

A hand holding a black smartphone is positioned over a tablet. The tablet screen shows a vibrant image of various fruits and vegetables, with the letters 'DIA' in white, bold, sans-serif font overlaid on the right side. The background consists of a dark, textured sweater with white buttons.

Activity Report

Business model

Heading towards digitalization of management

The DIA Group understands digital transformation as a fundamental axis for customer closeness and knowledge, as well as a step towards improving efficiency. The capacity to transform data in information and information in knowledge is allowing the company to optimize all of its decision-making processes at all levels, streamlining systems in stores and warehouses, in addition to developing new sales channels that pursue its strategy of proximity purchasing.

In 2016, the company set up a transversal work group, with the participation of all the countries, for the internal development of new digital applications aimed at making life easier for three of the main cornerstones of the company: customers, franchisees and employees.

In order to create the most cutting edge and agile apps in the sector, in each country where the company operates it uses networking to promote knowledge and synergies between markets, always with the invariable premise that the codes used in the applications can be reusable and are applicable in all countries.

The projects on which this team is working are mainly focused on closeness and knowledge of the customer, with new functionalities in the area of e-commerce, with enhancements in the order system and services for employees and franchisees, as well as renewed in-store management systems for supervisors.

In this regard, for many years the company has maintained an application for the use of supervisors, store managers and other store personnel that is being updated in accordance with new requests and needs.

Applications

Applications for store management that promote efficiency

In 2016, some apps relating to this new project were already implemented, as is the case of the new store management mobile application, for both franchisees and own employees, which enables the streamlining of daily tasks in the store and avoids the double work of having to write things down on paper and then enter the same codes and amounts in the main cash register.

All of the functionalities offered by this application enable greater flexibility of tasks, better quality procedures to further reduce errors, greater simplification in terms of access to information and more effective customer service, given that there is access at all times to information to respond to questions raised by customers (price, stocks, offers, etc.). This application can also manage returns, rectifications and direct merchandise, all through mobile devices. For now, the application is available in stores in Spain and China, and in the case of the latter, franchisees can place their orders directly through the mobile application without the need to go through the sales terminal.

Store Inventory, another application aimed at making daily management more efficient, was implemented in Spain during 2016. Both employees and franchisees can now count items in the store and generate files through a simple and intuitive application.

An updated inventory helps stay up to date with the financial situation of a business, control stocks, and have more accurate knowledge of customer needs.

Applications that improve the experience and communication with customers

The company has a free App for iOS and Android to manage online purchases using mobile devices.

The tool allows customers to create shopping lists for their usual store based on the actual product assortment, use discount coupons, check the location of the nearest store, control spending by measuring monthly expenditure, and keep up with the latest company news in regard to new openings, special offers, etc.

In the course of this year, new functionalities have been introduced, such as the possibility of receiving a digital loyalty card or a ticket server that provides real-time information regarding the purchase and savings obtained with the same.

For the time being, this application is available for the Spanish market, with the intention of opening it up to the rest of the markets shortly. In 2016, the DIA application was among the most downloaded, with over 500,000 downloads in just one year.

Applications for improving logistics chain processes

In 2016, a mobile application was implemented to improve transport services that enables real-time follow-up of the deliveries made by logistics managers.

This application permits daily monitoring of the frequency of service in order to adjust and implement improvements quickly, with a view to guaranteeing that the sales of the establishment are in accordance with the reserve capacity. This achieves more efficient planning of warehouse resources, in regard to transport as well as the store.

At present, this project is in an initial stage in Argentina and its implementation is planned for Spain and Portugal in 2017. With these new applications, the DIA Group intends to reinvent multitasking, making it possible to carry out internal and external procedures on the spot.

Moreover, this system enables better traceability of actions, in addition to increasing the speed and quality of store processes, leading to better productivity that will ultimately benefit the customer.

The aim of the company is to introduce it progressively in the rest of the countries according to needs.

Return information in the form of action: Project Vela

In parallel to these projects, during 2016 a project was implemented focusing on the digitalization of the POS of establishments in Spain under the name of Project Vela. Store streamlining processes represent an organizational and management revolution, which aims to get closer to the customer and improve productivity.

This involves a new computer system that makes it possible to centralize the necessary back-office functionalities to manage stores (stock control, orders, etc.).

To achieve this, it has been necessary to install new architecture in the central systems that can serve as a platform not only to centralize all the information, but also to do so in real time. Access from the point of sale is made from a new graphic interface developed with productivity criteria and ease of use for store personnel.

Thanks to the new architecture, centralization of functionalities, real-time management and graphic interface, the DIA Group can digitalize a large number of processes, eliminating paper in their management and making them much more efficient.

At the close of 2016, the system had already been installed in four pilot stores in Madrid and the main launch in Spain is planned starting in January 2017. Like all the projects launched by the company, this also has an international profile, and during 2017 it will therefore be gradually rolled out to the other countries in which the company has a presence.

Mobile applications developed and implemented by the DIA Group

Users	Application	Functionalities	Objective	Country
Employees and franchisees	Store management	Return management, rectifications and direct merchandise	Achieve greater streamlining of tasks and improve the quality of procedures	Spain and China
		Price checks, stocks and offers		
	Inventory	Counting of items and stock control		Spain and China
		Generation of files		
Customers	Purchase management	Shopping list with actual product assortment	Optimize the shopping experience and promote synergies with online business	Spain
		Access to digitalized discount coupons		
		Consult locations		
		Monthly expense control		
		Digital loyalty card		
Logistics	Transport service	Daily monitoring of service frequency and the fleet	Real-time control of the operation and optimization of service levels	Argentina
		Taking of photographs upon receipt of the order		

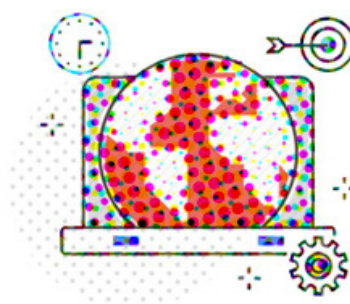
Progress in omni channel

Online Commerce



ENSEÑAS

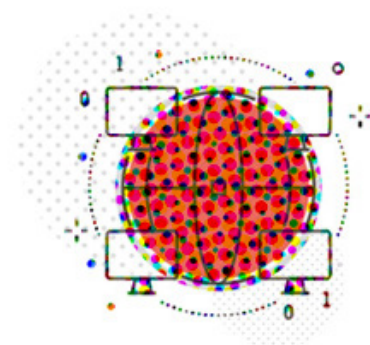
DIA.es/laPlazadeDIA.es
Clarel.es
Oportunidades DIA
Diatiantian.com (China)



PAÍSES CON PRESENCIA ONLINE

España
Argentina*
China

*Comienzo en octubre 2016



PLATAFORMAS

T-Mall
Netease
Amazon Prime Now



In addition to progress in the area of internal management and processes, during 2016 each country worked on diverse e-commerce projects and commercial digitalization, opening new channels with the customer, bringing the company's offering to more potential consumers.

Spain: Exponential growth of e-commerce

In line with these priorities to continue developing the e-commerce channel and taking advantage of the pertinent opportunities to improve customer relations and communication, DIA's business in Spain ended a significant financial year in terms of digitalization.

During this financial year, DIA Spain has grown its online business nationwide, and it currently serves 15 million customers in 19 provinces (Madrid, Barcelona, Málaga, Seville, Córdoba, Cádiz, Palma, Alicante, Valencia, Huelva, Almería, Zaragoza, Vizcaya, Murcia, Granada, Pamplona, Valladolid, Asturias, and Pontevedra).

In 2016, the DIA virtual store in Spain tripled its turnover, with more than 14 million visits to its different platforms.

The DIA online store features a range of over 4,000 SKUs, including some specific products not found in the brick-and-mortar stores, and has already become the lowest-priced store in the entire company, thanks to its competitive prices and promotional discounts.

The food product offering through the network is completed in Spain with the website La Plaza de DIA (<http://www.laplazadedia.es/>), from which online orders can currently be placed in the Community of Madrid. This site also gives information on offers and upcoming openings, as well as providing gastronomic and culinary advice.

DIA's online commercial offering also includes the non-food segment: on its Oportunidades.dia.es website, the company offers a product range in Spain of more than 1,000 SKUs of electronic, household, beauty and technology products.

In 2016, the 'Oportunidades' offer also included physical stores in Spain, both own stores and franchises. Customers can now place their orders by catalogue in the stores and receive the items at home.

Likewise, the launch last year of the Clarel.es website, the DIA format specializing in personal hygiene, cosmetics and beauty, allows customers to organize their purchases through an online catalogue split by category or through information content and interaction with customers who offer advice, make-up videos, etc.

The company offers this service throughout Spain, coordinating orders from a single warehouse located in the Zaragoza region, in the town of Almunia de Doña Godina.

