



# Distribuidora Internacional de Alimentación, S.A.

Annual Accounts

31 December 2018

Directors' Report

2018

(With Independent Auditor's Report Thereon)

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



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

## **Independent Auditor's Report on the Annual Accounts**

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

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

### **REPORT ON THE ANNUAL ACCOUNTS**

#### **Opinion**

---

We have audited the annual accounts of Distribuidora Internacional de Alimentación, S.A. (the "Company"), which comprise the balance sheet at 31 December 2018, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 a) to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

#### **Basis for Opinion**

---

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

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

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



## **Material Uncertainty Related to Going Concern**

---

We draw attention to notes 1, 2b) and 2d) to the annual accounts which indicate that the Company's equity at 31 December 2018 is negative in an amount of Euros 98,828 thousand and that at that date current assets less current liabilities are also negative in an amount of Euros 549,069 thousand, including financial debt totalling Euros 574,719 thousand falling due in the short term. These notes provide details of the circumstances under which the Company incurred significant losses in 2018, the measures that have been implemented with the aim of redressing the equity balance, as well as the process undertaken by the Company to reach a refinancing agreement with the main financial institutions which will enable the Company to have an adequate debt structure to meet the liquidity needs and payment commitments in its ordinary operations under the new business plan approved by the Board 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 could generate significant doubt as to the Company'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 annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 note 1 to the annual accounts.

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>As specified in note 1 to the accompanying annual accounts, during the third quarter of 2018, following a review of the estimates for the financial close for that year, the Company and the Group of which it is the parent reduced their profit and loss forecasts for 2018 and identified misstatements in certain estimates made, associated mainly with the sales margin.</p> <p>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.</p> <p>Note 1 provides details of the measures adopted by the Company's Board of Directors as well as the effects that the events described have had on the Company'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 figures differ from those included in the Company's approved annual accounts for 2017. Note 1 to the annual accounts provides details of the origin and nature of the adjustments made to the comparative figures.</p> <p>Given the relevance of the implications for the audit approach for 2018, this has been considered a key audit matter.</p>	<p>In the context of our audit, we performed, among others, the following procedures:</p> <ul style="list-style-type: none"> <li>– 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.</li> <li>– Evaluation of the correct recognition of the restatement adjustments made by the Company to the comparative figures.</li> <li>– Analysis of the forensic investigation work performed in Spain 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.</li> <li>– 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.</li> <li>– Assessment of whether the information disclosed in the annual accounts in relation to the restatement of the comparative figures meets the requirements of the financial reporting framework applicable to the Company.</li> </ul>

Trade discounts with suppliers	
See notes 3l) and 24b) to the annual accounts	
<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>The Company's cost of merchandise 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 Company at its establishments.</p> <p>During 2018 the Company recognised a Euros 1,012,893 thousand reduction in cost of merchandise used due to trade discounts applied, and discounts amounting to Euros 67,732 thousand are pending issue at the reporting date. Furthermore, mainly as a result of the trade discounts issued at year end, at 31 December 2018 there is a balance of Euros 45,234 thousand receivable from suppliers.</p> <p>Furthermore, as indicated in note 1 to the accompanying annual accounts, during 2018 the Company 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 27.6 million, and the cost of merchandise used for 2018 has been reduced by this amount.</p> <p>There is a risk of misstatement in the amount of the net cost of merchandise used 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 the aforementioned cost requires that the Company reliably estimates the level of compliance of the terms and conditions that give entitlement to the discount.</p> <p>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.</p>	<p>In the context of our audit, we performed, among others, the following procedures:</p> <ul style="list-style-type: none"> <li>– Understanding of the process followed by the Company to determine and recognise the discounts to be applied for each supplier based on the terms and conditions agreed.</li> <li>– Selection of a sample of suppliers from which confirmation has been requested of the trade terms and conditions agreed with the Company, as well as confirmation of the invoices issued and balance receivable at the reporting date.</li> <li>– Recalculation, for a sample of suppliers, of the reduction in the cost of merchandise used recognised in respect of the trade discounts applied, considering the trade terms and conditions agreed with these suppliers.</li> <li>– Tests of details for the purposes of concluding on the reasonableness and recoverability of the balances receivable from suppliers recognised under assets on the balance sheet. Furthermore, for a selected sample, we verified the subsequent collection or, where appropriate, offset of the balance with subsequent purchases.</li> <li>– Verification of the correct recognition of the restatement adjustments made by the Company to the comparative figures.</li> <li>– Assessment of whether the information disclosed in the annual accounts in relation to the trade discounts meets the requirements of the financial reporting framework applicable to the Company.</li> </ul>

## Recoverability of deferred tax assets

See notes 4r) and 21 to the annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>As mentioned in note 21 to the accompanying annual accounts, the Company, together with its subsidiaries, files consolidated tax returns and at 31 December 2018 the tax loss carryforwards pending offset generated by this tax group amount to Euros 102,834 thousand, which have not been recognised by the Company as deferred tax assets on the balance sheet. Furthermore, the Company has deferred tax assets, net of deferred tax liabilities, derived from temporary differences amounting to Euros 20,688 thousand.</p> <p>As a result of the reduction in the future profit and loss forecast in the new business plan (see note 1), the Company has assessed the amount of deferred tax assets whose recovery is probable, considering the reviewed tax projections, over a maximum of ten years. As a result of this assessment, the Company derecognised deferred tax assets amounting to Euros 95,251 thousand during 2018, taking into account the order in which the tax bases will be offset, as established by the tax group.</p> <p>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.</p>	<p>In the context of our audit, we performed, among others, the following procedures:</p> <ul style="list-style-type: none"> <li>– Understanding of the analysis and evaluation process carried out by the Company, in the current situation, in order to consider whether or not the recovery of the deferred tax assets recognised at 31 December 2018 is probable.</li> <li>– 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.</li> <li>– 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 Company expects to offset these assets.</li> <li>– Request of the opinion of the Company'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 Company from the Spanish Directorate-General of Taxes, and analysis of their reasonableness with the assistance of our tax specialists.</li> <li>– Assessment of whether the information disclosed in the annual accounts in relation to the aforementioned deferred tax assets meets the requirements of the financial reporting framework applicable to the Company.</li> </ul>

## Recoverable amount of non-current assets subject to amortisation or depreciation and investments in Group companies

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

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>At 31 December 2018 the Company has recognised property, plant and equipment amounting to Euros 508,224 thousand, goodwill amounting to Euros 35,689 thousand and investments in Group companies amounting to Euros 728,331 thousand. At each reporting date, the Company estimates the recoverable amount of the property, plant and equipment associated with stores, including the goodwill of those stores for which there are indications of impairment.</p> <p>The recoverable amount of the assets of the stores, including goodwill, 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 57,468 thousand was recognised on property, plant and equipment in 2018, of which Euros 18,556 thousand relates to stores that are expected to close in the context of the new business plan, and impairment of Euros 10,780 thousand was recognised on goodwill assigned to stores.</p> <p>In the case of investments in Group companies, impairment is assessed for each individual subsidiary, taking into consideration the balances receivable from Group companies, and is calculated considering the future cash flows of each subsidiary as a cash-generating unit. In 2018 the Company recognised impairment of Euros 51,372 thousand on investments in Group companies in respect of the investment in the subsidiary Beauty by DIA, S.A. (Clarel).</p> <p>To estimate the recoverable amount of the cash-generating units, the Company 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.</p>	<p>In the context of our audit, we performed, among others, the following procedures:</p> <ul style="list-style-type: none"> <li>– Understanding of the analysis and evaluation process carried out by the Company, in the current situation, in order to identify the stores with indications of impairment and, therefore, to calculate their recoverable amount.</li> <li>– Assessment, with the involvement of our valuation specialists, of the reasonableness of the methodology used to calculate the recoverable amount of store assets as well as the recoverable amount of investments in Group companies, and the reasonableness of the main assumptions considered.</li> <li>– 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 and the investments in Group companies with the business plan approved by the Board of Directors on 30 January 2019, questioning the main assumptions therein.</li> <li>– Sensitivity analysis of certain assumptions in the model to changes that are considered reasonable.</li> <li>– Assessment of whether the information disclosed in the annual accounts in relation to the impairment of non-current assets meets the requirements of the financial reporting framework applicable to the Company.</li> </ul>



## **Other Information: Directors' Report**

---

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

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

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

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

## **Directors' and Audit Committee's Responsibility for the Annual Accounts**

---

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

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

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



## **Auditor's Responsibilities for the Audit of the Annual Accounts**

---

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

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

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

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



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

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

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

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

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Additional Report to the Audit Committee** \_\_\_\_\_

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

### **Contract Period** \_\_\_\_\_

We were appointed as auditor of the Company by the shareholders at the general meeting on 20 April 2018 for a period of three years, for the years ending 31 December 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

*(Signed on original in Spanish)*

Maria Lacarra  
On the Spanish Official Register of Auditors ("ROAC") with No. 20411  
7 February 2019

# **Distribuidora Internacional de Alimentación, S.A.**

## **Annual Accounts and Directors' Report**

**31 December 2018**

(together with the Audit Report)

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



## Content

(1) Nature and Activities of the Company and Composition of the Group .....	1
(2) Basis of Presentation .....	3
(a) Comparative information.....	3
(b) Financing process .....	5
(c) Going concern .....	7
(d) Functional and presentation currency .....	8
(e) Critical measurement issues, estimates of uncertainty and relevant judgements when applying accounting policies ..	8
(3) Distribution of results .....	9
(4) Accounting and measurement standards.....	9
(a) Transactions, balances and flows in foreign currency .....	10
(b) Intangible assets .....	10
(c) Property, plant and equipment.....	12
(d) Non-current assets held for sale .....	13
(e) Impairment of non-financial assets subject to amortisation .....	13
(f) Leases .....	14
(g) Financial instruments.....	15
(h) Hedge accounting .....	19
(i) Own equity instruments held by the Company .....	20
(j) Inventories.....	20
(k) Cash and cash equivalents.....	21
(l) Trade and other payables.....	21
(m) Grants, donations and bequests .....	21
(n) Defined benefit plans.....	22
(o) Termination benefits .....	22
(p) Employee benefits.....	22
(q) Provisions.....	23
(r) Revenue from the sale of goods .....	23
(s) Income tax.....	24
(t) Share-based payment transactions .....	25
(u) Classification of assets and liabilities as current and non-current.....	26
(v) Environmental issues .....	26
(w) Transactions between Group companies.....	26
(5) Intangible assets .....	27
(a) Goodwill and impairment .....	28
(b) Fully-amortised assets.....	28
6. Property, plant and equipment .....	29
(a) General .....	29
(b) Impairment of Property, plant and equipment .....	30
(c) Fully-depreciated assets.....	32
(d) Insurance .....	32
(e) Property, plant and equipment subject to guarantees .....	33
7) Finance leases - Lessee.....	33
(8) Operating leases - Lessee.....	34
(9) Operating leases - Lessor .....	35
(10) Risk policy and management.....	36
(a) Financial risk factors.....	36
(b) Foreign exchange risk .....	36
(c) Price risk .....	36
(d) Credit risk.....	36

(e)	Liquidity risk .....	38
(f)	Cash flow and fair value interest rate risks.....	42
(12)	Long-term investments and trade receivables.....	47
(a)	Investments in Group companies .....	48
(b)	Long-term investments.....	49
(c)	Trade and other receivables .....	49
(d)	Receivables from suppliers.....	50
(e)	Impairment .....	50
(13)	Inventories.....	51
(a)	Availability restrictions .....	51
(b)	Insurance .....	51
(14)	Prepayments, accruals and deferred income.....	51
(15)	Cash and cash equivalents.....	51
(16)	Shareholders' funds.....	52
(a)	Capital.....	52
(b)	Reserves.....	53
(c)	Other equity instruments.....	54
(d)	Dividends .....	54
(17)	Grants, donations and bequests received.....	54
(18)	Provisions.....	55
(19)	Share-based payment transactions .....	56
(20)	Financial debts and trade payables .....	56
(a)	Payables to Group companies and associates .....	56
(b)	Payables .....	57
(c)	Trade and other payables.....	61
(21)	Taxation .....	62
(22)	Environmental information.....	70
(23)	Balances and transactions with related parties .....	70
(a)	Related-party balances.....	70
(b)	Transactions with subsidiaries and associates.....	71
(c)	Information on the directors and senior management personnel.....	71
(24)	Income and expenses .....	74
(a)	Revenue.....	74
(b)	Supplies .....	74
(c)	Employee benefit expense .....	75
(d)	Impairment and gains/losses on the disposal of fixed assets .....	75
(e)	Non-trading and other operating income.....	76
(25)	Commitments and Contingencies .....	76
(a)	Pledged.....	76
(b)	Received .....	77
(c)	Contingencies .....	77
(26)	Employee information.....	78
(27)	Non-current assets and liabilities held for sale.....	78
(28)	Audit fees .....	79
(29)	Events after the reporting date.....	79

**BALANCE SHEET**  
**At 31 December 2018**  
**(Expressed in thousands of Euro)**

<b>ASSETS</b>	<b>Notes</b>	<b>2018 31 December</b>	<b>Restated (*) 2017 31 December</b>
<b>Intangible assets</b>	<b>5</b>	<b>69,375</b>	<b>81,262</b>
Development		22,112	14,974
Concessions		107	126
Patents, licences, trademarks and similar rights		224	2,746
Goodwill		35,689	54,140
Computer software		10,086	7,436
Other intangible assets		1,157	1,840
<b>Property, plant and equipment</b>	<b>6</b>	<b>508,224</b>	<b>548,944</b>
Land and buildings		238,138	275,136
Technical installations, machinery, equipment, furniture and other items		266,619	271,506
Under construction and advances		3,467	2,302
<b>Non-current investments in group companies and associates</b>		<b>728,331</b>	<b>761,953</b>
Equity instruments	<b>11</b>	720,331	760,953
Loans to companies	<b>12 (a)</b>	8,000	1,000
<b>Non-current investments</b>	<b>12 (b)</b>	<b>25,831</b>	<b>25,190</b>
Equity instruments		36	36
Loans to third parties		206	192
Other financial assets		25,589	24,962
<b>Trade and other receivables</b>		<b>44,223</b>	<b>52,948</b>
Trade receivables (exceeding operating cycle)	<b>12 (c)</b>	42,994	51,182
Non-current prepayments	<b>14</b>	1,229	1,766
<b>Deferred tax assets</b>	<b>21</b>	<b>38,347</b>	<b>125,871</b>
<b>Total non-current assets</b>		<b><u>1,414,331</u></b>	<b><u>1,596,168</u></b>
<b>Non current held for sale assets</b>	<b>11</b>	<b>11,768</b>	<b>10,013</b>
<b>Inventories</b>	<b>13</b>	<b>221,644</b>	<b>233,853</b>
Goods for resale		212,574	225,086
Raw materials and other supplies		7,558	5,953
Advances to suppliers		1,512	2,814
<b>Trade and other receivables</b>	<b>12 (c)</b>	<b>409,727</b>	<b>369,992</b>
Current trade receivables	<b>10(d)</b>	44,529	46,895
Trade receivables from group companies and associates		315,639	273,846
Other receivables		45,918	48,619
Personnel		786	505
Current tax assets	<b>21</b>	2,757	21
Public entities, other	<b>21</b>	98	106
<b>Current investments in group companies and associates</b>	<b>12 (a)</b>	<b>375,013</b>	<b>312,490</b>
Loans to companies		65,000	40,000
Other financial assets		310,013	272,490
<b>Current investments</b>	<b>12 (b)</b>	<b>2,816</b>	<b>3,241</b>
Loans		23	51
Derivatives		18	-
Other financial assets		2,775	3,190
<b>Prepayments for current assets</b>	<b>14</b>	<b>385</b>	<b>407</b>
<b>Cash and cash equivalents</b>	<b>15</b>	<b>69,067</b>	<b>158,611</b>
Cash		69,067	158,611
<b>Total current assets</b>		<b><u>1,090,420</u></b>	<b><u>1,088,607</u></b>
<b>TOTAL ASSETS</b>		<b><u>2,504,751</u></b>	<b><u>2,684,775</u></b>

These notes form an integral part of the annual accounts of 2018.  
 (\*) Restated figures (see further details in note 2(b) Comparative information).

## BALANCE SHEET

At 31 December 2018

(Expressed in thousands of Euro)

EQUITY AND LIABILITIES	Notes	2018	Restated (*)
		31 December	2017 31 December
<b>Capital and reserves without valuation adjustments</b>	16	(99,113)	202,043
<b>Capital</b>		<b>62,246</b>	<b>62,246</b>
Registered capital		62,246	62,246
<b>Reserves</b>		<b>78,956</b>	<b>104,108</b>
Legal and statutory reserves		13,021	13,021
Other reserves		65,935	91,087
<b>(Own shares)</b>		<b>(55,861)</b>	<b>(60,359)</b>
<b>Profit for the year</b>		<b>(191,274)</b>	<b>85,275</b>
<b>Other equity instruments</b>		<b>6,820</b>	<b>10,773</b>
<b>Valuation adjustments</b>		<b>13</b>	<b>(55)</b>
Hedging transactions		13	(55)
<b>Grants, donations and bequests received</b>	17	<b>272</b>	<b>454</b>
<b>Total equity</b>		<b>(98,828)</b>	<b>202,442</b>
<b>Non-current provisions</b>	18	<b>28,356</b>	<b>23,288</b>
Long-term employee benefits		1,660	1,655
Other provisions		26,696	21,633
<b>Non-current payables</b>	20 (b)	<b>918,075</b>	<b>954,657</b>
Bonds and other securities		590,410	892,570
Debt with financial institutions		296,374	28,413
Finance lease payables	7	17,260	20,871
Other financial liabilities		14,031	12,803
<b>Deferred tax liabilities</b>	21	<b>17,659</b>	<b>15,084</b>
<b>Total non-current liabilities</b>		<b>964,090</b>	<b>993,029</b>
<b>Current provisions</b>		<b>4,344</b>	<b>1,271</b>
<b>Current payables</b>	20 (b)	<b>640,915</b>	<b>189,811</b>
Bonds and other securities		311,371	6,021
Debt with financial institutions		275,552	127,198
Finance lease payables	7	7,671	8,597
Derivatives		-	73
Other financial liabilities		46,321	47,922
<b>Group companies and associates, current</b>	20 (a)	<b>65,040</b>	<b>87,758</b>
<b>Trade and other payables</b>	20 (c)	<b>928,602</b>	<b>1,209,753</b>
Current suppliers		563,785	989,931
Suppliers, group companies and associates, current		232,760	69,064
Other payables		73,282	69,248
Personnel (salaries payable)		22,341	24,283
Current tax liabilities	21	-	2,917
Public entities, other	21	35,235	53,491
Advances to customers		1,199	819
<b>Current accruals</b>		<b>588</b>	<b>711</b>
<b>Total current liabilities</b>		<b>1,639,489</b>	<b>1,489,304</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>2,504,751</u></b>	<b><u>2,684,775</u></b>

These notes form an integral part of the annual accounts of 2018.

(\*) Restated figures (see further details in note 2(b) Comparative information).

## INCOME STATEMENT

At 31 December 2018

(Expressed in thousands of Euro)

INCOME STATEMENT	Notes	2018	Restated (*) 2017
<b>Revenues</b>	<b>24 (a)</b>	<b>4,188,401</b>	<b>4,391,714</b>
Sales		4,044,560	4,246,575
Service Delivery		143,841	145,139
<b>Work carried out by the company for assets</b>		<b>3,576</b>	<b>5,219</b>
<b>Supplies</b>	<b>24 (b)</b>	<b>(3,422,709)</b>	<b>(3,562,830)</b>
Merchandise used		(3,362,202)	(3,507,025)
Raw materials and consumables used		(17,860)	(14,883)
Subcontracted work		(39,812)	(41,043)
Impairment of merchandise, raw materials and other supplies	13	(2,835)	121
<b>Other operating income</b>		<b>258,246</b>	<b>273,887</b>
Non-trading and other operating income	24 (e)	257,676	273,148
Operating grants taken to income	17	570	739
<b>Personnel expenses</b>		<b>(440,782)</b>	<b>(425,972)</b>
Salaries and wages		(347,749)	(335,201)
Employee benefits expense	24 (c)	(93,039)	(90,602)
Provisions		6	(169)
<b>Other operating expenses</b>		<b>(420,187)</b>	<b>(403,730)</b>
External services		(393,203)	(385,652)
Taxes		(8,556)	(9,972)
Losses, impairment and changes in trade provisions		(11,689)	(3,217)
Other operating expenses		(6,739)	(4,889)
<b>Amortisation and depreciation</b>	<b>5 and 6</b>	<b>(124,205)</b>	<b>(120,253)</b>
<b>Non-financial and other capital grants</b>	<b>17</b>	<b>243</b>	<b>363</b>
<b>Impairment and gains/(losses) on disposal of fixed assets</b>	<b>5, 6 and 24 (d)</b>	<b>(57,468)</b>	<b>(9,386)</b>
Impairment and losses		(56,658)	(6,534)
Losses on disposal and other		(810)	(2,852)
<b>Results form operating activities</b>		<b>(14,885)</b>	<b>149,012</b>
<b>Finance income</b>		<b>25,088</b>	<b>23,032</b>
<b>Dividends</b>	<b>11</b>	<b>20,891</b>	<b>19,651</b>
Group companies and associates		20,891	19,651
<b>Other investment income</b>		<b>4,197</b>	<b>3,381</b>
Group companies and associates		1,222	829
Other		2,975	2,552
<b>Finance expenses</b>		<b>(33,424)</b>	<b>(19,113)</b>
Other		(33,967)	(18,976)
Provision adjustments		543	(137)
<b>Exchange gains</b>		<b>10</b>	<b>378</b>
<b>Impairment and gains/(losses) on disposal of financial instruments</b>		<b>(68,112)</b>	<b>(38,870)</b>
Impairment and losses	11 and 12(a)	(70,092)	(38,870)
Gains/(losses) on disposal and other		1,980	-
<b>Net finance income</b>		<b>(76,438)</b>	<b>(34,573)</b>
<b>Profit/(Losses) before income tax</b>		<b>(91,323)</b>	<b>114,439</b>
<b>Income tax</b>	<b>21</b>	<b>(99,951)</b>	<b>(29,164)</b>
<b>PROFIT/(LOSSES) FOR THE YEAR</b>		<b>(191,274)</b>	<b>85,275</b>

These notes form an integral part of the annual accounts of 2018.

(\*) Restated figures (see further details in note 2(b) Comparative information).

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2018  
**A) Statements of Recognised Income and Expense**  
(expressed in thousands of Euro)

	<u>2018</u>	Restated (*) <u>2017</u>
<b>Profit for the year</b>	<b><u>(191.274)</u></b>	<b><u>85.275</u></b>
<b>Income and expense recognised directly in equity</b>		
Cash flow hedges	91	(196)
Tax effect	(23)	49
<b>Total income and expense recognised directly in equity</b>	<b><u>68</u></b>	<b><u>(147)</u></b>
<b>Amounts transferred to the income statement</b>		
Grants, donations and bequests	(243)	(363)
Tax effect	61	91
<b>Total amounts transferred to the income statement</b>	<b><u>(182)</u></b>	<b><u>(272)</u></b>
<b>Total recognised income and expense</b>	<b><u>(191.388)</u></b>	<b><u>84.856</u></b>

These notes form an integral part of the annual accounts of 2018.

(\*) Restated figures (see further details in note 2(b) Comparative information).

