

The background image is a composite. The upper portion shows a close-up of a person's hand holding a black smartphone. The person is wearing a dark, textured sweater and a blue button-down shirt. The lower portion shows a tablet resting on a wooden surface, displaying a still life painting of various fruits and vegetables. The painting is in a classical style with warm tones. The text 'Activity Report' is overlaid on the left side, with 'Activity' in white on a red bar and 'Report' in black below it. Below the title, the text 'DIA at a glance' is written in black, with a small red horizontal line above it. The letters 'DIA' are also visible in white on the right side of the tablet screen.

Activity Report

DIA at a glance

DIA

Letter from the Non-executive Chairwoman



Dear friends,

Once again, we have ended a successful year thanks to a business model focused on solidity and sustainable growth thanks to our strategy of quality at a good price for our customers, and above all focused on the loyalty that this and our innovations engender in our clients.

More than 40 million people trust in us when doing their shopping, which is a big responsibility that we take on with the highest level of commitment.

Accordingly, we have developed a transversal programme called “Proyecto Cliente”, which is centred on improving consumers’ experience at DIA. Our aim is to ensure that employees at all levels within the company become even more aware of the importance of our customers and calibrate their day-to-day actions with customer satisfaction in mind. Our staff has warmly received this successful initiative. In Spain alone, where we piloted this initiative, more than 2,000 employees from our offices, warehouses, and stores had the opportunity to be part of these working groups, contributing their views with ideas and initiatives that have already allowed us to undertake new projects.

We also want our social responsibility projects to be increasingly close to our staff and their families, which is why we strive for all of them to be able to participate and be with us. By way of example, I would mention the launch of our Superliga DIA in Spain, the race to support children with cancer in Sao Paulo, the help given to young mothers at risk of social exclusion in Portugal, and the campaign to collect clothes in Argentina, among many other initiatives.

Accompanying our customers, there are more than 4,000 of us, across a total of five countries in which we operate. We make up a committed team that is showing it is able to adapt to a changing environment with new answers to each of the increasingly demanding business needs, with innovation and digitalisation, but understanding at all times that the main focus of our activity is the consumer. I thank the entire team for the efforts made, and in whom I undoubtedly trust to attain our company's objectives for another year.

And we cannot forget our important travel companions, our franchisees and franchises: more than 3,500 entrepreneurs are travelling on this road with us. For us, their dedication, effort, and closeness to the client represent a source of inspiration and a fundamental part of growth. They deserve our recognition, and that of society, for their contribution and commitment to the development and progress of the local economy.

However, our commercial activity does not make us forget the obligations of transparency and good governance that we have as a listed company with our shareholders and with society in general. Accordingly, during 2016 we continued to work on corporate governance matters and, following the good governance recommendations, we have made public all our corporate policies, which readers of this report can easily find on our corporate website: www.diacorporate.com. Each of our upcoming annual reports will include detailed information about the degree of implementation of our policies.

We have also analysed and recommended changes in our organisation and our Board of Directors for 2017 to adapt to the new requirements and demands of our market and our society. We have done this to ensure that our organisation in Spain and other countries can deal with future demands in terms of knowledge of, and training in, new technologies, new infrastructures and materials, new trends and innovation in the distribution of food, cosmetics, and health and beauty products. Accordingly, we are involving our directors and employees in the digital transformation, and are training our teams and franchisees.

Furthermore, we have worked on the Social Responsibility Master plan for the 2017-2019 period, which, as of the publication date of this report, has been reviewed and validated by the Board of Directors, having previously been studied by the Audit Committee.

Our Social Responsibility master plan includes 16 lines of action that have materialised in more than 35 projects that cover aspects of corporate management, efficiency improvements in environmental management, an increase in the levels of satisfaction of our employees and of our franchisees, and which include specific social actions that require being increasingly closer to society as a whole.

I invite you to read this report which includes the details of what I have briefly summarised above, and I now sign off reiterating my thanks to everyone, and particularly our customers, employees, franchisees, suppliers, and you, the shareholders, for the trust that you place in our company year after year. This is why we will continue to work on making our company an example for everyone.

Ana María Llopis

DIA Group Non-executive Chairwoman

Letter from the Chief Executive Officer



Dear friends,

Like every year, I am writing to you about the company's performance over the last year.

2016 was a very good year for DIA. We ended the year with gross sales under banner of EUR10.55bn, implying a 10.2% increase compared to the previous year in local currency thanks to the business improvement in all the markets in which the company operates. Adjusted EBITDA reached EUR625m, up 8.6% in local currency compared to the previous year, and pretax profit reached EUR243m, up 12.8% compared to 2015 in local currency. Our attributable net profit fell by 42% to EUR174m due to the absence of extraordinary items. The results will allow the Board of Directors to propose to the General Shareholders' Meeting a gross dividend of EUR0.21 per share, which represents a payout of EUR128m for our shareholders, amounting to 50% of the underlying net profit

Our customers, the consumers, are increasingly at the heart of our activity. We have more than 40 million customers in the five countries in which we are present, to whom we listen closely, and above all we are thankful for their trust. Last year, they participated with us in more than 750,000 monthly surveys and in various special programmes developed for customers. Accordingly, we have opened up new lines of dialogue and relationships. I refer in this case to the eight digital platforms in which we are present, either by ourselves or in partnership with third parties, including smartphone payments and the app to make shopping easier, which has already been downloaded in Spain by 700,000 consumers.

Our Club Dia loyalty programme already has more than 19 million active clients, and our own brands are continuing to be successfully developed, reaching 7,500 SKUs. We take good care of these brands, which are subject to constant quality controls.

I also want to highlight our commitment to entrepreneurs, with the thousands of franchisees who make the DIA brand a successful one. These small but big entrepreneurs go unnoticed because their daily endeavour involves working to satisfy the client. They are improving on this by the day, contributing to the development of the business fabric of each of the countries in which we are present, creating employment. For this, I congratulate them full-heartedly. They deserve all our support and respect.

I also want to mention our suppliers. Almost 90% of our suppliers are local, from the countries in which we are present. In Spain, this percentage is 94%, and slightly over half of them are small and medium-sized companies. This is the best proof of our commitment to all things local. The rest of the suppliers are international companies who manage brands that are very much a part of consumers' lives. These are undoubtedly big companies with a position of prominence who bring innovation and expertise to the development of their products, with a very significant size and who on more than one occasion impose their market logic. Accordingly, in 2016 we continued to work on alliances that allow us to get closer to these companies, on equal terms, with a single aim: the benefit of the consumer.

By no means am I forgetting about our employees, without whose support and commitment it would be impossible to achieve our objectives. Their dedication and implication are what keep DIA's values alive. Faithful to these values, above and beyond their proven efficiency and professionalism, they have enabled us to get closer to society, helping to start up more than 140 social actions focused on childhood development, ensuring that food reaches the most disadvantaged groups, and to contribute to greater gender equality.

Given that 2016 was full of initiatives and news, I invite you to delve into this Annual Report, which bears testament to the company's good work.

Ricardo Currás de Don Pablos

DIA Group Chief Executive Officer

Business map

Distribuidora Internacional de Alimentación S.A., DIA is a food, household goods, beauty and health distribution company, listed on the Madrid Stock Exchange in the selective Ibex 35. It has premises in Spain, Portugal, Argentina, Brazil and China.

10,550

turnover of billion

7,799

3,830 own storespropias
3,969 franchises

+7,500

own brand references PGC
(Spanish Chart of Account)