Argentina: new non-food online sales channels

In 2016, Argentina worked on the development of new online sales channels that aim to make life easier for customers and adapt to new consumer habits.

In October 2016, the Oportunidades DIA flash sales website was implemented in Argentina, where electronic, technology, household appliance, baby and even travel products can be purchased. Along the same lines as the website launched in Spain in 2014, this digital sales platform contains products and offers that are not found in physical stores, and that are sold at very competitive prices.

Through Oportunidades DIA, customers in Argentina can receive their orders at home anywhere in the country, have access to considerable discounts and use promotional codes received by email. As a new feature of the commercial

offering, DIA Argentina launched a new brand of household appliances exclusive to the company through this channel, under the name of Bixler. This is a group of small household appliances that benefit from free delivery.

Throughout 2016, DIA Argentina worked on achieving a closer and more direct relationship with the customer, especially on the development of new digital strategies on its own platforms and Social Networks. Special mention should be given this year to the launch of "Ahorrames de DIA", whereby customers using the DIA Argentina website can benefit from significant discounts on 30 specific products that vary each month.

Brazil: more dialogue and conversation with the online customer

The digitalization effort carried out by the DIA Group in 2016 also extended to business in Brazil, where digital marketing and the opening of new channels of dialogue with customers have been the focus of much of the year. The digital community of DIA Brazil is one of the Group's largest, with more than 1.2 million followers on Facebook and over 2.7 million views on the corporate YouTube channel. The group banners in the country have a good reputation, driven largely by the community of **"Experts in Economy"**, which has over 20,000 registered customers, and the promotional actions focusing exclusively on the online channel.

Also in Brazil, a noteworthy effort has been made this year to attract new franchisees through digital tools and the company's website dedicated to franchises.

China: opening of new sales models

In the case of China, where the online channel currently represents 16% of the country's total retail sector, DIA has been working on digitalization aimed at opening new lines of communication with the customer. In October 2016, DIA China signed an agreement with the online services company Netease to promote the company's online commerce in China, through the Kaola.com application, one of the largest internet sales platforms in the country and owned by Netease. At present, a portfolio of more than 200 own-label and national brands are sold on this platform.

The aim of this new partnership is to provide better service to customers in China to help them in their daily shopping and allow them to buy Spanish brands, with greater added value both in its own-label products as well as national brands.

This agreement comes on top of the one signed in November 2015 with the largest Chinese marketplace, T-Mall. Through this online B2C (business to customer) sales platform, part of the Alibaba Group, the DIA Group already sells more than 150 imported products with high added value throughout China, in addition to its premium banner, Delicious. The platform also makes it possible to expand access to DIA products to areas where the company does not have a physical presence. In fact, 85% of sales generated through T-Mall are made outside of Shanghai, the city where DIA does have physical stores.

In 2016, DIA China also worked on developing e-commerce. Through the commercial website www.diatiantian.com.cn, DIA already provides services to the city's central area, with a population density of over 40,000 people per square kilometre. The order is prepared from a network of 21 own stores, with the customer choosing the date and time slot for delivery.

The customer can choose to receive the delivery at home or can pick it up at the store - whichever is more conve-

nient. Since the end of 2015, DIA customers have been able to pay for their purchases using their mobile devices at all own stores in China. Thanks to the WeChat platform, they can use a payment procedure attached to a bank card, thus providing customers with a secure and efficient service.

The customer as the heart of our business

2016 was the year for the implementation of projects aimed at offering a total shopping experience to DIA's more than 40 million customers. The development and exploitation of the benefits of digitalization in a broad sense has taken up a large part of the company's efforts during the financial year, in order to adapt it quickly and efficiently to changing consumer habits and to enhance listening and relationship channels.

Satisfying customer needs has been a constant in the more than 35 years of activity of the DIA Group. The new digital tools and the opportunities offered by the new environment have been used by the company to further develop its two-way relationship with its customers, offering a more complete shopping experience.

New active listening systems

Spain: Offline and online customer surveys

In keeping with the strategy of increased closeness to the customer, the last financial year saw the implementation in Spain of a new listening system that aims to gain first-hand knowledge of the customers' shopping experience, both in the offline and online channels.

Accordingly, customers who use the Club DIA loyalty card to make a purchase in one of the group's stores receive an email with a brief questionnaire that evaluates the service received from the store employees, as well as their final experience at the cash registers. During 2016, the company has made progress in the implementation of its system of direct listening in group stores, sending out more than nine million questionnaires and obtaining a response rate of 7%.

This system provides DIA with information that is used to **develop initiatives related to service** and efficiency improvements.

Online customers have also received these questionnaires, and the objective is the same: a continuous improvement of the customer experience. The company conducts a satisfaction survey, under the name of Opinators, in order to gain knowledge of the experience and sensations of users of the company's online service in Spain.

Following their first order, each customer is sent a questionnaire after the order has been received at home, and at the end of the year, another questionnaire is sent out for a general evaluation of the service, attention and other parameters relating to the online shopping experience. In 2016, more than 90,000 questionnaires were sent out.

Argentina: Listening through loyalty

In keeping with the commitment to internationalization of any project implemented by the company, in 2016 development began on a listening system in Argentina under the name of **"Mi experiencia DÍA"**. Based on the same system used in Spain, loyalty customers were sent a brief online questionnaire to evaluate the service received in the store. In the case of Argentina, face-to-face surveys were also conducted by supervisors, which complete the online version of these queries. These listening systems generate 40,000 monthly interviews, both online and face-to-face.

In the first three months of this experience, more than 50,000 loyalty customers responded to the survey in Argentina, and these responses are sent to a committee in charge of passing on the conclusions to the different customer departments so they take action accordingly.

Large community of customers

In line with the strategy of increased closeness to customers and their needs, for many years the DIA Group has been developing different commercial communication and marketing actions aimed at the creation of a community of DIA customers that become involved and contribute their personal view of the business as well as areas for improvement.

Spain: Demos la Vuelta al DIA

In Spain, the community of customers “Demos la vuelta al DIA” (Turn the DAY around) continued to bring those who enjoy cooking close to the world of gastronomy and food. Through this project, the company offers the possibility of participating in a cooking competition, attending free cooking courses, taking part in talks and tastings, visiting supplier factories, and receiving recipe packs with DIA products.

In 2016, more than 450 events and cooking courses with some of the most prestigious chefs on the national culinary scene were held; more than 116,000 customers took part, and over 5,000 product prize packs were distributed.

The different communication channels are essential for a direct relationship with the customer. DIA Spain has a customer magazine called “Club DIA”, which has a circulation of 700,000 copies. It provides useful content relating to food, new commercial items, recipes, and practical household tips.

Argentina: Experts in savings

Argentina was the first country to create a community of customers for sharing information and exchanging experiences related to DIA’s business model. Under the name of “Expertas en Ahorro”, a community was founded in 2013 which, only three years later, has become quite an event in the country. In fact, at the close of 2016, the community of Experts in Savings had over three million loyalty customers who can benefit from different offers, attend events and cooking workshops or stay informed of the latest company news.

In December 2016, Buenos Aires held the VI National Encounter of Experts in Savings, in which more than 3,200 people took part. As in the previous year, participants had to previously register on the DIA fan page in Argentina and make a donation in the form of a toy or book that the company then gave to the Fundación Sí and Fundación Manos en Acción of Argentina.

Under the umbrella of “Expertas en Ahorro”, DIA Argentina has a weekly television programme called Expertas TV. The programme is broadcast through YouTube, where well-known figures get together to talk about new items, prepare recipes using DIA products, and provide savings-related advice. In 2016, the programme renewed its second season.

As for Social Networks, in Argentina DIA has a significant community loyal to the business model with more than 1.7 million fans on Facebook, which is mainly supported by the different loyalty activities carried out in the Experts in Savings community and on its television channel.

Likewise, DIA Argentina has a monthly magazine called “Expertas”, created with the same aim of getting closer to customers. The magazine has a circulation of 55,000 copies, covering various topics relating to family, health, style, shows, wellbeing, ecology, horoscopes, and pets, among others. The content is conceived and developed to suit the tastes and interests of its readers: housewives and professional women between the ages of 25 and 70.

Brazil: Specialists in Economy

In 2016, DIA Brazil set up its own community of customers under the name of “Especialistas en Economía” where, as in Spain and Argentina, it holds courses, workshops, tastings, and other activities focusing on savings and raising awareness of products and the DIA model. In this first stage, 14 meetings of specialists were held in which 600 people participated. In total, more than 30,000 customers have already decided to join this new community in Brazil.

Brazil also has a loyalty magazine “Revista DIA”, with a circulation of 10,000 copies that provides information about the different DIA product offers and company news. In 2016, it launched an application for both the iOS and Android systems, to make the digitalized magazine available on mobile devices. At the close of 2016, this application had been downloaded more than 25,000 times, making it the most downloaded application in the retail sector in Brazil.

