Activity Report

Results

2016 Group Results

In 2016, all of the DIA Group countries presented positive growth in gross sales under banner, reaching up to EUR10.500bn, supported primarily by sustained price investment and improvement in customer services. Adjusted EBITDA, at constant currency, improved by 8.6% in 2016, with respective growth rates of 1.4% and 41.9% in Iberia and the emerging markets. In turn, comparable consolidated sales in 2016 increased by 8.7%, a record high for the company since it started trading on the stock market in 2011.

The adjusted EBITDA margin was 7%, representing an improvement of 21 basis points, as a result of improved evolution of costs, purchasing synergies and the positive impact achieved through economies of scale in emerging markets (Brazil, Argentina and China).

Depreciation and amortization increased by 8.6% during the year, to EUR232.4m, a figure that percentage-wise is above the sales growth rate, due to recent acquisitions and, to a lesser extent, the refurbishment projects carried out during the financial year.

Adjusted EBIT declined slightly by 0.9%, to EUR392.7m, representing an improvement of 5.8% at constant currency. This result implies an adjusted EBIT margin of 4.4%, remaining stable with respect to 2015.

Non-recurring items decreased by 19.9% to EUR97.7m, while accrued expenses relating to the long-term incentive plan for Directors reached EUR15.2m in 2016. The non-recurring items representing cash outflow decreased by 22.6%, to EUR73m.

EBIT improved by 7.6%, reaching EUR295.1m, representing an increase of 15.5% at constant currency.

Decrease in financial expenses

In spite of the interest rate hike in Argentina and Brazil, consolidated financial expenses decreased by 7.1% in 2016, to EUR52m. In turn, the total cost of factoring activity made by the company during the financial year amounted to **EUR0.14m**.

In local currency, net sales fell by 0.6% in euros to EUR8,868m, due entirely to the adverse effect of the greater weight of the network of franchise stores on net sales. At constant currency, net sales growth during the year stood at 9%.

Currency depreciation in 2016 had a negative impact of 9.7% on **net sales growth**, although the performance was stable in the last part of the year, particularly in the case of the Brazilian Real.

Net Result

Taxes recorded in the year amounted to EUR69.1m, representing an effective tax rate of 28.4% in 2016.

Attributable net income decreased by 41.8% to EUR174m, due to the recognition of deferred tax assets of EUR140.4m last year, coming from negative tax bases of the El Árbol banner.

Excluding these exceptional impacts, the adjusted net result of the company improved 1.8%, reaching EUR258.6m in 2016, which represents growth at constant currency of 3.9%.

2016 Results

(€m)	2016	%	Change	Currency Effect	Change (ex-FX)
Net sales	**8,867.6**	**100.0%**	**-0.6%**	**-9.7%**	**9.0%**
Sales costs and other income	-6,834.7	-77.1%	-1.3%	-10.2%	8.9%
Gross Margin	**2,032.9**	**22.9%**	**1.8%**	**-7.8%**	**9.5%**
Personnel expenses	-769.1	-8.7%	-0.2%	-7.8%	7.6%
Other operating costs	-331.5	-3.7%	1.6%	-13.9%	15.6%
Real-estate leases	-307.3	-3.5%	5.7%	-4.1%	9.9%
Adjusted EBITDA(1)	**625.1**	**7.0%**	**2.4%**	**-6.2%**	**8.6%**
Amortization	-232.4	-2.6%	8.6%	-5.3%	13.9%
Adjusted EBITDA(1)	**392.7**	**4.4%**	**-0.9%**	**-6.7%**	**5.8%**
Non-recurring items	-97.7	-1.1%	-19.9%	-3.9%	-16.1%
Non-recurring cash items	*-73.0*	*-0.8%*	*-22.6%*		
Incentive plans	*-15.2%*	*-0.2%*	*246.8%*		
Other non-recurring items	*-9.5*	*-0.1%*	*-59.3%*		
EBIT	**295.1**	**3.3%**	**7.6%**	**-7.9%**	**15.5%**
Financial profit (loss)	-52.0	-0.6%	-7.1%	-33.4%	26.2%
BAI	**243.1**	**2.7%**	**11.5%**	**-1.4%**	**12.8%**
Taxes	-69.1	-0.8%	-183.7%	1.9%	-185.6%
Consolidated results	**174.0**	**2.0%**	**-42.1%**	**-0.5%**	**-41.7%**
Minority interests and discontinued operations	0.0	0.0%			
Attributable net income	**174.0**	**2.0%**	**-41.8%**	**-0.5%**	**-41.4%**
Adjusted net income	**258.6**	**2.9%**	**1.8%**	**-2.1%**	**3.9%**

(1) Adjusted for non-recurring items.