44,200

employees

25,000

jobs created throught
franchises

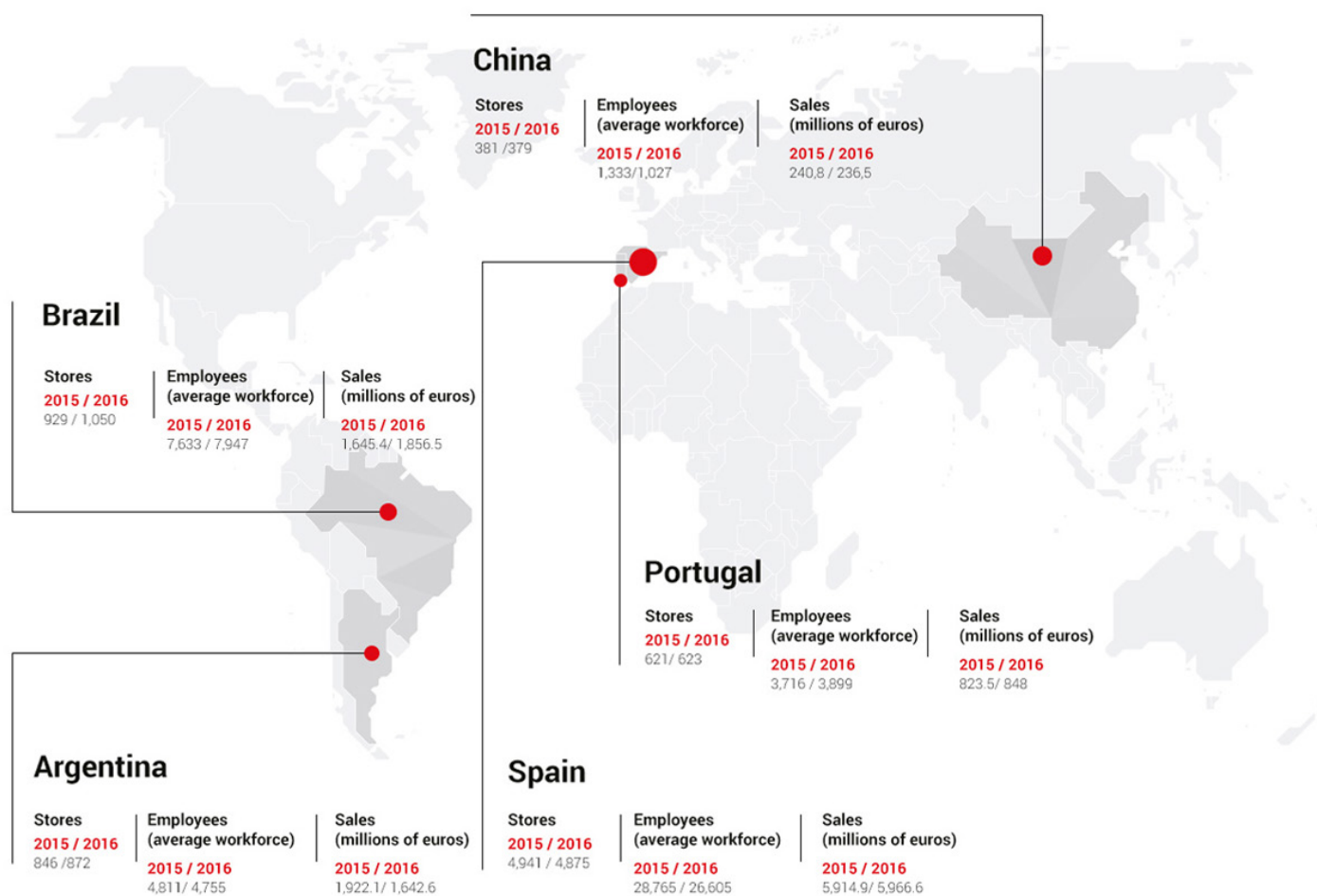
+40

million customers

38

warehouse

International Presence



Financial indicators

	2015	2016
Gross sales under banner	10,546.7	10,550
Net sales	8,925.5	8,867.6
Adjusted EBITDA	610.1	625.1
Investment	563.3	345.4
Net debt	1,132.4	878.3
Adjusted net income	254.1	258.6

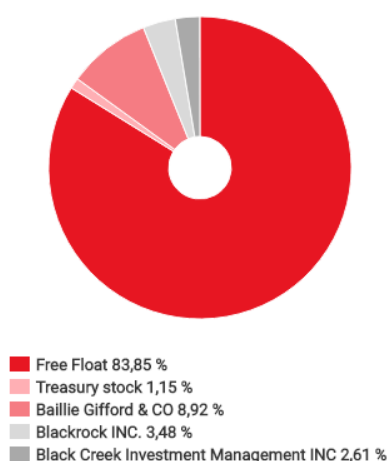
Sustainability indicators

	2015	2016
Employees		
Number of employees (average workforce)	46,258	44,481
Training hours (thousands)	374	476
Health and Safety		
Work Accidents	2,527	2,677
Work absenteeism (%)	6.44	5.58
Environment		
Investments in environmental improvements (millions of euros)	26.955	6.96
CO2 emissions (millions of kg of eq. CO2)	131,170	142,502
Electricity consumption (Kwh/m ²)	309.08	334.07

Stock Market data

More than **EUR130m** in shareholder returns
since 2016

Shareholder composition



*at 31 December 2016

Significant shareholders and treasury stock

	Number of shares	Percentage
No. of shares outstanding	622,456,513	100.0
Treasury stock	11,178,166	1.79
Free Float	501,403,895	80.55
Baillie Gifford & CO	65,286,174	10.49
Black Creek Investment Management INC	19,103,193	3.07
Blackrock INC.	25,485,085	4.09

(*) December 2016.

Economic value generated, distributed and retained

	12/31/2015	12/31/2016
Economic value generated	9,113,544	8,995,115
Net business turnover	8,925,454	8,867,621
Other income	96,215	110,976
Tax and profits	82,610	-
Financial income	9,265	12,089
Income from intangible assets	-	4,336
Income from companies using the equity method	-	93
Economic value distributed	8,710,634	8,703,283
Goods and other consumables	7,018,881	6,942,007
Personnel expenses	847,233	846,103
Operating expense	644,034	653,549
Income from intangible assets	12,340	-
Financial expenses	65,291	64,121
Tax on profits	-	69,119
Dividends (*)	122,855	128,384
Economic value retained	402,910	291,832

(*) Dividends at 12/31/2016 correspond to a proposed distribution of profit for financial year 2016 that will be submitted for approval, while dividends at 12/31/2015 correspond to those paid in financial year 2016 against the previous year's profit.

Banners and brands

Banners



Proximity format

Surface between 400 and 700 m².
Expanded offer of perishables.



Attraction format

Surface area of between 700 and 1000 m²
in suburban areas.
Customer parking.
Over 3,500 references.



Specialists in household goods, beauty and health

Nearly 6,000 references.
Surface area of between 160 and 260 m in urban areas.



Family proximity supermarket

Broad selection of perishables and personalized customer service.
Over 7,500 references, of which 1,500 are fresh.
300, 500, 700 or 1,000 m² in urban areas.



Specializing in providing service to professionals and self-employed in the hotel and restaurant sector and collectives.

Product range exceeding 4,000 references.



Stores in small centres, particularly rural areas, that do not require investments in store infrastructure.

Managed by franchisees



Covers two types of stores in the Portuguese market:

Minipreço Market: local stores in urban centres:
Surface area of 250-400 m² and a product range of 3,000 references.

Minipreço Family: attraction to the periphery:
Surface area up to 1,000 m² with covered parking and up to 4,500 references.



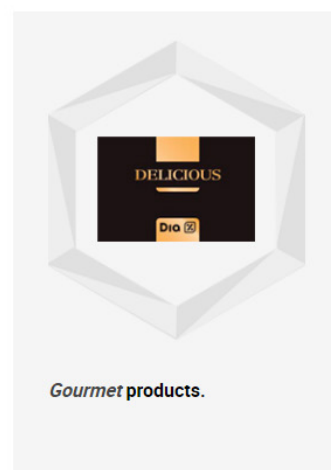
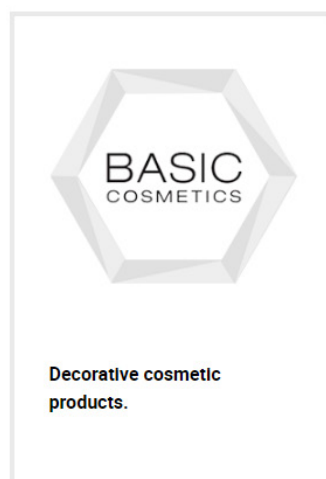
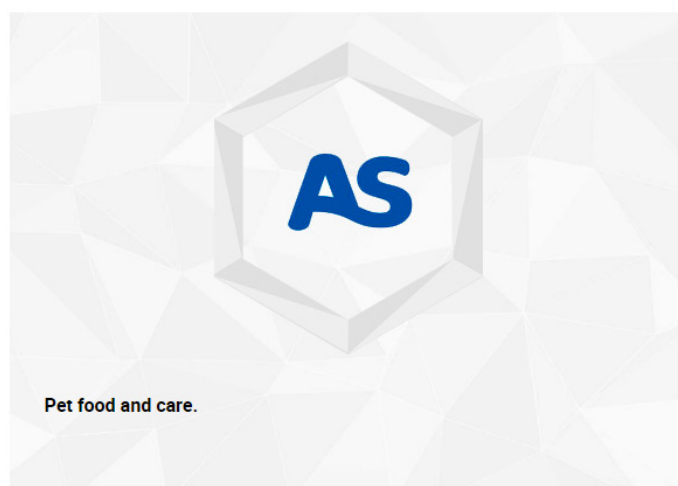
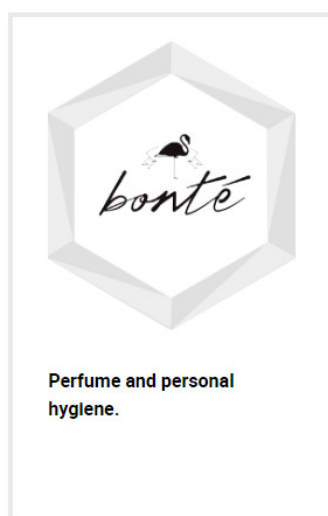
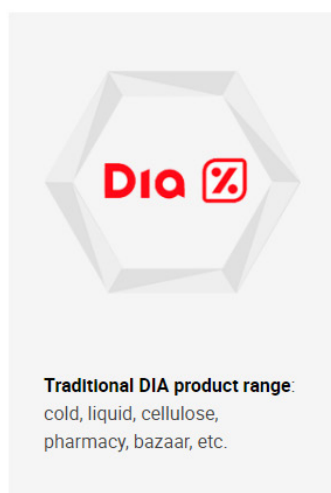
Stores used for the franchise format in China and for certain brand assignment agreements to third parties in other markets.



