on the entity's borrowings, which is the rate at which a similar loan could be obtained from an independent financial institution under comparable terms and conditions.

The contingent consideration is classified as equity or a financial liability. Amounts carried as a financial liability are subsequently remeasured to fair value and fair value changes are recognised in profit and loss.

If the business combination is achieved in stages, the carrying amount on the acquisition date of the equity interest previously held in the entity acquired is remeasured to fair value on the acquisition date, recognising any gain or loss in the income statement.

Moreover, for business combinations completed for no consideration, the excess of the value assigned to non-controlling interests, plus the fair value of the previously held interest in the acquiree, over the net value of the assets acquired and liabilities assumed, is recognised as goodwill. Any shortfall is recognised in profit or loss, after assessing the amount of non-controlling interests, the previous interest and the identification and measurement of net assets acquired. If the Group has no previously held interest in the acquiree, the amount allocated to net assets acquired is attributed in full to non-controlling interests and no goodwill or negative goodwill is recognised.

b) Non-controlling interests

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

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

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

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

c) Translation of foreign operations

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

- Assets and liabilities, including goodwill and adjustments to net assets deriving from the acquisition of the businesses, including comparative balances, are translated at the year-end exchange rate at each balance sheet date;
- Share capital and reserves are translated using historical exchange rates.
- Income and expenses, including comparative amounts, are translated at the exchange rates prevailing at each transaction date.
- All resulting exchange differences are recognised as translation differences in other comprehensive income.

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

On consolidation, exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any financial liability forming part of the net investment is settled, associated exchange differences are reclassified to the income statement for the year as part of the gain or loss on the sale.

Foreign operations whose functional currency is the currency of a hyperinflationary economy have been translated into Euros as follows:

Results and financial position have been translated following the criteria detailed below, as the company operates with a hyperinflationary functional currency:

- Assets and liabilities, including goodwill and adjustments to net assets deriving from the acquisition of the businesses, equity items, income and expenses and cash flows, are translated at the year-end exchange rate on the latest balance sheet date, and

- Comparative balances are those, which were presented in the consolidated annual accounts for the previous year and are not adjusted due to subsequent variations arising at price level or in exchange rates. The effect of the adjustment to previous year's balances is recognised as a restatement reserve in other comprehensive income / translation differences in other comprehensive income / reserves in equity.

d) Transactions, balances and flows in foreign currency

Foreign currency transactions are translated to the functional currency by applying spot exchange rates between the functional and foreign currency on the dates on which the transactions are completed. Exchange gains and losses resulting from the settlement of these transactions are generally recognised in the income statement for the year. Exchange gains and losses on borrowings are presented in financial expenses in the income statement. Other exchange gains and losses are presented net in the income statement in other gains/(losses).

Monetary assets and liabilities denominated in foreign currency are translated to euros by applying the year-end exchange rate, while non-monetary assets and liabilities carried at historical cost are translated by applying the exchange rates used on the date the transaction took place. Lastly, non-monetary items carried at fair value are translated to euros by applying the exchange rate on the date on which they were quantified. Currency translation differences on assets and liabilities carried at fair value are presented as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equity interests carried at fair value through profit or loss are recognised in the income statement for the year as part of the fair value gain or loss and translation differences on non-monetary assets such as equity interests carried at fair value through other comprehensive income are recognised in other comprehensive income.

In the consolidated cash flow statement, cash flows from foreign currency transactions are translated into euros at the exchange rates prevailing on the dates the cash flows arose. The effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currencies is recognised separately in the cash flow statement as "Net exchange differences".

Differences arising in the translation to euros of monetary assets and liabilities denominated in foreign currency are recognised in the income statement. Nonetheless, exchange differences arising in monetary items forming part of the net investment in foreign operations are recognised as currency translation differences in other comprehensive income.

e) Financial reporting in hyperinflationary economies

Under IFRS-EU, it must be assessed whether any Group company operates in a hyperinflationary economy. IAS 29 defines this situation as that in which the monetary unit loses purchasing power at such a rate that any comparison between the figures derived from transactions and other events occurring at different moments in time is misleading. Note 2.6 addresses the assessment of Argentina's classification as a hyperinflationary economy and the accounting treatment in the consolidated annual accounts of the items reflected in the financial statements of the companies in question.

f) Recognition of income and expense

Income and expense are recorded on an accrual basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned or incurred rather than the period in which the cash is actually received or disbursed.

Income is recognised in the amount of the consideration to which the Group expects to be entitled for transferring goods or services to customers, excluding amounts collected on behalf of third parties (e.g. certain sales taxes). The consideration may include fixed or variable amounts, or both. The amount of the consideration may vary due to discounts, refunds, reimbursements, credits, price reductions, incentives, performance bonuses, penalties or other similar items.

Revenue from contracts with customers is referred to as sales in these consolidated annual accounts.

The Group has customer loyalty programmes which do not generate credits, as they comprise discounts which are applied when a sale is made and are recognised as a reduction in the amount of the relevant transaction.

g) Intangible assets

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

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

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

Internally generated intangible assets

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

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

Costs incurred in activities in which amounts attributable to the research phase cannot be clearly distinguished from the costs of the intangible asset development phase are taken to the income statement.

Expenditure on activities that contribute to increasing the value of the different businesses in which the Group as a whole operates is expensed when incurred.

Replacements or subsequent costs incurred on intangible assets are generally recognised as an expense, except where they increase the future economic benefits expected to be generated by the assets.

Computer software

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

Lease premiums

Lease premiums are rights to lease business premises which have been acquired for valuable consideration and under which the Group has assumed the rights and obligations of the previous owner; they are carried at acquisition cost. Lease premiums are amortised on a straight-line basis over a ten-year period which does not exceed the estimated lease term.

Industrial property

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

h) Property, plant and equipment

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

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

As the average period for the execution of construction work in warehouses and stores does not exceed 12 months, there are no significant interest or other finance charges treated as an increase in property, plant and equipment.

Leasehold improvements in buildings occupied by the Group under operating leases are recognised following the same approach as is used for other property, plant and equipment. The investments are depreciated on a straight-line basis over the shorter of their useful life and the lease term, taking renewals into account.

Extension, modernisation or improvement expenses that increase productivity, capacity or efficiency or lengthen the useful life of the assets are capitalised as an increase in the cost of the assets when recognition requirements are met. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as applicable. The carrying amount of any component recognised as a separate asset is written off when it is replaced.

Upkeep and maintenance expenses are charged to the consolidated income statement in the year in which they are incurred.

The Group companies depreciate property, plant and equipment from the date on which they enter into service. The cost of the assets is depreciated on a straight-line basis (net of the relevant residual values) over the following estimated useful lives, which are calculated in accordance with technical studies and reviewed on a regular basis:

	Years
Buildings	40
Leasehold improvements	10 – 20
Plant and machinery	3 – 7
Fixtures, fittings, tools and equipment	4 – 10
Other property, plant and equipment	3 – 5

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

Note 3k) describes the impairment approach applied to non-current assets subject to depreciation.

i) Leases

Lessee accounting

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

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

Leases are classified as finance leases when substantially all the risks and rewards incidental to ownership of the assets are transferred to the Group. At lease inception, the Group recognises the assets, classified in accordance with their nature, and the associated debt, at the lower of fair value of the leased asset and present value of the minimum lease payments agreed. Lease payments are allocated proportionally between the reduction in the principal of the lease liability and the finance charge, so that a constant rate of interest is obtained on the outstanding balance of the liability. Finance charges are recognised in the consolidated income statement over the life of the lease. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term, if there is no reasonable certainty that the Group will own the asset at the lease expiration date.

Contingent lease instalments are reflected as an expense when they are likely to be incurred.

Lessor accounting

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

Sale and leaseback transactions

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

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

Transactions that meet the conditions for classification as a finance lease are treated as financing operations and, therefore, the asset’s nature is not affected and no profit or loss is recognised.

When the leaseback is classed as an operating lease:

- If the transaction is established at fair value, any profit or loss on the sale is recognised immediately in consolidated profit or loss for the year;
- If the sale price is below fair value, any profit or loss is recognised immediately. However, if the loss is compensated for by future lease payments at below market price, it is deferred in proportion to the lease payments over the period for which the asset is to be used.
- If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is to be used.

j) Non-current assets held for sale and discontinued operations

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

Non-current assets and disposal groups classified as held for sale are not depreciated and are recorded at the lower of their carrying amount and fair value, less costs to sell or dispose of the assets through other means. An impairment loss is recognised for any initial or subsequent reduction in the value of the asset or disposal group, less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset or disposal group, although this may not exceed the cumulative impairment loss previously recognised. The loss or gain not previously recognised at the date of sale of a non-current asset or disposal group is recognised on the date it is written off. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets and disposal group assets classified as held for sale are disclosed separately from the other assets in the consolidated statement of financial position. Disposal group liabilities classified as held for sale are disclosed separately from the other liabilities in the consolidated statement of financial position.

The results of discontinued activities are disclosed separately in the income statement.

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

- Represents a separate, significant line of business or geographical area;
- Is part of a single coordinated plan to sell or otherwise dispose of a separate, significant line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

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

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

Intragroup balances arising between non-current assets and non-current liabilities held and those classified as held for sale are eliminated on consolidation. The Group has eliminated transactions between continuing and discontinued operations in the consolidated income statement.

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

k) Impairment of non-financial assets

(i) Impairment of goodwill

Goodwill and intangible assets having an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently where there are events or changes to circumstances indicating that they may have become impaired. Pursuant to IAS 36, the Group performs a test annually to assess potential impairment of each Cash Generating Unit (CGU) or group of CGUs with associated goodwill to determine whether the carrying amount of these assets exceeds their recoverable amount.

The recoverable amount of each CGU or group of CGUs is the higher of their fair value less costs to sell and their value in use. Determining this recoverable value and the grouping of CGUs to which goodwill has been allocated requires judgement on the part of the management and the use of estimates.

The CGU or group of CGUs to which goodwill has been allocated should represent the lowest level at which goodwill is monitored for internal management purposes and should not be larger than an operating segment before aggregation determined in accordance with IFRS 8. The DIA Group reviews the allocation of goodwill at two levels: at the first level, for stores to which goodwill has been allocated and at a second level, at company level. This choice is based on both organisational and strategic criteria and how implementation decisions are made.

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

Note 6.1 contains some of the main assumptions used to measure the recoverable amount of the CGUs to which goodwill is allocated.

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

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

Recoverable amounts must be calculated for each individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or asset groups. If this is the case, the recoverable amount is determined for the cash-generating unit (CGU) of which the asset forms part. For the purposes of assessing impairment, each store is a separate cash-generating unit.

The Group tests non-current operating assets for impairment on a level basis. At the first level, potential impairment of the property, plant and equipment and intangible assets is tested for the individual CGU (store). At the second level, potential impairment is analysed by grouping CGUs at the legal entity level and assigning the corporate assets that serve those CGU groups (mainly corporate headquarters, logistics centres and brands), together with the relevant goodwill assigned at the legal entity level.

Based on past experience, the Group considers that there are signs of impairment when the performance of a mature store (one that has been in operation for more than two years) has been negative for more than two years and also those stores where impairment has been recorded. During the present year and where necessary, the Group has expanded the criterion for identifying impairment to include those stores with negative result from operating activities performance during the past year. When indications of impairment exist, the Group estimates the recoverable amount of the assets allocated to each cash-generating unit, calculated as the higher of fair value less costs to sell and value in use. That recoverable value is determined by discounting estimated future cash flows, applying a pre-tax discount rate which reflects the time value of money and considering the specific risks associated with the asset.

Goodwill has been allocated individually to certain stores at the time of acquisition. Such stores are tested annually regardless whether or not there are impairment indicators.

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

The Group employs the strategic plan to estimate recoverable amounts. The strategic plan generally spans a five-year period, except for Brazil, where 10-year projections have been used in order to include the impact of the high growth potential of Brazil, as it is a less mature market. For longer periods, projections based on the strategic plan are used as from year five, year ten in the case of Brazil, applying a constant expected growth rate. Note 5.1 includes some of the main assumptions considered in determining the recoverable amount of the cash-generating units to which the non-current assets are allocated.

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

When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is considered to be impaired. In this case the carrying amount is adjusted to the recoverable amount and the impairment loss is recognised in the consolidated income statement. Amortisation and depreciation charges for future periods are adjusted to the new carrying amount during the remaining useful life of the asset. Assets are tested for impairment on an individual basis, except in the case of assets that generate cash flows that are not independent of those from other assets (cash-generating units).

For the purposes of comparing the carrying amount with the recoverable value, the carrying amount of the assets subject to impairment in each store is considered to relate to assets may be impaired, excluding those store assets which given their nature may be reused in other stores such as POS terminals, refrigeration assets or shelves.

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

l) Advertising and catalogue expenses

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

m) Trade receivables

Trade receivables are initially recorded at fair value. The Group applies the simplified approach permitted by IFRS 9, which requires losses expected over the life of the receivables to be recognised at the time they are initially recorded. The Group recognises trade receivables in order to collect contractual cash flows, so they are subsequently measured at amortised cost using the effective interest method, less impairment adjustments.

The calculation of impairment adjustments is described in note 8.1 (d).

n) Investments and other financial assets

(i) Classification

As from 1 January 2018, the Group classifies its financial assets in the following categories:

- those that are measured at amortised cost. and
- those that are measured subsequently at fair value (either through profit or loss or in other comprehensive income).

The classification depends on the entity's business model for managing financial assets and on the contractual terms of the cash flows.

For assets carried at fair value, gains and losses are reflected in the income statement or in other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group made an irrevocable choice at the time of initial recognition to record the investment in equity at fair value through other comprehensive income.

The Group reclassifies investments in debt instruments when and only when its business model is changed to manage those assets.

(ii) Recognition and derecognition

Conventional purchases and sales of financial assets are recognised at the trade date, this being the date the Group undertakes to purchase or sell the asset. Financial assets are derecognised when they expire or the rights to receive cash flows from the financial assets are assigned and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

The Group only has financial assets that are measured at amortised cost. A financial asset is initially recognised by the Group at its fair value plus transaction costs directly attributable to the purchase.

Debt instruments

The Group's debt instruments are made up of contractual cash flows only representing payments of the principal and interest. Subsequent measurement of these debt instruments is at amortised cost. Interest income on these financial assets is included in financial income using the effective interest method. Any gain or loss that may arise on derecognition is taken directly to profit or loss for the year and is disclosed in other gains/(losses) together with exchange gains and losses. Impairment losses are presented as a separate item in the income statement.

o) Derivatives and hedging

Derivatives are initially recognised at fair value on the date on which the derivative contract is concluded and are subsequently remeasured to fair value on each balance sheet date. The method for recognising subsequent fair value changes depends on whether the derivative has been designated as a hedging instrument and, if so, on the nature of the hedged item. The Group designates certain derivatives as:

- fair value hedges of recognised assets and liabilities or firm commitments (fair value hedges);
- hedges of a specific risk associated with cash flows from recognised assets or liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedge).

At hedge inception, the Group documents the economic relationship between the hedging instruments and hedged items, including whether changes in cash flows from hedging instruments are expected to offset changes in cash flows from hedged items. The Group documents its risk management objective and hedging strategy.

The fair values of derivative financial instruments used for hedging purposes are analysed in note 15.5. The total fair value of a hedging derivative is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities, as appropriate.

(i) Cash flow hedges qualifying for hedge accounting

The effective portion of fair value changes to derivatives designated and qualifying as cash flow hedges is recognised in the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement in other gains/(losses).

Gains or losses relating to the effective portion of the change to the intrinsic value of option contracts are recognised in the cash flow hedge reserve in equity. Changes to the time value of option contracts that are related to the hedged item ("aligned time value") are recognised in other comprehensive income in the cost of hedging reserve in equity.

When forward contracts are used to hedge forecast transactions, the Group generally only designates as the hedging instrument the change in the fair value of the forward contract related to the spot element. Gains or losses relating to the effective portion of the change to the spot element of forward contracts are recognised in the cash flow hedge reserve in equity. Changes to the forward element of the contract related to the hedged item ("aligned forward element") are recognised in other comprehensive income in the cost of hedging reserve in equity. In some cases, gains or losses relating to the effective portion of the change to the fair value of the full forward contract are recognised in the cash flow hedge reserve in equity.

Amounts accumulated in equity are reclassified in the years in which the hedged item affects profit or loss, as follows:

- When the hedged item subsequently results in the recognition of a non-financial asset (such as inventories), both the deferred hedge gains and losses and the deferred time value or deferred forwards points, if applicable, are included in the asset's initial cost. The deferred amounts are finally recognised in the income statement for the year, since the hedged item affects profit or loss (e.g. through costs to sell).

- The gain or loss relating to the effective portion of interest rate swaps hedging floating-rate loans is recognised in the income statement in financial expenses at the same time as the interest expense on the loans hedged.

When the hedging instrument expires, is sold or is terminated, or when a hedge no longer meets hedge accounting requirements, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in

equity until the forecast transactions takes place, resulting in the recognition of a non-financial asset such as inventories. Where the forecast transaction is no longer expected to occur, the cumulative gain or loss and the deferred costs of hedging that were included in equity are immediately taken to the income statement for the year.

(ii) Derivatives not qualifying for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement in other gains/(losses).

p) Inventories

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

Acquisition cost comprises the amount invoiced by the seller, after deducting any discounts, rebates, non-trading income or other similar items, plus any additional costs incurred to bring the goods to a saleable condition, other costs directly attributable to the acquisition and non-refundable indirect taxes.

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

The value adjustment previously recognised is reversed against results if the circumstances that caused the impairment no longer exist or when there is clear evidence of an increase in net realisable value as a result of a change in economic circumstances. The reversal of the value adjustment is limited to the lower of cost and the new net realisable value of inventories.

Write-downs to net realisable value recognised or reversed on inventories are classified under merchandise and other consumables.

q) Cash and cash equivalents

Cash and cash equivalents recognised in the consolidated statement of financial position include petty cash and bank accounts, demand deposits and other highly-liquid investments with an original maturity of three months or less that are easily convertible into specific amounts of cash and are exposed to an insignificant risk of value changes. These items are recognised at historical cost, which does not differ significantly from realisable value.

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

r) Trade and other payables

These amounts relate to liabilities for goods and services provided to the Group before the end of the financial year for which payment is pending. Trade and other payables are presented as current liabilities unless payment does not fall due within 12 months as from the end of the reporting period. They are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

The Group’s cost of supplies is reduced due to different discounts based on the trade terms and conditions agreed with suppliers. Certain discounts are fixed and others are variable, and their application is subject to the cumulative volume of consumables during a contractually established period or the volume of sales of items from the corresponding suppliers by the Group companies at its establishments.

Trade discounts are recognised as a reduction in the cost of inventories when it is probable that the conditions for discounts to be received will be met. Any unallocated discounts are used to reduce the balance of merchandise and other consumables in the consolidated income statement. The main supplier discounts are as follows:

- Volume discounts: volume discounts are negotiated with suppliers as a percentage based on the volume of purchases.

- Advertising income: this results from credits negotiated with suppliers based on the inclusion of references in brochures, *displays*, shelving etc.
- Income from loyalty programmes: this relates to income from credits negotiated with suppliers based on the surrender of coupons by customers at stores using the CLUB DIA card.
- Other items for smaller amounts that are established based on other variables agreed with suppliers such as a percentage of merchandise losses or specific transportation agreements.

Negotiations with suppliers take place annually and are formally documented. At each monthly close, the Group recognises discounts obtained from suppliers. The Group recognises the charges / invoices issued for these items to suppliers and the estimate calculated by Commercial Management. These monthly estimates are calculated based on the approved budget to be attained with each supplier and the level of progress of the negotiations.

s) Financial liabilities

Financial debt is initially recognised at fair value, net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost. Any difference between the income obtained (net of transaction costs) and the repayment value is recognised in profit or loss over the life of the debt using the effective interest method. Fees paid for obtaining loans are recognised as loan transaction costs to the extent that it is probable that part or all of the facility will be available. In this case, fees are deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that all or part of the credit facility will be made available, the fee is capitalised as an advance payment for liquidity services and is amortised over the period to which the credit availability refers.

Financial debt is removed from the statement of financial position when the obligation specified in the contract has been paid, cancelled or expired. The difference between the carrying amount of a financial liability that has been cancelled or transferred to another party and the consideration paid, including any transferred asset other than the cash or liability assumed, is recognised in profit or loss as other finance income or expense.

The exchange of debt instruments between the Group and the counterparty or substantial modifications of initially recognised liabilities are accounted for as a cancellation of the original financial liability and the recognition of a new financial liability, provided that the instruments have substantially different conditions. The Group considers that the conditions are substantially different when there is more than a 10% difference between the present value of cash flows discounted under the new terms using the original effective interest rate, including any fees paid net of any fees received, and the present discounted value of the cash flows remaining on the original financial liability.

If the exchange is recorded as a write-down of the original financial liability, the costs or fees are recognised in profit or loss as part of profit or loss. Otherwise, the modified flows are discounted at the original effective interest rate, with recognition of any difference from the previous carrying amount in profit or loss. In addition, costs or fees adjust the carrying amount of the financial liability and are amortised using the amortised cost method over the remaining life of the modified liability.

The Group recognises the difference between the carrying amount of the financial liability or a portion thereof cancelled or transferred to a third party and the consideration paid, including any asset transferred other than the cash or liability assumed in profit or loss.

Financial debt is classified as a current liability unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

The Group recognises exchanges of debt instruments with a lender, provided that the instruments have substantially different conditions, as a cancellation of the original financial liability and subsequent recognition of a new financial liability. Similarly, a substantial change in the conditions of a financial liability or part of one is recognised as a cancellation of the original financial liability and subsequent recognition of a new financial liability. The difference between the carrying amount of the financial liability cancelled and the consideration paid which also includes any asset transferred other than cash or any liability assumed, is recognised in results for the year.

If the new terms or changes to a financial liability are not substantially different from existing ones and it is therefore determined that the change is not substantial, the existing financial liability is not derecognised. The Group will recalculate the gross carrying amount of the financial liability and recognise a profit or loss due to the change in the income statement for the year. The gross carrying amount of the financial liability will be recalculated as the present value of contractual cash flows renegotiated or changed, discounted at the original effective interest rate of the financial liability.

Equity swap contracts

As is indicated in Note 15 c), the Group has concluded equity swap contracts involving physical deliveries of shares. At the time this type of agreement is concluded, the Group receives the nominal amount equivalent to the product of

the number of the underlying shares from the financial institution at the share price is established in the agreement. At maturity the Group settles that nominal amount with the financial institution, net of any deposit created in its favour based on the clauses stipulated in the agreement.

When an Equity Swap is settled in shares (received or delivered), the classification of the contract requires an analysis of the flow exchange and the primary transaction in order to reach a conclusion as to whether the financial substance of the contract continues to be a genuine derivative or if the financial derivative is configured as a means to retain the risks relating to previously sold shares (circumstance which would mean no elimination), or if configured for the purpose of assuming the risks and benefits inherent to the ownership of the shares before acquiring the legal ownership of the equity instruments (which would give rise to the recognition of and acquisition of shares with a deferred payment).

Given that a settlement in shares is likely (as stated in the swamp contract concluded by the Group, from an accounting point of view it may be stated that the shares have been acquired (or retained if they form part of the treasury share portfolio) because the financial conditions of the transaction reveal that the Group assumes the substantial risks and advantages inherent to the ownership of the equity instruments. Accordingly, at the time the agreement is concluded the Group recognizes an acquisition of shares with a deferred payment or alternatively, if involving treasury shares, they are not eliminated and the debt with the financial institution in the amount received is recognized.

t) Parent company’s treasury shares

The Group's acquisition of equity instruments of the Parent is recognised separately at cost of acquisition in the consolidated statement of financial position as a reduction in equity, irrespective of the reason for the purchase. Any gains or losses on transactions with own equity instruments are not recognised in consolidated profit and loss.
Transaction costs related to own equity instruments, including issue costs related to a business combination, are accounted for as a reduction in equity, net of any tax effect.

The subsequent redemption of the Parent’s instruments entails a capital reduction equivalent to the par value of the shares and the positive or negative difference between the acquisition price and the par value of the shares is debited or credited to the reserve account.

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

u) Distributions to shareholders

Dividends, whether in cash or in kind, are recognised as a reduction in equity when approved at the Annual General Shareholders´ Meeting, together with the relevant provision.

v) Employee benefits

Defined benefit plans

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

Defined benefit liabilities recognised in the consolidated statement of financial position reflect the present value of defined benefit obligations at the reporting date, minus the fair value at that date of plan assets.

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

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

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

The present value of defined benefit obligations is calculated annually by independent actuaries using the projected unit credit method. The discount rate of the net defined benefit asset or liability is calculated based on the yield on high-quality corporate bonds and debentures in a currency and for a term consistent with the currency and term of the relevant benefits.

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

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

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

Termination benefits

Termination benefits paid or payable that do not relate to restructuring processes in progress are recognised when the Group is demonstrably committed to terminating the employment of current employees prior to the ordinary retirement date. The Group is demonstrably committed to terminating the employment of current employees when it has a detailed formal plan and there is no realistic possibility of withdrawing or changing the decisions made. Termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting date are discounted to present value.

Restructuring-related termination benefits

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

Short-term employee benefits

Wages and salaries, including non-monetary remuneration, annual holidays and cumulative sick leave, which are expected to be settled within 12 months as from the end of the year in which the employees provide the relevant services are recognised in respect of the employees' services to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are disclosed in the statement of financial position as current employee benefit obligations.

w) Provisions

Provisions are recognised when the Group has a present obligation (legal or implicit) as a result of a past event, the settlement of which requires an outflow of resources, which is probable and can be estimated reliably. Provisions are not recognised for future operating losses. If it is virtually certain that some or all of a provisioned amount will be reimbursed by a third party, for example through an insurance contract, an asset is recognised in the consolidated statement of financial position and the related expense is recognised in the consolidated income statement, net of the foreseen reimbursement. If the time value of money effect is material, the provision is discounted, recognising the increase in the provision due to passage of time as a financial expense.

The Group is involved in legal proceedings and tax inspections in a number of jurisdictions. The Parent's management uses significant judgement when determining whether it is probable that the process will result in an outflow of resources and when estimating the amount, so that the relevant provision can be made if necessary. A provision is posted if it is likely that there will be an obligation at the year end which will give rise to an outflow of funds, provided that the amount can be reliably measured.

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

x) Share-based payments

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

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

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

The Group determines the fair value of the instruments granted to employees by reference to the market quotation value at the grant date.

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

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

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

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

Once the services received and the corresponding increase in equity have been recognised, no additional adjustments are made to equity after the vesting date, although any necessary reclassifications in equity may be made.

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

Management is required to provide an opinion on and estimate the total obligation derived from these plans and the part of this obligation accrued at 31 December 2018 based on the extent to which the conditions for receipt have been met (see note 18).

(ii) Tax effect

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

y) Income Tax

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

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

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the tax authorities. The current income tax charge is calculated on the basis of the tax laws enacted or about to be enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates stances adopted in tax returns with respect to situations in which applicable tax legislation is subject to interpretation. Provisions are posted, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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

Deferred tax is recognised in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated annual accounts. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred taxes are also not recognised if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither reported results nor taxable results. Deferred income tax is determined applying tax rates (and laws) that have been or are about to be enacted at the reporting date and are expected to apply when the related deferred asset is realised or the deferred tax liability is settled.

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

At each close, the Group analyses the carrying amount of deferred tax assets recognised and makes the necessary adjustments where doubts exist regarding their future recovery. Deferred tax assets not recognised in the consolidated statement of financial position are also assessed at each accounting close and are recognised when their recovery through future tax profits appears likely, as specified in note 17.

Deferred tax assets and liabilities are not recognised in respect of temporary differences between the carrying amount and tax base of investments in foreign operations when the entity is not able to control the date on which the temporary differences will reverse and they are not likely to reverse in the foreseeable future.

Current or deferred income tax is recognised in the income statement, unless it arises from a transaction or economic event that has been recognised in the same year or in a different year in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current and deferred tax assets and liabilities, and when the deferred tax balances relate to the same tax authorities. The Group only offsets tax assets and liabilities if there is a legally enforceable right to offset the recognised amounts and it intends to either settle on a net basis or realise the assets and settle the liabilities simultaneously.

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

z) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, the operating results of which are regularly reviewed by DIA's ultimate operating decision-making body to resolve upon the resources to be allocated to the segment and assess its performance, for which discrete financial information is available (see note 4). The Group has identified the Chief Executive Officer as the ultimate decision-making authority for such purposes.

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

The Group classifies assets and liabilities in the consolidated statement of financial position as current and non-current. Current assets or liabilities are described below:

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

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

ab) Environment

The Group carries out transactions whose main purpose is to prevent, reduce or repair the environmental damages resulting from its operations.

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

ac) Related-party transactions

Sales to and purchases from related parties are carried out under the same conditions as those existing in transactions between independent parties (see note 22).

ad) Interest

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

4. INFORMATION ON OPERATING SEGMENTS

The Group had previously identified operating segments based on the management criteria applied in prior years: Iberia (which included the operations in Spain, Portugal and Switzerland) and Emerging Countries (which included operations in Brazil, Argentina, Paraguay and China). The Group, in the fourth quarter of 2018 has revised its segmenting criteria by identifying each of the countries in which it operates as an operating segment as a result of the change in the Board of Directors, senior management and the redefinition of the business in line with the new strategic plan, as is indicated in Note 2.3. This change in segmentation is presented in these consolidated annual accounts by restating the comparative information.

As a result, the operating segments for which information is presented are as follows:

- Spain (including operations in Switzerland)
- Portugal
- Brazil
- Argentina (including operations in Paraguay)

The China business was sold on 10 August 2018.

The Chief Executive Officer monitors the operating results of its business units separately in order to make decisions about resource allocation and performance assessment. In order to evaluate each segments' performance, the Group calculates an underlying operating profit by segment, which the Group calls Adjusted EBITDA.

This underlying operating profit helps the Chief Executive Officer analyze the segment results by eliminating "other cash elements" which are income statement items that are not directly dependent on the operations of the segment, but are based on decisions made by the Group focused on improving the segment operating results, or specific corporate expenses.

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

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

Thousands of Euro at 31 December 2018	SPAIN	PORTUGAL	ARGENTINA	BRAZIL	CHINA	Consolidated
Sales (1)	4,280,494	628,640	970,574	1,409,117	-	7,288,825
Adjusted EBITDA	250,992	30,105	2,761	54,032	-	337,890
% of sales	5.9%	4.8%	0.3%	3.8%	-	4.6%
Non-current assets	1,322,176	206,026	162,943	381,295	-	2,072,440
Liabilities	2,612,210	184,532	220,935	420,198	-	3,437,875
Acquisition of non-current assets	206,956	20,191	29,652	58,479	-	315,278
Number of outlets (2)	3,474	532	979	1,172	-	6,157

Thousands of Euro at 31 December 2017	SPAIN	PORTUGAL	ARGENTINA	BRAZIL	CHINA	Consolidated
Sales (1)	4,441,889	663,073	1,391,644	1,721,064	-	8,217,670
Adjusted EBITDA	346,899	42,203	58,935	70,455	-	518,492
% of sales	7.8%	6.4%	4.2%	4.1%	-	6.3%
Non-current assets	1,652,710	267,045	156,236	390,726	-	2,466,717
Liabilities	2,486,647	193,719	331,277	406,652	64,870	3,483,165
Acquisition of non-current assets	156,889	24,441	53,525	90,861	850	326,566
Number of outlets (2)	3,497	559	930	1,115	-	6,101

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

(2) Number of own stores and franchised stores at the year end, excluding China and Beauty by Dia

The reconciliation of adjusted EBITDA with the consolidated income statement line items is relevant is as follows:

2018

Thousands of Euro	SPAIN	PORTUGAL	ARGENTINA	BRAZIL	CHINA	Total 2018
Net Profit/(Losses)	**(321,510)**	**(13,582)**	**(8,465)**	**(5,618)**	**(3,412)**	**(352,587)**
Net financial expense (note 20.8)	30,764	720	37,625	14,616	-	83,725
Income tax (note 17)	189,654	(3,711)	3,772	(2,791)	-	186,924
Depreciation and amortization (note 20.6)	147,175	22,199	23,310	42,522	-	235,206
Losses net of taxes of discontinued operations (note 13)	50,198	109	-	-	3,412	53,719
Gain from net monetary positions (note 20.9)	-	-	(67,505)	-	-	(67,505)
Profit/(losses) of companies accounted for using the equity method (note 9)	377	-	806	-	-	1,183
Impairment of non-current assets (note 20.6)	65,453	10,463	1,710	2,311	-	79,937
Losses on disposal of fixed assets (note 20.7)	6,944	4,109	14,405	(44)	-	25,414
Other cash elements						-
Expenses relating to store remodellings	13,471	2,928	1,111	1,106	-	18,616
Expenses related to transfer of own stores to franchises	7,907	-	-	2,505	-	10,412
Expenses relating to store and warehouse closings	18,110	8,735	-	-	-	26,845
Expenses for efficiency projects	27,398	5,246	1,990	-	-	34,634
Other special expenses						-
of which transportation strike in Brazil	-	-	-	7,941	-	7,941
of which consultory	18,206	-	-	-	-	18,206
of which other	1,951	-	318	-	-	2,269
Gains from the sale of fixed assets (note 20.1)	(5,807)	(7,201)	(6,517)	(8,590)	-	(28,115)
Expenses relating to share based payments transactionss	701	90	201	74	-	1,066
Adjusted EBITDA	**250,992**	**30,105**	**2,761**	**54,032**	**-**	**337,890**

2017

Thousands of Euro	SPAIN	PORTUGAL	ARGENTINA	BRAZIL	CHINA	Total 2017
Net Profit/(Losses)	**93,361**	**9,782**	**(675)**	**20,134**	**(21,434)**	**101,168**
Net financial expense (note 20.8)	16,657	718	31,343	4,772	-	53,490
Income tax (note 17)	36,189	3,217	3,304	9,303	-	52,013
Depreciation and amortization (note 20.6)	139,991	22,399	17,871	43,458	-	223,719
Losses net of taxes of discontinued operations (note 13)	(9,632)	(312)	-	-	21,434	11,490
Profit/(losses) of companies accounted for using the equity method (note 9)	(194)	-	-	-	-	(194)
Impairment of non-current assets (note 20.6)	7,762	4,105	43	143	-	12,053
Losses on disposal of fixed assets (note 20.7)	9,879	584	5,975	776	-	17,214
Other cash elements						
Expenses relating to store remodellings	10,934	2,790	1,452	2,799	-	17,975
Expenses related to transfer of own stores to franchises	8,898	-	-	1,900	-	10,798
Expenses relating to store and warehouse closings	29,984	1,306	1,667	-	-	32,957
Expenses for efficiency projects	18,704	1,520	-	-	-	20,224
Other special expenses	392	-	1,277	-	-	1,669
Gains from the sale of fixed assets (note 20.1)	(12,475)	(3,243)	(3,074)	(12,434)	-	(31,226)
Expenses relating to share based payments transactionss	(3,551)	(663)	(248)	(396)	-	(4,858)
Adjusted EBITDA	**346,899**	**42,203**	**58,935**	**70,455**	**-**	**518,492**

. Other cash elements include:

- Expenses related to the remodelling of stores are operating expenses (staff costs and operational expenses) borne by the Group during temporary store closures while the stores undergo refurbishment and are not generating revenue. These expenses rose by 3.6% due to the increase in the number of renovations (1,140 in the entire Group compared with 772 in the previous year) but at a lower unit cost, half involving less work and sometimes only the addition of new modules.
- Expenses related to the transfer of own stores to franchisees: these expenses mainly relate to employee severance costs when transferring stores. These expenses fell by 3.6% compared with the previous year as fewer stores were transferred to franchisees (376 in 2018 compared with 414 in 2017).
- Store closure expenses: these expenses relate to store operating expenses incurred in the period of time from when the decision is taken to close the store to its definitive closure as well as the expenses related to store closures such as redundancies and penalties. These costs dropped by 18% in 2019 due to a decrease in the number of closures (102 compared 216) although at a higher cost.
- Warehouse closure expenses: these expenses relate to the costs connected with the closing of the warehouse such as redundancies and penalties.
- Expenses related to efficiency processes: these expenses mainly relate to severance costs resulting from productivity improvement processes at stores and warehouses due to the roll-out of automation processes or process re-engineering at warehouses and / or stores, the reduction in overhead costs at regional or national level and expenses related to new technologies training. In all cases, the aim is to enhance productivity and adapt the cost structure to the negative performance of sales.
- Other special projects: these expenses relate to non recurring events affecting the business such as the transport strike in Brazil and consulting expenses related to special projects in Spain as well as all expenses connected with the refinancing of borrowings in 2018 and the commitment to underwrite the

capital increase in 2019, consultant expenses due to the accounting restatement and expenses relating to the definition of the Group's new strategic plan. In others, the capital gain on the sale of 50% of the interest in Finandia Caixabank, offset mainly by the impairment of the receivable with Red Libra SL., has been taken into account.

Those expenses that, based on an internal classification, relate to the aforementioned costs in nature are identified by Management in order to calculate Adjusted EBITDA.

5. PROPERTY, PLANT AND EQUIPMENT

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

Thousands of Euro	Land	Buildings	Equipment, fixtures and fittings and machinery	Other installations, utensils and furniture	Tangible assets in progress and advances given	Other fixed assets	Total
Cost							
At 1 January 2017	**140,043**	**1,322,614**	**1,613,016**	**137,651**	**28,570**	**173,427**	**3,415,321**
Additions	750	72,644	156,463	18,772	43,351	15,456	307,436
Disposals	(18,098)	(44,653)	(35,266)	(11,046)	(309)	(7,290)	(116,662)
Transfers	-	16,238	14,559	2,975	(35,372)	1,494	(106)
Transfers to assets held for sale	-	(16,424)	(19,781)	(8,321)	(146)	(3,764)	(48,436)
Translation differences	(1,875)	(46,226)	(46,605)	(13,669)	(4,865)	(7,831)	(121,071)
At 31 December 2017	**120,820**	**1,304,193**	**1,682,386**	**126,362**	**31,229**	**171,492**	**3,436,482**
Additions	175	74,628	151,299	20,566	34,095	13,406	294,169
Disposals	(23,208)	(77,820)	(33,447)	(6,907)	(442)	(5,796)	(147,620)
Transfers	-	16,620	9,610	1,537	(29,237)	1,032	(438)
Hyperinflation	6,584	75,775	58,623	24,786	8,468	10,047	184,283
Transfers to assets held for sale (note 13)	(5,161)	(36,609)	(70,638)	(3,342)	(1,256)	(4,927)	(121,933)
Translation differences	(1,355)	(53,144)	(51,892)	(15,742)	(7,309)	(7,289)	(136,731)
At 31 December 2018	**97,855**	**1,303,643**	**1,745,941**	**147,260**	**35,548**	**177,965**	**3,508,212**
Depreciation							
At 1 January 2017	**-**	**(659,215)**	**(1,042,956)**	**(67,690)**	**-**	**(124,031)**	**(1,893,892)**
Amortisation and depreciation (note 19.5)	-	(53,687)	(128,478)	(13,170)	-	(18,022)	(213,357)
Disposals	-	16,055	23,729	9,360	-	6,671	55,815
Transfers	-	(634)	3,149	(3,422)	-	(8)	(915)
Other movements	-	(2,309)	(8,021)	(1,325)	-	(1,058)	(12,713)
Transfers to assets held for sale	-	10,394	13,619	4,276	-	3,318	31,607
Translation differences	-	7,419	19,717	5,438	-	4,375	36,949
At 31 December 2017	**-**	**(681,977)**	**(1,119,241)**	**(66,533)**	**-**	**(128,755)**	**(1,996,506)**
Amortisation and depreciation (note 19.5)	-	(53,998)	(134,680)	(16,079)	-	(17,938)	(222,695)
Disposals	-	28,121	23,169	6,011	-	3,901	61,202
Transfers	-	(746)	1,771	(1,237)	-	64	(148)
Hyperinflation	-	(22,840)	(32,167)	(15,616)	-	(8,947)	(79,570)
Other movements	-	(1,771)	(7,258)	(863)	-	(451)	(10,343)
Transfers to assets held for sale (note 13)	-	12,560	35,456	1,838	-	4,543	54,397
Translation differences	-	7,952	20,894	6,529	-	4,381	39,756
At 31 December 2018	**-**	**(712,699)**	**(1,212,056)**	**(85,950)**	**-**	**(143,202)**	**(2,153,907)**
Impairment							
At 1 January 2017	**(612)**	**(19,884)**	**(8,444)**	**(10)**	**-**	**(3)**	**(28,953)**
Allowance (note 19.5)	-	(9,017)	(3,077)	(6)	-	(6)	(12,106)
Distribution	-	4,863	1,591	6	-	-	6,460
Reversals (note 19.5)	-	4,444	862	-	-	-	5,306
Other movements	-	(1,012)	(219)	-	-	(1)	(1,232)
Transfers	-	529	386	-	-	-	915
Transfers to assets held for sale	-	-	193	-	-	-	193
Translation differences	-	175	4	-	-	1	180
At 31 December 2017	**(612)**	**(19,902)**	**(8,704)**	**(10)**	**-**	**(9)**	**(29,237)**
Allowance (note 19.5)	-	(53,608)	(13,888)	(3)	-	-	(67,499)
Distribution	-	5,459	1,740	3	-	-	7,202
Reversals (note 19.5)	-	873	132	-	-	6	1,011
Hyperinflation	-	(2,415)	-	-	-	-	(2,415)
Other movements	-	122	36	-	-	-	158
Transfers	-	372	138	-	-	-	510
Transfers to assets held for sale (note 13)	612	3,016	720	-	-	-	4,348
Translation differences	-	217	-	-	-	-	217
At 31 December 2018	**-**	**(65,866)**	**(19,826)**	**(10)**	**-**	**(3)**	**(85,705)**
Net carrying amount							
At 31 December 2017	**120,208**	**602,314**	**554,441**	**59,819**	**31,229**	**42,728**	**1,410,739**
At 31 December 2018	**97,855**	**525,078**	**514,059**	**61,300**	**35,548**	**34,760**	**1,268,600**

The Group records within “Other movements” the depreciation charge relating to the discontinued operations right before its reclassification to the discontinued operations line item.

Additions to property, plant and equipment in the Group during 2018 and 2017 mainly comprise refurbishments, remodelling and the opening of new stores to new formats, as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Spain	189,787	142,872
Portugal	19,818	23,283
Argentina	28,202	51,415
Brazil	56,362	89,045
China	-	821
Total	**294,169**	**307,436**

Addtions also include a carrying amount of Euro 90 million due to the restatement of assets located in hyperinflationary economies (Argentina) at 31 December 2018, Euro 105 million at 1 January 2018.

Disposals for 2018 and 2017 primarily comprise assets relating to the sale and leaseback of certain warehouses and stores owned by the DIA Group, as well as items replaced as a result of the aforementioned improvements and store closures. As regards store sale and leaseback transactions, in 2018 the Group sold 88 stores and three warehouses (52 stores and one warehouse in 2017) that are now occupied under operating leases.

Additions in 2017 have been restated to include Euro 18,517 thousand relating to plant and machinery that had been recorded in prior periods in an incorrect period (Euro 23,814 thousand in 2016), see note 14.4.

The carrying amount of the properties sold and leased back totalled Euro 64,434 thousand (Euro 34,816 thousand in 2017) and the sales generated a profit of Euro 28,115 thousand (Euro 31,226 thousand in 2017) recognised in the consolidated income statement item “other income” (see note 20.1). Pursuant to IAS 17, the Group only recognises the profit from sale and leaseback transactions in relation to leases treated as operating leases.

The sale and leaseback transactions were completed at arm’s length and no such transactions were effected with related parties.

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

Thousands of Euro	At 31 December 2018	At 31 December 2017
Buildings	298,953	341,822
Equipment, fixtures and fittings and machinery	689,036	742,273
Other installations, utensils and furniture	18,641	25,207
Other fixed assets	88,065	90,558
Total	**1,094,695**	**1,199,860**

No borrowing costs were capitalised in 2018 or 2017.

The Group has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

At 31 December 2018, there are no contractual commitments to purchase fixed assets.

A breakdown of payments for investments in property, plant and equipment presented in the cash flow statement is as follows:

Thousands of Euro	2018	2017
Additions property, plant and equipment	294,169	307,436
Variation suppliers of fixed assets	28,482	(49,891)
	322,651	**257,545**

5.1 Impairment of property, plant and equipment

As indicated in Note 1, in light of the events of 2018 an analysis of impairment has been carried out on store assets, which resulted in the Group extending the population of stores to be tested (see note 3k).

Every store which has been allocated goodwill individually has been subject to impairment testing.

The recoverable amount of each store has been determined based on fair value calculations by discounting future cash flows, which requires the use of market participant assumptions. These calculations use projected cash flows based on the approved five-year business plan (see note 1.1), except for Brazil where 10-year projections have been used to include the impact of the high growth potential of that CGU as it is a less mature market. Cash flows beyond this projection period are extrapolated using the estimated growth rates indicated below. The growth rate does not exceed the average long-term growth rate for the distribution business in which the Group operates. This fair value is classified as level 3 within the fair value hierarchy.

The business plan used has been prepared considering earlier experience and forecasts consistent with those included in specific sector reports. The business plan envisages major structural changes and store refurbishment such that the projections include capital expenditure to undertake these reforms and achieve an increase in sales and margins to recover market positioning or share.

The key assumptions used in the business plan are detailed below:

	Spain		Portugal	
	2018	2017	2018	2017
Sales growth rate (1)	4.38%	3.80%	2.06%	3.70%
Growth rate (2)	2.00%	2.00%	2.00%	2.00%
Discount rate (3)	8.45%	7.92%	8.51%	9.84%
Commercial margin (4)	25.58%	25.50%	20.72%	23.33%

	Argentina		Brazil	
	2018	2017	2018	2017
Sales growth rate (1)	2.48%	13.10%	8.82%	14.10%
Growth rate (2)	2.00%	2.00%	2.00%	2.00%
Discount rate (3)	14.90%	11.63%	12.22%	10.85%
Commercial margin (4)	18.55%	18.97%	18.34%	15.39%

(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) Discount rate before tax applied to cash flow projections
(4) Commercial margin, average over the period 2019-2023 calculated as net sales other income less goods and other consumables used

Management has calculated the values assigned to each of the above-mentioned key assumptions, as follows:

Sales growth rate

The average annual growth rate for the projected period has been determined based on management's expectations of market development, in line with the Group's strategic plan and taking into account expansion plans, store refits to new formats and trends in macroeconomic indicators (population, food price inflation, etc.).

Long-term growth rate

The growth rates used to extrapolate flows beyond the initial five-year period, ten-year period for Brazil, have been determined based on the European Central Bank's medium- and long-term inflation targets.

The weighted average growth rates of cash flows in perpetuity are consistent with the forecasts for the industry's expected evolution.

Pre-tax discount rate

The discount rates employed reflect specific risks related to businesses in the countries where they operate. 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 commercial margin remains stable over the budgeted period in all countries except for Spain where slight improvement is expected mainly due to the improvement of logistic costs.

In order to calculate the recoverable value of each store, the Group has established portfolios of stores having similar characteristics, grouping them based on the commercial trademark, country and business model and stratifying them based on sales per square metre in order to apply common variables in terms of growth assumptions according to the aforementioned business plan.

The impairment test has been performed in accordance with the matters indicated in Note 3k) ii) and, therefore:

1) Firstly, the Cash Generating Units (CGUs) with store-level impairment indications (individual CGU) have been identified and the impairment of stores whose recoverable value is less than their carrying value has been analysed.
2) Secondly, CGUs have been aggregated at the legal entity level and assigning the corporate assets that serve those CGU groups (mainly corporate headquarters, logistics centres and brands), together with the goodwill at the legal entity level.

Impairment has not been recognised on certain store items, such as PoS terminals, refrigeration equipment or shelving, insofar as given their nature and according to the business plan, they may be reused in opening new stores or to replace old or damaged items in existing stores.

As a result of the impairment testing, an impairment loss of Euro 79,937 thousand (Euro 66,488 thousand relating to property, plant and equipment, Euro 1,676 thousand relating to intangible assets, and Euro 11,773 thousand relating to goodwill) was recorded in 2018, of which Euro 33,062 thousand relates to the full impairment of 365 stores that are expected to be closed or sold and Euro 46,875 thousand relates to another 304 stores (Euro 12,100 thousand in 2017). Almost all of the impairment relates to Spain (Euro 65,453 thousand) and Portugal (Euro 10,463 thousand), and the remaining amount originates in Argentina and Brazil.

Thousands of Euro at 31 December 2018	SPAIN	PORTUGAL	ARGENTINA	BRAZIL	TOTAL
Total Impairment	(65,453)	(10,463)	(1,710)	(2,311)	**(79,937)**
Recoverable amount not impaired	66,611	3,701	3,698	6,713	**80,724**

The approved business plan calls for the closing/sale of stores of which only 365 (300 stores in Spain) have been identified to date. These 365 stores are expected to be closed or sold in 2019. All of the carrying amount of the assets relating to the identified stores to be closed or sold, and which also give rise to negative cash flows, has been impaired since no selling value for them could be estimated within the impairment test. Stores to be closed which are not individually identified have been analysed following the same methodology applied to stores not expected to be closed.

The need to record a provision for onerous contracts has been estimated for all stores whose impairment analysis gave rise to negative cash flows. This has resulted in an allocation of Euro 9,022 thousand, as is indicated in Note 15.3.

The second-level analysis did not result in the need to recognize any impairment relating to the corporate offices, logistic centres, trademarks or goodwill (also see Note 6.1). However, a warehouse not in use was impaired by the amount of Euro 349 thousand.

The sensitivity analysis of the impairment test considering changes in the key hypothesis, being the remaining variables unchanged is as follows:

- A reduction in the average growth sales of 100 bp would have increased the impairment charge by Euro 16,298 thousand;
- A decrease of 20 bp in the commercial margin would have increased the impairment charge by Euro 2,079 thousand;
- An increase in the discount rate of 100 bp would have increased the impairment charge by Euro 4,581 thousand;
- Or a decrease in the perpetual growth rate of 20 bp would have increased the impairment charge by Euro 6,980 thousand.