Working Capital, Investment and Debt

Working Capital

DIA’s negative operating working capital increased by 39.1% in euros to EUR1.022bn, while at constant currency growth it was 38.7%.

The value of inventories was 19.0% higher than the level recorded last year (17.3% at constant currency). This growth is due to the expansion of the product range, the company’s efforts to reduce the level of in-store shortages, and the impact caused by the opening of new regions in Brazil.

Trade and other accounts receivable of the Group increased by 17.9% in 2016, 16.4% at constant currency. This increase is partly due to the increase in the franchise business. In 2016, three-quarters of the increase in the value of stocks and of trade and other accounts receivable came from the emerging markets segment.

In 2016, DIA showed its commitment to the franchise concept by granting additional financing to its franchise network. Total net exposure to loans granted to franchisees was EUR106m euros at the end of 2016, bearing in mind that part of the risk is covered by guarantees and pledges. This involves a highly diversified credit risk, as it is fully distributed among the 3,363 franchisees which, at the end of 2016, operated 3,969 DIA franchise stores. Moreover, default levels improved substantially during 2016.

Trade and other accounts payable increased 28.6% to EUR 1,953 M, an increase of 27.5% at constant currency.

In turn, the amount of factoring without recourse to suppliers recorded in December 2016 was EUR88.4m.

The number of days of negative operating working capital (calculated on the basis of sales costs) increased by 15.5 to 53.8 in 2016. This change could have been reduced by 10.9 days (to 49.1) in the absence of factoring activities undertaken to improve working capital management.

Investment in transformation and openings

DIA invested a total of EUR345.4m in 2016, 5.7% less than the previous year, after excluding the investments associated with the purchase of Eroski assets.

In Iberia, capital invested increased by 22% to EUR225.8m. The refurbishment activities of the Maxi and La Plaza DIA formats continued throughout the year, although openings represented nearly 25% of the total investment in this area. In 2016, DIA capitalized EUR25m in Iberia in stores and logistics equipment that was previously operated under operating lease contracts.

As for Emerging Markets, the investment made was reduced by 34% in euros (15.8% in local currency). Investment levels decreased in all countries in this segment, although particularly in Argentina, due to the demanding comparative base in 2015, where the company made a significant investment effort.

New openings represented half of the investments made in Brazil and Argentina. Over the last three years, DIA invested a total of EUR445m between Brazil, Argentina, and China.

(€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%

Reduction of net debt

Net debt at December 2016 reached EUR878m, representing a decrease of EUR254m compared to the previous year.

In 2016, the Company invested EUR19.9m in the acquisition of own shares linked to commitments acquired under the 2016-18 long-term incentive plan. In addition, in July, the company distributed EUR122m in dividends among its shareholders.

The net debt/adjusted EBITDA ratio generated during the last twelve months was 1.4x, while the adjusted figure for capitalized rents estimated by DIA, calculated on the basis of S&P methodology, remained at 2.1-2.2x versus the 2.5x seen in 2015. Both ratios allow for additional margin leverage without jeopardizing the investment grade rating granted by the credit rating agencies.

In 2016, DIA recorded EUR38.5m from the sale of assets, mainly resulting from the sale of a group of stores carried out in the last quarter of the year.