Stores in rural areas in the Portuguese market, that do not require investments in store infrastructure.

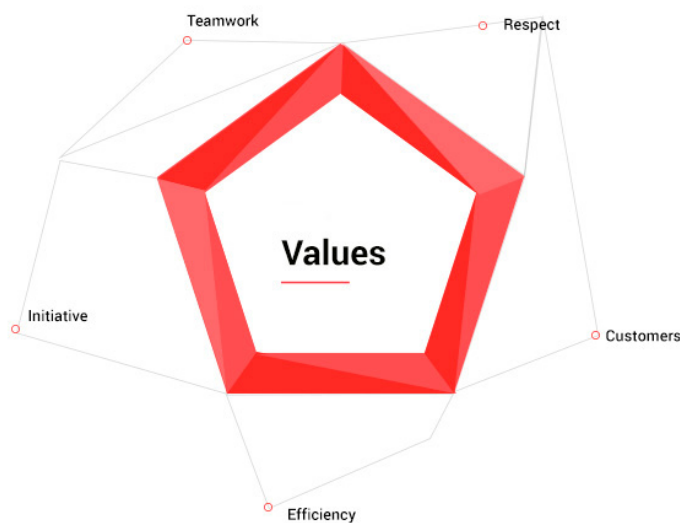
Managed by franchisees.

Brands



Values

The DIA Group has built its identity on five values present in the company from the outset, and which govern the everyday activities of all the countries in which it operates and all of its employees.



Teamwork

We work as a coordinated team towards a common goal. We encourage a positive environment in order to tap our people's talent. This leads to optimal results.

Customers

Customer satisfaction is our number one goal.

Efficiency

Our work is thorough. We train our teams to take decisions informed by professional criteria. We seek returns for our shareholders. We offer our customers top quality products and services at unbeatable prices.

Respect

We honour our commitments. We foster a climate of trust and welcome diversity and differences of opinion. This creates a work environment marked by security, credibility and personal respect.

Initiative

We monitor our operating markets for changes, proactively devising creative and innovative solutions.

Contribution to the State

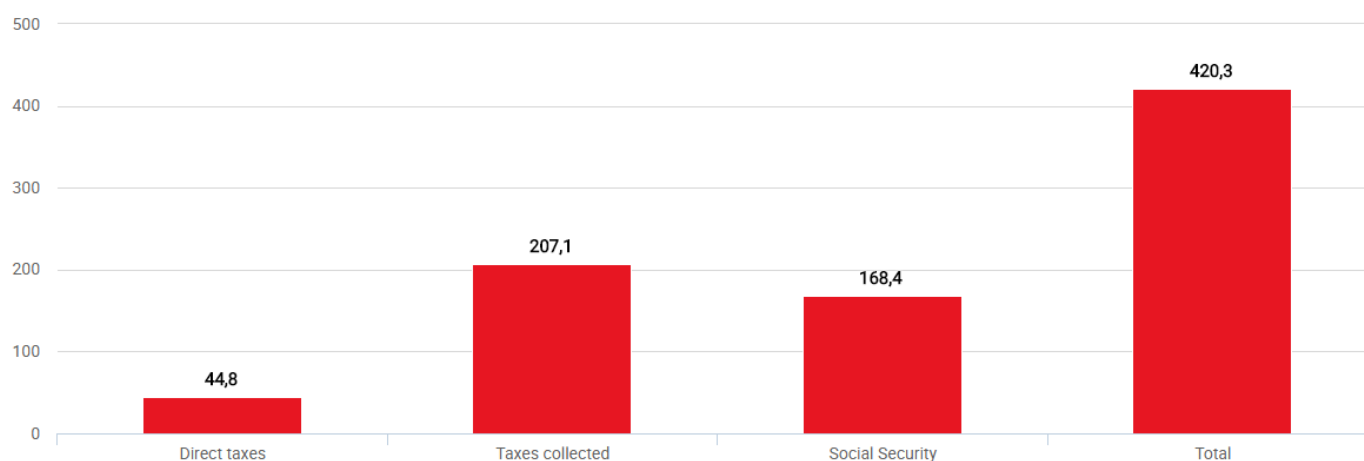
The DIA Group contributes in a responsible way to the fiscal and labour environment in all the countries where it operates. Its fiscal strategy is primarily focused on ensuring responsible compliance with tax regulations, always supporting business interests and looking after social interests.

Aware of its responsibility in the development of the society in which it participates, the company contributes to creating economic value in all the countries where it has a presence through the payment of taxes, both its own, those collected on behalf of third parties or indirect taxes.

The DIA Group observes the applicable legal tax provisions, rules and regulations in all jurisdictions where it conducts its business, thus fulfilling its required tax obligations.

Total contribution to the State by DIA in Spain during 2016

(millions of euros)



In the next financial year, the company plans to report these figures broken down by country.

Strategic Pillars

DIA has **three transversal priorities** for its business for the coming years:

The first priority is essential: to keep the customer at the heart of all the company's decisions. The second priority is to undertake a digital transformation within the group that extends to all levels. The third priority is to develop new avenues of growth, through the search for new business opportunities. All of this is within the framework of an unwavering commitment to the DIA franchise, the best operational model for managing the proximity business, and a fundamental pillar of profitable growth.

Geographically, DIA's organic growth in the coming years is based on the unprecedented growth potential of emerging markets, mainly Brazil and China, as well as the consolidation of more mature markets such as Spain.



Digital

opportunity leveraging proximity platform (closets to customer). PI development (essential for online differentiation) and price position

Innovative and cost orientes culture

Streamained and fully integrated IT and Supply chain infrastructure

Leading price position

And significant prica gap vs market, based on a cost efficient model

Proximity discount

The right retail format for the socio-economic trends, less affected by online growth

Constant innovation

of commercial formats to drive sales

Targeted expansion

based on unique rating customer knowledge allows to densify the area, win market share and profits, despite cannibalization

Loyalty

Unparallaled in-house loyalty program (+30m holders) that allows a unique knowledge of customer behavior, fostering price imagen through targetted promotions and big-data collaboration with suppliers.

UniquePL development and limited SKU range

Allow for best purchasing condition

Best operating format

For proximity retail

Environment

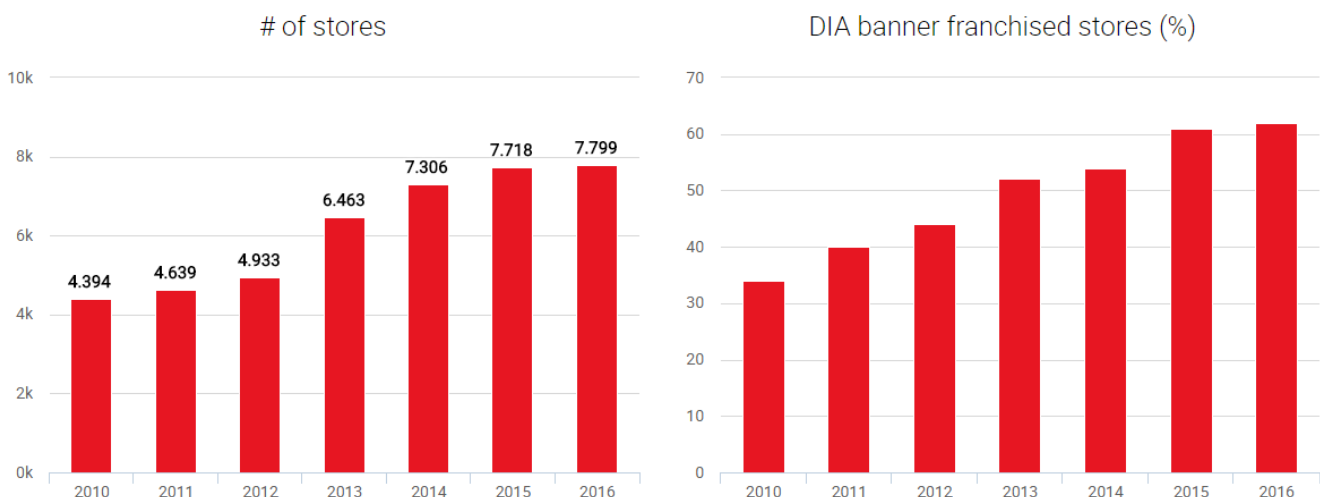
Over the last five years, the DIA Group has been operating in a highly competitive environment in continuous transformation, in which the distribution sector has had to deal with one of the periods of most change. Shifting consumer habits in each of the countries in which it operates has driven the company to implement new plans and strategies that pursue its firm proximity strategy, accompanied by the highest-quality commercial offering at the best price and a cost-efficient model.