China: Complementarity between the offline and online environment

During 2016, China focused a large part of its efforts on two-way communication with digital customers. Taking advantage of the resources of the country's most-used instant messaging application, WeChat, DIA has implemented different options that specifically seek this complementarity between the offline and online environments.

The messaging application has a DIA application to find information about promotions, lifestyle, digital brochures, store locations and rapid access to the company's e-commerce platform. In addition, China has a magazine aimed at customers called Club DIA Magazine, which is published twice a year (January and June), with a circulation of 200,000 copies.

To further pursue direct contact with customers, DIA China conducts a satisfaction survey twice a year for loyalty customers regarding product range and store services.

Direct contact with the customer: Social Networks

This direct and constant communication with the customer plays a significant role in the work carried out in the various social networks and commercial channels that the company has in all countries. Real-time information, issues relating to store functioning, and new product items are some of the topics most discussed through these channels, also helping to increase customer loyalty.

In 2016, the DIA Group opened two new corporate channels, complementing the existing commercial channels, from which it provides institutional information, press releases and official communications in the company's two official languages: Spanish and English.

Accordingly, in January 2016 a new corporate profile was set up on Twitter, which serves as a communication channel with external agents and extends beyond customers to include the press, shareholders, investors, NGOs or government institutions, among others.

The Clarel chain of stores in Spain also has its own social networks, through which it organizes contests, offers beauty advice and receives feedback from its customers.

The direct and permanent contact with consumers is completed with customer service. During financial year 2016, these services dealt with and analysed more than **113,000 requirements** regarding matters relating to stores, products, opening hours, online service, etc.

Exponential growth of loyalty

In order to make further inroads in terms of consumer relations, for the last 18 years the DIA Group has maintained a loyalty tool that allows it to know the needs, tastes and preferences of its customers and, consequently, the company organizes personalized offers adapted to their profiles. Club DIA is a tool used in relation to the company's proximity concept, providing benefits to more than 37 million customers in all the countries in which the group operates.

This loyalty system grants exclusive advantages to card users, while rewarding the frequency of its customers, allowing access to more than 250 products at reduced prices, bi-weekly promotions, and discount coupons that can take up to 50% off.

Brazil has been the latest country where the company has a presence to implement the advantages of the Club DIA card. In 2016, it has been implemented throughout the territory of the state of Sao Paulo and now has more than 4 million loyalty customers.

At present, 76% of the company's total sales are made using the loyalty card, which makes Club DIA a fundamental tool in terms of business growth and consolidation.

In spite of the differences and specific characteristics in consumption habits in the different countries in which the company operates, the Club DIA card continues to prove to be a valid and exportable model, gaining new members every year in the markets in which it is present. In this respect, it is worth mentioning the over one million new members in Spain and Argentina, as well as the 4 million in Brazil.

At the close of 2016, more than 1.7 billion coupons were generated, compared to 1.65 billion in the previous year.

In 2016, a large part of these coupons also began to be digitalised, for the purpose of completing the needs of customers increasingly accustomed to operating in this environment. This project has been started in Spain, with the issue of 46 million digital coupons at the close of the financial year.

	Year of launch	Households with card (millions)	Percentage of sales*
Spain	1998	19.71	69%
Portugal	2000	4.22	68 %
Argentina	2006	7.45	91%
China	2012	2.31	86%
Brazil (Sao Paulo)	2015	4.16	66%
Total		37.86	76%

(*) Average 2016

Commitment at all levels: PROJECT CUSTOMER

Getting closer to customers and gaining a better understanding of them involved staff at all levels of the company through the project known as “Proyecto Cliente”. This is a transversal plan aimed at enhancing the shopping experience of DIA customers, mainly focusing on two parameters: experience in establishments with the “Experiencia Cliente” project and involvement of employees at all levels through the “Actitud Cliente” project.

Like all projects developed internally by the company, it has had an initial implementation stage and development in Spain, which is to be rolled out to the rest of the Group’s countries in subsequent years.

For the implementation of the “Experiencia Cliente” project, during 2016 a qualitative study was carried out in Spain to identify the key points known as the Customer Journey; there was also a quantitative aspect to deal with prioritising these key points, differentiating between the formats in which the initial stage of the project began, DIA Market and DIA Maxi.

To this end, more than 5,000 DIA customers were surveyed, along with 1,500 employees and 600 non-customers, defining a set of improvement initiatives associated with each group, elaborating a detailed file of each proposal to be implemented.

Among the measures implemented in the store during 2016 to enhance this experience, note the strengthening of the bakery and fresh produce section, the installation of a public address system to improve communication with customers, more efficient restocking mechanisms, and the review of cash register protocols, among others.

The initiatives developed as a result of the “Experiencia Cliente” project served in turn as a complement to another project focusing on improving customer experience and satisfaction, “Actitud Cliente”. This programme, initiated during the past financial year, seeks to improve the attitude and commitment of the group’s employees in terms of customer satisfaction through training workshops involving all staff, from top management to entry-level employees.

In a first stage, reflection workshops were organized with national management, warehouses, stores and headquarters to foster customer-oriented behaviour and, in turn, define action plans for improvement. This gave rise to initiatives that are already being applied to improve employee involvement in customer satisfaction, such as thank-you cards for customers, recognition of people and teams of stores that provide a better service and telephone customer service protocol for all employees.

In Spain alone, more than 14,400 training hours were given in 2016 as part of the “Actitud Cliente” project, benefiting 2,000 professionals of all profiles, from offices, warehouses, and stores.

Communication actions with the client

Name	Description	Number of users in 2016	Country
Demos la Vuelta al DIA	Gastronomic community of customers	+ 116,000	Spain
Experts in savings	Community of customers	+ 3 Million	Argentina
Experts in Economy	Community of customers	30,000	Brazil
Revista Club DIA	Quarterly magazine for customers	770,000 copies	Spain
Revista Expertas	Monthly magazine for customers	55,000 copies	Argentina
Revista DIA	Monthly magazine for customers	10,000 copies	Brazil
Club DIA Magazine	Bi-annual magazine for customers	200,000 copies	China
Expertas TV	Online Television channel	More than 350,000 monthly views	Argentina
Customer satisfaction survey	Surveys on customer experience	+ 9 million sent	Spain, Argentina and China
Opinators	Customer surveys regarding the online shopping experience	90,000	Spain
Social Networks	Twitter, Facebook, Instagram, YouTube, WeChat	+ 2 million followers	Spain, Portugal, Brazil, Argentina, China

Agreements with third parties

The implementation of third-party agreements to include services not seen up to now in the distribution sector have played a key role during the year. The objective is to bring customers closer to the concept of “total shopping”; in other words, have consumers satisfy their large purchasing needs in the group’s establishments.

Agreement with ING for cash withdrawals at the cash register

In September 2016, the DIA Group signed an agreement with the Dutch Bank ING, implementing a service that allows customers of the financial institution to withdraw cash in DIA’s store network throughout Spain.

Through the Twyp Cash mobile application, users can request the withdrawal of a minimum of 20 euros and up to a maximum of 150 euros using their mobile devices at the cash registers of the DIA Group banners (DIA Market, DIA Maxi, La Plaza de DIA, Clarel and El Árbol), provided the transaction is always associated with a purchase. This service was gradually implemented from September, reaching nearly 2,900 own stores at the end of 2016. In the first four months of operation, more than 220 users registered to use this application.

With this new service, DIA seeks to improve the customer’s shopping experience and make it easier for consumers who are not yet customers to use the extensive store network to withdraw cash. Likewise, this agreement makes it possible to take advantage of synergies with the rest of the digital services that DIA already offers, such as the application to manage shopping on smartphones or the use of digital coupons.

La Plaza de DIA through the Amazon Prime Now service

In September 2016, DIA also announced an agreement with Amazon whereby the La Plaza de DIA format would have an online platform on Amazon Prime Now. This provides DIA with a new sales channel within the world's largest online sales platform, also taking advantage of the synergies arising from the joint activity between both companies.

The virtual La Plaza de DIA store on Amazon Prime Now offers customers a total of 5,300 SKUs that can be received within one hour with the most premium service, or in two-hour delivery time slots for deliveries to Madrid. The product range includes all of the company's own-label products: DIA for mass consumption products, Delicious for the Premium line, Bonté for personal care and hygiene, Baby Smile and Junior Smile for baby care and AS for pet food, in addition to fruit, vegetables, fish, and meat trays.

At the close of 2016, and after only four months of activity, more than 40,000 orders had been delivered through this service.