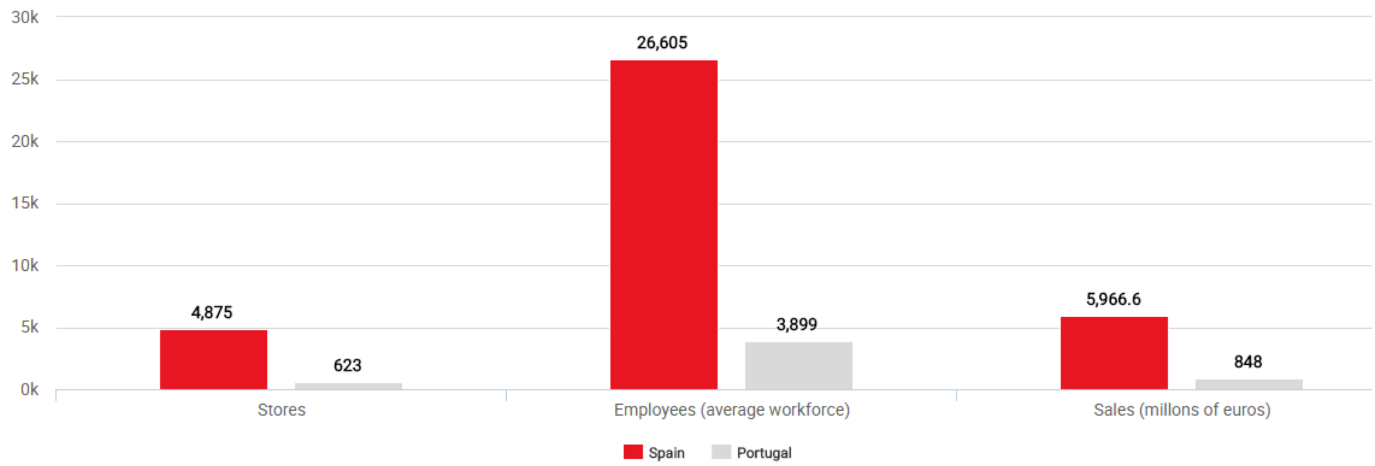
Iberia

Spain and Portugal

In 2016, gross sales under banner rose by 1.1% to EUR6.815bn, with an increase in comparable sales of 1% and a limited contribution of new openings and acquisitions.

Net sales decreased slightly by 0.2% in 2016, reaching EUR5.746bn. This drop is due to the closing of some stores in Spain, such as El Árbol and DIA, with lower-than-expected profitability (reflected in a 2.9% decrease of the commercial area in Iberia), the refurbishment activities carried out during the year (mainly in El Árbol and DIA Maxi) and the transfer of own stores to the franchise network (243 transfer operations completed in 2016).

International presence



Adjusted EBITDA climbed by 1.4% in 2016 to **EUR508m**, of which EUR147.1m were generated during the last quarter of the year, 2.8% higher than the figure recorded in the same period of the previous year.

The strong performance of this item in the last quarter was due to the positive business performance at the end of 2016, together with improved purchasing conditions and the excellent implementation of the different cost improvement plans. The adjusted EBITDA margin remained practically stable, with a slight improvement of 13 basis points to 8.8%.

As already announced at the beginning of financial year 2016, depreciation and amortization expenses fell by 3.5% during the last quarter, reaching EUR42.5m. Regarding the year as a whole, depreciation and amortization in Iberia rose by 8.3%, to EUR178.4m, due to the temporary impact of the recent acquisitions completed.

Adjusted EBIT slid by 2% in 2016, to EUR329.6m, representing a reduction in sales margins of 11 basis points to 5.7%. However, in the last quarter of 2016, adjusted EBIT increased 5.7% to EUR104.6m, representing an improvement in margins of 58 basis points to 7.3%.

The fall in margins for the year as a whole is mainly due to business performance in Portugal, although the greater weight of the supermarkets within total sales had a certain impact on profitability.

More specialization and more services

During 2016, DIA continued to improve its commercial network with the refurbishment of a total of 307 stores. This plan, in addition to improving the customer's experience in the store, strengthened the product offering with the inclusion of new categories in the product range and a greater commitment to fresh produce.

Accordingly, as a result of the commitment to specialization at the end of 2016, close to 1,000 stores had meat, delicatessen, and fish areas, amounting to more than 2,000 sales counters between establishments in Spain and Portugal.

In regard to the adaptation and integration of the new fleet of stores and the new banners, the company continued to work on its transformation process. Specifically, a total 143 stores of the El Árbol format were transformed to La Plaza de DIA, a number higher than the 95 planned at the beginning of the year.

For their part, gross sales under the Clarel banner reached EUR349m in 2016, improving by 6.5% versus the previous year, while gross sales under the La Plaza de DIA banner reached EUR866m.

Emerging countries

Argentina, Brazil and China

In 2016, gross sales under banner recorded growth of 26.3% in local currency, to EUR3.736bn. In turn, in the last quarter of the year, gross sales under banner reached EUR1.039bn, representing growth of 7.4% at constant currency and 23.8% in local currency.

Comparable sales in 2016 improved by 19.1% (excluding the positive calendar effect of 0.3%), while the improvement was 18.1% in the fourth quarter, with a positive calendar effect of 0.3%.