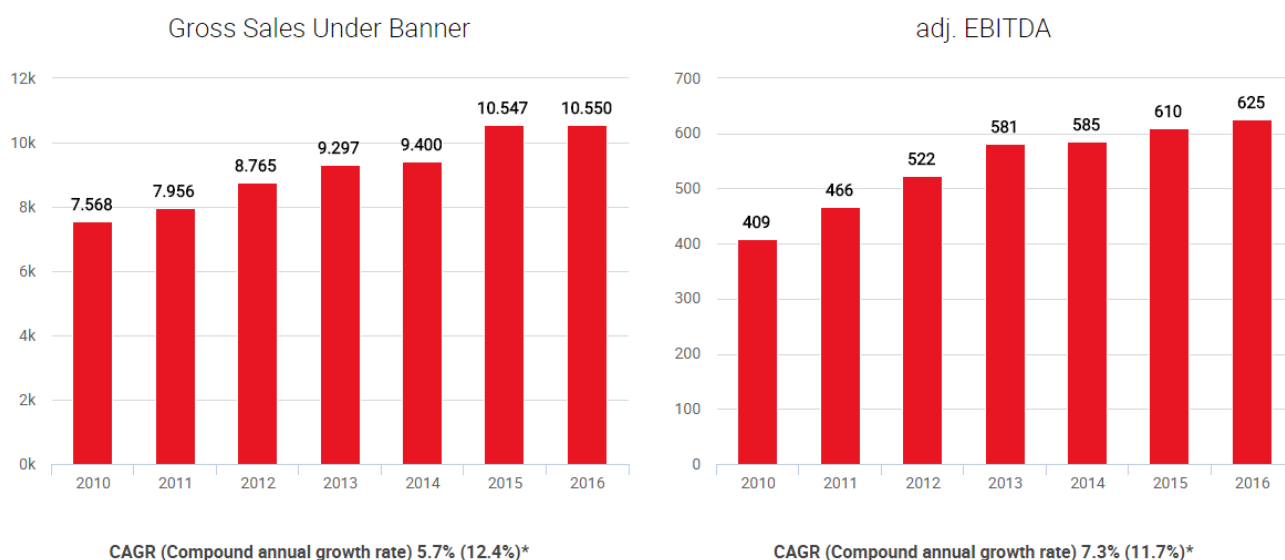
With the exception of the Portuguese market, the countries in which the DIA Group operates have a low sector concentration, with highly regional operators specializing in the development of proximity purchasing. In this context, DIA has played a leading role in recent years in the few concentration transactions that have taken place in the sector, gaining specific weight and leveraging the corresponding synergies.

The ageing of the population recorded in recent years in all of these markets has also played an important role in the strategy carried out by the leading companies in the distribution sector, with a new shift in habits seeing consumers shopping closer to home and more frequently, rather than making large monthly shopping trips to superstores. The commitment to proximity that DIA has been making since its beginnings more than 35 years ago, has allowed it to have a leading position in this segment and greater knowledge of local offerings, with **over 85% of its network being proximity stores**.

The various acquisitions made in recent years have served to create a multichannel, multi-brand system seldom seen up to now in the international retail business, and the success of which is based on synergies between formats. Accordingly, the opportunities arising from these transactions have resulted in a type of establishment where customers can do all their shopping, not only adding efficiency to the value chain, but also to the experience itself.

A story of consistent, profitable growth in food retail





Proximity, profitability and internationalization

The DIA Group has a business model that places the customer at the heart of its business, based on an innovative concept of constant improvement that incorporates the profitability of all the players in its value chain. Its geographical development in Iberia and Latin America offers a wealth of opportunities for organic and inorganic growth in both regions, creating a business model that reflects solid cash-flow generation, an attractive investment return and shareholder profitability that is higher than the sector.

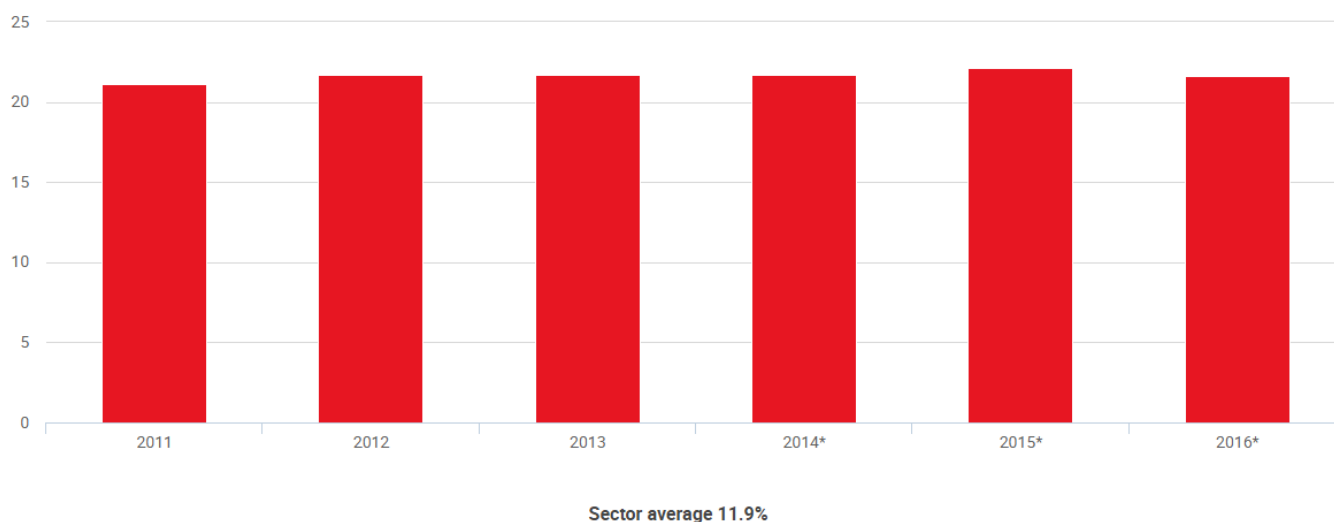
Since its flotation on the Stock Exchange in July 2011, DIA's business plans have always revolved around the strategy of achieving organic growth through the consolidation of business in Iberia (its main market) and unprecedented expansion in the Latin American market, with a management approach that always prioritises efficiency and responsible resource management.

Accordingly, over the 2010-16 period, the Compound Annual Growth Rate (CAGR) of sales reached 12.4% in local currency, while adjusted earnings per share (EPS) exceeded 12%, thanks to the efficient and sustained growth that has led to the opening of more than 3,300 new stores during this period, of which 75% are franchises.

This sustained business development is also based on a committed investment policy, focusing primarily on transformations, new openings, and acquisitions, which have led to an investment of more than EUR2.5bn over the last six years, together with a responsible control of its debt, which amounted to EUR878m in December 2016.

The multi-format, multi-brand proximity business model, supported in turn by a loyalty programme that has a customer base of more than 32 million (2 million new customers join the loyalty programme each year), allows for a unique level of knowledge of customer behaviour, promoting and working on price image through specific promotions and close collaboration with suppliers. Constant innovation in these commercial formats also facilitates the progressive expansion of a model that avoids cannibalization and meets the daily needs of its customers.

Leading industry returns, well ahead of sector average



ROI=EBITDAR / Average invested capital.

Average invested capital= Equity + Net debt + Average D&A + 5x Rent adjustment.

Market average defined as the average of Carrefour, Casino, Jeronimo Martins, Metro, Morrisons, Sainsbury, Sonae and Tesco.

*Data excluding acquisitions.

Multichannel customer and innovation

The ongoing investment in prices, combined with improved customer service, is showing results in all the countries in which the company operates, increasing comparable sales growth above that of the respective markets. During 2016, the increase in sales in comparable areas has been positive in all of DiA's markets, reversing the negative trend of the last two years as a result of the consumption crisis. Specifically, this past year consolidated comparable sales were 8.9%, a figure higher than the majority of the sector and a record for the company since its flotation on the Stock Exchange in 2011.

The new needs and new customer profiles have also prompted an updating of the commercial offer. In addition to fresh food as the fundamental pillar in its proximity approach, which already exceeds 13% of sales, the DiA Group has an ongoing innovation policy that has concluded with the expansion of its portfolio of own label products, which totals more than 7,500 SKUs and which currently completes all categories.

In recent years, DIA's commercial strategy has led it to have the best price image in three of the five countries in which it operates: (Spain, Argentina, and Brazil), further propped up by the extraordinary penetration of its own-label products: over 50% in Iberia and around 35% in emerging markets, and accompanied by a big promotional effort that has led DIA to post healthy comparable area growth, above the rate of inflation. In 2016, the company carried out both daily and weekly promotions, involving 15% of the product range.