Direct mobile device payment with Samsung Pay

The effort the company has been making to make life increasingly easier for digital customers has also resulted in an agreement signed in Spain with Samsung, whereby it is now possible to pay in more than 2,200 own stores using the Samsung Pay application. This is a service using NFC (Near Field Communication) technology that enables payments from mobile devices quickly and easily at the cash register.

This involves a mobile device payment service that is similar to the one that has been available since last year in all of DIA's own stores in China. Using the WeChat platform, customers can make payments on mobile phones, using a payment procedure attached to a bank card, thus providing customers with a secure, quick, and efficient payment method.

Stores for all purchasing needs

The expansion of DIA's store network is part of the company's objective to be increasingly closer to customers, making it possible to adapt its commercial offer to their needs and preferences. Based on a multi-format, multi-brand model, each year the DIA Group increases its number of stores exponentially in all the countries in which it operates, with an offer of closeness and proximity shopping adapted to all profiles.

At the close of 2016, the group had 7,799 establishments worldwide (81 more stores than in the previous financial year), of which 7,000 were proximity supermarkets focusing mainly on food, pharmacy and perfumery (DIA Market, La Plaza de DIA, Clarel, Minipreço Market and El Árbol, CadaDIA, Mais Perto).



The attraction stores, DIA Maxi and Minipreço Family, amounted to 777 establishments, while the Clarel format, specializing in personal care, beauty and household products, with a presence in the Spanish and Portuguese markets, contributed 1,233 stores to the Group.

As a result of the constant search for adaptation and listening to customers, during 2016 several projects were undertaken, focusing on consolidating the group's most innovative formats, such as La Plaza de DIA, Clarel, and Max Descuento, as well as the implementation of new solutions in the group's most traditional formats, thanks to the synergies obtained between models.

The company invested a total of EUR345.4m in 2016, both in refurbishments and in new openings, 5.7% less than in the previous year, after excluding the investments associated with the purchase of Eroski assets.

In the Iberia segment, progress was made on the refurbishment of the Maxi formats and the transformations of La Plaza de DIA during 2016, with new openings representing 25% of the total EUR225.8m invested. Likewise, in 2016, the company capitalized a total of EUR25m in Iberia in stores and logistics equipment that was previously operated under operating lease contracts.

The investment in emerging markets amounted to EUR119.6m, implying a 34% reduction at constant currency mainly due to the demanding comparative bases in Argentina during the past year, where the company has carried out a substantial investment effort.

New openings in emerging countries represented half of the investments made in Brazil and Argentina. In the last three years, the DIA Group has invested a total of EUR445m in these countries

Capital Expenditure in 2016

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

Consolidation of La Plaza de DIA, the Group's supermarket

2016 saw the consolidation of the La Plaza de DIA format in Spain, after its launch in April 2015. This banner stands out due to its special focus on fresh products, and is managed by personnel qualified to sell fish, meat, and delicatessen products. In addition, its product range offers the widest choice in its packaged food offering, with national brands playing the leading role and an excellent representation of own-label products. Of the over 7,500 SKUs that can be found in the stores, 1,500 are fresh produce and there are more than 6,000 mass consumption products (4,000 national brands and 2,000 own-label products).

The DIA Group has focused its efforts on transforming most of the establishments acquired in 2015 from El Árbol to this new format. In 2016, 143 El Árbol stores were transformed into La Plaza de DIA, a figure higher than the 95 initially foreseen for the year.

Following this transformation and restructuring process, the DIA Group had 251 establishments at the close of 2016.

There are still 68 stores pending transformation, which, at the close of the financial year, continued to operate under the El Árbol banner.

The transformation and restructuring process of the La Plaza stores has been accompanied by a new project focusing on improvements in the product range, image, and different categories of families for the La Plaza de DIA stores, which are noteworthy for their excellent locations.

In 2016, work began on reviewing some stores, placing special emphasis on adjustments to rates, updating signs, and installing more welcoming illumination, as well as exclusive new spaces for the company's highest added value own label, Delicious. The company plans to make more progress in this area over the coming year.

Review and updating of Max Descuento

In 2016, the DIA Group undertook a renewal process of Max Descuento, the cash & carry business line in Spain, with the aim of offering a much broader product range, adapted to the needs of its customers and more specialized in the hotel and restaurant sectors.

The renewed Max Descuento banner stands out for being a more modern, luminous and accessible store format, with a wide product range adapted to customer needs. It offers 1,000 additional SKUs, up to a total of 3,800, particularly focused on the hospitality sector, although it also includes products for small grocery shops, collectives, and other types of small business.

It also includes a new section of snacks and candy, and the strengthening of a professional delicatessen. Among the main new features, we highlight the development of an extensive professional bazaar.

The incorporation of these improvements led to a 6% increase in sales in this format during 2016.

Max Descuento closed 2016 with 36 establishments in six Spanish Autonomous Communities (Andalucía, Aragón, Asturias, Castile and León, Extremadura and Murcia), with a total sales area of more than 34,000 square metres.

During this year, three new Max Descuento stores were opened in Seville, Granada and Cáceres, adding 2,600 square metres to the Cash & Carry business.

Commitment to fresh in the historical DIA formats and Minipreço in Iberia

The synergies obtained from the various group formats have also fostered the incorporation of new features in the group's most traditional formats. A case in point is DIA Market, the proximity format and DIA Maxi, the group's attraction format, designed for larger and less frequent shopping.

During 2016, DIA continued to improve its commercial network with the refurbishment of 307 stores in the Iberian segment. This plan, in addition to improving customer experience in stores, strengthened the product offer with the inclusion of new categories in the product range. These new proposals are mainly focused on a firm commitment to fresh and more specialized services at the meat and fish counters, achieving a 15% increase in comparable-space sales in these establishments.

The commitment to fresh products and personalized service is also accompanied by the development of over-the-

counter sales. Thus, a total of 653 group stores in Spain already had counters with personalized services in meat, fish and delicatessen at the end of 2016, while there were 274 stores in Portugal. In total, both countries have more than 2,000 counters.

Portugal continues to work on the implementation of new in-store developments aimed at enhancing the customer shopping experience. At the end of the previous year, testing began on a new model of attraction store, Minipreço Family, which had commenced its development and consolidation throughout the country in 2016. At the close of the year, Portugal had 50 Minipreço Family stores.

These establishments have their own parking lots, commercial space exceeding 800 square meters, and are located on the outskirts of the main cities. With over 4,000 SKUs, consumers have the option to do more extensive shopping, and family savings formats are predominant.

Like the new DIA Maxi formats in Spain, Minipreço Family stores offer over-the-counter services in fish, delicatessen, and meat, and also have an indoor cafeteria. The fruit and bakery sections have also been renewed, as have product displays, with the aim of making the shopping experience more pleasant. The perfumery section has a broad range of beauty, personal care, and hygiene products, with a significant presence of Bonté brand products.

In turn, the Minipreço Market stores have also been incorporating new services, aimed at improving the shopping experience, focusing on giving further attention to fresh products, and increasing the range. At the end of 2016, there were 300 stores operating under this renewed format.

Development of fresh, proximity and own label in emerging markets

In 2016, Brazil and Argentina implemented ambitious discount and promotional programmes aimed at generating more store traffic, while working on the development of the fresh offer, the main asset of proximity shopping.

In Argentina, progress was made in giving the product range a more urban format. In 2016, all of the own stores and 77% of the franchises already had a complete line of perishables. In spite of the tough economic situation in Argentina, this DIA segment managed to increase its market share in every month of the financial year, with the share of fresh produce sales rising from 7.20% in 2015 to 7.40% at the end of 2016.

The gradual implementation of these improvements has been accompanied in Argentina by an increase of four points in the weight of promotions over the last year.

In Brazil, progress has also been made in the commercial development of the Market and Maxi model. With over 1,200 SKUs in the product range, this year, own-label products are once again the most relevant item in terms of the differentiation of DIA's commercial proposal in the country, with own-label products gaining share in terms of own-label sales in all the regions in which the company operates.

This store renewal, giving perishable products a greater presence to the DIA Market stores, with a broader offer at more competitive prices in DIA Maxi stores, has led the renewed stores to increase sales compared to those that have not been renewed by 8 and 7 points, respectively.

In China, with the aim of growing faster than the market, with comparable-space sales above the rate of inflation, the company has made a substantial promotional effort, with daily, weekly, and in-and-out promotions, with 15% of the range offering discounts, representing between 40 and 50% of sales.

Therefore, with more than 370 stores focusing on proximity, DIA is already the leading proximity network in Shanghai

in terms of market share, sales per square metre, and efficiency.

In addition, store management has given greater prominence to the role of the Service Manager, which is midway between the concept of employee and franchisee, and entails more direct involvement in store management, as well as in Human Resources tasks and team management, among others. Currently, virtually all of the own stores already have this management model.