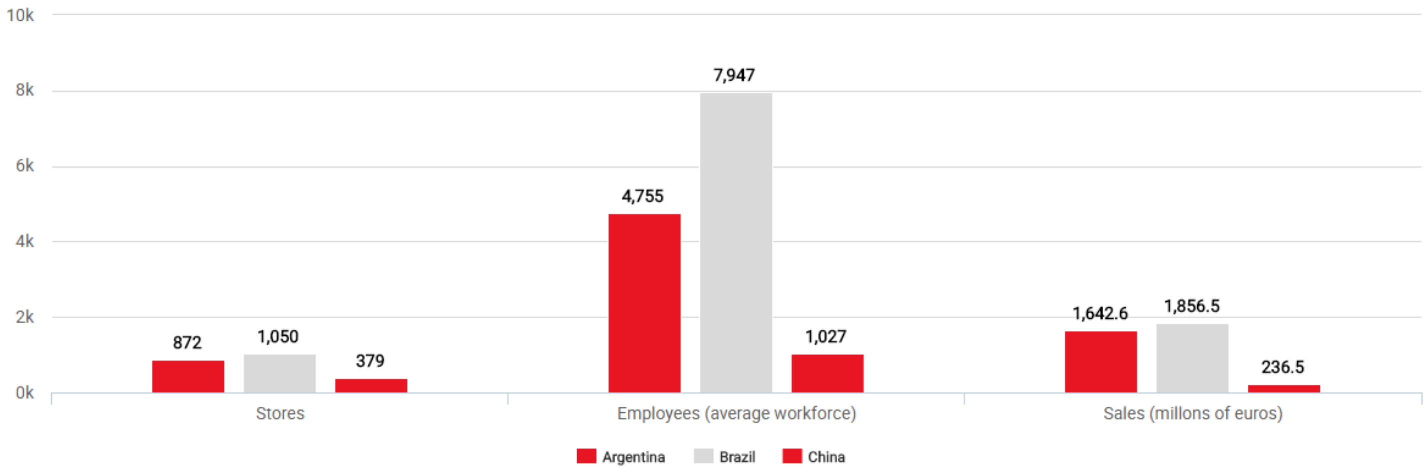
Thanks to the appreciation of the Brazilian Real against the euro at the end of 2016, the negative effect of currency in the growth of gross sales under banner decreased significantly in the fourth quarter, to 16.5% from the 28.3% accumulated during the entire financial year.

In 2016, the negative impact of the Brazilian Real on sales was 5.1%.

Comparable sales in Argentina and Brazil slowed down in the fourth quarter of 2016, due to lower inflation, although, in both cases, the increases were above the market average

DIA China maintained positive growth in the last quarter of 2016, with a solid annual improvement of 3.4% in comparable sales (excluding the positive calendar effect of 0.3%).

Internacional presence



Net sales increased 25.7% in local currency, but decreased by 1.5% in euros to EUR3.122bn due to the depreciation of the currency during the year (-4.8% for the Brazilian Real, -37.4% the Argentine Peso and -5.2% the Chinese Yuan).

Depreciation and amortization rose by 24.4% in the fourth quarter of 2016 to EUR15.2m euros and 9.4% in 2016 to EUR54m, due to the greater investment activity carried out over the last few years.

In the last quarter of 2016, adjusted EBITDA increased 63.4% at constant currency and 22.0% in euros to EUR33.7m.

In the fourth quarter of 2016, net sales jumped by 22.5% in local currency, thanks to the appreciation of the Brazilian Real in the last quarter, while net sales rose by 8.0% in euros to EUR865m.

Adjusted EBITDA climbed by 41.9% at constant currency and 7.3% in euros to EUR117.1m, with an improvement in margins of 31 basis points to 3.8%

This performance was reflected on an annual basis in an improvement of 5.6% in euros to EUR63.1m (+49.7% at constant currency). The adjusted EBIT margin expanded by 45 and 14 basis points in the fourth quarter and in 2016, respectively, representing 2% on sales at the end of the year.

In spite of the complex scenarios in the emerging markets in which DIA operates, the company posted outstanding operating results during the financial year. Market shares in Brazil and Argentina continue to climb, the commercial offering has improved in all countries, and own-label products continue to increase their offer and penetration in the total number of SKUs, while the Club DIA loyalty programme is fully implemented in the state of Sao Paulo.