The search for synergies in pursuit of efficiency has also led DIA to conclude negotiating agreements with other operators in the sector in order to improve purchasing conditions. Agreements such as those signed last year with Eroski in Spain, Intermarché in Portugal, and Casino for its own-label products in all of its markets are focused on offering a product range based on the best prices for its customers, thus increasing the possibility to continue to invest in improving promotions.

DIA's omni channel commitment over the last few financial years has also allowed a significant development in the area of e-commerce, mainly in the Spanish and Chinese markets. Although online sales in Spain currently represent 1% of total sales in the food sector, growth potential and customer-related opportunities are now unlimited. DIA's app has already been downloaded more than 500,000 times in Spain for its online business, in addition to the increasing development of the non-food channel of the Clarel web, which sells all over Spain, and the DIA flash Opportunities sales site that mainly sells electronic and technology products. This strategy has already been exported to other countries with the start of e-commerce operations in China and with the launch of Opportunities in Argentina.

Complementary to this multichannel strategy, during the 2016 financial year, various digital projects have been undertaken, along with third-party agreements that have positioned the company at the forefront of the sector in the area of e-commerce, always aimed at further satisfying the needs of an increasingly digital consumer. Some examples of this initiative to open new customer-oriented channels are: 1) the agreement with Amazon to introduce La Plaza DIA products in its Prime Now service in Spain; 2) the joint project with ING Direct to offer the possibility of cash withdrawal at stores; and 3) the agreement with the online Netease and T-Mall sales platforms in China.

The franchise

The DIA franchise system provides additional flexibility and efficiency to its operations, allowing it to explore options in greater depth and enhance its proximity strategy. As a result of this commitment, the company is now positioned among the leading 20 franchisers in the world, with its franchises representing 48% of the total store network and 60% of the DIA banner.

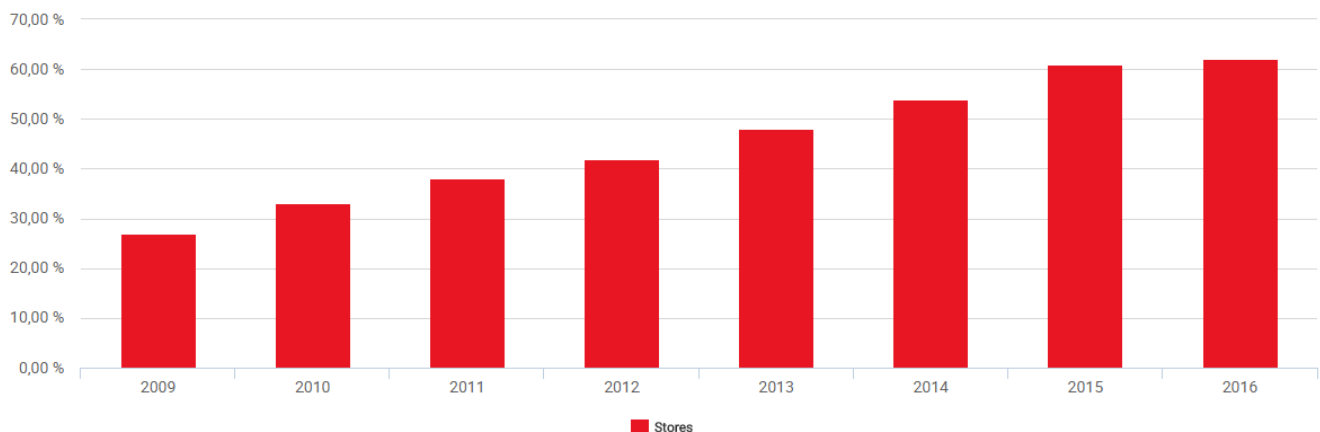
This represents a win-win relationship with its franchisees, where DIA offers its operational capacity and historical business expertise, and entrepreneurs contribute greater knowledge of personalized service and knowledge of the local market, thus strengthening the proximity offering.

The company's commitment to its franchisees is also reflected in the financial support that it grants them for the start-up and good functioning of the business. In 2016 alone, the DIA Group granted additional financing to its world-wide franchise network, raising the total credit assigned to EUR106m.

In the last five years, the growth of the franchise in the network of stores under the DIA banner has been exponential, and currently there are more franchised stores than own stores in three of the countries in which DIA operates. (China, Brazil, and Argentina). In 2011, franchised stores under the DIA banner represented 38% of the total number of stores, compared to just over 60% at the close of 2016.

In business terms, the DIA franchise is the most efficient model for proximity shopping, making it in turn possible to isolate the profitability of market-specific fluctuations, while fostering store network expansion. Furthermore, the franchise model offers unique flexibility to compete in small niche areas where there is less competition and little presence of large distribution formats.

Growing penetration of DIA banner franchised stores



DIA in the Stock Market

In 2016, DIA continued to perform well in the stock market, thanks to a business model based on efficiency and profitability. During a challenging year for the food distribution sector in Europe, the company shares, listed on the Madrid Stock Exchange and which form part of the IBEX 35, closed the year at a price of EUR4.665. This closing price represents a 14.3% decrease in 2016, but shows a cumulative appreciation of 45.6% since it started trading on the Stock Market in 2011. In the same periods, the IBEX 35 declined by 2.0% and 9.5%, respectively.

This year, the market has again valued the company's capacity for growth and profitability in a tough consumption context and a significant currency devaluation in markets such as Brazil and Argentina. The highest closing in 2016 took place on 22 July, at EUR5.755 per share, while the annual low was recorded on 12 June, with a close of EUR4.224 per share.



The average trading volume during the year was 4.8 million shares daily, which makes DIA one of the most liquid stocks on the Spanish stock exchange, both in terms of absolute transaction volume and rotation of the shareholder base.

In keeping with the commitment to offer increased shareholder profitability and, as agreed upon at the General Shareholders' Meeting held on 24 April 2016, the DIA Group has again raised returns with the distribution in July 2016 of a dividend of EUR0.20 per share charged to 2015 results, which represents an increase compared to the previous year of 11.1% and a cumulative growth rate of 81.8% since the company was listed in July 2011.

This dividend represents a payout calculated against the underlying net profit of 49.8%, representing an approximate **payment of nearly EUR130m in dividends to shareholders**. At 31 December 2016, DIA held 11.1 million treasury shares (1.8% of the capital) to cover the various remuneration items of shares included in the Incentive Plans for the Company's management team.

For the 2017 financial year, the General Shareholders' Meeting will propose the distribution of a gross dividend of EUR0.21 per share charged to 2016 results, 5% higher than the previous year.

Stock Market Indicators

622,456,513

Total number of shares

4,775,500

Average volume
million shares traded daily

5.755

Maximum market price (€)

4.224

Minimum market price (€)

5.053

Average (€)

4.665

Closing (€)

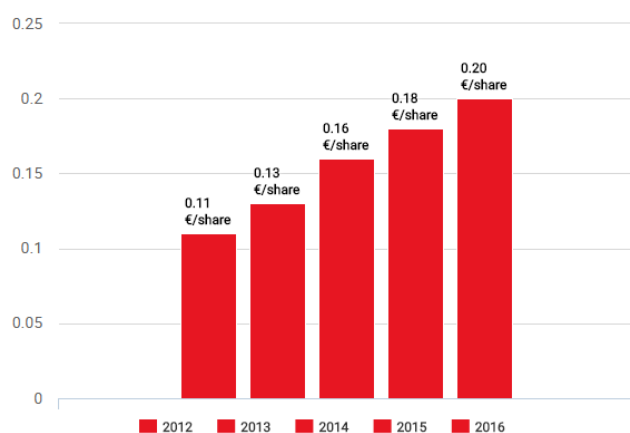
0.422

Closing (€)
Adjusted earnings per share (EPS)