Clarel: More specialization and proximity

Clarel, the store format specializing in pharmacy, perfumery and personal hygiene, has made progress in terms of optimizing and improving its stores. The redesign process started the previous year, focusing on giving the stores a more modern and closer image, with a more extensive product range, as well as better visual communication, and this process continued during 2016, closing the financial year with the transformation of 500 Clarel establishments.

Gross sales under the Clarel banner reached EUR349m in 2016, up of 6.5% versus the previous year.

As a result of the improvements designed to align the group offer with customer needs, the company has managed to increase comparable-space sales by 5% in the stores that have already been reviewed.

The work done developing these new own-label SKUs is one of the main reasons for the improved sales, already representing 20% of the Clarel stores' commercial offer, with over 1,200 products that give this DIA format a specialist and exclusive profile.

At the close of 2016, the DIA Group had 1,233 Clarel stores in Spain and Portugal, and they have also been used to generate synergies with the other company formats in the areas of cosmetics, perfumery and pharmacy.

The development of own-label products in the various categories has also led to the rapid penetration of these brands (Bonté, Baby and Junior Smile, Basic Cosmetics and AS) in stores in countries such as Argentina, Brazil and China, which do not currently have a Clarel format.

A logistics network focused on proximity and efficiency

The entire transformation process and the swift adaptation to customer needs would not be possible without a flexible, efficient and economical logistics network. DIA has 38 logistics platforms with a total of 764,526 square metres in the five countries in which it operates, which form part of an integrated system equipped with the latest technology.

In this system, each stage of the logistics process is considered in terms of the following link of the cycle, from the supplier to the store, with an optimum level of adaptation thanks to the in-house development carried out by the group. Accordingly, all of the IT systems and programmes used in its logistics network are designed and developed in-house, enabling a rapid response to the changing needs of its markets and designed to operate with maximum efficiency within the company's proximity model.

To accompany the exponential growth of its business, the DIA Group opened two new logistics centres in 2016 in Spain and Brazil, adding more than 53,000 square metres to its current logistics network.

In October 2016, the company opened a new logistics platform in the town of Villanueva de Gállego, in Zaragoza.

With over 30,000 square metres, 63 docks, and a storage capacity of over 14,000 pallets, this centre is currently the largest of the company's 23 warehouses in Spain.

Able to manage more than 115,000 packages daily, it is the first warehouse of the company that includes all the perishable groups, indicating a clear commitment to the development of fresh produce. Furthermore, the idea behind the warehouse was to focus on logistics research and development, testing new projects that can then be applied to the rest of the company's network worldwide.

With an investment of EUR14.5m euros, this warehouse has already achieved a level of efficiency that is 15% higher than the average of the company's warehouses.

In early 2017 in Argentina, the company expects to reach an agreement with a logistics operator to expand the logistics network in the town of Tortuguitas, in the province of Buenos Aires. This new centre of 17,400 square metres of positive cold chamber, fruit and vegetables will support the company's commitment to perishable products and the planned expansion for future financial years.

In Brazil, a new logistics centre was also opened in the town of Mauá, in the state of Sao Paulo. With over 24,800 square metres, this warehouse is a response to the exponential growth posted in the country over the last few years, which has led the company to reach over 1,000 establishments.

In line with this drive for innovation and constant improvement in service, in 2016 the company began to test articulated vehicles just over 25 metres long, known as "Megatrucks", which will allow up to 60 tonnes of freight to be transported in a single trip. For now, this project is in the testing stage at the Spanish warehouses of Azuqueca de Henares and Dos Hermanas, allowing logical efficiency in terms of transport and emissions.

Number of warehouses per country

Country	Number of warehouses	Surface area (m ²)
Spain	23	440,070
Portugal	3	76,350
Argentina	5	97,844
Brazil	6	131,832
China	1	18,430
Total	38	764,526

Commercial surface by country at 31 December 2016

	2015	2016	Change
Spain	1.9399	1.8764	-3.3%
Portugal	0.2193	0.2204	0.5%
Iberia	2.1592	2.0968	-2.9%
<i>Día</i>	<i>1.5833</i>	<i>1.6199</i>	<i>2.3%</i>
<i>Clarel</i>	<i>0.1928</i>	<i>0.1997</i>	<i>3.6%</i>
<i>El Árbol / La Plaza</i>	<i>0.3831</i>	<i>0.2772</i>	<i>-27.6%</i>
Argentina	0.2308	0.2387	3.4%
Brazil	0.4204	0.4808	14.4%
China	0.0788	0.0786	-0.3%
Emerging Countries	0.7300	0.7981	9.3%
Total DIA	2.8892	2.8948	0.2%

Franchises, a rising value

The DIA Group sees the franchise as a fundamental pillar of its business model that allows for the consistent expansion of its banners and generates value in all the countries in which the company operates. At the end of 2016, the group had 3,969 franchises, representing 50.9 % of the total network of stores.

In 2016, DIA granted additional financing to its franchise network to improve business conditions, raising the total credit assigned to EUR106m, although a significant portion of these loans are covered by guarantees. In addition, the credit risk is highly diversified, as it is fully distributed among the 3,363 franchisees that made up DIA's franchise model at the end of 2016.

Since it opened its first franchise in Spain 27 years ago, DIA has been advancing in a model that has currently led it to be the leading franchiser in Spain, the third in Europe in the distribution sector and third in turnover in Brazil. In Argentina, a country where 70% of stores are franchises, DIA is already the largest franchiser in the region.

The success of the franchise model lies in the close relationship the company has with the entrepreneurs from the outset. While DIA provides its historical knowledge of the sector as well as the strength of its brand and powerful logistics infrastructure, the franchisee contributes commercial vocation and knowledge of the local market that is essential for the development of the proximity and closeness model.

Consequently, there is a professional relationship of trust that not only generates benefits for the parties involved, but also adds value and enriches the environment in which the franchise operates. Accordingly, during 2016 DIA franchises generated 25,135 jobs in the five countries in which it has a presence, up 4% compared to 2015.

The work undertaken during all these years on its franchise model has led the DIA Group to position itself among the 20 best franchising companies in the world, according to the international consultant Franchise Direct, which studies parameters such as capacity for innovation, number of stores, support offered to partners and environmental policies, among others.

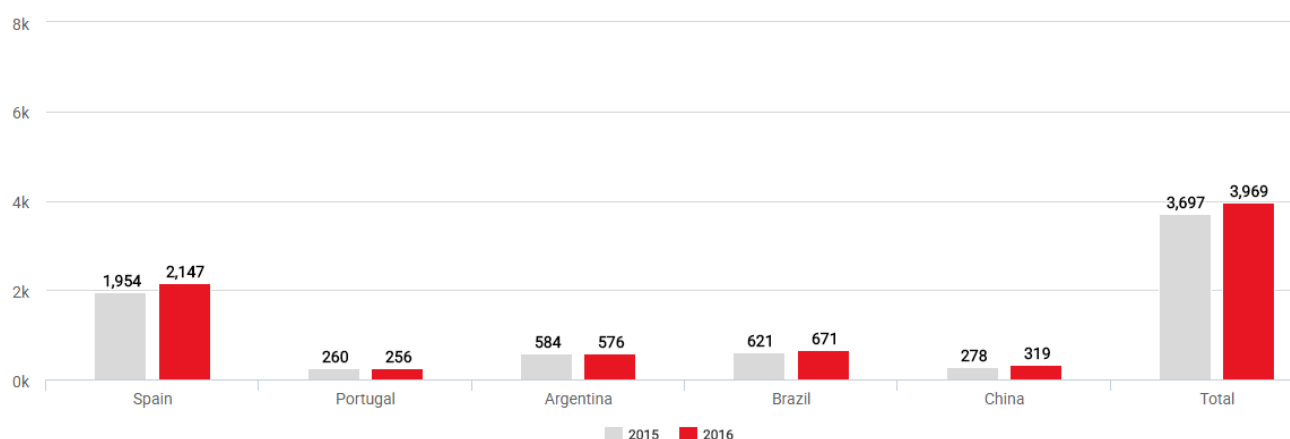
More franchises every year

The DIA franchise has seen another year of exponential growth in the five countries in which it operates. In 2016, the DIA Group added 3,969 new franchises to its store network, up 7% compared to the previous year. Franchises already represent 48% of the group's total network, and 61% of the DIA banner stores.