The recoverable amount of non-current assets, including goodwill, related to the Clarel business has been calculated using a fair value model based on adjusted EBITDA market multiples (obtained according to commonly accepted methodologies that include discounted cash flows, comparable transactions and comparative stock market criteria), deducting financial debt and estimated costs to sell. Group management understands that the model more appropriately reflects the recoverable amount of the business on the basis that the assets related to Clarel are currently classified as held for sale. See note 13. The Company is in the initial phase of commercialization and marketing in order to lauch the competitive process with potential investors. Since the adjusted EBITDA is a significant non-observable data, the fair value of the business has been classified as level 3 within the fair value hierarchy.

The recoverable amount of non-current assets linked to the Cash & Carry business has been estimated, taking as reference the offers received within the framework of the current process for the sale of that business. The process is in the review or Due Diligence phase by investors who have been selected from those who have submitted a non-binding proposal. The estimated recoverable amount is higher that the carrying amount of the non-current assets, and therefore there has been no need to recognise any impairment on Cash & Carry assets.

5.2 Finance Leases

Finance leases have been arranged for certain stores at which the Group's principal activities are carried out. There are also finance leases for technical installations, machinery and other fixed assets (vehicles). Details of items of property, plant and equipment under finance leases and hire purchase contracts are as follows:

Thousands of Euros	At 31 December 2018	At 31 December 2017
Land	176	176
Cost	176	176
Buildings	99	435
Cost	527	527
Accumulated depreciation	(138)	(92)
Impairment	(290)	-
Equipment, fixtures and fittings and machinery	18,829	25,267
Cost	42,462	47,567
Accumulated depreciation	(23,633)	(22,300)
Other fixed assets (transports)	9,234	10,712
Cost	16,422	17,708
Accumulated depreciation	(7,188)	(6,996)
Net carrying amount	**28,338**	**36,590**

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

Interest incurred on finance leases totalled Euro 1,895 thousand and Euro 2,175 thousand in 2018 and 2017, respectively (see note 20.8).

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

Thousands of Euro	At 31 December 2018		At 31 December 2017	
	Minimum payments	Present value	Minimum payments	Present value
Less than one year	10,166	9,125	11,978	10,547
Two to five years	20,092	18,777	26,063	24,109
More than 5 years	1,049	1,024	2,177	2,120
Total minimum payments and present value	**31,307**	**28,926**	**40,218**	**36,776**
Less current portion (note 13.1)	(10,166)	(9,125)	(11,978)	(10,547)
Total non-current (note 13.1)	**21,141**	**19,801**	**28,240**	**26,229**

The consolidated income statement does not include any contingent rent in respect of these contracts.

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

Thousands of Euro	At 31 December 2018	At 31 December 2017
Minimum future payments	31,284	40,195
Purchase option	23	23
Unaccrued finance expenses	(2,381)	(3,442)
Present value	**28,926**	**36,776**

There were no subleases of property, plant and equipment recognised under finance leases in 2018 and 2017.

6. INTANGIBLE ASSETS

6.1. Goodwill

Details of goodwill by country and legal entity and movements during the period are as follows:

Thousands of Euro	Plus Supermercados, S.A. (1)	Grupo El Arbol, S.A. (2)	Adquisition 148 stores Grupo Eroski (3)	Schlecker, S.A. (4)	Distribuciones Reus, S.A. (5)	Other adquisitions	SPAIN	Companhia Portuguesa de Lojas de Desconto,S.A. (6)	PORTUGAL	TOTAL
ADQUISITION YEAR	2007	2014	2015	2013	1991	Several		1998		
Net Goodwill at 31 December 2016	**160,553**	**156,665**	**93,438**	**48,591**	**26,480**	**32,337**	**518,064**	**39,754**	**39,754**	**557,818**
Disposals	-	-	-	-	-	(99)	(99)	-	-	(99)
Transfers	-	(1,551)	1,071	-	-	480	-	-	-	-
Impairment allowance (note 20.6)	-	-	(2,814)	-	-	(1,776)	(4,590)	-	-	(4,590)
Net Goodwill at 31 December 2017	**160,553**	**155,114**	**91,695**	**48,591**	**26,480**	**30,942**	**513,375**	**39,754**	**39,754**	**553,129**
Transfers to assets held for sale	-	-	-	(48,591)	-	-	(48,591)	-	-	(48,591)
Impairment allowance (note 20.6)	-	(670)	(4,738)	-	-	(6,365)	(11,773)	-	-	(11,773)
Net Goodwill at 31 December 2018	**160,553**	**154,444**	**86,957**	**-**	**26,480**	**24,577**	**453,011**	**39,754**	**39,754**	**492,765**

(1) Goodwill arosen in the business combination when the Group acquired Plus Supermercados, S.A., currently denominated Twins Alimentación, S.A., which operates under the DIA Maxi trademark.
(2) Goodwill originated in the acquisition of Grupo El Árbol, S.A., business currently operated under La Plaza de DIA trademark.
(3) Goodwill associated to the acquisition of 148 stores of the Eroski Group. Goodwill allocated to the legal entities DIA and Grupo El Árbol, S.A. The trademark under which these stores operate are DIA Market and La Plaza de DIA, respectively.
(4) The goodwill of Schlecker, S.A. relates to the entity currently denominated Beauty by DIA, S.A. which operates under the Clarel trademark.
(5) The goodwill in connection with Distribuciones Reus, S.A. is allocated to the legal entity DIA, and relates to stores operated under the DIA Maxi and DIA Market trademarks.
(6) The goodwill of Companhia Portuguesa de Lojas de Desconto, S.A., relates to the legal entity DIA Portugal II, and it is associated to stores that operate under the Minipreço trademark.

The recoverable amount has been determined based on fair value calculations by discounting future cash flows, taking into account the same key variables indicated in Note 5.1.

The impairment tests performed have resulted in the recognition of impairment totalling Euro 11,773 thousand in 2018 (in 2017: Euro 4,590 thousand). This amount entirely relates to the impairment of the goodwill allocated to the stores, which have been identified by the analysis as impaired, as is described in Note 5.1. Based on the entity-level impairment analysis, the Company considers there is no need to impair goodwill on consolidation.

The Euro 48,591 thousand in goodwill arising on the acquisition of the Clarel business (formerly Schlecker, S.A.) has been transferred to non-current assets held for sale (see note 13.1).

Sensitivity analysis

In all cases, sensitivity analyses are performed in relation to the sales growth rate, commercial margin, discount rate used and the growth rate of cash flows in perpetuity to ensure that reasonable changes in these assumptions would not have an impact over the recoverable amount of the goodwill recognised.

Reasonably possible variations to the hypothesis mentioned in the preceding paragraph have not impacted the results of the impairment test. Finally, the recoverable amount of the CGU groups at the level of Spain and Portugal would be equal to their carrying amount if the key hypothesis were to change as indicated in the following table:

	Spain		Portugal	
	From	To	From	To
Sales growth rate (1)	4.38%	1.09%	2.06%	(4.02)%
Growth rate (2)	2.00%	(17.28)%	2.00%	(32.27)%
Discount rate (3)	8.45%	14.56%	8.51%	15.11%
Commercial margin (4)	25.58%	23.92%	20.72%	18.12%

(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) Discount rate before tax applied to cash flow projections
(4) Commercial margin, average over the period 2019-2023 calculated as net sales and other income less goods and other consumables used

The results of the sensitivity analysis are presented at a country level. Nevertheless, no instances of impairment at the entity level have been identified where the impairment had been offset against other entities' positive results.

The recoverable amount of the group of CGUs in Spain is estimated to exceed the carrying amount of the group of CGUs at 31 December 2018 by Euro 1,514 thousand (Euro 3,993 thousand at 31 December 2017).

The recoverable amount of the group of CGUs in Portugal is estimated to exceed their carrying amount at 31 December 2018 by Euro 285,548 thousand (Euro 242,048 thousand at 31 December 2017).

6.2 Other intangible assets

Details of other intangible assets and movements are as follows:

Thousands of Euro	Development cost	Industrial property	Leaseholds	Computer software	Other intangible assets	Total
Cost						
At 1 January 2017	**9,376**	**9,945**	**24,447**	**39,827**	**18,612**	**102,207**
Additions/Internal development	11,167	1,156	-	5,753	1,054	19,130
Disposals	-	(925)	(4,000)	(788)	(2,368)	(8,081)
Transfers	(5,439)	21	2,688	5,436	(2,600)	106
Transfers to assets held for sale	-	-	-	(3,048)	-	(3,048)
Translation differences	-	-	-	(1,150)	(437)	(1,587)
At 31 December 2017	**15,104**	**10,197**	**23,135**	**46,030**	**14,261**	**108,727**
Additions/Internal development	14,958	452	829	4,741	129	21,109
Disposals	47	-	(299)	(1,931)	(976)	(3,159)
Reversals	-	-	-	5	-	5
Transfers	(7,867)	(2,395)	-	10,317	21	76
Transfers to assets held for sale (note 13)	(130)	(1,392)	-	(519)	(123)	(2,164)
Hyperinflation	-	-	-	1,280	-	1,280
Translation differences	-	-	-	(1,426)	(616)	(2,042)
At 31 December 2018	**22,112**	**6,862**	**23,665**	**58,497**	**12,696**	**123,832**
Depreciation						
At 1 January 2017	**-**	**(4,736)**	**(22,599)**	**(30,821)**	**(5,944)**	**(64,100)**
Amortisation and depreciation (note 19.5)	-	(2,033)	(975)	(6,813)	(541)	(10,362)
Disposals	-	925	3,869	787	2,093	7,674
Transfers	-	-	(34)	-	(3)	(37)
Transfers to assets held for sale	-	-	-	2,000	-	2,000
Other movements	-	-	-	(290)	-	(290)
Translation differences	-	-	-	578	112	690
At 31 December 2017	**-**	**(5,844)**	**(19,739)**	**(34,559)**	**(4,283)**	**(64,425)**
Amortisation and depreciation (note 19.5)	-	(1,982)	(953)	(8,996)	(580)	(12,511)
Disposals	-	1,119	266	177	295	1,857
Transfers to assets held for sale (note 13)	-	-	-	516	3	519
Exits from consolidation perimeter	-	-	-	(662)	-	(662)
Hyperinflation	-	-	-	(834)	22	(812)
Other movements	-	(3)	-	(54)	-	(57)
Translation differences	-	-	-	1,291	98	1,389
At 31 December 2018	**-**	**(6,710)**	**(20,426)**	**(43,121)**	**(4,445)**	**(74,702)**
Impairment						
At 1 January 2017	**-**	**-**	**(64)**	**-**	**(483)**	**(547)**
Allowance (note 19.5)	-	-	(10)	-	(653)	(663)
Distribution	-	-	3	-	362	365
Transfers	-	-	34	-	3	37
Other movements	-	-	-	-	(2)	(2)
At 31 December 2017	**-**	**-**	**(37)**	**-**	**(773)**	**(810)**
Allowance (note 19.5)	-	-	(136)	(39)	(1,501)	(1,676)
Distribution	-	-	12	-	634	646
Transfers to assets held for sale	-	-	-	-	7	7
At 31 December 2018	**-**	**-**	**(161)**	**(39)**	**(1,633)**	**(1,833)**
Net carrying amount						
At 31 December 2017	**15,104**	**4,353**	**3,359**	**11,471**	**9,205**	**43,492**
At 31 December 2018	**22,112**	**152**	**3,078**	**15,337**	**6,618**	**47,297**

The Group’s intangible asset additions during 2018 and 2017 mainly comprise the development of IT projects carried out in-house in Spain and Portugal, among which the Vela project stands out. This project consists of a development for the adaptation of the OPS’s for the integral management of the store in order to achieve improvement of productivities. In addition, computer applications have been acquired as follows:

Thousands of Euro	2018	2017
Additions of intangible assets	6,151	7,963
Development cost	14,958	11,167
	21,109	**19,130**

The segment detail is as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Spain	17,169	14,017
Portugal	373	1,158
Argentina	1,450	2,110
Brazil	2,117	1,816
China	-	29
Total	**21,109**	**19,130**

Note 20.6 includes the impairment of intangible assets recorded in 2018 and 2017 under the income statement caption “Amortisation and impairment”.

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

Thousands of Euro	At 31 December 2018	At 31 December 2017
Computer software	29,654	26,363
Leaseholds and other	4,586	3,437
Total	**34,240**	**29,800**

7. OPERATING LEASES

The Group has approximately 7,250 real estate leases in place at 31 December 2018 and 31 December 2017. 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. The lease agreements generally do not include clauses establishing variable amounts such as turnover-based fees or contingent rent amounts.

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

During 2018 and 2017, sale and leaseback contracts were signed for certain warehouses and stores with terms of between 20 and 30 years and a minimum tie-in period of between 2 and 12 years. Some logistics contracts call for the start of other mandatory compliance periods after the minimum commitment periods until the total term of the contracted is fulfilled. These items have not been taken into consideration by the Group when determining the term and the classification of the lease since there is no reasonable certainty of remaining during those additional periods (see Note 5 and 20.1)

Details of the main real estate operating lease contracts in force at 31 December 2018 and 2017 are as follows:

2018

Warehouse	Country	Minimum date for lease finalization	Warehouse	Country	Minimum date for lease finalization
Getafe	SPAIN	2026	Almería	SPAIN	2019
Mallén	SPAIN	2023	Salamanca	SPAIN	2019
Manises	SPAIN	2019	Valongo	PORTUGAL	2028
Mejorada del Campo	SPAIN	2024	Torres Novas	PORTUGAL	2028
Miranda	SPAIN	2019	Alverca	PORTUGAL	2028
Orihuela	SPAIN	2023	Anhanghera	BRAZIL	2019
Sabadell	SPAIN	2029	Guarulhos	BRAZIL	2019
San Antonio	SPAIN	2023	Americana	BRAZIL	2019
Villanubla	SPAIN	2019	Porto Alegre	BRAZIL	2019
Villanueva de Gállego	SPAIN	2030	Ribeirao Preto	BRAZIL	2019
Dos Hermanas	SPAIN	2027	Belo Horizonte	BRAZIL	2019
Azuqueca	SPAIN	2020	Mauá	BRAZIL	2021
Villanueva de Gállego	SPAIN	2024	Nova Santa Rita	BRAZIL	2020
Granda-Siero	SPAIN	2020	Avellaneda	ARGENTINA	2019

2017

Warehouse	Country	Minimum date for lease finalization	Warehouse	Country	Minimum date for lease finalization
Getafe	SPAIN	2026	Azuqueca	SPAIN	2018
Mallén	SPAIN	2023	Dos Hermanas	SPAIN	2027
Manises	SPAIN	2018	Santiago	SPAIN	2020
Mejorada del Campo	SPAIN	2024	Albufeira	PORTUGAL	2018
Miranda	SPAIN	2018	Loures	PORTUGAL	2020
Orihuela	SPAIN	2023	Grijó	PORTUGAL	2021
Sabadell	SPAIN	2029	Anhanghera	BRAZIL	2018
San Antonio	SPAIN	2023	Guarulhos	BRAZIL	2018
Tarragona	SPAIN	2018	Americana	BRAZIL	2018
Villanubla	SPAIN	2019	Porto Alegre	BRAZIL	2018
Villanueva de Gállego	SPAIN	2023	Ribeirao Preto	BRAZIL	2018
Santander	SPAIN	2018	Belo Horizonte	BRAZIL	2018
Granda-Siero	SPAIN	2020	Mauá	BRAZIL	2020
Almería	SPAIN	2018	Avellaneda	ARGENTINA	2018
Salamanca	SPAIN	2018			

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

Thousands of Euro	2018	2017
Lease payments, property (note 20.5)	296,080	292,536
Lease payments, furniture and equipment (note 20.5)	3,672	5,994
Total	**299,752**	**298,530**

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

Thousands of Euro	At 31 December 2018	At 31 December 2017
Less than one year	88,775	109,030
One to five years	124,217	117,356
Over five years	68,765	60,234
Total minimum lease payments, property	**281,757**	**286,620**
Less than one year	3,035	1,737
One to five years	4,006	1,406
Over five years	240	-
Total minimum lease payments, furniture and equipment	**7,281**	**3,143**

The majority of the store leases entered into by the Group contain clauses allowing termination 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 not generally more than three months. The total amount of lease commitments is similar to annual lease expense.

Sublease revenues amount to Euro 32,435 thousand (Euro 30,263 thousand at 31 de December 2017) (see note 20.1), comprising revenues from rights-of-use transferred to franchisees, as well as the amounts received from concessionaires to carry out their activities. In general terms, the duration of these contracts is under one year, tacitly renewable in those that establish a monthly fixed rent with an additional fee based on concession turnover. The consolidated income statement does not include any contingent income in respect of these contracts.

8. FINANCIAL ASSETS

Details of financial assets in the consolidated statement of financial position at 31 December 2018 and 2017 are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
FINANCIAL ASSETS AT AMORTIZED COST		
Non-current assets		
Trade and other receivables	63,306	73,084
Non-current financial assets	74,056	80,296
Current assets		
Trade and other receivables	192,278	198,791
Consumer loans from financing activities	20	1,070
Other current financial assets	11,302	9,896
TOTAL	**340,962**	**363,137**

8.1. Trade and other receivables

Details of current trade and other receivables are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Trade operations non-current (note 8.1 a))	63,306	73,084
Total non-current	**63,306**	**73,084**
Trade and other receivables (impairment included)	103,458	111,138
Other receivables	25,522	20,963
Receivables from suppliers	56,481	63,677
Advances to suppliers	1,540	2,840
Trade receivables from other related parties (note 19)	5,277	173
Total current	**192,278**	**198,791**

In view of the short-term nature of current receivables, carrying amounts are deemed to match fair values.

a) Trade receivables for sales

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

Thousands of Euro	At 31 December 2018	At 31 December 2017
Trade operations non-current (note 8.1 a))	63,306	73,084
Trade operations current (note 8.1 a))	139,952	139,627
Total Trade and other receivables	**203,258**	**212,711**
Impairment loss	(36,502)	(34,883)
Total	**166,756**	**177,828**

These trade balances are measured at amortized cost less impairment provisions and have generated interest of Euro 2,798 thousand in 2018 (Euro 2,324 thousand in 2017), which has been recognised in the consolidated income statement.

b) Receivables from suppliers

This caption includes balances receivable from suppliers in connection with trade discounts pending to be invoiced at the end of the period. These amounts are netted with subsequent purchases and the impairment provision is recorded on an individual basis.

In 2018 the Group entered into agreements to assign supplier trade receivables without recourse (see notes 3 and 23.4). The accrued financial expense of assigning these receivables amounted to Euro 263 thousand (Euro 240 thousand in 2017) (see note 20.8).

The assigned receivables that had not yet fallen due at 31 December 2018 totalled Euro 126,450 thousand (Euro 99,624 thousand in 2017) and all were considered to be without recourse. The Group considers that default risk and credit risk have not been retained in respect of these non-recourse assignments, so the relevant amounts have been derecognised from trade receivables.

c) Trade receivables from other related parties

During 2018 and 2017, transactions were completed with the companies ICDC, Red Libra and FINANDIA, E.F.C., S.A. (see note 22), mainly relating to trade operations.

d) Impairment

The Group has implemented the new financial asset impairment calculation model based on expected credit losses during the asset's life, which did not entail recognising a significant difference with respect to the previous model at 1 January 2018.

Each Group company posts a provision as a percentage of the total balance outstanding with commercial customers, estimating the percentage based on the segmentation of the customer portfolio. The Group considers that the most relevant customer portfolio provision covers default by franchisees.

Under this approach, the provision (percentage ratio) is calculated in an amount equal to expected credit losses over the asset's life based on internal calculations or scoring using internal historical data or market information (debtor's credit situation, geographical area, maturity, collateral, etc.) which, in management's opinion, facilitates portfolio segmentation on the basis of consistent behaviours. Using this segmentation and historical behaviours, the Group calculates percentages taking into consideration risk exposure to each type of franchisee, with respect to past-due amounts, and the provisioning need is determined by applying the percentage to outstanding risk by type. Movements in the impairment adjustments for receivables (see other disclosures on credit risk in note 23.4) were as follows:

2018

Thousands of Euro	Customer for sales (note 8.1 a and 23.4)	Other debtors	Credits receivable from suppliers	Total
At 1 January	**(34,883)**	**(7,979)**	**(5,917)**	**(48,779)**
Charge	(19,481)	(988)	(7,326)	(27,795)
Applications	10,502	890	4,017	15,409
Reversals	685	-	(40)	645
Transfers to assets held for sale	54	48	122	224
Translation differences	6,621	-	203	6,824
At 31 December 2018	**(36,502)**	**(8,029)**	**(8,941)**	**(53,472)**

2017

Thousands of Euro	Customer for sales (note 8.1 a and 23.4)	Other debtors	Credits receivable from suppliers	Total
At 1 January	**(29,745)**	**(7,446)**	**(6,288)**	**(43,479)**
Charge	(17,304)	(983)	(2,990)	(21,277)
Applications	5,258	417	2,902	8,577
Reversals	2,655	-	245	2,900
Transfers	(33)	33	-	-
Transfers to assets held for sale	-	-	189	189
Translation differences	4,286	-	25	4,311
At 31 December 2017	**(34,883)**	**(7,979)**	**(5,917)**	**(48,779)**

The trade receivable balance under current assets relates primarily to deliveries of goods to franchisses, collection of which takes place within a very short period of time. Expected losses therefore largely relate to sales to franchisees under longer collection terms, corresponding to the initial period for stocking stores or specific campaigns involving higher sales volumes.

8.2 Other financial assets

All of the Group's financial assets are measured at amortized cost. The breakdown of financial assets at 31 December 2018 and 2017 is as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Equity instruments	695	88
Lease deposits	60,136	66,942
Other deposits	2,000	2,000
Other loans	703	524
Other non-current financial assets	10,522	10,742
Total non-current	**74,056**	**80,296**
Franchise deposits	2,790	3,256
Credits to personnel	2,862	3,027
Other loans	341	1,016
Loans on the sale of fixed assets	352	498
Derivates	18	-
Current account with associated companies	2,603	-
Other finantial assets	2,336	2,099
Total current	**11,302**	**9,896**

"Lease deposits" are the amounts pledged to lessors to secure lease contracts. These amounts are measured at present value and any difference with their nominal value is recognised under prepayments for current or non-current assets. The interest on these assets included in the consolidated income statement in 2018 and 2017 amounted to Euro 208 thousand and Euro 257 thousand, respectively. In addition, Euro 7,605 thousand relate to court deposits in DIA Brazil in connection with the 2017 restatement adjustment (see note 14.4).

The Group considers deposits arranged under lease contracts as low credit risk assets since most leases require the lessor to deposit the amount received with the relevant public body.

At 31 December 2018 and 2017, "Other non-current deposits" consist of the amount withheld from the sellers in the acquisition of establishments from the Eroski Group, which will be released after five years, in accordance with the addendum to the framework contract signed on 7 August 2015 (see note 15.2).

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

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

In 2018 and 2017, the balance in this caption relates to DIA Argentina, consisting of loans granted to individuals residing in Argentina. The loans are measured at amortised cost less impairment adjustments.

9. OTHER EQUITY-ACCOUNTED INVESTEES AND JOINT OPERATIONS

The balance of equity-accounted investments in 2018 and 2017 includes a 50% stake in the company ICDC Services Sàrl and Red Libra Trading Services S.L. and a 10% stake in the company DIPASA.

The sale of 50% of the shares in FINANDIA E.F.C., S.A. to CaixaBank Consumer Finance E.F.C., S.A.U. on 28 June 2018 entailed the loss of control. The remaining 50% stake held by the Group has been recognised under the equity method.

These companies' financial highlights, including the joint operations CD Supply Innocation S.L, for 2018 and 2017 are as follows:

Thousands of Euro	ICDC Services Sárl At 31 December 2018	ICDC Services Sárl At 31 December 2017	Finandia At 31 December 2018	DIPASA At 31 December 2018	RED LIBRA At 31 December 2018	RED LIBRA At 31 December 2017	CD Supply Innovation, S.L. At 31 December 2018	CD Supply Innovation, S.L. At 31 December 2017
Current assets								
Cash and cash equivalents	1,991	2,054	5,810	739	-	326	33,847	17,812
Other current assets	18,877	17,965	2,550	2,846	203	298	521,848	216,973
Total current assets	**20,868**	**20,019**	**8,360**	**3,585**	**203**	**624**	**555,695**	**234,785**
Non-current assets	**21**	**70**	**1,416**	**7,489**	**134**	**305**	**128**	**-**
Current liabilities								
Financial liabilities (excluded accounts payable)	2	16,823	100	-	-	39	110,120	103,563
Other current liabilities	20,494	2,785	1,360	2,630	-	772	444,003	34
Total current liabilities	**20,496**	**19,608**	**1,460**	**2,630**	**-**	**811**	**554,123**	**103,597**
Non-current liabilities								
Financial liabilities (excluded accounts payable)	-	-	80	8,359	1	-	-	130,000
Other non current liabilities	-	-	-	-	737	-	-	-
Total Non-current liabilities	**-**	**-**	**80**	**8,359**	**738**	**-**	**-**	**130,000**
Net assets	**393**	**481**	**8,236**	**85**	**(401)**	**118**	**1,700**	**1,188**
Reconciliation with Net carrying amount								
Net assets at 1 January	**481**	**526**	**8,611**	**-**	**118**	**3**		
Annual profit	154	276	(375)	740	(482)	115		
Other comprehensive income	-	-	-	-	-	-		
Dividens paid	(242)	(160)	-	-	-	-		
Net assets at year end	**393**	**642**	**8,236**	**740**	**(364)**	**118**		
Part of the group %	50%	50%	50%	10%	50%	50%		
Part of the group in thousands of euros	197	321	4,118	74	(182)	59		
Proceeds from sale of Group's participation	-	-	4,975			-		
Net carrying amount	**197**	**321**	**9,093**	**74**	**(182)**	**59**		

10. OTHER ASSETS

Details of other assets are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Prepayments for operating leases	3,374	2,967
Prepayments for guarantees	342	373
Prepayments for insurance contracts	768	717
Other prepayments	2,871	3,330
Total other assets	**7,355**	**7,387**

11. INVENTORIES

Details of inventories are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Goods for resale	523,649	602,326
Other supplies	8,015	6,678
Total inventories	**531,664**	**609,004**

Write-downs of the value of inventories at net realisable value totalled Euro 3,767 thousand (Euro 16 thousand in 2017). This amount was expensed during the year ended 31 December 2018 in the line item “goods and other consumables used” in the income statement for the year.

At 31 December 2018 and 2017 there are no restrictions on the availability of any inventories.

The Group has taken out insurance policies guaranteeing the recoverability of the carrying amount of inventories in the event of incidents that might affect their use or sale.

12. CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Cash and current account balances	195,640	295,205
Cash equivalents	44,203	51,311
Total	**239,843**	**346,516**

Balances in current accounts earn interest at applicable market rates. Current investments are made for daily, weekly and monthly periods and have not generated any interest during 2018 (have generated interest ranging from 0.04% to 0.10% in 2017).

The balance of cash equivalents at 31 December 2018 and at 31 December 2017 mainly reflects the deposits maturing under three months in Brazil.

Within the framework of the Financing Agreement the Company has pledged certain bank accounts as part of the adopted agreements, as is mentioned in Note 2.4. However, there are no restrictions on the availability of those bank accounts unless the guarantee becomes enforceable.

13. DISPOSAL GROUPS HELD FOR SALE AND DISCONTINUED OPERATIONS

13.1 Non-current assets and liabilities held for sale at 31 December 2018 and 2017

In June and December 2018, the DIA Group put up for sale its Cash & Carry businesses (Max Descuento stores) and Clarel, respectively (see note 2.3). The Company expects to complete the sale of these businesses in the Spain segment during in 2019.

Intragroup balances between the parent and Beauty by Dia, S.A., which operates the Clarel trademark, were eliminated prior to the reclassification of the Clarel business assets and liabilities to “assets held for sale” and “liabilities directly associated with assets held for sale”.

On 28 June 2018, a shareholding of 50% in FINANDIA E.F.C. was sold for Euro 9,306 thousand, and the Group recognised a gain on the sale of Euro 4,240 thousand (net of transaction costs). The remaining shareholding was remeasured to its new fair value, generating a capital gain of Euro 5,025 thousand recognised in the line item “profit on the sale of subsidiaries” in the consolidated income statement.

The Group's China business was sold for an amount of Euro 1 on 10 August 2018. The sale entailed the derecognition of net liabilities amounting to Euro 10,603 thousand, the derecognition of currency translation differences of Euro 2,872 thousand and a profit of Euro 7,731 thousand that has been recognised in discontinued operations in the consolidated income statement.

Thousands of Euro	At 31 December 2018	Clarel business	Cash & Carry business	At 31 December 2017	China business	Finandia
Assets						
Tangible fixed assets	63,479	59,403	4,076	16,862	16,852	10
Goodwill	10,820	10,820	-	-	-	-
Other Intangible assets	1,638	1,638	-	1,069	1,049	20
Other non-current financial assets	13,482	13,482	-	1,378	1,353	25
Consumer loans from financial activities	-	-	-	297	-	297
Deferred tax assets	1,327	1,327	-	117	-	117
Inventories	76,706	65,682	11,024	9,461	9,461	-
Trade and other receivables	1,190	1,190	-	3,624	3,618	6
Consumer loans from financial activities	-	-	-	2,590	-	2,590
Current tax assets	-	-	-	2,794	2,794	-
Other current financial assets	59	59	-	272	207	65
Other assets	37	37	-	1,140	1,140	-
Non-current assets held for sale	**168,738**	**153,638**	**15,100**	**39,604**	**36,474**	**3,130**
Liabilities						
Non-current borrowings	1,283	1,283	-	384	384	-
Provisions	1,695	1,695	-	-	-	-
Current borrowings	3,238	3,238	-	9,267	9,267	-
Trade and other payables	6,433	6,433	-	39,727	39,692	35
Deferred tax liabilities	1,708	1,708	-	1,082	969	113
Other financial liabilities	8,750	8,750	-	1,652	1,619	33
Liabilities directly associated with non-current assets held for sale	**23,107**	**23,107**	**-**	**52,112**	**51,931**	**181**

13.2 Information on profit/(loss) and cash flows from discontinued operations

The results of the Group's discontinued operations are as follows for 2018 and 2017:

Thousands of Euro	2018	Clarel business	Cash & Carry business	China business	2017	Clarel business	Cash & Carry business	China business
Income	479,857	288,797	95,922	95,138	582,153	295,219	105,423	181,511
Amortisation and depreciation	(10,887)	(10,433)	(454)	-	(12,950)	(10,812)	(793)	(1,345)
Impairment	(37,672)	(37,672)	-	-	(1,234)	(989)	(245)	-
(Losses)/Gains on disposal of fixed assets	(377)	(352)	(20)	(5)	356	(324)	(190)	870
Expenses	(490,944)	(288,358)	(104,155)	(98,431)	(578,237)	(280,508)	(107,322)	(190,407)
Gross Margin	**(60,023)**	**(48,018)**	**(8,707)**	**(3,298)**	**(9,912)**	**2,586**	**(3,127)**	**(9,371)**
Financial income	1,489	888	-	601	1,107	238	-	869
Financial expenses	(1,342)	(618)	(9)	(715)	(2,520)	(188)	(15)	(2,317)
Losses financial instruments	(3,090)	-	-	(3,090)	-	-	-	-
Loss before taxes of discontinued operations	**(62,966)**	**(47,748)**	**(8,716)**	**(6,502)**	**(11,325)**	**2,636**	**(3,142)**	**(10,819)**
Income tax related to discontinued operations	1,516	(1,435)	2,178	773	(165)	(951)	786	-
Profit of discontinued operations	**(61,450)**	**(49,183)**	**(6,538)**	**(5,729)**	**(11,490)**	**1,685**	**(2,356)**	**(10,819)**
Profit of sale of subsidiaries	**7,731**	**-**	**-**	**7,731**	-	-	-	-

The activities of the Clarel and Cash & Carry business (the latter within the subsidiary Grupo El Árbol, S.A., which operates under the Max Descuento trademark) have been classified as discontinued on the understanding that they are considered a significant line of business as they concern separate reporting units, that jointly make up more than 5% of sales, assets and results after tax, and also form part of a sales plan linked to the debt refinancing and disposal of non-strategic assets.

Intragroup transactions between the Parent Company and Beauty by DIA, S.A. were eliminated prior to the classification of the results of this line of business to discontinued operations. In this way, sales and expenses reflected in the above table under "Clarel business" represent purchases from third parties and sales to third parties by the DIA Group of drugstore and perfumery products of the Clarel business.

The adjustment of the carrying amount of the Clarel business assets to their fair value less selling costs totalled Euro 37,672 thousand.

The effect on cash flows of the Group's discontinued operations in 2018 and 2017 is as follows:

Thousands of Euro	2018	2017
Adjustments to Profit and Loss	9,879	15,826
Changes in working capital	(51,297)	2,538
Net cash flows used in investing activities	(11,109)	3,596
Net cash flows used in financing activities	-	(33,491)
Total cash flows	**(52,527)**	**(11,531)**

14. EQUITY

14.1. Capital

On 31 December 2017 and 2018, Share Capital amounted to Euro 62,245,651.30, divided into 622,456,513 fully-subscribed and paid-up shares with a nominal value of Euro 0.10 per share, which have no restrictions for its free transmissibility.

The shares of the Parent Company are listed on the Spanish Stock Exchange. According to the public information registered in the *Comisión Nacional del Mercado de Valores* (CNMV), the members of the Board of Directors own, at the date of the authorization of issue of these consolidated annual accounts, approximately 0.205% of the Parent's total Share Capital.

According to the same public information, the most significant shareholdings at the date these consolidated annual accounts are authorised for issue are as follows:

Letterone Investment Holdings, S.A.	29.001%
The Goldman Sachs Group, INC	5.362%

On 28 July 2017, Letterone Investment Holdings, S.A. (hereinafter "LetterOne") reached a collateralised agreement to buy in instalments 62.2 million ordinary shares representing 10.0% of the Parent's share capital through LTS Investment S.à.r.l., a solely-owned direct subsidiary of LetterOne. On 19 January 2018, the termination date of the agreement, LetterOne increased its interest to 93.4 million ordinary shares, equivalent to 15.0% of the share capital of the Parent. Hence, at the date these consolidated annual accounts are authorised for issue, LetterOne holds 29.001% of DIA's share capital.

The Parent Company's net negative equity and negative working capital situation at 31 December 2018 means that the Company comes under grounds for mandatory winding up in accordance with Article 363 of the Spanish Companies Act. A detailed analysis of the causing and mitigating factors regarding the Group's capacity to continue operating is set out in Note 2.5.

At 31 December 2018, equity of the Parent Company is negative in the amount of Euro (99) million (Euro 202 million at 31 December 2017 after restatement), Working capital, calculated as current assets less current liabilities, excluding assets and liabilities held for sale, is also negative in the amount of Euro (561) million (Euro (411) million at 31 December 2017). The results for the period are losses of Euro 191 million (profit of Euro 85 million in 2017, after restatement) and the net changes in cash and cash equivalents are negative by Euro 90 million (negative by Euro 4 million in 2017).

The Group, within the framework of agreements established with credit banks to finance their bank debt, will propose in the General Shareholders Meeting a capital increase of a maximum of Euro 600 million with pre-emptive subscription right during the first trimester of 2019, once the Group's 2018 consolidated annual accounts are approved at the General Shareholder's Meeting, and prior to the ordinary maturity of the financing (see Note 15).

Regarding the capital increase stated above, on 28 November 2018, the Group secured a commitment of an underwriting agreement with Morgan Stanley & Co. International plc, with a total limit of Euro 600 million, subject to certain conditions. These conditions include, essentially: (i) the approval of the relevant documentation and authorizations for the capital increase, (ii) the subscription of a financing agreement which allows DIA obtain an adequate capital structure (this is, that it provides the Group sufficient liquidity for their mid-term Business Plan while meeting the requirements of certain financial ratios and the maximum possible amount of debt once the funds obtained through the capital increase have been applied); (iii) that there is no (A) insolvency situations in which DIA or any of its relevant subsidiaries are involved nor assumptions of maturity of the debt, (B) causes of force majeure which are typical in these agreements that would prevent the Group from increasing its capital; (C) inside information or unknown findings which would imply material corrections in the published financial information which would

prevent the capital increase from happening; (iv) that DIA and Morgan Stanley & Co. International plc reach an agreement over the price of the shares within the framework of the capital increase and over the underwriting agreement terms in common terms for these types of operations.

Capital Management

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

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

Like other groups in the sector, the DIA Group controls its capital structure on a leverage ratio basis. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is the sum of financial debt less cash and other items. Adjusted EBITDA is reconciled to the line items in the consolidated income statement in note 4.

With respect to the ratios for 2018 and 2017, net debt has been calculated as follows:

Thousand of euro	At 31 December 2018	At 31 December 2017
Total borrowings (note 15)	1,691,424	1,291,958
Less: cash and cash equivalents and others (**)	(239,861)	(346,516)
Net debt	1,451,563	945,442
Adjusted EBITDA (*)	337,890	518,492
Debt ratio	**4,30x**	**1,82x**

(*)Adjusted EBITDA in note 4

(**) Derivates incluyed

The variation in the debt ratio is attributable to the fall of adjusted EBITDA in 2018, mainly in Spain. Net debt also increased due to the sharp decrease in working capital while CAPEX and dividend pay-outs have remained at a high level.

The Group manages the business with the ojective to keep this ratio below 3.5x.

14.2. Reserves and retained earnings

Details of reserves and retained earnings are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Legal reserves	13,021	13,021
Capital redemption reserve	5,688	5,688
Other reserves non available	15,170	15,170
Other reserves	212,822	210,377
Profit attributable to equity holders ot the parent	(352,587)	101,208
Total	**(105,886)**	**345,464**

The Parent's legal reserve is appropriated in compliance with article 274 of the Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, the reserve must be replenished with future profits. At 31 December 2018 and 2017, the Parent has appropriated to this reserve more than the minimum amount required by law.

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

Other non-distributable reserves include a Parent company reserve amounting to Euro 15,170 thousand, which is restricted and arose as a result of the entry into force of Royal Decree 602/2016, whereby the concept of intangible assets with indefinite useful lives was eliminated, establishing that from 1 January 2016 they were to 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 unrestricted reserves.

Other reserves include the unrestricted reserves of the Parent and consolidation reserves, as well as the reserve for the translation of capital into euros, totalling Euro 62.07. This non-distributable reserve reflects the amount by which share capital was reduced in 2001 as a result of rounding off the value of each share to two decimals.

The movement in assets related to the adjustment for hyperinflation in Argentina is as follows:

1) Increase (net of tax effect) of Euro 55,650 thousand, as per the following breakdown:

a. Euro 78,385 thousand relating to the effect of the restatement of opening balances of subsidiaries in Argentina,

b. Euro 27,342 thousand relating to the effect of the restatement of non-monetary items in 2018,

c. Euro (50,047) thousand relating to the translation at the 2018 year-end exchange rate, published by Bank of Spain.

2) Transfer of opening translation differences to reserves in an amount of Euro 45,178 thousand (note 14.8)

14.3. Other own equity instruments

a) Treasury shares

Changes in treasury shares in 2018 and 2017 are as follows:

	Number of shares	Average price	Total
At 31 December 2016	**11,105,774**	**5.9943**	**66,571,465.29**
Equity swap settlement	(2,100,000)		(12,588,053.49)
Equity swap additions	2,100,000		11,130,000.00
Delivery of shares to Directors	(73,227)		(428,672.64)
Delivery of shares as part of the incentive plan 2014-2016 (note 18)	(721,914)		(4,326,043.04)
At 31 December 2017	**10,310,633**	**5.8540**	**60,358,696.12**
Delivery of shares as part of the incentive plan 2014-2016 (note 18)	(768,277)		(4,497,512.23)
At 31 December 2018	**9,542,356**	**5.8540**	**55,861,183.89**

The Parent's treasury shares are held to deliver shares to the executives under the Plans described in note 18.

Shares delivered during 2018 and 2017 generated charges of Euro (129) thousand and Euro (559) thousand to other reserves.

The Facilities Agreement entered into on 31 December 2018 with and the lending bank includes a prohibition on the repurchase of treasury shares until the debt is settled (see note 15).

b) Other own equity instruments

This reserve includes obligations derived from equity-settled share-based payment transactions following the approval by the Board of Directors and shareholders of the 2014-2016 long-term incentive plan and the 2016-2018 incentive plan (see note 18).

14.4 Adjustments to the consolidated statement of financial position at 31 December 2017 and to the consolidated income statement for 2017

In order to facilitate the understanding of the effect of the adjustments made to the comparative figures for 2017 as a result of the events that took place in 2018, as described in Notes 1.1 and 2.3, information is set out below regarding the disclosures and their nature.

In summary, the Euro 68.3 million effect on equity indicated in Note 2.3 breaks down by country as follows (net of tax effect):

Country	P&L effect in 2017 (expense)	Decrease in reserves 2017	Total
Spain	(3.9)	(48.5)	(52.4)
Brazil	(3.3)	(9.4)	(12.7)
Portugal	(0.6)	(2.6)	(3.2)
Total (millions of euro)	**(7.8)**	**(60.5)**	**(68.3)**

Of the impact on reserves of Euro 60.5 million after tax, Euro 45.1 million relates to 2016 while the remaining Euro15.4 million relates to previous years.

Adjustments made in Spain and Brazil are due to the irregularities and errors mentioned in notes 1.1 and 2.3. These final amounts compare to those disclosed in Material Events notices as detailed below:

1) For the adjustments identified in Spain: Euro 55.4 million after tax disclosed in Significant Events of 15 and 22 October 2018 compared with Euro 52.3 million finally restated. The reconciliation is as follows:

	Total	Results 2017	Reserves 2017
Relevant fact 22 October 2018	55.4	20.2	35.2
Amount eventually restated in the consolidated annual accounts	52.4	3.9	48.5
Difference	**3.0**	**16.3**	**(13.3)**

The total effect is primarily due to a difference in the tax effect of the adjustments finally calculated amounting to Euro 3 million. Additionally, part of the effect that in the Significant Event notice was assigned to 2017 results in an amount of Euro 16.3 million, was verified,as a result of the analysis performed by the Company, as relating to 2016 as trade discounts were overestimated in that year .

2) For the adjustments identified in Brazil: Euro 11.3 million after tax disclosed in Significant Event dated 28 December 2018 compared with the amount of Euro 12.7 million finally restated.

The adjustment recorded in Portugal relates to the correction of an error not due to irregularities.

We present in Appendix 1 the primary statements as of and for the year ended 31 December 2017 and 2016 before and after the adjustments, those being the consolidated statement of financial position, the consolidated income statement and the consolidated cash flow statements, which have been restated as of and for the year ended 31 December, 2017 and 2016 to include the corrections mentioned above.

Set out below is an itemised breakdown by country of the adjustments identified together with references and an explanation of their nature and the corresponding line item in Appendix 1:

14.4 a) Supplier trade discounts:

Country	P&L effect in 2017 (expense)	Decrease in reserves 2017	Total
Spain	(4,5)	(23,1)	(27,6)
Brazil	(28,9)	(11,5)	(40,4)
Total (millions of euro)	**(33,4)**	**(34,6)**	**(68,0)**

The correction results from the overestimation of trade discounts to be received from suppliers in Spain and Brazil. The effect on the consolidated income statement for 2017 results in an increase in the "goods and other consumable used" line item amounted to Euro 33.4 million. This adjustment, due to the irregularities, resulted in an increase in "Trade and other payables" amounting to Euro 52.6 million, a decrease in "Trade debtors and other accounts receivables" for an amount of Euro 15.4 million and a decrease in "Reserves" amounting to Euro 34.6 million.

Of the amount recognised in reserves, Euro 31.2 million relates to 2016 and the rest, Euro 3.4 million, to previous years, accounted for mainly against "Trade and other payables".

14.4 b) Invoices pending receipt (purchases)

Country	P&L effect in 2017 (expense)	Decrease in reserves 2017	Total
Spain	3,1	(24,3)	(21,2)
Brazil	(7,0)	(0,3)	(7,3)
Total (millions of euro)	**(3,9)**	**(24,6)**	**(28,5)**

Invoices from suppliers recorded in a different period to the one that they should have been recorded, in the Group companies in Spain and Brazil.This correction that primarily results from irregular practices entails a decrease in "Merchandise and other consumables used" amounting to Euro 3.9 million on the consolidated income statement for 2017. In the consolidated statement of financial position at 31 December 2017 it results in an increase in "Trade and other payables amounting to Euro 28.5 million and a decrease in "Reserves" amounting to Euro 24.6 million.

Of the amount recognised in reserves, Euro 9.6 million relates to 2016 and the rest previous years, accounted for mainly against "Trade and other payables".

14.4 c) Invoices pending receipt (fixed assets)

Additionally, as indicated in note 5 to these consolidated annual accounts, invoices pending receipt from fixed asset suppliers were also identified which were irregularly recorded in a period other than the corresponding period. Therefore accruals were adjusted with respect to investments made in 2017 amounting to Euro 29 million (Euro 23.4 million in 2016). The total effect amounting to Euro 52.4 million has been accounted for against "Other financial liabilities".

This adjustment, related to Spain and Brazil, had almost no effect on assets and liabilities since the possible effect on depreciation for 2017 and 2016 has not been considered significant as the investments involved were made at the end of the related year and depreciation commenced on 1 January of the following year.

14.4 d) ICMS tax in Brazil:

The ICMS is the Tax on the Circulation of Goods and Services of Brazil, equivalent to VAT in other jurisdictions. In March 2017 the Supreme Courts judgement of October 2016 was ratified, enabling the companies to recover part of the tax paid. In 2017 the subsidiary recognised an asset receivable with the Brazilian Treasury. However, the calculation was reviewed in 2018 and a higher amount was recognised in respect of the asset recoverable. This latest income should have been recognised in 2017 when the subsidiary learned of the possibility of recognising this asset and when it was able to estimate the amount and not in 2018, year in which this increase was mistakenly

recognised. This effect has entailed a decrease in the consolidated income statement for 2017 in “Merchandise and other consumables used” amounting to Euro 29.6 million and an increase in the consolidated statement of financial position in ”Other non-current tax assets” for the same amount (note 17).

14.4 e) Judicial deposits (Brazil)

During 2017, the subsidiary in Brazil has recorded the impact of the interest for the financial discount on judicial deposits related to the process of ICMS on PIS and COFINS, to which it was entitled, with an impact, mainly, in “Other non-current financial assets” that was increased by Euro 8.9 million against an increase in “Financial income” for an amount of Euro 7.6 million.

14.4 f) Provisions and others (Spain)

Reserves at 31 December 2017 were reduced by Euro 17.2 million due to estimates of provisions for various items that were carried forward from one year to the next and which the Company has now recognised in the corresponding periods. These adjustments had a negative impact on the 2017 consolidated income statement of Euro 3.9 million (Euro 17.2 million in 2016).

The adjustments have been made to reflect the following impacts:

- correct allocation of losses due to stock-outs;
- correct allocation of DIA’s revenue accruals due to supplier loyalty;
- correct allocation of amounts accrued due to loyalty coupons paid to franchisees;
- correct accounting treatment of the redemption of offers to franchises;
- increase in the initial estimates of the provision for the accrual of variable remuneration;
- allocation to the correct period of accruals of other provisions estimated.

These adjustments had been accounted for against the line items in Annex 1

14.4 g) Provisions and others (Brazil)

Reserves at 31 December 2017 were reduced by Euro 2 million due to estimates of provisions for various items that were carried forward from one year to the next and which the Brazilian and Spanish Group companies have now recognised in the corresponding periods. These adjustments had a negative impact on the 2017 consolidated income statement of Euro 5.6 million (Euro 2 million in 2016).

The adjustments have been made to reflect the following impacts:

- correct assignment of the accruals of overheads for which no provision had been made;
- increase in the initial estimates of provisions for Social Security and indemnity expenses arising with respect to personnel;
- correction to direct sales in 2017.

These adjustments had been accounted for against the line items in Appendix 1

14.4 h) Tax effect of adjustments in Spain and Brazil

The tax effect of these adjustments in the 2017 income statement increases the heading “Income tax” by Euro 3 million (Euro 16.2 million in 2016) and increases the heading “Reserves” in the consolidated statement of financial position at 31 December 2017 by Euro 20.9 million (Euro 4.7 million in 2016). As a result of these adjustments “Deferred tax assets” increases by Euro 17.4 million and other current and deferred tax balances increase by a net amount of Euro 0.2 million (Euro 1.4 million in 2016).

The tax effects of the adjustments have been treated as deferred tax assets and not as a reduction in current tax liabilities.

14.4 i) Portugal

The Portuguese company has recognized the adjustment of an error consisting of the derecognition of a receivable associated with the food tax generated in prior years. The Group estimates that its recovery is unlikely and was erroneously recognized in prior years. The adjustment has entailed a reduction of Euro 4.2 million in "Current tax assets" at 31 December 2017 (Euro 3.3 million at 31 December 2016), an increase of Euro 0.9 million in “Deferred tax assets” (Euro 0.7 million at 31 December 2016), a reduction of Euro 2.6 million in “Reserves” at 31 December 2017 (Euro 2.0 million at 31 December 2016) and an effect of Euro 0.6 million in the income statement for the year 2017 (Euro 0.6 million in 2016).

14.5. Distribution of results

The proposal for the application of 2018 losses prepared by the Parent’s Board of Directors for submission to the Annual General Shareholders´ Meeting is to take losses of Euro (191,274,360.75) to prior-year losses.

The proposal for the application of 2017 positive results prepared by the Parent’s Board of Directors submitted to the Annual General Meeting on April 20, 2018 (before re-expression performed on the Income Statement of the year 2017) was the following:

Basis of distribution	Euros
Profit for the year	88,897,812.34
Other reserves	21,426,735.94
Total	**110,324,548.28**

Basis of allocation	Euros
Dividends	110,324,548.28
Total	**110,324,548.28**

On 17 July 2018, the Parent paid out a gross dividend of Euro 0.18 per share, entailing a total of Euro 110,325 thousand, against the 2017 results and reserves

It should be noted that the main terms of the Facilities Agreement entered into on 31 December 2018 between the Company and the lender bank include a clause whereby the Company cannot pay out dividends to its shareholders without the consent of the financial institutions that enter into the Financing Agreement until the entire amount of the current debt with them has been repaid (see note 2.4).