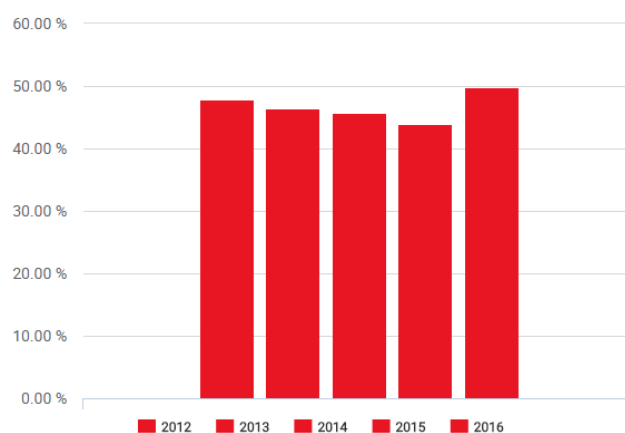
0.20

(€)
Dividend per share

Gross dividend paid per share

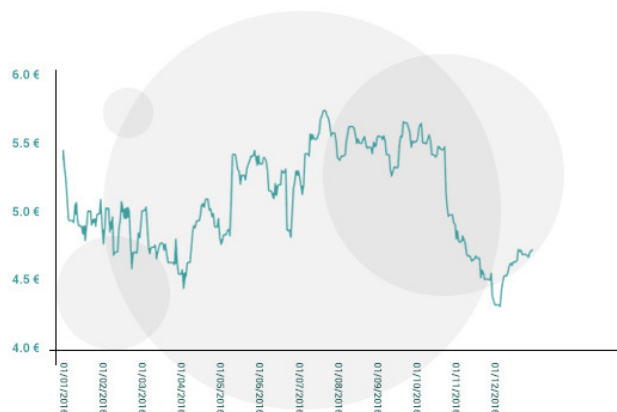


Pay-out



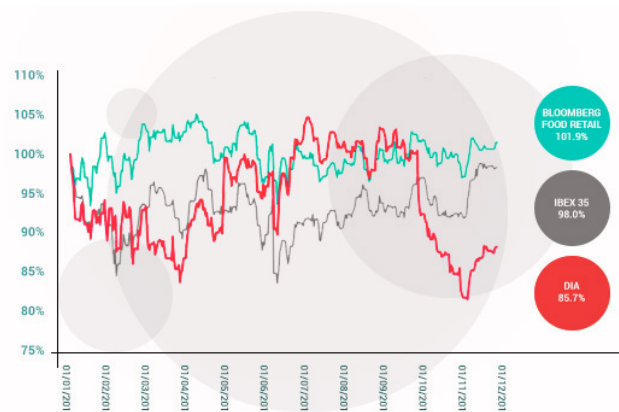
Share performance

(From 1 January to 31 december 2016).



Share performance and main indices

From 1 January 2016 to 31 December 2016



Commitment to the Environment

In addition to the Ibex 35, since 2015 the DIA Group has also been listed in the FTSE4Good international stock exchange index, which includes listed companies from around the world that provide information on parameters such as corporate social environmental responsibility practices, shareholder relations, and human rights.

This year, the index has been revised twice to allow new companies to join and to stop following those that no longer make public the information requested. The FTSE4Good, which uses the information provided by the Ethical Investment Research Service, was created with the collaboration of UNICEF, the UN Fund for Children.

More communication and more closeness

The DIA Group has a team responsible for maintaining a direct, clear, and fluid relationship with its investors. The department is governed by the principles contained in the investor Communication Policy approved by the Board of Directors in 2015, which encompasses a series of action principles to protect the rights of shareholders, institutional investors, and the markets in general, and is available on the corporate website.

Shareholders and investors have different communication channels, through which detailed information is provided about the company on stock market and business matters, thus maintaining an open, efficient, and transparent dialogue.

Through the corporate website www.diacorporate.com, the company offers real-time information on the stock performance, relevant facts, Corporate Governance and financial results, in addition to offering the possibility of subscribing to a channel to receive the most relevant notifications. The website complies with all the technical and legal specifications established by the National Securities Market Commission (CNMV) in its Circular number 3/2015 of 23 June.

In 2016, the department of Investor Relations of the DIA Group organized more than 1,200 information activities in different areas, such as face-to-face meetings, webcasts and conference calls, all aimed at offering the most current and accurate information to the market.

The most important shareholder events, such as the quarterly presentation of results and the General Meeting, are retransmitted via webcast, in line with the company's strategy of transparency and fluid communication with the investment community.

Financial year milestones

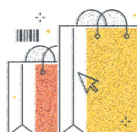


DIA reaches

2,000
franchises in Spain

DIA renews its
Max Descuento
model in
Spain

DIA opens a warehouse in Zaragoza that gives greater capacity to the company in Spain



DIA signs an agreement in Spain with Amazon Prime Now for its La Plaza format

DIA signs the first sports sponsorship agreement in its history with the Spanish Basketball Federation



DIA's online store is now available in

19

provinces throughout Spain and sales have tripled.

Issuance of Bonds for a value of

300
million euros

Deliveries to

FOOD BANKS

reach a record

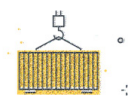
4.5 millions
kilos in all countries



DIA reaches

1,000
stores in Brazil

DIA Brazil opens a new warehouse in MAÚA



DIA SIGNS AN AGREEMENT WITH ING for cash withdrawals at stores in Spain

DIA Argentina begins operations in Paraguay through the master franchise

Changes in the

GROUP'S BOARD OF DIRECTORS

with the exit and entry of new directors.



DIA Argentina

launches the DIA OPPORTUNITIES SERVICE



to sell technology and household appliances.

DIA

commences operations in a new state in Brazil Rio de Janeiro

DIA China

signs an agreement with Netease to promote online business





Activity Report

Corporate policies

DIA

Policy development

As a consequence of the recommendations of the new **Code of Good Governance of the CNMV**, approved in 2015, DIA has been working since then on the adaptation and subsequent publication of its corporate policies. The first step, implemented in December 2015, was the approval by the Board of Directors of a renewed Corporate Social Responsibility policy, transversal to all the actions of the company, which includes the principles assumed voluntarily by DIA in regard to its various stakeholders.

The CSR Policy constitutes a reference framework prior to the development of the rest of the policies that the company maintains with regard to its stakeholder relations.

On 11 December 2015, DIA's **Board of Directors of DIA** approved its Shareholder Communication Policy, Fiscal Policy, Risk Management Policy, Media Relations Policy in the Information Area and, lastly, the Environmental Policy.

In 2016, the Franchise Relation policy, the Corporate Food Quality and Safety policy and the Policy for the Prevention of Crime and Anti-corruption were approved and published, all of which are available on the company's corporate website.

As of the date of publication of this report, the two remaining policies have been approved and published: The Human Resources Policy and the Customer Relationship Policy.

To measure the implementation of each of the policies and fulfil the CNMV's Recommendations of the Code of Good Governance, the DIA Group has developed a series of indicators that are reported to the Audit Committee of the Board of Directors, which has been attributed the company's Social Responsibility functions.

Policies by department

General Corporate Social Responsibility Policy

DIA Group (DIA) is a company committed to social welfare and the impacts caused by its activities.

DIA's General Corporate Social Responsibility (CSR) Policy constitutes the framework applied by DIA at corporate level in order to meet its commitments in the following fields:

- **Responsible management.** Compliance with the best practices of Corporate Governance and the establishment of a framework based on ethics, transparency and efficient risk management.
- **Commitment to the people and groups it works with.** Employment generation, development of the franchise, supplier agreements, collaboration on social programs and humanitarian aid and creating value for shareholders and society.
- **Franchises.** Offer franchisees the knowledge and the right tools to efficiently manage their business.
- **Quality and price.** Offer consumers solutions to their food needs and consumer products based on a single undertaking on the market in terms of quality and price.
- **Environmental protection.** DIA innovates in its daily work to reduce energy consumption, limit the environmental footprint of its logistics activities, and properly manage its emissions, consumption and waste.

In order to create value in society, DIA has made a strong commitment to environmental respect and sustainability through efficient management of resources, allowing access to quality food at affordable prices, and generating wealth and confidence in the communities where it operates.

In line with this purpose, the General CSR Policy promotes the achievement of the objectives set in the DIA strategic plan and the better positioning of the company in the market.

CSR Principles

Efficiency, Initiative, Respect, Team and Customer are the values that define DIA and act as a reference for professional ethics and appropriate decision-making. These values are the basis for the development of DIA's General CSR Policy, which is articulated through twelve basic principles that uphold its purpose of achieving profitable growth and reflect its commitment to the social and natural environment:

- Promote the **best Corporate Governance practices**, giving priority to transparency, ethical business management and proper risk management.
- Responsible management of both financial and non-financial **risks as opportunities** arising from the Group's performance and the environment.
- Create and maintain **responsible, fluid and bidirectional communication with interest groups** (consumers, employees, franchisees, suppliers, civil society and shareholders) to better understand their expectations and adapt business performance with a view to satisfying them efficiently.
- Work to continuously improve all processes to promote access to **quality food at the best prices** for the consumer, also linking the company's social action with access to nutrition for the most disadvantaged and vulnerable groups, paying special attention to children.
- Promote good practices in terms of responsible **purchasing and healthy eating**, as well as providing comprehensive nutritional information about the products for the benefit of the consumer.
- Ensure maximum **protection and privacy of consumers and franchisees** through full compliance with existing regulations.
- Promote respect for **diversity** by developing the adequate conditions for the functioning of teams with different capabilities.
- Support **equality** between men and women.
- Promote the **safety and health** care of all individuals within the company.
- Support the **training and professional development** of those who form part of the company, promoting a good work-life balance.
- Contribute to better **management of natural resources and the environment**, through energy efficiency, innovation and employee awareness to minimise the negative impacts caused by our activities.
- Promote and ensure **compliance with the United Nations Global Compact**.

These principles are integrated into the Group management system and in its professional standards, that allow DIA to program, monitor and improve its performance; meeting the expectations of its interest groups.

Scope and governance of the general csr policy

The DIA's General CSR Policy establishes the corporate reference framework to ensure its proper compliance and is applicable to all companies and countries that form part of the Group.