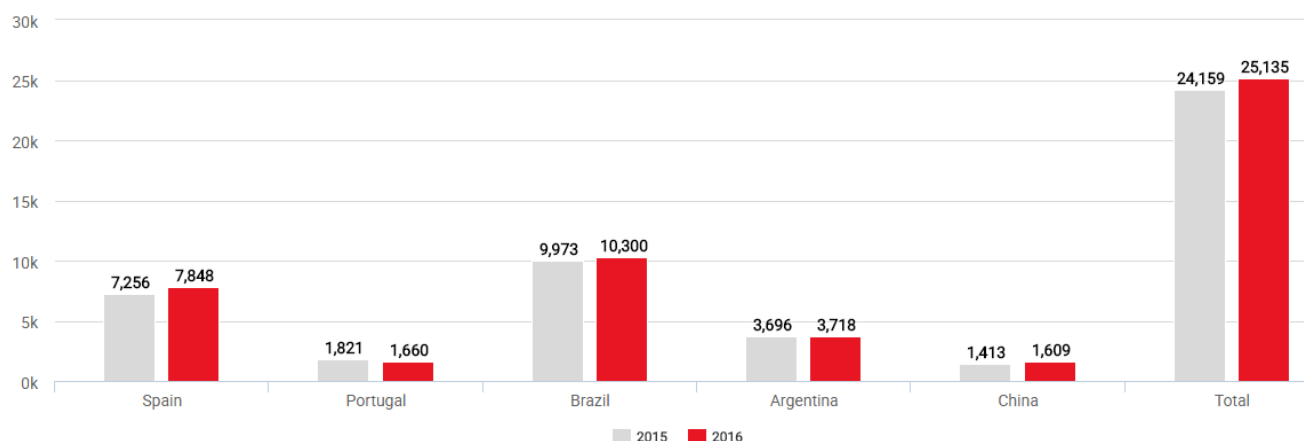
By region, in 2016, franchises accounted for 43% of stores in Iberia (Spain and Portugal) and 68.1% in emerging countries (Argentina, Brazil, and China).

With the exception of Spain (due to the recent acquisitions there), in all the other countries in which the company operates, the number of franchises already exceeds that of own stores, highlighting the company's firm commitment to this model.

Number of franchises



Jobs generated by franchises



By type of format, the Market stores remain in the lead in terms of franchised stores, with 3,192 premises, followed by Día/Mais Perto, which has 519 franchises, and Maxi, with 151 stores.

In turn, 2016 has been the year of consolidation of the Clarel franchises, which had 107 establishments at the close of the year.

Franchises are also involved in the digitalization process

For the DIA Group, the franchise is part of its organic growth strategy and, therefore, the relationship and continuous communication with its franchisees is crucial to achieve excellence in the model. The company sees franchisees as the best ambassadors of its brand, contributing valuable and efficient knowledge for managing the proposed proximity store model.

DIA franchises have full support and monitoring from the start of the commercial relationship with the company. The DIA Group analyses each project that it receives, collaborates closely in the search for the best premises for entrepreneurs, and draws up a business viability plan for each store. The company places a team of supervisors and specialists at the disposal of each franchisee, who provide advice and offer assistance in day-to-day business.

Through its store-schools and virtual training courses on its DIAtaining platform and the DIA Academy in Argentina, the company provides training before and during the opening of each store. It also offers ongoing training with different information bulletins and tips that are sent through its direct communication channels with the franchisee.

In order to improve and streamline processes with franchisees, in 2016 the DIA Group developed a series of digital tools that integrate with existing management processes to help simplify store management and, consequently, improve profitability. These new developments have emerged as a result of the listening groups launched in recent years, in which franchisees have been able to contribute their business view and find solutions to their daily needs.

In Spain, a store management application was implemented in all franchises to digitalize and streamline daily tasks in the stores. This new system optimizes procedures to further reduce errors, further simplify access to information, and provide more effective customer service, which is the ultimate aim of the business.

As a result of this commitment to digitalization, an in-store catalogue sales system has been set up for franchises in Spain, whereby customers can already place their orders through the Oportunidades DIA platform, where non-food products and electronic products can be found.

This year, Argentina launched a logistics management tool for franchisees that enables real-time measuring of delivery compliance and the review of the time slot service for each establishment. The system also includes SMS alerts related to truck schedules and locations.

Focusing on this direct communication strategy resulting from the opportunities offered by the digitalization processes, in 2016 DIA Argentina launched a weekly webcast with franchisees in which a company manager talks to them about the most relevant subjects and resolves their main management concerns. Like Argentina, in 2016 franchisees in Brazil were also involved in several training activities through e-learning and video classrooms.

In 2016, franchises in China also incorporated an application that enables orders to be placed via smartphones and also has a series of sales terminal back-office functionalities and others exclusive to franchise operation, such as selecting purchase opportunities, returns, financial information, messaging and support (with franchisee support assistance service similar to a chat and with a specific timeframe for resolving questions or commenting on operating problems), among others.

Close communication

The success of the DIA franchise lies in the company's close and trusting relationship with the entrepreneurs. To forge these ties, it is essential to work on two-way communication, so that the franchisees feel they are an important part of the company and vice-versa.

DIA's communication with its franchisees is mainly channelled through the direct relationship with the supervisor and through the Franchise Portal, a digital platform that shares relevant business information, such as product range, orders and logistics, along with access to the database with information about the store itself and its performance.

This direct communication channel is completed with other franchisee listening systems developed in each country, such as the Strategic Partner Assistance Service (CASE) in Argentina, which offers a telephone and email service, the permanent call centre in China or "DIA te escuta" in Brazil, aimed at resolving the main concerns and problems that arise in day-to-day business.

To conduct a much more detailed monitoring of this direct relationship with franchisees, each year DIA carries out a satisfaction survey prepared by the independent consultant Nielsen, in which they are asked, confidentially and anonymously, about areas for improvement and the areas they are happiest with.

In 2016, the fifth edition of the survey was conducted, with a 65% franchisee response rate in the countries in which the company is present. Generally speaking, 48% of those surveyed are satisfied in relation to their initial expectations of the business, and the attributes most highly valued by the franchisees, in line with previous years, include the quality and competitiveness of the DIA brand, as well as the advertising and Club DIA/Minipreço loyalty programme.

The results of the annual survey were shared with franchisees in all the countries.

New support staff for franchisees

In 2016, progress was made in the creation of new professionals that seek to go into greater depth in terms of a personalized service for franchisees and permanent support.

Therefore, all warehouses in Spain now have a franchise analyst in their team in charge of advising the franchisee in economic and financial areas to promote business profitability.

The position of logistics spokesperson has also been included, aimed at responding to demands relating to orders and other logistics-related aspects. This position has already been in existence for many years in the Brazil centres.

Portugal has also incorporated the position of head of new projects, who will be in charge of providing support to franchisees in terms of implementing new activities rolled out by the company.

In turn, in 2016 Brazil created the DIA Expert Committee with a group of franchisees, which aims to share useful network issues, ideas and suggestions, and to subsequently establish improvement plans.

Direct contact

In the countries in which they operate, all franchisees receive periodical and specific publications with the latest company news and advice about better management practices.

All group countries distribute a newsletter through various channels with relevant company information. Argentina has a bimonthly magazine called “Socios”, while Spain distributes a digital newsletter every two months informing franchisees about the latest commercial features, corporate social responsibility, etc. A publication is also distributed in Portugal, China and Brazil.

Under the name of “Proyecto de dinamización de la franquicia” (Franchise Dynamization Programme), the DIA Group holds regular international meetings with franchisees, in which a large part of the company’s departments are involved, promoting direct and two-way contact. At these meetings, store management, logistics and commercial matters are discussed directly with the management teams of Spain, Portugal, Brazil, Argentina, and China.

Likewise, in 2016, the company continued to develop several meeting forums and dialogue in countries in which a small group of franchisees meet with managers from different areas to discuss specific day-to-day matters, thus improving processes and procedures.

In keeping with involving all departments in the development and knowledge of the company, each country organizes a “Semana de la Franquicia” (Franchise Week), where employees from different areas attend training talks about the DIA franchise. In addition, both countries carry out franchisee integration workshops, in which franchisees can exchange opinions and concerns with company managers.

Attracting new franchisees

Given that the DIA Group sees the franchise as a cornerstone of its international expansion strategy, it has different communication channels through which it informs possible entrepreneurs interested in the franchise model about key aspects of the business.

Accordingly, all countries have their own website dedicated exclusively to promoting the most noteworthy aspects of the DIA franchise, as well as the different commercial models.

In addition, the DIA Group is also present at several specialized trade fairs, where people interested in the franchise model receive first-hand information. In 2016, the company participated in over 20 trade fairs in the five countries in which it is present.

We highlight the “Programa Referidos”, aimed at attracting new franchisees in Argentina. As part of this programme, employees and franchisees are motivated to search for new entrepreneurs.

If the interested party who has been proposed joins the company as a franchisee, those who proposed them are awarded a series of points that can be exchanged for prizes and travel. In 2016, 30% of franchisees were recruited through this channel.

Recognizing the work of the franchisee

The DIA Group recognizes the work carried out each year by its franchisees, and to that end organizes in Spain its “Premios a los mejores franquiciados del año” (Awards for the best franchisees of the year).