14.6. Earnings/losses per share

Basic earnings/losses per share are calculated by dividing net profit for the period attributable to the Parent by the weighted average number of ordinary shares outstanding throughout the period, excluding treasury shares.

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

	Weighted average ordinary shares in circulation at 31 December 2018	Ordinary shares at 31 December 2018	Weighted average ordinary shares in circulation at 31 December 2017	Ordinary shares at 31 December 2017
Total shares issued	622,456,513	622,456,513	622,456,513	622,456,513
Own shares	(10,279,146)	(9,542,356)	(10,571,332)	(10,310,633)
Total shares	**612,177,367**	**612,914,157**	**611,885,181**	**612,145,880**

Details of the calculation of basic earnings/(losses) per share are as follows:

Basic and diluted earnings per share	2018	2017
Average number of shares	**612,177,367**	**611,885,181**
Profit/(loss) for the period in thousands of Euros	(352,587)	101,208
(Loss)/Profit per share in Euros	(0.58)	0.16

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

14.7. Non-controlling interests

As mentioned in note 1, the Group has begun to liquidate Compañía Gallega de Supermercados, S.A., assuming all its liabilities without any charge on non-controlling interests, which has entailed the derecognition of non-controlling interests in the consolidated statement of financial position at 31 December 2018.

14.8. Currency translation differences

Details of translation differences at 31 December 2018 and 2017 are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Argentina	-	(45,178)
Brazil	(73,394)	(52,281)
China	-	(3,318)
Total	**(73,394)**	**(100,777)**

The movements in this heading shown in the other comprehensive income statement are due to:

- The effect totalling Euro 45,178 thousand as a result of the cumulative translation adjustment of the Argentinian subsidiaries, which has been transferred to reserves.
- The transfer to the consolidated income statement of the translation differences relating to the business in China, which was sold in August 2018, total Euro 3,318 thousand.
- The remaining amount of Euro 21,113 thousand relates to the translation of the financial statements for the subsidiaries in Brazil, whose functional currency is not the euro.

15. FINANCIAL LIABILITIES

Details of financial liabilities in the consolidated statement of financial position at 31 December 2018 and 2017 are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Non-current liabilities		
Non-current borrowings	919,070	961,945
Other non-current financial liabilities	2,291	2,491
Current liabilities		
Current borrowings	772,354	330,013
Trade and other payables	1,442,496	1,785,186
Other financial liabilities	157,647	207,657
Total financial liabilities	**3,293,858**	**3,287,292**

As disclosed in note 3 s) of these consolidated annual accounts, the Group has carried out a quantitative and qualitative analysis of the conditions of the new Facilities Agreement, and it has concluded that the new financial instruments have substantially different conditions. Therefore, the original financial liability has been writen off and a new financial liability has been recorded. The incremental costs, amounting to approximately, Euro 12 millon have been recorded in the consolidated income statement in 2018.

15.1Financial debt

Details of financial debt are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Debentures and bonds long term	590,410	892,570
Syndicated credits (Revolving credit facilities)	254,222	-
Mortgage loans	-	814
Other bank loans	15,000	30,842
Finance lease payables	19,801	26,229
Credit facilities drawn down	27,150	-
Guarantees and deposits received	12,102	11,148
Other non-current borrowings	385	342
Total non-current borrowings	**919,070**	**961,945**
Debentures and bonds long term	311,371	6,021
Mortgage loans	-	633
Other bank loans	119,092	209,283
Other financial liabilities	4,532	25,704
Finance lease payables	9,125	10,547
Syndicated credits (Revolving credit facilities)	124,350	-
Credit facilities drawn down	184,001	65,809
Expired Interests	7,241	132
Guarantees and deposits received	3,489	2,813
Liabilities derivatives	5,776	4,339
Other payables to group companies	513	-
Other current borrowings	2,864	4,732
Total current borrowings	**772,354**	**330,013**

At 31 December 2018, the principal maturities of current borrowings with credit institutions amount to Euro 738,814 thousand.

a) Debentures and bonds

The Parent Company had outstanding bonds with a nominal value of Euro 905,700 thousand at 31 December 2018 and 2017, all of which were issued as part of a Euro Medium Term Note programme approved by the Central Bank of Ireland.

On 19 April 2018, the General Shareholders Meeting authorized the Board of Directors of the Parent Company to increase the maximum limit of its Euro Medium-Term Note (EMTM) from Euro 1,200 to 1,500 million, as stated in the supplement registered and approved by the Central Bank of Ireland. Said EMTM expired on 14 December 2018 and no new issuances are possible after that date.

Bonds issuances outstanding as of 31 December 2018 and 2017 are as follows:

Issuing Company	Issue date	Term (years)	Currency	Voucher	Maturity date in thousands of euros 2019	2020	2021	2022	2023	Total
DIA, S.A.	4/7/2017	6	EUR	0.875%	-	-	-	-	300,000	300,000
DIA, S.A.	4/28/2016	5	EUR	1.000%	-	-	300,000	-	-	300,000
DIA, S.A.	7/22/2014	5	EUR	1.500%	305,700	-	-	-	-	305,700

Movements in bond issues during 2018 and 2017 are as follows:

Thousands of euros	Bonds
At 1 Janaury 2017	**800,000**
Issues	300,000
Amortization	(194,300)
At 31 December 2017 and 2018	**905,700**

On 27 March 2017, the Parent successfully completed a bond issue amounting to Euro 300,000 thousand at an issue price of 99.092% and an annual coupon of 0.875%. 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 Euro 194,300 thousand) of the issue carried out on 22 July 2014. Once the swap was completed, the acquired bonds were redeemed and written off, leaving 3,057 current bonds from that placement in circulation.

This swap was treated as a renegotiation under IAS 39, whereby an exchange of financial instruments between the borrower and the lender is carried out, the latter assuming the risks of placing the new issue, the risk of not completing the exchange of the redeemed and issued debt and the risk of a variation in price between the bonds acquired and issued. Furthermore, the new contract was 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 differed 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 were written off at their carrying amount and the associated expenses had no impact on 2017 profit and loss. As indicated in note 2.8, the impact of the adoption of IFRS 9 in connection with said refinancing process has been insignificant. (Euro 32 thousand).

b) Bank borrowings

Syndicated loans

As indicated in note 2.4, on 31 December 2018 the Parent Company entered into a Facilities Agreement with a number of domestic and foreign financial institutions. The associated collaterals are described in that note. Set out below is a breakdown of this financing at 31 December 2018:

Tranche	Limit	Instrument	Sublimit	Used	Available	Maturity date
A	92,652	RCF (***)	92,652	-	92,652	05.31.2019
B	194,117	RCF (***)	124,350(*)	124,350	-	05.31.2019
		Credits	5,000	-	5,000	
		Loans may be balanced with confirming (****)	64,766 (*)	Credits 24,124 Confirming -	40,642	
C	242,687	Loans may be balanced with confirming (****)	101,000	Credits 101,000 Confirming -	-	05.31.2019
		Confirming	141,687 (**)	137,241	4,446	
D	336,878	RCF (***)	229,222	229,222	-	118.666 / 06.28.2022 110.556 / 04.21.2020
		Loans may be balanced with factoring (****)	107,656	Credits 27,151 Factoring 80,505	-	63.444 / 06.28.2022 44.211 / 04.21.2020
E	-	Guarantees and documentary credits	-	-	-	05.31.2019
F	28,347	RCF (***)	25,000	25,000	-	04.21.2020
		Confirming	3,347	3,158	189	05.31.2019

(*) On 2 January 2019 the Facility B was increased by Euro 4,533 thousand to cancel an Equity Swap transaction that was outstanding at 31 December 2018 (see section c) within this note).
(**) On 21 January 2019, a bank exercised its right to adhere to the Facilities Agreement, increasing Facility A by Euro 4,400 thousand, Facility B by Euro 8,500 thousand and the available amount of the confirming by Euro 15,600 thousand.
(***) Revolving credit facility
(****) "Loans that may be balanced" refer to limit amounts that maybe used either through credit lines or confirming/factoring.

Likewise, this new financing entailed the repayment of the former syndicated loans the breakdown of which was as follows at 31 December 2017:

		Outstanding in thousands of euros				
Description	Limit in thousand of euros	Currency	dec-2017	Fecha firma	Vencimiento	
Syndicated	300,000	EUR	-	04.21.2015	75,000	04.21.2018
				-	225,000	04.21.2020
Syndicated	300,000	EUR	-	07.03.2014	06.28.2022	

Before the new Facilities Agreement signed on 31 December 2018, the syndicated loans were fully drawn down, for an amount of Euro 525 million.

Likewise, this new Facilities Agreement establishes a new covenant in connection with the financial ratio which will be measured every 30 June and 31 December, being the first measuring date 30 June 2019. No measurement or compliance is required as of 31 December 2018. The new financial ratio is as follows:

Financial covenant	Required ratio
Total restated total net debt/ restated EBITDA	< 3,50x

Restated total net debt and restated EBITDA used to measure the covenant are determined in accordance with the definition stated in the Facilities Agreement, which may be different from the Net Debt and adjusted EBITDA, that are disclosed in the consolidated annual accounts or the interim consolidated financial statements.

Mortgage loans and other bank borrowings

Details of the maturity of mortgage and other bank loans grouped by type of operation and company at 31 December 2018 and 2017 are as follows:

At 31 December 2018			Maturity in thousands of euro			
Type	**Owner**	**Currency**	**2019**	**2020**	**2021**	**Total**
Loan	DIA	EUR	15,032	15,000	-	30,032
Loan	DIA Brasil	EUR	101,281	-	-	101,281
Loan	Grupo El Arbol	EUR	2,002	-	-	2,002
Loan	DIA Argentina	EUR	777	-	-	777
	Other Loans	**EUR**	**119,092**	**15,000**	**-**	**134,092**

At 31 December 2017			Maturity in thousands of euro			
Type	**Owner**	**Currency**	**2018**	**2019**	**2020**	**Total**
Mortgage	Beauty by DIA	EUR	633	421	393	1,447
	Mortgage Loans	**EUR**	**633**	**421**	**393**	**1,447**
Loan	DIA	EUR	101,046	13,413	15,000	129,459
Loan	CDSI	EUR	65,015	-	-	65,015
Loan	DIA Brasil	EUR	40,273	-	-	40,273
Loan	Grupo El Arbol	EUR	501	2,000	-	2,501
Loan	DIA Argentina	EUR	2,448	429	-	2,877
	Other Loans	**EUR**	**209,283**	**15,842**	**15,000**	**240,125**

At 31 December 2017, the interest rate on the mortgage loans in effect stood at between 1.84% and 2.00%.

During 2018 the following operations were carried out:

- On 24 January 2018, DIA Brazil formalised three bilateral loans amounting to Euro 67,527 thousand, maturing on 24 January 2019 (see note 25);
- On 14 February 2018, the Parent Company renewed the loan amounting to Euro 101,000 thousand, estalishing 14 February 2019 as the new maturity date. On 31 December 2018, within the framework of the refinancing the Parent Company cancelled this loan;
- On 25 February 2018 the Parent Company cancelled, on maturity, two loans amounting to Euro 80,000 thousand formalised on 25 January 2018;
- In August 2018 DIA Brazil formalised 3 bilateral loans amounting to Euro 33,753 thousand maturing in August 2019;
- On 31 December 2018, Beauty by DIA cancelled, on maturity, a mortgage loan formalised on 31 December 2010 for an initial amount of Euro 1,500 thousand.

Credit lines

As at 31 December 2018 and 2017 the Group has arranged with different financial institutions the following credit lines:

Credit lines	Limit granted	Amount avaible	Amount used
Tranche D-Loans may be balanced with reverse factoring	27,150	-	27,150
Non current credits facilities drawn down at 31 December 2018	**27,150**	**-**	**27,150**
Tranche B-Loans	5,000	5,000	-
Tranche B-Loans may be balanced with confirming	64,766	40,642	24,124
Tranche C-Loans may be balanced with confirming	101,000	-	101,000
Credits facilities drawn down (not included in syndicated credits)	89,370	30,493	58,877
Current credits facilities drawn down at 31 December 2018	**260,136**	**76,135**	**184,001**
Current credits facilities drawn down at 31 December 2017	**230,982**	**165,173**	**65,809**

At 31 December 2018, the Parent Company records no uncommitted credit facilities. At 31 December 2017, there were uncommitted credit facilities subject to a limit of Euro 210,000 thousand.

c) Other financial liabilities

Other financial liabilities include the prevailing equity swap contract signed by the Parent Company. The main characteristics of the contract held at 31 December 2018 and 2017 are as follows:

At 31 December 2018							
Start date	Expiration date	Number of shares	Nominal amount in thousand of euros	Counterpart	Strike	Interest rate	Liquidation
12/22/2018	1/15/2019	6,000,000	34,238	Santander	Fixed	Variable	Physical

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

Since the contracts are subject to physical deliveries of shares, the Parent undertakes to repurchase the shares at the maturity date, with no transferability restrictions, as is mentioned in Note 3 s).

This valuation method is based on the trading performance of the share with respect to the price set in the contract and accrued interest. Under the terms of the agreement, if the share price is less than a threshold established in the agreement, the Company arranges a deposit that guarantees the financial institution collection of the final repurchase amount (nominal amount). At 31 December 2018 the Company had arranged a total deposit amounting to Euro 29,705 thousand. Given that the Equity Swap establishes that payment obligations will be compensated between the parties, the Company has recognised the net amount of Euro 4,533 thousand under the caption Financial debt. As mentioned in section b) of this note, on the cancellation date, the financial institution has agreed with the Company to increase tranche B by this amount.

d) Maturity of borrowings

The maturities of financial debt are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Until 31 December 2019	772,354	330,013
Between 1 January and 31 December 2020	174,551	25,360
Between 1 January 2021 and 31 December 2023	731,391	633,515
From 1 January 2024	13,128	303,070
Total	**1,691,424**	**1,291,958**

15.2 Other non-current financial liabilities

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

Thousands of Euro	At 31 December 2018	At 31 December 2017
Capital grants	291	491
Other non-current financial liabilities	2,000	2,000
Total grants and other non-current financial liabilities	**2,291**	**2,491**

At 31 December 2018 and 2017, “Other non-current financial liabilities” of Euro 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 agreement concluded on 7 August 2015 (see note 8.2).

15.3 Trade and other payables

This heading is analysed below:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Suppliers	1,286,309	1,642,301
Suppliers, other related parties	242	148
Advances received from receivables	7,421	2,920
Trade payables	142,445	138,546
Onerous contracts provisions	6,079	1,271
Total Trade and other payables	**1,442,496**	**1,785,186**

The carrying amounts of trade and other payables are considered to match fair values, in view of their short-term nature.

The accounts “Trade receivables” and “Creditors” mainly include short-term payables for supplies of goods and services, whether or not they are represented by drafts and promissory notes.

At 31 December 2018, the Group had recorded an amount of Euro 6,079 thousand for onerous contracts relating to 368 stores and the warehouse that was no longer being used (see note 5.1), amounting to Euro 3,388 thousand and Euro 2,691 thousand, respectively.

Thousands of Euro	At 31 December 2018	At 31 December 2017
Red Libra	152	148
Finandia	90	-
Suppliers, other related parties	**242**	**148**

The balances included in “Trade and other payables” do not bear interest.

At 31 December 2018 and 2017, the Group records reverse factoring facilities with limits of Euro 218,231 thousand and Euro 616,898 thousand, respectively, of which Euro 199,931 thousand and Euro 367,294 thousand had been utilised at those dates.

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

	2018 Days	2017 Days
Average payment period to suppliers	48	46
Paid operations ratio	49	46
Pending payment transactions ratio	37	42
	Amount (euros)	**Amount (euros)**
Total payments made	4,568,147,789	4,134,004,583
* Total payment pending	335,376,575	542,911,981

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

The calculation of the above average payment period takes into account reverse factoring with suppliers, payment periods established in supplier agreements being between 60 and 90 days.

15.4 Other financial liabilities

Details of other financial liabilities are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Personnel	51,423	64,698
Suppliers of fixed assets	105,139	139,284
Other current liabilities	1,085	3,675
Total other liabilities	**157,647**	**207,657**

The carrying amounts of other financial liabilities are considered to match fair values, in view of their short-term nature.

15.5 Fair value estimates

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

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

- Level 1: Firstly, the Group applies the quoted prices of the most advantageous active market to which it has immediate access, adjusted where appropriate to reflect any differences in credit risk between instruments traded in that market and the one being valued. For such purposes, the purchase price is used for the assets purchased or liabilities to be issued and the selling price for assets to be purchased or liabilities issued. If the Group has assets and liabilities with offsetting market risks, it uses mid-market prices for the offsetting risk positions and applies the bid or asking price to the net position, as appropriate.
- Level 2: When current bid and asking prices are unavailable, the price of the most recent transaction is used, adjusted to reflect changes in economic circumstances.
- Level 3: Otherwise, the Group applies generally accepted valuation techniques using, insofar as is possible, market data and, to a lesser extent, specific Group data.

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

Thousands of Euros	Fiancial assets at amortized cost	
	2018	2017
Financial assets		
Trade and other receivables	255,584	271,875
Other financial assets	85,358	87,683
Consumer loans from financial activities	20	1,070
Total	**340,962**	**360,628**

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

The carrying amount and the fair value of the financial liabilities presented by the Group, which in all cases relate to liabilities measured at amortized cost, are presented below:

	Carrying amount					
Thousands of Euro	Fiancial liabilities at amortized cost		Hedge derivatives		Fair value	
	At 31 December 2018	At 31 December 2017	At 31 December 2018	At 31 December 2017	At 31 December 2018	At 31 December 2017
Financial liabilities						
Trade and other payables	1,442,496	1,785,186	-	-	-	-
Debentures and bonds	901,781	898,591	-	-	576,357	918,684
Syndicated credits (Revolving credit facilities)	378,572	-	-	-	-	-
Credit facilities drawn down	211,151	65,809				
Bank loans and credits	134,092	241,572	-	-	-	-
Finance lease payables	28,926	36,776	-	-	-	-
Guarantees and deposits received	15,591	13,961	-	-	-	-
Financial derivative instruments	-	-	5,776	4,339	2,496	4,339
Contract "Equity Swap"	4,532	25,704	-	-	1,763	17,284
Other financial liabilities	170,941	215,354	-	-	-	-
Total	**3,288,082**	**3,282,953**	**5,776**	**4,339**	**580,616**	**940,307**

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

Derivative financial instruments are contracted with financial institutions with sound credit ratings. The fair value of derivatives is calculated using valuation techniques based on observable market data for currency forward contracts (level 2).

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

The fair value of the equity swaps is calculated based on their quoted price at 31 December 2018 and 2017 (level 1).

The reconciliation between financial liabilities on the consolidated statement of financial position and cash flows from financing activities is as follows:

Thousands of Euro	Financial debt non current	Financial debt current	TOTAL
At 31 December 2017	**961,945**	**330,013**	**1,291,958**
Net cash flows from financing activities (payments)	(3,737)	(221,404)	(225,141)
Net cash flows from financing activities (charges)	292,505	354,369	646,874
Changes non-monetarys:			
Reclassification to short term	(329,992)	329,992	-
Exchange differences	(206)	(28,257)	(28,463)
Transfer held for sale	(1,284)	(3,234)	(4,518)
Other Change non-monetarys	(161)	10,875	10,714
At 31 December 2018	**919,070**	**772,354**	**1,691,424**

Thousands of Euro	Financial debt non current	Financial debt current	TOTAL
At 31 December 2016	**1,062,273**	**173,375**	**1,235,648**
Net cash flows from financing activities (payments)	(316,767)	(57,978)	(374,745)
Net cash flows from financing activities (charges)	338,950	135,634	474,584
Changes non-monetarys:			
Reclassification to short term	(122,578)	122,578	-
Exchange differences	(360)	(8,919)	(9,279)
Transfer held for sale	(379)	(34,312)	(34,691)
Other Change non-monetarys	806	(365)	441
At 31 December 2017	**961,945**	**330,013**	**1,291,958**

16 PROVISIONS

Details of provisions are as follows:

Thousands of Euro	Provisions for long-term employee benefits under defined benefit plans	Tax provisions	Social security provisions	Legal contingencies provisions	Other provisions	Total provisions
At 1 January 2017	**2,725**	**23,208**	**11,499**	**6,723**	**1,686**	**45,841**
Charge	358	4,142	11,654	4,708	491	**21,353**
Applications	-	(85)	(6,425)	(1,410)	(554)	**(8,474)**
Reversals	(63)	(7,740)	(2,394)	(1,885)	-	**(12,082)**
Other movements	34	110	-	-	8	**152**
Translation differences	-	(10)	(1,813)	(752)	(158)	**(2,733)**
At 31 December 2017	**3,054**	**19,625**	**12,521**	**7,384**	**1,473**	**44,057**
At 1 January 2018	**3,054**	**19,625**	**12,521**	**7,384**	**1,473**	**44,057**
Charge	306	12,734	11,908	9,516	60	**34,524**
Applications	-	(7,135)	(9,424)	(1,631)	(73)	**(18,263)**
Reversals	(317)	(3,661)	(3,557)	(1,900)	(79)	**(9,514)**
Other movements	(508)	(145)	(53)	(1,017)	(76)	**(1,799)**
Translation differences	-	-	(1,996)	(877)	(224)	**(3,097)**
At 31 December 2018	**2,535**	**21,418**	**9,399**	**11,475**	**1,081**	**45,908**

Tax provisions have been applied basically to settle tax assessments raised for the periods 2011-2012 and 2007.

The tax provisions in 2018 arise, mainly, from estimate of provisions in connection with differences of criteria with the Administration.

Tax reversals in 2018 are derived from the results of the tax inspection for which certain aspects are no longer considered probable.

In 2018 and 2017, charges and applications of provisions for lawsuits filed by employees (social security) include labour contingencies basically in Brazil and Argentina.

With regard to legal provisions, during 2018 the Group recorded Euro 1,645 thousand in Brazil (Euro 2,033 thousand in 2017) and Euro 5,749 thousand in Spain (Euro 1,402 thousand in 2017) to cover litigation with third parties.

Reversals of legal provisions in both years were due to contract risks that did not materialise.

With respect to legal contingencies, there is an arbitration proceeding with EROSKI which is at an early stage, resulting from the former business alliance with DIA, named Red Libra Trading Services, and the reciprocal accusations of breach of contract, the level of risk and economic consequences for the parties having yet to be determined. The Company's directors consider that there will be no negative consequences for the Group and in any event, they expect that any consequences will be positive. They have not recognised contingent assets in this regard.

See details of tax contingencies in note 17.3.

17 TAX ASSETS AND LIABILITIES AND INCOME TAX

17.1 Corporate income tax

Details of the income tax expense are as follows:

Thousands of Euros	2018	2017
Current income taxes		
Current period	11,937	43,834
Prior periods' current income taxes	139	(1,221)
Total current income taxes	**12,076**	**42,613**
Total current income taxes of continuining activities	13,349	42,155
Total current income taxes of discontinued operations	(1,273)	458
Deferred taxes		
Source of taxable temporary differences	20,198	6,937
Source of deductible temporary differences	(32,272)	(11,869)
Reversal of taxable temporary differences	(5,789)	(6,464)
Reversal of deductible temporary differences	191,195	20,961
Total deferred taxes	**173,332**	**9,565**
Total deferred taxes of continuining activities	173,575	9,858
Total deferred taxes of discontinued operations	(243)	(293)
TOTAL INCOME TAX	**185,408**	**52,178**
Total income tax of continuining activities	186,924	52,013
Total income tax of discontinued operations	(1,516)	165

Due to the different treatment of certain transactions permitted by tax legislation, the book profit/(loss) of each Group company differs from taxable income.

A reconciliation of book profit for the year with the Group's taxable income, calculated as the sum of the taxable income stated in the tax returns of all the Group companies, is as follows:

Thousands of Euros	2018	2017
Profit for the period before taxes from continuing operations	(111,944)	164,671
Share in profit/(loss) for the year of equity accounted investees	1,183	(194)
Profit for the period before tax	(110,761)	164,477
Tax calculated at the tax rate of each country (expense/(income))	(32,977)	44,264
Unrecognised tax credits	30,191	(19)
Non-taxable income	(10,906)	(2,336)
Non-deductible expenses	23,015	9,271
Deductions and credits for the current period	(230)	(1,306)
Adjustments for prior periods	121	(1,261)
Capitalised tax loss carryforwards and other adjustments of deferred taxes	180,022	(117)
Unrecognised deferred taxes	(10,176)	(3,148)
Other adjustments	8,198	3,669
Tax rate's change adjustment	(334)	2,996
Total tax expense	**186,924**	**52,013**

For the preparation of the previous table, the tax rates applicable in each of the countries or jurisdictions in which the Group operates that have been taken into account were as follows:

Spain	25%
Portugal	21%
Argentina	30%
Brazil	34%
Switzerland	24%
Paraguay	10%

In 2018, the Spanish companies Distribuidora Internacional de Alimentación, S.A. (parent) and Twins Alimentación, S.A., Pe-Tra Servicios a la Distribución, S.L., Beauty by Dia, S.A., Grupo El Árbol Distribución y Supermercados S.A., Compañía Gallega de Supermercados S.A. and Dia Eshopping, S.L. (subsidiaries) filed consolidated tax returns in 2018 as part of tax group 487/12, pursuant to Title VII, Chapter VI of the Spanish Corporate Income Tax Law 27/2014 of 27 November 2014.

In 2018, the tax rate applicable in Argentina was cut from the rate of 35% applicable in 2017 to 30%.

17.2 Tax assets and liabilities

Details of the tax assets and liabilities for 2018 and 2017 recognised in the consolidated statement of financial position at 31 December are as follows:

Thousands of Euros	At 31 december 2018	At december 2017
Non-current tax assets	43,888	33,248
Deferred tax assets	73,346	272,349
Taxation authorities, VAT	21,218	35,863
Taxation authorities	16,812	21,984
Current income tax assets	10,143	3,525
Total tax assets	**165,407**	**366,969**
Deferred tax liabilities	-	2,206
Taxation authorities, VAT	32,894	54,441
Taxation authorities	41,444	35,486
Current income tax liabilities	664	7,571
Total tax liabilities	**75,002**	**99,704**

The ICMS is the Tax on the Circulation of Goods and Services, equivalent to VAT in other jurisdictions. In March 2017 the Supreme Court's judgement of October 2016 was ratified, enabling the companies to recover part of the tax paid. In 2017 the subsidiary generated an asset receivable with the Brazilian Treasury amounting to Euro 3,661 thousand (Brazilian real 14,543 thousand). However, the calculation was reviewed in 2018 and a higher amount was recognised in respect of the recoverable asset of Euro 29,587 thousand (Brazilian real 117,547 thousand, see nore 14.4). This latter amount should have also been recognised in 2017 when the subsidiary learned of the possibility of recognizing this asset and when it was able to estimate the amount and not in 2018, year in which this increase was mistakenly recognised. At 31 December 2018, Dia Brazil recognises the asset in respect of ICMS amounting to Euro 43,888 thousand on its balance sheet (Brazilian real 195,040 thousand), since ICMS borne by the subsidiary exceeds the ICMS that the subsidiary has passed on to customers. This amount is expected to be recovered from the Brazilian Treasury in the next five years through the ICMS generated in the future. Recovery within five years is based on amounts historically collected in addition to the increase in sales.

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

	At 31 december 2018	At december 2017
Capitalised tax loss carryforwards	53,275	219,905
+ Deferred tax assets	97,219	98,035
Total deferred tax assets	150,494	317,940
Assets offset	(77,148)	(45,591)
Deferred tax assets	**73,346**	**272,349**
Deferred tax liabilities	77,148	47,797
Liabilities offset	(77,148)	(45,591)
Deferred tax liabilities	**-**	**2,206**

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

DEFERRED TAX ASSETS

		Adjustments	Profit/(loss)		Net Equity		Transfers to		Exchange	
Thousands of Euros	1 Jan 2017	to tax rate	Additions	Disposals	Additions	Disposals	assets held	Others	gains/losses	31 Dec 2017
Provision	37,490	(1,687)	3,042	(5,617)	-	-	(1)	-	(5,043)	28,184
Onerous contracts	298	(1)	152	(75)	-	-	-	-	-	374
Share-based payments	4,290	(9)	-	(2,084)	-	-	(36)	-	-	2,161
Other remuneration	667	-	96	-	-	-	-	-	-	763
Loss carryforwards	226,172	34	78	(6,301)	-	-	(78)	-	-	219,905
Deductions activation	2,855	-	176	-	-	-	-	(176)	-	2,855
Difference between depretation tax-accounting	38,246	-	3,489	(638)	-	-	-	7	(1,237)	39,867
Restatement	16,841	-	6,941	(5,416)	-	-	-	-	-	18,366
Other	7,688	(1,368)	926	(830)	-	-	(2)	(5)	(944)	5,465
Total non-curent deferred tax asset	**334,547**	**(3,031)**	**14,900**	**(20,961)**	**-**	**-**	**(117)**	**(174)**	**(7,224)**	**317,940**

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Thousands of Euros	1 Jan 2018	Adjustments to tax rate	Profit/(loss)		Net Equity		Transfers to assets held for sale	Others	Exchange gains/losses	31 Dec 2018
			Additions	Disposals	Additions	Disposals				
Provisions	28,184	(365)	21,808	(319)	-	-	(1,537)	613	(5,503)	42,881
Onerous contracts	374	-	1,461	(1)	-	-	-	(58)	-	1,776
Share-based payments	2,161	(30)	7	(1,027)	-	-	(20)	-	-	1,091
Other remuneration	763	-	1	(2)	-	-	(135)	6	-	633
Loss carryforwards	219,905	(175)	4,149	(170,513)	174	-	-	(214)	(51)	53,275
Deductions activation	2,855	-	862	(1)	1,528	-	(94)	861	-	6,011
Difference between depretation tax-accounting	39,867	-	2,119	(986)	-	-	(347)	(192)	(954)	39,507
Restatement	18,366	-	-	(17,353)	-	(933)	-	-	-	80
Other	5,465	(169)	1,733	(358)	-	-	-	(28)	(1,403)	5,240
Total non-curent deferred tax asset	**317,940**	**(739)**	**32,140**	**(190,560)**	**1,702**	**(933)**	**(2,133)**	**988**	**(7,911)**	**150,494**

With respect to tax assets recognised at 31 December 2017 for a net amount of Euro 272,349 thousand, it consists of the net of gross assets of Euro 317,940 thousand and gross liabilities amounting to Euro 45,591 thousand.

With respect to tax assets recognised at 31 December 2018 for a net amount of Euro 73,346 thousand, that this amount consists of, gross assets of Euro 150,494 thousand and gross liabilities amounting to Euro 77,148 thousand. According to IAS 12, these amounts are presented net by jurisdiction.

The main concept included in the line item "Deferred tax assets" are fiscal credits with negative tax base pending compensation in the Spanish tax group. In the fiscal year of 2017, after the positive results obtained by the Group in the past, Management considered there was sufficient evidence to recover those tax assets despite exceeding the ten-year term. Therefore, the Group continued to recognize in the statement of financial position the total amount of the credits for losses pending compensation.

However, during 2018 the Group in Spain performed an analysis to evaluate the future recovery of such credits within the context of the new business plan. The conclusion was reached that impairment totalling Euro 170 million must be recognised, in respect of assets for tax loss carryforwards recognised at 31 December 2017. In addition, the Group in Spain has not recorded tax losses generated in 2018 amounting to Euro 133.3 million under assets, the tax effect of which amounts to Euro 33.3 million.

The above is due to the decrease in the Company's estimates for 2018 indicated in note 1, the new business plan approved for the next five years, which reduces estimates of profits generated with deferred tax assets being adjusted to those recovery of which is considered probable within approximately 9 to 10 years. All the above is irrespective of the fact that the Group continues to be entitled to offset tax losses over an unlimited period.

Of the Euro 170 million amount removed, Euro 88 million relates to the Parent Company, Euro 23 million to Twins and Euro 59 million to El Arbol Group given that the order of the offset of tax-loss carryforwards includes those that are prior to the entry of El Arbol and Twins into the consolidated tax group and then those generated within the Parent Company's tax consolidation. Also, a reversal of Euro 9.7 million relates to other temporary differences affecting assets that reverse in 2019 and 2020. Since the Group expects to generate losses for tax purposes, these temporary differences have been written off.

The main assumptions used to calculate expected future profits and thus the recoverability of tax credits are as follows:

- The information source employed for tax planning purposes is consistent with that used to prepare the Group's impairment tests and that used in the bank debt negotiation process, this being the Group's business plan approved by the Board on 30 January 2019.

- The profit projections used are limited to 10 years. The Company's business plan covers up to 2023. Starting after that year 2% growth has been applied to complete the 10-year projection.

- The tax plan also includes the following assumptions:

  1) 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 by each of the companies during the year is obtained. For these purposes, the Parent submitted a request for a binding ruling to the Directorate General for Taxation (DGT) to confirm the criteria for calculating the Group's tax-loss carryforwards, the said approach having been confirmed by the DGT.

2) Through the application of the provisions of Royal Decree-Law 3/2016 (2 December) the tax consolidation group in Spain offsets tax-loss carryforwards generated in prior years up to a limit of 25% of its gross tax base.

Changes to the assumptions used by management for tax planning purposes could have a significant impact on the amounts of deferred tax assets recognised. The main criteria affecting this estimate are as follows:

- Changes to profits in the business plan. In the profit estimate for 2024 through 2028, 5% growth would give rise to the recognition of an additional Euro 4 million. In the profit estimate for 2024 through 2028, 0% growth would give rise to the derecognition of an additional Euro 3 million.

- Future amendments to legislation.

During 2018, like in Spain, an analysis was performed in order to assess the recoverability of tax credits on available tax loss carryforwards recognised in DIA Portugal and DIA Brazil over ten years, and it was concluded that there was no need to recognise any impairment. All credits on available tax loss carryforwards in DIA Portugal and DIA Brazil are therefore recognised on the statement of financial position, amounting to Euro 3.1 million and Euro 1.6 million, respectively.

Similarly, with respect to other assets for tax loss carryforward, the relevant analysis was performed of their recoverability over a 10 year period and the conclusion was that it was necessary to establish a provision for impairment of Euro 0.5 million in DIA Portugal and not necessary to recognise any impairment in DIA Brazil.

As a result of the sale of the companies Shanghai DIA Retail C.Ltd. and DIA Tian Tian Management Consulting Service in 2018 the unrecognized temporary differences outstanding at the end of 2017 were eliminated for the amount of Euro 103,402 thousand.

The tax consolidation group in Spain maintains unrecognized temporary differences in assets associated with tax-loss carryforwards yet to be offset at the end of 2018 in the amount of Euro 208,652 thousand.

Grupo El Árbol Distribución y Supermercados maintains unrecognized temporary differences in assets associated with portfolio impairment due to its Euro 3,255 thousand interest in Compañía Gallega de Supermercados.

The rollforward of the deferred tax liabilities is as follows:

DEFERRED TAX LIABILITIES

Thousands of Euros	1 Jan 2017	Adjustments to tax rate	Profit/(loss) Additions	Profit/(loss) Disposals	Net Equity Additions	Net Equity Disposals	Transfers to assets held for sale	Others	Exchange gains/losses	31 Dec 2017
Goodwill	1,434	-	55	-	-	-	-	-	-	1,489
Amortisation and depreciation	26,296	(11)	6,797	(2,367)	-	-	-	-	(339)	30,376
Portfolio provisions	13,226	-	-	(3,306)	-	-	-	-	-	9,920
Store Sales	4,413	-	191	-	-	-	-	-	-	4,604
Other	2,174	(24)	222	(791)	-	(140)	-	-	(33)	1,408
Total non-current deferred tax liabilities	**47,543**	**(35)**	**7,265**	**(6,464)**	**-**	**(140)**	**-**	**-**	**(372)**	**47,797**

Thousands of Euros	1 Jan 2018	Adjustments to tax rate	Profit/(loss) Additions	Profit/(loss) Disposals	Net Equity Additions	Net Equity Disposals	Transfers to assets held for sale	Others	Exchange gains/losses	31 Dec 2018
Goodwill	1,489	-	55	-	-	-	-	(124)	(1)	1,419
Amortisation and depreciation	30,376	(165)	5,793	(2,192)	-	-	(806)	(7)	(544)	32,455
Portfolio provisions	9,920	-	-	(3,307)	-	-	-	-	-	6,613
Strore sales	4,604	-	-	(222)	-	-	-	-	-	4,382
Hyperinflation adjustment	-	-	4,996	-	13,554	-	-	3,659	-	22,209
Other	1,408	(238)	9,757	(61)	-	(796)	-	-	-	10,070
Total ID de Pasivo No Corriente	**47,797**	**(403)**	**20,601**	**(5,782)**	**13,554**	**(796)**	**(806)**	**3,528**	**(545)**	**77,148**

Based on the tax returns for the current year, the Group companies have the following accumulated tax losses to be used in future years, amounting to Euro 1,048,421 thousand and Euro 983,165 thousand for 2018 and 2017, respectively.

Thousands of Euros	Years in which generated	Limitation period (years): Not subjetc to limitation	2019	2020	2021	2022	2023	> 2023	TOTAL	Loss carryforwards activated	Loss carryforwards non-activated	Loss carryforwards activated in base
Distribuidora Internacional de Alimentación, S.A.	2014-2018	411,335	-	-	-	-	-	-	411,335	-	411,335	-
Twins Alimentación, S.A.	2006-2018	105,797	-	-	-	-	-	-	105,797	-	105,797	-
Pe-Tra Servicios a la distribución, S.L.	1997-1999	18,549	-	-	-	-	-	-	18,549	-	18,549	-
Beauty by DIA, S.A.	2012-2018	14,393	-	-	-	-	-	-	14,393	-	14,393	-
Grupo El Árbol, Distribución y Supermercados, S.A.	2000-2018	467,849	-	-	-	-	-	-	467,849	194,054	273,795	48,514
Compañía Gallega de Supermercados, S.A.	2002-2018	4,460	-	-	-	-	-	-	4,460	-	4,460	-
DIA ESHOPPING, S.L.U.	2015-2018	6,274	-	-	-	-	-	-	6,274	-	6,274	-
Dia Brasil Sociedade Limitada	2018	4,709	-	-	-	-	-	-	4,709	4,709	-	1,601
Dia Portugal Supermercados S.U., Lda	2013-2018	-	-	-	-	-	-	14,916	14,916	14,916	-	3,132
DIA Portugal II, S.A.	2017-2018	-	-	-	-	-	-	139	139	139	-	29
Total Bases imponibles negativas		**1,033,366**	**-**	**-**	**-**	**-**	**-**	**15,055**	**1,048,421**	**213,818**	**834,603**	**53,276**

The Euro 4,460 thousand in tax-loss carryforwards recognized by Compañía Gallega de Supermercados, S.A. at the end of 2018 will not be applied by the tax group in future years if the Company is wound up and liquidated.

17.3 Inspections proceedings and years open to inspection

The inspection of corporate income tax for 2011 and 2012, personal income tax for 2012 and VAT for 2013 was completed in 2018, not giving rise to additional significant liabilities.

At 31 December 2018, the Spanish tax authorities are inspecting the following concepts and periods:

Concept	Periodos
Income Tax	01/2013 to 12/2014
Value Added tax	06/2014 to 12/2014
Personal income tax	06/2014 to 12/2014
Withholding/ Advance Payments on Work Revenue/Profesionnal	06/2014 to 12/2014
Withholding / Advance Payments on property leases	06/2014 to 12/2014
Withholdings on account of Non-Resident Income Tax	06/2014 to 12/2014

The inspections relating to the Group in Spain, are ongoing at the reporting date, although no probable contingencies for the Parent Company have been identified at the date on which these consolidated annual accounts are authorised for issue.

At 31 December 2018, the Brazilian tax authorities are inspecting the indirect tax positions related to PIS-COFINS related to the year 2014. On 29 January 2019, DIA Brazil received the results of the inspection activities for 2014, and the assessment amounted to Euro 97,012 thousand (431,121 thousand Reals). The company will appeal against this assessment, first through administrative proceedings and subsequently through legal proceedings on the understanding that there are sufficient grounds to achieve a favourable outcome. Based on the preliminary reports prepared by two law firms, the company has rated the risk of losing these appeals as remote / possible and therefore has not recorded a provision. It should also be noted that approximately 30% of the amount assessed relates to the discrepancy with respect to the tax levied on income from supplier discounts. This discrepancy had already been highlighted in the previous inspection.

As a result of the previous inspection proceedings, ended in 2014, DIA Brazil received two notifications from the Brazilian tax authorities for 2010, one for an updated amount of Euro 15,962 thousand (Brazilian real 70,933 thousand) in relation to the discrepancy about the tax on income from supplier discounts, and the other for an updated amount of Euro 77,136 thousand (Brazilian real 342,792 thousand) in relation to the reflection of movements of goods and their impact on inventories.

In 2016, an initial administrative ruling on the discrepancy concerning income from suppliers was unfavourable. A legal defence is being mounted and the legal counsel believe there are sufficient grounds to win a ruling favourable to DIA Brazil. As regards the second proceedings, an unfavourable decision was handed down via administrative channels, despite the inventory movements having been shown to be in line with the criteria followed in all the countries in which the DIA Group operates. An appeal was filed against this ruling. As a result, the Administrative Court recognised deficiencies in the first inspection proceedings and decided that another team should start a new inspection which is ongoing. Nevertheless, based on the reports from the external legal counsel, the probability of losing this lawsuit continues to be considered remote at 31 December 2018

The years open to inspection at 31 December 2018 for the main taxes to which the companies in the different jurisdictions are subject are as follows:

Concept	ESPAÑA	PORTUGAL	ARGENTINA	BRASIL
Income Tax	2015 and following	2016 and following	2014 and following	2014 and following
Value Added tax	2015 and following	2015 and following	2014 and following	2014 and following
Personal income tax	2015 and following	2015 and following	2014 and following	2014 and following

The Directors do not expect that any major additional liabilities in relation to the consolidated annual accounts taken as a whole will arise as a result of ongoing inspections, the years open to inspection or the appeals submitted.

18 SHARE-BASED PAYMENT TRANSACTIONS

On 25 April 2014 the shareholders approved a long-term incentive plan for 2014-2016 to be settled by delivering a maximum of 6,981,906 Parent shares. This incentive plan ended in January 2018.

On 22 April 2016 the shareholders approved a long-term incentive plan for 2016-2018 to be settled by delivering 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 join 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 31 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	1,282,730	5.9203

As at 31 December 2018, no plan has been approved additional to the plans indicated in the previous table

In 2018 and 2017, the profit/(loss) recognised in respect of these plans amount to Euro (1,989) thousand and Euro (4,893) thousand, respectively, recognised in personnel expenses in the consolidated income statement. The balancing entry was recognised under other own equity instruments.

During 2018, net movements in other equity instruments due to the long-term incentive plan totalled Euro 5,555 thousand, entailing the delivery net of withholdings of 768,277 treasury shares (in 2017, 721,914 treasury shares were delivered net of withholdings for a net amount of Euro 5,347 thousand under the 2014-2016 long-term incentive plan).

The fair value measured at the grant date of options awarded during the year ended 31 December 2018 was Euro 591 thousand per option (Euro 6,867 thousand at 31 December 2017).

Expected price volatility is based on historical volatility (over the remaining life of the options), adjusted for any expected future change in volatility based on publicly available information.

19 REVENUE

19.1 Disaggregation of revenue from contracts with customers

Revenue relates to the Group's own store sales, sales to franchisees and online sales made basically in Spain, Portugal, Brazil and Argentina. At 31 December 2018 and 2017, revenue amounted to Euro 7,288,825 thousand and Euro 8,232,847 thousand, respectively, distributed as follows by geographical segment:

	2018			2017		
Thousands of Euro	Ordinary income of the segment	Ordinary income between segments	Ordinary income of external clients	Ordinary income of the segment	Ordinary income between segments	Ordinary income of external clients
Sales in own store	**5,405,451**	**1,112,760**	**4,292,691**	**6,091,283**	**1,085,169**	**5,006,114**
Spain	3,616,354	1,112,760	2,503,594	3,666,761	1,085,169	2,581,592
Portugal	334,759	-	334,759	415,494	-	415,494
Brazil	646,776	-	646,776	845,466	-	845,466
Argentina	807,562	-	807,562	1,163,562	-	1,163,562
Sales to franchise store	**2,869,863**	**135**	**2,869,728**	**2,982,486**	**-**	**2,982,486**
Spain	1,689,497	135	1,689,362	1,650,096	-	1,650,096
Portugal	281,210	-	281,210	235,311	-	235,311
Brazil	736,144	-	736,144	869,189	-	869,189
Argentina	163,012	-	163,012	227,890	-	227,890
On line sales	**69,397**	**122**	**69,275**	**49,682**	**(4)**	**49,686**
Spain	68,133	122	68,011	49,583	(4)	49,587
Portugal	-	-	-	-	-	-
Brazil	1,264	-	1,264	99	-	99
Argentina	-	-	-	-	-	-
Other Sales	**57,266**	**135**	**57,131**	**179,571**	**187**	**179,384**
Spain	19,527	-	19,527	160,600	(14)	160,614
Portugal	12,680	9	12,671	12,272	4	12,268
Brazil	24,933	-	24,933	6,310	-	6,310
Argentina	126	126	-	389	197	192
Total	**8,401,977**	**1,113,152**	**7,288,825**	**9,303,022**	**1,085,352**	**8,217,670**

19.2 Accounting policies and significant judgements

Own store sales

The Group's own stores sell food and household, and personal hygiene products. Sales revenues are recognised when a store sells products to customers. The transaction price is immediately payable when customers purchase and take away products.

The Group has a policy of granting a 15-day return period for products sold. The policy applies to its own store sales and online sales. Although customers are entitled to return any article, this is not common practice in the stores and therefore has had no relevant impact on the Group as relates to the adoption of IFRS 15.

Sales to franchisees

The Group has collaboration agreements in place with its franchisees and recognises revenue on sales when the goods are made available to the franchisee. This contract establishes payment of an initial fee which is recognised as revenue by the Group at that time, whose amount is not significant. Similarly, the possibility of financing the franchisee's initial order is provided for, in which case the intrinsic financing component on that transaction is recognised.

Online sales

The Group sells a range of products through its website. Products are delivered to customers at the postal address they state when the purchase is made or at a Group's stores.

In the case of customers that ask for products to be sent to a specific address (not a store), the revenue is recognised when control of the products is transferred. Although customers pay for products at the time of purchase, they have no capacity to use the product until it is received. In such cases, the customer does not have the capacity to change the destination and does not have physical possession or accept the products until they are received. Accordingly, control is transferred, and revenue is therefore recognised when the customer receives the product. The difference between both moments does not exceed one day in the case of perishable products. The sale of other types of products through this channel is residual.

If customers ask to pick up at a store the products purchased online, DIA recognises the revenue when payment is made online because, although the products have not been delivered to the customer, they have been set aside, are available at the collection point and cannot be used for other customers (criteria that must be fulfilled in order for the customer to have obtained control under a bill and hold arrangement).

Sale of goods - customer loyalty programme

The Group has a loyalty programme in which customers accumulate points for purchases made that entitle them to discounts on future purchases. Since, in general, the points are exchangeable in the same period the revenue accrues, the Group recognises the reduction in revenue at the transaction date.

The Group has agreements with franchisees whereby the period between the transfer of the goods or services promised to the customer and payment by the customer exceeds one year. In such cases, DIA adjusts the transaction prices to account for the time value of money.

20 OTHER INCOME AND EXPENSES

20.1. Other income

Details of "other income" are as follows:

Thousands of Euro	2018	2017
Fees and interest to finance companies	910	2,033
Service and quality penalties	42,461	37,130
Revenue from lease agreements	32,435	30,263
Other revenue from franchises	11,453	8,598
Revenue from information services to suppliers	8,099	24,659
Revenue from the sale of packaging	5,328	8,968
Gains for the sale of fixed assets	28,115	31,226
Other income	5,730	10,198
Total other operating income	**134,531**	**153,075**

Service contract penalties relate to the charges applied by the Group to its suppliers after the performance of quality and service level reviews and processes performed on the goods received.

Proceeds from the disposal of fixed assets principally correspond to sale and leaseback contracts for certain DIA Group warehouses and stores (see notes 5 and 7).

20.2. Profit on the sale of subsidiaries

The Group records under this heading the profit generated by the sale of 50% the company FINANDIA E.F.C., S.A to Caixabank Consumer Finance E.F.C., S.A.U.

The sale of 50% of the shares in that company was completed on 28 June 2018 for Euro 9,306 thousand, the Group having recognised sales revenue of Euro 4,240 thousand (net of transaction costs). The remaining shareholding was restated to its new fair value, generating a capital gain of Euro 5,025 thousand, also recognised under this heading.

20.3. Merchandise and other consumables used

This heading includes purchases, less volume discounts and other trade discounts, and differences between opening and closing inventories. It also includes the cost of products sold by the financing company.

Details of the main items under this caption are as follows:

Thousands of Euro	2018	2017
Goods and other consumables used	6,728,548	7,463,032
Discounts	(1,266,366)	(1,411,175)
Inventory variation	(31,601)	88,175
Other sales costs	386,430	380,402
Total goods and other consumables used	**5,817,011**	**6,520,434**

20.4. Personnel expenses

Details of personnel expenses are as follows:

Thousands of Euro	2018	2017
Salaries and wages	547,521	573,521
Social Security	145,594	152,825
Defined contribution plans	(26)	254
Other employee benefits expenses	18,612	21,391
Parcial total personnel expenses	**711,701**	**747,991**
Expenses for share-based payment transactions	1,669	(4,521)
Total personnel expenses	**713,370**	**743,470**

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

20.5. Operating expenses

Details of operating expenses are as follows:

Thousands of Euro	2018	2017
Repairs and maintenance	49,245	46,862
Utilities	78,972	79,889
Fees	43,081	21,863
Advertising	46,111	51,977
Taxes	18,859	22,082
Rentals, property	296,080	292,536
Rentals, equipment	3,672	5,994
Other general expenses	92,409	93,408
Total operating expenses	**628,429**	**614,611**

20.6. Depreciation, amortisation and impairment losses

Details of the expenses included in this consolidated income statement item are as follows:

Thousands of Euro	2018	2017
Amortisation of intangible assets	12,511	10,362
Depreciation of property, plant and equipment	222,695	213,357
Total amortisation and depreciation	**235,206**	**223,719**
Impairment of goodwill	11,773	4,590
Impairment of intangible assets	1,676	663
Impairment of property, plant and equipment	66,488	6,800
Total impairment	**79,937**	**12,053**

20.7. Losses on disposal of assets

The losses recorded on these transactions in 2018 and 2017 derive mainly from the disposal of assets in stores located in Brazil, Portugal and Spain.