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

B) Total Statements of Changes in Equity  
(expressed in thousands of Euro)

	<u>Note</u>	<u>Registered capital</u>	<u>Reserves</u>	<u>Own shares</u>	<u>Retained earnings</u>	<u>Profit for the year</u>	<u>Other equity instruments</u>	<u>Valuation adjustments</u>	<u>Grants, donations and bequests received</u>	<u>Total</u>
<b>Balance at 31 December 2016</b>		<b>62,246</b>	<b>75,662</b>	<b>(66,571)</b>	<b>-</b>	<b>207,385</b>	<b>21,013</b>	<b>92</b>	<b>726</b>	<b>300,553</b>
Re-expressed adjustments		-	(48,387)	-	-	-	-	-	-	(48,387)
<b>Balance at 1 January 2017</b>		<b>62,246</b>	<b>27,275</b>	<b>(66,571)</b>	<b>-</b>	<b>207,385</b>	<b>21,013</b>	<b>92</b>	<b>726</b>	<b>252,166</b>
Recognised income and expense		-	-	-	-	85,275	-	(147)	(272)	84,856
Transactions with equity holders or owners		-	(2,017)	6,212	-	-	(10,240)	-	-	(6,045)
Issuance of share-based payments		-	-	-	-	-	(4,893)	-	-	(4,893)
Own shares operations		-	(1,458)	1,458	-	-	-	-	-	-
Delivery of own shares		-	(559)	4,754	-	-	(5,347)	-	-	(1,152)
Distribution of profit for the year		-	78,850	-	-	(207,385)	-	-	-	(128,535)
Transfer of profit for the previous year		-	-	-	207,385	(207,385)	-	-	-	-
Reserves		-	207,385	-	(207,385)	-	-	-	-	-
Dividends		-	(128,535)	-	-	-	-	-	-	(128,535)
<b>Balance at 31 December 2017</b>		<b>62,246</b>	<b>104,108</b>	<b>(60,359)</b>	<b>-</b>	<b>85,275</b>	<b>10,773</b>	<b>(55)</b>	<b>454</b>	<b>202,442</b>
Recognised income and expense		-	-	-	-	(191,274)	-	68	(182)	(191,388)
Transactions with equity holders or owners		-	(134)	4,498	-	-	(3,953)	-	-	411
Issuance of share-based payments	19	-	-	-	-	-	1,602	-	-	1,602
Delivery of own shares		-	(134)	4,498	-	-	(5,555)	-	-	(1,191)
Distribution of profit for the year		-	(25,018)	-	-	(85,275)	-	-	-	(110,293)
Transfer of profit for the previous year		-	-	-	85,275	(85,275)	-	-	-	-
Reserves	16	-	85,307	-	(85,275)	-	-	-	-	32
Dividends		-	(110,325)	-	-	-	-	-	-	(110,325)
<b>Balance at 31 December 2018</b>		<b>62,246</b>	<b>78,956</b>	<b>(55,861)</b>	<b>-</b>	<b>(191,274)</b>	<b>6,820</b>	<b>13</b>	<b>272</b>	<b>(98,828)</b>

**STATEMENT OF CASH FLOWS**  
for the year ended 31 December 2018  
(expressed in thousands of Euro)

	<u>Notes</u>	2018	Restated (*) 2017
<b>Cash flows from operating activities</b>			
<b>Profit for the year before tax</b>		<b>(91,323)</b>	<b>114,439</b>
<b>Adjustments for:</b>		<b>275,846</b>	<b>155,066</b>
Amortisation and depreciation	5 and 6	124,205	120,253
Impairment		141,274	48,500
Changes in provisions		4,289	(5,686)
Grants recognised in the income statement	17	(243)	(363)
Gains on disposal of fixed assets	24 (d)	810	2,852
Gains/(losses) on disposal of financial instruments		(1,980)	-
Finance income		(25,088)	(23,032)
Finance expenses		33,424	19,113
Exchange losses		(10)	(378)
Changes in fair value of financial instruments		68	(147)
Other income and expenses		(903)	(6,046)
<b>Changes in operating assets and liabilities</b>		<b>(312,957)</b>	<b>68,164</b>
Inventories		9,374	8,693
Trade and other receivables		(39,099)	(42,883)
Other current assets	14	22	238
Trade and other payables		(280,863)	101,299
Provisions		(10,993)	1,099
Other current liabilities		(123)	(124)
Other non-current assets and liabilities	12 (c) and 14	8,725	(158)
<b>Other cash flows from operating activities</b>		<b>(8,472)</b>	<b>(11,655)</b>
Interest paid		(23,536)	(18,865)
Dividends received	11	20,891	19,651
Interest received		1,241	852
Income tax paid (received)		(7,068)	(13,293)
<b>Cash flows from operating activities</b>		<b>(136,906)</b>	<b>326,014</b>
<b>Cash flows from investing activities</b>			
<b>Payments for investments</b>		<b>(167,692)</b>	<b>(157,712)</b>
Group companies and associates	11	(21,019)	(69,402)
Intangible assets	5	(16,964)	(13,843)
Property, plant and equipment	6 and 20(b)	(129,128)	(68,999)
Other financial assets	12 (b)	(216)	-
Non current held for sale assets	11	(365)	-
Business unit	5 y 6	-	(5,468)
<b>Proceeds from sale of investments</b>		<b>24,518</b>	<b>23,530</b>
Group companies and associates	11	9,352	1,386
Intangible assets	5	-	35
Property, plant and equipment	6	14,977	16,009
Other financial assets		189	6,100
<b>Cash flows used in investing activities</b>		<b>(143,174)</b>	<b>(134,182)</b>
<b>Cash flows from financing activities</b>			
<b>Proceeds from and payments for financial liability instruments</b>		<b>300,861</b>	<b>(67,235)</b>
<b>Issue</b>		<b>537,394</b>	<b>337,653</b>
Bonds and other securities	20 (b)	-	300,000
Debt with financial institutions		537,176	36,785
Other payables		218	868
<b>Redemption and repayment of</b>		<b>(236,533)</b>	<b>(404,888)</b>
Bonds and other securities	20 (b)	-	(201,648)
Debt with financial institutions		(132,610)	(156,894)
Group companies and associates		(103,923)	(46,254)
Other payables		-	(92)
<b>Dividends and interest on other equity instruments paid</b>		<b>(110,325)</b>	<b>(128,535)</b>
Dividends	16 (d)	(110,325)	(128,535)
<b>Cash flows used in financing activities</b>		<b>190,536</b>	<b>(195,770)</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>(89,544)</b>	<b>(3,938)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>158,611</b>	<b>162,549</b>
<b>Cash and cash equivalents at year end</b>		<b>69,067</b>	<b>158,611</b>

These notes form an integral part of the annual accounts of 2018.

(\*) Restated figures (see further details in note 2(b) Comparative information).

**NOTES TO THE 2018 ANNUAL ACCOUNTS**

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

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

The Company's objects comprise the following activities in Spain and abroad:

*(a) The wholesale or retail purchase, sale and distribution of food products and any other consumer goods in both domestic and foreign markets; 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 principal activity is the retail sale of food products through owned or franchised self-service stores under the DIA Market, DIA Maxi, Clarel and Cada DIA brand names. As a result of the classification of the Clarel business as held for sale in the consolidated annual accounts, the Company will discontinue operating and marketing products under the Clarel brand name after its sale. The Company opened its first establishment in Madrid in 1979.

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

The filing of consolidated annual accounts is required, in accordance with generally accepted accounting principles and standards, in order to present fairly the Group's financial position and the results of its operations, changes in equity and cash flows.

On 7 February 2019, the Company's directors authorised the issue of the consolidated annual accounts of Distribuidora Internacional de Alimentación, S.A. and subsidiaries for 2018 in accordance with the International

Financial Reporting Standards endorsed by the European Union ("IFRS-EU") and other applicable financial reporting regulations. The consolidated annual accounts present consolidated profit attributable to the Parent of Euro 352,587 thousand and consolidated equity attributable to the Parent of Euro 166,062 thousand.

### **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.

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 on going. As a result of these investigations, irregularities have been detected in addition to those described in note 2 (a).

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 Company.

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 Company 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. Note 2 (a) include information regarding the nature and the final amount of those adjustments and their effects on each of the line items in the 2017 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 January 30, 2019 which resulted in:

- the recognition of impairment affecting property, plant and equipment, intangible assets and goodwill totalling Euro 45,771 thousand, Euro 412 thousand and Euro 10,780 thousand, respectively. See further details in notes 5, 6 and 24 (d).
- the recognition of adjustments totalling Euro 17,337 million to deferred tax assets based on a recovery analysis (see note 21).

The Company has commenced a process to refinance its bank borrowings. See further details regarding the financing process in notes 2 (c) and 20.

The Company has reclassified the Clarel investment (Beauty by Dia, S.A) 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.(c), 6 and 28. In

addition, the Clarel business assets (goodwill) have been impaired for Euro 51,372 thousand as a result of the need to measure assets held for sale at fair value less cost to sell (see note 11).

With respect to business performance in 2018, a sales performance analysis at Spain level 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.

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, 7,77%, (Euro 769.3 million in 2018 vs Euro 834.1 million in 2017) and the discontinuation of the Clarel business in Spain.

The decline in the Company's profits and the effects of the aforementioned impairments on profits have given rise to a negative equity situation at the Parent Company. Those circumstances, together with the financing conditions under which the Company 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 (d).

In the context of the strategic analysis initiated by the Company during the first half of 2018 with the support of world-class global consultancy and in the light of the decline in the profit outlook, the Group made advances during October 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 financial institutions of the Company. 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, of which 300 stores 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 two years is required 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.

## **(2) Basis of Presentation**

### **(a) Comparative information**

The annual accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts approved by Royal Decree 1514/2007 as amended by Royal Decree 1159/2010 and Royal Decree 602/2016 so as to present fairly the Company's equity, financial position and results and accurately reflect cash flow in the cash flow statement.

The Company's directors consider that the annual accounts for 2018, authorised for issue on 7 January 2019, will be approved without changes by the Annual General Meeting.

The annual accounts for 2018, balance sheet, income statement, statement of comprehensive income, statement of cash flows and the notes thereto for 2018 include comparative figures for 2017, which differ from those approved by the Ordinary General shareholders of the Company on April 20, 2018 for the modifications detailed below.

	Reported at 31 December 2017	Restated		Restated at 31 December 2017
		Irregularities/ Corrections of errors	CDSI	
<b>Statement of financial position</b>				
Non current assets	1,554,641	41,527	-	1,596,168
Current assets	1,069,881	(25,734)	44,460	1,088,607
<b>Total Assets</b>	<b>2,624,522</b>	<b>15,793</b>	<b>44,460</b>	<b>2,684,775</b>
<b>Total Equity</b>	<b>254,452</b>	<b>(52,010)</b>	<b>-</b>	<b>202,442</b>
Non Current liabilities	993,029	-	-	993,029
Current liabilities	1,377,041	67,803	44,460	1,489,304
<b>Total Equity and Liabilities</b>	<b>2,624,522</b>	<b>15,793</b>	<b>44,460</b>	<b>2,684,775</b>

**Irregularities and corrections of errors**

As consequence the irregularities and errors identified in 2018 disclosed in note 1, the comparative figures for 2017 have been restated.

The detail by item in the restatement is as follows:

<b>ASSETS</b>	<b>Supplier trade discounts a)</b>	<b>Invoices pending receipt b)</b>	<b>Invoices fixed assets c)</b>	<b>Provisions and other Spain d)</b>	<b>Tax effect e)</b>	<b>TOTAL</b>
Property, plant and equipment	-	-	26.2	(2.0)	-	24.2
Deferred tax assets	-	-	-	-	17.4	17.4
<b>Non Current Assets</b>	<b>-</b>	<b>-</b>	<b>26.2</b>	<b>(2.0)</b>	<b>17.4</b>	<b>41.6</b>
Inventories	-	-	-	(5.1)	-	(5.1)
Trade and other receivables	(6.3)	-	-	(5.8)	-	(12.1)
Other current financial assets	-	-	-	(8.5)	-	(8.5)
<b>Current Assets</b>	<b>(6.3)</b>	<b>-</b>	<b>-</b>	<b>(19.4)</b>	<b>-</b>	<b>(25.7)</b>

<b>Equity and Liabilities</b>	<b>Supplier trade discounts a)</b>	<b>Invoices pending receipt b)</b>	<b>Invoices fixed assets c)</b>	<b>Provisions and other Spain d)</b>	<b>Tax effect e)</b>	<b>TOTAL</b>
Reserves	(23.1)	(24.3)	-	(17.2)	16.1	(48.5)
Net (Losses)/Profit for the period	(4.5)	3.1	-	(3.9)	1.3	(4.0)
<b>Total Equity</b>	<b>(27.6)</b>	<b>(21.2)</b>	<b>-</b>	<b>(21.1)</b>	<b>17.4</b>	<b>(52.5)</b>
Current borrowings	-	-	-	(8.5)	-	(8.5)
Trade and other payable	21.3	21.2	-	2.7	-	45.2
Other current financial liabilities	-	-	26.2	5.1	-	31.3
<b>Current liabilities</b>	<b>21.3</b>	<b>21.2</b>	<b>26.2</b>	<b>(0.7)</b>	<b>-</b>	<b>68.0</b>

<b>INCOME STATEMENT</b>	<b>Supplier trade discounts a)</b>	<b>Invoices pending receipt b)</b>	<b>Invoices fixed assets c)</b>	<b>Provisions and other Spain d)</b>	<b>Tax effect e)</b>	<b>TOTAL</b>
Sales	-	-	-	(2.2)	-	(2.2)
Other income	-	-	-	(0.5)	-	(0.5)
Goods and other consumables used	(4.5)	3.1	-	(2.1)	-	(3.5)
Personnel expenses	-	-	-	0.9	-	0.9
Income Tax	-	-	-	-	1.3	1.3
<b>Net profit/(losses)</b>	<b>(4.5)</b>	<b>3.1</b>	<b>-</b>	<b>(3.9)</b>	<b>1.3</b>	<b>(4.0)</b>

a) Supplier trade discounts:

The correction results from the overestimation of trade discounts to be received from suppliers in Spain. This adjustment, due to the irregularities, resulted in an increase in "Trade and other payables" amounting to Euro 21.3 million, a decrease in "Trade debtors and other accounts receivables" for an amount of Euro 6.3 million and a decrease in "Reserves" amounting to Euro 23.1 million.

The effect on the income statement for 2017 results in an increase in the "goods and other consumable used" line item amounted to Euro 4.5 million.

b) Invoices pending receipt (purchases)

Invoices from suppliers recorded in a different period to the one that they should have been recorded in Spain. This correction entails an increase in "Merchandise and other consumables used" amounting to Euro 3.1 million on the income statement for 2017. In the statement of financial position at 31 December 2017 it results in an increase in "Trade and other payables" amounting to Euro 21.2 million and a decrease in "Reserves" amounting to Euro 24.3 million.

## c) Invoices pending receipt (fixed assets)

Additionally, 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 26,2 million. The total has been accounted for against "Other financial liabilities".

This adjustment, had 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.

## d) 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 income statement of Euro 3.9 million.

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 franchisees;
- 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.

The counterparty have been indicated in the table above.

## e) Tax effect of adjustments in Spain

The tax effect of these adjustments in the 2017 income statement increases the heading "Income tax" by Euro 1.3 million and increases the heading "Reserves" in the statement of financial position at 31 December 2017 by Euro 16.1 million. As a result of these adjustments "Deferred tax assets" increases by Euro 17.4 million.

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

**Joint arrangement with CD Supply Innovations, S.L.**

As a result of what is described in note 11, the Company has included its inventories and its trade payables with CDSI being the Company considered as a principal with its suppliers. 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 and suppliers of Euro 44 million.

**(b) Financing process**

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

The Company 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:

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

ii) *Purpose of the agreement:* obtain access to short-term financing to allow the Company and its subsidiaries to attend to the Dia Spain and some of the subsidiaries of the 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 commonly applicable in financing of this kind, consisting of what to do, what not to do and information requirements, 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) Carry out a capital increase of Euro 600 million in the first quarter of 2019, 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, the latter undertook to place or, failing this, subscribe for 100% of that amount (see note 16.a).

v) *Guarantees given at 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 and 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 and 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., Pe-Tra Servicios a la Distribución, S.L.

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

- a) Personal guarantee from DIA World Trade SA.
- 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 as of 28 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) *Covenant:* the restated total net debt to restated EBITDA ratio, as defined within the agreement, must not exceed 3.50x, from June 2019.

The following table summarises the new financing structure, which is supplemented by the other information set out in these notes to the annual accounts, specifically in note 20 "Financial liabilities".

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

(\*) *Revolving credit facility*

Once Phase II ends with the signing of this Financing Agreement, the Company is open to the participating banks proposals 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 Company 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.

### (c) **Going concern**

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

At 31 December 2018, total equity is negative in the amount of Euro 98,828 thousands (Euro 202,442 thousand at 31 December 2017, once restated) and working capital, calculated as current assets less current liabilities, excluding assets and liabilities held for sale, is also negative in the amount of Euro 560,837 thousand (negative Euro 410,710 thousand at 31 December 2017). The results for the period are losses of Euro 191,274 thousand (Euro 85,275 thousand at 31 of December 2017), and the net changes in cash and cash equivalents are negative by Euro 89,544 thousand (negative by Euro 3,938 thousand 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, ver nota 2 (b)).

The shareholders LetterOne Investment Holding indirectly owns 29.001% of share capital (see note 26.1) has stated, at the date of the public announcement of the 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 Commission (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 is 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-empted subscription rights (*derecho de suscripción preferente*) for an amount of Eur 600 million, its indicative support to a deferral in the maturity date of its current financing lines, which will remain after the capital increase, for an amount of Euro 765 million, 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 require 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 which cause substantial doubt in 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.

#### **(d) Functional and presentation currency**

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

#### **(e) Critical measurement issues, estimates of uncertainty and relevant judgements when applying accounting policies**

The preparation of annual accounts requires the application of significant accounting estimates and judgements, estimates and assumptions when applying the Company 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 annual accounts.

#### **Estimaciones contables relevantes e hipótesis**

- Assessment of the potential impairment of non-financial assets subject to amortisation or depreciation: see note 4 (b) and (c).
- Assessment of potential goodwill impairment: (see note 4 (b) and note 6).
- Assessment of the recoverability of deferred tax assets (see note 21).

- Long-term incentive plan: see note 19.
- Analysis of possible contingencies or liabilities relating to proceedings in progress: (see note 10)

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 Company and are believed reasonable in the circumstances.

### **(3) Distribution of results**

The proposed distribution of losses for 2018 to be submitted to the shareholders for approval at their ordinary general meeting, consist in the transfer of amount 191,274,360,71 Euros to retained earnings.

The distribution of positive results for 2017 approved by shareholders at the General Meeting of 20 April 2018 (before adjustments and corrections from previous exercise) was as follows:

<b>Basis of distribution</b>	<b>Euros</b>
Profit/(loss) for the year	88,897,812.34
Voluntary reserves	21,288,446.06
<b>Total</b>	<b>110,186,258.40</b>

<b>Distribution</b>	<b>Euros</b>
Dividends (*)	110,186,258.40
<b>Total</b>	<b>110,186,258.40</b>

(\*) The directors have proposed that an ordinary dividend of Euro 0.18 (gross) be distributed for each of the shares with the corresponding economic rights. This figure is an estimate based on there being 612,145,880 shares that confer the right to receive the dividend, following any necessary corrections.

On 17 July 2018, the Company 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.

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

	<b>Thousands of Euro</b>	
	<b>2018</b>	<b>2017</b>
Legal reserve	13,021	13,021
Capital redemption reserve	5,688	5,688
Other reserves no available	15,170	15,170
<b>Total</b>	<b>33,879</b>	<b>33,879</b>

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 Agreements until the entire amount of the current debt with them has been repaid (see note 2).

### **(4) Accounting and measurement standards**

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

**(a) Transactions, balances and flows in foreign currency**

Foreign currency transactions are translated to euro by applying the spot exchange rates on the transaction dates to the amounts denominated in foreign currencies.

Exchanges gains and losses arising on the settlement of foreign currency transactions and the translation to euro of monetary assets and liabilities denominated in foreign currencies are recognised in results.

**(b) Intangible assets**

Intangible assets are measured at cost or cost of production. Capitalised production costs are recognised under self-constructed assets in the income statement. Intangible assets are carried at cost, less any accumulated amortisation and impairment adjustments. Intangible assets are disclosed in the balance sheet at their cost value, reduced by the amount of accumulated depreciation and accumulated impairment losses.

Costs incurred in activities that contribute to developing the overall value of the Company's business, such as goodwill, trademarks and similar items generated internally, as well as formation expenses, are recorded as expenses on the income statement as they are incurred.

**(i) Development**

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

- There is a clear assignment, allocation and time apportionment of each project's costs.
- There are sound grounds for considering that the project will be technically successful both in the case of direct operation or sale to a third party, and the economic and commercial profitability is reasonably assured.
- The financing to undertake it, the availability of the proper technical or other resources to complete the project and to use or sell the intangible asset are reasonably assured.

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

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

When the value of an asset exceeds its estimated recoverable amount, its value is reduced immediately to its recoverable amount.

**(ii) Business combinations and goodwill**

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

The cost of a business combination is determined on the date of acquisition as the aggregate of the fair values of the assets handed over, the liabilities incurred or assumed, the equity instruments issued and any other contingent consideration that would depend on future events or the fulfilment of certain conditions in exchange for control over the acquired business.

The cost of the business combination excludes any disbursement that is not part of the exchange made for the acquired business. Acquisition-related costs are recognised as an expense as they are incurred.

The Company recognises the acquired assets and assumed liabilities at fair value at the acquisition date. The excess between the business combination cost and the value of net assets acquired and liabilities assumed is recognised as goodwill. Any shortfall, after evaluating the consideration given and the identification and measurement of net assets acquired, is recognised in profit and loss.

Goodwill is the excess at the acquisition date of the cost of a business combination over the fair value of the

identifiable net assets acquired in the transaction. As a result, goodwill is only recognised when it is acquired for consideration and represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognised.

Goodwill is allocated to the cash-generating units (CGUs) that are expected to benefit from the business combination in which the goodwill arose.

Goodwill carried separately is amortised on a straight-line basis over its estimated useful life, measured at acquisition cost less accumulated amortisation and any cumulative impairment adjustments recognised. Useful life is determined separately for each CGU to which goodwill has been assigned and is estimated to have a 10-year duration (barring evidence to the contrary). The CGUs to which goodwill is assigned are tested annually for indications of impairment. If such indications exist, they are tested for possible impairment.

Following initial recognition, and until 31 December 2015, goodwill was measured at cost less any accumulated impairment losses. Since 1 January 2016, goodwill has been measured at cost, less any accumulated amortisation and impairment.

**(iii) Computer software**

Computer software acquired and produced by the Company, which comprises all the programs relating to terminals at points of sale, warehouses, offices and microcomputing, is recognised at cost of acquisition or production. Maintenance expenses connected with computer software are charged to expense when they are incurred.

**(iv) Lease premiums**

Lease premiums are rights to lease business premises which have been acquired for valuable consideration to which the Company has become subrogated; they are carried at acquisition cost. Lease premiums are amortised on a straight-line basis over ten years, a period that does not exceed the lease term.

**(v) Patents, licences, trademarks and similar rights**

Industrial property is carried at cost less accumulated amortisation and recognised cumulative impairment adjustments. Amortisation is charged on a straight-line basis to allocate the cost of trademarks and licences over their 10-year estimated useful life, as well as the investment in the development of commercial models and product ranges, amortised over four years.

**(vi) Subsequent costs**

Subsequent costs incurred in intangible assets are carried as an expense unless the future economic benefits expected of the assets increase.

**(vii) Useful life and amortisation rates**

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

	<u>Estimated years of useful life</u>
Computer applications	3
Leaseholds	10
Goodwill	10
Trademarks	10
Other intangible assets	Term of the agreement

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

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

**(viii) Impairment losses**

The Company measures and determines impairment losses on intangible assets to be recognised or reversed based on the approach explained in section (e) of this note.

**(c) Property, plant and equipment**

**(i) Initial recognition**

Property, plant and equipment are measured at cost of acquisition or production. Capitalised production costs are recognised under self-constructed assets in the income statement. Property, plant and equipment are carried in the balance sheet at cost less accumulated depreciation and impairment adjustments. Property, plant and equipment are disclosed in the balance sheet at their cost value, reduced by the amount of accumulated depreciation and accumulated impairment losses.

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.