The Board of Directors approves the DIA's General CSR Policy and oversees its compliance, ensuring respect of the laws and regulations in its relations with interest groups, compliance in good faith with its obligations and contracts, and respect for the customs and good practices of the sectors in which it operates.

The DIA Appointments and Remuneration Committee has the following functions in relation to the General CSR Policy:

- Reviewing the General CSR Policy, ensuring that it is aimed at value creation.
- Monitoring the strategy and practices of Corporate Social Responsibility and assessing their degree of compliance.
- Overseeing and evaluating the processes associated with the various interest groups.
- Evaluating all aspects relating to the company's non-financial risks, including those of an operational, technological, legal, social, environmental, political and reputation-related nature.
- Coordinating the reporting process of non-financial and diversity-related information, in accordance with applicable regulations and the international reference standards.

DIA has an organisational structure which is governed by principles and internal rules approved and monitored by Senior Management. This regulation provides for the creation of a CSR Committee, led by the Corporate and Resources Director, and composed of managers responsible for each of the concrete areas in DIA's CSR policy (definers). This body is responsible for defining performance indicators and ensuring that those responsible for the functional areas in each country (contributors) report the required information in accordance with the established truthfulness and accuracy criteria.

Memberships and collaborations

DIA is committed to adopting the most relevant international and national standards in the field. Since March 2012, DIA has been a member of the United Nations Global Compact (UN Global Compact), the aim of which is to achieve the voluntary commitment of its member entities to Social Responsibility, through the application of the Ten Principles set out in the Compact, based on respect for human, labour and environmental rights, in addition to anti-corruption.

For more information: [Web corporativa](#).

Group General Human Resources Policy

The DIA Group is formed by loyal, meticulous professionals who constantly strive to realize the organization's values through a professional culture based on honesty, good faith, integrity, commitment to the DIA Group project, and respect for employment rights.

Against this backdrop, the General Human Resources Policy is the corporate benchmark for people management and contains the spheres of action delivering a response to the DIA Group's commitment to job creation and to its professionals, through the following values:

- **Efficiency**, based on working meticulously, and creating teams for professional decision-making, together with the search for cost-effectiveness in all actions;
- **Initiative**, taking heed of any changes occurring in the markets in which the DIA Group is engaged and anticipating them through creative and innovative solutions;
- **Respect** for commitments, creating an atmosphere of confidence and accepting diversity and differences of opinion, resulting in a safe, credible, and respectful working environment;
- **Team work**, with a common purpose and in a coordinated manner, creating positive relationships which harness people talent to accomplish optimum results;
- **Customer focus**, with satisfaction as a proposed maximum.

These defining values of the DIA Group are the basis for the development of the present policy, which is supported by three strategic mainstays for people management within the organization:

- **Customer designed:** A customer-based working culture;
- **Focused on the employee:** An organization which supports professional development and fosters employee commitment;
- **Digital transformation:** A different approach to work enabling greater adaptability, efficacy, and innovation to satisfy customer and employee needs.

Policy purpose

As a multinational Group specializing in the distribution of food, drugstore, beauty, and health products DIA is aware of the need to adapt its human resource policies to the different cultural, labor, and business realities (i.e. competitors or customer profiles) within the different countries where it is located to ensure the success of its global project.

Furthermore, franchises and partnerships are a key element of the DIA Group business. These associates are ambassadors of the DIA brand, and must be committed to ongoing excellence in quality of service and products, in keeping with the Company values.

In this regard, the General Human Resources Policy:

- Contains common bases and principles (i.e. symmetry with business goals, digital transformation), to be considered by the Group as a whole, in keeping with the business cycle stage of each area.
- Acknowledges the existence of idiosyncrasies in the different societies, countries and businesses forming the DIA Group and the need for flexibility in its local adaptation to certain policies (i.e. recruitment, communication, etc.).
- Establishes the directives applicable to the human resources area, to recruitment, and agreement signing with franchises and other partners, always in compliance with business needs, commitments reached and in accordance with the prevailing legislation at each particular time and country.

The purpose of all of this is to enable the:

- Recruitment, training and development of expert professionals;
- Integration of all professionals into the values and culture of the organization;
- Guarantee of a first-rate, stable, and safe employment;
- Design of a relevant offer to the employee throughout his or her working life;
- Promotion of long-term commitment with pride in belonging;
- Raising of awareness with regard to customer value;

Action timeline

The General Human Resources Policy is based on the following seven areas of action which guide the DIA Group commitment to job creation and people management:

- Recruitment and hiring of professionals
- Equality and diversity
- Talent management and development
- Work-life balance
- Safe and healthy working environment
- Commensurate income

Recruitment and hiring of professionals

The DIA Group believes that the recruitment and hiring of the best professionals is critical to its company success and in integrating people into the values and culture of the organization ("DIA profile"), which involves:

- Commitment to employment stability and the promotion of hiring locally. A balance is to be achieved between personal needs and the values defining the DIA Group;
- Efficacy in recruitment processes, ensuring their professionalism and quality throughout the organization;
- Assessment and recruitment of candidates in accordance with the desired profiles, based on strict objective criteria of merit and capacity, and ensuring transparency and professionalism of the process with equal treatment of all candidates;
- Coherent job description and appraisal, with objective criteria;
- Profile specialization in keeping with corporate reality;
- Horizontal and vertical mobility for professionals to cover internal vacancies in their own or a different area of the business.

Equality and diversity

In the DIA Group respect for people stems from an open, inclusive, and collaborative working culture based on merit, where team work is rewarded and people are encouraged to perform their best.

The DIA Group respects prevailing legislation in all countries and centers of work, and promotes equal opportunities, non discrimination in the workplace, cultural diversity and respect for human labor rights, which involves:

- Compliance with prevailing labor laws and best practices in equality and employee diversity;
- Acknowledgment of different abilities, ensuring equal opportunities and promoting the integration of all employees (people with different abilities) and the most disadvantaged groups;
- Promotion of equal opportunities and equal pay for all employees within the organization;
- Awareness-raising and sensitization of employees through the development of initiatives and joint projects promoting equality and diversity in the labor force.

Talent management and development

The DIA Group job assessment system continuously and distinctively manages and develops the talents of the DIA Group employees. This is a basic tool for consistently developing the mechanisms of people management to fit in with the realities of the organization, enabling it to:

- Identify and acknowledge the value an employee and his or her different functions may offer at the different levels of company structure;
- Provide the organization with a flexible tool with which to carry out the integration and reorganization processes to better respond to customer demands;
- Detect needs and provide opportunities for international mobility;
- Participate in continuous training and development of skills, in accordance with business and customer needs;
- Be transparent, professional, and dynamic in company talent development procedures;
- Implement and develop a talent management system;

- Implement and develop a succession plan for core-ability posts and professionals within the organization;
- Implement and develop a plan for identifying high-potential individuals in the organization;
- Develop positive aspects which have an effect on the high performance of employees through the implementation of action plans;
- Foster internal mobility opportunities through a global vacancy system;
- Assess performance and the establishment of incentives for harnessing and retaining talent;
- Actively listen and involve employees.

International mobility in the DIA Group is a tool for expansion and professional development. The DIA Group promotes international mobility processes in addition to its commitment to the development of local talent and employment, and promotes the spread of knowledge and subsequent location, thus controlling the costs associated with these relocations.

Work-life balance

The DIA Group recognizes the need for a balanced working environment which takes into account employees' personal and working lives. This leads to better performance in the workplace in addition to increasing pride in belonging to the organization, through:

- An open and transparent working culture based on confidence, understanding, and commitment between professionals;
- The establishment of a working environment where professional, personal, and family lives may coexist harmoniously.
- The development of certain initiatives and benefits for employees to ensure their well-being.

Safe and healthy working environment

The DIA Group is aware of the importance of health and safety at work for all employees and collaborating third parties. It therefore promotes a safe and healthy working environment in all areas of the organization, through the following commitments:

- Compliance with prevailing legislation and best practices in health and safety;
- Diligent action in individual protection and that of those who form part of the DIA Group environment, including suppliers and associates;
- Reduction in the rate of accidents and an improvement in security in all value chain stages;
- Implementation, development, and securing of necessary prevention measures in the organization;
- Promotion of a culture of prevention and well-being through awareness and constant training of employees throughout the organization;
- Fostering of all employees' participation in the promotion of health and safety, cooperating jointly to increase the organization's safety standards;
- Monitoring of employee health with regards to workplace-related risks;
- Improvement of employee well-being through healthy behavioral habits;
- Demand for compliance of the safety regulations established by the DIA Group from suppliers and associates, involving them in the risk-preventative culture established in the organization.