20.8. Net financial income/(expense)

Details of financial income are as follows:

Thousands of Euro	2018	2017
Interest on other loans and receivables	482	571
Exchange gains	1,618	520
Change in fair value of financial instruments	1,176	7
Other finance income	3,204	11,099
Total finance income	**6,480**	**12,197**

“Other finance income” in 2017, includes Euro 7,605 thousand of revaluations of judicial desposits in Brazil (Note 14.4).

Details of financial expenses are as follows:

Thousands of Euro	2018	2017
Interest on bank loans	34,898	25,906
Intereses on debentures and bonds	13,466	12,994
Finance expenses for finance leases	1,895	2,175
Exchange losses	8,873	2,914
Change in fair value of financial instruments	1,645	14
Financial expenses assigment of receivables operations	263	240
Other finance expenses	29,165	21,444
Total finance expenses	**90,205**	**65,687**

At 31 December 2018 and 2017, interest on bank loans mainly relates to loans obtained in Spain, Brazil and Argentina.

Interest on debentures and bonds includes the accrued interest and costs as a result of the bond issues described in note 15.1(a).

Other financial expenses at 31 December 2018 and 2017 primarily reflect the bank debit and credit interest rates in Argentina linked to revenues. In 2018 includes Euro 11,875 thousand expenses related to refinancing.

20.9. Foreign currency transactions

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

Thousands of Euro	2018	2017
Currency exchange losses	(8,873)	(2,914)
Currency exchange gains	1,618	520
Trade exchange losses	(4,392)	(441)
Trade exchange gains	1,056	1,513
Total	**(10,591)**	**(1,322)**

20.10. Gains net monetary position

This heading records the positive financial effect of the impact of inflation on monetary assets totalling Euro 67.5 million in 2018 (see note 2.6). This amount is mainly derived from trade suppliers.

In Argentina, the commercial margin has decreased from 18.6% in 2017 to 14.7% in 2018. The commercial margin before application of IAS 29 would be 17.9%. This decrease in the commercial margin is primarly attributable to effect of the restatement due to inflation with respect to the cost of goods sold. The method for restating this item is based on the measurement of opening inventories using the index for the period immediately prior to the start of the year, in this case, December 2017. This is considering an average inventory turnover rate of 30 days. This methodology means that the restatement adjustment has a greater impact in “goods and other consumables used” than in other lines in the income statement.

21 COMMITMENTS AND CONTINGENCIES

21.1 Commitments

Commitments pledged and received by the Group but not recognised in the consolidated statement of financial position comprise contractual obligations which have not yet been executed. The two types of commitments relate to

cash and expansion operations. The Group also has lease agreements that represent future commitments undertaken and received.

Off-balance-sheet commitments related to cash resources comprise:

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

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

Expansion operation commitments were undertaken for expansion at Group level.

Finally, commitments relating to lease contracts for property and furniture are described in note 7 Operating Leases.

Itemised details of commitments at 31 December 2018 and 2017 are as follows:

a) Pledged:

Thousands of Euro at 31 December 2018	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	>5 YEARS	TOTAL
Guarantees	1,152	2,722	272	14,762	18,908
Purchase options	23,730	-	18,628	27,422	69,780
Commitments related to commercial contracts	5,533	2,546	11,805	11,096	30,980
Other commitments	-	-	-	15,092	15,092
Total	**30,415**	**5,268**	**30,705**	**68,372**	**134,760**

Thousands of Euro at 31 December 2017	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	>5 YEARS	TOTAL
Guarantees	23,409	510	2,185	12,057	38,161
Credit facilities to customers (finance companies)	79,550	-	-	-	79,550
Purchase options	7,212	24,084	2,219	48,089	81,604
Commitments related to commercial contracts	15,327	2,645	6,877	1,366	26,215
Other commitments	-	-	-	16,881	16,881
Total	**125,498**	**27,239**	**11,281**	**78,393**	**242,411**

The Parent Company is the guarantor of the drawdowns on the credit facilities made by its Spanish subsidiaries, which at 31 December 2018 amounted to Euro 4,047 thousand (Euro 2,777 thousand in 2017).

Cash guarantees manly include those securing commitments connected with the lease of stores and warehouses. Purchase options include options over warehouses amounting to Euro 45,786 thousand.

Commitments related to business contracts include commitments entered into with franchisees linked to compliance with certain services and payment obligations, applicable in the event of non-compliance by the franchisee with third party financing obligations.
Additionally, the Parent Company has a guarantee granted by the CDSI for an amount of Euro 25,000 thousand that matures in June 2019 and other guarantees related to Brazil as detailed below:

- JP Morgan guarantee amounting to Euro 37,213 thousand which matured in January 2019.
- Societé Generale guarantee amounting to Euro 25,530 thousand which matured in January 2019.
- Societé Generale guarantee amounting to Euro 11,468 thousand and maturing in August 2019.

b) Received:

Thousands of Euro at 31 December 2018	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Available revolving credit facilities (Tranche A)	92,652	-	-	-	92,652
Available credit facilities (Tranche B)	5,000	-	-	-	5,000
Available loans may be balanced with confirming (Tranche B)	40,642	-	-	-	40,642
Available credit facilities (not included in syndicated credits)	30,493	-	-	-	30,493
Available confirming lines (Tranche F)	189	-	-	-	189
Available confirming lines(Tranche C)	4,447	-	-	-	4,447
Available confirming lines (not included in syndicated credits)	13,664	-	-	-	13,664
Cash	**187,087**	**-**	**-**	**-**	**187,087**
Guarantees received for commercial contracts	21,293	5,142	15,131	58,058	99,624
Other commitments	1,650	159	84	201	2,094
Transactions / properties / expansion	**22,943**	**5,301**	**15,215**	**58,259**	**101,718**
Total	**210,030**	**5,301**	**15,215**	**58,259**	**288,805**

Thousands of Euro at 31 December 2017	IN 1 YEAR	IN 2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Available credit facilities	130,173	-	-	-	130,173
Available revolving credit facilities	600,000	-	-	-	600,000
Available confirming lines	249,604	-	-	-	249,604
Available commercial paper facilities	35,000	-	-	-	35,000
Cash	**1,014,777**	**-**	**-**	**-**	**1,014,777**
Guarantees received for commercial contracts	24,394	5,415	20,950	55,610	106,369
Other commitments	4,000	-	-	-	4,000
Transactions / properties / expansion	**28,394**	**5,415**	**20,950**	**55,610**	**110,369**
Total	**1,043,171**	**5,415**	**20,950**	**55,610**	**1,125,146**

Guarantees received under business contracts relate to guarantees securing business agreements with franchisees.

21.2 Contingencies

The Group is involved in legal proceedings and tax inspections in a number of jurisdictions, some of which have already been completed by the tax authorities and appealed by the Group companies at 31 December 2018 (see note 17). The Group recognises a provision if it is probable that an obligation will exist at year end which will give rise to an outflow of resources and the outflow can be reliably measured. As a result, management uses significant judgement when determining whether it is probable that the process will result in an outflow of resources and when estimating the amount.

Legal contingencies are detailed in note 16 and tax contingencies are detailed in note 17.

22 RELATED PARTIES

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

During 2018 and 2017, the directors of the Parent did not carry out any transactions other than ordinary business or applying terms that differ from market conditions with the Parent or any other Group company.

22.2 Related-party balances and transactions

During 2018 and 2017, the Group carried out the following transactions with associates: ICDC, Red Libra and Finandia, mainly corresponding to trade operations and the balance receivable of which at 31 December 2018 and 2017 is shown in notes 8.1 and 15.3. Transactions effected with related parties during both years are as follows:

Thousands of Euro	2018	2017
ICDC	24,724	23,522
Red Libra	(731)	(1,157)
Finandia	(406)	-
Total transactions	**23,587**	**22,365**

Transactions with directors and senior management personnel

In 2018, both the Board of Directors and the Management Committee of the Group experienced a series of changes that are described below:

Changes in the Board of Directors:

- On 20 April 2018, the General Shareholders' Meeting approved the appointment of Mr Stephan DuCharme as an external shareholder director and the appointment of Mr Karl-Heinz Holland as an external shareholder director. Afterwards the Board of Directors appointed Mr Ducharme as a member of the Audit and Compliance Committee and Mr Holland as member of the Strategy Committee.

- Mr Juan María Nin submitted his resignation as a member of the company's Board of Directors, and therefore as a member of the Audit and Compliance Committee, effective 22 June 2018. The reason cited for his resignation was the need to attend personal matters.

- Mr Julián Díaz submitted his resignation as a member of the Audit and Compliance Committee, effective 25 July 2018, although he continues to be an independent director. In his resignation, he cited the need to attend new commitments that made it impossible for him to dedicate the necessary time required by the Committee.

- On 24 August 2018, Mr Ricardo Currás submitted his resignation as a member of the Board. Following his announcement that he was stepping down as CEO, his position was filled by the then Executive Manager for Latin America and Partnerships, Mr Antonio Coto.

- On 15 October 2018, the non-executive chairwoman, Ms. Ana María Llopis, following the decision previously announced by her at the General Shareholders' Meeting on 20 April 2018, announced her resignation as chairwoman, taking up a role as a director of the Board until 31 December 2018, when she submitted her resignation as a member of the Board. Following the resignation of Ms Llopis from her role as chairwoman, Mr Stephan DuCharme, a shareholder director, took up the role of First Vice-chairman of the Board of Directors, leaving the independent directors Mr Richard Golding and Mr Mariano Martín as Second and Third Vice-chairmen respectively.

- On 15 October 2018, at the request of the shareholder LetterOne Investment Holdings, S.A. (LetterOne), Mr Sergio Antonio Ferreira Dias was co-opted as a director (classified as an external shareholder director), also becoming a member of the Audit and Compliance Committee replacing Mr Stephan DuCharme, who on the same date resigned from his position as a member of that committee.

- On 4 December 2018, Mr Stephan DuCharme submitted his resignation as a shareholder director appointed by LetterOne Investment Holdings, explaining that his decision was motivated by his intention to focus on working from LetterOne on the process to design and develop a subsequent long-term sustainability plan for the Group. Mr Richard Golding, Vice-chairman, temporarily assumed the duties of Chairman of the Board until a new chairman was appointed.

- On 18 December 2018, Mr Karl-Heinz Holland and Mr Sergio Antonio Ferreira Dias, both shareholder directors representing LetterOne Investment Holdings, S.A., submitted their respective resignations as directors, effective from that date. Both directors explained that their respective resignations were motivated by their intention to focus on working from LetterOne on the process to design and develop a subsequent long-term sustainability plan for the Group.

- On 28 December 2018, the Board of Directors appointed Mr Borja de la Cierva Álvarez de Sotomayor as the new CEO, replacing Mr Antonio Coto, who stepped down as CEO on this date and resigned from his position as a director effective from 30 December 2018.

- On 28 December 2018, Mr Jaime García-Legaz Ponce was co-opted as a director (as an independent director). The appointment of Mr García-Legaz remained subject to completion of certain administrative requirements resulting from his previous role as a senior member of the government. These requirements have now been fulfilled as of the date of authorization for issue of these consolidated annual accounts.

- On 28 December 2018, the Board co-opted Mr Miguel Ángel Iglesias Peinado as an executive director.

- As a result of his appointment as CEO, and therefore of his classification as an executive director, on 28 December 2018, Mr Borja de la Cierva resigned as a member of the Audit and Compliance Committee. The Board appointed the independent directors Mr Julián Díaz González and Mr Jaime García-Legaz as members of DIA's Audit and Compliance Committee.

- The appointment of Mr Jaime García-Legaz became effective on 10 January 2019.

Changes in the Management Committee:

- In 2018, three of the previous members of the Management Committee, left the company.

- In October 2018, the Board of Directors dismissed the previous Chief Services Officer and Executive for Portugal, also removing him from his position on the Management Committee.

- In October 2018, the Executive Department of DIA España was created, led by Mr Faustino Domínguez de la Torre Unceta, who was already a member of the Management Committee, unifying the sales and operations areas for all banners.

- An Executive Human Resources Department at Group level was also created in October 2018, led by Mr Alejandro Grande.

- In December 2018, Mr Enrique Wieckert joined the Management Committee as Group CFO.

Composition of the Board of Directors at 31 December 2018:

Members of the Board and roles:

- Mr Richard Golding: First Vice-Chairman qualified as independent.
- Mr Mariano Martín Mampaso: Second Vice-Chairman qualified as independent.
- Mr Borja de la Cierva Álvarez de Sotomayor: CEO qualified as executive.
- Mr Julián Díaz González: Member qualified as independent.
- Mr Antonio Urcelay Alonso: Member qualified as “other external Director”.
- Ms. Ángela Lesley Spindler: Member qualified as independent.
- Ms. María Luisa Garaña Corces: Member qualified as independent.
- Mr Miguel Ángel Iglesias Peinado: Member qualified as executive.
- Mr Jaime García-Legaz*: Member qualified as independent.

*The appointment of Mr Jaime García-Legaz has taken effect as of 10 January 2019.

Details of remuneration accrued to the Group's directors and senior management in 2018 and 2017 are as follows:

Thousands of euro			
2018		2017	
Members of Board Director	Senior managment	Members of Board Director	Senior managment
3,972	4,581	2,005	3,922

In 2018 and 2017, the Parent’s directors earned Euro 1,082 thousand and Euro 1,174 thousand, respectively (included in the table above) in their capacity as Board members.

In 2018 and 2017, shares under the 2014-2016 Incentive Plan were handed over to senior managers, recognised in remuneration accrued for the year.

Article 39.5 of the Parent's articles of association requires the disclosure of the remuneration earned by each of the members of the Board of Directors in 2018 and 2017. Details are as follows:

2018	Thousands of euro				
Members of Board Directors	Financial instruments	Fixed salary	Compensation	No competence	Others
Mrs. Ana María Llopis Rivas	5.7	109.5	-	-	-
Mr. Ricardo Currás de Don Pablos (*)	-	496.8	1,951.5	202.0	10.0
Mr. Julián Díaz González	4.3	68.4	-	-	-
Mr. Juan Maria Nin Genova	1.9	35.9	-	-	-
Mr. Richard Golding	4.3	105.4	-	-	-
Mr. Mariano Martín Mampaso	5.6	115.8	-	-	-
Mr. Antonio Urcelay Alonso	4.4	109.8	-	-	-
Mrs. Angela Lesley Spindler	5.0	96.5	-	-	-
Mr. Borja de la Cierva Sotomayor	4.8	118.4	-	-	-
Mrs. María Luisa Garaña Corces	4.0	95.5	-	-	-
Mr. Stephan DuCharme	3.7	66.4	-	-	-
Mr. Antonio Coto Gutiérrez (*)	1.3	248.3	-	-	10.6
Mr. Karl-Heinz Holland	2.9	58.0	-	-	-
Mr. Sergio Ferreira Dias	0.9	24.2	-	-	-
Mr. Miguel Ángel Iglesias Peinado	-	0.4	-	-	-
Total	**49**	**1,749**	**1,951**	**202**	**21**

(*) Remuneration as senior management and as director

2017	Thousands of euros			
Members of Board Directors	Financial instruments	Fixed salary	Bonus	Others
Mrs. Ana María Llopis Rivas	43.9	120.2	-	-
Mr. Ricardo Currás de Don Pablos (*)	21.3	667.5	223.9	7.4
Mr. Julián Díaz González	32.7	81.8	-	-
Mr. Juan Maria 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	-	-
Mrs. Angela Lesley Spindler	34.8	83.7	-	-
Mr. Borja de la Cierva Sotomayor	28.0	89.6	-	-
Mrs.María Luisa Garaña Corces	21.3	73.5	-	-
Total	**302**	**1,472**	**224**	**7**

(*) Remuneration as senior management and as director

During 2018 and 2017, the members of the Board of Directors and senior management of the Group did not effect transactions other than ordinary business or applying terms that differ from market conditions with the Parent Company or Group companies.

The third-party liability insurance premiums for directors and senior management personnel totalled Euro 650 thousand in 2018 (2017: Euro 29 thousand).

22.3 Situations of conflicts of interest of the directors

The Group's directors and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act, except as follows:

1) As a result of their respective appointments during 2018, Mr DuCharme, Mr Holland and Mr Dias notified the Parent Company of their relations and interests with the LetterOne Group, which holds directly or indirectly a 29.001% stake in the Parent Company's capital, leading to their classification as "proprietary directors". This classification as "proprietary directors" has resulted in Mr DuCharme, Mr Holland and Mr Dias declaring their potential conflict of interest and related with their relationship with the referred shareholder, refraining from voting on one of the agreements of the Parent Company's Board of Directors.

2) The Parent Company has not received from Mr Antonio Coto, who was a Director of the Parent Company at some point in 2018, any notification in his capacity as such in 2018, communicating situations of conflict, direct or indirect, with the Parent Company's interests in accordance with article 229.3 of the current Spanish Companies Act. Mr Antonio Coto has not replied to the request for information issued by the Parent Company as part of the usual procedures for the preparation of the consolidated annual accounts and Annual Corporate Governance Report for 2018.

23 FINANCIAL RISK MANAGEMENT: OBJECTIVES AND POLICIES

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

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

A summary of the management policies established by the Parent's Board of Directors for each risk type is as follows:

23.1 Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

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

23.2 Foreign exchange risk

The Group operates internationally and is therefore exposed to foreign exchange risk arising from currency transactions, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions and assets and liabilities denominated in a currency other than the functional currency of the relevant DIA Group company. The Group companies control this risk by means of currency forward contracts arranged by the Group's Treasury Department.

In 2018 and 2017, the Group completed no significant transactions in currencies other than the functional currency of each company. However, the Group contracts exchange rate insurance policies for non-recurring transactions in US dollars.

The hedging transactions arranged in 2018 amounted to USD 7,046 thousand (USD 7,529 thousand in 2017). This amount represented 68.68% of the transactions carried out in this currency in 2018 (68.76% in 2017). At the 2018 year end, outstanding hedges in US dollars totalled USD 954 thousand (USD 1,809 thousand in 2017) and expire in the coming four months. These transactions are not significant with respect to the Group's total volume of purchases.

The Group holds several investments in foreign operations, the net assets of which are exposed to currency risk. Foreign exchange risk affecting net assets of the Group's foreign operations in Argentine pesos and Brazilian reals is mitigated primarily through borrowings in the corresponding foreign currencies.

Translation differences included in other comprehensive income are significant due to the sharp depreciation of the Brazilian real in 2018. The effects of the devaluation of the Argentinian peso are detailed in note 2.6. The variation that would have arisen in cumulative translation differences if the Brazilian real had presented an appreciation or depreciation of 10% would have been +/- 25.56%, respectively. Likewise, the variation that would have arisen in reserves if the Argentinian peso had presented an appreciation or depreciation of 10% would have been +/- 16.76%, respectively.

The Group's exposure to currency risk at 31 December 2018 and 2017 in respect of the balances outstanding in currencies other than the functional currency of each country is immaterial.

Variations of the exchange rates at 31 December 2018 and 2017 of the balances outstanding in currencies other than the functional currency of each country would not have significant impact in the consolidated income statements.

23.3 Price risk

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

23.4 Credit risk

Credit risk is the risk to which the Group is exposed if a client or counterparty of a financial instrument fails to comply with their contractual obligations and mainly stems from trade receivables and financial assets of the Group.

The Group has no significant credit risk concentrations. The risk of concentration is minimised through diversification, managing and combining various areas of impact. Firstly, the customer base is distributed geographically at the international level and secondly there are different types of customers such as franchisees and retailers.

The Group has policies to ensure that sales of products on a wholesale basis are made to customers with an adequate credit record. Retail customers pay in cash or by credit card. Derivative transactions are only arranged with financial institutions that have a high credit rating so as to mitigate credit risk. The Group has policies in place to limit the amount of risk held with respect to any financial institution.

The credit risk presented by the Group is attributable to the transactions it carries out with the majority of its franchisees and is mitigated through the bank and other guarantees received, which are described in note 21. Details are as follows:

Thousands of Euro	At 31 December 2018	At 31 December 2017
Trade operations non-current (note 8.1 a))	63,306	73,084
Trade operations current (notes 8.1 a))	139,960	136,215
Franchise deposits (note 8.2)	2,790	3,256
Guarantees received (note 20.2)	(99,624)	(106,369)
	106,432	**106,186**

Non-current commercial transactions reflect the financing of the starting inventory of the franchisees, which is repaid monthly based on the cash generation profile of the business. Current commercial transactions comprise financing of goods supplied and amounts falling due less than 12 months from the initial financing.

In 2018, the Group entered into agreements to transfer trade receivables from suppliers without recourse (see notes 3 and 8.1(b)). The accrued cost of the transfer of these receivables amounted to Euro 263 thousand in 2018 (Euro 240 thousand in 2017) (see note 20.8). Undue balances at 31 December 2018 amounted to Euro 126,450 thousand (Euro 99,624 thousand at 31 December 2017), all of which were without recourse.

The Group's exposure to credit risk at 31 December 2018 and 2017 is shown below. The accompanying tables reflect the analysis of financial assets by residual contractual maturity dates:

Thousands of Euro	Maturity	At 31 December 2018
Guarantees	per contract	60,136
Other guarantees	2020	2,000
Equity instruments	-	695
Other loans	2020-2021	703
Trade and other receivables	2020-2035	63,306
Other non-current financial assets	2020-2024	10,522
Non-current assets		**137,362**
Franchise deposit (note 8.2)	2019	2,790
Credits to personnel	2019	2,862
Other loans	2019	341
Loans on the sale of fixed assets	2019	352
Other assets from group companies	2019	2,603
Other financial assets	2019	2,336
Trade and other receivables	2019	187,001
Receivables from group companies	2019	5,277
Consumer loans from finance companies	2019	20
Current assets		**203,582**

Thousands of Euro	Maturity	At 31 December 2017
Guarantees	per contract	66,942
Other guarantees	2020	2,000
Equity instruments	-	88
Other loans	2019-2021	524
Trade and other receivables	2019-2035	73,084
Other non-current finantial assets	2019-2024	10,742
Non-current assets		**153,380**
Franchise deposit (note 8.2)	2018	3,256
Credits to personnel	2018	3,027
Other loans	2018	1,016
Loans on the sale of fixed assets	2018	498
Other financial assets	2018	2,099
Trade and other receivables	2018	196,113
Receivables from group companies	2018	2,678
Consumer loans from finance companies	2018	1,070
Current assets		**209,757**

The Group has taken out credit insurance policies to ensure the collectability of certain trade receivables for sales. The trade receivables covered by these policies totalled Euro 4,332 thousand at 31 December 2018 (Euro 4,855 thousand at 31 December 2017).

The returns on these financial assets totalled Euro 3,983 thousand in 2018 and Euro 4,724 thousand in 2017.

Details of non-current and current trade and other receivables by maturity in 2018 and 2017 are as follows:

Current	Total	Unmatured	Between 0 and 1 month	Between 2 and 3 months	Between 4 and 6 months	Between 7 and 12 months
	Thousands of Euro					
At 31 December 2018	192,278	95,669	17,789	67,436	5,044	6,340
At 31 December 2017	198,791	128,928	20,826	44,223	3,547	1,267

Non-current	Total	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
	Thousands of Euro			
At 31 December 2018	63,306	7,276	37,768	18,262
At 31 December 2017	73,084	23,198	32,029	17,857

The impairment policy is described in note 8.

23.5 Liquidity risk

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

During 2018 and after publishing a Significant Event in October on the review of estimated results for the year and the restatement of the 2017 consolidated annual accounts, there were a total of six downgrades of the Group's credit rating by rating agencies, consisting of three levels in the case of Moody's and Standard & Poor's, to finally reach Caa1 (under review) and CCC+ (negative outlook), respectively, in December.

In order to mitigate the risk that reactions to the information and downgrades by the financial institutions with which the Group operates could have a potential relevant adverse impact on its liquidity profile, in October the Group initiated a process of dialogue and negotiation with its main banks (the "Group of Banks"), with a dual purpose: (i) assure that they maintained their support for the Group by signing a formal agreement to maintain and restore the financing ceilings granted by the Group of Banks; and (ii) negotiate a new financing package that would allow the Group to assure coverage of its future working capital needs under the Business Plan.

As a result, the main financial institutions signed an agreement on 18 November 2018 to maintain and restore financing lines, initially maturing on 30 November 2018 and subsequently extended to 31 December 2018.

At that date, the previously mentioned financial institutions granted a Financing Agreement and, during the month of January 2019, certain foreign subsidiaries of the Group entered into bilateral financing agreements. As a result of such agreements, among others, the Group has additional short term financing for an amount of up to Euro 201.4 million and of up to Euro 867.8 million to be drawn through working capital financing facilities, such as revolving credit facilities, confirming facilities, factoring and bilateral loans.

On 21 January 2019, another financial institution signed up to the financing agreement, increasing new money by Euro 4.4 million and working capital facilities by Euro 24.1 million.

The main terms of the Facilities Agreement are explained in note 2.4.

The combination of this new financing package, the divestments, the capital increase and the agreements currently under negotiation in relation to the first maturity of the Facilities Agreement must allow the Group to assure coverage of working capital needs under the Business Plan, considerably strengthening its liquidity profile.

The Group's exposure to liquidity risk at 31 December 2018 and 2017 is shown below. These tables reflect the analysis of financial liabilities by residual contractual maturity dates:

Thousands of Euro	Maturity	At 31 December 2018
Debentures and bonds long term	2020-2023	590,410
Syndicated credits (Revolving credit facilities)	2020-2022	254,222
Other bank loans	2020	15,000
Finance lease payables	2020-2025	19,801
Credit facilities drawn down	2020-2022	27,150
Guarantees and deposits received	per contract	12,102
Other non-current financial debt	2020-2021	385
Other non-current financial liabilities	2020	2,291
Total non-current financial liabilities		**921,361**
Debentures and bonds long term	2019	311,371
Other bank loans	2019	119,092
Other financial liabilities (note 15.1 c))	2019	4,532
Finance lease payables	2019	9,125
Syndicated credits (Revolving credit facilities)	2019	124,350
Credit facilities drawn down	2019	184,001
Expired interest	2019	7,241
Guarantees and deposits received	2019	3,489
Derivatives	2019	5,776
Other debt with group companies	2019	513
Other financial debts	2019	2,864
Trade and other payables	2019	1,442,496
Suppliers of fixed assets	2019	105,139
Personnel	2019	51,423
Other current liabilities	2019	1,085
Total current financial liabilities		**2,372,497**

Thousands of Euro	Maturity	At 31 December 2017
Debentures and bonds long term	2019-2023	892,570
Mortgage loan	2019-2020	814
Other bank loans	2019-2020	30,842
Finance lease payables	2019-2027	26,229
Guarantees and deposits received	per contract	11,148
Other non-current financial debt	2019-2021	342
Other non-current financial liabilities	2019	2,491
Total non-current financial liabilities		**964,436**
Debentures and bonds long term	2018	6,021
Mortgage loan	2018	633
Other bank loans	2018	209,283
Other financial liabilities (note 15.1 c))	2018	25,704
Finance lease payables	2018	10,547
Credit facilities drawn down	2018	65,809
Expired interest	2018	132
Guarantees and deposits received	2018	2,813
Derivatives	2018	4,339
Other financial debts	2018	4,732
Trade and other payables	2018	1,785,186
Suppliers of fixed assets	2018	139,284
Personnel	2018	64,698
Other current liabilities	2018	3,675
Total current financial liabilities		**2,322,856**

The amounts reflected in the following tables relate to maturities of non-current financial debt in 2018 and 2017. The amounts are the undiscounted cash flows stipulated in the agreement. As these amounts are not discounted and include future interest, they cannot be analysed against the amounts recognised in the accompanying consolidated statement of financial position for the headings in question.

	Thousands of Euro			
At 31 December 2018	**Total**	**2020**	**2021-2023**	**>2024**
Debentures and bonds long term	616,500	5,625	610,875	-
Syndicated credits (Revolving credit facilities)	254,222	135,556	118,666	-
Bank Loans	15,063	15,063	-	-
Finance lease payables	21,141	6,918	12,979	1,244
Credit facilities drawn down	27,151	17,065	10,085	-
Guarantees and deposits received	12,102	-	-	12,102
Other non-current financial debt	385	333	52	-
Total non-current financial debt	**946,564**	**180,560**	**752,657**	**13,346**

	Thousands of Euro			
At 31 December 2017	**Total**	**2019**	**2020-2022**	**> 2023**
Debentures and bonds long term	932,411	315,911	313,875	302,625
Mortgage loan	828	432	396	-
Bank Loans	32,658	17,595	15,063	-
Finance lease payables	28,240	9,912	15,974	2,354
Guarantees and deposits received	11,148	-	-	11,148
Other non-current financial debt	342	126	216	-
Total non-current financial debt	**1,005,627**	**343,976**	**345,524**	**316,127**

Financial expenses accrued on these financial liabilities totalled Euro 50,259 thousand and Euro 41,075 thousand in 2018 and 2017, respectively.

23.6 Cash flow and fair value interest rate risks

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

The Group contracts different interest rate hedges to mitigate its exposure, in accordance with its risk management policy. At 31 December 2018 and 2017, there were no outstanding derivatives contracted with external counterparties to hedge interest rate risk related to long-term financing.

During 2018, fixed-rate debt as a percentage of the volume of average gross debt totalled 73%, compared with 84.25% in the previous year.

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

A 0.5 percentage point rise in interest rates applicable to all contractual periods would have led to a variation in profit after tax of Euro 303,1 thousand in 2018 (Euro 111 thousand in 2017).

24 OTHER INFORMATION

24.1. Employee information

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

	2018	2017
Management	183	204
Middle management	1,652	1,759
Other employees	38,549	39,591
Total	**40,384**	**41,554**

The average headcount in 2018 includes 2,999 employees in the Clarel and Cash & Carry businesses (3,904 in 2017 from Clarel, Cash & Carry and China). Personnel expenses for these employees are recorded under discontinued operations in the income statement.

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

	At 31 December 2018		At 31 December 2017	
	Female	Male	Female	Male
Board members	2	7	3	7
Senior management	1	5	1	7
Other management	47	120	55	135
Middle management	641	1,015	679	1,074
Other employees	27,518	14,336	27,143	14,242
Total	**28,209**	**15,483**	**27,881**	**15,465**

The year-end headcount includes 3,709 employees of Clarel and Cash & Carry in 2018 (357 men and 3,352 women) and 4,627 employees of Clarel, Cash & Carry, Chinese companies and FINANDIA, E.F.C, S.A. in 2017 (655 men and 3,972 women).

During 2018, the Group employed an average of one executive (one in 2017), three middle management personnel (six in 2017) and 535 other employees (550 in 2017) with a disability rating of 33% or above (or an equivalent local classification).

24.2. Audit fees

KPMG Auditores, S.L., the auditor of the annual accounts of the Group, and other affiliates of KPMG International have invoiced the following fees for professional services during the years ended 31 December 2018 and 2017:

	2018		
Thousands of Euro	**KPMG Auditores, S.L.**	**Other companies associated with KPMG International**	**Total**
Audit services	914	440	1,354
Other services relating to audit	75	52	127
Tax advisory services	-	22	22
Other services	5	36	41
Total	**994**	**550**	**1,544**

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

Other audit-related services and other services invoiced by KPMG Auditores, S.L. comprise limited reviews of six month interim financial statements, comfort letters relating to securities issues and financial information agreed-upon procedures services rendered to DIA and its subsidiaries during the year ended 31 December 2018.

The amounts detailed in the above tables include the total fees for services rendered in 2018 and 2017, irrespective of the invoice date.

24.3. Environmental information

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

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

The Parent's Board of Directors considers that there are no significant contingencies in connection with the protection and improvement of the environment and that it is not necessary to recognise any environmental provisions.

25 EVENTS AFTER THE REPORTING PERIOD

The following significant events occurred after the year end.

1. Financing Agreement

On 2 January 2019, relating to the financing agreement (see note 15.1):

i) Facility B was increased by Euro 4,533 thousand in order to settle an equity swap.
ii) On 21 January 2019, a bank exercised its right to adhere to the Facilities Agreement, increasing Facility A by Euro 4,400 thousand, Facility B by Euro 8,500 thousand and the available amount of the confirming by Euro 15,600 thousand.

With respect to the foreign subsidiaries, DIA Argentina, DIA Brazil and DIA Portugal, as part of the Financing Contract agreement, a commitment was agreed with the banks party to the agreement to maintain certain bilateral and reverse factors agreements in effect. For those maturities taking place in the first half 2019, it was agreed to establish maturity on 31 May 2019. These agreements were formalised during the month of January 2019. The maturities of certain bilateral loans in Brazil amounting to Euro 67,527 thousand were extended and changed from January 2019 to: 31 May 2019 (Euro 22,277 thousand), 2 July 2019 (Euro 22,748 thousand) and 24 July 2019 (Euro 22,502 thousand).

On 6 February 2019 the Company informs that its syndicated facility lenders have notified the Company, subject to certain conditions including the completion of a share capital increase in the form of a right issue and for an amount of Euro 600 million, of their indicative support for an extension of the final maturity date in relation to the existing syndicated facilities which will remain post rights issue in the amount of Euro 765 million until March 2023.

2. Tax inspections activities in Brazil (see note 17.3)

On 29 January 2019, DIA Brazil received the results of the inspection activities for 2014, and the assessment amounted to Euro 97,012 thousand (431,121 thousand Reals). The company will appeal against this assessment, first through administrative proceedings and subsequently through legal proceedings on the understanding that there are sufficient grounds to achieve a favourable outcome.

3. Approved the new Business Plan for the period 2019-2023 (see note 1.1)

On 30 January 2019, the Board of Directors formally approved the new Business Plan for the period 2019-2023.

4. Horizon Agreement

On 1 February 2019 the Group joined the international trading platform Horizon International Services and acquired a 25% interest in exchange for Euro 263 thousand. On 30 August 2018, the Company entered into the agreement, whereby it has become a member of such trading platform to enhance its competitiveness in relations with large suppliers of manufacturer's brands and improve the consumer offering in terms of range and price.

5. Takeover bid

On 5 February 2019, the shareholder LetterOne Investment Holdings, S.A. (“LetterOne”or the “Bidder”), holding a 29.001% stake in the share capital (see note 14.1), announced through the controlled Company L1R Invest1 Holdings S.à.r.l. its decision to prepare a voluntary takeover bid, aimed at all shares making up the Company’s share capital, i.e. 622,456,513 shares at a price of Euro 0.67 per share.

The shareholder communicated that it will present to the Spanish National Securities Market Commission (CNMV) the request for authorisation of its takeover bid, along with the relevant explanatory brochure, within one month of the publication date of the announcement and that it expects the presentation to take place in the first half of that period.

The bid is contingent on compliance with certain conditions relating to minimum acceptance by 50% of the shares effectively covered by the bid (excluding shares owned by the bidder), the obtaining of certain authorisations from the competition authorities and, its effectiveness is conditional upon the Company not issuing any share or other instruments convertible into shares before the CNMV communicates the outcome of the bid. Likewise, the Bidder has stated that, at the date of the announcement, it does not intend to vote in favor of any decision of the Company that has as its object the issue of shares or other instruments convertible into shares or other instruments convertible into shares whose execution takes place before the CNMV communicates the outcome of that bid.

The Bidder also announced its intention to sponsor a capital increase of Euro 500 million in the Company at a subscription price of not less than Euro 0.10 per share, respecting pre-emptive rights The Bidder would commit to subscribing its proportional part and underwriting the rest of the capital increase (or having a bank underwrite it). The execution and underwriting of the capital increase will be contingent on and will only take place after the settlement of the bid, once its outcome is declared positive and an agreement is reached with banks concerning a feasible long-term capital structure for DIA which is satisfactory for LetterOne.

The Board of Directors, in its meeting held on 6 February 2019, has conducted a preliminary review, with the assistance of its advisors, of the announcement .The Board of Directors believes that the announcement of the Tender Offer underscores the attractiveness of the Company’s business. In addition, the Board of Directors acknowledges the alignment between the Bidder’s six-pillars transformation plan for the Company and DIA’s strategic plan, which reflects the joint effort of the Group’s management and the Board over 2018.

Having said that, the Board will provide its views on the Tender Offer (including, among others, over the proposed consideration and conditions) once the Tender Offer is approved and the prospectus is released to the market, as required by the Spanish takeover regulations. In the current circumstances DIA needs to restore in a timely manner its net equity position, and the EUR 500 million share capital increase of the Company proposed by the Bidder following the Tender Offer, as currently structured, does not provide certainty on its actual implementation or timing, nor does it take into account the obligations of the Company vis-à-vis its lenders and its short term debt maturities. Moreover, the Bidder acknowledges that such share capital increase is subject to reaching an agreement with the lenders of the Company satisfactory to the Bidder, which creates further uncertainty. The Board is willing to explore with the Bidder the feasibility to adapt the terms of the Tender Offer to address these concerns.

6. Employment Regulation Proceedings in Spain

On 7 February 2019, in the context and as result of the process of analysis of the situation of the DIA entintes and its subsidiary Twin Alimentación, S.A. ("Twins"), it has been agreed to proceed to open Employment Regulation Procedings for DIA and Twins that involves the extinguishment of a maximum of 2,100 employment contracts, subject to complying with the expected legal requirements and procedures. With this purpose, it has been agreed to communicate to the employees' representatives (or, to the employees, where appropriate) the intention to open a consultation period to develop such employement Regulation Proceedings in DIA and Twins.

APPENDIX 1

The consolidated statement of financial position at 31 December 2017 and 31 December 2016, the consolidated income statement for 2017 and 2016, the consolidated cash flow statement and information regarding operating segments for 2017 and 2016, including the effects of the restatements described in Notes 1, 2.3 and 14.4 are set out below.

This appendix forms an integral part of the notes to the consolidated annual accounts.

(I) CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

(Thousands of euro)

ASSETS	As reported 31 December 2017	Restatement: Irregularities/ Errors	Restatement: Discontinued operations	Restatement: CDSI	Restated at 31 December 2017
Property, plant and equipment	1,363,963	46,776	-	-	1,410,739
Goodwill	553,129	-	-	-	553,129
Other intangible assets	42,709	783	-	-	43,492
Investments accounted for using the equity method	974	-	-	(594)	380
Trade and other receivables	73,084	-	-	-	73,084
Other non-current financial assets	75,013	5,283	-	-	80,296
Non-current tax assets	-	33,248			33,248
Deferred tax assets	253,983	18,366	-	-	272,349
Non-current assets	2,362,855	104,456	-	(594)	2,466,717
Inventories	569,644	(5,100)	-	44,460	609,004
Trade and other receivables	221,846	(11,664)	(9,051)	(2,340)	198,791
Consumer loans from financial activities	1,070	-	-	-	1,070
Current tax assets	64,717	(8,653)	-	1,783	57,847
Current income tax assets	369	3,156	-	-	3,525
Other current financial assets	18,430	(8,534)	-	-	9,896
Other assets	7,387	-	-	-	7,387
Cash and cash equivalents	340,193	(12,389)	-	18,712	346,516
	1,223,656	(43,184)	(9,051)	62,615	1,234,036
Non-current assets held for sale	39,663		(59)		39,604
Current assets	1,263,319	(43,184)	(9,110)	62,615	1,273,640
TOTAL ASSETS	3,626,174	61,272	(9,110)	62,021	3,740,357

EQUITY AND LIABILITIES	As reported 31 December 2017	Restatement: Irregularities/ Errors	Restatement: Discontinued operations	Restatement: CDSI	Restated at 31 December 2017
Capital	62,246	-	-	-	62,246
Reserves	304,676	(60,420)	-	-	244,256
Own shares	(60,359)	-	-	-	(60,359)
Other own equity instruments	10,773	-	-	-	10,773
Net profit/ (losses) for the period	109,579	(7,920)	-	(451)	101,208
Traslation differences	(100,777)	-	-	-	(100,777)
Value adjustments due to cash flow hedges	(55)	-	-	-	(55)
Equity attributable to equity holders of the Parent	326,083	(68,340)	-	(451)	257,292
Non-controlling interests	(100)	-	-	-	(100)
Total Equity	325,983	(68,340)	-	(451)	257,192
Non-current borrowings	961,945	-	-	-	961,945
Provisions	42,556	1,501	-	-	44,057
Other non-current financial liabilities	2,491	-	-	-	2,491
Deferred tax liabilities	2,206	-	-	-	2,206
Non-current liabilities	1,009,198	1,501	-	-	1,010,699
Current borrowings	269,519	(8,534)	4,013	65,015	330,013
Trade and other payables	1,710,828	77,050	(59)	(2,633)	1,785,186
Current tax liabilities	85,692	4,235	-	-	89,927
Current income tax liabilities	10,913	(3,432)	-	90	7,571
Other current financial liabilities	148,865	58,792	-	-	207,657
	2,225,817	128,111	3,954	62,472	2,420,354
Liabilities directly associated with non-current assets held for sale	65,176	-	(13,064)	-	52,112
Current liabilities	2,290,993	128,111	(9,110)	62,472	2,472,466
TOTAL EQUITY AND LIABILITIES	3,626,174	61,272	(9,110)	62,021	3,740,357

2017

INCOME STATEMENT	As reported 31 December 2017	Restatement: Irregularities/ Corrections of errors	Restatement: Discontinued operations	Restatement: CDSI	Restated at 31 December 2017
Sales	8,620,550	(4,421)	(398,459)	-	8,217,670
Other income	155,660	(522)	(2,183)	120	153,075
Profit on the sale of subsidiaries	8,776,210	(4,943)	(400,642)	120	8,370,745
Goods and other consumables used	(6,787,709)	(3,732)	271,076	(69)	(6,520,434)
Personnel expenses	(808,943)	(948)	66,421	-	(743,470)
Operating expenses	(645,071)	(9,345)	40,108	(303)	(614,611)
Depreciation and amortization	(235,512)	188	11,605	-	(223,719)
Impairment of non-current assets	(13,287)	-	1,234	-	(12,053)
Impairment of trade debtors	(20,887)	-	(390)	-	(21,277)
Losses on disposal of fixed assets	(17,728)	-	514	-	(17,214)
PROFIT/(LOSSES) FROM OPERATING ACTIVITIES	247,073	(18,780)	(10,074)	(252)	217,967
Finance income	4,830	7,605	(238)	-	12,197
Finance expenses	(65,868)	(7)	203	(15)	(65,687)
Gain from net monetary positions	-	-	-	-	-
Profit/(losses) of companies accounted for using the equity method	288	-	-	(94)	194
PROFIT/(LOSSES) BEFORE TAX FROM CONTINUING OPERATIONS	186,323	(11,182)	(10,109)	(361)	164,671
Income tax	(55,350)	3,262	165	(90)	(52,013)
PROFIT/(LOSSES) AFTER TAX FROM CONTINUING OPERATIONS	130,973	(7,920)	(9,944)	(451)	112,658
Losses net of taxes of discontinued operations	(21,434)	-	9,944	-	(11,490)
NET PROFIT /(LOSSES)	109,539	(7,920)	-	(451)	101,168

(*) Restated figures. See details in note 2.3 and 14.4

(II) DETAIL OF RESTATEMENT ADJUSTMENTS

For the year ended 31 December 2017

(Million of euro)

At 31 December 2017	Restatement	Spain and Brazil	Spain and Brazil	Spain and Brazil	Brazil	Brazil	Spain	Brazil	Spain and Brazil	Portugal
ASSETS	Irregularities/ Correction of errors	Supplier trade discounts 14.4.a)	Invoices pending receipt (purchases) 14.4.b)	Invoices pending receipt (fixed assets) 14.4.c)	ICMS 14.4.d)	Judicial deposits 14.4.e)	Provisions and other Spain 14.4.f)	Provisions and other Brazil 14.4.g)	Tax effect 14.4.h)	TSAM Portugal 14.4.i)
Property, plant and equipment	46,8	-	-	52,4	-	-	(2,0)	(3,6)	-	-
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	0,8	-	-	0,8	-	-	-	-	-	-
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-
Trade and other receivables	-	-	-	-	-	-	-	-	-	-
Other non current financial assets	5,3	-	-	-	(3,6)	8,9	-	-	-	-
Non current tax assets	33,2	-	-	-	33,2	-	-	-	-	-
Deferred tax assets	18,4	-	-	-	-	-	-	-	17,4	0,9
Non Current Assets	104,5	-	-	53,2	29,6	8,9	(2,0)	(3,6)	17,4	0,9
Inventories	(5,1)	-	-	-	-	-	(5,1)	-	-	-
Trade and other receivables	(21,5)	(15,4)	-	-	-	-	(5,8)	(0,2)	-	-
Consumer loans from financial activities	-	-	-	-	-	-	-	-	-	-
Current tax assets	(8,7)	-	-	-	-	-	-	(4,4)	-	(4,2)
Current income tax assets	3,2	-	-	-	-	-	-	-	3,2	-
Other current financial assets	(8,5)	-	-	-	-	-	(8,5)	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	(2,6)	-	-	-	-	-	-	(2,6)	-	-
	(43,2)	(15,4)	-	-	-	-	(19,4)	(7,2)	3,2	(4,2)
Non current assets held for sale	-	-	-	-	-	-	-	-	-	-
Current Assets	(43,2)	(15,4)	-	-	-	-	(19,4)	(7,2)	3,2	(4,2)
TOTAL ASSETS	61,3	(15,4)	-	53,2	29,6	8,9	(21,4)	(10,8)	20,6	(3,3)
		-	-	-	-	-	-	-	-	-

	Restatement	Spain and Brazil	Spain and Brazil	Spain and Brazil	Brazil	Brazil	Spain	Brazil	Spain and Brazil	Portugal
Equity and Liabilities	Irregularities/ Correction of errors	Supplier trade discounts 14.4.a)	receipt (purchases) 14.4.b)	Invoices pending receipt (fixed assets) 14.4.c)	ICMS 14.4.d)	Judicial deposits 14.4.e)	Provisions and other Spain 14.4.f)	Provisions and other Brazil 14.4.g)	Tax effect 14.4.h)	TSAM Portugal 14.4.i)
Capital	-	-	-	-	-	-	-	-	-	-
Reserves	(60,4)	(34,6)	(24,6)	(0,7)	-	0,3	(17,2)	(2,0)	20,9	(2,6)
Own shares	-	-	-	-	-	-	-	-	-	-
Other own equity instruments	-	-	-	-	-	-	-	-	-	-
Net (Losses)/Profit for the period	(7,9)	(33,4)	(3,9)	-	29,6	7,0	(3,9)	(5,6)	3,0	(0,6)
Translation differences	-	-	-	-	-	-	-	-	-	-
Value adjustments due to cash flow hedges	-	-	-	-	-	-	-	-	-	-
Equity attributable to equity holders of the Parent	(68,3)	(68,0)	(28,5)	(0,7)	29,6	7,3	(21,1)	(7,6)	23,9	(3,2)
Non controlling interests	-	-	-	-	-	-	-	-	-	-
Total Equity	(68,3)	(68,0)	(28,5)	(0,7)	29,6	7,3	(21,1)	(7,6)	23,9	(3,2)
Non current borrowings	-	-	-	-	-	-	-	-	-	-
Provisions	1,5	-	-	-	-	1,5	-	-	-	-
Other non current financial liabilities	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Non current liabilities	1,5	-	-	-	-	1,5	-	-	-	-
Current borrowings	(8,5)	-	-	-	-	-	(8,5)	-	-	-
Trade and other payable	77,1	52,6	28,5	0,7	-	-	2,7	(7,4)	-	-
Current tax liabilities	4,2	-	-	-	-	-	-	4,2	-	-
Current income tax liabilities	(3,4)	-	-	-	-	-	-	-	(3,4)	-
Other current financial liabilities	58,8	-	-	53,2	-	-	5,5	-	-	-
	128,2	52,6	28,5	53,9	-	-	(0,3)	(3,2)	(3,4)	-
Liabilities directly associated with no current assets held for sale	-	-	-	-	-	-	-	-	-	-
Current liabilities	128,2	52,6	28,5	53,9	-	-	(0,3)	(3,2)	(3,4)	-
TOTAL EQUITY AND LIABILITIES	61,4	(15,4)	-	53,2	29,6	8,8	(21,4)	(10,8)	20,5	(3,2)

		Spain and Brazil	Spain and Brazil	Spain and Brazil	Brazil	Brazil	Spain	Brazil	Spain and Brazil	Portugal
INCOME STATEMENT	Irregularities/ Correction of errors (Millions of euro)	Supplier trade discounts 14.4.a)	Invoices pending receipt (purchases) 14.4.b)	Invoices pending receipt (fixed assets) 14.4.c)	ICMS 14.4.d)	Judicial deposits 14.4.e)	Provisions and other Spain 14.4.f)	Provisions and other Brazil 14.4.g)	Tax effect 14.4.h)	TSAM Portugal 14.4.i)
Sales	(4,4)	-	-	-	-	-	(2,2)	(2,2)	-	-
Other income	(0,5)	-	-	-	-	-	(0,5)	-	-	-
TOTAL INCOME	(4,9)	-	-	-	-	-	(2,7)	(2,2)	-	-
Goods and other consumables used	(3,7)	(33,4)	(3,9)	-	29,6	(0,6)	(2,1)	6,7	-	-
Personnel expenses	(1,0)	-	-	-	-	-	0,9	(1,8)	-	-
Operating expenses	(9,3)	-	-	-	-	-	-	(8,5)	-	(0,8)
Depreciation and amortization	0,1	-	-	-	-	-	-	0,2	-	-
Impairment of non current assets	-	-	-	-	-	-	-	-	-	-
Impairment of trade debtors	-	-	-	-	-	-	-	-	-	-
Losses on disposal of fiex assets	-	-	-	-	-	-	-	-	-	-
RESULTS FROM OPERATING ACTIVITIES	(18,8)	(33,4)	(3,9)	-	29,6	(0,6)	(3,9)	(5,6)	-	(0,8)
Finance income	7,6	-	-	-	-	7,6	-	-	-	-
Finance expense	-	-	-	-	-	-	-	-	-	-
Gain from net monetary position	-	-	-	-	-	-	-	-	-	-
Profit/(Losses) of companies accounted for using the equity method	-	-	-	-	-	-	-	-	-	-
(LOSSES)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	(11,2)	(33,4)	(3,9)	-	29,6	7,0	(3,9)	(5,6)	-	(0,8)
Income Tax	3,3	-	-	-	-	-	-	-	3,0	0,2
(LOSSES)/PROFIT AFTER TAX FROM CONTINUING OPERATIONS	(7,9)	(33,4)	(3,9)	-	29,6	7,0	(3,9)	(5,6)	3,0	(0,6)
Losses net of taxes of discontinued operations	-	-	-	-	-	-	-	-	-	-
NET (LOSSES)/PROFIT	(7,9)	(33,4)	(3,9)	-	29,6	7,0	(3,9)	(5,6)	3,0	(0,6)