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

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

**(ii) Depreciation**

Property, plant and equipment are depreciated on a systematic basis over their useful lives. Acquisition cost less residual value is deemed to be the depreciable amount. The Company determines the depreciation charge separately for each component that has a significant cost in relation to the total cost of the asset and a useful life that differs from the remainder of the asset.

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

	<u>Estimated years of useful life</u>
Buildings	40
Construction work in leased stores	10 - 20
Plant and machinery	3 - 7
Fixtures, fittings, tooling and furnishings	4 - 10
Other property, plant and equipment	3 - 5

Gains and losses on the sale of property, plant and equipment are calculated by comparing the sale revenue obtained with the carrying amount and are included in the income statement.

The Company reviews estimated residual values and depreciation methods and terms at each financial year end. Changes to the approach initially adopted are recognised as changes in estimates.

**(iii) Subsequent costs**

Following initial recognition, costs incurred are only capitalised if they increase the asset's capacity, productivity or useful life, while replaced assets are written off. In this respect, costs deriving from the daily maintenance of property, plant and equipment are accounted for in the income statement as and when they are incurred.

**(iv) Impairment of assets**

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

**(d) Non-current assets held for sale**

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

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

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

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

Impairment losses are recognised in the income statement.

Recoverable 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, recoverable amount is determined for the CGU to which the asset belongs.

Based on past experience, the Company 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 Company has expanded the criterion for identifying impairment to include those stores with negative performance during the past year. When indications of impairment exist, the Company 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.

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 Company employs the strategic plan to estimate recoverable amounts. The strategic plan generally spans a five-year. For longer periods, projections based on the strategic plan are used as from year five. Note 6 (b) 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.

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 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 that 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.

**(f) Leases**

**(i) Lessor accounting**

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

- **Operating leases**

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

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

**(ii) Lessee accounting**

The Company has rights to use certain assets under lease agreements.

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

- **Finance leases**

At lease inception, the Company recognises finance leases as assets and liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Initial direct costs are recognised as an increase in the value of the asset. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Interest is expensed using the effective interest method.

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

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

- **Operating leases**

Operating lease instalments, net of any incentives received, are recognised as an expense on a straight-line basis over the lease term unless another systematic allocation approach better reflects the timing of lease benefits.

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

(iii) **Sale and leaseback transactions**

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

(g) **Financial instruments**

(i) **Classification and separation of financial instruments**

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

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

(ii) **Offsetting principles**

A financial asset and a financial liability is offset when the Company has the right to stipulate the amounts recognised to offset and the intention to settle the net amount or to realize the asset or settle the liability at the same time.

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

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the purchase or issue are expensed in the income statement when incurred.

After initial recognition, they are recognised at fair value, while any changes are taken to the income statement. Fair value is not reduced by any transaction costs that may be incurred owing to their possible sale or disposal through other means. Accrued interest and dividends are recognised by nature.

(iv) **Loans and receivables**

Loans and receivables are trade and other receivables collected at fixed or variable amounts, not listed on an active market or different to the amounts classified in other financial asset categories.

Financial assets are initially carried at fair value, including transaction costs which are directly attributable, and are subsequently measured at amortised cost. Accrued interest is recognised at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity. Trade receivables falling due in less than one year are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant

(v) **Investments in Group companies**

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

Control is power to manage the entity's financial and operating policies in order to obtain profits from its activities, taking into account for such purposes the potential voting rights exercisable or convertible at the year end held by the Company or third parties.

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

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

**(vi) Interest and dividends**

Interest is recognised using the effective interest method.

Dividend income from equity investments is recognised when the Company's right to receive it vests. If the dividends distributed derive unequivocally from profits generated prior to the date of acquisition because amounts in excess of the profits generated by the investee since its acquisition have been distributed, the carrying amount of the investment is reduced accordingly.

**(vii) Derecognition of financial assets**

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

Financial assets are derecognised in full when the difference between their carrying amount and the consideration received is recognised in profit or loss, net of transaction costs, including the assets obtained or liabilities assumed and any deferred income or expense recognised in equity.

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

**(viii) Financial asset impairment**

A financial asset or group of financial assets is impaired and an impairment loss has arisen if there is objective evidence of impairment as a result of one or more events that have occurred after the asset's initial recognition and such loss-generating events have an impact on estimated future cash flows from the financial asset or group of financial assets which may be reliably estimated.

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

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

The impairment loss on financial assets carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses not incurred, discounted at the asset's original effective interest rate. For financial assets at variable interest rates, the effective interest rate at the measurement date based on contractual terms is applied. For held-to-maturity debt instruments the Company uses the market value, providing this is sufficiently reliable to be considered representative of the recoverable amount.

The impairment loss is charged to results and is reversible in future years if the decrease may be objectively related to an event subsequent to its recognition. Nonetheless, the reversal of the loss is limited to the amortised cost of the assets had the impairment loss not been recognised.

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

Impairment is calculated by comparing the investment's carrying amount with its recoverable value, this being the higher of value in use and fair value less costs to sell.

In this respect, value in use is calculated on the basis of the Company's interest in the present value of estimated cash flows from ordinary activities and final disposal or estimated flows expected to be received from the distribution of dividends and the final disposal of the investment.

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

Nonetheless, in certain cases, barring better evidence of the recoverable amount of the investment, impairment of this type of assets is estimated taking into account the investee's equity adjusted, if appropriate, to comply with applicable accounting principles and standards generally accepted in Spain and adjusted for net latent capital gains at the measurement date.

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

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

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

Financial income on financial assets for which an impairment loss has been recognised is recognised on the basis of the discount rate used to discount estimated future cash flows.

#### (ix) **Financial liabilities**

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

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

The Company writes off a financial liability or a part of it when the obligation contained in the liability has been fulfilled or the Company is legally exonerated from the fundamental responsibility contained in the liability, whether by a court proceeding or by the creditor.

The exchange of debt instruments between the Company 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 Company 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 Company 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 Company 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 20 (b), the Company has concluded equity swap contracts involving physical deliveries of shares. At the time this type of agreement is concluded, the Company 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 Company 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 swap contract concluded by the Company, 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 Company assumes the substantial risks and advantages inherent to the ownership of the equity instruments. Accordingly, at the time the agreement is concluded the Company 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.

### **(x) Reverse factoring**

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

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

### **(xi) Security deposits**

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

Security deposits paid in relation to rental contracts are measured using the same criteria as for financial assets. The difference between the amount furnished and fair value is recognised as a prepayment and is taken to the income statement over the lease period.

**(h) Hedge accounting**

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

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

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

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

**(i) Fair value hedges**

Fair value hedges are accounted for as follows:

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

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

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

**(ii) Cash flow hedges**

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

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

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

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

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

#### **(i) Own equity instruments held by the Company**

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

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

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

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

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

#### **(j) Inventories**

Inventories are initially measured at acquisition cost.

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 cost of inventories is adjusted where cost exceeds net realisable value. Net realisable value of merchandise is considered as their estimated selling price, less costs to sell.

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 supplies.

**(k) Cash and cash equivalents**

Cash and cash equivalents include petty cash and demand bank deposits. This heading also includes other highly-liquid short-term investments provided that they are easily convertible to specific cash amounts and the risk of changes in value is insignificant. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

The Company nets payments and collections deriving from high-turnover financial assets and liabilities in the cash flow statement. For such purposes, turnover is considered to be high when the period between the acquisition date and maturity date does not exceed six months.

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

**(l) 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 expense relating to raw materials and other supplies is reduced as a result of the different kinds of discounts, depending on the commercial terms and conditions agreed with suppliers. Some discounts are fixed while others are variable, subject to the accumulated volume of consumption over the contract term or the volume of sales made by at the Company's stores of the corresponding supplier items.

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.

**(m) Grants, donations and bequests**

Grants, donations and bequests are carried as income and expense recognised in equity when they are officially awarded, if applicable, and the grant conditions have been fulfilled or there are no reasonable doubts as to their collection.

Monetary grants, donations and bequests are carried at the fair value of the amount granted and non-monetary items are carried at the fair value of the asset received.

In subsequent years, grants, donations and bequests are released to income based on their purpose.

Capital grants are released to income for the period in proportion to the depreciation charged on the assets financed or, if applicable, when the assets are sold, written off or adjusted for impairment.

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

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

**(n) Defined benefit plans**

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

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

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

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

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

**(o) Termination benefits**

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

**(p) Employee benefits**

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

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

**(q) Provisions****(i) General criteria**

Provisions are recognised when the Company has a present obligation (legal, contractual, constructive or tacit) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligations at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where material, the financial effect of discounting, provided that the outlays to be made each period can be reliably estimated. The discount rate is a pre-tax rate based on the time value of money and specific risks are not considered in the cash flows related to the provision at each balance sheet close.

The financial effect of provisions is recognised in financial expenses in the income statement.

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

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

Provisions are reversed against the income statement when an outflow of funds to settle the obligation is unlikely.

**(ii) Provisions for taxes**

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

Provision is made with a charge to income tax for the tax expense for the year, to financial expenses for the late payment interest and to other profit/(loss) for the penalty. The effects of changes to provisions estimated in prior years are recognised by nature, unless an error is corrected.

**(r) Revenue from the sale of goods**

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

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

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

Advances on future sales are stated at the amount received.

**- Revenue from sales**

Revenue from the sale of goods is recognised when the Company:

- Has transferred to the purchaser the significant risks and rewards deriving from ownership of the assets.
- Is not involved in any way in the current management of the assets sold, as generally associated with ownership, and does not retain effective control over the assets;
- The amount of revenue and the costs incurred or to be incurred can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

**(s) Income tax**

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

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

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

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

At 31 December 2018 and 2017, the Company files consolidated tax returns with its subsidiaries Twins Alimentación, S.A., Pe-Tra Servicios a la Distribución, S.L., Beauty by Día, S.A., Grupo El Árbol, Distribución y Supermercados S.A., Compañía Gallega de Supermercados S.A. and Día E-shopping S.L., under the special consolidated tax regime set forth in Chapter VI of Title VII of Corporate Income Tax Law 27/2014 of 27 November (see note 21).

**(i) Recognition of deferred tax liabilities**

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

**(ii) Recognition of deferred tax assets**

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

**(iii) Measurement**

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

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

(iv) **Offset and classification**

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

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

(t) **Share-based payment transactions**

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

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

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

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

Equity-settled employee payment transactions are recognised as follows:

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

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

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

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

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

(ii) **Tax effect**

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

**(u) Classification of assets and liabilities as current and non-current**

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

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

**(v) Environmental issues**

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

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

**(w) Transactions between Group companies**

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

## (5) Intangible assets

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

Thousands of Euro						
	Development	Concessions	Patents, licences, trademarks and similar rights	Computer software	Other intangible assets	Total
<b>Cost</b>						
<b>At 1 January 2018</b>	<b>14,974</b>	<b>329</b>	<b>8,041</b>	<b>36,863</b>	<b>4,731</b>	<b>64,938</b>
Additions	14,958	-	166	1,840	-	16,964
Disposals	47	-	-	(49)	(253)	(255)
Transfers	(7,867)	-	45	7,822	-	-
Transfers held for sale assets	-	-	(5,593)	-	-	(5,593)
<b>At 31 December 2018</b>	<b>22,112</b>	<b>329</b>	<b>2,659</b>	<b>46,476</b>	<b>4,478</b>	<b>76,054</b>
<b>Amortisation</b>						
<b>At 1 January 2018</b>	<b>-</b>	<b>(203)</b>	<b>(5,295)</b>	<b>(29,427)</b>	<b>(2,755)</b>	<b>(37,680)</b>
Amortisation	-	(19)	(1,343)	(6,965)	(250)	(8,577)
Disposals	-	-	-	2	111	113
Transfers held for sale assets	-	-	4,203	-	-	4,203
<b>At 31 December 2018</b>	<b>-</b>	<b>(222)</b>	<b>(2,435)</b>	<b>(36,390)</b>	<b>(2,894)</b>	<b>(41,941)</b>
<b>Impairment</b>						
<b>At 1 January 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(136)</b>	<b>(136)</b>
Charge	-	-	-	-	(412)	(412)
Reversal	-	-	-	-	121	121
<b>At 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(427)</b>	<b>(427)</b>
<b>Carrying amount at 31 December 2018</b>	<b>22,112</b>	<b>107</b>	<b>224</b>	<b>10,086</b>	<b>1,157</b>	<b>33,686</b>

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

The Company intangible asset additions during 2018 and 2017 mainly comprise the development of IT projects carried out in-house in Spain, 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.

**(a) Goodwill and impairment**

Details of goodwill and movements are as follows:

	<b>Thousands of Euro</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Cost</u></b>		
<b>At 1 January</b>	<b>73,108</b>	<b>71,564</b>
Additions to the consolidated group	-	2,920
Disposals	(1,738)	(1,376)
<b>At 31 December</b>	<b>71,370</b>	<b>73,108</b>
<b><u>Amortisation</u></b>		
<b>At 1 January</b>	<b>(13,833)</b>	<b>(6,452)</b>
Amortisation	(7,143)	(7,543)
Disposals	303	162
<b>At 31 December</b>	<b>(20,673)</b>	<b>(13,833)</b>
<b><u>Impairment</u></b>		
<b>At 1 January</b>	<b>(5,135)</b>	<b>(1,739)</b>
Charge	(10,780)	(3,736)
Reversal	907	340
<b>At 31 December</b>	<b>(15,008)</b>	<b>(5,135)</b>
<b><u>Carrying amount at 31 December</u></b>	<b>35,689</b>	<b>54,140</b>

As indicated in Note 1, the events of 2018 evidenced the existence of impairment indicators in the stores values as well as the goodwill allocated to the stores, which resulted in the Company extending the population of stores to be tested (see note 4b). Every store which has been allocated goodwill individually with impairment indicators has been subject to impairment testing (see note 6)

**(b) Fully-amortised assets**

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

	<b>Thousands of Euro</b>	
	<b>2018</b>	<b>2017</b>
Computer software	28,056	22,196
Other intangible assets	259	1,551
<b>Total</b>	<b>28,315</b>	<b>23,747</b>

## 6. Property, plant and equipment

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

	Thousands of Euro						Total
	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	
<b>Cost</b>							
<b>At 1 January 2018</b>	57,324	631,845	922,672	37,996	2,302	85,385	1,737,524
Additions	16	32,086	74,735	10,549	4,016	7,064	128,466
Disposals	(4,058)	(21,516)	(33,513)	(4,599)	(1,107)	(6,392)	(71,185)
Transfers	-	452	1,288	4	(1,744)	-	-
<b>At 31 December 2018</b>	53,282	642,867	965,182	43,950	3,467	86,057	1,794,805
<b>Depreciation</b>							
<b>At 1 January 2018</b>	-	(408,406)	(679,918)	(24,054)	-	(68,304)	(1,180,682)
Depreciation	-	(27,391)	(67,367)	(6,511)	-	(7,216)	(108,485)
Disposals	-	15,541	28,456	4,438	-	4,536	52,971
Transfers	-	(149)	(13)	-	-	-	(162)
<b>At 31 December 2018</b>	-	(420,405)	(718,842)	(26,127)	-	(70,984)	(1,236,358)
<b>Impairment</b>							
<b>At 1 January 2018</b>	-	(5,627)	(2,271)	-	-	-	(7,898)
Charge	-	(34,532)	(11,239)	-	-	-	(45,771)
Disposals	-	2,249	730	-	-	-	2,979
Reversal	-	225	80	-	-	-	305
Transfers	-	79	83	-	-	-	162
<b>At 31 December 2018</b>	-	(37,606)	(12,617)	-	-	-	(50,223)
<b>Carrying amount at 31 December 2018</b>	53,282	184,856	233,723	17,823	3,467	15,073	508,224

	Thousands of Euro						Total
	Restated	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Under construction and advances	
<b>Cost</b>							
<b>At 1 January 2017</b>	62,660	635,256	892,554	37,702	5,162	81,455	1,714,789
Additions	9	18,768	54,341	6,698	4,237	5,094	89,147
Additions to the consolidated group	-	933	1,451	34	-	130	2,548
Disposals	(5,345)	(24,795)	(29,994)	(6,441)	(1,091)	(1,294)	(68,960)
Transfers	-	1,683	4,320	3	(6,006)	-	-
<b>At 31 December 2017</b>	57,324	631,845	922,672	37,996	2,302	85,385	1,737,524
<b>Depreciation</b>							
<b>At 1 January 2017</b>	-	(397,111)	(639,586)	(24,879)	-	(61,113)	(1,122,689)
Depreciation	-	(27,761)	(64,337)	(5,404)	-	(8,016)	(105,518)
Disposals	-	16,699	24,208	6,232	-	825	47,964
Transfers	-	(233)	(203)	(3)	-	-	(439)
<b>At 31 December 2017</b>	-	(408,406)	(679,918)	(24,054)	-	(68,304)	(1,180,682)
<b>Impairment</b>							
<b>At 1 January 2017</b>	-	(6,357)	(2,164)	-	-	-	(8,521)
Charge	-	(3,368)	(1,567)	-	-	-	(4,935)
Disposals	-	2,018	956	-	-	-	2,974
Reversal	-	1,818	327	-	-	-	2,145
Transfers	-	262	177	-	-	-	439
<b>At 31 December 2017</b>	-	(5,627)	(2,271)	-	-	-	(7,898)
<b>Carrying amount at 31 December 2017</b>	57,324	217,812	240,483	13,942	2,302	17,081	548,944

### (a) General

Additions to property, plant and equipment during 2018 and 2017 mainly comprise refurbishments and remodelling and the new openings realized into new store's formats: Details of the technical installations and other fixed assets classified as finance leases at 31 December 2018 and 2017 are provided in note 7.

Additionally, the amount of additions for 2017 was restated to include Euro 10,415 thousand in relation to additions of fixtures and fittings and machinery that in previous years had been recognised in a period which was not the appropriate period (note 2b).

Disposals for 2018 and 2017 primarily comprise the sale of properties owned by the Company to third parties in both years and also items replaced as a result of the aforementioned improvements and due to store closures. Losses of Euro 258 thousand and Euro 2,013 thousand were posted in 2018 and 2017, respectively (see note 24 (d)).

Details of residual useful life, depreciation for the year, accumulated depreciation and the carrying amount of individually significant items of property, plant and equipment at 31 December 2018 and 2017 are as follows:

Description	Thousands of Euro			
	2018			
	Residual useful life	Depreciation for the year	Accumulated depreciation	Carrying amount
Warehouse land	-	-	-	22,579
Warehouse buildings	25-30 years	(1,406)	(23,630)	35,188
<b>Total</b>		<b>(1,406)</b>	<b>(23,630)</b>	<b>57,767</b>

Description	Thousands of Euro			
	2017			
	Residual useful life	Depreciation for the year	Accumulated depreciation	Carrying amount
Warehouse land	-	-	-	22,579
Warehouse buildings	26-31 years	(1,816)	(22,224)	35,800
<b>Total</b>		<b>(1,816)</b>	<b>(22,224)</b>	<b>58,379</b>

**(b) Impairment of Property, plant and equipment**

As indicated in Note 1, the events that occurred during the year, mainly the announcement of the decrease in profit and loss estimates and the new business plan of the Company, are indications of potential impairment of the operating assets subject to amortization and have required the realization of an analysis in order to verify if the book value of said assets exceeds their recoverable value.

The recoverable amount of each store has been determined based on fair value calculations by discounting future cash flows. These calculations use projected cash flows based on the approved five-year business plan (see note 1). 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 Company 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	
	2018	2017
Sales growth rate (1)	4.38%	3.80%
Growth rate (2)	2.00%	2.00%
Discount rate (3)	8.45%	7.92%
Commercial margin (4)	25.58%	25.50%

(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 over net sales

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 Company 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, has 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 in Spain of the budgeted period foresees a slight improvement is expected mainly due to the improvement of logistic costs

In order to calculate the recoverable value of each store, the Company 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 4 (e).

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 56,658 thousand was recorded in 2018 (Euro 45,466 thousand relating to property, plant and equipment, Euro 412 thousand relating to intangible assets, and Euro 10,780 thousand relating to goodwill, that relates in its entirety to the impairment of the goodwill allocated to the stores identified in the impairment analysis), of which Euro 18,556 thousand relates to the full impairment of 245 stores that are expected to be closed or sold and Euro 38,102 thousand relates to another 283 stores (Euro 12,100 thousand in 2017).

The approved business plan calls for the closing/sale of a total of 300 stores. These 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 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 p.b would have increased the impairment charge by Euro 9,916 thousand;
- A decrease of 20 p.b in the commercial margin would have increased the impairment charge by Euro 1,492 thousand;
- An increase in the discount rate of 100 p.b would have increased the impairment charge by Euro 4,552 thousand;
- Or a decrease in the perpetual growth rate of 100 p.b would have increased the impairment charge by

Euro 2,830 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. Company 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 28. The Company is in the initial phase of commercialization and marketing in order to launch 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.

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.

The recoverable amount of the CGU groups at the level would be equal to their carrying amount if the key hypothesis were to change as indicated in the following table:

	<b>Spain</b>	
	<b>From</b>	<b>To</b>
Sales growth rate (1)	4.38%	1.50%
Growth rate (2)	2.00%	(17.28)%
Discount rate (3)	8.45%	13.32%

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

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

(3) Discount rate before tax applied to cash flow projections

The recoverable amount of the group of CGUs is estimated to exceed their carrying amount at 31 December 2018 by Euro 776,116 thousand (Euro 3,467,356 thousand at 31 December 2017).

#### **(c) Fully-depreciated assets**

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

	<b>Thousands of Euro</b>	
	<b>2018</b>	<b>2017</b>
Buildings	230,019	222,042
Technical installations and machinery	508,240	480,766
Other installations, equipment and furniture	14,004	12,386
Other property, plant and equipment	56,000	52,990
<b>Total</b>	<b>808,263</b>	<b>768,184</b>

#### **(d) Insurance**

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

**(e) Property, plant and equipment subject to guarantees**

As of December 31, 2018 and 2017, the Company did not have elements of property, plant and equipment subject to guarantee. However, the Company has committed mortgage guarantees to be granted in February 2019 on certain real estate assets (see note 2 (c)).

**(7) Finance leases - Lessee**

At 31 December 2018 and 2017, the Company held the following types of property, plant and equipment under finance leases:

	Thousands of Euro			
	2018			
	Technical installations and machinery	Other installations, equipment and furniture	Other assets	Total
Cost	35,073	1	16,422	51,496
Accumulated depreciation	(19,517)	(1)	(7,187)	(26,705)
<b><u>Carrying amount at 31 December</u></b>	<b>15,556</b>	<b>-</b>	<b>9,235</b>	<b>24,791</b>

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

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

Interest incurred on finance leases totalled Euro 1,591 thousand and Euro 1,769 thousand in 2018 and 2017, respectively (see note 20.8).

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

	Thousands of Euro			
	2018		Restated 2017	
	Minimum payments	Present value (note 20(b))	Minimum payments	Present value (note 20(b))
Less than one year	8,502	7,671	9,606	8,597
Two to five years	17,514	16,412	20,508	19,098
Over five years	853	848	1,801	1,773
<b>Total minimum payments and present value</b>	<b>26,869</b>	<b>24,931</b>	<b>31,915</b>	<b>29,468</b>
Less current portion	(8,502)	(7,671)	(9,606)	(8,597)
<b>Total non-current</b>	<b>18,367</b>	<b>17,260</b>	<b>22,309</b>	<b>20,871</b>

The 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	
	2018	Restated 2017
Future minimum payments	26,869	31,915
Unaccrued finance expenses	(1,938)	(2,447)
<b><u>Present value</u></b>	<b>24,931</b>	<b>29,468</b>

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

#### **(8) Operating leases - Lessee**

The Company has approximately 3,159 operating leases in place. In general terms, the operating leases on stores only establish the payment of a fixed monthly charge which is reviewed annually in line with and indexed to the rate of inflation. Operating leases generally do not include clauses establishing variable amounts such as turnover-based fees, or contingent rent amounts.

Leases on warehouses generally have the same characteristics as for stores. The Company has purchase options on several warehouse leases, which are included in off-balance-sheet commitments (see note 25).

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 Company when determining the term and the classification of the lease since there is no reasonable certainty of remaining during those additional periods (see Note 6 and 24d).