The aim is to put a spotlight on the company’s commitment to franchisees throughout the year, highlighting their work in five categories that are aligned with DIA’s five corporate values: Customer, Effectiveness, Initiative, Respect and Team. In 2016, these prizes include recognition for an international franchisee, awarded to a Portuguese entrepreneur. All the details here.

Argentina, for its part, also held an award ceremony that rewarded the five franchisees that best represent DIA’s values and that are considered to be the best ambassadors of the DIA brand of the year.

The master franchise: the launching pad towards new markets

To complement the growth of the usual franchise model, the DIA Group also has strategic agreements with local entrepreneurs, giving them the exclusive right to market the brand in certain countries and regions. Through these partnerships, the company ensures the rapid growth of its store network in large geographical areas with highly diverse consumer profiles.

In 2016, these master franchise agreements allowed DIA to enter a new country, Paraguay, where it signed a partnership with one of the leaders of the local distribution of mass consumer products, Distribuidora Gloria, whereby it has begun to develop the DIA store format in the country.

Also in 2016, DIA signed a similar agreement with a local partner to expand the business in Rio de Janeiro, a state where the DIA Group did not already have a presence. With a population of more than 16 million inhabitants, it is estimated that 32 establishments will be opened in the first stage in the city of Rio, in which the company’s entire commercial offering will be implemented.

These recent agreements are in addition to those that the DIA Group has had in Argentina and Brazil since 2014.

In the Salta region, with a population of over 1.2 million inhabitants, the group has 16 stores, under the master franchise system, while in the Brazilian state of Bahía, with over 14 million inhabitants, at the close of 2016 it had 36 establishments.

In Brazil, the DIA Group again obtained the seal of Franchise Excellence in 2016, a prestigious award of recognition in the sector due to the demanding criteria used, including numerous direct interviews with the franchisees.

The DIA brand, increasingly international

The DIA Group also has brand assignment agreements with local partners in Africa and the Middle East, which has led it to have 97 stores under the City DIA format in Senegal (75), Nigeria (6), the Ivory Coast (9), Guinea Conakry (3) and Ghana (4).

Partnership management offers all the support and expertise to its partners for the development of the model in these countries.

Private labels: more variety and innovation

The DIA Group's own-label products constitute the most relevant differentiating element of its commercial offer. For more than 30 years, the DIA brand has been the hallmark and launch pad for internationalization. In recent years, the company has been working on an innovation and development process that has given rise to a portfolio of quality own-label products that cover the changing needs of the customer and makes daily shopping even easier.

The multi-format/multi-channel model that the company develops involves an offer at unbeatable prices and increasingly specialized in all categories. In 2016, the DIA Group continued to innovate and deepen its product range of own brands, amounting to over 7,500 SKUs of its own-label products, DIA, Bonté, Basic Cosmetics, Baby Smile, Junior Smile, AS and Delicious.



This is the Group's historical trade name. With more than 30 years of good standing and over 5,600 SKUs, it covers all categories of high-volume consumer goods.



This is the brand specializing in personal care and hygiene products. It currently has more than 660 SKUs and has been the most important basis for development in the past few years.



This is the Premium banner, with the highest added value of the Group. It has over 250 SKUs.



This is the own-label product dedicated to decorative make-up and cosmetics. It currently has over 550 SKUs.



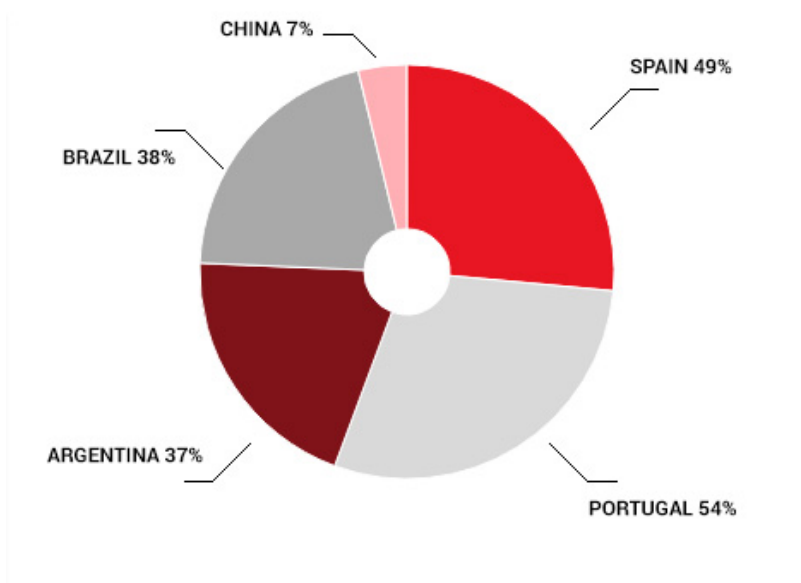
This is the banner for baby and child care. At the end of 2016, it had more than 230 SKUs.



Specializing in pets, it has over 160 SKUs.

DIA's own-label products have a presence on the shelves in all the countries in which the company operates, representing 46% of turnover. Thus, in Spain, sales represented 49% of the total range, and in Portugal this percentage was 54%. The excellent penetration of the group's brands in emerging countries is noteworthy, mainly in Brazil and Argentina, which have a less established practice of shopping in this respect. In both countries, the sale of own-label products represented 38% and 37%, respectively, in addition to 7% in the Chinese market.

Private labels by market



Due to the extremely competitive framework in which the company operates, the DIA Group maintains a constant policy of investment in prices, allowing it to have a significant gap versus the main banners of hypermarkets and supermarkets.

In 2016, the company devoted **significant effort to reducing prices**, giving rise to attractive offers and promotions in all countries.

For their part, the main national brands also have a presence on the group's shelves, further pursuing customer needs, giving them greater free choice.

At the end of the financial year, sales of national brands represented 54% of total sales, mainly supported by the innovation of the most consolidated formats and the development of the newly arrived Plaza de DIA and Clarel.

Increasingly satisfied customers

The DIA Group constantly monitors its brands and different formats, both in terms of positioning and customer perception.

Under the guidance of the international consultant Kantar Worldpanel, it carries out regular listening and monitoring of its customers to gain first-hand knowledge of how the latter perceive the commercial offer and price image in each of the countries in which the company operates.

Accordingly, the company can react quickly to the changing needs of its customers, with a better adjustment of its commercial processes.

Partnerships that benefit customers

The commercial partnerships that the company has in place to improve shopping conditions also make it possible for it to sustain margins and have a positive effect on prices for customers.

Its commercial standing was strengthened in 2015, with the creation of a purchasing centre in Portugal, called CIN-DIA, together with Intermarché, also a distribution operator.

Also in 2015, a similar partnership was established with Eroski, with the aim of improving negotiating conditions in Spain with large national brand suppliers and which, in 2016, led to the signing of another international partnership with the French company Casino, which, among other things, strengthened the development of the own-label products and that of national brands.

An agreement with Casino was signed with the company ICDC Services, which has become one of the largest negotiating platforms for own-label products in all of Europe. Through this partnership, the company expects to reach a volume of 50% of own-label products in the future in Europe in both companies.

In these agreements, all of the main groups maintain completely independent commercial policies, allowing the DIA Group to remain committed without restrictions to its strategy of being the distributor with the best price image in all the countries in which it operates.

DIA World Trade

The DIA Group's effort to pass on the best prices in the market to its customers is supported by a vitally important company: DIA World Trade. Created in 2012, this group company, based in Geneva, is in charge of coordinating commercial relations with large international suppliers of the group in a unique and global scenario.

Through joint collaboration with these suppliers, DIA World Trade works on reaching framework agreements that complement those already established by the same players in a more local environment and according to the specific characteristics of each market.

This accomplishment makes it possible to implement joint business plans that are more efficient for both parties, focusing on the implementation of overall improvements in the supply chain of each country or the innovation and penetration of new products, among others.

Quality, the main commitment

DEVELOPMENT

100%

Suppliers audited

2,979

Product tasting

Quality assurance

764,981

Analyses performed

2,594

Audits of warehouses and
stores

The DIA Group's main commitment to the customer is to offer products that have the best value for money.

The DIA Group's Food Quality and Safety policy, approved by the Board of Directors in 2016, establishes the general principles that govern the company's activity in this area.

The entire DIA Group and, in particular, the Quality Control team (with 267 employees), is focused on this commitment to the customer.

The DIA Group's strategy to guarantee safe, quality products to customers is based on a Quality Management System, which is certified under ISO Standard 9001:2008. The system covers everything from the validation of suppliers, the technical definition of the product and the evaluation of proposals by the consumer through blind tastings (at the product development stage), to the analytical control after the merchandise has begun to be distributed to the warehouses and the store network (internal and external control plans).