See details in note 2.3 and 14.4

(III) CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

(Thousands of euro)

	Notes	Reported 2017	Restatment Irregularities/Errors	Restated (*) 2017
Operating activities				
PROFIT/LOSS BEFORE TAX FROM CONTINUING OPERATIONS		186.323	(21.652)	164.671
Loss before tax from discontinued operations		(21.434)	10.109	(11.325)
Profit/loss before income tax		*164.889*	*(11.543)*	*153.346*
Adjustments to Profit and Loss:		*298.987*	*(194)*	*298.793*
Amortisation and depreciation	20.6	248.799	(25.080)	223.719
Impairment of non current assets	20.6	17.728	(5.675)	12.053
Impairment of trade debtors	8,1	21.277	-	21.277
Losses on disposal of non current assets	20.7	(31.226)	48.440	17.214
Gains on disposal of fixed assets	20.1	(4.830)	(26.396)	(31.226)
Profit on the sale of subsidiaries	20.2	-	-	-
Finance income	20.8	(4.830)	(7.367)	(12.197)
Finance expenses	20.8	65.868	(181)	65.687
Changes of provisions and grants		984	334	1.318
Other adjustments of discontinued operations	13	1.923	13.903	15.826
Other adjustments to Profit and Loss		(16.418)	1.734	(14.684)
Share of (Profit)/loss of companies accounted for using the equity method net of dividends	9	(288)	94	(194)
Adjustments to working capital:		*(106.640)*	*25.400*	*(81.240)*
Changes in trade and other receivables		(69.509)	(60.761)	(130.270)
Changes in inventories		88.349	(41.264)	47.085
Changes in trade and other payables		(89.545)	116.583	27.038
Changes in consumer loan and refinancing commitments		2.212	-	2.212
Changes in other assets		(3.607)	5.207	1.600
Changes in other liabilities		(7.132)	3.421	(3.711)
Changes in working capital of discontinued operations	13	(1.578)	4.116	2.538
Current income tax paid		(25.830)	(1.902)	(27.732)
Net cash flows from/(used in) operating activities		*357.236*	*13.663*	*370.899*
Investing activities			-	
Purchases of intangible assets	6.1 y 6.2	(7.234)	-	(7.234)
Development cost	6.2	(11.167)	-	(11.167)
Payments of property, plant and equipment	5	(262.195)	-	(262.195)
Payments of financial instruments		(25.794)	-	(25.794)
Disposals of property, plant and equipment	20.7	68.204	-	68.204
(Payments)/Collections for other financial assets		(1.073)	-	(1.073)
Interest received	20.8	2.045	-	2.045
Investing flows of discontinued operations	13	1.724	1.872	3.596
Net cash flows used in investing activities		*(235.490)*	*1.872*	*(233.618)*
Financing activities			-	
Dividends paid to the shareholders of the Parent Company	14.4	(128.535)	-	(128.535)
Paid Aquisition of own shares	14.3 a)	-	-	-
Borrowings repaid	15.5	(373.570)	-	(373.570)
Borrowings made	15.5	405.556	-	405.556
(Payments) from other financial liabilities		(6.622)	-	(6.622)
Interest paid	20.8	(65.683)	-	(65.683)
Financing flows of discontinued operations	13	(30.443)	(3.048)	(33.491)
Net cash flows from financing activities		*(199.297)*	*(3.048)*	*(202.345)*
Net changes in cash and cash equivalents		*(72.721)*	*7.657*	*(65.064)*
Net foreign exchange differences		48.314	-	48.314
Cash and cash equivalents at 1st January	12	*364.600*	*(1.334)*	*363.266*
Cash and cash equivalents at 31st December	12	*340.193*	*6.323*	*346.516*

(IV) CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

(Thousands of euro)

ASSETS	As reported 31 December 2016	Restatement Irregularities/ Corrections of errors	Restated at 31 December 2016
Property, plant and equipment	1,469,078	23,398	1,492,476
Goodwill	557,818	-	557,818
Other intangible assets	37,505	55	37,560
Investments accounted for using the equity method	185	-	185
Trade and other receivables	69,345	-	69,345
Other non-current financial assets	58,657	1,339	59,996
Consumer loans from financial activities	401	-	401
Deferred tax assets	270,164	16,840	287,004
Non-current assets	2,463,153	41,632	2,504,785
Inventories	669,592	(3,800)	665,792
Trade and other receivables	167,279	(4,853)	162,426
Consumer loans from financial activities	6,220	-	6,220
Current tax assets	71,087	(3,327)	67,760
Current income tax assets	8,832	3,156	11,988
Other current financial assets	19,734	(7,359)	12,375
Other assets	8,140	-	8,140
Cash and cash equivalents	364,600	(1,334)	363,266
Current assets	1,315,484	(17,517)	1,297,967
TOTAL ASSETS	3,778,637	24,115	3,802,752

EQUITY AND LIABILITIES	As reported 31 December 2016	Restatement Irregularities/ Corrections of errors	Restated at 31 December 2016
Capital	62,246	-	62,246
Reserves	261,108	(15,193)	245,915
Own shares	(66,571)	-	(66,571)
Other own equity instruments	21,013	-	21,013
Net (losses)/profit for the period	174,043	(45,227)	128,816
Traslation differences	(59,773)	-	(59,773)
Value adjustments due to cash flow hedges	92	-	92
Equity attributable to equity holders of the Parent	392,158	(60,420)	331,738
Non-controlling interests	(60)	-	(60)
Total Equity	392,098	(60,420)	331,678
Non-current borrowings	1,062,273	-	1,062,273
Provisions	45,841	938	46,779
Other non-current financial liabilities	2,785	-	2,785
Non-current liabilities	1,110,899	938	1,111,837
Current borrowings	180,734	(7,359)	173,375
Trade and other payables	1,859,265	61,332	1,920,597
Current tax liabilities	85,494	787	86,281
Current income tax liabilities	15,505	(1,695)	13,810
Other current financial liabilities	134,642	30,532	165,174
Current liabilities	2,275,640	83,597	2,359,237
TOTAL EQUITY AND LIABILITIES	3,778,637	24,115	3,802,752

2016		Restatement		
INCOME STATEMENT	As reported 31 December 2016	Irregularities/ Corrections of errors	Discontinued operations	Restated at 31 December 2016
Sales	8,669,257	(3,234)	(403,156)	8,262,867
Other income	126,198	(1,200)	(1,596)	123,402
Profit on the sale of subsidiaries	8,795,455	(4,434)	(404,752)	8,386,269
Goods and other consumables used	(6,748,873)	(48,447)	275,803	(6,521,517)
Personnel expenses	(833,643)	(7,460)	60,958	(780,145)
Operating expenses	(633,513)	(1,563)	34,824	(600,252)
Depreciation and amortization	(227,330)	13	9,530	(217,787)
Impairment of non-current assets	(13,250)	-	549	(12,701)
Impairment of trade debtors	(18,497)	-	12,651	(5,846)
Losses on disposal of fixed assets	(10,811)	-	374	(10,437)
PROFIT/(LOSSES) FROM OPERATING ACTIVITIES	309,538	(61,891)	(10,063)	237,584
Finance income	11,656	254	(217)	11,693
Finance expenses	(62,293)	-	510	(61,783)
Profit/(losses) of companies accounted for using the equity method	93	-	-	93
PROFIT/(LOSSES) BEFORE TAX FROM CONTINUING OPERATIONS	258,994	(61,637)	(9,770)	187,587
Income tax	(69,119)	16,410	2,442	(50,267)
PROFIT/(LOSSES) AFTER TAX FROM CONTINUING OPERATIONS	189,875	(45,227)	(7,328)	137,320
Losses net of taxes of discontinued operations	(15,874)	-	7,328	(8,546)
NET PROFIT /(LOSSES)	174,001	(45,227)	-	128,774

(*) Restated figures. See details in note 2.3 and 14.4

(V) DETAIL OF RESTATEMENT ADJUSTMENTS

For the year ended 31 December 2016

(Million of euro)

At 31 December 2016	Restatement	Spain and Brazil	Spain and Brazil	Spain and Brazil	Brazil	Spain	Brazil	Spain and Brazil	Portugal
ASSETS	Irregularities/Correction of errors	Supplier trade discounts 14.4.a)	Invoices pending receipt (purchases) 14.4.b)	Invoices pending receipt (fixed assets) 14.4.c)	Judicial deposits 14.4.e)	Provisions and other Spain 14.4.f)	Provisions and other Brazil 14.4.g)	Tax effect 14.4.h)	TSAM Portugal 14.4.i)
Property, plant and equipment	23,4	-	-	23,4	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-
Other intangible assets	0,1	-	-	-	-	-	-	-	-
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-
Trade and other receivables	-	-	-	-	-	-	-	-	-
Other non current financial assets	1,3	-	-	-	0,3	-	1,0	-	-
Non current tax assets	-	-	-	-	-	-	-	-	-
Deferred tax assets	16,8	-	-	-	-	-	-	16,1	0,7
Non Current Assets	41,6	-	-	23,4	0,3	-	1,0	16,1	0,7
Inventories	(3,8)	-	-	-	-	(3,8)	-	-	-
Trade and other receivables	(4,9)	(0,2)	-	-	-	(4,6)	-	-	-
Consumer loans from financial activities	-	-	-	-	-	-	-	-	-
Current tax assets	(3,3)	-	-	-	-	-	-	-	(3,3)
Current income tax assets	3,2	-	-	-	-	-	-	3,1	-
Other current financial assets	(7,4)	-	-	-	-	(7,4)	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	(1,3)	-	-	-	-	-	(1,3)	-	-
	(17,5)	(0,2)	-	-	-	(15,8)	(1,3)	3,1	(3,3)
Non current assets held for sale	-	-	-	-	-	-	-	-	-
Current Assets	(17,5)	(0,2)	-	-	-	(15,8)	(1,3)	3,1	(3,3)
TOTAL ASSETS	24,1	(0,2)	-	23,4	0,3	(15,8)	(0,3)	19,2	(2,6)

	Restatement	Spain and Brazil	Spain and Brazil	Spain and Brazil	Brazil	Spain	Brazil	Spain and Brazil	Portugal
Equity and Liabilities	Irregularities/ Correction of errors	Supplier trade discounts 14.4.a)	receipt (purchases) 14.4.b)	pending receipt (fixed assets) 14.4.c)	Judicial deposits 14.4.e)	Provisions and other Spain 14.4.f)	Provisions and other Brazil 14.4.g)	Tax effect 14.4.h)	TSAM Portugal 14.4.i)
Capital	-	-	-	-	-	-	-	-	-
Reserves	(15,2)	(3,4)	(15,0)	-	0,4	-		4,7	(2,0)
Own shares	-	-	-	-	-	-	-	-	-
Other own equity instruments	-	-	-	-	-	-	-	-	-
Net (Losses)/Profit for the period	(45,2)	(31,2)	(9,6)	(0,7)	(0,1)	(17,2)	(2,1)	16,2	(0,6)
Translation differences	-	-	-	-	-	-	-	-	-
Value adjustments due to cash flow hedges	-	-	-	-	-	-	-	-	-
Equity attributable to equity holders of the Parent	(60,4)	(34,6)	(24,6)	(0,7)	0,3	(17,2)	(2,1)	20,9	(2,6)
Non controlling interests	-	-	-	-	-	-	-	-	-
Total Equity	(60,4)	(34,6)	(24,6)	(0,7)	0,3	(17,2)	(2,1)	20,9	(2,6)
Non current borrowings	-	-	-	-	-	-	-	-	-
Provisions	0,9	-	-	-	-	-	0,9	-	-
Other non current financial liabilities	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Non current liabilities	0,9	-	-	-	-	-	0,9	-	-
Current borrowings	(7,4)	-	-	-	-	(7,4)	-	-	-
Trade and other payable	61,3	34,4	24,6	-	-	2,4	-	-	-
Current tax liabilities	0,8	-	-	-	-	-	0,8	-	-
Current income tax liabilities	(1,7)	-	-	-	-	-	-	(1,7)	-
Other current financial liabilities	30,5	-	-	24,1	-	6,4	-	-	-
	83,5	34,4	24,6	24,1	-	1,4	0,8	(1,7)	-
Liabilities directly associated with no current assets held for sale	-	-	-	-	-	-	-	-	-
Current liabilities	83,5	34,4	24,6	24,1	-	1,4	0,8	(1,7)	-
TOTAL EQUITY AND LIABILITIES	24,0	(0,2)	-	23,4	0,3	(15,8)	(0,4)	19,2	(2,6)

	Restatement	Spain and Brazil	Spain and Brazil	Spain and Brazil	Brazil	Spain	Brazil	Spain and Brazil	Portugal
INCOME STATEMENT	Irregularities/ Correction of errors	Supplier trade discounts 14.4.a)	Invoices pending receipt (purchases) 14.4.b)	Invoices pending receipt (fixed assets) 14.4.c)	Judicial deposits 14.4.e)	Provisions and other Spain 14.4.f)	Provisions and other Brazil 14.4.g)	Tax effect 14.4.h)	TSAM Portugal 14.4.i)
Sales	(3,2)	-	-	-	-	(1,9)	(1,3)	-	-
Other income	(1,2)	-	-	-	-	(1,2)	-	-	-
TOTAL INCOME	(4,4)	-	-	-	-	(3,1)	(1,3)	-	-
Goods and other consumables used	(48,4)	(31,2)	(9,6)	-	-	(7,7)	-	-	-
Personnel expenses	(7,5)	-	-	-	(0,3)	(6,4)	(0,8)	-	-
Operating expenses	(1,6)	-	-	(0,7)	-	-	-	-	(0,8)
Depreciation and amortization	-	-	-	-	-	-	-	-	-
Impairment of non current assets	-	-	-	-	-	-	-	-	-
Impairment of trade debtors	-	-	-	-	-	-	-	-	-
Losses on disposal of flex assets	-	-	-	-	-	-	-	-	-
RESULTS FROM OPERATING ACTIVITIES	(61,9)	(31,2)	(9,6)	(0,7)	(0,3)	(17,2)	(2,1)	-	(0,8)
Finance income	0,3	-	-	-	0,2	-	-	-	-
Finance expense	-	-	-	-	-	-	-	-	-
Gain from net monetary position	-	-	-	-	-	-	-	-	-
Profit/(Losses) of companies accounted for using the equity method	-	-	-	-	-	-	-	-	-
PROFIT/(LOSSES) BEFORE TAX FROM CONTINUING OPERATIONS	(61,6)	(31,2)	(9,6)	(0,7)	(0,1)	(17,2)	(2,1)	-	(0,8)
Income Tax	16,4	-	-	-	-	-	-	16,2	0,2
PROFIT/ (LOSSES) AFTER TAX FROM CONTINUING OPERATIONS	(45,2)	(31,2)	(9,6)	(0,7)	(0,1)	(17,2)	(2,1)	16,2	(0,6)
Losses net of taxes of discontinued operations	-	-	-	-	-	-	-	-	-
NET PROFIT/(LOSSES)	(45,2)	(31,2)	(9,6)	(0,7)	(0,1)	(17,2)	(2,1)	16,2	(0,6)

See details in note 2.3 and 14.4

(VI) CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

(Thousands of euro)

	As reported 31 December 2017 2016	Restatement Irregularities/Corrections of errors	Restated (*) 2016
Operating activities			
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	258,994	(71,407)	187,587
Loss before tax from discontinued operations	(15,874)	9,770	(6,104)
Profit before income tax	*243,120*	*(61,637)*	*181,483*
Adjustments to Profit and Loss:	*317,831*	*(15,045)*	*302,786*
Amortisation, depreciation and impairment	227,330	(9,543)	217,787
Impairment of non current assets	13,250	(549)	12,701
Impairment of trade debtors	18,497	-	18,497
Losses on disposal of non current assets	10,811	(748)	10,063
Gains on disposal of fixed assets	(16,461)	-	(16,461)
Finance income	(11,656)	(37)	(11,693)
Finance expenses	62,293	(510)	61,783
Changes of provisions and grants	832	989	1,821
Other adjustments of discontinued operations	8,291	10,538	18,829
Other adjustments to Profit and Loss	4,737	(15,185)	(10,448)
Loss of companies accounted for using the equity method net of dividends	(93)	-	(93)
Adjustments to working capital:	*266,967*	*75,348*	*342,315*
Changes in trade and other receivables	(49,158)	(388)	(49,546)
Changes in inventories	(106,538)	8,736	(97,802)
Changes in trade and other payables	431,251	66,597	497,848
Changes in consumer loan and refinancing commitments	(824)	-	(824)
Changes in other assets	(2,635)	3,211	576
Changes in other liabilities	(4,510)	1,546	(2,964)
Changes in working capital of discontinued operations	5,443	497	5,940
Current income tax paid	(6,062)	(4,851)	(10,913)
Net cash flows from/(used in) operating activities	*827,918*	*(1,334)*	*826,584*
Investing activities			
Payments of intangible assets	(5,491)	-	(5,491)
Development cost	(7,065)	-	(7,065)
Payments of property, plant and equipment	(333,428)	-	(333,428)
Payments of financial instruments	(33,124)	-	(33,124)
Disposals of property, plant and equipment	38,302	-	38,302
Collections for other financial assets	2,220	-	2,220
Interest received	8,342	-	8,342
Investing flows of discontinued operations	(1,034)	-	(1,034)
Net cash flows used in investing activities	*(331,278)*	-	*(331,278)*
Financing activities			
Dividends paid to the shareholders of the Parent Company	(122,212)	-	(122,212)
Paid Aquisition of own shares	(19,903)	-	(19,903)
Borrowings repaid	(376,598)	-	(376,598)
Borrowings made	300,000	-	300,000
Collections from other financial liabilities	(6,484)	-	(6,484)
Interest paid	(61,797)	-	(61,797)
Financing flows of discontinued operations	6,643	-	6,643
Net cash flows from financing activities	*(280,351)*	-	*(280,351)*
Net changes in cash and cash equivalents	*216,289*	*(1,334)*	*214,955*
Net foreign exchange differences	(6,316)	-	(6,316)
Cash and cash equivalents at 1st January	*154,627*	-	*154,627*
Cash and cash equivalents at 31st December	*364,600*	*(1,334)*	*363,266*

(*) Restated figures. See details in note 2.3 and 14.4

(VII) OPERATING SEGMENTS INFORMATION
For the year ended 31 December 2016
(Thousands of euro)

Restated (*)

Thousands of Euro at 31 December 2016	SPAIN	PORTUGAL	ARGENTINA	BRAZIL	CHINA	Consolidated
Sales (1)	4,672,096	669,297	1,310,937	1,610,537	-	8,262,867
Adjusted EBITDA	387,054	45,338	59,067	49,817	-	541,276
% of sales	8.3%	6.8%	4.5%	3.1%		6.6%
Non-current assets	1,695,639	270,506	174,491	344,912	19,237	2,504,785
Liabilities	2,396,016	193,605	354,507	439,107	87,839	3,471,074
Acquisition of non-current assets	198,290	27,484	50,095	64,335	5,159	345,363
Number of outlets (2)	3,670	559	872	1,050	-	6,151

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

(2) Number of own stores and franchised stores at the year end, excluding China, Beauty by Dia and Cash & Carry stores

(*) Restated figures. See details in note 2.3. and 14.4

CONSOLIDATED DIRECTORS' REPORT 2018

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

1. LETTER FROM THE CEO

(102-14)

"Dear shareholders

2018 has been marked by significant changes in the company and the important decisions we have taken that will lay the foundations for the future of the DIA Group and all its stakeholders. A new stage characterized by a solid and reliable financial position, which will allow us to build on the profitable growth of a great company that already has a 40-year history. Four decades of continuous activity focused on offering the best consumer solutions to customers, with an unbeatable offer of proximity and approachability.

It has of course, been a complicated year; perhaps the most crucial since the company was founded. We have had to review and restate the accounts and undertake significant changes that are duly reflected in this report. We are also facing unique and extraordinary times however, which will mark the positive future of the company in the years to come.

The Group's new circumstances have compelled us to make some painful decisions this year, focused on putting the company back on track and recovering its viability with the aim of concentrating efforts on a commercial offering that appeals to our customers.

It will certainly not be an easy journey. In addition to the challenges posed by this need for internal reorganisation, we are also faced with an extremely competitive distribution sector in all the countries where the DIA Group operates, but I am convinced that we will succeed.

Firstly, we have an excellent group of professionals who have demonstrated their commitment. Thank-you to all those people who make up the DIA Group for your professionalism and outstanding performance over so many years and, particularly, in the last year.

Secondly, we have a unique business plan that will put the client at the heart of the company's decision-making. The transformational change to our commercial offering coupled with rejuvenated stores and formats alongside a renewed commitment to our franchisees and a responsibility for efficient implementation will focus our efforts during this new stage. At the same time we are renewing and strengthening our corporate culture, involving greater openness and transparency, attracting the best professional talent as well as performance incentives based on return on investment. An entire team of professionals focused solely and exclusively on meeting the needs of our customers.

Similarly, the refinancing plan approved with the financial institutions at the end of this year includes the obligation to initiate a capital increase with pre-emptive subscription rights for shareholders during the first quarter of 2019, which will enable the Group to increase its equity by a minimum amount of Euros 600 million before this financing expires.

I haven't forgotten our suppliers or franchisees either. Thank-you for the work you do every day and your trust. Your excellent work and professionalism help us stand closer to our clients and, in short, to be even better at what we do. Thanks also to our shareholders, investors, customers, transport operators and all of the DIA Group's stakeholders for continuing to trust in us, even through the most difficult times.

I am convinced that we will build a solid foundation upon which we can once again meet our objectives. I know that all DIA Group professionals are committed to seeing the company back where it deserves to be.

Borja de la Cierva Álvarez de Sotomayor

CEO, DIA Group"

2. DIA AT A GLANCE

Distribuidora Internacional de Alimentación S.A., DIA, is a multi-banner, multi-channel and multi-brand retailer that sells food, household, health and beauty products to more than 20 million clients worldwide. With stores in Spain, Portugal, Argentina and Brazil (102-6), the company, which is listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchange, has an average annual turnover of more than EUR9 billion.

Key figures (102-2):

- 9,390 million turnover (gross sales under banner)
- 6,157 stores
    - 2,610 own stores
    - 3,547 franchises
- More than 7,500 own-label SKUs (CPG) sold in 30 countries
- More than 40,000 employees
- More than 23,400 jobs generated in franchises
- More than 20 million clients worldwide
- 45 million loyalty cards issued
- Emissions savings in 2018: 61,505 tonnes of CO_2 equivalent
- Relative electricity consumption: 313.9Kwh/m^2

	Stores		Employees (31 December) (102-7)		Gross sales (€ millions)	
	2017	2018	2017	2018	2017	2018
Argentina	930	979	4,539	4,502	2,934	1,795
Brazil	1,115	1,172	8,393	8,923	1,997	1,640
Spain	3,497	3,474	26,035	26,693	5,275	5,148
Portugal	559	532	3,646	3,564	834	808
TOTAL	6,101	6,157	42,613	43,682	11,041	9,390

Number of stores and floor area	ARGENTINA	BRAZIL	SPAIN	PORTUGAL	Total
Number of stores	5	7	21	3	21
Store floor area (square metres)	102,690	167,711	416,391	75,635	762,427

BANNERS

DIA Market:

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

La Plaza de DIA:

- Family proximity supermarket
- Wide range of perishable goods and personalised customer service
- More than 7,500 SKUs, of which 1,500 are fresh products
- 300, 500, 700 or 1,000 m2 in urban areas

Cada DIA:

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

DIA Maxi:

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

Mini Preço:

- Minipreço Market: Proximity stores in urban centres. Floor areas between 250-400 m2 and a range of 3,000 SKUs
- Minipreço Family: Attraction format in the suburbs. Floor areas 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

BRANDS

The DIA Group currently has a portfolio of own labels that span the main consumer products categories:

DIA: The Group's traditional banner. With more than 30 years in the market and over 4,100 SKUs, it spans every consumer products category.

Bonté: This brand specialises in personal hygiene and grooming products. It currently has more than 700 SKUs and has been at the forefront of the most important developments in recent years.

Delicious: This is the Group's premium, high added-value banner. It offers more than 250 SKUs.

Basic Cosmetics: The company's own label dedicated to make-up and cosmetics. It currently offers more than 230 SKUs.

BabySmile and JuniorSmile: The banner for baby and childcare products. It was offering more than 110 SKUs at the end of 2018.

As: Specialised in pet care, offering more than 110 SKUs.

Vital: The latest own label developed by the DIA Group, focused on products related to a balanced and healthy diet. It offers more than 130 SKUs.

EXPORTS

The company also exports its own-label brands from the Spanish and Portuguese markets, which represent an unbeatable opportunity for business expansion and growth in countries where it does not have a physical presence.

As well as further consolidating the DIA brand at a global level, exports also enable the local suppliers with whom the company works to broaden their horizons and boost their image internationally. This year, over €40 million in exports were recorded to 33 markets all over the world.

3. EVOLUTION AND RESULTS OF OPERATIONS

3.1. Main financial indicators

- In 2018, gross sales under banner fell by 14.9% to EUR9.39bn (0.9% down ex-currency).
- According to the Company's new definition of LFL (adjusted by inflation in Argentina, among others), the group's LFL was -3.6% in 2018, versus -4.9% in 2017.
- Excluding IAS29 and the discontinuation of Clarel, the adjusted EBITDA was EUR385m, at the upper end of the range of the EUR350-400m guidance provided on 15 October 2018.
- Net debt amounted to EUR1,452m by end-2018, which compares with EUR945m in the same period last year. This EUR506m increase was namely due to the decrease in trade working capital related to the lower payment periods with suppliers of EUR259m.
- The Company's consolidated balance sheet shows negative equity of EUR166m by the end of 2018 (EUR99m negative in the parent company). The BOD has approved a refinancing plan that includes a EUR600m capital increase and the divestment of some non-core assets.
- DIA has decided to open Employment Regulation Proceedings in DIA and TWINS companies in Spain. This process is initiated to enhance and strengthen the future sustainability of the DIA Group and may affect up to a total of 2,100 employees.

P&L summary (€m)	**2017**	**2018**	**Change**	**Change (ex-FX)**
Net sales	8,217.5	7,288.7	-11.3%	7.4%
Operating income (EBIT)	218.0	-94.5	-	-
Net attributable profit	101.2	-352.6	-	-

3.2. Information in this document

- All figures in this document are expressed with 'Clarel' and 'Max Descuento' classified as discontinued operations.
- Unless otherwise stated, 2018 figures include the effects of the application of IAS29 ("Financial reporting in hyperinflationary economies"), which apply to the numbers in the subsidiaries in Argentina. This implementation had a negative impact of EUR94.3m on net sales and EUR36.3m on adjusted EBITDA.
- As communicated on 28 December 2018, the Company conducted an impairment test of its assets that resulted in a total goodwill impairment of EUR49.8m and a EUR68.2m deterioration in the value of fixed assets. As regards to "Deferred tax assets", the analysis resulted in the recognition of adjustments based on a recovery analysis for an amount of EUR170m.
- The figures corresponding to 2017 have been re-expressed as anticipated in the Significant Events communicated by the Company on 15 October, 22 October, and 31 December 2018.
  All the details of the re-expression of the 2017 consolidated annual accounts are included in the 2018 consolidated annual accounts.

3.3. Full year 2018 Results

(€m)	2017	%	2018	%	Change	Change (ex-FX)
Net sales	**8,217.5**	**100.0%**	**7,288.7**	**100.0%**	**-11.3%**	**7.4%**
Cost of goods sold & other income	(6,448.9)	-78.5%	(5,724.4)	-78.5%	-11.2%	9.0%
Gross profit	**1,768.6**	**21.5%**	**1,564.4**	**21.5%**	**-11.5%**	**1.5%**
Labour costs	(685.8)	-8.3%	(645.6)	-8.9%	-5.9%	8.9%
Other operating expenses	(283.4)	-3.4%	(296.6)	-4.1%	4.6%	35.1%
Leased property expenses	(280.9)	-3.4%	(284.4)	-3.9%	1.2%	11.9%
Adjusted EBITDA (1)	**518.5**	**6.3%**	**337.9**	**4.6%**	**-34.8%**	**-32.3%**
Other cash items	(47.5)	-0.6%	(91.9)	-1.1%	93.3%	
EBITDA	**470.9**	**5.7%**	**246.0**	**3.4%**	**-47.8%**	**-73.3%**
D&A	(223.7)	-2.7%	(235.2)	-3.2%	5.1%	23.0%
Impairment	(12.1)	-0.1%	(79.9)	-1.1%		
Write-off of fixed assets	(17.2)	-0.2%	(25.4)	-0.3%		
EBIT	**218.0**	**2.7%**	**(94.5)**	**-1.3%**		
Net financial results & associates	(53.3)	-0.6%	(84.9)	-1.2%	59.3%	
Gain from monetary position (IAS29)	(0.0)		67.5	0.9%		
EBT	**164.7**	**2.0%**	**(111.9)**	**-1.5%**		
Income taxes	(52.0)	-0.6%	(16.4)	-0.2%		
Impairment of DTA's	(0.0)		(170.5)	-2.3%		
Consolidated profit	**112.7**	**1.4%**	**(298.9)**	**-4.1%**		
Discontinuing operations	(11.5)	-0.1%	(15.7)	-0.2%		
Impairment of discontinued op.	(0.0)	-0.0%	(38.0)	-0.5%		
Non-controlling interests	(0.0)	-0.0%	(0.0)			
Net attributable profit	**101.2**	**1.2%**	**(352.6)**	**-4.8%**	**-448.5%**	**-460.6%**
Underlying net profit	**191.3**	**2.3%**	**49.7**	**0.7%**	**-74.0%**	**-70.0%**

(1) Adjusted by 'Other cash items'

In 2018, the DIA Group's net sales decreased by 11.3% to EUR7.29bn, but were up by 7.4% in local currency. This sales performance reflected an 18.7% negative effect from currencies in the period, due to the 40.3% depreciation of the argentinean peso and 16.2% for the brazilian real in 2018.

Gross profit amounted to EUR1.56bn, 11.5% down in the year, reflecting only a 10bps increase due to the slight decline in the weight of franchised stores and sales during the period.

Operating expenses decreased by 1.9% in the year thanks to the tight control of labour costs (5.9% down in the period) while other expenses grew by 4.6% and rents went up by 1.2% due to the continued process of 'sale and leaseback' carried out over a small volume of stores in 2018.

After the application of IAS29 related to the numbers of the Argentinean subsidiaries, adjusted EBITDA declined by 34.8% in EUR337.9m, down by 32.3% ex-currency. The application of this accounting standard had a negative effect of EUR36.3m on the adjusted EBITDA reported in the full-year 2018.

With regards to Clarel, the recent discontinuation of this business unit in Spain and Portugal had a EUR11.3m negative impact on adjusted EBITDA. Accordingly, the company's adjusted EBITDA in 2018 net of these negative effects would have reached EUR385.4m, in the upper part of the range of the EUR350-400m guidance provided by the company on 15 October 2018.

The decline in adjusted EBITDA was reflected in a 170bps erosion of the adjusted EBITDA margin to 4.6%.

Other cash items

(€m)	2017	2018	Change
Expenses relating to store remodellings	18.0	18.6	0.6
Expenses relating to transfer of own stores to franchises	10.8	10.4	-0.4
Expenses relating to store closings	31.3	25.7	-5.6
Expenses relating to warehouse closings	1.7	1.1	-0.6
Expenses for efficiency projects and severance payments	20.2	34.6	14.4
o/w HQ restructuring	*5.7*	*15.5*	*9.8*
o/w Warehouses restructuring	*2.7*	*4.9*	*2.3*
o/w Stores restructuring	*11.8*	*14.2*	*2.4*
Other special expenses	1.7	28.4	26.7
o/w Impact from transportation strike in Brazil	*0.0*	*7.9*	*7.9*
o/w Advisory fees	*0.0*	*18.2*	*18.2*
o/w Other projects	*1.7*	*2.3*	*0.6*
Gains on disposal of assets	-31.2	-28.1	3.1
Expenses related to share-based payments transactions	-4.9	1.1	5.9
Other cash items	**47.5**	**91.9**	**44.3**

Depreciation and amortisation increased by 5.1% to EUR235.2m, but rose by 23.0% ex-currency due to the revaluation of assets in Argentina in accordance with the application of IAS29 for hyperinflationary economies.

The material decline of adjusted EBITDA together with the strong increase in "Other cash items' (from EUR47.5m to EUR91.9m in 2018) and impairment of fixed assets (from EUR12.1m to EUR79.9 in 2018) is reflected in a substantial decline of the Company's operating profit (EBIT), which turns into a negative value of EUR94.5m in 2018, compared with a positive amount of EUR218m in 2017.

In 2018, the group's net financial expenses, adjusted by IAS29, rose by 59.3% to EUR84.9m.

These higher financial charges are mostly due to the bigger average volume of net debt during the year as well as the rise in interest costs, particularly in Argentina, where funding costs increased by more than 26 percentage points versus the same period last year. Conversely, the application of IAS29 had a positive EUR67.5m impact on the group's net financial results.

Income taxes amounted to EUR16.4m, while the impairment analysis of DTA's carried out translated into a EUR170.5m deferred tax asset impairment.

The discontinuation of 'Clarel' and 'Max Descuento' operations had an impact of EUR15.7m on profits related to the business activities and EUR38.0m due to the impairment of its assets.

With all these numbers, the net attributable loss amounted to EUR352.6m in 2018 (versus EUR101.2m profit in 2017), while underlying net profit decreased by 74% from EUR191.3m to EUR49.7m in 2018.

3.4. Information by segment

DIA GROUP[2] (EURm)	2017	%	2018	%	Change	Change (ex-FX)
Gross sales under banner	**11,040.7**		**9,390.2**		**-14.9%**	**-0.9%**
Like-for-like sales growth	-4.9%		-3.6%			
Net sales	**8,217.5**	**100.0%**	**7,288.7**	**100.0%**	**-11.3%**	**7.4%**
COGS + OPEX	(7,699.0)		(6,950.9)		-9.7%	
Adjusted EBITDA [1]	**518.5**	**6.3%**	**337.9**	**4.6%**	**-34.8%**	**-32.3%**
Other cash items & impairment	(80.1)		(199.8)			
D&A	(220.4)		(232.6)			
Operating profit (EBIT)	**218.0**	**2.7%**	**(94.5)**	**-1.3%**	**-143.4%**	**-163.5%**

SPAIN [2] (EURm)	2017	%	2018	%	Change
Gross sales under banner	**5,275.1**		**5,147.7**		**-2.4%**
Like-for-like sales growth	-2.9%		-2.3%		
Net sales	**4,441.7**	**100.0%**	**4,280.4**	**100.0%**	**-3.6%**
COGS + OPEX	(4,094.8)		(4,029.4)		-1.6%
Adjusted EBITDA [1]	**346.9**	**7.8%**	**251.0**	**5.9%**	**-27.6%**
Other cash items & impairment	(74.5)		(154.9)		
D&A	(136.0)		(146.6)		
Operating profit (EBIT)	**136.4**	**3.1%**	**(50.5)**	**-1.2%**	**-137.0%**

PORTUGAL[2] (EURm)	2017	%	2018	%	Change
Gross sales under banner	**834.4**		**808.4**		**-3.1%**
Like-for-like sales growth	-1.0%		-5.0%		
Net sales	**663.1**	**100.0%**	**628.6**	**100.0%**	**-5.2%**
Cost of goods sold & OPEX	(620.9)		(598.6)		-3.6%
Adjusted EBITDA [1]	**42.2**	**6.4%**	**30.1**	**4.8%**	**-28.7%**
Other cash items & impairment	(5.7)		(25.6)		
D&A	(23.1)		(21.0)		
Operating profit (EBIT)	**13.4**	**2.0%**	**(16.5)**	**-2.6%**	**-222.7%**

ARGENTINA (EURm)	2017	%	2018	%	Change	Change (ex-FX)
Gross sales under banner	**2,934.1**		**1,794.5**		**-38.8%**	**3.0%**
Like-for-like sales growth	-7.8%		-2.8%			
Net sales	**1,391.6**	**100.0%**	**970.6**	**100.0%**	**-30.3%**	**60.5%**
Cost of goods sold & OPEX	(1,332.7)		(967.8)		-27.4%	
Adjusted EBITDA [1]	**58.9**	**4.2%**	**2.8**	**0.3%**	**-95.3%**	**-91.2%**
Other cash items & impairment	(7.1)		(13.2)			
D&A	(17.9)		(23.3)			
Operating profit (EBIT)	**34.0**	**2.4%**	**(33.8)**	**-3.5%**	**-199.3%**	**-332.2%**

BRAZIL (EURm)	2017	%	2018	%	Change	Change (ex-FX)
Gross sales under banner	**1,997.1**		**1,639.6**		**-17.9%**	**-1.8%**
Like-for-like sales growth	-8.5%		-8.1%			
Net sales	**1,721.1**	**100.0%**	**1,409.1**	**100.0%**	**-18.1%**	**-2.1%**
Cost of goods sold & OPEX	(1,650.6)		(1,355.1)		-17.9%	
Adjusted EBITDA [1]	**70.5**	**4.1%**	**54.0**	**3.8%**	**-23.3%**	**-8.3%**
Other cash items & impairment	7.2		(6.0)			
D&A	(43.5)		(41.8)			
Operating profit (EBIT)	**34.2**	**2.0%**	**6.2**	**0.4%**	**-81.9%**	**-78.3%**

(1) Adjusted by 'Other cash items', (2) With Clarel and Max Descuento as discontinued activities, (3) Includes EUR36.3m impact from the application of IAS29.

The Company has changed its segment reporting providing relevant information of each of the countries in which it operates. This new segmentation comes as a result of the changes carried out in the top management teams, and to align the reporting with internal organisation and information.

The reinforced commitment with transparency has yielded in the publication (for the first time in these full-year 2018 figures) of a full disclosure of like-for-like, adjusted EBITDA, operating profit (EBIT) and Capex investments by country. Finally, information about the new methodology to calculate comparable sales growth rates is included in the 'Definition of APMs' section of this document.

Gross sales in Spain declined by 2.4% in 2018 to EUR5.15bn, while net sales went down by 3.6% in the same period to EUR4.28bn. This negative performance was due to the negative 2.3% comparable sales and almost stable performance of average space during the period. By format, La Plaza, and the Dia&Go stores increased sales, but the other stores declined in terms of volumes, particularly those operated in suburban locations. Adjusted EBITDA generated in the country decreased by 27.6% to EUR251m, reflecting a 190bps erosion in margins to 5.9%. Online gross sales under banner increased by 37.4% in 2018 to EUR76.7m, which represents 1.5% of total gross sales in Spain.

With regards to Portugal, gross sales went down by 3.1% in 2018 to EUR808m, while net sales decreased by 5.2% during the same period to EUR629m. This negative performance was related to the negative 5.0% comparable sales and the closing of 27 net stores, which contracted average space by 1.5% in 2018. Adjusted EBITDA went down by 28.7% to EUR30.1m, a 140bps loss in margins to 4.8%.

In Argentina, gross sales decreased by 38.8% to EUR1.79bn (3% up ex-currency). Net sales fell by 30.3% to EUR0.97bn after applying IAS29, 23.5% down ex-IAS29. Despite the challenging macroeconomic environment and the strong decline in private consumption related to the spike in inflation and severe currency depreciation, business in local currency performed well in 2018. Volume comparable sales growth declined by 2.8% but clearly outperformed the market, as reflected in the continued increase of market share. Additionally, store selling area grew by 5.5% thanks to the 49 net openings completed during the year. Adjusted EBITDA in 2018 was EUR2.8m after the EUR36.3m impact from the application of IAS29. Isolating this accounting effect, the comparable figure of adjusted EBITDA would have been EUR39m in 2018, 33.8% down versus 2017 (+13.7% ex-currency), reflecting a 60bps decline in the adjusted EBITDA margin to 3.7%.

In 2018, DIA's operations in Brazil were impacted by several exceptional external and internal factors that are unlikely to be seen in the years ahead. In this scenario, gross sales under banner decreased by 17.9% to EUR1.64bn, 1.8% down ex-currency. Comparable sales during the year were down by 8.1%, a poor figure even after taking into account the deflationary scenario seen in the country at the start of the year, the truck transport strike, and other commercial local issues. Despite this tough business context and weak sales performance, the company managed to minimise the decline in adjusted EBITDA margin during the year, which declined by 30bps, from 4.1% to 3.8%.

3.5. Balance sheet

(€m)	31 Dec 2017 [(1)]	31 Dec 2018	Change
Non-current assets	2,466.7	2,072.4	-16.0%
Inventories	609.0	531.7	-12.7%
Trade & Other receivables	198.8	192.3	1.7%
Other current assets	79.7	66.9	-25.3%
Cash & Cash equivalents	346.5	239.8	-30.8%
Non-current assets held for sale	39.6	168.7	326.1%
TOTAL ASSETS	**3,740.4**	**3,271.8**	**-12.5%**
Total equity	257.2	-166.1	-164.6%
Long-term debt	961.9	919.1	-4.5%
Short-term debt	330.0	772.4	134.0%
Trade & Other payables	1,785.2	1,442.5	-19.2%
Provisions & Other current liabilities	353.9	280.8	-20.6%
Liabilities associated with assets held for sale	52.1	23.1	-55.7%

TOTAL EQUITY & LIABILITIES	3,740.4	3,271.8	-12.5%

As a consequence of the EUR352.6m net losses reported in 2018, the company's consolidated equity turned into a negative figure of EUR166.1m by the end of 2018, with EUR99m negative equity in the parent company.

In the context of the refinancing agreements recently signed by the Company with its lenders, there is a commitment to recapitalise through a capital increase of at least EUR600m fully underwritten by Morgan Stanley & Co that is subject to certain conditions precedent and the disposal of some non-core assets related to the businesses of Household and Personal Care products and Cash & Carry (Clarel and Max Descuento).

3.6. Working capital, capital expenditure and net debt

3.6.1. Working capital

(€m)	31 Dec 2017	31 Dec 2018 (2)	Change	Change (ex-FX)
Inventories (A)	609.0	531.7	-12.7%	3.0%
Trade & other receivables (B)	198.8	192.3	-3.3%	5.7%
Trade & other payables (C)	1,785.2	1,442.5	-19.2%	-8.0%
Trade Working Capital (1)	**-977.4**	**-718.6**	**-26.5%**	**-17.6%**

(1) Trade working capital defined as (A+B-C). (2) Figures adjusted by the discontinuation of Clarel and Max Descuento.

DIA's negative Trade Working Capital declined by 26.5% to EUR718.6m, down by 17.6% ex-currency. This EUR259m decrease in the value of negative trade working capital is completely exceptional and attributable to: 1) the declining volume of sales; 2) the shorter payment period to suppliers during the last months of the year linked to the tough financial situation of the Company; 3) the strong depreciation of currencies in Argentina and Brazil; and 4) the shorter average payment periods to suppliers in Argentina due to the growing inflation.

The value of inventories declined by 12.7% in 2018, EUR77.3m down to EUR531.7m. Currency depreciation had a 15.7% negative impact, as the value of inventories increased by 3% ex-currency. The discontinuation of Clarel and Max Descuento had a EUR76.7m impact on the value of stocks.

Trade and other receivables decreased by 3.3% in 2018 to EUR192.3m, 5.7% up ex-currency. This EUR6.5m decline in the value of debtors is due to the decrease in trade receivables with franchisees and from suppliers. The value of trade and other payables decreased by 19.2%, from EUR1,785m to EUR1,442bn. This sharp decline of EUR343m relates to challenging business conditions faced by the company in Q4 2018 which resulted in substantially lower than average payment days to suppliers. In constant currency, the decline in trade payables would have been 8.0%, which implies an 11.2% negative effect from currencies.

Non-recourse factoring from receivables from our suppliers amounted to EUR126.4m at December 31 2018, compared with EUR99.6m at December 31 2017.

By the end of 2018, the company provided confirming operations for a total EUR199.9m, which compares with EUR367.3m in the same period of last year, which implies EUR167.4m reduction in the confirming facilities.

According to the evolution of trade working capital in 2018, the number of days of negative trade working capital (over COGS) declined by 9.6 days in 2018, down to 45.1 days from 54.7 days in 2017 (figure recalculated according to the company's current consolidation perimeter).

3.6.1. Capital expenditure

(€m)	2017	%	2018	%	Change	Change (ex-FX)
Spain	156.9	50.6%	207.0	65.6%	31.9%	31.9%
Portugal	24.4	7.9%	20.3	6.4%	-17.1%	-17.1%
Argentina	53.5	17.3%	29.7	9.4%	-44.6%	27.6%
Brazil	90.9	29.3%	58.5	18.5%	-35.6%	-23.1%
TOTAL Capex	**326.5**	**100.0%**	**315.3**	**100.0%**	**-3.4%**	**11.9%**

DIA invested EUR315.3m in 2018, EUR11.2m less than in the same period last year. Excluding the currency effect, capex would have risen by 11.9% in 2018 (a 3.4% decrease in Euros).

During 2018, the company opened 336 stores and remodelled 1,140 stores. This higher value of investment was namely related to the very dynamic remodelling activity in Spain, where capital expenditure almost doubled in 2018 compared to 2017. On the other hand, investment in openings and on-going maintenance activities declined in all the countries.

3.6.2. Net debt

(€m)	31 Dec 2016	31 Dec 2017	31 Dec 2018
Net debt / Adjusted EBITDA	1.6x	1.8x	3.8x
Adjusted EBITDA	562.2	518.5	385.4 (1)
Net debt	**872.3**	**945.4**	**1,451.6**

(1) Adjusted by IAS29 and the discontinuation of Clarel.

Net debt at December 31 2018 amounted to EUR1,452m, EUR506m higher than in the same period last year. The strong growth in net debt during the period was mainly due to the deterioration in trade working capital (EUR259m) and a 35% decline in adjusted EBITDA (down by EUR181m vs. 2017). During 2018, DIA obtained proceeds of EUR93.9m from asset disposals related to a group of stores divested during the period, which compares with EUR68.2m collected in 2017. With this net debt amount, and adjusting EBITDA from IAS29 and Clarel discontinuation, the financial leverage ratio was 3.8x.

The tentative new application of IFRS16 in 2019 would increase the Company's consolidated net debt by EUR675-700m.

Elsewhere, the Group expects net pretax profit to fall by around EUR6m in 2019 as a result of the adoption of the new regulation. In addition, EBIT is also expected to rise by between EUR265m and EUR280m, with an increase in asset amortisation for right of use and interest on the lease liability.

3.7. Cash flow statement

(€m)	2018
Adjusted EBITDA (1)	337.9
Other cash items	-91.9
Net change in trade working capital	-274.3
Net change in other payables & receivables	-42.6
Corporate taxes paid	-18.8
Net change in working capital of discontinued operations	-51.3
(A) CASH FLOW FROM OPERATIONS	**-140.8**
Capital expenditure paid	-343.8
Divestment of assets	93.9
Other investment activities	2.3
Cash flow from discontinued operations	-11.1
(B) CASH FLOW FROM INVESTING ACTIVITIES	**-258.7**
(A+B) OPERATING FREE CASH FLOW	**-399.4**
Financial results	-86.3

Dividends paid	-110.3
Change in FX and other	89.9
(C) CASH FLOW FROM FINANCIAL ACTIVITIES	**-106.7**
Net debt at the beginning of the period	945.4
(A+B+C) CHANGE IN NET DEBT	**-506.1**
Net debt at the end of the period	**1,451.6**

(1) Adjusted by 'Other items'

3.8. Store count

At the end of December 2018, DIA operated a total of 6,157 stores, 56 more than during the same period last year, with 336 openings and 280 closures. This final number excludes the 35 stores of 'Max Descuento' and 1,271 Clarel' in Spain and Portugal, as they have recently been categorised as discontinued operations.

In 2018, the number of stores declined by 23 in Spain (from 3,497 to 3,474), after the opening of 62 new stores and the closure of 85 stores. 2018 was particularly busy in terms of store upgrading, totalling 976 remodellings during the year, of which 75 corresponded to the new convenience format Dia&Go. 2018 was also special in terms of franchised activity, as the company transferred 109 net stores back to owned from franchised operations. This change is due to the new company policy to seek higher-quality franchise partners to provide customers with a better shopping experience. This policy will continue during 2019 and should be reflected in another material number of transfers from franchised to owned stores. With regards to store selling area, by the end of 2018, total space increased by 0.5% compared with the same period last year

In Portugal, the number of stores declined by 27 in 2018, versus 559 to 532. This fall was due to the closure of 15 Dia stores and 12 Mais Perto stores. In terms of remodelling activity, DIA upgraded 44 stores, ending 2018 with 40 new convenience stores operated under the banner Minipreço Express. The number of franchised stores increased from 297 to 309, which represents 53.1% of the store network in the country. By the end of 2018, the total store selling area decreased by 1.5% versus the same period last year.

Argentina ended 2018 with 979 stores in operation, 49 more than in the same period last year, totalling 94 openings and 45 closures during 2018. With regards to franchised activity, a total of 24 net stores were transferred during the period, to a total of 681 franchised stores at the end of 2018, which represents 69.6% of the store network in the country. By the end of 2018, the total store selling area increased by 5.5% versus the same period last year.
In Brazil, the company opened 157 stores during the year, but closed 100, almost all of them franchised. The total number of stores rose by 57 from 1,115 to 1,172, of which 58.5% franchised. By the end of 2018, the total store selling area went up by 3.9% versus the same period last year.