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

<b>Warehouse</b>	<b>Minimum term</b>
Miranda de Ebro (Burgos)	2019
Manises (Valencia)	2019
Villanubla (Valladolid)	2019
San Antonio (Barcelona)	2023
Mallén (Zaragoza)	2023
Orihuela (Alicante)	2023
Villanueva de Gállego (Zaragoza)	2030
Mejorada del Campo (Madrid)	2024
Getafe (Madrid)	2026
Dos Hermanas (Sevilla)	2027
Sabadell (Barcelona)	2029

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

Operating lease payments have been recognised as income statement for 2018 and 2017 as follows:

	<b>Thousands of Euro</b>	
	<b>2018</b>	<b>2017</b>
Property lease payments	166,813	160,656
Sublease payments	1,992	3,418
<b>Total</b>	<b>168,805</b>	<b>164,074</b>

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

	<b>Thousands of Euro</b>	
	<b>2018</b>	<b>2017</b>
Less than one year	32,522	56,361
Two to five years	61,233	70,407
Over five years	40,673	46,519
<b>Total minimum property lease payments</b>	<b>134,428</b>	<b>173,287</b>
Less than one year	1,076	558
Two to five years	810	192
<b>Total minimum movable goods lease payments</b>	<b>1,886</b>	<b>750</b>

The majority of the leases entered into by the Company 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.

#### **(9) Operating leases - Lessor**

Sublease revenues for an amount of Euro 21,948 thousand (Euro 21,984 thousand at 31 December 2017) 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 income statement includes contingents in respect of these contracts of Euro 848 thousand in 2018 (Euro 512 thousand in 2017).

#### **(10) Risk policy and management**

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

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

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

##### **(a) Financial risk factors**

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

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

##### **(b) Foreign exchange risk**

The Company 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 Company control this risk by means of currency forward contracts arranged by the Group's Treasury Department.

In 2018 and 2017, the Company completed no significant transactions in currencies other than the functional currency of each company. However, the Company 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 Company total volume of purchases.

The Company holds several investments in foreign operations, the net assets of which are exposed to currency risk. Foreign exchange risk affecting net assets of the Company foreign operations in Argentine pesos and Brazilian reals is mitigated primarily through borrowings in the corresponding foreign currencies.

The Company 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.

##### **(c) Price risk**

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

##### **(d) Credit risk**

Credit risk is the risk to which the Company 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 asset

The Company 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 Company 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 Company has policies in place to limit the amount of risk held with respect to any financial institution.

The credit risk presented by the Company 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:

<b>Thousands of Euro</b>	<b>2018</b>	<b>Restated 2017</b>
Commercial transactions non current (note 12 (c))	42,994	51,182
Commercial transactions current	44,529	46,895
Guarantees received (note 25 (b))	(35,200)	(40,397)
<b>Total</b>	<b>52,323</b>	<b>57,680</b>

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 Company entered into agreements to transfer trade payables 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 239 thousand in 2017) (see note 20.8). Undue balances at 31 December 2018 amounted to Euro 126,370 thousand (Euro 99,624 thousand at 31 December 2017), all of which were without recourse.

The Company 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:

<b>Thousands of Euro</b>	<b>Maturity</b>	<b>2018</b>
Loans to group companies	2021	8,000
Loans to third parties	2020-2021	206
Deposits and guarantees	per contract	25,589
Trade receivables and service delivery	2020-2035	42,994
<b>Non-current financial assets</b>		<b>76,789</b>
Trade receivables	2019	44,529
Trade receivables from group companies and associates	2019	315,639
Other receivables	2019	45,918
Personnel	2019	786
Loans to group companies	2019	65,000
Current account with group companies	2019	310,013
Loans	2019	23
Derivatives	2019	18
Deposits and guarantees	2019	2,775
<b>Current financial assets</b>		<b>784,701</b>

<b>Thousands of Euro</b>	<b>Maturity</b>	<b>Restated 2017</b>
Loans to group companies	2019	1,000
Loans to third parties	2019-2021	192
Deposits and guarantees	per contract	24,962
Trade receivables and service delivery	2019-2035	51,182
<b>Non-current financial assets</b>		<b>77,336</b>
Trade receivables	2018	46,895
Trade receivables from group companies and associates	2018	273,846
Other receivables	2018	48,619
Personnel	2018	505
Loans to group companies	2018	40,000
Current account with group companies	2018	272,490
Loans	2018	51
Deposits and guarantees	2018	3,190
<b>Current financial assets</b>	2018	<b>685,596</b>

The Company 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 4,112 thousand at 31 December 2018

The returns on these financial assets totalled Euro 4,175 thousand in 2018 and Euro 3,354 thousand in 2017.

Details of non-current and current trade and other receivables by maturity in 2018 and 2017 are as follows:

<b>Non-current</b>	<b>Thousands of Euro</b>			
	<b>Total</b>	<b>1 - 2 years</b>	<b>3 - 5 years</b>	<b>&gt; 5 years</b>
<b>31 December 2018</b>	<b>42,994</b>	2,687	22,964	17,343
<b>31 December 2017</b>	<b>51,182</b>	12,916	22,891	15,375

<b>Current</b>	<b>(Restated) Thousands of Euro</b>				
	<b>Total</b>	<b>Not expired</b>	<b>Less than 1 month</b>	<b>2-3 months</b>	<b>4-6 months</b>
<b>31 December 2018</b>	<b>409,727</b>	348,072	2,765	58,264	626
<b>31 December 2017</b>	<b>369,992</b>	323,773	6,016	40,192	11

The impairment policy is described in note 4 (g).

**(e) Liquidity risk**

The Company applies a prudent policy to cover its liquidity risks, based on having sufficient cash and marketable securities as well as sufficient financing through credit facilities to settle market positions. Given the dynamic nature of its underlying business, the Company 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 Company operates could have a potential relevant adverse impact on its liquidity profile, in October the Company 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, amongst others, the Group obtained additional short term financing for an amount of up to Euro 215 million and of up to Euro 681 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 (c).

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 should allow the Company to assure coverage of working capital needs under the Business Plan, considerably strengthening its liquidity profile.

The Company 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.

<b>Thousands of Euro</b>	<b>Maturity</b>	<b>2018</b>
Bonds and other securities	2020-2023	590,410
Debt with financial institutions		296,374
Revolving credit facilities	2020-2022	254,222
Other bank loans	2020	15,000
Credit facilities drawn down	2020-2022	27,152
Finance lease payables	2020-2025	17,260
Guarantees and deposits received	per contract	11,829
Other non current liabilities	2020	2,202
<b>Total non-current financial liabilities</b>		<b>918,075</b>
Bonds and other securities	2019	311,371
Debt with financial institutions		275,552
Revolving credit facilities	2019	124,350
Interests	2019	7,210
Other loans	2019	15,032
Credit facilities drawn down	2019	123,966
Other current liabilities	2019	4,994
Finance lease payables	2019	7,671
Suppliers of fixed assets	2019	30,419
Bills payable	2019	13,450
Other debts	2019	2,302
Current interest on payables	2019	15
Guarantees and deposits received	2019	135
Payables to group companies	2019	65,040
Suppliers	2019	563,785
Suppliers, group companies	2019	232,760
Other payables	2019	73,282
Personnel	2019	22,341
Advances to customers	2019	1,199
<b>Total current financial liabilities</b>		<b>1,599,322</b>

<b>Thousands of Euro</b>	<b>Maturity</b>	<b>Restated 2017</b>
Bonds and other securities	2020-2023	892,570
Debt with financial institutions		28,413
Other loans	2019-2022	28,413
Finance lease payables	2024	20,871
Guarantees and deposits received	per contract	10,803
Other non current liabilities	2020	2,000
<b>Total non-current financial liabilities</b>		<b>954,657</b>
Bonds and other securities	2018	6,021
Debt with financial institutions		127,198
Other loans	2018	101,000
Interests	2018	111
Other current liabilities	2018	26,087
Finance lease payables	2018	8,597
Derivates	2018	73
Suppliers of fixed assets	2018	32,568
Bills payable	2018	11,962
Other debts	2018	3,230
Current interest on payables	2018	22
Guarantees and deposits received	2018	140
Payables to group companies	2018	87,758
Suppliers	2018	989,931
Suppliers, group companies	2018	69,064
Other payables	2018	69,248
Personnel	2018	24,283
Advances to customers	2018	819
<b>Total current financial liabilities</b>		<b>1,430,914</b>

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 balance sheet for the headings in question.

<b>Thousands of Euro</b>	<b>Total</b>	<b>2020</b>	<b>2021-2023</b>	<b>From 2024</b>
Bonds and other securities	590,410	-	590,410	-
Revolving credit facilities	254,222	135,555	118,667	-
Credit facilities drawn down	27,152	-	27,152	-
Other debts with credit entities	15,000	15,000	-	-
Finance lease payables	17,260	5,408	11,004	848
Guarantees and deposits received	11,829	-	-	11,829
Other non current liabilities	2,202	2,059	-	143
<b>Total non-current financial debt</b>	<b>918,075</b>	<b>158,022</b>	<b>747,233</b>	<b>12,820</b>

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

Financial expenses accrued on these financial liabilities totalled Euro 32,857 thousand and Euro 17,792 thousand in 2018 and 2017, respectively.

**(f) Cash flow and fair value interest rate risks**

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

The Group contracts different interest rate hedges to mitigate its exposure, in accordance with its risk management policy. At 31 December 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 66%, 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 837 thousand in 2018 (Euro 449 thousand in 2017).

**(11) Investments in equity instruments of Group companies**

At 31 December 2018 and 2017, all DIA Group companies subject to mandatory statutory audit have been audited. Details of shareholdings in Group companies are as follows:

**Information on Group companies  
for the year ended 31 December 2018  
(expressed in thousands of Euros)**

Name	Registered Offices	Activity	Auditor	% of ownership and vote			Results for the year from continuing operations		Carrying amount of investment	Dividends received in 2018	
				% direct interest	Total	Capital	Reserves	Total equity			
Dia Portugal Supermercados, S.A.	Lisbon	Wholesale and retail sale of food products and the subsidiary sale of toiletries and perfume products.	KPMG	100	100	51,803	10,117	(10,452)	51,468	50,547	9,100
Dia Argentina, S.A. and Subsidiary	Buenos Aires	Wholesale and retail distribution of food products	KPMG	95	100	147,140	(120,298)	(7,994)	18,847	141,531	-
Dia Brasil Sociedade Limitada and Subsidiary	Sao Paulo	Wholesale and retail distribution of consumer products	KPMG	100	100	211,657	(15,810)	(6,911)	188,935	211,657	-
Finandia E.F.C., S.A.	Madrid	Loan and credit operations, including customer credit, mortgage loans and financing of commercial transactions, as well as the issue and management of credit and debit cards.	KPMG	50	50	7,000	1,611	(375)	8,236	3,500	-
Twins Alimentación, S.A. and Subsidiary	Madrid	Distribution of food products and toiletries through supermarkets and the subsidiary, sub-lease of premises primarily to its sole shareholder.	KPMG	100	100	36,169	7,223	(44,591)	(1,199)	160,748	11,662
Dia World Trade, S.A.	Geneva	Supply services to the companies of the DIA Group.	N/A	100	100	84	896	192	1,172	843	129
Beauty by DIA, S.A.	Madrid	Sale of toiletries and perfume products.	KPMG	100	100	9,616	(7,561)	(15,282)	(13,227)	-	-
Grupo El Árbol, Distribución y Supermercados, S.A. and Subsidiary	Madrid	Wholesale and retail sale of food products and others.	KPMG	100	100	12,000	60,841	(101,872)	(29,031)	150,000	-
DIA ESHOPPING, S.L.	Madrid	Creation, maintenance and operation of portals in Internet for selling products and services.	KPMG	100	100	10	(853)	(6,109)	(6,952)	1,003	-
Red Libra Trading Services, S.L.	Madrid	Negotiation with suppliers of distribution, acquisition of other materials and supplies need for the activity brands, with the purpose of maximize the quality-price balance offer to the customer.	N/A	50	50	3	78	(482)	(401)	2	-
CD Supply Innovation S.L.	Madrid	Management of financial and provisioning services for own brand.	EY	50	50	1,000	429	271	1,700	500	-
									720,331	20,891	

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

Name	Registered Offices	Activity	Auditor	% of ownership and vote		Capital	Reserves	Results for the year from continuing operations		Carrying amount of investment	Dividends received in 2017
				% direct interest	Total			Total equity	Total equity		
Dia Portugal Supermercados, S.A.	Lisbon	Wholesale and retail sale of food products and the subsidiary sale of toiletries and perfume products.	KPMG	100	100	51,803	10,511	9,282	71,596	50,547	6,600
Dia Argentina, S.A. and Subsidiary	Buenos Aires	Wholesale and retail distribution of food products	KPMG	95	100	132,140	(106,544)	(2,657)	22,939	127,281	-
Dia Brasil Sociedade Limitada and Subsidiary	Sao Paulo	Wholesale and retail distribution of consumer products Loan and credit operations, including customer credit, mortgage loans and financing of commercial transactions, as well as the issue and management of credit and debit cards.	KPMG	100	100	211,657	2,548	16,295	230,500	211,657	-
Finandia E.F.C., S.A.	Madrid		KPMG	100	100	7,000	1,733	(122)	8,611	7,000	-
Dia Tian Tian Management Consulting Service & Co.Ltd.	Shanghai	Service consultancy	KPMG	100	100	19,300	(21,623)	(717)	(3,040)	-	-
Shanghai Dia Retail Co., Ltd.	Shanghai	Retail distribution of consumer products Distribution of food products and toiletries through supermarkets and the subsidiary, sub-lease of premises primarily to its sole shareholder.	KPMG	100	100	134,008	(136,152)	(26,680)	(28,824)	-	-
Twins Alimentación, S.A. and Subsidiary	Madrid		KPMG	100	100	36,169	13,406	5,490	55,065	160,748	13,000
Dia World Trade, S.A.	Geneva	Supply services to the companies of the DIA Group.	N/A	100	100	84	889	48	1,021	843	51
Schlecker, S.A.	Madrid	Sale of toiletries and perfume products.	KPMG	100	100	9,616	(2,950)	(4,529)	2,137	51,372	-
Grupo El Árbol, Distribución y Supermercados, S.A. and Subsidiary	Madrid	Wholesale and retail sale of food products and others. Creation, maintenance and operation of portals in Internet for selling products and services.	KPMG	100	100	12,000	88,619	(26,827)	73,792	150,000	-
DIA ESHOPPING, S.L.	Madrid	Negotiation with suppliers of distribution, acquisition of other materials and supplies need for the activity brands, with the purpose of maximize the quality-price balance offer to the customer.	KPMG	100	100	10	964	(1,812)	(838)	1,003	-
Red Libra Trading Services, S.L.	Madrid	Management of financial and provisioning services for own brand.	N/A	50	50	3	-	115	118	2	-
CD Supply Innovation S.L.	Madrid		EY	50	50	1,000	-	38	1,038	500	-
										760,953	19,651

Details of shareholdings in Group companies and changes in 2018 and 2017 are as follows:

Company	Thousands of Euro			
	Balances at 1 January 2018	Additions	Disposals	Balances at 31 December 2018
Dia Portugal Supermercados, S.A.	50,547	-	-	50,547
Dia Argentina, S.A.	127,281	14,250	-	141,531
Dia Brasil Sociedade Limitada	211,657	-	-	211,657
Finandia E.F.C.,S.A.	7,000	-	(3,500)	3,500
Twins Alimentación, S.A.	160,748	-	-	160,748
Dia World Trade	843	-	-	843
Beauty by DIA S.A	51,372	-	-	51,372
Grupo El Árbol, Distribución y Supermercados, S.A.	150,000	-	-	150,000
DIA ESHOPPING, S.L.	1,003	-	-	1,003
Red Libra Trading Services, S.L	2	-	-	2
CD Supply Innovation, S.L	500	-	-	500
Dia Tian Tian Management Consulting Service & Co.Ltd.	-	6,071	(6,071)	-
Shanghai Dia Retail CO., LTD.	-	12,649	(12,649)	-
<b>Total cost</b>	<b>760,953</b>	<b>32,970</b>	<b>(22,220)</b>	<b>771,703</b>
Impairment	(153,308)	(70,092)	18,720	(204,680)
<b>Carrying amount</b>	<b>607,645</b>	<b>(37,122)</b>	<b>(3,500)</b>	<b>567,023</b>

Company	Thousands of Euro			
	Balances at 1 January 2017	Additions	Disposals	Balances at 31 December 2017
Dia Portugal Supermercados, S.A.	50,547	-	-	50,547
Dia Argentina, S.A.	128,667	-	(1,386)	127,281
Dia Brasil Sociedade Limitada	181,627	30,030	-	211,657
Finandia E.F.C.,S.A.	7,000	-	-	7,000
Dia Tian Tian Management Consulting Service & Co.Ltd.	19,300	-	-	19,300
Shanghai Dia Retail CO., LTD.	95,138	38,870	-	134,008
Twins Alimentación, S.A.	160,748	-	-	160,748
Dia World Trade	843	-	-	843
Beauty by DIA, S.A.	51,372	-	-	51,372
Grupo El Árbol, Distribución y Supermercados, S.A.	150,000	-	-	150,000
DIA ESHOPPING, S.L.	1,003	-	-	1,003
Red Libra Trading Services, S.L	-	2	-	2
CD Supply Innovation, S.L	-	500	-	500
<b>Total cost</b>	<b>846,245</b>	<b>69,402</b>	<b>(1,386)</b>	<b>914,261</b>
Impairment	(114,438)	(38,870)	-	(153,308)
<b>Carrying amount</b>	<b>731,807</b>	<b>30,532</b>	<b>(1,386)</b>	<b>760,953</b>

### Variations 2018

On 30 October and 25 September 2018, capital increases were carried out in DIA Argentina, S.A. for a total of Euro 5,000 thousand and Euro 10,000 thousand, respectively, 95% subscribed by the Company and 5% by Pe-Tra Servicios a la Distribución, S.L.U., a subsidiary of Twins Alimentación, S.A.

On 28 June 2018, a shareholding of 50% in FINANIDIA E.F.C. was sold to CaixaBank Consumer Finance E.F.C., S.A.U for Euro 9,306 thousand, and the Company recognised a profit on the sale of Euro 5,071 thousand (net of transaction costs). As a consequence, the investment has being considered as a participation in associates.

On 12 April 2018, the Company terminated the agreement concluded on 18 April 2017 to create Red Libra Trading Services, S.L., a company engaged in negotiating with distributor brand suppliers for the DIA and EROSKI Groups so as to maximise value for money for consumers. This company, which traded from Madrid and was owned 50/50 by the Company and Eroski, became dormant.

On 3 April 2018 the Company entered into an agreement with Nanjing Suning.Com Supermarket LTD, a company belonging to the Chinese Suning group, for the sale of 100% of the shares of the Chinese companies Shanghai Dia Retail CO., Ltd and DIA (Shanghai) Management Consulting Services CO. Ltd, signalling the DIA Group's exit from the Chinese market. The Company contributed a total of Euro 18,720 thousand through the assignment of the receivable with Dia World Trade amounting to Euro 2,911 thousand, the pardoning and capitalisation of debts with the Company amounting to Euro 9,789 thousand and a cash contribution of Euro 6,020 thousand. The agreement was signed on 10 August 2018, following compliance with the conditions precedent to which it was subject. Impairment was subsequently recognised on these contributions which were sold to another shareholder for Euro 1.

### Variations 2017

In 2017 a capital increase was carried out in DIA Brazil for a total amount of Euros 30,030 thousand. Furthermore, during 2017 a capital increase was carried out in Shanghai Dia Retail Co. Ltd. for Euros 38,870 thousand.

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

On 18 April 2017, the DIA Group and the EROSKI Group signed an agreement to set up Red Libra Trading Services, S.L., a new company tasked with negotiating with suppliers of distributor brands for both companies, as well as purchasing other materials and supplies necessary for their activity, in order to maximise the price-quality ratio for the consumer. This company will trade from Madrid and its capital is shared equally between the Company and Eroski. The Euros 2 thousand contribution relates to a share capital contribution made by the Company during the year.

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

During the financial year 2018, based on the economic reality of the transactions that CDSI has been carrying out, as it has been the de facto separation in the management by CDSI between the transactions of each of the partners and the next dissolution of the agreement, the Company has incorporated its inventories and accounts payable in the amount of 40 million euros in the year 2018, and the same amount of 44 million euros in the year 2017, for the consideration of the Company as the main front to the suppliers.

Details of the activities of the subsidiaries for 2018 and 2017 are presented in the tables at the beginning of this note.

#### - Impairment

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

Thousands of Euro				
Company	Balances at 1 January 2018	Charge	Reversals	Balances at 31 December 2018
Dia Tian Tian Management Consulting Service & Co.Ltd.	(19,300)	(6,071)	6,071	(19,300)
Beauty by DIA S.A	-	(51,372)	-	(51,372)
Shanghai Dia Retail CO., LTD.	(134,008)	(12,649)	12,649	(134,008)
<b>Total non-current</b>	<b>(153,308)</b>	<b>(70,092)</b>	<b>18,720</b>	<b>(204,680)</b>

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

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

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

	Spain	
	2018	2017
Sales growth rate (1)	4.38%	3.80%
Growth rate (2)	2.00%	2.00%
Discount rate (3)	8.45%	7.92%
Commercial margin (4)	25.58%	25.50%

- (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 over net sales

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

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

## **(12) Long-term investments and trade receivables**

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

**(a) Investments in Group companies**

Details of investments in Group companies are as follows:

Group	Thousands of Euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Loans	8,000	30,000	1,000	40,000
Current account with the Group	-	310,013	-	272,490
<b>Total</b>	<b>8,000</b>	<b>340,013</b>	<b>1,000</b>	<b>312,490</b>

The detail of the loans to Group companies at 31 December 2018 and 2017 is the following:

**(i) Credit with relate parties:**

On 30 June 2015, the Company granted a loan of Euro 30,000 thousand to its subsidiary DIA Portugal Supermercados, S.A. It had a single maturity date in 2017 and bore quarterly interest at a market rate. On 30 January 2017, the Company signed an agreement to extend the maturity of the above-mentioned loan by 15 months, bringing the maturity date to 30 April 2018. In 2018, two addenda were signed to extend the loan's maturity date, the latest date being 30 January 2019.

On 25 January 2017, the Company granted a Euro 10,000 thousand loan to its subsidiary DIA Portugal Supermercados, S.A. It had a single maturity date in 2018 and bore quarterly market-rate interest. The loan was repaid at maturity.

**(ii) Participating Loans:**

On 28 February 2018, the Company granted a participating loan of Euro 1,000 thousand to its subsidiary DIA ESHOPPING, S.L. maturing on 30 June 2018. The loan may be automatically extended for six-month periods to 30 June 2021 at maximum. It bears interest as agreed between the parties. On 27 December 2018, this loan was increased by Euro 7,000 thousand charged to existing financial loans (cash pooling balances), maturing as initially agreed.

On 28 December 2015, the Company granted a participating loan of Euro 1,000 thousand to its subsidiary Beauty by DIA, S.A. (Schlecker, S.A. in 2015), which initially matured on 30 June 2016 and has been extended as permitted in the agreement for six-monthly periods to the final maturity date on 30 June 2019, bearing quarterly interest as agreed by the parties. On 28 February 2018, the Company increased the participating loan by Euro 4,000 thousand. Additionally, on 27 December 2018 the loan was increased by a further Euro 30,000 thousand, charged to existing financial loans (cash pooling balances). It matures on 31 January 2019.