During the final selection stage of suppliers for the own brand, applicants must pass a strict standardization audit, which guarantees the safety of each of the plants where DIA products are going to be made.

This audit also evaluates both the general management of activities and facilities, as well as the specific production conditions and the quality and environmental control system. 100% of the suppliers of own-label products have been audited, and out of these, 60% have IFS and BRC certification.

In 2016, a total of 2,879 validation panels were conducted in group countries.

As an additional requirement for their incorporation into the own-label range, each product must be submitted to and pass a consumer tasting test that allows an assessment regarding the organoleptic characteristics of the product under development.

The quality and safety of the products received in the warehouses and stores is supervised through a comprehensive control plan. The DIA Group has a total of 43 internal laboratories located in its warehouses in which a total of 743,616 internal analyses were carried out in 2016 under this control plan.

The DIA Group also collaborates with accredited external laboratories, where it carries out analyses supplementary to the internal controls. In 2016, 21,365 external analyses were conducted.

Furthermore, the warehouse and store auto-control systems define the health and hygiene conditions established by the DIA Group to ensure that product quality and safety is maintained throughout the supply chain.

To ensure the application of these standards, the Quality Control Department makes regular checks and periodic audits of warehouses and stores, where it supervises and assesses aspects such as order and cleanliness, expiry date management and the cold chain, among others.

In 2016, a total of 2,594 health and hygiene audits were conducted at DIA facilities (warehouses and stores).

Suppliers: the value of local products

The DIA Group maintains a trusting, professional and long-lasting relationship with its suppliers, which allows it to offer its customers the best quality at the most competitive prices on the market. The multi-channel model developed by DIA enabled it to add more than 4,500 suppliers of both own-label products and the national brands in the five countries at the end of 2016.

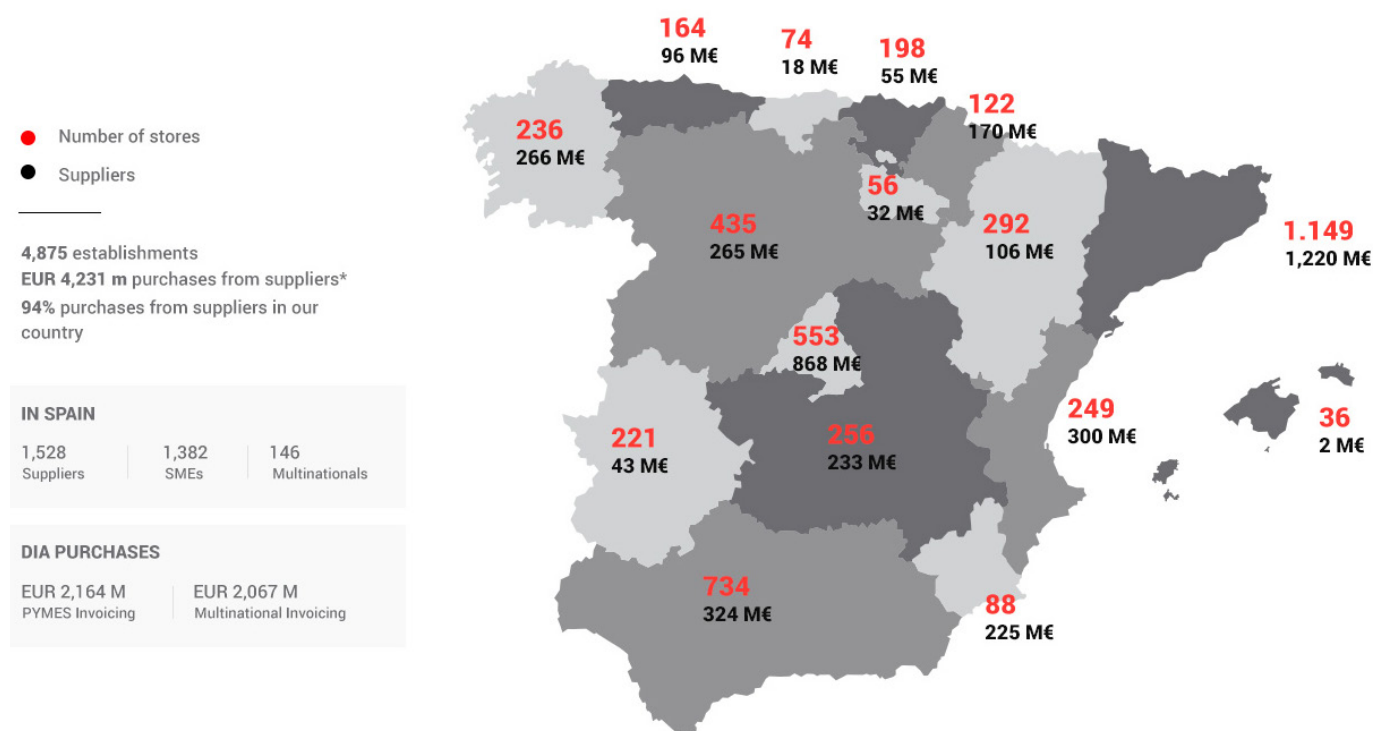
The DIA Group selects its suppliers based on criteria of competitiveness, process flexibility, and maximum product quality. All suppliers responsible for manufacturing DIA brands are subject to several internal and external audits, both of their own factories as well as the product, which are conducted regularly during the relationship between both parties.



In 2016, the DIA Group's supplier purchases amounted to EUR7.8bn, in line with the previous year. Purchases from suppliers of own-label products amounted to EUR3.2bn, compared to purchases of EUR4.6bn from national brand suppliers.

In keeping with the commitment to proximity shopping and closeness to the customer, the DIA Group has an extensive network of local suppliers that contribute to business efficiency and adapt fast to changing customer tastes. Accordingly, 88% of suppliers working with the company are local. By country, Spain has 89% local suppliers, Portugal 57%, Argentina 97%, Brazil 98%, and China 100%.

In addition to trust and transparency, the DIA Group also bases its relationship with suppliers on durability. In fact, in Spain, where the company has been operating for more than three decades, the average commercial relationship with suppliers is 15 years.



Greater process control

To achieve greater streamlining and efficiency, DIA provides its suppliers with a series of internal tools aimed at monitoring and exercising greater control of processes, which makes it possible for both parties to work together in the quest for excellence. Through the three websites for the exclusive use of suppliers, DIA offers personalized information on the evolution of the suppliers in the commercial, financial and logistics area.

The supplier commercial website includes information on sales of products in the different categories, in addition to a more general and historical overview, showing the performance versus previous years.

On the financial website, suppliers have all the necessary information for better control and management of administrative tasks, such as orders and payments. This tool allows suppliers to access payments made, outstanding payments, charges, and related information. This tool also makes it possible to obtain information about invoices, advances, or financing to streamline administrative processes between parties.

Lastly, suppliers also have a website allowing better control and monitoring of logistics processes. This system provides access to information regarding adherence to delivery schedules, faults, days of stock and different service conditions. The logistics website also allows access to sell in and sell out information and weekly consumption forecasts.

Relationship of trust and transparency

The relationship of trust that DIA has with its suppliers is essential in terms of offering customers a quality end product aligned with their needs. Based on the principles of its Code of Ethics, applicable to all countries of the group, the company has an ethical consultation channel for suppliers to resolve doubts or disputes that can arise regarding the commercial relationship and inform about possible breaches of the code by both parties. This consultation channel is managed directly by DIA's Ethics Committee.

Likewise, in line with this commitment to transparency, all DIA contracts with suppliers include a clause indicating that the company is a signatory of the United Nations Global Compact.

Increase of exports thanks to the impetus of the DIA brand

The DIA Group exports its own-label products from the Spanish and Portuguese markets, providing an ideal platform for business expansion and growth in countries where the company does not have a physical presence.

EUR19.1m.**Total export sales of the DIA Group in 2016**

In addition to increasingly consolidating the DIA brand globally, exports also enable the company to broaden the scope of action of the local suppliers with which the company works and promote its image internationally. In 2016, more than EUR19m was invoiced through these exports, which were delivered to 31 markets worldwide.

Exportaciones realizadas desde Iberia

▪ Algeria	▪ Mayotte	▪ Nigeria
▪ Azores	▪ Gambia	▪ New Caledonia
▪ Benin	▪ Ghana	▪ Dominican Republic
▪ Bulgaria	▪ Guinea Conakry	▪ Romania
▪ Central America	▪ Equatorial Guinea	▪ Saint Martin
▪ Comoros	▪ The Netherlands	▪ Senegal
▪ Congo DRC	▪ Hong Kong	▪ Others: Traders export
▪ Ivory Coast	▪ Reunion Island	▪ Sao Tome
▪ Cyprus	▪ Angola	▪ Others: Azores_Madeira
▪ Ghana	▪ England	
▪ Guinea Conakry	▪ Mauritius	