3.8.1 Summary of stores

	2017			2018		
DIA GROUP (1)	**Own**	**Franchise**	**TOTAL**	**Own**	**Franchise**	**TOTAL**
Total stores at the beginning of the period	**2,608**	**3,543**	**6,151**	**2,462**	**3,639**	**6,101**
New openings	**150**	**271**	**421**	**163**	**173**	**336**
Owned to franchised net transfers	**-105**	**105**	**0**	**20**	**-20**	**0**
Closings	**-191**	**-280**	**-471**	**-35**	**-245**	**-280**
Total DIA GROUP stores at the end of the period	**2,462**	**3,639**	**6,101**	**2,610**	**3,547**	**6,157**
SPAIN (1)	**Own**	**Franchise**	**TOTAL**	**Own**	**Franchise**	**TOTAL**
Total stores at the beginning of the period	1,630	2,040	3,670	1,473	2,024	3,497
New openings	20	53	73	34	28	62
Owned to franchised net transfers	-13	13	0	109	-109	0
Closings	-164	-82	-245	-13	-72	-85

Total SPAIN stores at the end of the period	1,473	2,024	3,497	1,603	1,871	3,474
PORTUGAL [1]	**Own**	**Franchise**	**TOTAL**	**Own**	**Franchise**	**TOTAL**
Total stores at the beginning of the period	303	256	559	262	297	559
New openings	12	10	22	6	17	23
Owned to franchised net transfers	-38	38	0	-35	35	0
Closings	-15	-7	-22	-10	-40	-50
Total PORTUGAL stores at the end of the period	**262**	**297**	**559**	**223**	**309**	**532**
ARGENTINA	**Own**	**Franchise**	**TOTAL**	**Own**	**Franchise**	**TOTAL**
Total stores at the beginning of the period	296	576	872	303	627	930
New openings	32	78	110	30	64	94
Owned to franchised net transfers	-16	16	0	-24	24	0
Closings	-9	-43	-52	-11	-34	-45
Total ARGENTINA stores at the end of the period	**303**	**627**	**930**	**298**	**681**	**979**
BRAZIL	**Own**	**Franchise**	**TOTAL**	**Own**	**Franchise**	**TOTAL**
Total stores at the beginning of the period	379	671	1,050	424	691	1,115
New openings	86	130	216	93	64	157
Owned to franchised net transfers	-38	38	0	-30	30	0
Closings	-3	-148	-151	-1	-99	-100
Total BRAZIL stores at the end of the period	**424**	**691**	**1,115**	**486**	**686**	**1,172**

(1) By 2018 year-end the company also operated 1,200 Clarel and 35 Max Descuento stores in Spain and 71 Clarel in Portugal

3.9 Store selling area by country as of 31 December 2018

	31 December 2017	31 December 2018	
(Million square meters)	Total	Total	Change
Spain	1.5737	1.5820	0.5%
Dia stores	1.3642	1.3648	0.0%
La Plaza stores	0.2095	0.2172	3.7%
Portugal	0.2139	0.2107	-1.5%
Argentina	0.2513	0.2652	5.5%
Brazil	0.4896	0.5088	3.9%
TOTAL DIA	**2.5285**	**2.5667**	**1.5%**

3.10. Definition of APMs

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

PURPOSE

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

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

CHANGES TO APMs

Since the communication of full-year 2017 results, the company changed the wording of some APMs to adopt the recommendations of the ESMA (European Securities and Markets Authorities). Accordingly, the former expression "Non-recurring items" has been rephrased to "Other items". In accordance with this change, the old expressions "Non-recurring cash items" and "Non-recurring non-cash items" have been also adapted to the new wording "Other cash items" and "Other non-cash items" respectively.

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

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

NET SALES TO GROSS SALES UNDER BANNER RECONCILIATION

(€m)	2017	2018	Change
Net sales	8,217.5	7,288.7	-11.3%
VAT and other	2,823.3	2,101.5	-25.6%
GROSS SALES UNDER BANNER	**11,040.7**	**9,390.2**	**-14.9%**

LFL sales growth under banner: Growth rate of gross sales under banner at constant currency of the stores that have been operating for more than thirteen months under the same conditions. To be more conservative in applying this definition, LFL figures reported in this document exclude from the comparison base of calculation only those stores that have been closed for significant remodelling activities or severely impacted by external objective reasons. Additionally, the new LFL figures corresponding to Argentina have been deflated using internal inflation to reflect volume LFL, avoiding hyperinflationary misleading nominal calculation.

According to all these changes, the group's LFL would have been +3.7% instead of -3.6% in the full year 2018 (0.3% vs -2.3% new in Spain, -3.9% vs -5.0% new in Portugal, 24.8% vs -2.8% new in Argentina and -5.2% vs -8.1% new in Brazil).

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

OPERATING PROFIT TO ADJUSTED EBITDA RECONCILIATION

(€m)	2017	2018	Change
Operating profit (EBIT)	218.0	-94.5	-143.4%
Depreciation & Amortization	220.4	232.6	5.5%
Losses on write-off of fixed assets	17.2	25.4	47.6%
Impairment of fixed assets	12.1	79.9	563.1%
Amortization related to the closing of stores	3.3	2.6	-22.2%
Gross operating profit (EBITDA)	**470.9**	**246.0**	**-47.8%**
Other cash items	47.5	91.9	93.3%
ADJUSTED EBITDA	**518.5**	**337.9**	**-34.8%**

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

NET PROFIT TO UNDERLYING NET PROFIT RECONCILIATION

(€m)	2017	2018	Change
Net attributable profit	101.2	-352.6	
Other cash items	47.5	91.9	93.3%
Impairment and write offs	32.6	107.9	231.4%
Items excluded from financial income and expenses	9.1	12.9	42.0%
Items excluded from income tax	-10.5	135.9	
Losses net of taxes of discontinued operations	11.5	53.7	367.5%
UNDERLYING NET PROFIT	**191.3**	**49.7**	**-74.0%**

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

BASIC EARNINGS PER SHARE RECONCILIATION

	2017	2018	Change
Net attributable profit (EURm)	101.2	-352.6	
Weighted average number of shares (million)	611.89	612.18	0.0%
Average number of treasury shares (million)	10.57	10.28	-2.8%
BASIC EARNINGS PER SHARE (Euro)	**0.17**	**-0.58**	

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

UNDERLYING EARNINGS PER SHARE RECONCILIATION

	2017	2018	Change
Underlying net profit (EURm)	191.3	49.7	-74.0%
Weighted average number of shares (million)	611.89	612.18	0.0%
Average number of treasury shares (million)	10.57	10.28	-2.8%
UNDERLYING EARNINGS PER SHARE (Euro)	**0.31**	**0.08**	**-74.0%**

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

NET FINANCIAL DEBT RECONCILIATION

(€m)	2017	2018	Change
Long-term debt	961.9	919.1	-4.5%
Short-term debt	330.0	772.4	134.0%
Cash & Cash equivalents	-346.5	-239.8	-30.8%
NET FINANCIAL DEBT	**945.4**	**1,451.6**	**53.5%**

- **Restatement summary:** the company presents the quarterly summary of restated figures of net sales, adjusted EBITDA and EBIT corresponding to 2017 and 2018. For additional disclosure, please refer to the Annual Accounts 2018.

3.11. The impact of the reestatement of the quarterly information

The following displays the main magnitudes of the consolidated income for the quarters 2017 and 2018 as restated:

2017 RESTATED FIGURES

(€m)	Q1 2017	H1 2017	9M 2017	FY 2017
Net sales	2,005.3	4,089.4	6,157.6	8,217.5
Adjusted EBITDA	98.1	228.4	370.6	518.5
EBIT	31.1	72.4	136.3	218.0

2018 RESTATED FIGURES

(€m)	Q1 2018	H1 2018	9M 2018	FY 2018
Net sales	1,794.7	3,661.2	5,274.9	7,288.7
Adjusted EBITDA	86.4	199.6	254.9	337.9
EBIT	8.2	34.8	-12.1	-94.5

3.12. Subsequent events

1. Financing Agreement

On 2 January 2019, relating to the financing agreement.

i) Facility B was increased by Euro 4,533 thousand in order to settle an equity swap.
ii) On 21 January 2019, a bank exercised its right to adhere to the Facilities Agreement, increasing Facility A by Euro 4,400 thousand, Facility B by Euro 8,500 thousand and the available amount of the confirming by Euro 15,600 thousand.

With respect to the foreign subsidiaries, DIA Argentina, DIA Brazil and DIA Portugal, as part of the Financing Contract agreement, a commitment was agreed with the banks party to the agreement to maintain certain bilateral and reverse factors agreements in effect. For those maturities taking place in the first half 2019, it was agreed to establish maturity on 31 May 2019. These agreements were formalised during the month of January 2019. The maturities of certain bilateral loans in Brazil amounting to Euro 67,527 thousand were extended and changed from January 2019 to: 31 May 2019 (Euro 22,277 thousand), 2 July 2019 (Euro 22,748 thousand) and 24 July 2019 (Euro 22,502 thousand).

On 6 February 2019 the Company informs that its syndicated facility lenders have notified the Company, subject to certain conditions including the completion of a share capital increase in the form of a right issue and for an amount of Euro 600 million, of their indicative support for an extension of the final maturity date in relation to the existing syndicated facilities which will remain post rights issue in the amount of Euro 765 million until March 2023.

2. Tax inspections activities in Brazil

On 29 January 2019, DIA Brazil received the results of the inspection activities for 2014, and the assessment amounted to Euro 97,012 thousand (431,121 thousand Reals). The company will appeal against this assessment, first through administrative proceedings and subsequently through legal proceedings on the understanding that there are sufficient grounds to achieve a favourable outcome, see note 17.3.

3. Aprovved the new Business Plan for the period 2019-2023

On 30 January 2019, the Board of Directors formally approved the new Business Plan for the period 2019-2023, see note 1.1.

4. Horizon Agreement

On 1 February 2019 the Group joined the international trading platform Horizon International Services and acquired a 25% interest in exchange for Euro 263 thousand. On 30 August 2018, the Company entered into the agreement, whereby it has become a member of such trading platform to enhance its competitiveness in relations with large suppliers of manufacturer's brands and improve the consumer offering in terms of range and price.

5. Takeover bid

On 5 February 2019, the shareholder LetterOne Investment Holdings, S.A. ("LetterOne"or the "Bidder"), holding a 29.001% stake in the share capital (note 14.1), announced through the controlled Company L1R Invest1 Holdings S.à.r.l. its decision to prepare a voluntary takeover bid, aimed at all shares making up the Company's share capital, i.e. 622,456,513 shares at a price of Euro 0.67 per share.

The shareholder communicated that it will present to the Spanish National Securities Market Commission (CNMV) the request for authorisation of its takeover bid, along with the relevant explanatory brochure, within one month of the publication date of the announcement and that it expects the presentation to take place in the first half of that period.

The bid is contingent on compliance with certain conditions relating to minimum acceptance by 50% of the shares effectively covered by the bid (excluding shares owned by the bidder), the obtaining of certain authorisations from the competition authorities and, its effectiveness is conditional upon the Company not issuing any share or other instruments convertible into shares before the CNMV communicates the outcome of the bid. Likewise, the Offeror has stated that, at the date of the announcement, it does not intend to vote in favor of any decision of the Company that has as its object the issue of shares or other instruments convertible into shares or other instruments convertible into shares whose execution takes place before the CNMV communicates the bid. The Offerer also declared that at the date of the announcement, it has no intention of voting on any decision of the Company concerning the issue of shares or other instruments convertible into shares whose execution may take place before the National Securities Market Commission communicates the outcome of that bid.

LetterOne also communicated its intention to carry out a forced sale procedure. The execution of the forced sale resulting from the exercising of that right would trigger the delisting of DIA shares listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges.

The Bidder also announced its intention to sponsor a capital increase of Euro 500 million in the Company at a subscription price of not less than Euro 0.10 per share, respecting pre-emptive rights The Offerer would commit to subscribing its proportional part and underwriting the rest of the capital increase (or having a bank underwrite it). The execution and underwriting of the capital increase will be contingent on and will only take place after the settlement of the bid, once its outcome is declared positive and an agreement is reached with banks concerning a feasible long-term capital structure for DIA which is satisfactory for LetterOne.

The Board of Directors, in its meeting held on 6 February 2019, has conducted a preliminary review, with the assistance of its advisors, of the announcement .The Board of Directors believes that the announcement of the Tender Offer underscores the attractiveness of the Company's business. In addition, the Board of Directors acknowledges the alignment between the Bidder's six-pillars transformation plan for the Company and DIA's strategic plan, which reflects the joint effort of the Group's management and the Board over 2018.

Having said that, the Board will provide its views on the Tender Offer (including, among others, over the proposed consideration and conditions) once the Tender Offer is approved and the prospectus is released to the market, as required by the Spanish takeover regulations. In the current circumstances DIA needs to restore in a timely manner its net equity position, and the EUR 500 million share capital increase of the Company proposed by the Bidder following the Tender Offer, as currently structured, does not provide certainty on its actual implementation or timing, nor does it take into account the obligations of the Company vis-à-vis its lenders and its short term debt maturities. Moreover, the Bidder acknowledges that such share capital increase is subject to reaching an agreement with the lenders of the Company satisfactory to the Bidder, which creates further uncertainty. The Board is willing to explore with the Bidder the feasibility to adapt the terms of the Tender Offer to address these concerns.

6. Employment Regulation Proceedings in Spain

On 7 February 2019, in the context and as a result of the process of analysis of the situation of the DIA entities and its subsidiary Twins Alimentación, S.A. ("Twins"), it has been agreed to proceed to open Employment Regulation Proceedings for DIA and Twins that involves the extinguishment of a maximum of 2,100 employment contracts, subject to complying with the expected legal requirements and procedures. With the purpose, it has been agreed to communicate to the employees' representatives (or, to the employees, where appropriate) the intention to open a consultation period to develop such Employment Regulation Proceedings in DIA and Twins.

3.13. Information about the foreseeable evolution of the Entity

New Business Plan

The DIA Group has been working over the past months in the elaboration of a new Business Plan that covers the periods 2019-2023 with the help of a prestigious consulting firm.

This is a business plan baptized as "Nuevo DIA", that aims to transform the Company and that affects mainly Spain, the main market of the Group, and that is based in the following pillars:

- Improve the supply of fresh food: the Group bets on improving both the variety and the quality of their fresh. This improvement, which is related to the entity's proximity factor, is expected to allow the sales heavily grow and to improve the global perception the consumer has about DIA.

- Build an innovative and differentiated own brand: The Group wants to improve the quality of the products under their own brand in order to change the perception of the clients. The intention is to have the best own brand of the market with a high perception both in price and in quality.

- Rationalize and improve the assortment of product: reduce part of the assortment will allow to improve the visibility of the global offer in the shops as well as securing that the client truly finds the products he needs.

- Improve price perception: focusing on reducing the price of the products in the shelf, the client will have a better perception of the prices offered by DIA. The intention is to use in the most efficient way the promotions and the loyalty discount card which will be progressively more and more personalized.

These pillars will be implemented throughout the first two years of the plan and will be stake through a new store model which, first; it will be approved along 2019 to replicate massively to the entire park of stores from the year 2020. Therefore, although opening new stores is also within the plan, the strategy is based fundamentally on renewing the park of stores already open.

Likewise, towards ensuring the correct implementation of all the initiatives and to improve the profitability of the entity, a series of measures will be carried out to adjust the cost base as the closing of more than 600 unprofitable stores in Spain (of which 300 will close in 2019), a restructure of the structures, a review of the logistic end-to-end process, all of which directed so that DIA ends up being a simpler, more efficient entity.

Finally, and not less important, the Group wants to relaunch their franchise model, key for their geographic presence and the profitability of the Company. The Entity wants to improve the quality and profitability of its franchisees to turn it into a winning model for both parties.

3.14. Research, development and innovation 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 2018 are, as a percentage, smaller compared to the rest of the costs arising from the development of activities aligned with its social objectives.

EUR14.96m was activated during 2018, corresponding to the capitalization of IT developments (EUR 11.2m in 2017).

3.15. Treasury stock and earnings per share

3.15.1 Treasury shares

Changes in treasury shares in 2018 and 2017 are as follows:

	Number of shares	Average price	Total
At 31 December 2016	**11,105,774**	**5.9943**	**66,571,465.29**
Equity swap settlement	(2,100,000)		(12,588,053.49)
Equity swap additions	2,100,000		11,130,000.00
Delivery of shares to Directors	(73,227)		(428,672.64)
Delivery of shares as part of the incentive plan 2014-2016 (note 18)	(721,914)		(4,326,043.04)
At 31 December 2017	**10,310,633**	**5.8540**	**60,358,696.12**
Delivery of shares as part of the incentive plan 2014-2016 (note 18)	(768,277)		(4,497,512.23)
At 31 December 2018	**9,542,356**	**5.8540**	**55,861,183.89**

The Parent's treasury shares are held to deliver shares to the executives under the share plans.

The Facilities Agreement entered into on 31 December 2018 between the Group and the lending bank includes a prohibition on the repurchase of treasury shares until the debt is settled.

3.15.2 Earnings/losses per share

Basic earnings/losses per share are calculated by dividing net profit for the period attributable to the Parent by the weighted average number of ordinary shares outstanding throughout the period, excluding treasury shares.

Details of the calculation of basic earnings/(losses) per share are as follows:

Basic and diluted earnings per share	2018	2017
Average number of shares	**612,177,367**	**611,885,181**
Profit/(loss) for the period in thousands of Euros	(345,052)	84,959
Profit/(loss) per share in Euros	(0.54)	0.14

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

3.16. Average payment period to suppliers

In compliance with the information required from Spanish DIA Group companies under the reporting requirement established in the Law 15/2010 of 5 July 2010, which amended Spanish Law 3/2004 of 29 December 2004 and introduced measures to combat late payments in commercial transactions, is as follows:

	2018	2017
	Days	Days
Average payment period to suppliers	48	46
Paid operations ratio	49	46
Pending payment transactions ratio	37	42
	Amount (euros)	Amount (euros)
Total payments made	4,568,147,789	4,134,004,583
* Total payment pending	335,376,575	542,911,981

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

3.17.Liquidity and capital resources

Liquidity

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

During 2018 and after publishing a Significant Event in October on the review of estimated results for the year and the restatement of the 2017 consolidated annual accounts, there were a total of six downgrades of the Group's credit rating by rating agencies, consisting of three levels in the case of Moody's and Standard & Poor's, to finally reach Caa1 (under review) and CCC+ (negative outlook), respectively, in December.

In order to mitigate the risk that reactions to the information and downgrades by the financial institutions with which the Group operates could have a potential relevant adverse impact on its liquidity profile, in October the Group initiated a process of dialogue and negotiation with its main banks (the "Group of Banks"), with a dual purpose: (I) assure that they maintained their support for the Group by signing a formal agreement to maintain and restore the financing ceilings granted by the Group of Banks; and (ii) negotiate a new financing package that would allow the Group to assure coverage of its future working capital needs under the Business Plan.

As a result, the main financial institutions signed an agreement on 18 November 2018 to maintain and restore financing lines, initially maturing on 30 November 2018 and subsequently extended to 31 December 2018.

At that date, the previously mentioned financial institutions granted a Financing Agreement and, during the month of January 2019, certain foreign subsidiaries of the Group entered into bilateral financing agreements. As a result of such agreements, amongts others, the Group obtained additional short term financing for an amount of up to Euro 201.4 million and of up to Euro 867.8 million to be drawn through working capital financing facilities, such as revolving credit facilities, confirming facilities, factoring and bilateral loans.

On 21 January 2019, another financial institution signed up to the financing agreement, increasing new money by Euro 4.4 million and working capital facilities by Euro 24.1 million.

The main terms of the Facilities Agreement are explained in note 2.4 of the consolidated annual accounts.

The combination of this new financing package, the divestments, the capital increase and the agreements currently under negotiation in relation to the first maturity of the Facilities Agreement must allow the Group to assure coverage of working capital needs under the Business Plan, considerably strengthening its liquidity profile.

The Group's exposure to liquidity risk at 31 December 2018 and 2017 is shown below. These tables reflect the analysis of financial liabilities by residual contractual maturity dates:

Thousands of Euro	Maturity	At 31 December 2018
Debentures and bonds long term	2020-2023	590,410
Syndicated credits (Revolving credit facilities)	2020-2022	254,222
Other bank loans	2020	15,000
Finance lease payables	2020-2025	19,801
Credit facilities drawn down	2020-2022	27,150
Guarantees and deposits received	per contract	12,102
Other non-current financial debt	2020-2021	385
Other non-current financial liabilities	2020	2,291
Total non-current financial liabilities		**921,361**
Debentures and bonds long term	2019	311,371
Other bank loans	2019	119,092
Other financial liabilities (note 15.1 c))	2019	4,532
Finance lease payables	2019	9,125
Syndicated credits (Revolving credit facilities)	2019	124,350
Credit facilities drawn down	2019	184,001
Expired interest	2019	7,241
Guarantees and deposits received	2019	3,489
Derivatives	2019	5,776
Other debt with group companies	2019	513
Other financial debts	2019	2,864
Trade and other payables	2019	1,442,496
Suppliers of fixed assets	2019	105,139
Personnel	2019	51,423
Other current liabilities	2019	1,085
Total current financial liabilities		**2,372,497**

Thousands of Euro	Maturity	At 31 December 2017
Debentures and bonds long term	2019-2023	892,570
Mortgage loan	2019-2020	814
Other bank loans	2019-2020	30,842
Finance lease payables	2019-2027	26,229
Guarantees and deposits received	per contract	11,148
Other non-current financial debt	2019-2021	342
Other non-current financial liabilities	2019	2,491
Total non-current financial liabilities		**964,436**
Debentures and bonds long term	2018	6,021
Mortgage loan	2018	633
Other bank loans	2018	209,283
Other financial liabilities (note 15.1 c))	2018	25,704
Finance lease payables	2018	10,547
Credit facilities drawn down	2018	65,809
Expired interest	2018	132
Guarantees and deposits received	2018	2,813
Derivatives	2018	4,339
Other financial debts	2018	4,732
Trade and other payables	2018	1,785,186
Suppliers of fixed assets	2018	139,284
Personnel	2018	64,698
Other current liabilities	2018	3,675
Total current financial liabilities		**2,322,856**

The amounts reflected in the following tables relate to maturities of non-current financial debt in 2018 and 2017. The amounts are the undiscounted cash flows stipulated in the agreement. As these amounts are not discounted and include future interest, they cannot be analysed against the amounts recognised in the accompanying consolidated statement of financial position for the headings in question.

At 31 December 2018	Thousands of Euro Total	2020	2021-2023	>2024
Debentures and bonds long term	616,500	5,625	610,875	-
Syndicated credits (Revolving credit facilities)	254,222	135,556	118,666	-
Bank Loans	15,063	15,063	-	-
Finance lease payables	21,141	6,918	12,979	1,244
Credit facilities drawn down	27,151	17,065	10,085	-
Guarantees and deposits received	12,102	-	-	12,102
Other non-current financial debt	385	333	52	-
Total non-current financial debt	**946,564**	**180,560**	**752,657**	**13,346**

At 31 December 2017	Thousands of Euro Total	2019	2020-2022	> 2023
Debentures and bonds long term	932,411	315,911	313,875	302,625
Mortgage loan	828	432	396	-
Bank Loans	32,658	17,595	15,063	-
Finance lease payables	28,240	9,912	15,974	2,354
Guarantees and deposits received	11,148	-	-	11,148
Other non-current financial debt	342	126	216	-
Total non-current financial debt	**1,005,627**	**343,976**	**345,524**	**316,127**

Financial expenses accrued on these financial liabilities totalled Euro 50,259 thousand and Euro 41,075 thousand in 2018 and 2017, respectively.

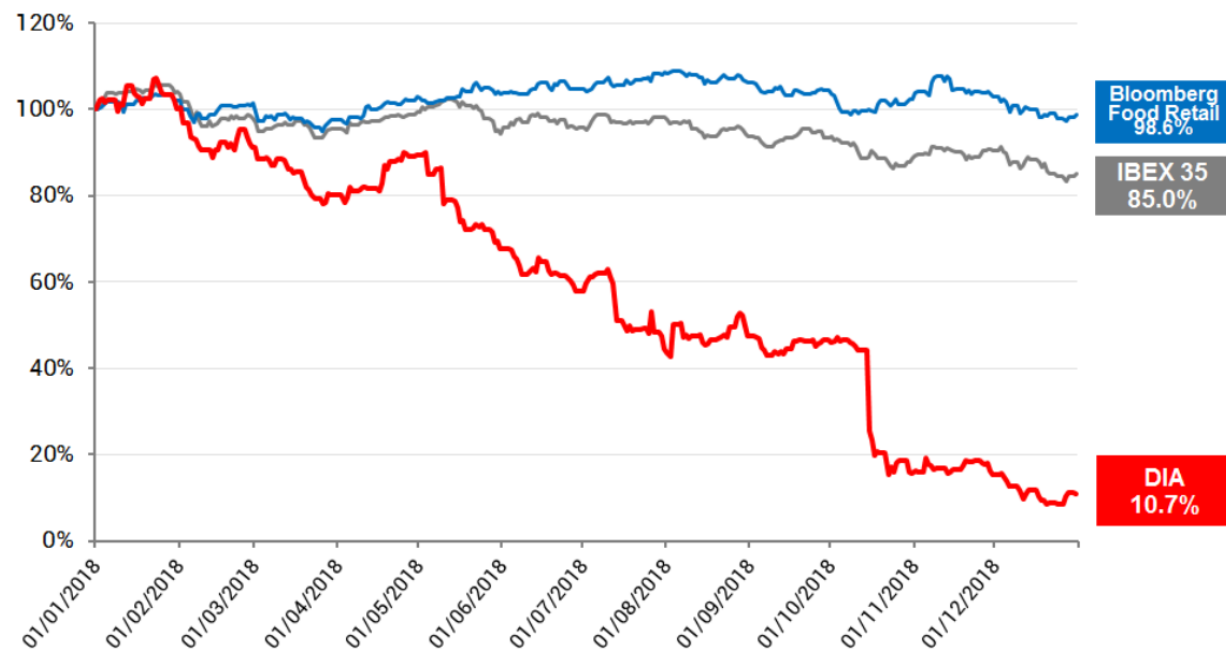
Capital resources

In the past few years the DIA Group has been investing aproximately €300 million to €350 million, excluding acquisitions of shares in companies and packages of stores from competitors. The Group's strategy focuses on investing primarily in markets with the highest returns and opening and refurbishing stores. Approximately 60% of investment is thus devoted to opening or refurbishing stores and warehouses. In 2018 €312 million was invested. At Group level the aim for the next few years is to continue investing at the same level, except in 2019, when investment will be cut by half as the company wishes to focus on its new business proposal with a pilot project of 100 stores to be refurbished in Spain.

Each business unit prepares an annual investment plan which is presented to Group management through an Investment Committee. In turn, senior management submits it to the Board of Directors for approval

Investment Return targets are set in financial terms.

3.18. Stock Exchange information



In 2018 DIA's share price declined by 89.3% while Ibex 35 Index dropped by 15.0% and Bloomberg Food Retail Index dipped by 1.4%. In 2018 the lowest closing price was December 24th up to 0.360 euros and the highest closing price was January 23rd at 4.612 euros per share. Closing share price at 2018 year-end was 0.4615. The liquidity during 2018 remained high with 2,382 million shares traded, implying a total value negotiated of 4,585 million euros.

3.19. Credit rating

Due to the negative evolution of the results in 2018, and specially to the financing problems that the Company has experienced towards the end of the year with the following uncertainty about the capacity of the entity to renegotiate its debt with the credit facilities and the success of the capital increase planned for 2019 of Euro 600 million, the credit agencies Standard and Poor's (S&P) and Moody's have been lowering the long term notes attributed to the DIA Group, losing the investment grade.

So, in the case of S&P, the grade has dropped from BBB- to CCC+ while in the case of Moody's the has dropped from Baa3 to Caa1.

3.20. Dividend policy

As communicated in the Relevant Fact of October 15, 2018, DIA's Board of Directors resolved to put on hold the dividend distribution policy for 2019. Since listed in 2011 DIA has remmunerated to its shareholder with 1,045 million euros, of which 733 million euros were dividend payments and 312 million euros through share buyback programs (which shares were finally redeemed)

3.21. 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.

3.22. Change in Currency rates

Period	€ / Argentinean Peso	€ / Brazilian Real
Q1 2017 average	0.0599	0.2987
Q1 2018 average	0.0414	0.2507
Q1 2018 change (1)	**-30.9%**	**-16.1%**
Q2 2017 average	0.0578	0.2828
Q2 2018 average	0.0361	0.2329
Q2 2018 change (1)	**-37.5%**	**-17.6%**
Q3 2017 average	0.0493	0.2691
Q3 2018 average	0.0276	0.2181
Q3 2018 change (1)	**-44.0%**	**-19.0%**
Q4 2017 average	0.0484	0.2613
Q4 2018 average	0.0236	0.2301
Q4 2018 change (1)	**-51.2%**	**-12.0%**
FY 2017 average	0.0538	0.2780
FY 2018 average	0.0322	0.2329
FY 2018 change (1)	**-40.3%**	**-16.2%**

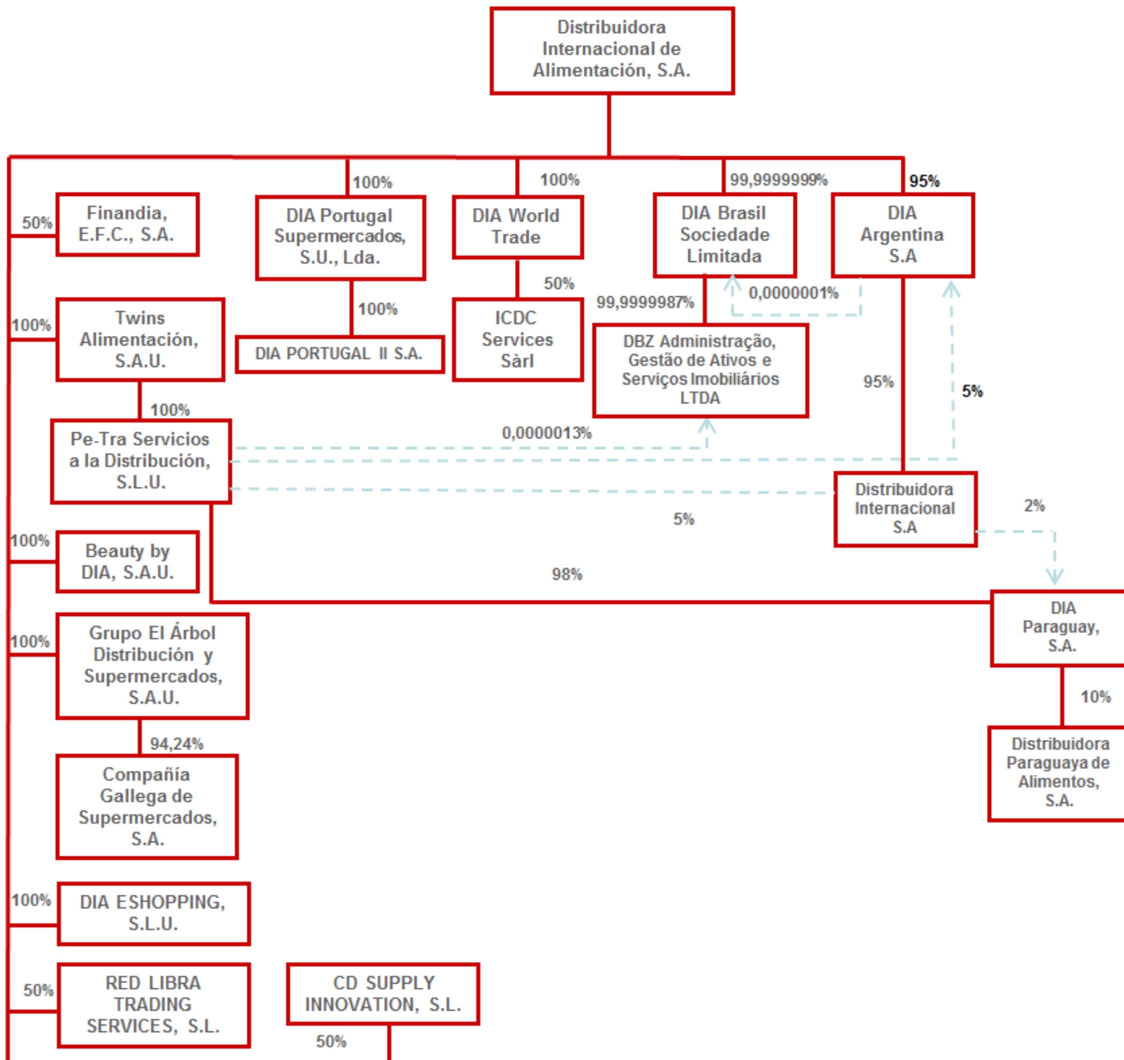
(1) Bloomberg average currency rates (a negative change in exchange rates implies a depreciation versus the Euro)

4. STATEMENT OF NON-FINANCIAL INFORMATION

The statement of non-financial information in an integral part of this Consolidated Director's Report.

4.1. Company profile

4.1.1. Corporate and shareholding structure



(As at 31 December 2018) (102-4; 102-5; 102-45)

Distribuidora Internacional de Alimentación, S.A. (102-1), with headquarters in Las Rozas de Madrid (102-3), directly or indirectly owns 100% of all its subsidiaries, with the exception of Compañía Gallega de Supermercados, S.A., of which it owns 94.24%; Finandia E.F.C, S.A., ICDC Services Sarl, 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 retailing and wholesaling 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 DIA Group companies.

Finandia E.F.C., S.A. is a Spanish credit institution that offers financing to clients of DIA stores in Spain through the "Club DIA" card.

Distribuidora Internacional, S.A. based in Buenos Aires (Argentina) provides services consultancy.

The company ICDC has been set up in collaboration with Casino, to jointly purchase goods in Switzerland (Geneva).

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

The company DBZ Administraçao, Gestao de ativos e Serviços Imobiliarios Ltda., registered in Sao Paulo, manages the real estate belonging to DIA Brazil.

The company Red Libra Trading Services, S.L. was jointly set up with the Eroski Group to negotiate with own label suppliers for both companies, as well as to purchase other materials and inputs for their businesses. It is not currently active.

The company CD Supply Innovation, S.L. was set up jointly with the Casino Group to manage financial, logistical and innovation services.

Shareholding structure diagram at the end of 2018

Significant holdings and treasury stock

			Direct voting rights		Indirect voting rights		Financial instruments	
No. of shares in circulation	**622,456,513**	100.000%						
Treasury stock*	10,310,633	1.656%		0.000%		0.000%	0	0.000%
Free Float	431,627,186	69.343%		0.000%		0.000%	0	0.000%
LETTERONE INVESTMENT HOLDINGS, S.A.	180,518,694	29.001%	0	0.000%	180,518,694	29.000%	0	0.000%

4.1.2. Corporate Governance

(102-18)
The DIA Group has a corporate governance and compliance system that works to ensure a proper climate of control and compliance with both external and internal regulations. This regulatory system is adapted to the regulations for capital companies and the securities market and strictly adheres to the recommendations on good governance.

This model has been designed to comply with the corporate objectives that are set by the Group's governing bodies and to protect the interests of all its interest groups in a universal and transparent way.

COMPOSITION AND CHANGES TO THE BOARD OF DIRECTORS AND THE MANAGEMENT COMMITTEE

In 2018, both the Board of Directors and the Management Committee of the Group experienced a series of changes that are described below:

Changes in the Board of Directors:

- On 20 April 2018, the General Shareholders' Meeting approved the appointment of Mr Stephan DuCharme as an external shareholder director; and the appointment of Mr Karl-Heinz Holland as an external shareholder director. Afterwards, The Board of Directors appointed Mr. DuCharme as a member of the Audit and Compliance Committee and Mr. Holland as member of the Strategy Committee.

- Mr Juan María Nin submitted his resignation as a member of the company's Board of Directors, and therefore as a member of the Audit and Compliance Committee, effective 22 June 2018. The reason cited for his resignation was the need to deal with personal matters.

- Mr Julián Díaz submitted his resignation as a member of the Audit and Compliance Committee, effective 25 July 2018, although he continues to be an independent director. In his resignation he cited the need to deal with new commitments that made it impossible for him to dedicate the necessary time required by the Committee.

- On 24 August 2018, Mr Ricardo Currás submitted his resignation as a member of the Board. Following his announcement that he was stepping down as CEO, his position was filled by the then Executive Manager for Latin America and Partnerships, Antonio Coto.

- On 15 October, the non-executive chairwoman, Ms. Ana María Llopis, following the decision previously announced by her at the General Shareholders' Meeting on 20 April 2018, announced her resignation as chairwoman, taking up a role as a director of the Board until 31 December 2018, when she submitted her resignation as a member of the Board. Following the resignation of Mrs Llopis from her role as chairwoman, Mr Stephan DuCharme, a shareholder director, took up the role of First Vice-chairman of the Board of Directors, leaving the independent directors Mr Richard Golding and Mr Mariano Martín as Second and Third Vice-chairmen respectively.

- On 15 October, at the request of the shareholder LetterOne Investment Holdings, Mr Sergio Ferreira Dias was co-opted as a director (classified as an external shareholder director), also becoming a member of the Audit and Compliance Committee replacing Mr Stephan DuCharme, who on the same date resigned from his position as a member of that committee.

- On 4 December, Mr Stephan DuCharme submitted his resignation as a shareholder director appointed by LetterOne Investment Holdings, explaining to the company that his decision was motivated by his intention to focus on working from LetterOne on the process to design and develop a subsequent long-term sustainability plan for the Group. Mr Richard Golding, Vice-chairman, temporarily assumed the duties of Chairman of the Board until a new chairman has been appointed.

- On 18 December, Mr Karl-Heinz Holland and Mr Sergio Antonio Ferreira Dias, both shareholder directors representing LetterOne Investment Holdings, S.A. (LetterOne), submitted their respective resignations as directors of the company, effective from that date. Both directors explained that their respective resignations were motivated by their intention to focus on working from LetterOne on the process to design and develop a subsequent long-term sustainability plan for the Group.

- On 28 December, the Board of Directors decided to appoint Mr Borja de la Cierva Álvarez de Sotomayor as the company's new CEO, replacing Mr Antonio Coto, who stepped down as CEO on this date and resigned from his position as a director effective from 30 December.

- On 28 December, Mr Jaime García-Legaz Ponce was also co-opted as a company director (as an independent director). The appointment of Mr García-Legaz remained subject to completion of certain administrative requirements resulting from his previous role as a senior member of the government. These requirements have now been fulfilled as of the date of this report.

- On 28 December, the Board co-opted Mr Miguel Ángel Iglesias Peinado as an executive director.

- As a result of his appointment as CEO, and therefore of his classification as an executive director, on 28 December Mr Borja de la Cierva resigned as a member of the company's Audit and Compliance Committee. The Board appointed the independent directors Mr Julián Díaz González and Mr Jaime García-Legaz as members of DIA's Audit and Compliance Committee.

Changes in the Management Committee:

- In 2018, three of the previous members of the Management Committee left the company.

- In October 2018, the Board of Directors dismissed the previous Chief Services Officer and Executive for Portugal, also removing him from his position on the Management Committee.

- In October 2018, the Executive Department of DIA España was created, led by Mr Faustino Domínguez de la Torre Unceta, who was already a member of the Management Committee, unifying the sales and operations areas for all banners. An Executive Human Resources Department at Group level was also created in October 2018, led by Mr Alejandro Grande.

- In December 2018, Mr Enrique Wieckert joined the management committee as Group CFO.

Composition of the Board of Directors at the end of 2018:

In line with its regulations, DIA's Board of Directors, through its Appointments and Remuneration Committee, ensures that the selection procedures for directors encourage diversity of gender, experience and knowledge. Proposed appointments are always based on a prior analysis of the Board's needs, in the general interests of the company, so that every member of the Board is a professional with a clear executive profile and extensive experience in businesses related to retailing and consumer goods. Appointments are approved by the General Shareholders' Meeting.

Members of the Board and roles:

- Mr Richard Golding: First Vice-Chairman qualified as independent.
- Mr Mariano Martín Mampaso: Second Vice-Chairman qualified as independent.
- Mr Borja de la Cierva Álvarez de Sotomayor: CEO qualified as executive.
- Mr Julián Díaz González: Member qualified as independent.
- Mr Antonio Urcelay Alonso: Member qualified as "other external Director".
- Ms. Ángela Lesley Spindler: Member qualified as independent.
- Ms. María Luisa Garaña Corces: Member qualified as independent.
- Mr Miguel Ángel Iglesias Peinado: Member qualified as executive.
- Mr Jaime García-Legaz*: Member qualified as independent.

*The appointment of Mr Jaime García-Legaz came into effect by his acceptance on 10 January 2019.

Strategy Committee

The Strategy Committee consists of four members. A chairman, who is an independent director; a second member who is also an independent director; a third director who is classified as an external director; and a fourth who is an executive director. Members are appointed for a period of three years.

- Mr Richard Golding: Chairman classified as independent.
- Mr Mariano Martín Mampaso: Member qualified as independent.
- Mr Antonio Urcelay Alonso: Member qualified as "other external director".
- Mr Borja de la Cierva de Sotomayor: Member qualified as executive.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee has four members. A chairman, who is an independent director; two other members who are also independent directors; and a fourth member who is classified as "Other External Director". Members are appointed for a period of three years.

- Mr Mariano Martín Mampaso: Chairman qualified as independent.
- Ms. Ángela Lesley Spindler: Member qualified as independent.
- Mr Antonio Urcelay Alonso: Member qualified as "other external director".
- Mr Richard Golding: Member qualified as independent.

Audit and Compliance Committee

The Audit and Compliance Committee is comprised of three members. An acting chairwoman, who is an independent director, and two other members who are also classified as independent. Members are appointed for a period of three years.

- Ms. María Garaña Corces: Member qualified as independent acting as President in absensce of the principal appointed.
- Mr Julián Díaz González: Member qualified as independent.
- Mr Jaime García-Legaz*: Member qualified as independent.

* This position came into effect by his acceptance on 10 January 2019.

APPLICATION AND DEVELOPMENT OF CORPORATE POLICIES

Following the CNMV's recommendations on the Good Governance Code, DIA's relationship with its main interest groups is articulated through the company's different corporate policies, all of which are approved by the Board of Directors:

- ***Corporate Social Responsibility Policy***: With the aim of generating a common and well-defined operating framework with the company's various interest groups, the DIA Group has a CSR Policy based

on the values that define it, ensuring that laws and regulations are respected, that it complies with its obligations and contracts in good faith, and that it abides by the applications and best practices in the sectors in which it operates.

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

- ***Corporate Tax Policy***: The DIA Group's tax policy establishes the necessary scope of action to responsibly comply with tax regulations while ensuring that the company's interests are covered, always supporting the company's business strategy. Accordingly, DIA seeks 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 to evaluate, prioritise and respond to risks associated with its main objectives, projects and operations. The whole organisation plays an important role in achieving the objectives 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 guidelines to prevent the impacts that DIA's activities could generate in areas such as waste management, greenhouse gas emissions and eco-design, among others. In short, this policy aims to promote responsible resource use.

- ***Corporate External Relations Policy***: The aim of the Corporate External Relations Policy is to promote transparent and accessible relations based on mutual respect with the media, regulatory bodies and associations. This policy focuses on achieving the company's objectives outlined in its strategic plan and better positioning the company in the market.

- ***Corporate Quality and Food Safety Policy***: The company's Corporate Quality and Food Safety Policy aims to create a relationship with its consumers based on trust through a system that rigorously 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 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 to fight against corruption and other illegal conduct. The Corporate Crime Prevention and Anti-Corruption Policy aims to ensure that each of the Group's subsidiaries, as well as their directors and employees, perform their duties responsibly, diligently and with transparency, ensuring an adequate control system that allows the company to avoid and detect compliance risks, preventing both the application of penalties and sanctions as well as a deterioration of the DIA Group's image, thereby improving 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 information provided is accurate, and that agreements with entrepreneurs who decide to manage a DIA store through the franchise model are fulfilled.

- ***Corporate Human Resources Policy***: This policy is the reference framework for people management at a corporate level. It includes the guidelines that reflect the DIA Group's commitment to creating jobs and to its professionals within the context of the company's corporate values. This policy also aims to promote the company's long-term commitment to generating pride and a sense of belonging, adapting to the different cultural, labour and business contexts in every country in which it operates.

- ***Corporate Marketing and Client Communication Policy***: The company's Corporate Marketing and Client Communication Policy bases its guidelines on respecting the commitments undertaken with clients; honesty in both verbal and written communications; and integrity in all of the company's professional actions in this context. Accordingly, the guidelines in relation to communication with clients are based on the general principles of transparency, proximity, equality and quality.

In relation to Diversity and Training Policies, the DIA Group does not define these independently as both these areas are included in the General Human Resources Policy. The company has not begun to develop a "Disconnect from Work" policy and as at the date of this report there are no specific plans in place.

All of these policy tools are available to the general public at www.diacoporate.com. No specific monitoring of these policies was carried out in 2018 apart from ensuring their reasonable compliance.

RISK MANAGEMENT AT THE DIA GROUP

(102-11; 102-15)

The risk management policy applies to the company and all of its subsidiaries. Its correct application requires the involvement of everybody in the organisation. The updated version of this policy to reflect the latest recommendations of the new Good Governance Code was approved by the DIA Group Board of Directors on 11 December 2015.

In applying its risk management model (RMM), DIA has considered all of its activities carried out at the different levels of the organisation, from the corporate level to those in individual business units and processes.

The RMM therefore applies at the following levels:

(i) Execution of DIA's strategy
(ii) Achievement of its business objectives
(iii) The proper execution of operations

The whole organisation plays an important role in achieving the objectives of the RMM. The model follows a comprehensive and systematic approach and applies to the whole company and all of its subsidiaries.

The DIA Group has a risk management system based on the COSO II methodology, adapted to DIA's needs (Enterprise Risk Management). It provides a systematic and detailed focus that allows it to identify, evaluate and respond to risks related to the achievement of its business objectives. The aim of DIA's risk management model is to identify different types of risk that can be grouped into the following categories:

i) Risks related to the environment
ii) Operating risks
iii) Corporate governance and ethics risks
iv) Financial risks

The RMM uses a tool that has been implemented to facilitate risk tracking and monitoring.

Responsibilities for risk management

The Board of Directors is responsible for setting and approving the risk management and control policy, identifying the main risks to the company and its subsidiaries and organising appropriate internal control and reporting systems.

The Board of Directors, the Audit and Compliance Committee and the Executive Committee of the DIA Group are responsible for ensuring that the RMM functions correctly.

Organisationally, the Internal Audit Department reports directly to the Audit and Compliance Committee, which ensures the proper autonomy and independence of its functions and that it can responsibly perform its duties of supervising the risk management and control system.

The Audit and Compliance Committee supervises and regularly reviews the effectiveness of DIA's internal control and internal audit procedures and the risk management systems, verifying their suitability and integrity.

The Executive Management Committee of the DIA Group is responsible for implementing the Group's risk model.

DIA has created a Risk Committee at the corporate level. Its main duties include analysing the environment and new projects from the risk management perspective, constantly monitoring the key risks identified in the risks map, and recommending specific action plans.

Risk assessment frequency

The Risk Management Model ensures that the different types of risk, whether inherent to the business or residual, can be identified. Each risk is assessed in terms of its probability and impact. DIA considers that a risk arises as a result of the loss of opportunities and/or strengths, or from the materialisation and/or strengthening of a weakness.

The Group assesses all identified risks at least once every year. This annual review also includes risks relating to investments and strategy that could have an impact in the medium and long-term.

This information about the risks of the DIA Group is supplemented in Section E of the Group's Annual Corporate Governance Report 2018.

Principal non-financial risks that can impact the company's objectives

Business environment: Risks and/or issues related to the environment in which the Group operates, including political, economic, social, technological and legal risks, among others.

A. Market/competition related risks

This category includes risks related to an unsuitable value proposition for clients in the context of demographic and consumer habits. This aspect is inherent to the food retailing business and consists of an inability to monitor and respond to changes in a target market or adapt to new consumer habits.

The main management and control mechanisms are based on regular market/country analyses and surveys, a system for listening to consumers, etc. and defining action plans based on the results.

B. Regulatory risks

These are risks to which the Group is exposed derived from the different legislation in the countries where it operates.

This category includes risks related to regulations on tax, employment, retailing and consumption, industrial and intellectual property, and risks related to other legislation, especially regulatory risk of a criminal nature, whether or not they represent a criminal liability to the legal entity, as well as other risks from regulatory non-compliance.

At present, there is a general risk in the market of an ineffective response to the growing amount of regulatory pressure. The widespread nature and lack of standardisation of these legal requirements represent the greatest challenge from an organisational and resource point of view.

The incorrect functioning of internal compliance systems could give rise to legal and reputational risk, as well as generating civil and criminal liabilities for the directors.

The General Secretary's Office-Compliance Department is responsible for supervising and managing the model that has been implemented in the DIA Group to prevent these legal risks (including the risk of criminal offences) from arising.

A compliance model has been implemented, control procedures have been formalised and the regulations applicable to the DIA Group are monitored to try to ensure that regulatory risks are appropriately managed and controlled.

C. Risks in the political and social environment

Volatility in the political and social context. The economic situation in some of the countries in which we operate can have an impact on the levels of demand, spending or consumer habits. Furthermore, currency devaluations have a direct impact on the aggregate financial result and the commodities markets.

These risks are influenced by external factors and DIA continuously monitors the political and social situation in the countries in which it operates.

The main management and control mechanisms are based on performing regular market/country analyses and surveys, and defining action plans based on the results.

D. Reputation risk

In a hyper-competitive environment in which information travels in real time, it is essential for the company to manage trust among its main interest groups. Moreover, the globalisation of supply chains makes it harder to control operations, with the risk of becoming party to conditions that violate environmental or labour laws.

To control these risks, DIA keeps up constant dialogue with the company's main interest groups in line with its policies for investor relations, external relations and CSR. In 2018, this process was supplemented with an

independent system for listening to the general public, suppliers, consumer associations and the media, reporting directly to the Audit Committee.

Operational risks: Risks and/or issues related to the Group's business model and the execution of key activities in its value chain, including product quality and safety, the supply chain, environmental and health & safety issues, HR and social issues, and information technology, among others.

A. Inadequate adaptation of the economic and operating model

The business model must be flexible to respond to new demands from clients and work systems. This process of change brings risks of business continuity caused by a higher dependency on technology, among other factors.