Details of current accounts with Group companies at 31 December 2018 and 2017 are presented below:

	Thousands of Euro							
	2018				2017			
	Total	Account receivable	Tax Credit (VAT)	Tax Credit (Income tax)	Total	Account receivable	Tax Credit (VAT)	Tax Credit (Income tax)
Twins Alimentación S.A.	24,194	17,339	378	6,477	6,751	-	274	6,477
Beauty by DIA S.A.	45,951	43,520	1,725	706	68,037	64,611	2,720	706
Grupo El Árbol Distribución y Supermercados, S.A.	205,093	202,498	2,595	-	176,585	173,074	3,511	-
Compañía Gallega de Supermercados, S.A.	-	-	-	-	729	725	4	-
DIA ESHOPPING, S.L.	1,676	1,557	-	119	3,522	3,404	-	118
Dia World Trade, S.A.	1,782	1,782	-	-	-	-	-	-
Finandia E.F.C., S.A.	1,258	1,258	-	-	784	784	-	-
Red Libra	13	13	-	-	-	-	-	-
Pe-Tra Servicios a la distribución, S.L.U.	1,976	1,034	-	942	978	285	-	693
Dia Portugal Supermercados, S.A.	3,086	3,086	-	-	1,896	1,896	-	-
Dia Brasil Sociedade Limitada	18,402	18,402	-	-	12,305	12,305	-	-
Dia Argentina, S.A.	6,504	6,504	-	-	903	903	-	-
Dia Paraguay S.A.	78	78	-	-	-	-	-	-
<b>Total</b>	<b>310,013</b>	<b>297,071</b>	<b>4,698</b>	<b>8,244</b>	<b>272,490</b>	<b>257,987</b>	<b>6,509</b>	<b>7,994</b>

The nominal annual interest rates applied to current accounts with Group companies in 2018 and 2017 ranged from one-month Euribor plus a spread of between -0.125% (with a 0% floor) for payables and one-month Euribor plus a spread of 0.2% for receivables.

**(b) Long-term investments**

Long-term investments break down as follows:

<b>Unrelated parties</b>	<b>Thousands of Euro</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>	<b>Current</b>
Equity instruments	36	-	36	-
Loans	206	23	192	51
Hedging derivatives	-	18	-	-
Deposits and guarantees	25,589	2,775	24,962	3,190
<b>Total</b>	<b>25,831</b>	<b>2,816</b>	<b>25,190</b>	<b>3,241</b>

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

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

Other financial assets include the security and other deposits pledged to lessors to secure lease contracts. These amounts are measured at present value and any difference with their nominal value is recognised under current or non-current prepayments (see note 14). At 31 December 2018 and 2017, this item also includes the amount of Euro 2,000 thousand withheld from the seller in the acquisition of establishments from the Eroski Group, which will be released after five years, in accordance with the addendum to the framework contract signed on 7 August 2015. Moreover, in 2018 current security and other deposits comprise amounts deposited with franchisees totalling Euro 2,776 thousand (Euro 3,183 thousand in 2017) and other bank deposits amounted 8,541 thousands euros in 2017 were cancelled during 2018.

**(c) Trade and other receivables**

A breakdown of trade and other receivables is as follows:

	<b>Thousands of Euro</b>			
	<b>2018</b>		<b>Restated 2017</b>	
	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>	<b>Current</b>
Trade receivables	42,994	63,108	51,182	60,089
Trade receivables from group companies and associates	-	315,639	-	273,846
Other payables	-	51,978	-	56,315
Personnel	-	786	-	505
Current tax assets (note 21)	-	2,757	-	21
Public entities, other (note 21)	-	98	-	106
Impairment	-	(24,639)	-	(20,890)
<b>Total</b>	<b>42,994</b>	<b>409,727</b>	<b>51,182</b>	<b>369,992</b>

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

At 31 December 2018, trade receivables from Group companies basically comprise Euro 70,196 thousand receivable from Twins Alimentación, S.A. (Euro 80,818 thousand at 31 December 2017), Euro 36,166 thousand receivable from Beauty by DIA, S.A. (Euro 30,901 thousand at 31 December 2017) and Euro 162,528 thousand receivable from Grupo el Árbol Distribución y Supermercados, S.A. (Euro 133,237 thousand at 31 December 2017).

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

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

Current tax assets include the receivable in relation to estimated income tax for 2018 and 2017 (see note 21).

**(d) 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 Company entered into agreements to assign supplier trade receivables without recourse see note 10 (d). The accrued financial expense of assigning these receivables amounted to Euro 263 thousand (Euro 245 thousand in 2017) (see note 20.8).

The assigned receivables that had not yet fallen due at 31 December 2018 totalled Euro 126,370 thousand (Euro 99,624 thousand in 2017) and all were considered to be without recourse. The Company 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.

**(e) Impairment**

Accounts receivable due less than three months are considered not to be impaired. These accounts receivable relate to a number of independent customers over which there is no recent history of default.

At 31 December 2018, an impairment loss of Euro 18,156 thousand was recognised for trade receivables (Euro 10,542 thousand in 2017). The provision stands at Euro 24,639 thousand at 31 December 2018 (Euro 20,890 thousand in 2017). These trade receivables mainly relate to customers that have experienced unforeseen financial difficulties. A part of the receivables are expected to be recovered, based on the analyses carried out.

The carrying amounts of trade and other receivables are denominated in euros in all cases.

Movements in impairment adjustments arising from credit risk affecting financial assets carried at amortised cost are set out below:

	<b>Thousands of Euro</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Current</u></b>		
<b>At 1 January</b>	<b>(20,890)</b>	<b>(17,045)</b>
Charge	(18,156)	(10,542)
Reversals	14,407	6,644
Transfer	-	53
<b>At 31 December</b>	<b>(24,639)</b>	<b>(20,890)</b>

In 2018, the Company recognised direct losses due to unrecoverable receivables totalling Euro 3,749 thousand (Euro 179 thousand in 2017).

### (13) Inventories

Details of inventories are as follows:

	Thousands of Euro	
	2018	Restated 2017
Goods for resale	215,390	225,233
Other supplies	8,753	6,982
Advances to suppliers	1,512	2,814
Impairment	(4,011)	(1,176)
<b>Total</b>	<b>221,644</b>	<b>233,853</b>

Write-downs of the value of inventories at net realisable value totalled Euro 2,640 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.

#### (a) Availability restrictions

There are no restrictions on the availability of inventories at 31 December 2018 and 2017.

#### (b) Insurance

The Company has taken out a number of insurance policies to cover risks relating to inventories. The coverage provided by these policies is considered to be sufficient

### (14) Prepayments, accruals and deferred income

Details of prepayments, accruals and deferred income are as follows:

	Thousands of Euro			
	2018		2017	
	Non-current	Current	Non-current	Current
Prepayments on operating leases	-	8	-	8
Prepayments on guarantees and loans (note 12 (b))	1,229	235	1,766	234
Other prepayments	-	142	-	165
<b>Total</b>	<b>1,229</b>	<b>385</b>	<b>1,766</b>	<b>407</b>

### (15) Cash and cash equivalents

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 2018 and from 0.04% to 0.10% in 2017).

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(c). However, there are no restrictions on the availability of those bank accounts unless the guarantee becomes enforceable.

## **(16) Total equity**

A breakdown of equity showing movements is presented in the statement of changes in equity.

### **(a) Capital**

At 31 December 2017 and 2016, share capital stood at Euro 62,245,651.30, represented by 622,456,513 fully-subscribed and paid-up shares with a par value of Euro 0.10 each, there being no restrictions on the transfer of the shares.

The Company's shares are listed on the Spanish stock markets. According to public information filed with the Spanish National Securities Market Commission, the members of the Board of Directors control approximately 0.205% of the Parent's share capital at the date of authorising these annual accounts for issue.

According to the same public information, the most significant shareholdings at the date these 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 Company. Hence, at the date these consolidated annual accounts are authorised for issue, Letterone holds 29.001% of DIA's share capital.

The Company 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 Company capacity to continue operating is set out in note 2 (d).

The Company, 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 an amount of Euro 600 million with pre-emptive subscription right during the first trimester of 2019, once the Company 2018 annual accounts are approved at the General Shareholder's Meeting, and prior to the ordinary maturity of the financing (see Note 20).

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 Company 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 Company 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 Company controls its capital structure on a leverage ratio basis from Parent Company and Group Companies. This ratio is calculated as net debt divided by adjusted consolidated EBITDA. Net debt is the sum of financial Group debt less cash and other items.

At end of 2018 and 2017 Company debt ratio and Group Companies have been between 4.30x and 1.82x respectively

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

The Company managed the business with the objective to keep this ratio below 3.5x.

## (b) Reserves

Reserves at 31 December 2018 and 2017 are as follows:

	<u>Thousands of Euro</u>	
	<u>2018</u>	<u>Restated 2017</u>
Legal Reserve	13,021	13,021
Redeemed Capital Reserve	5,688	5,688
Other reserves non available	15,170	15,170
Voluntary Reserves	45,077	70,229
<b>Total</b>	<b>78,956</b>	<b>104,108</b>

### (i) Legal reserve

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

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

At 31 December 2018, the Company 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.

### (ii) Differences on conversion of share capital to euros

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

### (iii) Other non-distributable reserves

This reserve amounting to Euro 15,170 thousand is non-distributable and arose as a result of the entry into force of Royal Decree 602/2016, which eliminated the concept of intangible assets with indefinite useful lives, establishing that from 1 January 2016, these would be subject to amortisation. At 31 December 2016, after the publication of this Royal Decree, this reserve, which up to that date was on account of goodwill, was transferred

to voluntary reserves, remaining non-distributable. Once the net amount of the goodwill exceeds the carrying amount, it may be transferred to unrestricted reserves.

**(iv) Voluntary reserves**

These reserves are freely available for distribution.

**(v) Treasury shares**

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

	<u>Number of shares</u>	<u>Euros/share</u>	<u>Total</u>
<b>31 December 2016</b>	<b>11,105,774</b>	<b>5.9943</b>	<b>66,571,465.29</b>
Liquidation equity swap	(2,100,000)		(12,588,053.49)
Formalisation equity swap	2,100,000		11,130,000.00
Delivery of shares to Board Members	(73,227)		(428,672.64)
Delivery of shares to incentives plans 2014-2016 (note 19)	(721,914)		(4,326,043.04)
<b>31 December 2017</b>	<b>10,310,633</b>	<b>5.8540</b>	<b>60,358,696.12</b>
Delivery of shares to incentives plans 2014-2016 (note 19)	(768,277)		(4,497,512.23)
<b>31 December 2018</b>	<b>9,542,356</b>	<b>5.8540</b>	<b>55,861,183.89</b>

The Parent's treasury shares are held to deliver shares to the executives under the Plans described in note 19.

Shares transferred 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 the lending bank includes a prohibition on the repurchase of treasury shares until the debt is settled (see note 20).

**(c) Other equity instruments**

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

**(d) Dividends**

Details of dividends paid are as follows:

<u>Thousands of Euro</u>	<u>2018</u>	<u>2017</u>
Dividends on ordinary shares:	-	128,535
Dividends per share (Euros):	-	0.21

Dividends per share (in euros) are calculated based on the number of shares that entitle the holder to dividends at the distribution date, which in 2018 was 612,914,157 shares (612,072,653 shares in 2017).

**(17) Grants, donations and bequests received**

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

	Thousands of Euro	
	2018	2017
<b>At 1 January</b>	<b>454</b>	<b>726</b>
Transfers to the income statement	(182)	(272)
<b>At 31 December</b>	<b>272</b>	<b>454</b>

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

	Thousands of Euro	
	2018	2017
Capital grants	243	363
Operating grants	570	739
<b>Total</b>	<b>813</b>	<b>1,102</b>

### **(18) Provisions**

Details of non-current provisions are as follows:

	Thousands of Euro					Total
	Provisions for long-term employee benefits	Tax provisions	Labour provisions	Legal provisions	Other provisions	
<b>At 1 January 2018</b>	<b>1,655</b>	<b>18,200</b>	<b>469</b>	<b>2,048</b>	<b>916</b>	<b>23,288</b>
Charge	187	12,589	274	3,103	6	16,159
Applications	-	(7,135)	(102)	(26)	-	(7,263)
Reversals	(182)	(2,603)	(168)	(875)	-	(3,828)
<b>At 31 December 2018</b>	<b>1,660</b>	<b>21,051</b>	<b>473</b>	<b>4,250</b>	<b>922</b>	<b>28,356</b>

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

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 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.

At 31 December 2018, tax provisions to cover inspection-related risks amount to Euro 21,051 thousand (Euro 18,200 thousand at 31 December 2017). Reversals include amounts appropriated to cover risks that have not materialised.

At 31 December 2018 this item includes provisions for lawsuits filed by employees (social security) amounting to Euro 473 thousand, as compared with Euro 469 thousand recognised at 31 December 2017.

Provisions related to litigation with third parties (legal provisions) at 31 December 2018 amounted to Euro 4,250 thousand. Provisions for this item at 31 December 2017 amounted to Euro 2,048 thousand.

Within current provisions at 31 December 2018, the Company has recorded an amount of Euro 4,344 thousand in connection with onerous contracts relating to stores and a warehouse that was not in use, for an amount of Euro 1,653 thousand and Euro 2,691 thousand, respectively.

### (19) 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 delivery of shares	Maximum number of shares at 31 December	Price
2014-2016	Detailed in the section A.4 of IAR 2014 pages 5 and 6	April 2017	2,016,778	5.3950
		January 2018		
2016-2018	Detailed in the section A.4 of IAR 2016 pages 6 and 7	April 2019	1,282,730	5.9203
		January 2020		

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 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.

### (20) Financial debts and trade payables

For financial liabilities registered at cost or amortised cost, the carrying amount does not differ significantly from fair value, except for non-current debentures and bonds, the fair value of which at was Euro 918,684 thousand 31 December 2017 (Euro 823,344 thousand at 31 December 2016), reflecting their market price.

#### (a) Payables to Group companies and associates

Details of payables to Group companies and associates are as follows:

	Group	Thousands of Euro	
		Current	Current
		2018	2017
Payables		65,040	87,758
<b>Total</b>		<b>65,040</b>	<b>87,758</b>

Details of current payables to Group companies at 31 December 2018 and 2017 are presented below:

Group	Thousands of Euro				
	Current Account	Tax Debit (VAT)	Tax Debit (Income tax)	Current Account	Tax Debit (Income tax)
	2018			2017	
Twins Alimentación S.A.	-	-	21,925	13,891	21,822
Beauty by DIA S.A.	-	-	-	-	1,529
Grupo El Árbol Distribución y Supermercados, S.A.	-	-	41,178	-	41,177
Compañía Gallega de Supermercados, S.A.	310	-	-	-	772
DIA ESHOPPING, S.L.	-	17	572	-	576
Finandía E.F.C., S.A.	948	-	-	-	-
Red Libra Trading Services, S.L.	90	-	-	-	-
Dia World Trade, S.A.	-	-	-	7,991	-
<b>Total</b>	<b>1,348</b>	<b>17</b>	<b>63,675</b>	<b>21,882</b>	<b>65,876</b>

The interest rates applied to current accounts with Group companies in 2018 and 2017 ranged from one-month Euribor plus a spread of between -0.125% (with a 0% floor) for payables and one-month Euribor plus a spread of 0.2% for receivables.

## (b) Payables

This item breaks down as follows:

Unrelated parties	Thousands of Euro			
	2018		2017	
	Non-current	Current	Non-current	Current
Bonds and other securities	590,410	311,371	892,570	6,021
Debt with financial institutions				
Revolving credit facilities	254,222	124,350	-	-
Other bank loans	15,000	15,032	28,413	101,000
Interest	-	7,210	-	111
Credit facilities drawn down	27,152	123,966	-	-
Other financial liabilities	-	4,994	-	26,087
Finance lease payables (note 7)	17,260	7,671	20,871	8,597
Derivatives	-	-	-	73
Suppliers of fixed assets	-	30,419	-	32,568
Bills payable	-	13,450	-	11,962
Other debts	-	2,302	-	3,230
Current interest on payables	-	15	-	22
Guarantees and deposits received	11,829	135	10,803	140
Other financial liabilities	2,202	-	2,000	-
<b>Total</b>	<b>918,075</b>	<b>640,915</b>	<b>954,657</b>	<b>189,811</b>

The Company has financial debt with credit institutions that matures in the short term for the amount of Euro 574,719 thousand

## - Bonds and debentures

The 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 20 April 2018, the General Shareholders Meeting authorized the Board of Directors of the 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 euro					Amount in thousands of euros
					2019	2020	2021	2022	2023	
DIA, S.A.	07.04.2017	6	EUR	0.875%	-	-	-	-	300,000	300,000
DIA, S.A.	28.04.2016	5	EUR	1.000%	-	-	300,000	-	-	300,000
DIA, S.A.	22.07.2014	5	EUR	1.500%	305,700	-	-	-	-	305,700

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

Thousands of euro	Bonds
<b>At 1 January 2017</b>	<b>800,000</b>
Issues	300,000
Amortization	(194,300)
<b>At 31 December 2017 and 2018</b>	<b>905,700</b>

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 0.0875%. These bonds were issued on the Irish Stock Exchange.

On 7 April 2017, a bond swap was performed on a portion of the bonds from the previous placement issued on the same day for 1,943 bonds (nominal amount of 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).

### - Bank borrowings

#### Syndicated loans

As indicated in note 2c on 31 December 2018 the 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	RCF (***)	124,350(*)	124,350	-	05.31.2019
		Credits	5,000	-	5,000	
		Loans may be balanced with confirming(****)	61,766 (*)	Credits 22,966 Confirming -	38,800	
C	242,687	Loans may be balanced with confirming(****)	101,000	Credits 101,000	-	05.31.2019
		Confirming	141,687 (**)	Confirming -	4,446	
D	336,878	RCF (***)	229,222	229,222	-	118,666 / 06.28.2022
		Loans may be balanced with factoring(****)	107,656	Credits 27,151 Factoring 80,505	-	110,556 / 04.21.2020
						63,444 / 06.28.2022
E	-	Guarantees and documentary credits	-	-	-	44,211 / 04.21.2020
F	28,347	RCF (***)	25,000	25,000	-	05.31.2019
		Confirming	3,347	3,158	189	04.21.2020

(\*) On 2 January 2019 the Facility B was increased by Euro 4,533 thousand to cancel an Equity Swap transaction, as mentioned below.  
(\*\*) 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:

Description	Limit in thousand of euros	Outstanding in thousands of euros			
		Currency	dec-2017	Fecha firma	Vencimiento
Syndicated	300,000	EUR	-	04.21.2015	75,000 / 04.21.2018
Syndicated	300,000	EUR	-	07.03.2014	225,000 / 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 millions. 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	Syndicated 2014 and 2015
Total Net Debt/ 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 annual accounts

### Bank loans

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 14 February 2018, the Company renewed the loan amounting to Euro 101,000 thousand, establishing 14 February 2019 as the new maturity date. On 31 December 2018, within the framework of the refinancing the Company cancelled this loan;
- On 25 February 2018 the Company cancelled, on maturity, two loans amounting to Euro 80,000 thousand formalised on 25 January 2018;

The following operations were completed during 2017:

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

### 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 available	Amount used
Tranche D-Loans may be balanced with reverse factoring	27,151	-	27,151
<b>Non current credits facilities drawn down at 31 December 2018</b>	<b>27,151</b>	<b>-</b>	<b>27,151</b>
Tranche B-Loans	5,000	5,000	-
Tranche B-Loans may be balanced with reverse factoring	61,766	38,800	22,966
Tranche C-Loans may be balanced with reverse factoring	101,000	-	101,000
Credits facilities drawn down (not included in syndicated credits)	5,000	5,000	-
<b>Current credits facilities drawn down at 31 December 2018</b>	<b>172,766</b>	<b>48,800</b>	<b>123,966</b>

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

### - Other current and non-current financial liabilities

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

At 31 December 2018							
Start date	Expiration date	Number of shares	Nominal amount in thousand of euro	Counterpart	Strike	Interest rate	Liquidation
22.12.2018	15.01.2019	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 euro	Counterpart	Strike	Interest rate	Liquidation
22.12.2017	21.12.2018	6,000,000	34,238	Santander	Fixed	Variable	Physical

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

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 heading 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.

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.

**(c) Trade and other payables**

A breakdown of trade and other payables is as follows:

	<b>Thousands of Euro</b>	
	<b>2018</b>	<b>Restated 2017</b>
Suppliers	563,785	989,931
Suppliers with subsidiaries and associated companies (note 23 (b))	232,760	69,064
Other payables	73,282	69,248
Personnel	22,341	24,283
Current tax liabilities (note 21)	-	2,917
Public entities, other (note 21)	35,235	53,491
Advances to customers	1,199	819
<b>Total</b>	<b>928,602</b>	<b>1,209,753</b>

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.

In 2018 y 2017, trade payables to Group companies mainly included short-term payables for supplies of goods by CDSI.

At 31 December 2018, the Company had recorded an amount of Euro 4,344 thousand for onerous contracts relating to 368 stores and the warehouse that was no longer being used (see note 6), amounting to Euro 1,653 thousand and Euro 2,691 thousand, respectively.

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

The Company had reverse factoring facilities with limits of Euro 160,633 thousand and Euro 490,033 thousand at 31 December 2018 and 2017, respectively. A total of Euro 155,658 thousand at 31 December 2018 and Euro 273,059 thousand at 31 December 2017 had been utilised.

The following details are furnished pursuant to the duty of information stipulated in Law 15/2010 of 5 July 2010, which amended Law 3/2004 of 29 December on measures to combat late payment in commercial transactions:

	<b>2018</b>	<b>2017</b>
	<b>Days</b>	<b>Days</b>
Average payment period to suppliers	49	48
Payment operations ratio	50	48
Pending payment transactions ratio	35	42
	<b>Amount in euros</b>	<b>Amount in euros</b>
Total payments made	4,630,628,150	4,246,229,980
*Total payment pending	346,762,927	536,226,011

\* Receptions unbilled and invoices included in the confirming lines at the year end previously mentioned, 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.

## (21) Taxation

### Balances with public entities

Details of balances with public entities are as follows

	Thousands of Euro			
	2018		2017	
	Non-current	Current	Non-current	Current
<b>Assets</b>				
Deferred tax assets	38,347	-	125,871	-
Current tax assets	-	2,757	-	21
Other receivables from the Administration	-	98	-	106
	<b>38,347</b>	<b>2,855</b>	<b>125,871</b>	<b>127</b>
		(note 12 (c))		(note 12 (c))
<b>Liabilities</b>				
Deferred tax liabilities	17,659	-	15,084	-
Current tax liabilities (note 20 (c))	-	-	-	2,917
Value added tax and similar taxes	-	19,734	-	38,678
Social Security	-	10,296	-	9,254
Withholdings	-	5,205	-	5,559
	<b>17,659</b>	<b>35,235</b>	<b>15,084</b>	<b>56,408</b>
		(note 20 (c))		(note 20 (c))

During 2018 the Company paid corporate income tax amounting to Euro 3,017 thousand, instead of the Euro 2,917 thousand envisaged at year-end 2017.

### Years open to inspection and tax inspections

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

The inspection and investigation of Corporate Income Tax for 2011 and 2012, Personal Income Tax for 2012 and VAT for 2013 ended in 2018.

On December 31, 2018 the Tax Authorities maintain inspection and investigation actions on the following concepts and periods:

<b>Tax</b>	<b>Periods</b>
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/Professionnal	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

On December 31, 2017 the Tax Authorities maintain inspection and investigation actions on the following concepts and periods:

Tax	Periods	
	2018	2017
Income tax	2015-2017	2013-2016
Value Added tax	2015-2018	2013-2017
Personal income tax	2015-2018	2013-2017
Business activities tax	2015-2018	2013-2017

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

### Income tax

At 31 December 2018 the Company files consolidated tax returns as the parent of tax group 487/12. The Group subsidiaries throughout 2018 and 2017 have been Twins Alimentación, S.A, Pe-Tra Servicios a la Distribución, S.L., Beauty By DIA S.A., El Árbol Distribución y Supermercados, S.A., Compañía Gallega de Supermercados, S.A. and DIA Eshopping, S.L.

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

A reconciliation of net income and expenses for 2018 with DIA's taxable income is as follows:

2018	Thousands of Euro						
	Income statement			Income and expense taken to equity			
	Increases	Decreases	Net	Increases	Decreases	Net	Total
<b>Income and expenses for the period</b>	-	(191,274)	(191,274)	68	(182)	(114)	(191,388)
Income tax	99,951	-	99,951	23	(61)	(38)	99,913
Profit before tax	99,951	(191,274)	(91,323)	91	(243)	(152)	(91,475)
Permanent differences:							
individual company	74,484	(51,017)	23,467	-	-	-	23,467
Temporary differences:							
individual company							
originating during the year	68,321	-	68,321	-	-	-	68,321
originating in prior years	19,125	(79,948)	(60,823)	152	-	152	(60,671)
<b>Taxable income</b>	<b>261,881</b>	<b>(322,239)</b>	<b>(60,358)</b>	<b>243</b>	<b>(243)</b>	<b>-</b>	<b>(60,358)</b>

The permanent positive adjustment to 2018 corporate income tax of Euro 74,484 thousand, mainly consisted of impairment recognised for accounting purposes on the interest held in DIA Shanghai, and Beauty By DIA, in accordance with article 13.2 of Corporate Income Tax Law 27/2014 and the adjustment made in relation to debts relating to DIA Shanghai which were taken on by DIA after its transfer.

The permanent negative adjustment to 2018 income tax of Euro 51,017 thousand primarily consisted of the exemption to avoid double taxation of the dividends distributed by DIA Portugal and Twins Alimentación, S.A., and the exemption of positive income obtained by DIA on the transfer of its 50% interest in the investee FINANDIA, both regulated by article 21 of Corporate Income Tax Law 27/2014, and the tax incentive related to the reduction in income obtained from certain intangible assets, in accordance with article 23 of that Law.

Temporary differences that increased the tax base in 2018 primarily related to the reversal of unrestricted depreciation in 2011 and 2012 pursuant to Royal Decree 13/2010, of 3 December; the reversal of tax impairment of the portfolio in DIA Argentina, pursuant to Royal Decree Law 3/2016, of 2 December; the consideration as non-deductible of impairment on property, plant and equipment, under article 13.2 of Corporate Income Tax Law 27/2014; the use of different amortisation criteria for goodwill and the consideration as non-deductible of provisions recorded for accounting purposes which do not meet the deductibility requirements set out in article 14 of Corporate Income Tax Law 27/2014.

Temporary differences that decreased the tax base in 2018 mainly related to the adjustments for reversal owing to corrections to the statement of financial position for the years 2016 and 2017; differences arising from the reversal of a tenth of the Company's amortisation/depreciation charge, which was considered non-tax deductible in accordance with Law 16/2012 of 27 December; and differences resulting from the fulfilment during the year of the tax deductibility requirements of equity-settled remuneration plans.

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

2017	Thousands of Euro						
	Income statement			Income and expense taken to equity			
	Increases	Decreases	Net	Increases	Decreases	Net	Total
<b>Income and expenses for the period</b>	<b>85,275</b>	-	<b>85,275</b>	-	<b>(419)</b>	<b>(419)</b>	<b>84,856</b>
Impuesto sobre sociedades	29,164	-	29,164	-	(140)	(140)	29,024
Profit before tax	114,439	-	114,439	-	(559)	(559)	113,880
Permanent differences:							
individual company	57,159	(57,680)	(521)	-	-	-	(521)
Temporary differences:							
individual company							
originating during the year	10,753	-	10,753	-	-	-	10,753
originating in prior years	21,942	(18,773)	3,169	559	-	559	3,728
<b>Taxable income</b>	<b>204,293</b>	<b>(76,453)</b>	<b>127,840</b>	<b>559</b>	<b>(559)</b>	<b>-</b>	<b>127,840</b>

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

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

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

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

The reconciliation of the corporate income tax base to tax payable / refundable in 2018 and 2017 is as follows:

	Thousands of Euro	
	2018	2017
<b>Taxable income</b>	<b>(60,358)</b>	<b>127,840</b>
Tax at (25%)	-	31,960
Deductions	-	(4,179)
<b>Tax payable</b>	<b>-</b>	<b>27,781</b>
Total tax payable	(2,542)	(10,840)
Withholdings and payments on account	(215)	(15,232)
Restated effect	-	1,208
<b>Tax payable (+) recoverable (-) by the Company</b>	<b>(2,757)</b>	<b>2,917</b>

As a result of the final assessment of 2017 corporate income tax, the amount paid was Euro 3,017 thousand, instead of the Euro 2,917 thousand envisaged at year-end 2017.

The reconciliation of net income and expenses for 2018 and 2017 with DIA's taxable income is as follows:

	Thousands of Euro			Thousands of Euro		
	2018			2017		
	Profit and loss	Equity	Total	Profit and loss	Equity	Total
<b>Income and expenses for the period before tax</b>	<b>(91,323)</b>	<b>(152)</b>	<b>(91,475)</b>	<b>114,439</b>	<b>(559)</b>	<b>113,880</b>
Tax at 25%	-	(38)	(38)	28,610	(140)	28,470
Positive permanent differences	-	-	-	14,290	-	14,290
Negative permanent differences	-	-	-	(14,420)	-	(14,420)
Income tax expenses in current year	(2,123)	-	(2,123)	-	-	-
Deductions and credits for the current year	(1,447)	-	(1,447)	(2,120)	-	(2,120)
Income tax expenses in prior years	(318)	-	(318)	(784)	-	(784)
Impairment of prior years tax loss carryforwards	87,857	-	87,857	-	-	-
Other adjustments	15,982	-	15,982	3,588	-	3,588
<b>Income tax expenses / (income) from continuing operations</b>	<b>99,951</b>	<b>(38)</b>	<b>99,913</b>	<b>29,164</b>	<b>(140)</b>	<b>29,024</b>



Notes to the Annual Accounts for 2018

Details of accumulated recognised temporary differences at 31 December 2018 and the corresponding deferred tax asset or liability, in thousands of Euros, are as follows:

	TEMPORARY DIFFERENCE				2,018	TAX EFFECT				2,018
	2,017	Origin	Reversal	Other		2,017	Origin	Reversal	Other	
Onerous Contracts	1,271	3,073	-	-	4,344	318	768	-	-	1,086
Provision for textiles	146	2,670	-	-	2,816	36	668	-	-	704
Amortization differences on goodwill	10,025	3,448	-	43	13,516	2,506	862	-	11	3,379
Leaseholds	730	-	-	(52)	678	182	-	-	(13)	169
Provision for franchising operations	3,390	2,486	-	-	5,876	848	622	-	-	1,470
Hedge depreciation 2013/2014	37,573	-	(5,367)	-	32,206	9,392	-	(1,342)	-	8,050
Other provisions	344	-	-	-	344	86	-	-	-	86
Amortization intragroup goodwill	5,143	839	-	(43)	5,939	1,286	210	-	(11)	1,485
Equity instruments	7,807	1,590	(5,554)	-	3,843	1,952	398	(1,389)	-	961
Pension commitments	1,656	5	-	-	1,661	415	1	-	-	416
Non-deductible goodwill on acq. of invest.	1,584	-	-	-	1,584	396	-	-	-	396
Non-deductible impairment of fixed assets	5,530	54,210	-	-	59,740	1,382	13,553	-	-	14,935
Restated	69,348	-	(69,027)	-	321	17,337	-	(17,257)	-	80
<b>DEFERRED TAX ASSETS RECOGNIZED</b>	<b>144,547</b>	<b>68,321</b>	<b>(79,948)</b>	<b>(52)</b>	<b>132,868</b>	<b>36,136</b>	<b>17,082</b>	<b>(19,988)</b>	<b>(13)</b>	<b>33,217</b>
Amortization limit deduction (DT 37 L27/2014)	-	-	-	-	-	1,878	-	-	-	1,878
Universo Mujer deduction	-	-	-	-	-	-	884	-	-	884
International double taxation deduction	-	-	-	-	-	-	2,368	-	-	2,368
Unrecognised tax credits	-	-	-	351,428	351,428	87,857	-	-	(87,857)	-
<b>OTHER DEFERRED TAX ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>351,428</b>	<b>351,428</b>	<b>89,735</b>	<b>3,252</b>	<b>-</b>	<b>(87,857)</b>	<b>5,130</b>
<b>TOTAL DEFERRED TAX ASSETS RECOGNIZED</b>	<b>144,547</b>	<b>68,321</b>	<b>(79,948)</b>	<b>351,376</b>	<b>484,296</b>	<b>125,871</b>	<b>20,334</b>	<b>(19,988)</b>	<b>(87,870)</b>	<b>38,347</b>
Unrecognised tax credits	-	59,912	-	351,423	411,335	-	14,977	-	87,857	102,834
Dia Tian Tian Management Consulting Service & Co.Ltd.	11,365	-	-	(11,365)	-	2,842	-	-	(2,842)	-
Shanghai Dia Retail Co.Ltd.	92,037	-	-	(92,037)	-	23,010	-	-	(23,010)	-
<b>DEFERRED TAX ASSETS NON RECOGNIZED</b>	<b>103,402</b>	<b>59,912</b>	<b>-</b>	<b>248,021</b>	<b>411,335</b>	<b>25,852</b>	<b>14,977</b>	<b>-</b>	<b>62,005</b>	<b>102,834</b>

	TEMPORARY DIFFERENCE				2,018	TAX EFFECT				2,018
	2,017	Origin	Reversal	Other		2,017	Origin	Reversal	Other	
Accelerated depreciation 1994-1995	-	-	-	-	-	-	-	-	-	-
Accelerated depreciation 2011	7,294	-	(3,853)	-	3,441	1,809	-	(963)	-	846
Accelerated depreciation 2012	7,809	-	(2,046)	-	5,763	1,968	-	(512)	-	1,456
Goodwill deductible purchases from third parties	5,026	-	-	-	5,026	1,256	-	-	-	1,256
Argentina	39,685	-	(13,226)	-	26,459	9,919	-	(3,307)	-	6,612
Hedging transactions	(79)	-	-	92	13	(18)	-	-	23	5
Grants	691	-	-	(240)	451	150	-	-	(60)	90
DTA provision	-	-	-	29,574	29,574	-	-	-	7,394	7,394
<b>TOTAL DEFERRED TAX LIABILITIES</b>	<b>60,426</b>	<b>-</b>	<b>(19,125)</b>	<b>29,574</b>	<b>70,875</b>	<b>15,084</b>	<b>-</b>	<b>(4,782)</b>	<b>7,357</b>	<b>17,659</b>

With respect to tax credits on tax-loss carryforwards available for offset, the tax consolidation group to which the Company belongs carried out an analysis to assess their future recoverability within the context of a new Business Plan and concluded that the Company needed to recognise impairment amounting to Euro 87,857 thousand. This is irrespective of the fact that the Company continues to have the right to offset tax-loss carryforwards over an unlimited period.

Moreover, in 2018 unrecognised temporary differences were generated in respect of credits on available tax-loss carryforwards amounting to Euro 14,977 thousand, which, together with the unrecognised credits amounting to Euro 87,857 thousand, mentioned above, pushed total unrecognised available tax losses up to Euro 102,834 thousand. The right to offset these credits for tax purposes is unlimited in terms of time.

Additionally, deferred tax assets have been provided for amounting to Euro 7,394 thousand that relate to other temporary differences reversing in the years 2019 and 2020, during which the group expects to generate tax losses and which would become credits on available tax-loss carryforwards, not recognisable as assets according to the Group's recoverability analysis.

With respect to other Deferred Tax Assets, the Company recognised that relating to the deduction generated under Transitional Provision 37 of Spanish Corporate Income Tax Law 27/2014 amounting to Euro 1,878 thousand, that relating to the deduction generated and not applied for supporting the Exceptional public interest event "Programa Universo Mujer", as established in article 27.3 of Law 49/2002, of 23 December, amounting to Euro 884 thousand and that relating to the deduction generated and not applied due to international double taxation pursuant to article 31 of Corporate Income Tax Law 27/2014 amounting to Euro 2,368 thousand.

With respect to unrecognised temporary differences in assets, those outstanding for 2017 of Euro 25,852 thousand ceased to be reflected, as a result of the sale of Shanghai DIA Retail C.Ltd. and DIA Tian Tian Management Consulting Service in 2018.



Notes to the Annual Accounts for 2018

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

	TEMPORARY DIFFERENCE				TAX EFFECT					
	2,016	Origin	Reversal	Other	2,017	2,016	Origin	Reversal	Other	2,017
Onerous Contracts	882	389	-	-	1,271	221	97	-	-	318
Provision for textiles	130	16	-	-	146	32	4	-	-	36
Amortization differences on goodwill	4,217	5,720	-	88	10,025	1,054	1,430	-	22	2,506
Leaseholds	774	-	-	(44)	730	193	-	-	(11)	182
Provision for franchising operations	3,230	160	-	-	3,390	808	40	-	-	848
Hedge depreciation 2013/2014	42,940	-	(5,367)	-	37,573	10,735	-	(1,343)	-	9,392
Provision sale Turkey	75	-	(75)	-	-	19	-	(19)	-	-
Other provisions	265	79	-	-	344	66	20	-	-	86
Amortization intragroup goodwill	1,513	3,630	-	-	5,143	378	908	-	-	1,286
Equity instruments	14,814	133	(7,140)	-	7,807	3,704	33	(1,785)	-	1,952
Pension commitments	1,490	166	-	-	1,656	373	42	-	-	415
Non-deductible goodwill on acq. of invest.	1,584	-	-	-	1,584	396	-	-	-	396
Non-deductible impairment of fixed assets	5,070	460	-	-	5,530	1,267	115	-	-	1,382
Provision sale France	6,190	-	(6,190)	-	-	1,547	-	(1,547)	-	-
Restated	64,516	-	-	4,832	69,348	16,129	-	-	1,208	17,337
<b>DEFERRED TAX ASSETS RECOGNIZED</b>	<b>147,690</b>	<b>10,753</b>	<b>(18,772)</b>	<b>4,876</b>	<b>144,547</b>	<b>36,922</b>	<b>2,689</b>	<b>(4,694)</b>	<b>1,219</b>	<b>36,136</b>
Amortization limit deduction (DT 37 L27/2014)	-	-	-	-	-	2,146	-	(268)	-	1,878
Unrecognised tax credits	351,428	-	-	-	351,428	87,857	-	-	-	87,857
<b>OTHER DEFERRED TAX ASSETS</b>	<b>351,428</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>351,428</b>	<b>90,003</b>	<b>-</b>	<b>(268)</b>	<b>-</b>	<b>89,735</b>
<b>TOTAL DIFERENCIAS TEMPORARIAS ACTIVO</b>	<b>351,428</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>351,428</b>	<b>90,003</b>	<b>-</b>	<b>(268)</b>	<b>-</b>	<b>125,871</b>
Dia Tian Tian Management Consulting Service & Co.Ltd.	8,720	2,645	-	-	11,365	2,181	661	-	-	2,842
Shanghai Dia Retail Co.Ltd.	39,178	52,859	-	-	92,037	9,795	13,215	-	-	23,010
<b>DEFERRED TAX ASSETS NON RECOGNIZED</b>	<b>47,898</b>	<b>55,504</b>	<b>-</b>	<b>-</b>	<b>103,402</b>	<b>11,976</b>	<b>13,876</b>	<b>-</b>	<b>-</b>	<b>25,852</b>
<b>TOTAL DEFERRED TAX ASSETS</b>	<b>195,588</b>	<b>66,257</b>	<b>(18,772)</b>	<b>4,876</b>	<b>247,949</b>	<b>48,898</b>	<b>16,565</b>	<b>(4,694)</b>	<b>1,219</b>	<b>151,723</b>

	TEMPORARY DIFFERENCE				TAX EFFECT					
	2,016	Origin	Reversal	Other	2,017	2,016	Origin	Reversal	Other	2,017
Accelerated depreciation 2011	13,771	-	(6,477)	-	7,294	3,428	-	(1,619)	-	1,809
Accelerated depreciation 2012	10,048	-	(2,239)	-	7,809	2,528	-	(560)	-	1,968
Goodwill deductible purchases from third parties	5,026	-	-	-	5,026	1,256	-	-	-	1,256
Argentina	52,911	-	(13,226)	-	39,685	13,226	-	(3,307)	-	9,919
Otros	1,171	-	-	(559)	612	272	-	-	(140)	132
<b>TOTAL DEFERRED TAX LIABILITIES</b>	<b>82,927</b>	<b>-</b>	<b>(21,942)</b>	<b>(559)</b>	<b>60,426</b>	<b>20,710</b>	<b>-</b>	<b>(5,486)</b>	<b>(140)</b>	<b>15,084</b>

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

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

The right of the tax authorities to inspect and investigate tax-loss carryforwards offset or pending offsetting, deductions for double taxation, and deductions granted to promote certain activities, applied or pending application, prescribes after 10 years from the day after the last day of the tax period established for filing or self-assessment corresponding to the tax period in which the offsetting or application right arose. After this period, the Company must justify the tax-loss carryforwards or tax credits by presenting the assessment or self-assessment and its accounts, together with evidence that they were filed during the aforementioned period at the Mercantile Registry.

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

In 2018 the amount included in the tax base is a fifth of the reversal pending in respect of DIA Argentina since the sale of Shanghai DIA Retail C.Ltd. and DIA Tian Tian Management Consulting Service in 2018 entails not reversing the amount of tax impairment that was pending reversal.

Company	Thousands of Euro		
	Difference in Equity	Integrated amount in tax base	Amount pending of Intregation
Dia Argentina, S.A.	Non-application	13,226	26,452

In 2017 the increase in the capital and reserves of DIA Tian Tian Management Consulting Service entailed, under the same terms, the reversal of a fifth of the tax impairment made in prior years with respect to this investment.

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

In 2011, pursuant to additional provision eleven of the Revised Spanish Income Tax Law, applying the wording presented in Royal Decree-Law 6/2010 of 9 April 2010 and Royal Decree-Law 13/2010 of 3 December 2010,

DIA applied accelerated depreciation to new property, plant and equipment and investment property acquired during the year.

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

## **(22) Environmental information**

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

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

The Company's Board of Directors considers that there are no significant contingencies in connection with the protection and improvement of the environment and that it is not necessary to recognise any provisions for environmental liabilities and charges in the annual accounts at 31 December 2018 and 2017.

## **(23) Balances and transactions with related parties**

### **(a) Related-party balances**

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

**(b) Transactions with subsidiaries and associates**

The Company's transactions with subsidiaries are as follows:

<b>Balances with subsidiaries and associated companies</b>	<b>Thousands of euro</b>	
	<b>2018</b>	<b>Restated 2017</b>
Sales	892,650	869,832
Other services rendered	140,966	143,617
Finance income	1,110	829
Dividends	20,891	19,651
<b>TOTAL REVENUES</b>	<b>1,055,617</b>	<b>1,033,929</b>
Purchases	(18,402)	(25,983)
Work carried out by the company for assets	49,953	33,965
External services	5	18,734
<b>TOTAL EXPENSES</b>	<b>31,556</b>	<b>26,716</b>
Goodwill	-	2,920
Buildings	214	1,503
Machinery, installations, furniture and other fixed assets	223	2,570
<b>TOTAL COST</b>	<b>437</b>	<b>6,993</b>
Intangible fixed assets	-	(34)
Buildings	(14)	(238)
Machinery, installations and furniture	(261)	(674)
Other fixed assets	(796)	(1,078)
<b>TOTAL CARRYING AMOUNT</b>	<b>(1,071)</b>	<b>(2,024)</b>

During 2018, transactions were carried out with the company Red Libra totalling Euro 732 thousand (Euro 1,157 thousand in 2017) and with the company CDSI in the amount of Euro 1,332,843 thousand (Euro 56,466 thousand in 2017), basically relating to trade transactions (see note 20 (c)).

**(c) Information on the directors and senior management personnel**

In 2018, both the Board of Directors and the Management Committee of the Company 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 a 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.

#### 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 received by the directors and senior management of the Company in 2018 and 2017 are as follows:

Thousands of Euro			
2018		2017	
Directors	Senior mgt.	Directors	Senior mgt.
3,967	8,813	2,005	6,007

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 Company’s bylaws requires the disclosure of the remuneration earned by each of the present members of the Board of Directors in 2018 and 2017. A detail is as follows:

	Thousands of Euro				
	Financial instruments	Fixed remuneration	Compensation	No competence	Others
<b>Members of the Board</b>					
Ms. 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 María 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	-	-	-
Ms. Angela Lesley Spindler	5.0	96.5	-	-	-
Mr. Borja de la Cierva Álvarez de Sotomayor	4.8	112.7	-	-	-
Ms. María Luisa Garaña Corces	4.0	95.5	-	-	-
D. Stephan DuCharm	3.7	66.4	-	-	-
D. Antonio Coto Gutiérrez (*)	1.3	248.3	-	-	10.6
D. Karl-Heinz Holland	2.9	58.0	-	-	-
D. Sergio Ferreira Dias	0.9	24.2	-	-	-
D. Miguel Ángel Iglesias Peinado	-	0.4	-	-	-
<b>Total</b>	<b>49</b>	<b>1,744</b>	<b>1,951</b>	<b>202</b>	<b>21</b>

(\*) Remuneration as senior management, plus remuneration as Board member.

2017	Thousands of Euro			
	Financial instruments	Fixed remuneration	Variable remuneration	Others
<b>Members of the Board</b>				
Ms. 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 María Nin Genova	28.0	86.6	-	-
Mr. Richard Golding	28.9	88.8	-	-
Mr. Mariano Martín Mampaso	34.7	89.7	-	-
Mr. Antonio Urcelay Alonso	28.0	90.6	-	-
Ms. Angela Lesley Spindler	34.8	83.7	-	-
Mr. Borja de la Cierva Álvarez de Sotomayor	28.0	89.6	-	-
Ms. María Luísa Garaña Corces	21.3	73.5	-	-
<b>Total</b>	<b>302</b>	<b>1,472</b>	<b>224</b>	<b>7</b>

(\*) Remuneration as senior management, plus remuneration as Board member.

During 2018 and 2017, the Board directors and senior management personnel of the Company did not effect operations with the Parent or Group companies other than ordinary operations under market conditions.

The civil liability insurance premiums paid by the Company in respect of directors and senior management personnel totalled Euro 650 thousand in 2018 (Euro 29 thousand in 2017) both years.

## (24) Income and expenses

### (a) Revenue

#### Sales

Details of revenues by geographical market are as follows:

	Thousands of Euro	
	2018	Restated 2017
East Spain	1,573,582	1,710,125
West Spain	2,444,300	2,498,151
Comunitary	3,809	3,435
Abroad	22,869	34,864
<b>Total</b>	<b>4,044,560</b>	<b>4,246,575</b>

#### Provision of services

In 2018 and 2017, services rendered include the amounts of the rights licensed by DIA, ancillary services pertaining to the technical and commercial assistance provided to its franchisees and the revenues generated on home deliveries by its establishments.

### (b) Supplies

There follows a breakdown of the consumption of goods for resale, raw materials and other supplies:

	Thousands of Euro	
	2018	Restated 2017
Merchandise used		
Purchases	4,466,954	4,511,784
Purchase discounts, non-trade income and returns	(1,070,133)	(1,036,076)
Change in inventories	(34,619)	52,982
<b>Total</b>	<b>3,362,202</b>	<b>3,528,690</b>
Raw materials and consumables used		
Purchases	19,208	14,455
Change in inventories	(1,348)	428
<b>Total</b>	<b>17,860</b>	<b>14,883</b>
Subcontracted work	39,812	41,043
Impairment of merchandise, raw materials and other suppliers	2,835	(121)
<b>Total</b>	<b>3,422,709</b>	<b>3,584,495</b>

(c) **Employee benefit expense**

Details of the employee benefit expense are as follows:

	Thousands of Euro	
	2018	2017
Social Security payable by the Company	89,805	87,552
Other employee benefits expenses	3,234	3,050
<b>Total</b>	<b>93,039</b>	<b>90,602</b>

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

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

	Thousands of Euro	
	2018	2017
Impairment of intangible assets (note 5)	412	8
Impairment of property, plant and equipment (note 6)	45,466	2,790
Impairment of goodwill (note 5 (a))	10,780	3,736
Disposals and retirements of intangible assets (note 5)	552	839
Disposals and retirements of property, plant and equipment (note 6)	258	2,013
<b>Total</b>	<b>57,468</b>	<b>9,386</b>

Proceeds from the sale of these fixed assets totalled Euro 14,977 thousand in 2018 (Euro 16,044 thousand in 2017) and mostly derived from the sale of properties owned by the Company.