The DIA Group is currently reviewing and adapting its commercial model to satisfy new demands from clients and new consumer habits.

The company has also designed a business continuity plan, which is reviewed and updated when relevant changes occur.

B. Supply chain

The main risks facing the Group come from potential difficulties of satisfying consumer requirements, and procuring and offering for sale products that match clients' expectations. The Group reduces its exposure to such risks by using a purchasing system that ensures reasonable flexibility when responding to unforeseen variations in client demand. Permanent contact between stores and the purchasing team allows us to identify changes in the buying habits of our clients. Given the relevance of efficient logistics management on the likelihood of these risks, the Group analyses all the factors that could have a negative impact in order to maximise the efficiency of our logistics management and to actively monitor these factors.

Furthermore, it has formalised contingency plans to respond to incidents that could endanger its operations.

C. Compliance with safety standards

Insufficient assurance about the safety of our products and our operations could have a major impact on the Group's reputation and put business continuity at risk.

The Group has established policies for Corporate Social Responsibility; Quality and Food Safety; and the Environment, in order to ensure compliance with safety standards.

The company strives to integrate corporate and environmental values into every management area and it therefore has a Corporate Social Responsibility Policy that was approved by the Board.

The main management and control mechanisms are based on training and constant supervision of policies and procedures to ensure they are correctly applied, performing analysis and listening to consumers and franchisees, as well as defining action plans based on the results.

The DIA Group has also established policies and control mechanisms to ensure that franchises comply with the safety standards implemented in the Group.

D. Information systems

This includes risks related to technology infrastructure and effective management of information, IT networks and communications. It also covers risks related to the physical and technological security of systems, especially the risk of cyber-attacks against IT systems that could potentially breach the confidentiality, integrity and availability of critical information.

Failures in IT systems can cause leaks (deliberately or in error) of commercial, client or employee data.

Given the importance of the correct functioning of technology systems in achieving the Group's objectives, the Systems Department maintains permanent control over them to ensure they are sound and consistent, and to guarantee the security and stability needed for uninterrupted operations. The Group is aware that its systems will require improvements and continuous investment in order to prevent obsolescence and to maintain their ability to respond at the levels required by the organisation.

E. Employment and HR issues

The main risks related to the human resources area come from potential dependencies on key personnel, as well as maintaining a suitable working environment at every work centre.

Ineffective management of human resources can result in problems attracting and retaining talent or an increase in workplace conflict, which clearly makes it harder to successfully achieve the Group's business objectives.

To minimise personnel-related risks, the HR Department identifies key people and provides development opportunities to the most talented and relevant people in the organisation.

Furthermore, the organisation's management system encourages knowledge transfer between people involved in the different areas of the organisation to minimise the risk of knowledge becoming concentrated in key personnel. Career development, training and remuneration policies are also used to retain key employees.

The DIA Group is therefore developing an equal opportunity plan in Spain that establishes measures designed to achieve a range of objectives. These include promoting the effective application of and commitment to the principle of gender equality; contributing to reducing inequalities and imbalances; preventing workplace discrimination; strengthening the company's commitment to improve quality-of-life; ensuring a healthy working environment; and establishing measures that encourage a balance between employees' working and personal lives.

Corporate Governance and Ethics Risks: These are risks related to the possibility that the Group is ineffectually managed and administered, which could give rise to non-compliance with regulations on corporate governance and transparency.

A. Integrity, anti-corruption and bribery

The incorrect functioning of internal compliance systems could give rise to legal and reputational risk, as well as generating civil and criminal liabilities for the directors.

The company believes that the Code of Ethics is the best tool for putting into practice a compliance policy that applies at every level of the company. It is described in detail in the following sections.

The company has put in place a crime prevention model to establish the most appropriate internal control procedures and policies to prevent illegal acts from being committed. It has also implemented an Anti-fraud and Anti-corruption Program covering every jurisdiction in which it operates.

Materialisation of non-financial risks

In 2018, various risks inherent in the business model, the Group's activities and the market environment arose, caused by circumstances in the company itself and extraordinary circumstances related to the development of the business and the economic situation.

The risks that arose were primarily related to the following:

(i) Strong competition in the food distribution sector, driven chiefly by the policy implemented by companies in the industry to reduce prices in order to gain a larger market share.

(ii) A delay in adapting the business model to the needs of the market, due to changing market needs and the need to be agile in order to adapt to these changes.

(iii) The political and social situation of the countries in which the Group operates, as instability has meant the supply chain has been affected at times.

(iv) The exchange rate, due to countries in the Group with high currency fluctuation. The economy in Argentina, where the Group operates, was given the status of highly inflationary in 2018.

(v) Loss of credibility and confidence following the material disclosures reported on 15 and 22 October 2018.

(vi) The need to increase communications with stakeholders, as during 2018 the Group was repeatedly exposed in the media.

All of these risks have been duly analysed and diverse action plans have been put into place, which include renewing the management team and preparing the company's new strategic plan.

COMPLIANCE AND ETHICS MANAGEMENT

The DIA Group's ethics and compliance model, which is directed by the company's Board of Directors, aims to encourage conduct that embodies our values, including the prevention and eradication of conduct associated with illegal criminal actions.

This compliance system is based on the principle of due control given that, a) Compliance risks are regularly analysed; b) Expected behaviours are carefully defined in the Code of Ethics, which is given to all employees; c) There is an independent prevention and compliance body that has the resources to assess the effectiveness of the model, reporting directly to the Board of Directors; d) A procedure has been put in place to anonymously and confidentially report any irregularities (102-17).

In 2015, DIA's Board of Directors approved a Code of Ethics that forms the cornerstone of this compliance system and is obligatory for all company employees, managers and directors. This is a high-level set of rules that defines what is desirable conduct, in line with the company's values (Efficiency, Respect, Teamwork, Client, Initiative) (102-16), and what is unacceptable conduct (including conduct that is potentially associated with criminal actions such as corruption and money laundering). The DIA Group Ethics Committee, which heads up the Ethics Committees of the different countries, is responsible for implementing the Code of Ethics. The Board of Directors, which receives a regular report from the Ethics Committee, is responsible for assessing the effectiveness of the code and issuing any modifications that it believes are appropriate to achieve the objectives sought.

The company's Code of Ethics is made available to all DIA Group employees. Suppliers, franchisees and contractors are all proactively informed about the existence of the Code of Ethics and this channel for reporting and consulting about ethics is also available to them, which they may use with the same assurances as any other employee.

Employees trained in the Code of Ethics 2018 (205-2)	ARGENTINA	BRAZIL	SPAIN	PORTUGAL
No. of directors trained in anti-corruption policies or the Code of Ethics.[1]	0			
No. of executives trained in anti-corruption policies or the Code of Ethics.	0	0	0	11
No. of managers trained in anti-corruption policies or the Code of Ethics.	0	0	0	82
No. of employees trained in anti-corruption policies or the Code of Ethics.	0	0	0	282

[1] Employees trained in the subject through classroom sessions or e-learning platforms.

Ethics Committee Activity	ARGENTINA	BRAZIL	SPAIN	PORTUGAL
No. Reports - employees	10	47	3	8
No. Reports - external (suppliers, franchisees)	8	1	1	0
No. Reports - anonymous	0	3	3	0
Total no. of reports	18	51	7	8
Total no. of reports resolved	16	39	4	1
Total no. of reports in progress	2	12	3	7
No. Consultations - employees	1	15	11	5
Nº Consultations - external (suppliers, franchisees)	3	0	2	0
Nº Consultations - anonymous	0	0	0	0
Total nº of consultations	4	15	13	5
Total nº of consultations resolved	2	15	10	3
Total nº consultations in progress	2	0	3	2

This year, one case of breach of the Code of Ethics was detected in the Group, which led to dismissal of the employee. A total of two lawsuits of this type are currently pending for this reporting period (205-3).

The DIA Group uses a further three control programs to identify and prevent fraud, which reinforce the Code of Ethics. These are a crime prevention model; an anti-fraud program; and an internal financial reporting control system.

In May 2016, the Board of Directors approved the Crime Prevention and Anti-corruption Policy, which is available on the corporate website www.diacorporate.com.

DIA Group companies based in Spain have implemented a crime prevention model that identifies and evaluates the risks of committing crimes associated with each area and activity of the organisational structure that could give rise to criminal liability for the legal entity, as well as the corresponding rules, procedures and controls to identify and prevent those crimes from being committed. The purpose of this model is to establish the most suitable

internal control procedures and policies to prevent illegal acts from being committed and, as appropriate, to be able to release DIA Group companies from any liability in accordance with Organic Law 1/2015 of 30 March, which amends Organic Law 10/1995 of 23 March on the Criminal Code.

Furthermore, a manager for the crime prevention function has been appointed within the company, who permanently reports to and assists the Compliance Officer and the Ethics Committee at a corporate level and is responsible for the maintenance and correct functioning of the prevention model.

DIA Group companies, in all of the jurisdictions in which the Group operates, have an anti-fraud and anti-corruption program that identifies and evaluates the risks of corruption and fraud in their activities, as well as a control environment in order to prevent and detect corrupt and fraudulent practices from occurring. As a result of this program, the DIA Group has a fraud risk matrix that analyses these risks in terms of their frequency and impact and which incorporates the existing controls to prevent such conduct. Each country has appointed an anti-fraud prevention officer, who in Spain is also the crime prevention officer.

Lastly, the company has an internal control system relating to financial information (SCIIF) that defines the general description of the system and its objectives, the roles and responsibilities, the methodology for performing the financial reporting internal control function and the management of risk.

The SCIIF applies to every level of the organisation. The Board of Directors is responsible for maintaining this policy, while the Board's Audit Committee supervises it. After the closing of this report, the SCIIF department began to report directly to the corporate secretary management team.

4.1.3. Business model and strategy

(102-2)

The DIA Group is a retailer of everyday consumer products. Its business is based on a network of more than 6,000 stores, both owned and franchised, that specialise in proximity shopping and continually improving their efficiency in order to obtain a leading price position that translates into real savings for families.

With a strategy that is always client-centric, the DIA Group focuses its efforts on meeting their needs, developing a proximity model with specialist formats, creating a leadership position for its own labels and developing a range of fresh products, executed by a team of people that strive for operational excellence and outstanding customer service.

Accordingly, and as a result of the organisational changes undertaken this year, the company will develop three lines of action in the coming years:

- **The client at the heart of the business:** Every single decision taken in the company will be orientated towards meeting the needs of an increasingly demanding client. Its commitment to innovation and technology is opening up new direct communication channels with consumers that enable the company to respond faster and better adapt itself to their demands, significantly improving the shopping experience in its stores.

- **Discipline in capital allocation:** Maintaining a solid and sustainable network of own and franchised stores will also be a priority for the coming years. Aware of the challenging environment facing the sector, the DIA Group will focus its efforts on improving the performance of its main strengths, such as price, its own brands, experience and proximity; and building a sustainable network of stores that reflect shopping habits based on proximity, flexibility and a comprehensive range.

- **Operational excellence of teams:** Creating the best team for the retail business is also fundamental to the DIA Group's strategy. This is about developing the best talent, renewingan entrepreneurial culture and an open and transparent organisational structure that is designed to provide responsive and efficient solutions. The customer service culture must be present in every layer of the organisation, which will enable it to become genuinely aligned with the ultimate objective of DIA's business – client satisfaction.

For more information see section 3.13 "Information about the foreseeable evolution of the Entity"

Commitment to rejuvenate formats and online channel

Over the next few years the DIA Group aims to create an omni-channel ecosystem built around the convenience concept and chiefly based on the idea of when and what the customer needs, always at the best price.

In 2018, the company began to develop a new store format in Spain with a stronger focus on high convenience under the name DIA&Go. This is a new supermarket model that connects with current users and reflects the convenience store value proposition – more urban, direct, easier, quick and with a wide range of fresh products. The new DIA&Go stores also include new services that aim to enhance the client experience, such as a machine offering freshly made coffee, natural fruit juices and a wide variety of ready-made foods to take away. At the end of 2018, the company already had 94 DIA&GO stores.

A similar concept has also begun to be rolled out in Portugal under the name Minipreço Express, with 50 stores already open at the end of the year.

In line with our priority to get even closer to our clients and meet their needs, the DIA Group continues to be committed to e-commerce and online sales. DIA's digital business includes a food arm, under its primary banners in Spain and Argentina, as well as an agreement with Amazon Prime Now to sell products from La Plaza de DIA on its marketplace in Spain; and a non-food arm, which includes the flash sale website Oportunidades DIA.

In December, the company began testing its online selling in the Portuguese market.

4.2. Corporate social responsibility management at DIA

Governance of Corporate Social Responsibility (CSR)

CSR issues are ultimately the responsibility of DIA's Board of Directors, through its Audit Committee. This committee is responsible for ensuring that the company's CSR strategy and practices address its non-financial risks and its interest groups expectations, and for approving and assessing the level of compliance of the General CSR Policy and the CSR Master Plan.

Furthermore, the Board of Directors, through this Committee, coordinates and approves the non-financial reporting process in accordance with the latest applicable regulations. At the senior management level, the corporate managers of the key areas for DIA's CSR are responsible for proposing the sustainability strategy and for defining the associated performance indicators. At the same time, the External Relations and CSR Department, reporting directly to the CEO, coordinates and facilitates this whole process. Lastly, there is also an Ethics Committee made up of managers from different departments, which reports directly to the Audit Committee.

Dialogue with interest groups

The DIA Group identifies and engages with its traditional interest groups (clients, the investor community, employees, franchisees and suppliers) as an integral part of the company's day-to-day activities, in a process that involves diverse specialist areas across the whole of the company's value chain (102-40).

Furthermore, the External Relations and CSR Department identifies, consults and responds to other interested parties that are also important to the business (regulators and public administrations, industry and professional associations, the media, NGOs and members of the local community). This department, which is responsible for CSR at the executive level, reports to the Management Committee and to the Board, via the Audit Committee, thereby ensuring that important matters that are identified are known about by the company's principal governing bodies (102-42; 102-43). The ultimate objective of investing in a CSR management model is to provide the DIA Group with a better understanding of its competitive environment and therefore to be able to respond quickly to the matters that may impact the success of its business model.

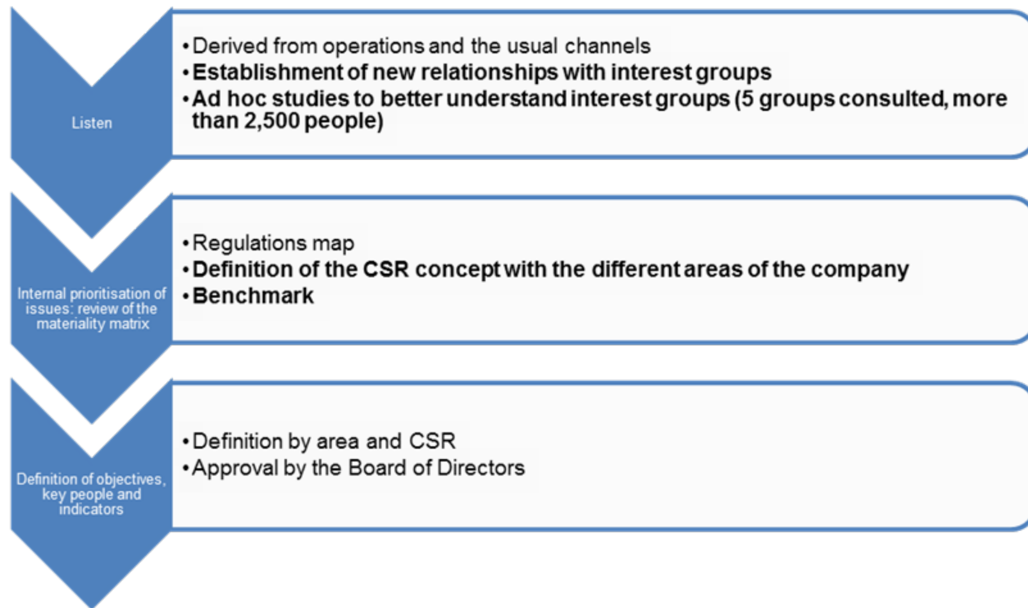
(102-40)	Issues and concerns mentioned (102-44)	Main communication channels (102-43)	DIA's Commitment	Main management instrument
Clients	Savings, variety and range availability	Client satisfaction surveys	Offer quality products at the best price	Corporate Marketing and Communication Policy
	Clear food labelling (origin, ingredients)	Club DIA magazine, DIA and "Expertas"	Improve channels for listening to clients	Quality and Food Safety Policy
	Omni-channel concept	Social networks (Facebook, Twitter, Instagram)	Constant evaluation of their current and future expectations and integration across the whole of the business model	

		Redes sociales (Facebook, twitter, instagram)		
		Meetings with "Expertas" communities in Spain, Brazil and Argentina		
		Customer service		
Investor Community	Profitability	Corporate website	Avoid situations of market abuse	Investor Relations Policy
	Regulatory compliance	Website of the National Securities Market Commission and other regulatory bodies	Systems to ensure regulatory compliance	Risk Management Policy
	Effective risk management	Quarterly webcast		Code of Ethics
	Information transparency	Corporate reports		
	Effective decision-making system	Regular notifications (subscription)		
		Investor mailbox		
		Investor Day		
		Roadshows		
		General press		
Employees and unions	Career opportunities	Employee portal	The selection, training and development of professionals	General Human Resources Policy
	Training and development	Newsletters	The guarantee of quality employment	Code of Ethics
	Internal communication	Workplace satisfaction surveys	Design of a value proposition for employees	Crime Prevention and Anti-corruption Policy
	Fair labour practices (gender equality)	Ethics channel		
	Occupational health and safety			
Franchisees	Profitability	Franchisee portal	Effective and proven business model	Franchisee Relations Policy
	Open and transparent transaction process	Franchisee newsletter	Ongoing training, support, assistance and advice	
	Know-how transfer to improve sales	International franchisee satisfaction survey, carried out by Nielsen	Resolution of potential differences based on good will and dialogue	
	Good logistics service	Regional franchisee support services (Strategic Partner Support Service in Argentina; "Día is listening" in Brazil)		
	Support for regulatory compliance			
	Technical support to improve energy efficiency			
	Access to the company's training resources	Ethics channel		

Suppliers	Free competition	Suppliers' portal	Work to maintain the quality-price relationship of products	Quality and Food Safety Policy
	Good contractual relationship	Ethics channel		
		Commercial team		
Regulators and administrations	Regulatory compliance	ASEDAS (Supermarkets Association)	Maximum diligence over information transparency	Tax Policy
	Employment	Institutional newsletter	Systems to ensure regulatory compliance	Quality and Food Safety Policy
	Payment of taxes	Corporate reports		Environmental Policy
	Public health	External relations team		External Relations Policy
	Support for the primary sector			
Industry and business associations	Free competition	Participation in ASEDAS, ECOEMBES, AECOC, Global Compact	Transparency, accessibility, freedom of expression, equal treatment and mutual respect in relations	External Relations Policy
	Improvement in competitiveness and innovation in the sector	Participation in specific conferences and projects		
	Regulatory development	External Relations Department		
	Eco-design of packaging			
General and specialist media	Corporate website	Information transparency	Transparency, accessibility, freedom of expression, equal treatment and mutual respect in relations	External Relations Policy
	Corporate reports	Access to information		
	Press releases	Access to senior management		
	Press conferences and interviews			
NGOs and other social associations	Promoting initiatives	Corporate reports	Participate in the community, supporting social causes that are deemed to be strategic	External Relations Policy
	Consumer information and protection	CSR mailbox		
	Responsible purchasing	External Relations and CSR team		
	Eco-efficiency			
	Monetary and in-kind (food) donations			

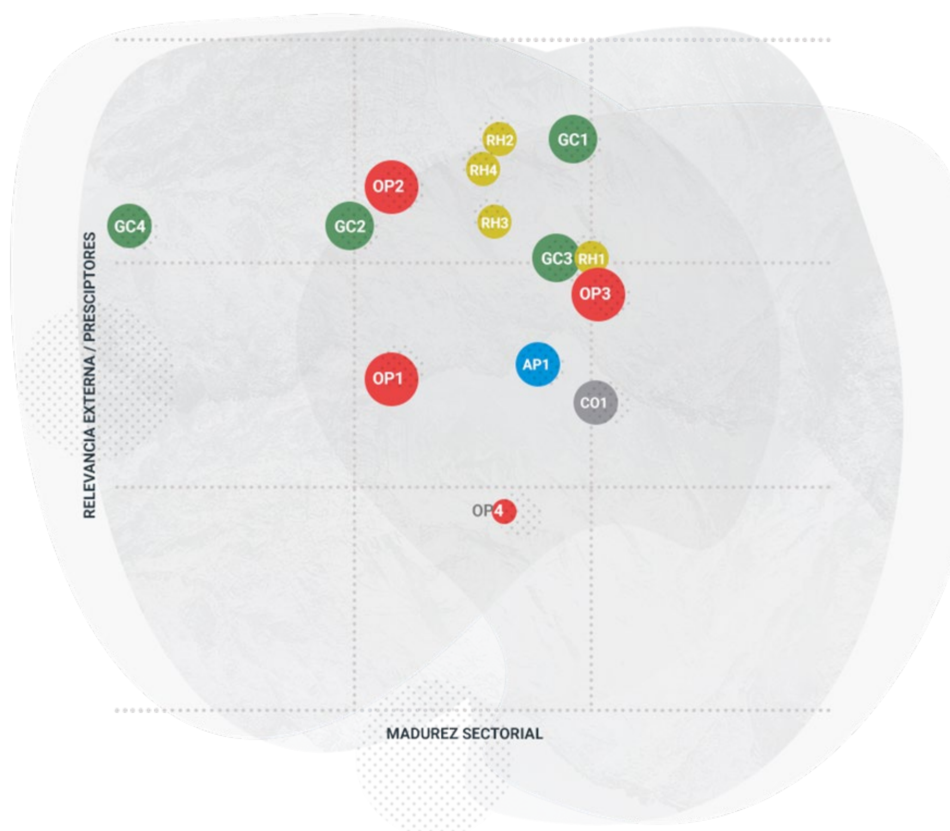
Master plan and materiality matrix

This year we have made progress on the steps needed to approve a CSR Master Plan for the DIA Group (shown in bold in the diagram below), although the process that will lead to approval of this roadmap by the Board of Directors is not yet complete.



As a temporary measure, DIA has a materiality matrix developed in 2016 by the company's management and reviewed in 2017. This matrix incorporates the study of the relevance of the different proposed issues (based on their representativeness for the leading CSR influencers, such as the Dow Jones Sustainability Index, the Global Reporting Initiative sector report, Vigeo, Sustainalytics, the Carbon Disclosure Project, the National Securities Market Commission [CNMV], press analysis or the "Behind the Brands" report), and their historical relevance in the sector at a national and international level (based on a study commissioned by DIA of companies in the sector). This analysis was supplemented with the inclusion of an internal relevance factor for each issue (102-46).

The indicators and information to report externally about our non-financial performance has been defined as a result of this materiality analysis. Neither water consumption (water is exclusively used for cleaning tasks) nor the impact of our activities on biodiversity (since our facilities and activities are located or performed on urban land) nor light or noise pollution (logistics centres are not located in residential area) are considered to be material issues and additional figures are therefore not reported.



Note: the size of the circle represents the relevance of the issue to DIA.

DIA materiality analysis subject	Material issue (according to GRI) to report in the Statement of Non-Financial Information 2018
GC_1. Governance system	Governance
GC_2. Ethics and compliance	Ethics and integrity Anti-corruption Public policy
GC_3.Transparency and investor relations	Involvement of interest groups
GC_4. Tax practices	Financial performance
RH_1. Development of human capital	Education and training
RH_2. Workplace practices	Employment
RH_3. Gender equality	Diversity and equal opportunities No discrimination
RH_4. Health and safety	Health and safety in the workplace
AP_1. Quality and food safety	Client health and safety
OP_1. Franchisee relations	Involvement of interest groups
OP_2. Digital transformation	Education and training
OP_3. Eco-efficiency	Materials Energy Emissions
OP_4. Food waste	Waste
CO_1. Consumer information and protection	Marketing and labelling

(102-47)

Although progress has been made this year to improve our listening processes and to integrate other tools that help the process of prioritising these issues, the final review of the materiality matrix that will define the new CSR Strategic Plan will not be completed until the company's new Strategic Plan has been defined (102-49), as this is a critical input for internally assessing and prioritising the issues to be included. Consequently, this matrix is the same as the materiality matrix used last year (102-49).

Other advances in the CSR field include the start of the dialogue with business areas to jointly define what CSR is and its strategic value; establish cross-functional working groups to tackle specific challenges related to the environment and sustainability; and in particular, the work to define and strengthen the reporting process for the company's non-financial performance.

4.2.1. Clients

The company aims to put its clients at the heart of its decision-making and it has put in place a range of listening systems so that consumers' voices are heard throughout the company.

The company monitors the client shopping experience in real time, both in its physical stores and its e-commerce store, using a specialist measurement system. More than a million opinions are analysed, which form the basis for the improvement actions in each of its stores. Specific action plans can therefore be created that aim to help each store improve the shopping experience. Work is currently being carried out in three fundamental areas that are already beginning to produce clear results, such as reducing in-store shortages, and improvements in the fruit, vegetable and bakery sections.

In addition to gauging the shopping experience, client feedback also influences the company's decisions about range and packaging and when it plans special offers. The DIA Group uses the online DIA Community that gives it access to opinions from clients and non-clients, making it a regular consultation tool for the marketing and sales teams. This client input has helped to improve various projects this year, ensuring that the initiatives that we introduce are well received by consumers.

The penetration of the Club Día mobile app is also enhancing our capacity to reach out to clients more directly, with mobile phones being the most immediate channel for making contact and providing information to them.

One test of this ongoing listening process has been the active participation of clients in the development of the new Dia&Go stores, a project in which they have been involved in the design of the stores, sections and the resulting range.

The aim is therefore to make improving the client experience a priority for the whole of the company, continually listening to the consumer's opinion in everything we develop and guiding the team at every stage.

The actions launched in Spain are being replicated in Brazil, Argentina and Portugal, where they are also following the same model for gauging the client experience.

The DIA Group's channels for directly contacting its clients include:

- Client satisfaction surveys through specific campaigns
- Satisfaction surveys available in-store and online
- Regular magazines for Club DIA and "Expertas" clients
- Club Día shopping app and online shopping.
- Social networks
- Meetings with communities of clients in Spain, Brazil and Argentina
- Customer service
- Quality and food safety service

Loyalty that benefits the actual consumer

In line with our strategy to better understand the needs of our clients, for the last 20 years the DIA Group has had a loyalty club that provides the information it needs about its clients' shopping habits. The Club DIA client card is a tool that really benefits the concept of proximity and client experience, since it enables the company to understand its clients' habits, likes and preferences, and therefore to prepare more personalised and targeted offers.

The benefits that DIA offers to reward client loyalty include access to more than 250 products at even lower prices, fortnightly promotions and discount coupons offering up to 50% off. In Spain, members can pay with their card and defer payment for their shopping on a weekly or monthly basis through the company's financing firm, FinanDIA, which is subject to Bank of Spain supervision, listed in the Register of Credit Institutions, and a member of the National Association of Financial Credit Institutions (ASNEF).

In 2018, 73.6% of sales were made using the loyalty card and more than 22.7 million cards were active at the end of the year.

EVOLUTION OF THE CLUB DIA CARD

	LAUNCH YEAR	HOUSEHOLDS with Card (million)	ACTIVE CARDS 2018 (million)	% SALES WITH CARD	Club Dia TICKETS (million)	COUPONS ISSUED 2018 (million)
SPAIN	1998	21.49	7.73	67.6%	244.33	1,361.06
PORTUGAL	2000	4.51	1.57	65.7%	49.56	114.26
ARGENTINA	2006	9.40	4.79	92.4%	140.81	271.38
BRAZIL	2015	11.04	8.64	86.6%	141.75	259.62
TOTAL		**46.44**	**22.73**	**73.6%**	**576.45**	**2,006.32**

Direct and permanent contact with consumers is complemented with customer support services. This year more than 84,081 enquiries, complaints and suggestions dealing with issues related to stores, products, opening times, online services, etc. were dealt with and analysed.

	Number of enquiries from clients	Number of complaints from clients	Number of suggestions from clients
Argentina	459	4,548	28
Brazil	28,393	47,108	307
Spain	820	2,121	43
Portugal	20	230	4
DIA GROUP	29,692	54,007	382

There were zero incidents at the DIA Group in 2017 and 2018 related to product labelling breaches that resulted in a significant sanction or fine (417-2)[2].

4.2.2. Employees

The DIA Group has a workforce of 43,682 employees at 2018 year end, distributed in four countries: Spain, Portugal, Brazil and Argentina.

Of all employees working in DIA, 69% work in Europe and 31% in Latin America.

[2] The significance thresholds for reporting sanctions are: 0 euros for issues relating to competition; 30,000 euros for issues relating to the environment and 50,000 euros for all other issues.

		Man	Woman	Total
		Total employees by contract type at 31 December (102-8)		
ARGENTINA	Permanent	2,716	1,588	4,304
	Temporary	95	54	149
BRAZIL	Permanent	3,828	5,076	8,904
	Temporary	8	10	18
SPAIN	Permanent	6,163	16,434	22,597
	Temporary	1,412	2,684	4,096
PORTUGAL	Permanent	1,006	1,959	2,965
	Temporary	232	367	599
		Total employees by type of workday at 31 December (102-8)		
ARGENTINA	Full-time	2,585	1,338	3,923
	Part-time	241	338	579
BRAZIL	Full-time	3,723	5,013	8,736
	Part-time	113	74	187
SPAIN	Full-time	6,947	11,543	18,490
	Part-time	628	7,575	8,203
PORTUGAL	Full-time	1,152	2,166	3,318
	Part-time	86	160	246

At 31 December 2018, there are 50 intership contracts in the Group. These have not been included to report employees by contract type. This could also affect the average annual by contract type.

	Outsourcing (subcontractors operating on-site) (102-8)
ARGENTINA	263
BRAZIL	613
SPAIN	568
PORTUGAL	17

		Average annual permanent contracts (%)						
		Men			Women			Country total
		<30 years of age	30-50 years of age	>50 years of age	<30 years of age	30-50 years of age	>50 years of age	
ARGENTINA	Executives	NA	98	100	NA	100	NA	93
	Managers	98	99	99	96	100	100	
	Employees	87	97	92	82	98	82	
BRAZIL	Executives	NA	98	100	NA	100	100	100
	Managers	100	100	100	100	100	100	
	Employees	100	100	100	100	100	100	
SPAIN	Executives	NA	100	100	NA	100	100	83
	Managers	100	100	97	100	100	100	
	Employees	55	86	86	56	89	93	
PORTUGAL	Executives	NA	100	100	NA	100	100	79
	Managers	100	100	100	NA	100	100	
	Employees	51	92	99	55	93	99	

		Average annual temporary contracts (%)						
		Men			Women			Country total
		<30 years of age	30-50 years of age	>50 years of age	<30 years of age	30-50 years of age	>50 years of age	
ARGENTINA	Executives	NA	2	0	NA	0	NA	5
	Managers	2	1	1	4	0	0	
	Employees	9	2	8	9	2	18	
BRAZIL	Executives	NA	2	0	NA	0	0	100
	Managers	0	0	0	0	0	0	
	Employees	0	0	0	0	0	0	
SPAIN	Executives	NA	0	0	NA	0	0	17
	Managers	0	0	3	0	0	0	
	Employees	45	14	14	44	11	7	
PORTUGAL	Executives	NA	0	0	NA	0	0	21
	Managers	0	0	0	NA	0	0	
	Employees	49	8	1	45	7	1	

		Average annual full-time contracts (%)						
		Men			Women			Country total
		<30 years of age	30-50 years of age	>50 years of age	<30 years of age	30-50 years of age	>50 years of age	
ARGENTINA	Executives	NA	99	100	NA	100	NA	85
	Managers	100	100	100	100	100	84	
	Employees	80	96	87	63	85	42	
BRAZL	Executives	NA	100	100	NA	100	100	98
	Managers	100	100	100	100	100	100	
	Employees	97	97	100	99	99	93	
SPAIN	Executives	NA	100	100	NA	100	100	69
	Managers	100	99	97	100	87	100	
	Employees	83	94	90	58	58	65	
PORTUGAL	Executives	NA	100	100	NA	100	100	92
	Managers	100	100	100	NA	100	100	
	Employees	80	99	100	81	97	99	

		Average annual part-time contracts (%)						
		Men			Women			Country total
		<30 years of age	30-50 years of age	>50 years of age	<30 years of age	30-50 years of age	>50 years of age	
ARGENTINA	Executives	NA	1	0	NA	0	NA	15
	Managers	0	0	0	0	0	16	
	Employees	20	4	13	37	15	58	
BRAZL	Executives	NA	0	0	NA	0	0	2
	Managers	0	0	0	0	0	0	
	Employees	3	3	0	1	1	7	
SPAIN	Executives	NA	0	0	NA	0	0	31
	Managers	0	1	3	0	13	0	
	Employees	17	6	10	42	42	35	
PORTUGAL	Executives	NA	0	0	NA	0	0	8
	Managers	0	0	0	NA	0	0	
	Employees	20	1	0	19	3	1	

		New hires and recruitment rate (401-1)						
		Men			Women			Total
		<30 years of age	30-50 years of age	>50 years of age	<30 years of age	30-50 years of age	>50 years of age	
ARGENTINA	New hires	558	148	7	384	61	11	1,170
	Recruitment rate	3.56%	0.82%	1.08%	4.53%	0.53%	4.66%	2.14%
BRAZIL	New hires	1,630	643	25	2,076	1,033	27	5,434
	Recruitment rate	6.36%	3.77%	2.71%	6.85%	4.1%	4.38%	5.45%
SPAIN	New hires	2,583	1,553	131	3,783	4,024	275	12,349
	Recruitment rate	10.53%	2.83%	1,00%	11.24%	2.43%	0.88%	3.82%
PORTUGAL	New hires	493	113	7	665	204	4	1,486
	Recruitment rate	8.03%	1.37%	0.54%	6.76%	1.1%	0.31%	3.28%

		Employee turnover and turnover rate (401-1)						
		Men			Women			Total
		<30 years of age	30-50 years of age	>50 years of age	<30 years of age	30-50 years of age	>50 years of age	
ARGENTINA	Employee turnover	472	250	12	281	122	10	1,147
	Turnover rate	3.01%	1.39%	1.84%	3.22%	1.05%	4.24%	2.10%
BRAZIL	Employee turnover	1,425	726	24	1,629	1,081	19	4,904
	Turnover rate	5.56%	4.26%	2.60%	5.38%	4.29%	3.08%	4.92%
SPAIN	Employee turnover	2,467	1,931	226	3,627	4,850	478	13,579
	Turnover rate	10.06%	3.52%	1.72%	10.78%	2.93%	1.54%	4.20%
PORTUGAL	Employee turnover	484	166	15	693	425	17	1,800
	Turnover rate	7.88%	2.01%	1.16%	7.05%	2.3%	1.32%	3.98%

	Number of terminations - men			Number of terminations - women		
	<30 years of age	30-50 years of age	>50 years of age	<30 years of age	30-50 years of age	>50 years of age
Executives	0	5	11	0	1	2
Managers	3	40	13	1	19	5
Employees	1,120	858	86	1,057	1,577	181

Equal opportunities

The DIA Group is committed to ensuring equal opportunities in the workplace. Women accounted for 64% of the total workforce at the end of 2018 and 27.6% of people in management positions at Group level.

To ensure gender equality, the Group monitors and openly publishes its selection, promotion and occupational training processes, and promotes salary equality in jobs of equal value. In Spain, the Group has had an Equality Programme in place since 2012.

In terms of work - life balance measures, at the beginning of 2018 the Company set up a flexi-time scheme for all staff throughout Spain, which allows employees to shift their clock-in and clock-out times within a two and a half hour range.

Staff distribution by country, status, gender and age at 2018 year-end is as follows:

		Workforce by status, at 31 December (405-1)						Total workforce at 31 December
		Men			Women			
		<30 years of age	30-50 years of age	>50 years of age	<30 years of age	30-50 years of age	>50 years of age	
ARGENTINA	Executives	0	14	3	-	1	-	18
	Managers	36	356	33	22	141	4	592
	Employees	1,203	1,16	21	646	844	18	3,892
BRAZIL	Executives	0	16	3	-	1	1	21
	Managers	10	124	9	4	76	3	226
	Employees	2,263	1,336	75	2,767	2,176	59	8,676
SPAIN	Executives	0	41	43	-	16	22	122
	Managers	10	285	96	13	272	58	734
	Employees	1,996	4,143	961	2,703	13,437	2,597	25,837
PORTUGAL	Executives	0	3	3	-	7	-	13
	Managers	2	38	15	-	46	2	103
	Employees	464	619	94	730	1,436	105	3,448

During 2018, no claims were received in relation to discrimination on the Group's Ethics Channel (406-1; 102-16; 102-17).

Diversity and integration

The DIA Group works to integrate collectives with disabilities in all countries in which it operates. In total, among DIA's workforce at the end of 2018, there were 572 people with some type of physical or intellectual disability. There are currently no executives with a disability.

In Spain, DIA works closely with the Fundación ONCE to integrate persons with disabilities in the workplace through internships.

An independent accessibility diagnosis was completed in 2017 at 10 stores in the Spanish network. This diagnosis will be used as a basis for determining the weak points of the facilities and tackling suitable improvements.

		Disabled employees in the workforce by status, at 31 December (405-1)			
		<30 years of age	30-50 years of age	>50 years of age	Total
ARGENTINA	Executives	0	0	0	4
	Managers	0	0	0	
	Employees	1	3	0	
BRAZIL	Executives	0	0	0	357
	Managers	0	0	0	
	Employees	150	194	13	
SPAIN	Executives	0	1	0	185
	Managers	0	0	0	
	Employees	8	127	49	
PORTUGAL	Executives	0	0	0	26
	Managers	0	2	1	
	Employees	0	16	7	

Remuneration

The DIA Group has performance evaluation mechanisms in place for its workforce. In the case of store and warehouse employees, they are evaluated on their performance and productivity, both on an individual level and in their workplace. In the case of offices, the personal objectives are focused on individual performance and values, and aligned with the Company's results.

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.

All employees who started before 31 August of the current year are evaluated, from team managers up to executives. All other store and warehouse employees are evaluated on a six-monthly basis using a band system that defines their salary range according to the work they perform.

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.

By means of a system that manages employee potential, the company can detect high-potential employees and establish retention measures, including promoting them to a higher job grade, and giving them preference in training processes and internal selection.

Jobs are defined using the internationally renowned *Hay* job evaluation method. This design and management tool provides an overview of the organisation, allowing the incidence of the scope of each job within the organisation to be assessed. This system is applied from teams and managers to Group executives.

The rest of the jobs in the Group are ranked based on the status and responsibility the post holds within the company, as defined by the Human Resources team.

	Average remuneration and other compensation paid (variable pay, productivity bonuses, distribution of profit) by category, gender and age (euros) (405-2) [3]						Salary gap by category (%)
	Men			Women			
	<30 years of age	30-50 years of age	>50 years of age	<30 years of age	30-50 years of age	>50 years of age	
Executives	NA	118,609	136,808	NA	90,806	118,641	83.48%
Managers	22,478	35,610	51,354	20,413	36,152	53,008	99.71%
Employees	11,627	16,750	23,167	11,098	15,171	18,145	94.96%

[3] Everything received by employees in 2018 is considered, except for payment in kind. This includes fixed pay actually processed and paid, additional payments dependent on the working day, productivity and performance bonuses and the distribution of profits. The remuneration of board of directors is detailed in note 22 (Related Parties) of the Consolidated Annual Accounts

In terms of applying policies to guarantee the employee's right to disconnect, to date the company has not applied any proactive mechanism to put this in place.

Health and safety in the workplace

Within the Group's Human Resources policies, one of the main priorities established is the health, safety and well-being of its employees. Hence, DIA is committed to promoting health and safety and incorporating preventive management into all stages of its activity.

DIA is aware of the importance of maintaining suitable prevention conditions, and therefore strictly abides by prevailing legislation and the collective agreements governing our labour relations entail specific points regarding employee health and safety (403-4). There are no records of additional, specific health and safety agreements with trade unions.

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

(403-2)	ARGENTINA		BRAZIL		SPAIN		PORTUGAL	
	Men	Women	Men	Women	Men	Women	Men	Women
Number of workplace accidents	79	19	65	62	743	1,057	137	251
Injury rate	0.23%	0.09%	0.15%	0.11%	0.80%	0.46%	0.87%	0.85%
Lost-day rate	0.43%	0.15%	0.12%	0.08%	0.65%	0.52%	0.52%	0.46%
Hours of absenteeism	157,864	171,319	925,797	1,634,249	667,367	2,696,485	158,169	690,948
Absentee rate	2.40%	4.71%	12.65%	17.10%	4.42%	7.95%	6.05%	13.94%
Serious accidents	0	0	10	12	0	3	0	2
Number of fatalities	0	0	0	0	0	0	0	0

Professional illnesses (403-3)	ARGENTINA	BRAZIL	SPAIN	PORTUGAL
Employees suffering from professional illnesses - Men	2	0	8	0
Employees suffering from professional illnesses - Women	1	1	15	7
Employees suffering from professional illnesses - Total	3	1	23	7

Social dialogue

100% of the employees from Brazil, Spain and Protugal are protected by a collective labour agreement, either at company level or at sector level (in the case of Argentina, this figure accounts for the 68% of the workforce), and the company has 1,115 trade union representatives worldwide (102-41).

Given the countries in which it operates and the significant trade union representation in place, there is no perceived risk of violation of basic human and labour rights (such as child labour or slave labour) (408-1; 409-1). The DIA Code of Ethics and the Group's Ethics Channel set up to implement it also help safeguard the DIA Group's commitment to respecting these values (102-16; 102-17).

Training

The DIA Group has an active policy in terms of talent retention and training, which identifies, recognises, and promotes the value that different profiles generate for the organisation. The company has a total of 31 own training centres for employees who work in stores.

		Training (404-1)					
		Men		Women		Total training hours	Average training hours
		Training hours	Average training hours	Training hours	Average training hours		
ARGENTINA	Executives	53	3.06	24	11.52	77	3.97
	Managers	1,138	2.54	438	2.5	1,576	2.53
	Employees	3,815	1.59	1,958	1.3	5,774	1.48
BRAZIL	Executives	0	0.00	0	0.00	0	0.00
	Managers	1,753	12.36	1,293	15.32	3,046	13.46
	Employees	33,203	9.56	75,017	16.35	108,220	13.43
SPAIN	Executives	787	9.24	734	17.65	1,521	12.00
	Managers	5,683	14.92	5,802	17.3	11,485	16.03
	Employees	29,758	4.11	67,172	3.57	96,930	3.72
PORTUGAL	Executives	42	4.38	15	2.57	57	3.7
	Managers	234	4.31	213	4.53	447	4.41
	Employees	22,834	18.36	31,376	12.99	54,210	14.81

4.2.3. Franchisees

DIA franchisees are one of the mainstays of the company's business model. They are the ideal leverage for the solid expansion of the brands and generate value and wealth in the communities in which they operate in each country. At 2018 year end, the number of franchisee stores in the Group came to 3,547, which is 57.6% of total stores overall.

Its almost 30 years of experience in developing the franchisee model has seen the DIA Group become the number one ranked franchiser in Spain and third in Europe in the distribution sector, according to the international ranking carried out by consulting firm Franchise Direct, based on parameters that take into account financial issues, innovation capacity, environmental action and franchisee support, among other aspects.

The company provides its historical knowledge of the sector and the strength of its brand and logistical developments while the franchisee contributes their sales vocation and local market knowledge, which is key to developing the model of proximity and approachability.

This relationship of trust between the DIA Group and the entrepreneurs also creates value and wealth in the communities in which the franchises are set up. During 2018, the activity of the DIA franchises generated an estimated 23,832 direct jobs.

(102-8)

	No. of franchises 2017	Number of employees in franchise model 2017 (estimate)	Number of franchises 2018	Number of employees in franchise model 2018 (estimate)
Argentina	627	3,890	681	4,256
Brazil	691	11,151	686	9,576
Spain	2,024	7,821	1,871	7,821
Portugal	297	1,952	309	2,179
TOTAL	3,639	24,814	3,547	23,832

Data without Clarel and restated in 2017

Always supporting and listening to the franchisee

The company has a permanent follow-up and support team in place, including the position of shop supervisor, who is tasked with the day-to-day management of the store, the franchise analyst, who is more focused on advising franchisees on economic and financial matters to boost business profitability, or the logistics contact, who deals with and resolves all issues pertaining to orders and organising shipments. In addition to this daily support, the DIA Group works to listen to its franchisees on a continuous and individualised basis, which enables it to provide better, faster responses to issues that may arise in the day-to-day management of the business. This is all channelled through the Franchisee Portal, a digital platform for sharing key information about business, such as assortment, orders, logistics, and access to the store and evolution database.

In addition to this channel, the company provides an exclusive franchisee support service in all the countries in which it operates, accessible by phone or e-mail and geared towards resolving the main doubts and offering immediate support in day to day tasks.

The DIA Group conducts a franchisee satisfaction survey prepared by the independent consultancy firm Nielsen. This survey asks franchisees, confidentially and anonymously, what aspects they would improve, and which ones they are most satisfied with. The Group also publishes a newsletter exclusively for franchisees in all the countries in which it operates, publishing company news, offering useful information for store management and, in short, getting entrepreneurs involved in the Group's current affairs.

Enhancing the model

In line with this continuous franchisee support, during 2018 the DIA Group has set up a programme to enhance the franchisee model. The entire franchise management team in each country and the Human Resources department are taking part, identifying the key points of the model and sharing the "best practices" developed in order to continue to enhance the franchising system and franchisee management. The work team meets every two months to share the demands and needs of the franchise and launch action plans for issues from training to internal process development.

DIA Group franchisees are involved in developing internal applications and projects designed to improve the efficiency of processes. For this purpose, different meetings and discussion forums are organised where small groups of franchisees meet with the staff in charge of the different areas in order to deal with specific day-to-day issues, ultimately improving processes and procedures. The different countries also hold a "Franchise Week", where employees from the different areas attend training talks on the DIA franchise. An integration day is also run with franchisees, wherein they are given the opportunity to exchange opportunities and concerns with the different company heads.

Acknowledging their work

For the fifth consecutive year and in alignment with DIA's steadfast commitment to its franchisees, the "5th DIA Best Franchisee Awards" was held, acknowledging franchisees' hard work, commitment and dedication. In this fifth edition, as with the previous four, the company awarded prizes to the Spanish franchisees that best represented DIA's five corporate values: Client, Efficiency, Initiative, Respect, and Teamwork. For the second year in a row, the DIA Group has given awards to recognise the performance of its best international franchisees in the countries in which it is present: Argentina, Brazil, Spain, and Portugal.

4.2.4. Suppliers

Strategic alliances in the supply chain

(102-9; 102-10)

The DIA Group has a series of commercial alliances aimed at improving negotiation conditions and protecting profit margins while obtaining the best prices for our customers.

Alliance with the Casino Group

At the end of 2017 the DIA Group, in partnership with the French distribution group Casino, created the company CD Supply Innovation S.L., which is headquartered in Madrid. This company is in charge of purchasing both groups' own brands and of managing certain financial and logistics services, such as payments and sourcing. Following completion of this report, and to simplify supplier relations, DIA Group and the Casin decided to return to purchasing their own brands directly and independently without using CD Supply Innovation to manage the sourcing of their respective own brands

On an international level, the alliance with the Casino Group began in 2015, when both entities decided to set up the Geneva based company ICDC Services to negotiate "on top" services. In August 2018, the DIA Group signed an agreement with Auchan, Metro and Casino to create a new joint venture (Horizon International Services) to replace ICDC Services.

Membership of Horizon International Services

In August 2018, the DIA Group joined the international negotiation platform Horizon International Services in order to improve its competitiveness in relations with major suppliers of manufacturer's brands and to bring better offers to consumers in terms of assortment and price. This alliance is founded on balanced and innovative collaboration and other partners involved include Auchan Retail, the Casino Group and Metro.

Horizon International Services is a central forum for negotiating the conditions of international services with major manufacturers and it does not affect own brand items or fresh products.

At the end of this year, the agreement remains pending approval by the competent authorities.

Strategic alliance for consumer financing with CaixaBank

The DIA Group has a strategic alliance with CaixaBank through which it offers a wide range of consumer financing products to more than eight million DIA Club customers. These include the creation of a credit card linked to the DIA Club customer loyalty programme.

The alliance is structured through the purchase by CaixaBank Consumer Finance of 50% of the shares of Finandia, EFC. The aim is to advance in a full consumer financing offering, including debit payment, end-of-month payment, revolving or deferred payments and loans and insurance for loyalty card customers.

On the other hand, during the course of this year the agreement that facilitated the creation of Red Libra Trading Services, a company tasked with negotiating with suppliers of distributor brands for the DIA and EROSKI Groups in order to maximise the price–quality ratio for the consumer, has been terminated.

Wealth generation through local business

Over 85% of the suppliers that the company works with are local, so most of DIA's purchases are from them, as shown in the following table.

Local suppliers (204-1)	Number of local suppliers	Proportion of spending on local suppliers [%]
Argentina	472	96.41
Brazil	993	98.75
Spain	1,481	94.8
Portugal	440	82.48

The company's international profile, its omni-channel concept, and its ongoing development in very different types of markets, offers these suppliers new business opportunities and better knowledge of consumer behaviour. This has been, and continues to be, more noticeable in Latin-American markets where supplier development is an integral part of the development of the DIA Group's activity in itself. In this regard, it is notable that the company participates in the entire product quality assurance process and does not outsource this service to third parties, with the team members performing highly personalised quality monitoring.

Quality: the main commitment

- **100% approved suppliers**: All own-label suppliers must pass strict audits that guarantee the safety of each of the plants that is to produce DIA products.

- **43 in-house laboratories**: The DIA Group has a total of 43 in-house laboratories that conducted a total of 910,015 internal analyses this year as part of its control programme for products manufactured under its own labels.

- **23,153 external analyses**: Moreover, the DIA Group works with approved external laboratories where further analyses are carried out in addition to the internal checks. (416-1).

Number of incidents arising from non-compliance with health and safety in the context of legal regulation, leading to a fine or material sanction (416-2): 0 incidents.