**(e) Non-trading and other operating income**

Details of non-trading and other operating income is as follow:

	Thousands of Euro	
	2018	2017
Canons	28,820	29,224
Rental Income	21,948	21,984
Income from services rendered	74,857	46,078
Logistical Income	63,899	64,272
Franchise Income	31,439	33,871
Information services to suppliers	11,743	14,103
Other income	24,970	63,617
	<b>257,676</b>	<b>273,148</b>

**(25) Commitments and Contingencies**

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

These off-balance-sheet cash commitments comprise:

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

Commitments were acquired to carry out business expansion processes.

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

Itemised details of commitments at 31 December 2018 and 2017 are as follows:

**(a) Pledged**

In thousands of Euro - 31 December 2018	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Guarantees	1,133	2,184	272	12,702	16,291
Purchase option on warehouses and others	23,730	-	18,628	27,422	69,780
Commercial contract commitments	3,880	1,315	8,639	8,452	22,286
<b>Total</b>	<b>28,743</b>	<b>3,499</b>	<b>27,539</b>	<b>48,576</b>	<b>108,357</b>

In thousands of Euro - 31 December 2017	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Guarantees	578	510	2,185	10,030	13,303
Purchase option on warehouses and others	7,212	24,084	2,219	46,292	79,807
Commercial contract commitments	12,609	1,431	5,107	236	19,383
<b>Total</b>	<b>20,399</b>	<b>26,025</b>	<b>9,511</b>	<b>56,558</b>	<b>112,493</b>

The Company is the guarantor of the drawdowns made on the credit facilities by its Spanish subsidiaries, which at 31 December 2018 and 2017 amounted to Euro 4,047 thousand and Euro 2,777 thousand, respectively.

Additionally, at 31 December 2017, as the Parent of the DIA Group, the Company has guaranteed the financing granted to its subsidiaries in China, amounting to Euro 22,813 thousand.

Cash guarantees mainly 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 that matures in June 2018 and another guarantees related to Brazil as detailed below:

- JP Morgan guarantee amounting to Euro 37,213 thousand and maturing in January 2019.
- Société Generale guarantee amounting to Euro 25,530 thousand and maturing in January 2019.
- Société Generale guarantee amounting to Euro 11,468 thousand and maturing in August 2019.

### (b) Received

In thousands of Euro - 31 December 2018	IN 1 YEAR	IN 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Unused credit facilities	48,800	-	-	-	48,800
Unused revolving lines of credit	92,652	-	-	-	92,652
Unused confirming lines	4,956	-	-	-	4,956
<b>Cash</b>	<b>146,408</b>	-	-	-	<b>146,408</b>
Commercial contract commitments (note 10 d)	18,073	4,252	4,003	8,872	35,200
Other commitments	1,650	159	-	-	1,809
<b>Operations / property / expansion</b>	<b>19,723</b>	<b>4,411</b>	<b>4,003</b>	<b>8,872</b>	<b>37,009</b>
<b>Total</b>	<b>166,131</b>	<b>4,411</b>	<b>4,003</b>	<b>8,872</b>	<b>183,417</b>

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

Guarantees received under business contracts relate to guarantees securing business agreements with franchisees.

### (c) Contingencies

The Company 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 Company at 31 December 2018 (see note 21). 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 18 and tax contingencies are detailed in note 21.

## (26) Employee information

The average headcount of full-time-equivalent personnel in 2018 and 2017, distributed by professional category, is as follows:

	2018	2017
Management	119	132
Middle management	632	595
Other employees	14,318	14,288
<b>Total</b>	<b>15,069</b>	<b>15,015</b>

At the year end, the distribution by gender of Company personnel and the members of the Board of Directors is as follows:

	2018		2017	
	Female	Male	Female	Male
Board members	2	7	3	7
Senior management	3	9	2	15
Other management	33	65	39	70
Middle management	320	337	297	311
Other employees	10,766	4,656	10,478	4,431
<b>Total</b>	<b>11,124</b>	<b>5,074</b>	<b>10,819</b>	<b>4,834</b>

In 2018, the Company employed 1 executive, 1 middle management personnel and 104 other employees with a disability rating of 33% or above (or an equivalent local classification). In 2017, the Company employed 1 executive, 2 middle management personnel and 113 other employees with this disability rating.

The Company's senior management was formed by 12 executives at 31 December 2018 and 17 at 31 December 2017. Two and one executive was a member of the Board of Directors at 31 December 2018 and 2017.

## (27) Non-current assets and liabilities held for sale

In December 2018 the Company put its interest in Beauty by Dia, S.A. (Clarel business) up for sale (notes 1 and 2.3). The Company hopes to complete the sale of this business in 2019.

Intragroup balances between the Company and Beauty by Dia, S.A., the company that operates the Clarel trademark, were eliminated prior to the reclassification of Clarel business assets and liabilities to assets held for sale and liabilities directly associated with assets held for sale, respectively.

The assets of the Clarel business classified as held for sale include intragroup balances between the parent company and Beauty by DIA, S.A.

As mentioned in note 6, taking into account that the items related to the Clarel business were reclassified as held to sale, the Company determined their recoverable amount based on fair value less cost to sell.

## (28) Audit fees

KPMG Auditores, S.L., the auditor of the Company's annual accounts, and other affiliates of KPMG International invoiced the following fees for professional services during the years ended 31 December 2018 and 2017:

<b>2018</b>			
<b>Thousands of Euros</b>	<b>KPMG Auditores, S.L.</b>	<b>Other companies associated with KPMG International</b>	<b>Total</b>
Audit services	660	-	660
Other services relating to audit	65	-	65
Other services	5	11	16
<b>Total</b>	<b>730</b>	<b>11</b>	<b>741</b>

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

Other audit-related services and other services invoiced by KPMG Auditores, S.L. comprise limited reviews of six-monthly financial statements, comfort letters relating to securities issues and financial information agreed procedures services rendered to DIA, S.A. during the year ended 31 December 2018.

The information relating to services other than the audit of the annual accounts rendered by KPMG Auditores, S.L. to the companies controlled by DIA S.A. during the year ended 31 December 2018 is included in the consolidated annual accounts for DIA S.A. and subsidiaries at 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.

## (29) Events after the reporting date

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

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

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 Company 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 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 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.

## **DIRECTORS' REPORT 2018**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails).  
Distribuidora Internacional de Alimentación, S.A. (the Company) has prepared this directors' report, following the recommendations of the guide for the preparation of the directors' report of listed companies issued by the CNMV on 29 July 2013.

## 1. CARTA DEL CEO

*"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 EUR9,000m.

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 CO2 equivalent
- Relative electricity consumption: 313.9Kwh/m<sup>2</sup>

	Stores		Employees (31 December) (102-7)		Gross sales (€ millions)	
	2017	2018	2017	2018	2017	2018
<b>Argentina</b>	926	979	4,539	4,502	2,934	1,795
<b>Brazil</b>	1,115	1,172	8,393	8,923	1,997	1,640
<b>Spain</b>	3,497	3,474	26,035	26,693	5,275	5,148
<b>Portugal</b>	559	532	3,646	3,564	834	808
<b>TOTAL</b>	6,097	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 m<sup>2</sup>
- 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 m<sup>2</sup> 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 m<sup>2</sup> in suburban areas
- Client parking
- More than 3,500 SKUs

**Mini Preço:**

- Minipreço Market: Proximity stores in urban centres. Floor areas between 250-400 m<sup>2</sup> and a range of 3,000 SKUs
- Minipreço Family: Attraction format in the suburbs. Floor areas up to 1,000 m<sup>2</sup>, 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 BUSINESS RESULTS

### 3.1. Main financial indicators (Parent Company)

In 2018, the Company generated a net turnover of EUR4,188.4m. Accordingly, and jointly with its foreign subsidiaries, it generated sales of EUR7,288.8m in 2018.

In 2018, the Company's operating income was EUR-14.9m.

In 2018 the Company recognised an impairment of EUR56.7m (EUR6.5m in 2017).

In 2018 the Company recognized an impairment charge on its interest in Beauty By DIA, S.A. of EUR51.4m. The impairment on Beauty By DIA, S.A. has been taken to non-current assets held for sale. In addition, during 2018 the Company recognised an impairment loss on its interests in Shanghai Dia Retail CO., LTD of EUR12.6m (EUR38.9m in 2017) and in Dia Tian Tian Management Consulting Service & Co.Ltd.of EUR6.1m. The impairment on China has been derecognized.

Lastly, the income tax for the year 2018 amounted to EUR100.0m (EUR23.7m in 2017), mainly due to the impairment loss recognized on tax assets for tax loss carryforwards.

<b>DIA: FY RESULTS 2018</b>					
<b>(EURm)</b>	<b>Restated 2017</b>	<b>%</b>	<b>2018</b>	<b>%</b>	<b>INC</b>
<b>Sales</b>	<b>4,391.7</b>	<b>100.0%</b>	<b>4,188.4</b>	<b>100.0%</b>	<b>-4.6%</b>
Works carried out by the company for asse	5.2	0.1%	3.6	0.1%	-30.8%
Supplies	(3,562.8)	-85.1%	(3,422.7)	-81.7%	-3.9%
Other operating income	273.9	6.5%	258.3	6.2%	-5.7%
Personnel expenses	(426.0)	-10.2%	(440.8)	-10.5%	3.5%
Other operating expenses	(403.7)	-9.6%	(420.2)	-10.0%	4.1%
Amortisation and depreciation	(120.3)	-2.9%	(124.2)	-3.0%	3.2%
Non financial and other capital grants	0.4	0.0%	0.2	0.0%	-50.0%
Impairment and gains on disposal of fixed	(9.4)	-0.2%	(57.5)	-1.4%	511.7%
<b>Results form operating activities</b>	<b>149.0</b>	<b>3.6%</b>	<b>(14.9)</b>	<b>-0.4%</b>	<b>-110.0%</b>
Net finance income (excluding financial ins	4.3	0.1%	(8.3)	-0.2%	-293.0%
Impairment and gains on disposal of finan	(38.9)	-0.9%	(68.1)	-1.6%	75.1%
<b>Net finance result</b>	<b>(34.6)</b>	<b>-0.8%</b>	<b>(76.4)</b>	<b>-1.8%</b>	<b>120.8%</b>
<b>Profit before income tax</b>	<b>114.4</b>	<b>2.7%</b>	<b>-91.3</b>	<b>-2.2%</b>	<b>-179.8%</b>
Income tax	(29.1)	-0.7%	(100.0)	-2.4%	243.6%
<b>PROFIT OF THE YEAR FORM</b>	<b>85.3</b>	<b>2.0%</b>	<b>(191.3)</b>	<b>-4.6%</b>	<b>-324.3%</b>
<b>RECURRING OPERATIONS</b>					

In 2018, revenue per employee amounted to EUR277,498 (EUR292,488 in 2017).

### WORKING CAPITAL AND NET DEBT

The Company's negative working capital was EUR297.3m at the end of 2018, implying a 50,9% decrease versus the same period in the previous year. Thanks to the new initiatives implemented to optimize stocks, the value of inventories declined by 5.3% when compared to last year.

### WORKING CAPITAL

<b>(EURm)</b>	<b>Restated 2017</b>	<b>2018</b>	<b>INC</b>
Inventories	233.9	221.6	-5.3%
Trade and other receivables	370.0	409.7	10.7%
Trade and other payables	(1,209.8)	(928.6)	-23.2%
<b>Trade working capital</b>	<b>(605.9)</b>	<b>(297.3)</b>	<b>-50.9%</b>

Regarding dividends, in July 2018 DIA paid EUR110.3m to shareholders.

### NET DEBT

(EURm)	Restated 2017	2018	INC
<i>Long-term debt</i>	954.7	918.1	-3.8%
<i>Short-term debt</i>	277.6	705.9	154.3%
Total debt	1,232.3	1,624.0	31.8%
Cash and equivalents	(158.6)	(69.1)	-56.4%
<b>Net debt</b>	<b>1,073.7</b>	<b>1,554.9</b>	<b>44.8%</b>

### 3.2. Store count (Group figures)

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 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.

(1) Summary of stores

	2017			2018		
	Own	Franchise	TOTAL	Own	Franchise	TOTAL
<b>DIA GROUP <sup>(1)</sup></b>						
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
<b>Total DIA GROUP stores at the end of the period</b>	<b>2,462</b>	<b>3,639</b>	<b>6,101</b>	<b>2,610</b>	<b>3,547</b>	<b>6,157</b>
<b>SPAIN <sup>(1)</sup></b>	<b>Own</b>	<b>Franchise</b>	<b>TOTAL</b>	<b>Own</b>	<b>Franchise</b>	<b>TOTAL</b>
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
<b>Total SPAIN stores at the end of the period</b>	<b>1,473</b>	<b>2,024</b>	<b>3,497</b>	<b>1,603</b>	<b>1,871</b>	<b>3,474</b>
<b>PORTUGAL <sup>(1)</sup></b>	<b>Own</b>	<b>Franchise</b>	<b>TOTAL</b>	<b>Own</b>	<b>Franchise</b>	<b>TOTAL</b>
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
<b>Total PORTUGAL stores at the end of the period</b>	<b>262</b>	<b>297</b>	<b>559</b>	<b>223</b>	<b>309</b>	<b>532</b>
<b>ARGENTINA</b>	<b>Own</b>	<b>Franchise</b>	<b>TOTAL</b>	<b>Own</b>	<b>Franchise</b>	<b>TOTAL</b>
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
<b>Total ARGENTINA stores at the end of the period</b>	<b>303</b>	<b>627</b>	<b>930</b>	<b>298</b>	<b>681</b>	<b>979</b>
<b>BRAZIL</b>	<b>Own</b>	<b>Franchise</b>	<b>TOTAL</b>	<b>Own</b>	<b>Franchise</b>	<b>TOTAL</b>
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
<b>Total BRAZIL stores at the end of the period</b>	<b>424</b>	<b>691</b>	<b>1,115</b>	<b>486</b>	<b>686</b>	<b>1,172</b>

(1) By 2018 year-end the company also operated 1,200 Clarel and 35 Max Descuento stores in Spain and 71 Clarel in Portugal

### 3.3 Store selling area by country

(Million square meters)	31 December 2017	31 December 2018	Change
	Total	Total	
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%
<b>TOTAL DIA</b>	<b>2.5285</b>	<b>2.5667</b>	<b>1.5%</b>

### 3.4. 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.

#### 3. Approved 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.

#### 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 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.

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.

### 3.5. 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 business plan is not consistent with previous business plans elaborated over the past years but it is true plan to transform the Company, baptized as "Nuevo DIA", 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.

### 3.6. 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).

### 3.7. Treasury stock

#### 3.7.1 Treasury shares

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

	Number of shares	Euros/share	Total
<b>31 December 2016</b>	<b>11,105,774</b>	<b>5.9943</b>	<b>66,571,465.29</b>
Liquidation equity swap	(2,100,000)		(12,588,053.49)
Formalisation equity swap	2,100,000		11,130,000.00
Delivery of shares to Board Members	(73,227)		(428,672.64)
Delivery of shares to incentives plans 2014-2016 (note 19)	(721,914)		(4,326,043.04)
<b>31 December 2017</b>	<b>10,310,633</b>	<b>5.8540</b>	<b>60,358,696.12</b>
Delivery of shares to incentives plans 2014-2016 (note 19)	(768,277)		(4,497,512.23)
<b>31 December 2018</b>	<b>9,542,356</b>	<b>5.8540</b>	<b>55,861,183.89</b>

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.

### 3.8. Average suppliers payment period (Parent Company)

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	2017
	Days	Days
Average payment period to suppliers	49	48
Payment operations ratio	50	48
Pending payment transactions ratio	35	42
	Amount in euros	Amount in euros
Total payments made	4,630,628,150	4,246,229,980
*Total payment pending	346,762,927	536,226,011

\* Receptions unbilled and invoices included in the confirming lines at the year end previously mentioned, 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.

### 3.8. Liquidity and capital resources

#### 3.8.1 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, amongst 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 EUR4.4m and working capital facilities by EUR24.1m.

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	2018
Bonds and other securities	2020-2023	590,410
Debt with financial institutions		296,374
Revolving credit facilities	2020-2022	254,222
Other bank loans	2020	15,000
Credit facilities drawn down	2020-2022	27,152
Finance lease payables	2020-2025	17,260
Guarantees and deposits received	per contract	11,829
Other non current liabilities	2020	2,202
<b>Total non-current financial liabilities</b>		<b>918,075</b>
Bonds and other securities	2019	311,371
Debt with financial institutions		275,552
Revolving credit facilities	2019	124,350
Interests	2019	7,210
Other loans	2019	15,032
Credit facilities drawn down	2019	123,966
Other current liabilities	2019	4,994
Finance lease payables	2019	7,671
Suppliers of fixed assets	2019	30,419
Bills payable	2019	13,450
Other debts	2019	2,302
Current interest on payables	2019	15
Guarantees and deposits received	2019	135
Payables to group companies	2019	65,040
Suppliers	2019	563,785
Suppliers, group companies	2019	232,760
Other payables	2019	73,282
Personnel	2019	22,341
Advances to customers	2019	1,199
<b>Total current financial liabilities</b>		<b>1,599,322</b>

Thousands of Euro	Maturity	Restated 2017
Bonds and other securities	2020-2023	892,570
Debt with financial institutions		28,413
Other loans	2019-2022	28,413
Finance lease payables	2024	20,871
Guarantees and deposits received	per contract	10,803
Other non current liabilities	2020	2,000
<b>Total non-current financial liabilities</b>		<b>954,657</b>
Bonds and other securities	2018	6,021
Debt with financial institutions		127,198
Other loans	2018	101,000
Interests	2018	111
Other current liabilities	2018	26,087
Finance lease payables	2018	8,597
Derivates	2018	73
Suppliers of fixed assets	2018	32,568
Bills payable	2018	11,962
Other debts	2018	3,230
Current interest on payables	2018	22
Guarantees and deposits received	2018	140
Payables to group companies	2018	87,758
Suppliers	2018	989,931
Suppliers, group companies	2018	69,064
Other payables	2018	69,248
Personnel	2018	24,283
Advances to customers	2018	819
<b>Total current financial liabilities</b>		<b>1,430,914</b>

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	Total	2020	2021-2023	From 2024
Bonds and other securities	590,410	-	590,410	-
Revolving credit facilities	254,222	135,555	118,667	-
Credit facilities drawn down	27,152	-	27,152	-
Other debts with credit entities	15,000	15,000	-	-
Finance lease payables	17,260	5,408	11,004	848
Guarantees and deposits received	11,829	-	-	11,829
Other non current liabilities	2,202	2,059	-	143
<b>Total non-current financial debt</b>	<b>918,075</b>	<b>158,022</b>	<b>747,233</b>	<b>12,820</b>

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

Financial expenses accrued on these financial liabilities totaled EUR50,259 thousand and EUR41,075 thousand in 2018 and 2017, respectively.

### 3.8.2 Capital resources

In the past few years the DIA Group has been investing approximately EUR300m to EUR350m, 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 EUR312m 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

#### Liquidity Analysis (EURm)

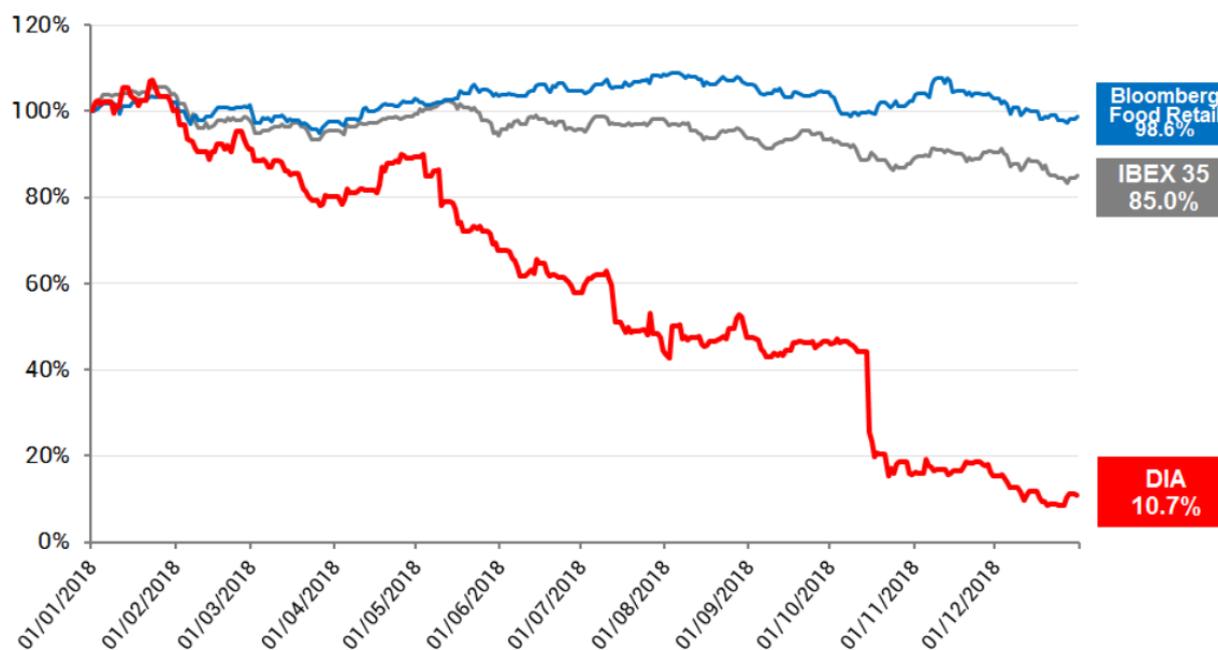
Class	Total	Used	Available
Revolving credit lines	92.7	-	92.7
Credit lines	48.8	-	48.8
Cash and other cash equivalents	69.1	-	69.1
<b>Total</b>	<b>210.6</b>	<b>-</b>	<b>210.6</b>

### 3.9. Stock exchange information

**SHARE PRICE EVOLUTION**  
(From January 1, 2018 to December 31, 2018)



**SHARE PRICE RELATIVE EVOLUTION**  
(From January 1, 2018 to December 31, 2018)



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 up to 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.

### **3.10. 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.

### **3.11. 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 remunerated to its shareholder with EUR1,045m, of which EUR733m were dividend payments and EUR312m euros through share buyback programs (which shares were finally redeemed).

### **3.12. Other information**

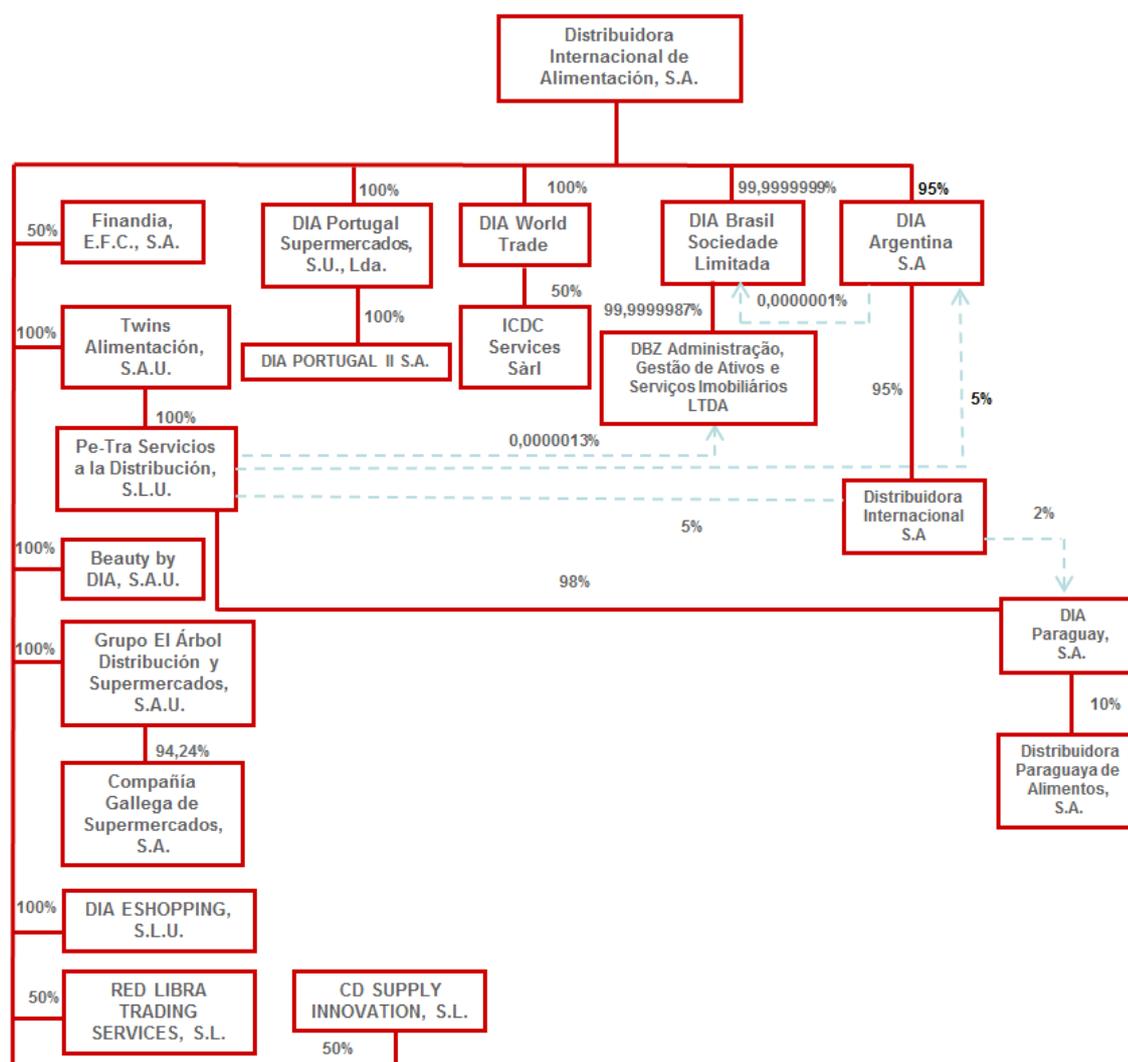
DIA's Corporate Governance Report is part of the Director's Report and is available at [www.diacorporate.com](http://www.diacorporate.com) and published as price-sensitive information on the CNMV (Spanish National Securities Market Commission) website.

## 4. STATEMENT OF NON-FINANCIAL INFORMATION

The statement of non-financial information in an integral part of this 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 Administração, Gestão de ativos e Serviços Imobiliários 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

No. of shares in circulation	622,456,513	100.000%	Direct voting rights		Indirect voting rights		Financial instruments	
				0.000%		0.000%	0	0.000%
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 as a member of the Audit and Compliance Committee; and the appointment of Mr Karl-Heinz Holland as an external shareholder director and as a 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 until this point, 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, Second 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) to cover the vacancy created by the resignation of Mr Karl-Heinz Holland. 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 to cover the vacancy created by the resignation of Mr Sergio Dias.
- 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, Mr Javier Lacalle, Mr Juan Cubillo and Mr Diego Cavestany left the company.
- In October 2018, the Board of Directors dismissed the previous Chief Services Officer and Executive for Portugal, Mr Amando Sánchez Falcón, 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:**

The overall function of the Board of Directors is to supervise and consider matters of particular importance to the Group, generally entrusting the everyday management of the Group to the CEO and the senior management. The DIA Board is responsible for approving the general policies and strategies of the company, as well as the tools that are required to put these into practice, including the strategic plan, the management objectives, the annual budget,

the investment and financing policy, defining the company's tax strategy, the corporate governance policy and the remuneration and performance appraisal policy for the management team, among others.

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 had not taken effect as at the closing date of this report. 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: Acting chairwoman qualified as independent.
- Mr Julián Díaz González: Member qualified as independent.
- Mr Jaime García-Legaz\*: Member qualified as independent.

\* This position came into effect as at the close of this report. 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.diacorporate.com](http://www.diacorporate.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. <sup>1</sup>	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

<sup>1</sup> 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 corruption 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](http://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, renewing an 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.

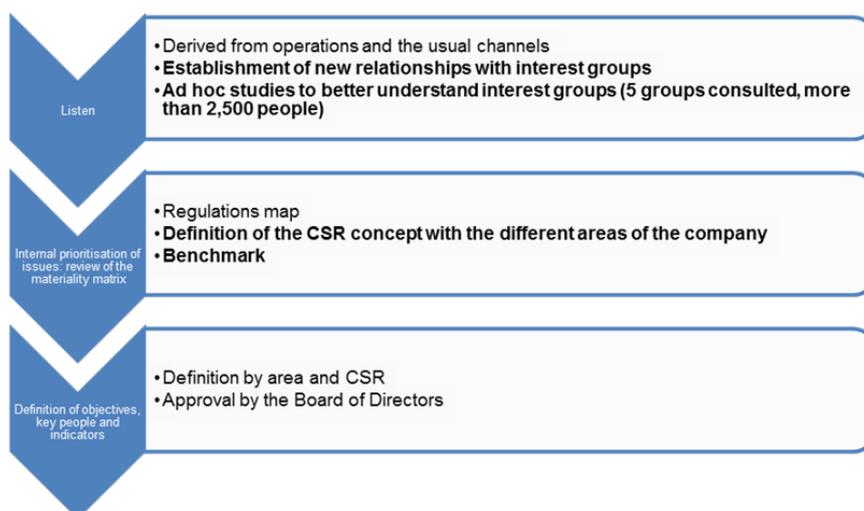
(102-40)	Issues and concerns mentioned (102-44)	Main communication channels (102-43)	DIA's Commitment	Main management instrument
<b>Clients</b>	Savings, variety and range availability	Client satisfaction surveys	Offer quality products at the best price	Corporate Marketing and Communication Policy
	Clear 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		
<b>Investor Community</b>	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		
<b>Employees and unions</b>	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			
<b>Franchisees</b>	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		
	Support for regulatory compliance			

	Technical support to improve energy efficiency	listening" in Brazil)		
	Access to the company's training resources	Ethics channel		
<b>Suppliers</b>	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		
<b>Regulators and administrations</b>	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			
<b>Industry and business associations</b>	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			
<b>General and specialist media</b>	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			
<b>NGOs and other social associations</b>	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			

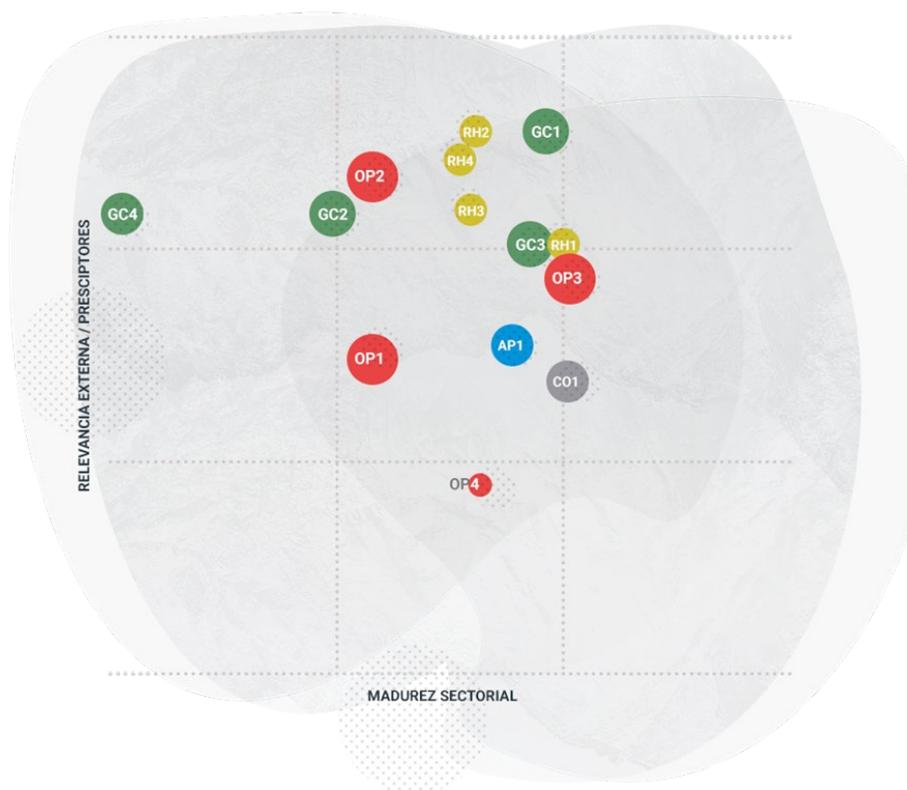
### Master plan and materiality matrix

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 <sub>1</sub> . Governance system	Governance
GC <sub>2</sub> . Ethics and compliance	Ethics and integrity Anti-corruption Public policy
GC <sub>3</sub> . Transparency and investor relations	Involvement of interest groups
GC <sub>4</sub> . Tax practices	Financial performance
RH <sub>1</sub> . Development of human capital	Education and training
RH <sub>2</sub> . Workplace practices	Employment
RH <sub>3</sub> . Gender equality	Diversity and equal opportunities No discrimination
RH <sub>4</sub> . Health and safety	Health and safety in the workplace
AP <sub>1</sub> . Quality and food safety	Client health and safety
OP <sub>1</sub> . Franchisee relations	Involvement of interest groups
OP <sub>2</sub> . Digital transformation	Education and training
OP <sub>3</sub> . Eco-efficiency	Materials Energy Emissions
OP <sub>4</sub> . Food waste	Waste
CO <sub>1</sub> . 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)
<b>SPAIN</b>	1998	21.49	7.73	67.6%	244.33	1,361.06
<b>PORTUGAL</b>	2000	4.51	1.57	65.7%	49.56	114.26
<b>ARGENTINA</b>	2006	9.40	4.79	92.4%	140.81	271.38
<b>BRAZIL</b>	2015	11.04	8.64	86.6%	141.75	259.62
<b>TOTAL</b>		<b>46.44</b>	<b>22.73</b>	<b>73.6%</b>	<b>576.45</b>	<b>2,006.32</b>

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
<b>Argentina</b>	459	4,548	28
<b>Brazil</b>	28,393	47,108	307
<b>Spain</b>	820	2,121	43
<b>Portugal</b>	20	230	4
<b>DIA GROUP</b>	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)<sup>2</sup>.

#### 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.

<sup>2</sup> 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
<b>Total employees by contract type at 31 December (102-8)</b>				
<b>ARGENTINA</b>	Permanent	2,716	1,588	4,304
	Temporary	95	54	149
<b>BRAZIL</b>	Permanent	3,828	5,076	8,904
	Temporary	8	10	18
<b>SPAIN</b>	Permanent	6,163	16,434	22,597
	Temporary	1,412	2,684	4,096
<b>PORTUGAL</b>	Permanent	1,006	1,959	2,965
	Temporary	232	367	599
<b>Total employees by type of workday at 31 December (102-8)</b>				
<b>ARGENTINA</b>	Full-time	2,585	1,338	3,923
	Part-time	241	338	579
<b>BRAZIL</b>	Full-time	3,723	5,013	8,736
	Part-time	113	74	187
<b>SPAIN</b>	Full-time	6,947	11,543	18,490
	Part-time	628	7,575	8,203
<b>PORTUGAL</b>	Full-time	1,152	2,166	3,318
	Part-time	86	160	246

At 31 December 2018, there are 50 internship 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.

<b>Outsourcing (subcontractors operating on-site) (102-8)</b>	
<b>ARGENTINA</b>	263
<b>BRAZIL</b>	613
<b>SPAIN</b>	568
<b>PORTUGAL</b>	17

		<b>Average annual permanent contracts (%)</b>						<b>Country total</b>
		<b>Men</b>			<b>Women</b>			
		<b>&lt;30 years of age</b>	<b>30-50 years of age</b>	<b>&gt;50 years of age</b>	<b>&lt;30 years of age</b>	<b>30-50 years of age</b>	<b>&gt;50 years of age</b>	
<b>ARGENTINA</b>	Executives	NA	98	100	NA	100	NA	93
	Managers	98	99	99	96	100	100	
	Employees	87	97	92	82	98	82	
<b>BRAZIL</b>	Executives	NA	98	100	NA	100	100	100
	Managers	100	100	100	100	100	100	
	Employees	100	100	100	100	100	100	
<b>SPAIN</b>	Executives	NA	100	100	NA	100	100	83
	Managers	100	100	97	100	100	100	
	Employees	55	86	86	56	89	93	
<b>PORTUGAL</b>	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 (%)						Country total
		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	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 (%)						Country total
		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	NA	99	100	NA	100	NA	85
	Managers	100	100	100	100	100	84	
	Employees	80	96	87	63	85	42	
BRAZIL	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 (%)						Country total
		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	NA	1	0	NA	0	NA	15
	Managers	0	0	0	0	0	16	
	Employees	20	4	13	37	15	58	
BRAZIL	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)						Total
		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	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)						Total
		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	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) <sup>3</sup>						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	
<b>Executives</b>	NA	118,609	136,808	NA	90,806	118,641	83.48%
<b>Managers</b>	22,478	35,610	51,354	20,413	36,152	53,008	99.71%
<b>Employees</b>	11,627	16,750	23,167	11,098	15,171	18,145	94.96%

<sup>3</sup> 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 Portugal 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
<b>TOTAL</b>	<b>3,639</b>	<b>24,814</b>	<b>3,547</b>	<b>23,832</b>

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, 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 Casino 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](http://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)<sup>4</sup> 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.

<sup>4</sup> 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.

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 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	-	-	-	-
	<b>Total</b>	<b>5,063,751</b>	<b>65.76</b>	<b>-</b>	<b>34.24</b>
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	-	-
	<b>Total</b>	<b>18,004,969</b>	<b>32.63</b>	<b>0.01</b>	<b>67.35</b>
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	-	-	-	-
	<b>Total</b>	<b>83,273,234</b>	<b>64.31</b>	<b>2.41</b>	<b>33.27</b>
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
	<b>Total</b>	<b>16,489,852</b>	<b>57.86</b>	<b>2.67</b>	<b>39.47</b>
<b>DIA GROUP</b>	<b>TOTAL</b>	<b>122,831,806</b>	<b>58.86</b>	<b>2.00</b>	<b>39.14</b>

	Hazardous waste	Generated	% Recycled	% Reused	% Landfill
<b>ARGENTINA</b>	Batteries (Kg)	0	-	-	-
	Fluorescent bulbs	50	-	-	100.00
	<b>Total</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>100.00</b>
<b>BRAZIL<sup>5</sup></b>	Batteries (Kg)	0	-	-	-
	Fluorescent bulbs	0	-	-	-
	<b>Total</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>SPAIN</b>	Batteries (Kg)	61,976	100.00	-	-
	Fluorescent bulbs	131	100.00	-	-
	<b>Total</b>	<b>62,107</b>	<b>100.00</b>	<b>-</b>	<b>-</b>
<b>PORTUGAL</b>	Batteries (Kg)	2,820	100.00	-	-
	Fluorescent bulbs	0	-	-	-
	<b>Total</b>	<b>2,820</b>	<b>100.00</b>	<b>-</b>	<b>-</b>
<b>DIA GROUP</b>	<b>TOTAL</b>	<b>64,977</b>	<b>99.92</b>	<b>-</b>	<b>0.08</b>

<sup>5</sup> 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
		<b>TOTAL</b>	<b>8,414</b>	<b>533</b>
	Logistics (Gj)	Argentina	174,209	12,974
		Brazil	392,949	29,264
		Spain	1,186,161	88,336
		Portugal	204,066	15,197
		<b>TOTAL</b>	<b>1,957,385</b>	<b>145,771</b>
	Company cars (Gj)	Argentina	10,781	769
		Brazil	-	-
		Spain	12,787	953
		Portugal	21,241	1,585
		<b>TOTAL</b>	<b>44,809</b>	<b>3,307</b>
	Refrigeration gases (Kg) (305-6 <sup>6</sup> )	Argentina	29,274	85,762
Brazil		21,945	41,831	
Spain		85,745	147,552	
Portugal		10,118	25,310	
<b>TOTAL</b>		<b>147,082</b>	<b>300,455</b>	
Scope 2	Electricity consumption <sup>7</sup> (Gj)	Argentina	485,091	52,552
		Brazil	306,665	3,628
		Spain	2,570,308	198,834
		Portugal	399,545	17,752
		<b>TOTAL</b>	<b>3,761,609</b>	<b>272,766</b>

<sup>6</sup> 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.

<sup>7</sup> 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<sup>8</sup>)

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)<sup>9</sup>. 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:  
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.

<sup>8</sup> 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.

<sup>9</sup> The improvement figure for eco-efficient projects undertaken is an estimated annualised figure. Beyond those set out for logistics activity in Spain, the DIA Group has no specific emissions reduction targets.

- 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<sup>10</sup> (419-1). Tax governance and tax discipline are not only of

<sup>10</sup> 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.

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	<b>8,383,136</b>	<b>7,506,606</b>
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
<b>Economic value distributed</b>	<b>8,188,360</b>	<b>7,485,331</b>
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
<b>Economic value retained</b>	<b>194,776</b>	<b>21,275</b>

(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.

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 always 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<sup>11</sup> for all of 2018<sup>12</sup> (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<sup>13</sup>. 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](mailto:comunicacion@diagroup.com) and [rsc@diagroup.com](mailto:rsc@diagroup.com) (102-53).

<sup>11</sup> 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.

<sup>12</sup> 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.

<sup>13</sup> 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
<b>Business model</b>	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
<b>Policies</b>	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
<b>Policy results</b>	The results of these policies should be relevant non-financial key performance indicators that enable:				
<b>KPIs</b>	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.	GRI 103: Economic, environmental and social performance factor	Yes	Global	10B-34B
<b>Risk management</b>	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.	102-15	Yes	Global	6B

	*Information should be included on the impacts detected, showing a breakdown, particularly on the main short, medium and long-term risks.				
Environmental issues	<b>Global Environment</b>				
	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
	<b>Pollution</b>				
	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
	<b>Circular economy and waste management</b>				
	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)		
	<b>Sustainable use of resources</b>				
	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	
<b>Climate Change</b>					

	Significant elements of greenhouse gas emissions generated as a result of Company activity, including the use of goods and services it produces;	GRI 103: Emissions and energy management approach,	Yes (OP3. Eco-efficiency)	Global	31B-33B
	The measures adopted to adapt to the consequences of climate change;				
	Medium and long-term voluntary reduction targets for greenhouse gas emissions and the measures implemented for this purpose.				
	<b>Protection of biodiversity</b>				
	Measures adopted to preserve or restore biodiversity;		No material	Global	
	Impacts caused by activities or operations in protected areas.		No material	Global	
<b>Social and employee issues</b>	<b>Employees</b>				
	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
	<b>Work organisation</b>				
Organisation of work time	GRI 103: Employment management	Yes (RH2. Labour practices)	Global	18B-21B	

		approach			
	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
	<b>Health and safety</b>				
	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
	<b>Social relations</b>				
	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
	<b>Training</b>				
	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
	<b>Universal accessibility for persons with disabilities</b>				
	<b>Equality</b>				
	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	Yes (GC2. Ethics and compliance)		Global		

	management.				
<b>Human rights</b>	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	
<b>Corruption and bribery</b>	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
<b>Society</b>	<b>Commitments to sustainable development</b>				
	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
	<b>Outsourcing and suppliers</b>				
* Including social issues, gender equality and environmental issues in the procurement policy;	GRI 103: Management approach Environmental and	No material	Global	26B, 27B	

	* Considering relationships with suppliers and subcontractors and their social and environmental responsibility; Supervision and auditing systems and the results thereof.	social assessment of suppliers, 102-9, 308-1, 414-1			
	<b>Consumers</b>				
	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
	<b>Tax information</b>				
	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 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	

**Other relevant information**

**GRI Table (102-55)**

	GRI Index	Page/Omission	Scope	External verification
<b>General Disclosures</b>				
<b>Organizational Profile</b>	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
<b>Strategy</b>	102-14 Statement from senior decision-maker	1A	Global	Yes
	102-15 Key impacts, risks, and opportunities	6B	Global	Yes
<b>Ethics and Integrity</b>	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
<b>Governance</b>	102-18 Governance structure	2B	Global	Yes
<b>Stakeholder Engagement</b>	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
<b>Report Profile</b>	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**

<b>GRI 103: Management Approach</b>	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
<b>GRI 201: Economic Performance</b>	201-1 Direct economic value generated and distributed	34B	Global	Yes
	201-4 Financial assistance received from government	34B	Global	Yes

Aspect: Procurement Practices				
<b>GRI 103: Management Approach</b>	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
<b>GRI 204: Procurement Practices</b>	204-1 Proportion of spending on local suppliers	27B	Global	Yes
Aspect: Anti-corruption				
<b>GRI 103: Management Approach</b>	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
<b>GRI 205: Anti-corruption</b>	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				
<b>GRI 103: Management Approach</b>	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
<b>GRI 301: Materials</b>	301-1 Materials used by weight or volume	29B	Global	Yes
Energy				
<b>GRI 103: Management Approach</b>	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
<b>GRI 302: Energy</b>	302-1 Energy consumption within the organization	32B	Global	Yes
Emissions				
<b>GRI 103: Management Approach</b>	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
<b>GRI 305: Emissions</b>	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				
<b>GRI 103: Management Approach</b>	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
<b>GRI 306: Effluents and waste</b>	306-2 Waste by type and disposal method	30B	Global	Yes
Environmental compliance				
<b>GRI 103: Management Approach</b>	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

<b>GRI 307: Environmental compliance</b>	307-1 Non-compliance with environmental laws and regulations	28B	Global	Yes
<b>Supplier environmental assessment</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 308: Supplier environmental assessment</b>	308-1 New suppliers that were screened using environmental criteria	27B	Global	Yes
<b>Specific Standard Disclosures: Social category</b>				
<b>Employment</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 401: Employment</b>	401-1 New employee hires and employee turnover	21B	Global	Yes
<b>Occupational Health and Healthy</b>				
<b>GRI 103: Management Approach</b>	103-1 Explanation of the material topic and its Boundary	23B, 24B	Global	Yes
	103-2 The management approach and its components	23B, 24B	Global	Yes
	103-3 Evaluation of the management approach	23B, 24B	Global	Yes
<b>GRI 403: Occupational Health and Healthy</b>	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
<b>Training and Education</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 404: Training and Education</b>	404-1 Average hours of training per year per employee	24B	Global	Yes
<b>Diversity and equal Opportunity</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 405: Diversity and equal Opportunity</b>	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
<b>Non-discrimination</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 406: Non-discrimination</b>	406-1 Incidents of discrimination and corrective actions taken	22B	Global	Yes
<b>Child labor</b>				
<b>GRI 103: Management</b>	103-1 Explanation of the material topic and its Boundary	24B	Global	Yes

<b>Approach</b>	103-2 The management approach and its components	24B	Global	Yes
	103-3 Evaluation of the management approach	24B	Global	Yes
<b>GRI 408: Child Labor</b>	408-1 Operations and suppliers at significant risk for incidents of child labor	24B	Global	Yes
<b>Forced or compulsory labor</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 409: Forced or compulsory labor</b>	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	24B	Global	Yes
<b>Supplier social assessment</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 414: Supplier social assessment</b>	414-1 New suppliers that were screened using social criteria	27B	Global	Yes
<b>Customer Health and Safety</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 416: Customer Health and Safety</b>	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
<b>Marketing and Labeling</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 417: Marketing and Labeling</b>	417-2 Incidents of non-compliance concerning product and service information and labeling	18B	Global	Yes
<b>Socioeconomic Compliance</b>				
<b>GRI 103: Management Approach</b>	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
<b>GRI 419: Socioeconomic compliance</b>	419-1 Non-compliance with laws and regulations in the social and economic area	34B	Global	Yes