Responsible management of relationships with suppliers

The DIA Group selects its suppliers based on criteria relating to competition, process efficiency, and maximum product quality. As we have highlighted in previous sections, all of DIA's suppliers of own-label products are subject to internal and external audits that take place periodically throughout the course of the relationship.

The DIA Group does not have a purchasing policy as such in which to include the social and environmental principles applicable to its relationships with suppliers. To date, the Company has deemed it sufficient that all contracts held with suppliers include a clause indicating that the Company is a signatory of the United Nations' Global Compact. In accordance with these instruments, the DIA Group's relationship with its suppliers could lead to penalties or the contract being rescinded if there is any violation of any of the principles included in the Global Compact. In addition, all suppliers have been proactively informed about the rollout of the DIA Group's Ethics Channel, and they have been encouraged to use it in the event of any non-compliant situation being detected. To date, no risk analysis has been carried out relating to non-compliance of human and occupational rights in the DIA Group's supply chain, nor have any audits of social or environmental issues been done as part of supplier audits (308-1; 414-1), however, preliminary steps have been taken to tackle this matter in the coming year.

4.2.5. Investment community

The DIA Group has a team responsible for ensuring a direct, transparent and smooth relationship with its investors. The principles that govern this team are approved by the Management Board in its Investor Communication Policy.

The company's stock market performance during 2018 was characterised by the different share capital movements carried out by the key shareholder, Letterone Investment Holdings, whose shareholding at year end was 29% of capital.

The shareholders and investors have a series of communication channels available that provide detailed stock market and business information on the company, thus keeping an effective and transparent dialogue open.

Through the corporate website, www.diacorporate.com, the company offers real-time information on stock evolution, significant events, Corporate Governance and financial results, as well as offering the option to sign up for highlights notifications. The website meets all the technical and legal specifications set forth by the National Securities Market Commission in its Circular 3/2015 of 23 June.

The DIA Group's Investor Relations department organised more than 350 different information activities on different platforms, including on-site meetings, webcasts and conference calls (102-43). These were all aimed at offering the most up-to-date and accurate information to the market and shareholders.

On 10 December, the IBEX Technical Advisory Committee decided to remove DIA from the Ibex35 selective index, and it has been trading on the Spanish continuous market since 24 December 2018. The DIA Group has been present in the FTSE4Good international stock market index since 2015, which includes listed companies from around the world that offer information about parameters such as corporate social responsibility practices related to the environment, shareholder relations, and human rights.

4.2.6. Environment

The DIA Group's commitment to the environment is defined in its Environmental Policy, endorsed by the Board of Directors in 2016. This policy sets forth the objectives both in terms of operations and the organisational culture guiding the company's activities, and is an area which is gaining increasing importance in the company's competitive setting. The performance attained in each of these objectives is set forth below:

1. Complying with existing regulations

Abiding by the law is the first mainstay upon which the DIA Group's work for the environment is based.

By following up the development and publication of new environmental regulations in collaboration with business associations, environmental organisations, etc. the DIA Group stays on top of any new legal requirements from the outset, and is able to anticipate these to ensure compliance.

Although due to their nature, the DIA Group's activities do not pose a serious environmental risk, any incidents that could arise in this regard are identified and monitored by the legal risk map designed and implemented by the legal department (102-11).

No significant fines have been imposed for breach of regulations during this year (307-1)[4] and no guarantee provisions have been made in this respect. The Parent company's Board of Directors considers that no significant contingencies exist concerning the protection and improvement of the environment and, accordingly, no provision has been made in this regard.

2. Promoting the responsible use of resources

Streamlining consumption of resources applies to both activities relating to the definition and development of products, the packaging of which is designed using eco-design criteria, and to supply chain operations: transport, storage and distribution of these products.

In this regard, one of the initiatives embarked upon in 2018 has been to replace single-use cardboard boxes with reusable boxes in the fruit section. Through this initiative DIA Spain has managed to reduce the environmental

[4] The significance thresholds for reporting sanctions are: 0 euros for issues relating to competition; 30,000 euros for issues relating to the environment and 50,000 euros for all other issues.

impact of its fruit and vegetable distribution by 25%, according to data from a study by ARECO (the Association of Environmentally Sustainable Reusable Items for Logistics Operators). Specifically, this improvement, which entails moving 50 million boxes per week, has cut down on over 17,000 tonnes of CO2 emissions and 300,000 m3 of water consumption, as well as reducing food waste in this category considerably, According to an IFCO study. Additionally, plastic blister packaging has been replaced with paper versions, which has meant 75,000 kg less plastic has entered the marketplace.

Furthermore, in line with the regulatory developments and environmental demands regarding plastic, the DIA Group has created a multi-disciplinary work group to tackle streamlining of single-use plastic in both packaging and wrapping and in products. The project began in Spain in the fruit and vegetable section and will continue to be expanded category by category. The next step will be to complete the analysis of the remaining fresh produce sections and own-label products and expand on what has been learned in Spain to the rest of the countries.

In each of these categories, improvement opportunities are analysed alongside our suppliers in accordance with a waste hierarchy model:

- Eliminating plastic packaging where its use is not sufficiently justified
- Replacing plastic packaging with more environmentally friendly alternatives, based on a simplified study of the life cycle analysis carried out for this purpose
- Reducing plastic packaging where the aforementioned measures are not possible
- Verifying the recyclability of packaging components to ensure greater actual recycling rates

After analysing all the SKUs and alternatives available on the market, the plans outlined by the DIA Group to reduce plastic packaging in fruit and vegetables are:

- To facilitate bulk buying provided sales and food waste levels are not significantly affected (pilot trials are being done on some SKUs to test these issues).
- To eliminate expanded polystyrene trays in all SKUs in the first quarter of 2019. These trays will be replaced, preferably, with trays made from recycled PET, recycled/certified paper or agricultural fibre sources.
- To reduce plastic packaging on SKUs for which there is no commercial or environmentally viable alternative (some alternatives have been ruled out because they multiply costs by four, or because transparent recycling channels do not exist). The company is working to achieve full recyclability for the remaining plastic packaging in use.

In addition, during 2018 efforts have been made to source alternatives to reduce the environmental impact of using plastic bags. As well its commitment to cutting back on single-use plastic and instead using reusable alternatives, the DIA Group has started offering its customers in Spain the option of using reusable rigid bags made from up to 70% recycled plastic, one of the options on the market with the lowest environmental footprint. We are also testing out using FSC paper for both rigid bags and sectioned bags, as alternatives to the traditional plastic bag. These options, which are printed with messages of environmental awareness for the public, will be available at all of our stores next year. 2019 will be the year in which single-use plastic utensils will also be done away with, replacing them with other options with a lower impact on littering.

The table below outlines usage of the different materials in the DIA Group.

Materials consumed in 2018, by major groups (301-1)	ARGENTINA	BRAZIL	SPAIN	PORTUGAL	TOTAL
Paper and cardboard	918,850	3,589,502	5,371,342	1,034,465	10,914,159
Plastic	867,910	99,964	657,000	33,726	1,658,600
Others	286	7,980	830,618	9,489	848,373

3. Managing waste by following the waste hierarchy model, prioritising waste prevention and avoiding waste disposal where possible.

The work carried out in Brazil is a perfect example of how this commitment is being implemented. In 2018, Brazil has made the necessary efforts, including a preliminary pilot trial, to start up a project aimed at achieving zero waste (i.e. sending zero waste to landfill, instead recycling and recovering each waste component generated), following the principles of circular economy, by 2019. As with Brazil, in Spain a zero waste project has been assessed for testing in 2019 in the three warehouses in the central region, which account for 30% of the waste generated by DIA Spain.

The following table shows waste generated by the DIA Group, which in the case of non-hazardous waste has decreased by more than 1,300 tonnes with respect to the prior year. In the case of hazardous waste, the reduction has been a little over 7 tonnes (10% above 2017 figures).

(306-2)

	Non-hazardous waste				
		Generated (Kg)	% Recycled	% Reused	% Landfill
ARGENTINA	Toner	-	-	-	-
	Organic material	1,733,970	-	-	100.00
	Scrap metal	-	-	-	-
	Plastics	602,100	100.00	-	-
	Wood	-	-	-	-
	Paper/Cardboard	2,727,681	100.00	-	-
	RAEE	-	-	-	-
	Others	-	-	-	-
	Total	5,063,751	65.76	-	34.24
BRAZIL	Toner	1,038	-	100.00	-
	Organic material	12,126,572	-	-	100.00
	Scrap metal	481,855	100.00	-	-
	Plastics	827,087	100.00	-	-
	Wood	1,542	-	100.00	-
	Paper/Cardboard	4,560,027	100.00	-	-
	RAEE	-	-	-	-
	Others	6,848	100.00	-	-
	Total	18,004,969	32.63	0.01	67.35
SPAIN	Toner	20,557	-	30.31	69.69
	Organic material	27,851,820	0.57	-	99.43
	Scrap metal	733,010	100.00	-	-
	Plastics	3,132,670	100.00	-	-
	Wood	2,003,610	-	100.00	-
	Paper/Cardboard	49,495,780	100.00	-	-
	RAEE	35,787	100.00	-	-
	Others	-	-	-	-
	Total	83,273,234	64.31	2.41	33.27
PORTUGAL	Toner	-	-	-	-
	Organic material	2,057,580	76.58	-	23.42
	Scrap metal	67,760	-	100.00	-
	Plastics	482,670	100.00	-	-
	Wood	373,122	-	100.00	-
	Paper/Cardboard	7,482,260	100.00	-	-
	RAEE	-	-	-	-
	Others	6,026,460	-	-	100.00
	Total	16,489,852	57.86	2.67	39.47
DIA GROUP	TOTAL	122,831,806	58.86	2.00	39.14

	Hazardous waste	Generated	% Recycled	% Reused	% Landfill
ARGENTINA	Batteries (Kg)	0	-	-	-
	Fluorescent bulbs	50	-	-	100.00
	Total	50	-	-	100.00
BRAZIL [5]	Batteries (Kg)	0	-	-	-
	Fluorescent bulbs	0	-	-	-
	Total	0	-	-	-
SPAIN	Batteries (Kg)	61,976	100.00	-	-
	Fluorescent bulbs	131	100.00	-	-
	Total	62,107	100.00	-	-
PORTUGAL	Batteries (Kg)	2,820	100.00	-	-
	Fluorescent bulbs	0	-	-	-
	Total	2,820	100.00	-	-
DIA GROUP	**TOTAL**	**64,977**	**99.92**	-	**0.08**

[5] Hazardous waste management is not recorded in Brazil as it is included in general service contracts.

During 2018, the DIA Group also continued working to minimise food waste, concentrating its efforts on the following lines of action:

- prevention in our operations: with programs for inventory optimisation and waste reduction in-store
- and food deliveries for the needy. In 2018, a total of 1,382,865 million kg of food was handed out from DIA stores and warehouses
- raising public awareness (with the collaboration of AECOC)

4. Adopting measures to reduce the emission of greenhouse gases.

Product distribution and sales activity calls for the consumption of significant energy resources in stores, warehouses and transportation and the resulting greenhouse gas emissions.

DIA has a Group risk management model that identifies, evaluates, prioritises and monitors risks related to its activity. Some of these risks are environmental in nature and they may affect the company in the short, medium or long term. Additionally, DIA's Environmental department identifies in detail any climate-related risks, such as an increase in temperatures and the subsequent rise in stores' energy consumption, or an increase in landfill rates due to changes in the legislation on waste.

DIA operates in a transparent way, reporting on its climate risks and its response to them via the public CDP Project, which provides details of the type of climate risk faced by the company.

	Energy consumption and refrigeration gases 2018			CO2 emissions (Tn CO2 eq)
Scope 1	Stationary sources (GJ)	Argentina	-	-
		Brazil	7,920	506
		Spain	-	-
		Portugal	494	27
		TOTAL	**8,414**	**533**
	Logistics (Gj)	Argentina	174,209	12,974
		Brazil	392,949	29,264
		Spain	1,186,161	88,336
		Portugal	204,066	15,197
		TOTAL	**1,957,385**	**145,771**
	Company cars (Gj)	Argentina	10,781	769
		Brazil	-	-
		Spain	12,787	953
		Portugal	21,241	1,585
		TOTAL	**44,809**	**3,307**
	Refrigeration gases (Kg) (305-6[6])	Argentina	29,274	85,762
		Brazil	21,945	41,831
		Spain	85,745	147,552
		Portugal	10,118	25,310
		TOTAL	**147,082**	**300,455**
Scope 2	Electricity consumption[7] (Gj)	Argentina	485,091	52,552
		Brazil	306,665	3,628
		Spain	2,570,308	198,834
		Portugal	399,545	17,752
		TOTAL	**3,761,609**	**272,766**

[6] *Details of reported gases: R134A, R290, R404A, R407A, R407C, R407F, R410A, R417A, R422A, R422D, R427A, R438A, R442A, R448A, R449A, R450A, R513A, R513A, RS45, RS70 and R22, relating to a total of 1.89 tonnes of CFC-11 equivalent from R-22 gas only. Spain and Brazil estimate gas consumption for December.*
[7] Electricity consumption in the last two months of the year for Spain; 2.9% of Portugal's electricity consumption is estimated.

(302-1; 305-1; 305-2[8])

In this context, DIA is proactively seeking how we can adapt to the consequences of climate change, from its different departments, the DIA Group continues to implement eco-efficient solutions and projects to reduce carbon footprint, continuously improving the facilities and procedures in place.

In terms of scopes 1 and 2, the DIA Group's carbon footprint has improved, with 60,000 tonnes of carbon emissions reduced in 2018, i.e. 8% (305-5)[9]. This improvement is due to eco-efficiency measures developed during the year. Some of the most relevant measures are set forth below:

- Installing doors in refrigerator section walls:

[8] At the publication date of this report, the data for scope 3, which represents approximately 25% of the Group's total carbon footprint, is not available. This data will be set forth in the Carbon Footprint report that will be posted on the corporate website in July and which is independently audited, and the CDP questionnaire on climate change is presented.
[9] The improvement figure for eco-efficient projects undertaken is an estimated an annualised figure. Beyond those set out for logistics activity in Spain, the DIA Group has no specific emissions reduction targets.

Work is ongoing throughout all regions to install doors in refrigerator sections. These doors keep temperatures in the chilled cabinets steady and reduce the electricity consumption of equipment by up to 20%. This improvement is expected to be rolled out to all own-store equipment in the coming years.

- Reducing emissions attributable to the refrigeration systems:

  Replacing the gases in refrigeration rooms and equipment with other more environmentally friendly gases is still one of the main areas of work to be done to cut down on the company's carbon footprint. In Spain and Portugal, the improvements associated with replacing gases improved CO2 emissions by over 30% in 2018.

- Logistics optimisation:

  Within the framework of the Lean & Green project, the DIA Group has added the objective of reducing greenhouse gases generated by logistics operations in Spain by 20% within a 5-year period. The plan established to achieve this, the implementation and performance of which will be audited by an independent third party and which is already underway, includes completely renewing the fleet, providing drivers with training in efficient driving, and increasing night-time unloading to avoid the hours of heavier traffic congestion. These and other measures should enable the reduction target set for 2022 in Spain to be met.

5. Actively working on identifying improvement opportunities

Monitoring the legislation, the environmental diagnosis of DIA facilities and activities, supervising environmental indicators and analysing the results are the tools used by the DIA Group to identify environmental improvement opportunities for the company:

- Monitoring the legislation:

  A sound knowledge of the applicable environmental legislation is the starting point for establishing plans of action that enable facilities and procedures to be adapted to the current and future regulatory framework.

  This is why monitoring the legislation is an important measure for identifying improvement opportunities.

- Environmental diagnosis:

  The environmental auditing of facilities and activities carried out regularly by the Environmental area enables DIA to assess the level of regulatory compliance (with legislation and in-house standards), as well as to identify improvement opportunities.

- Supervising environmental indicators and analysing results:

  The DIA Group measures and analyses environmental performance in accordance with indicators established in the *GRI Sustainability Reporting Framework*.

6. Encouraging staff through training and awareness initiatives

One of the commitments set forth in the DIA Group Environmental Policy is to encourage staff through training and awareness initiatives so that they can actively participate in the fulfilment of these environmental commitments.

To this end, a series of information and training initiatives have been set up in 2018 regarding different environmental issues:

- Streamline use of resources: posters in workspaces to raise awareness of the importance of reducing the use of water, energy and material resources (paper, cling film, etc.).

- Adequate waste management: training sessions geared towards warehouse and store staff to promote the separation of reusable, recyclable and recoverable waste components at source.

- Regular nuggets of information on environmental matters in the CSR Newsletter: energy efficiency, renewable energy, alternatives to plastic, waste (textiles, packaging, etc.).

4.2.7. Society

DIA's commitment to society, like any business, can only be built on the respect for the legality of each of the operations undertaken. In this regard, it should be noted that the company has not received any fines for non-

compliance with social or economic legislation in 2018[10] (419-1). Tax governance and tax discipline are not only of significance from the legal standpoint, but rather this area is garnering increasing interest from the different interest groups. For this reason, a specific section is included herein to describe the company's policy in this regard.

Lastly, the association and sponsorship activity carried out by the company in the different areas will also be described. This is important work through which DIA connects with the social awareness of its customers and staff, supporting social causes that are important to them. Having said that, the company is very aware that the greatest impact it can have on society is that which derives from its core business, in other words, successfully supplying products that meet all their customers' needs and making them accessible to everyone, creating quality jobs and entrepreneurship opportunities and, finally, generating wealth through local business and supplier development.

Economic value generated, distributed and retained by the DIA Group (euros) (201-1)		
	31/12/2017	31/12/2018
Economic value generated	**8,383,136**	**7,506,606**
Net business turnover	8,217,670	7,288,825
Other income	153,075	134,531
Profit on the sale of subsidiaries	0,000	9,265
Financial income	12,197	6,480
Gain from net monetary position	0,000	67,505
Income from companies using the equity method	194	0
Economic value distributed	**8,188,360**	**7,485,331**
Goods and other consumables	6,563,764	5,817,011
Personnel expenses	743,470	713,370
Operating expenses	614,611	628,429
Impairment of trade debtors	21,277	27,795
Losses on disposal of assets	17,214	25,414
Financial expenses	65,687	85,205
Profit/(losses) of companies accounted for using the equity method	0,000	1,183
Tax on profits	52,013	186,924
Dividends	110,324	0,000
Economic value retained	**194,776**	**21,275**

(201-4)	ARGENTINA	BRAZIL	SPAIN	PORTUGAL
Public grants received in 2018 (euros)			859,677.15	

The majority of the public grants received in Spain (Euros 796,287.82) relate to credits in social security payments.

Tax Liability

As a result of the reform of the Spanish Capital Companies Law, effective from 1 January 2015, a series of new non-transferable powers were established Board of Directors of the DIA Group, including designing the company's tax strategy, approving operations involving special tax risk and operations pertaining to determining the policy for risk control and management, including tax risks.

Tax Strategy

The DIA Group's tax strategy was approved by the Board of Directors in 2015 and its main aim is to ensure compliance with tax regulations while ensuring that the Company's interests are covered and supporting the Group's business strategies.

The tax purposes, principles and good practices comprising the DIA tax strategy should guide decision making at all levels.

[10] The significance thresholds for reporting sanctions are: 0 euros for issues relating to competition; 30,000 euros for issues relating to the environment and 50,000 euros for all other issues.

As part of the Good Tax Practices guiding DIA's activity, the tax strategy establishes that DIA does not use opaque corporate structures of any kind or companies located in tax havens for the purposes of concealing relevant information from the tax authorities.

As shown in the corporate and share capital structure section of this report, DIA policies do not allow transactions in tax havens for tax purposes or in any of the jurisdictions included in Spain's regulatory list of tax havens or the European Union's blacklist.

The DIA Group is also committed to complying with the "OECD Guidelines for Multinational Enterprises" and the OECD's BEPS reports on tax avoidance.

Tax Risk Control and Management System

The guiding principles of the DIA Group's tax strategy include that it will develop the Risk Management Policy and establish a specific tax risk control and management system.

As a result, DIA has designed a System for the Control and Management of Tax Risks, which in addition to meeting the legal requirements, provides guidelines for the company in this area. Thanks to this policy and its associated management system, the following progress has been made:

- Including the tax area manager as a permanent member of the Country and Group Risk Committee.
- Developing and drawing up the Tax Risk Control and Management Manual in line with the DIA Group's Risk Management Policy. Therein, in addition to establishing the procedure and methodology for tax risk management, the roles and responsibilities for proper administration of these risks are also defined.
- Designing a Tax Risk Control and Management System, even where the legal standards do not strictly require it. The aim of this System is to identify the main tax risks in order to evaluate and prevent them: For these purposes:
    - Controls are defined within the different tax processes that are documented through risk matrices and controls (more than 90% of the controls defined are key controls).
    - The controls established are assessed annually, using SAP GRC.
    - In addition to the obligatory mention of control and tax risk management in the Annual Corporate Governance Report, the results of the annual review of the Tax Risk Management and Control System are reported to the Board of Director's Audit and Compliance Committee.

	Profits generated before tax (thousands euros)	Tax paid (thousands euros)
ARGENTINA	-4,694	-3,290
BRAZIL	-8,408	-7,753
SPAIN	-81,657	-6,107
PORTUGAL	-17,184	-1,694

Profit and tax figures from Paraguay (156,000 and 0 euros, respectively) included as part of Argentina; profit and tax figures from Switzerland (42,000 and -8,000 euros, respectively) included as part of Spain.

Partnerships to cope with global challenges

The DIA Group's dialogue and collaboration with third parties always respects the DIA Code of Ethics and the spirit of the Corporate External Relations Policy. Although DIA has its own institutional agenda, it is aware that many of the global challenges faced by the sector and society as a whole require the different players to participate in a coordinated manner. For the sake of transparency, below are the sector associations with which the DIA Group is involved worldwide (102-13):

- Eurocommerce: DIA is present in this European distribution union through its participation in ASEDAS.
- ASEDAS (Asociación Española de Distribuidores de Autoservicio y Supermercados - Spanish Association of Distributors, Self-service Chains, and Supermarkets). The company is part of the management board.
- CEDAC (Consejo de Empresas de Distribución y Alimentación de Cataluña - Council of Distribution and Food Companies of Catalonia). The company is part of the management board.

- Spanish Network of the Global Compact. The DIA Group has been a member since 2012.
- Ecoembes. The DIA Group is a founder member and member of the Management Board.
- AECOC: Asociación Española de Fabricantes y Distribuidores - (Spanish Association of Manufacturers and Distributors). The DIA Group is on the Management Board through its CEO.
- CEL (Centro Español de Logística - Spanish Logistics Centre). The DIA Group has been present in this organisation since 1995 and occupies the vice-presidency of the management board.
- PACKNET (Plataforma Tecnológica Española de Envase y Embalaje - Spanish Technological Platform of Containers and Packaging).
- AEA (Agencia Española de Anunciantes - Spanish Advertisers' Agency) - the DIA Group has been a member since 2001.
- AGERS (Asociación Española de Gerencia de Riesgos y Seguros - Spanish Association of Risk Management and Insurance).
- IGREA (Iniciativa de Gerentes de Riesgos Españoles Asociados - Initiative of Associated Spanish Risk Managers).
- Expofranquicia: The DIA Group is a member of the organising committee.
- Asociación Española de Franquiciadores (Spanish Franchisers' Association): The DIA Group has been a full partner since 1992, and a member of the management board.
- AUTELSI (Asociación Española de Usuarios de Telecomunicaciones y de la Sociedad de la Información - Spanish Association of Telecommunications Users and of the Information Society).
- ISMS FORUM (La Asociación Española para el Fomento de la Seguridad de la Información - Spanish Association for the Advancement of Information Security).
- ISACA (Information Systems Audit and Control Association).
- AERI (Asociación Española de Relaciones con Inversores - Spanish Association of Investor Relations) - the DIA Group has been a member since 2012 and holds the post of Treasurer.
- AOP (Asociación de Operadores para la Portabilidad - The Association of Operators for Portability) - the DIA Group has been a member since 2009.
- APED (Associação Portuguesa de Empresas de Distribuição - Portuguese Association of Distribution Companies): This is the supermarket union in Portugal.
- APF (Associação Portuguesa de Franchising - Portuguese Franchising Association): This is the franchise association in Portugal.
- ASU (Asociación de Supermercados Unidos - Association of United Supermarkets): This is the supermarket union in Argentina.

The DIA Group is adequately registered as a business lobby for its interaction with the European Union, although in 2017 this activity only took place through its unions in Spain and Portugal.

In order to maintain its commitment to responsibility and respect for the environment in which it operates and the people with whom it works, as mentioned above, DIA collaborates with different non-profit entities and associations to develop charity actions (102-12). During 2018, the company focused its social projects once again on bringing food to the largest number of people possible, in line with what it can do most efficiently, its main business activity. Moreover, in Spain, the DIA Group has continued its sponsorship of the Spanish Basketball Federation. Pursuant to this sponsorship, several projects have been launched related with the causes that the company identifies with most: promoting sports, gender equality, and supporting the most vulnerable members of society -children. In turn, Argentina, Brazil and Portugal have invested in various social awareness programmes, both for employees and customers worldwide.

Below is a list of just some of the initiatives promoted by the DIA Group in the different regions.

Argentina	Brazil	Spain	Portugal
Day of the Child: "Sumemos sonrisas" children's hospital fundraiser	Dreams race in favour of children with cancer	Snacks together with the Red Cross in Galicia and Extremadura for children at risk of exclusion	"Futebol de rua da CAIS" Project
"Ponete el guardapolvo" school supplies campaign	Clothes collection campaign among employees in Brazil	Campaign for children without alcohol, a challenge for everyone	Support for the Portugal fires
	"Un golazo de Solidaridad" ("A Solidarity Goal") football tournament	2nd Race against child poverty together with Save the Children in Seville	
"Navidad es Compartir" Christmas campaign	"DIA para hacer el Bien" ("Day to do Good") in the fight against hunger	8th Race against Rare Diseases in Madrid	
	Christmas presents for the children of Brazil	Family solidarity walks in Avilés and Gijón in favour of the most needy members of the population	

It is worth mentioning that DIA Group's economic contribution to foundations or non for profit organization is alwyas made in the context of specific projects like the ones mentioned above.

INFORMATION BASIS FOR PREPARATION OF NON-FINANCIAL INFORMATION STATEMENTS AND GRI INDEX

The Management Report for the DIA Group consists of its financial and non-financial information, based on the recommendations of the CNMV's "Guide for the Preparation of Management Reports of Listed Companies" and the requirements of the new Law 11/2018 on non-financial information of 28 December 2018. This integrated approach therefore encompasses the information required to understand the Group's evolution, results and financial situation, and the information needed to appreciate the impact of the DIA Group's activities on the environment, society and its employees.

The Non-financial Information Statement is issued annually (102-52) and entails consolidated data from the Company overall[11] for all of 2018[12] (102-50).

This information is presented in accordance with the Global Reporting Standards "Core" option (102-54), in line with last year's Business and Sustainability Report (102-51). A Global Reporting Initiative (GRI) table is show below, which helps to find the key indicators in the text[13]. The report provides information to facilitate understanding of non-financial performance for those indicators or matters for which it has background data. Any data that had to be estimated due to missing records at year end are duly highlighted. Any omissions, if greater than 5% of the figure, are also highlighted.

For any general enquiries about this report, interest groups should contact the External Relations and CSR Department at Jacinto Benavente 2A, 28232 Las Rozas de Madrid, or by email to comunicacion@diagroup.com and rsc@diagroup.com (102-53).

[11] This report does not include in its consolidated data the activity of Finandia E.F.C., S.A.U. For non-financial performance purposes, this subsidiary has 8 employees. The Swiss subsidiary DIA World Trade, which has at least 5 employees, consolidates as 'Spain'; the subsidiary DIA Paraguay, S.A., which has one employee, consolidates as 'Argentina' (102-48). In addition, the activities of Clarel and Max Descuento in Spain and Portugal have been discontinued and restated as they are pending sale. These businesses have 3,709 respectively, which have been accounted for.

[12] The final performance of certain environmental indicators has had to be estimated as it was not possible to obtain information on consumption for the last month(s). Where this has been the case, it is reported according to the indicator.

[13] The level of compliance of this report with the Global Reporting Initiative (GRI) is being externally verified by PriceWaterhouseCoopers (102-56).

Global Reporting Standard equivalence of ACT 11/2018, which amends article 49 of the Trade Act: Global Reporting Standard

Global Reporting Standard equivalence Act 11/2018: Global Reporting Standard		GRI	Material for DIA	Scope	Page
Business model	Brief description of the Group's business model, including: 1.) business setting, 2.) organisation, 3.) geographical presence, 4.) objectives and strategies, 5.) main factors and trends that can affect outlook.	102-2, 102-6	Yes	Global	2A, 11B
Policies	The policies applied by the Group in relation to these points, including: 1.) due diligence procedures applied to identify, assess, prevent and mitigate risks and significant impacts 2.) verification and control procedures, including what measures have been adopted.	GRI 103: Economic, environmental and social performance factor	Yes	Global	10B-34B
Policy results	The results of these policies should be relevant non-financial key performance indicators that enable:	GRI 103: Economic, environmental and social performance factor	Yes	Global	10B-34B
KPIs	1.) progress to be monitored and assessed, and 2.) comparisons to be made between companies and sectors, according to the national, European or international benchmark frameworks used for each area.				
Risk management	The main risks relating to these matters with regard to the Group's activities, including where relevant and proportional, trade, product or services relations that could have a negative effect in these areas and *how the Group manages these risks, *explaining the procedures used to detect them and assess them according to the national, European or international benchmark frameworks used for each area. *Information should be included on the impacts detected, showing a breakdown, particularly on	102-15	Yes	Global	6B

	the main short, medium and long-term risks.				
Environmental issues	**Global Environment**				
	1.) Detailed information on the current and foreseeable effects of the Company's activities on the environment and, if applicable, on health and safety, assessment procedures or environmental certification; 2.) Resources dedicated to environmental risk prevention; 3.) Application of the principle of precaution, the amount of provisions and guarantees for environmental risks.	GRI 103: Environmental focus, 102-11, 307-1	Yes (OP3. Eco-efficiency)	Global	27B-33B, 6B, 28B
	Pollution				
	1.) Measures for preventing, reducing or offsetting carbon emissions that seriously affect the environment; 2.) Taking into account any kind of atmospheric pollution specific to an activity, including sound and light contamination.	GRI 103: Emissions management approach, 305-2, 305-5, 305-6	Yes (OP3. Eco-efficiency)	Global	31B-33B
	Circular economy and waste management				
	Waste: Measures for prevention, recycling, reusing, other forms of recovery and waste elimination;	GRI 103: Waste management approach, 306-2	Yes (OP3. Eco-efficiency)	Global	29B-31B
	Actions to combat food waste.	GRI 103: Waste management approach	Yes (OP4. Food waste)		
	Sustainable use of resources				
	Water consumption and water supply according to local limitations;		No material	Global	
	Consumption of raw materials and measures adopted to improve efficiency of use;	301-1	Yes (OP3. Eco-efficiency)	Global	29B
	Direct and indirect consumption of energy, measures adopted to improve energy efficiency and use of renewable energies.	GRI 103: Energy management approach, 302-1	Yes (OP3. Eco-efficiency)	Global	31B-33B
	Climate Change				
	Significant elements of greenhouse gas emissions generated as a result of Company activity, including the use of goods and services it produces; The measures adopted to adapt to the consequences	GRI 103: Emissions and energy management approach,	Yes (OP3. Eco-efficiency)	Global	31B-33B

	of climate change;				
	Medium and long-term voluntary reduction targets for greenhouse gas emissions and the measures implemented for this purpose.				
	Protection of biodiversity				
	Measures adopted to preserve or restore biodiversity;		No material	Global	
	Impacts caused by activities or operations in protected areas.		No material	Global	
Social and employee issues	**Employees**				
	Total number of employees by gender, age, country and professional category;	102-8, 405-1	Yes (RH2. Labour practices)	Global	19B, 25B, 22B
	Total number of employees by type of contract,	102-8	Yes (RH2. Labour practices)	Global	19B, 25B
	Average annual number of permanent contracts, temporary, full and part-time contracts by gender, age and professional category,	102-8	Yes (RH2. Labour practices)	Global	19B, 25B
	Number of terminations by gender, age and professional category;	401-1	Yes (RH2. Labour practices)	Global	21B
	Average remuneration and evolution by gender, age and professional category or equivalent value;	405-2	Yes (RH2. Labour practices)	Global	23B
	Wage gap, remuneration of equal jobs or company averages,	405-2	Yes (RH3. Gender equality)	Global	23B
	Average remuneration of board members and executives, including variable remuneration, allowances, indemnities, payment of long-term savings plans and any other benefit, broken down by gender,	GRI 103: Diversity management approach	Yes (RH3. Gender equality)	Global	22B, 23B
	Implementation of policies safeguarding employees' right to disconnect,	GRI 103: Employment management approach	Yes (RH2. Labour practices)	Global	18B-21B
	Employees with disabilities.	405-1	Yes (RH2. Labour practices)	Global	22B
	Work organisation				
	Organisation of work time	GRI 103: Employment management approach	Yes (RH2. Labour practices)	Global	18B-21B
	Hours of absenteeism	403-2	Yes (RH2. Labour practices)	Global	24B
	Measures adopted to facilitate work - life balance and promote shared responsibility among couples.	GRI 103: Employment management approach	Yes (RH3. Gender equality)	Global	18B-21B

	Health and safety				
	Health and safety conditions in the workplace;	GRI 103: Health and safety management approach	Yes (RH4. Health and safety)	Global	23B, 24B
	Workplace accidents, specifying accident rates and seriousness,	403-2	Yes (RH4. Health and safety)	Global	24B
	Professional illnesses; by gender.	403-3	Yes (RH4. Health and safety)	Global	24B
	Social relations				
	Organisation of social dialogue, including procedures for informing, consulting and negotiating with staff;	GRI 103: Employment management approach	Yes (RH2. Labour practices)	Global	18B-21B
	Percentage of employees covered by a collective agreement, by country;	102-41	Yes (RH2. Labour practices)	Global	24B
	Balance of collective agreements, particularly in the area of health and safety in the workplace.	403-4	Yes (RH2. Labour practices)	Global	23B
	Training				
	Policies implemented in the area of training;	GRI 103: Training and education management approach	Yes (RH1. Development of human capital)	Global	24B
	Total hours of training by professional category.	404-1	Yes (RH1. Development of human capital)	Global	24B
	Universal accessibility for persons with disabilities				
	Equality				
	Measures adopted to promote equal opportunities for and treatment of men and women;	GRI 103: Diversity and equal opportunities approach	Yes (RH3. Gender equality)	Global	22B, 23B
	Equality plans (Chapter III of Constitutional Law 3/2007 of 22 March for effective equality between women and men), measures adopted to promote employment, protocols against sexual and gender-based harassment, integration and universal accessibility for persons with disabilities;		Yes (RH3. Gender equality)	Global	
	The policy against all types of discrimination and, if applicable, diversity management.		Yes (GC2. Ethics and compliance)	Global	
Human rights	Application of due diligence procedures with regard to human rights;	GRI 103: Management approach to Non-discrimination, Child Labour, Forced labour	No material	Global	22B-24B
	Prevention of risks of violation of human rights and, if applicable, measures to mitigate, manage and address possible abuses committed;		No material	Global	

	Cases of human rights violations reported;	406-1, 102-16, 102-17, 102-41	No material	Global	6B, 10B, 22B, 24B
	Promotion and compliance with the provisions of the core agreements of the International Labour Organisation relating to respect for freedom of association and the right to collective negotiation;		No material	Global	
	Elimination of workplace and job discrimination;		No material	Global	
	Elimination of forced labour;	409-1, 102-16, 102-17	No material	Global	6B, 10B, 22B, 24B
	Abolishment of child labour.	408-1, 102-16, 102-17	No material	Global	6B, 10B, 22B, 24B
Corruption and bribery	Measures adopted to prevent corruption and bribery;	GRI 103: Anti-corruption management approach, 205-2, 205-3	Yes (GC2. Ethics and compliance)	Global	10B, 11B
	Anti-money laundering measures,	205-2	No material	Global	10B
	Contributions to foundations and non-profits.	102-12	Yes (GC2. Ethics and compliance)	Global	36B
Society	**Commitments to sustainable development**				
	Impact of the company's activity on local jobs and development;	GRI 103: Socioeconomic compliance approach, Procurement practices, 419-1, 204-1, 102-12	No material	Global	27B, 33B, 34B, 36B
	Impact of the company's activity on local towns and the region;		No material	Global	
	Relations with local community players and types of dialogue with these;	102-43	No material	Global	12B, 28B
	Association activities and sponsorship	102-12, 102-13	No material	Global	35B, 36B
	Outsourcing and suppliers				
	* Including social issues, gender equality and environmental issues in the procurement policy; * Considering relationships with suppliers and subcontractors and their social and environmental responsibility;	GRI 103: Management approach Environmental and social assessment of suppliers, 102-9, 308-1, 414-1	No material	Global	26B, 27B
	Supervision and auditing systems and the results thereof.		No material	Global	
	Consumers				
	Measures for health and safety of consumers;	GRI 103: Customer health and safety Management approach	Yes (AP1. Quality and food safety)	Global	27B

	Claims and complaints systems and resolution.	416-1, 416-2	Yes (CO1. Consumer information and protection)	Global	27B
	Tax information				
	Profits earned by country, Taxes paid on profits	GRI 103: Economic performance management approach	Yes (GC4. Tax practices)	Global	33B-35B
	Public grants received	201-4	Yes (GC4. Tax practices)	Global	34B
Other relevant information	Other information about the organizational profile	102-1 to 102-13	No material	Global	2A, 1B, 6B, 11B, 19B, 25B, 26B, 28B, 35B, 36B
	Corporate Governance	102-18	Yes (GC1. Governance System)	Global	2B
	Stakeholder participation	102-40 to 102-44	Yes (GC3. Transparency and Investors Relations; OP1. Franchisees relationship)	Global	12B, 24B, 28B
	Other information about the report profile	102-45 to 102-56	No material	Global	1B, 15B, 17B, 37B, 43B

GRI Table (102-55)

GRI Index		Page/Omission	Scope	External verification
General Disclosures				
Organizational Profile	102-1 Name of the organization	1B	Global	Yes
	102-2 Activities, brands, products, and services	2A, 11B	Global	Yes
	102-3 Location of headquarters	1B	Global	Yes
	102-4 Location of operations	1B	Global	Yes
	102-5 Ownership and legal form	1B	Global	Yes
	102-6 Markets served	2A	Global	Yes
	102-7 Scale of the organization	2A	Global	Yes
	102-8 Information on employees and other workers	19B, 25B	Global	Yes
	102-9 Supply chain	26B	Global	Yes
	102-10 Significant changes to the organization and its supply chain	26B	Global	Yes
	102-11 Precautionary Principle or approach	6B, 28B	Global	Yes
	102-12 External initiatives	36B	Global	Yes
	102-13 Membership of associations	35B	Global	Yes
Strategy	102-14 Statement from senior decision-maker	1A	Global	Yes

	102-15 Key impacts, risks, and opportunities	6B	Global	Yes
Ethics and Integrity	102-16 Values, principles, standards, and norms of behavior	6B, 10B, 22B, 24B	Global	Yes
	102-17 Mechanisms for advice and concerns about ethics	10B, 22B, 24B	Global	Yes
Governance	102-18 Governance structure	2B	Global	Yes
Stakeholder Engagement	102-40 Communicating critical concerns	12B	Global	Yes
	102-41 List of stakeholder groups	24B	Global	Yes
	102-42 Identifying and selecting stakeholders	12B	Global	Yes
	102-43 Approach to stakeholder engagement	12B, 28B	Global	Yes
	102-44 Key topics and concerns raised	12B	Global	Yes
Report Profile	102-45 Entities included in the consolidated financial statements	1B	Global	Yes
	102-46 Defining report content and topic Boundaries	15B	Global	Yes
	102-47 List of material topics	17B	Global	Yes
	102-48 Restatements of information	37B	Global	Yes
	102-49 Changes in reporting	17B	Global	Yes
	102-50 Reporting period	37B	Global	Yes
	102-51 Date of most recent report	37B	Global	Yes
	102-52 Reporting cycle	37B	Global	Yes
	102-53 Contact point for questions regarding the report	37B	Global	Yes
	102-54 Claims of reporting in accordance with the GRI Standards	37B	Global	Yes
	102-55 GRI content index	43B	Global	Yes
	102-56 External assurance	37B	Global	Yes
Specific standard disclosures				
Specific Standard Disclosures: Economic category				
Aspect: Economic Performance				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	33B-35B	Global	Yes
	103-2 The management approach and its components	33B-35B	Global	Yes
	103-3 Evaluation of the management approach	33B-35B	Global	Yes
GRI 201: Economic Performance	201-1 Direct economic value generated and distributed	34B	Global	Yes
	201-4 Financial assistance received from government	34B	Global	Yes
Aspect: Procurement Practices				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	27B	Global	Yes
	103-2 The management approach and its components	27B	Global	Yes
	103-3 Evaluation of the management approach	27B	Global	Yes
GRI 204: Procurement Practices	204-1 Proportion of spending on local suppliers	27B	Global	Yes
Aspect: Anti-corruption				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	10B, 11B	Global	Yes
	103-2 The management approach and its components	10B, 11B	Global	Yes
	103-3 Evaluation of the management approach	10B, 11B	Global	Yes
GRI 205: Anti-corruption	205-2 Communication and training about anti-corruption policies and procedures	10B	Global	Yes
	205-3 Confirmed incidents of corruption and actions taken	10B	Global	Yes

Specific Standard Disclosures: Environmental category				
Materiales				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	28B, 29B	Global	Yes
	103-2 The management approach and its components	28B, 29B	Global	Yes
	103-3 Evaluation of the management approach	28B, 29B	Global	Yes
GRI 301: Materials	301-1 Materials used by weight or volume	29B	Global	Yes
Energy				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	31B-33B	Global	Yes
	103-2 The management approach and its components	31B-33B	Global	Yes
	103-3 Evaluation of the management approach	31B-33B	Global	Yes
GRI 302: Energy	302-1 Energy consumption within the organization	32B	Global	Yes
Emissions				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	31B-33B	Global	Yes
	103-2 The management approach and its components	31B-33B	Global	Yes
	103-3 Evaluation of the management approach	31B-33B	Global	Yes
GRI 305: Emissions	305-1 Direct (Scope 1) GHG emissions	32B	Global	Yes
	305-2 Energy indirect (Scope 2) GHG emissions	32B	Global	Yes
	305-5 Reduction of GHG emissions	32B	Global	Yes
	305-6 Emissions of ozone-depleting substances (ODS)	32B	Global	Yes
Effluents and waste				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	29B-31B	Global	Yes
	103-2 The management approach and its components	29B-31B	Global	Yes
	103-3 Evaluation of the management approach	29B-31B	Global	Yes
GRI 306: Effluents and waste	306-2 Waste by type and disposal method	30B	Global	Yes
Environmental compliance				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	28B	Global	Yes
	103-2 The management approach and its components	28B	Global	Yes
	103-3 Evaluation of the management approach	28B	Global	Yes
GRI 307: Environamental compliance	307-1 Non-compliance with environmental laws and regulations	28B	Global	Yes
Supplier environmental assessment				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	27B	Global	Yes
	103-2 The management approach and its components	27B	Global	Yes
	103-3 Evaluation of the management approach	27B	Global	Yes
GRI 308: Supplier environmental assessment	308-1 New suppliers that were screened using environmental criteria	27B	Global	Yes
Specific Standard Disclosures: Social category				
Employment				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	18B-21B	Global	Yes
	103-2 The management approach and its components	18B-21B	Global	Yes
	103-3 Evaluation of the management approach	18B-21B	Global	Yes
GRI 401: Employment	401-1 New employee hires and employee turnover	21B	Global	Yes
Occupational Health and Healthy				
GRI 103: Management	103-1 Explanation of the material topic and its Boundary	23B, 24B	Global	Yes

Approach	103-2 The management approach and its components	23B, 24B	Global	Yes
	103-3 Evaluation of the management approach	23B, 24B	Global	Yes
GRI 403: Occupational Health and Healthy	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	24B	Global	Yes
	403-3 Workers with high incidence or high risk of diseases related to their occupation	24B	Global	Yes
	403-4 Worker participation, consultation, and communication on occupational health and safety	23B	Global	Yes
Training and Education				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	24B	Global	Yes
	103-2 The management approach and its components	24B	Global	Yes
	103-3 Evaluation of the management approach	24B	Global	Yes
GRI 404: Training and Education	404-1 Average hours of training per year per employee	24B	Global	Yes
Diversity and equal Opportunity				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	22B, 23B	Global	Yes
	103-2 The management approach and its components	22B, 23B	Global	Yes
	103-3 Evaluation of the management approach	22B, 23B	Global	Yes
GRI 405: Diversity and equal Opportunity	405-1 Diversity of governance bodies and employees	22B	Global	Yes
	405-2 Ratio of basic salary and remuneration of women to men	23B	Global	Yes
Non-discrimination				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	22B, 23B	Global	Yes
	103-2 The management approach and its components	22B, 23B	Global	Yes
	103-3 Evaluation of the management approach	22B, 23B	Global	Yes
GRI 406: Non-discrimination	406-1 Incidents of discrimination and corrective actions taken	22B	Global	Yes
Child labor				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	24B	Global	Yes
	103-2 The management approach and its components	24B	Global	Yes
	103-3 Evaluation of the management approach	24B	Global	Yes
GRI 408:Child Labor	408-1 Operations and suppliers at significant risk for incidents of child labor	24B	Global	Yes
Forced or compulsory labor				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	24B	Global	Yes
	103-2 The management approach and its components	24B	Global	Yes
	103-3 Evaluation of the management approach	24B	Global	Yes
GRI 409: Forced or compulsory labor	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	24B	Global	Yes
Supplier social assessment				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	27B	Global	Yes
	103-2 The management approach and its components	27B	Global	Yes
	103-3 Evaluation of the management approach	27B	Global	Yes
GRI 414: Supplier social assessment	414-1 New suppliers that were screened using social criteria	27B	Global	Yes
Customer Health and Safety				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	27B	Global	Yes
	103-2 The management approach and its components	27B	Global	Yes
	103-3 Evaluation of the management approach	27B	Global	Yes

GRI 416: Customer Health and Safey	416-1 Assessment of the health and safety impacts of product and service categories	27B	Global	Yes
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	27B	Global	Yes
Marketing and Labeling				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	17B, 18B	Global	Yes
	103-2 The management approach and its components	17B, 18B	Global	Yes
	103-3 Evaluation of the management approach	17B, 18B	Global	Yes
GRI 417: Marketing and Labeling	417-2 Incidents of non-compliance concerning product and service information and labeling	18B	Global	Yes
Socioeconomic Compliance				
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	33B, 34B	Global	Yes
	103-2 The management approach and its components	33B, 34B	Global	Yes
	103-3 Evaluation of the management approach	33B, 34B	Global	Yes
GRI 419: Socioeconomic compliance	419-1 Non-compliance with laws and regulations in the social and economic area	34B	Global	Yes

DIA, S.A.

Independent Verification Report
31 December 2018

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

INDEPENDENT VERIFICATION REPORT

To the shareholders of DIA, S.A.:

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the accompanying Consolidated Non-Financial Statement ("NFS") for the year ended 31 December 2018 of DIA, S.A. and subsidiaries ("DIA" or "the Group") which forms part of DIA's consolidated directors' report.

The content of the NFS includes additional information to that required by current non-financial reporting regulations which has not been covered by our verification work. In this respect, our work has been restricted solely to verifying the information identified in the table included in the section "Equivalence of Law 11/2018 amending Article 49 of the Code of Commerce with the GRI Global Reporting Standard" in the accompanying NFS.

Responsibility of the Board of Directors and Management

The preparation of the NFS included in DIA's consolidated directors' report and the content thereof are the responsibility of the Board of Directors of DIA, S.A. The NFS has been drawn up in accordance with the provisions of current commercial legislation and with the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") described in accordance with the Essential Option, in line with the details provided for each matter in the table included in the section "Equivalence of Law 11/2018 amending Article 49 of the Code of Commerce with the GRI Global Reporting Standard" and in the table titled "GRI Table" in said NFS.

The directors of DIA, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFS is obtained.

Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA") which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialising in non-financial information reviews and specifically in information on economic, social and environmental performance.

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Our responsibility

Our responsibility is to express our conclusions in an independent limited verification report based on the work carried out in relation solely to FY 2018. The data relating to previous years were not subject to the verification envisaged in current commercial legislation. Our work has been carried out in accordance with the requirements laid down in the current International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines for verification engagements on non-financial statements issued by the Spanish Institute of Auditors ("Instituto de Censores Jurados de Cuentas de España").

In a limited guarantee engagement, the procedures performed vary in terms of their nature and timing of execution, and are more restricted than those carried out in a reasonable guarantee engagement. Accordingly, the assurance obtained is substantially lower.

Our work has consisted of posing questions to Management and several DIA's units that were involved in the preparation of the NFS, in the review of the processes for compiling and validating the information presented in the NFS and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with DIA personnel to ascertain the business model, policies and management approaches applied and the main risks related to these matters, and to obtain the information required for the external review.

- Analysis of the scope, relevance and integrity of the content included in the NFS based on the materiality analysis carried by DIA, considering the content required under current commercial legislation.

- Analysis of the procedures used to compile and validate the information presented in NFS for 2018.

- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the NFS for 2018.

- Verification, through sample testing, of the information relating to the content of the NFS for 2018 and its adequate compilation using data supplied by DIA's information sources.

- Obtainment of a management representation letter from the Directors and Management.

Conclusions

Based on the procedures performed and the evidence we have obtained, no matters have come to light that might lead us to believe that DIA's NFS for the year ended 31 December 2018 has not been produced in accordance with the provisions of current commercial legislation and with the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") in accordance with the Essential Option, described in accordance with the details provided for each matter in the table included in the section "Equivalence of Law 11/2018 amending Article 49 of the Code of Commerce with the GRI Global Reporting Standard" and in the table titled "GRI Table" in said NFS.

Use and distribution

This report has been drawn up in response to the requirement laid down in current Spanish commercial legislation and therefore might not be suitable for other purposes or jurisdictions.

PricewaterhouseCoopers Auditores, S.L.

Pablo Bascones

15 February 2019