Commensurate income

The DIA Group maintains a remuneration policy aimed at attracting, motivating and retaining a workforce capable of meeting all its business challenges. The DIA Group pursues the right balance of excellence among its employees through a carefully executed indemnity process comprising:

- A remuneration system based on the principles of balance and positioning in keeping with market forces, which acknowledges employee abilities, responsibilities, merits, and performance;
- The assurance of transparency and equal salary policies for the same jobs;
- A competitive salary base which complies with legislation;
- A variable salary based on short and long term incentives to promote business goal accomplishment and challenging personal objectives;
- The linking of a major part of the DIA Group Management salary to value creation objectives, aligning remuneration with shareholder interests and medium term strategic plans;
- The incorporation of best practices and directives from corporate investors and other international bodies, for the administration and design of remuneration;
- The drive to offer a benefits package to employees in keeping with local particularities.

Labor relations

The DIA Group recognizes the right of its employees to both freedom of association and the right to collective bargaining within the established legal frameworks of the company sector environment.

Furthermore, the DIA Group promotes a culture of continuous representation and dialog with all of its employees, both individually and collectively. The Group aims at firsthand knowledge and understanding of any concerns and of the level of satisfaction, to ensure long-term company success.

Responsibility and implementation

The DIA Group Board of Directors approves the General Human Resources Policy and adheres to it, ensuring its respect for legislation and internal regulations relating to the people who form part of the organization.

The DIA Group Human Resources strategic plan will establish the specific objectives and define the specific actions to be accomplished in the short, medium, and long term.

The DIA Group has a flexible, transparent, and constantly evolving human resources management system enabling it to adapt to a fast-changing business climate.

The system is supervised by senior management and is able to achieve organizational coherence, appreciate strategic issues and manage the workforce through common criteria.

Grupo DIA cuenta con un Sistema de Gestión de los Recursos Humanos flexible, transparente y en constante evolución para adaptarse a una realidad empresarial cambiante.

El Sistema está supervisado por la Alta Dirección y permite alcanzar la coherencia organizativa, reconocer los asuntos estratégicos y gestionar a las personas bajo criterios comunes.

Scope and outreach

The General Human Resources Policy is applied to all companies and countries forming part of the DIA Group.

The contents of this Policy must be complied with by all persons forming part of the DIA Group. Awareness and outreach of this Policy is therefore dependent on the communication tools available within the organization.

For further information: [DIA Corporate](#)

Corporate Policy

DIA establishes that in its relationships with Customers it must maintain a high commitment to honesty and professional responsibility.

Respecting commitments acquired with customers, honesty in both written and verbal relations and acting with integrity in all professional activities are objectives that have to be fulfilled.

General Principles

- The company's commitment to customers/society. Brand values: transparency, closeness and quality, as well as humanity and equality, and how they lead towards responsible advertising with stable principles of action.
- Commitment to the truth and not mislead customers. Generally speaking, DIA's message is addressed to adults in a way that is transparent and comprehensible to them.
- Our marketing and advertising practices shall conform to the laws and the decisions imposed by the authorities regulating the sector.
- We show respect for the ethics and specific values of society through our marketing and advertising programs.
- We recognize that the purchasing decisions of a customer may be influenced by advertising and believe that we can facilitate decision making by providing information without exerting an influence in one direction or another. The purpose of the DIA advertising message is to inform and raise awareness of the benefits of our range of products and services.
- We believe in the right to privacy and the lawful processing of customer information and, accordingly, all of our communication practices (off line and digital) comply with the legislation in this area.
- We maintain an ethical position in regard to advertising, environments and contexts that encourage the development of arguments concerning gender equality, sex, violence offensive behavior, discriminatory treatment towards other people, or in which the environments are not consistent with our corporate image, taking into consideration market standards and practices.
- DIA forms part of the Spanish Advertisers Association and is guided by the principles published by this association relating to the commercial communication of its brands. It also forms part of Autocontrol, entity that guarantees consumers legal, truthful and responsible communication. Consequently, DIA adheres to what has been established as good practice in commercial communication by the sector's main bodies. In each country in which it operates, DIA will observe the good communication practice identified by the leading advertising associations or, otherwise, market practices and uses.

Specific guides

The principles that govern our communication to customers, regardless of the means, are the following:

Legality

No mainstream media or relational DIA communication should be unworthy of the service which advertising provides to the market whose good operation it shall contribute to.

We submit ourselves to full compliance with laws and regulations, including retail sector-specific regulatory guides.

Our communication must respect current laws and especially the values, rights and principles recognized in laws.

Good faith

Our communication should never be a means to abuse the good faith of our current or potential Customers.

Misleading advertising

Our information will always be truthful and never misleading. Misleading advertising is understood to be advertising that in any way deceives or is likely to deceive those to whom it is addressed and which may change their economic behavior, whenever it has an impact on any of the following aspects:

- The existence or nature of the good or service.
- The main characteristics of the product, such as its availability, benefits, risks, execution, composition, accessories, method and date of manufacture or provision, delivery, fitness for purpose, usage, quantity, specification, geographical or commercial origin or the results to be expected from its use, or the results and material features of tests or checks carried out on the good or service.
- After-sale customer assistance and complaint handling.

- The extent of DIA's commitments, the motives for the commercial conduct and the nature of the commercial transaction or contract, as well as any statement or symbol indicating that DIA or the good or service are the object of direct or indirect sponsorship or direct or indirect approval.
- The price or the manner in which the price is set, or the existence of a specific price advantage.
- The need for a service, part, replacement or repair, and the modification of the price initially informed, unless there is a subsequent agreement between parties accepting this change.
- The nature, characteristics and rights of DIA, such as its identity and solvency, qualifications, situation, approval, affiliation or connections and its ownership of industrial, commercial or intellectual property rights or any awards and distinctions it may have received.
- Legal and conventional rights of the consumer or risks the latter might face.

Advertising will also be regarded as misleading when it omits information that the person to whom it is addressed needs in order to take an informed transactional decision and in doing so may materially distort the consumer's economic behavior. Our goal is to provide our customers with all the information they require for making purchasing decisions.

In this way, consumers will take into account all the features and circumstances of the advertising, as well as the limitations of the communication medium used. Where the medium imposes limitations of space or time, these limitations and any measures taken by the business person or professional to convey the necessary information by other means will be taken into account in deciding whether information has been omitted.

The visual presentation of our products will show as accurately and objectively as possible the reality and actual characteristics of the product, including size, content, health benefits and nutrition.

The word "new" (or similar) may not be used in regard to a product or presentation that has been on the market in the country for more than two years.

And when we say that someone is a DIA customer, they really are

Our communication will always conform to law, ethics and truth.

Aggressive communication

Our communication shall not be aggressive. Aggressive communication is understood as that which is likely to significantly impair the freedom of choice or conduct of those to whom it is addressed, by harassment, coercion, including the use of physical force, or undue influence and, consequently, affects or may affect the consumer's economic behavior.

Exploitation of fear

Our communication will not use arguments that take advantage of fear, distress or superstitions of those to whom it is addressed. Advertisers may resort to fear as long as it is proportionate to risk, in order to encourage prudent behavior or discourage dangerous, imprudent or illegal actions.

Non-incitement to violence

Our communication will not incite violence, or suggest that there are advantages in violent or abusive behavior.

Non-incitement to illegal behavior

Our communication will not incite (or be based on) illegal behavior.

Respect for good taste

Our communication shall not include contents that cause offence against prevailing standards of good taste, social decorum and good custom.

Dangerous practices and security

Our communication shall not allude to discriminatory situations, whether in regard to race, nationality, religion, sex or sexual orientation, nor will it infringe people's dignity. In particular, it will avoid communication that could be degrading or discriminatory for women. In our messages, we will present balanced gender roles and power relationships.

The right to dignity and honor

Our communication shall necessarily respect the right to honor, intimacy and personal image.

We do not use concepts that exploit painful or unfortunate personal situations, offensive behavior, vulgarity or bad manners.

Protection of children and adolescents

If the occasion arises to communicate to children, we must proceed with extreme caution. Such communication must not exploit the naivety, immaturity, inexperience or natural credulity of children and adolescents, or their sense of loyalty.

Advertising addressed to children or adolescents, or which is likely to influence them, shall not contain statements or visual presentations that could cause them moral, physical or mental harm.

Animal Protection

If animals are used in our communication, this shall never entail any type of abuse or cruel treatment.

Health protection

Advertising will avoid inciting its recipients, especially adolescents, to acquire habits/behaviors that could be harmful to their health.

We will not encourage the excessive consumption of any product line or category, or promote inactive, sedentary or unhealthy lifestyles or habits.

We are committed to communication that always encourages a healthy and active lifestyle.

Health protection

Advertising will avoid inciting its recipients, especially adolescents, to acquire habits/behaviors that could be harmful to their health.

We will not encourage the excessive consumption of any product line or category, or promote inactive, sedentary or unhealthy lifestyles or habits.

We are committed to communication that always encourages a healthy and active lifestyle.

Comparative communication

Comparative communication must respect the principles of fair competition. Therefore, it may not directly or indirectly discredit or speak ill of competing companies and products. In any case, comparisons should address analogous, relevant and objectively demonstrable aspects and, in general, should not mislead the persons to whom they are addressed.

Comparative advertising, whether direct or indirect, must respect the requirements shown below:

- The goods or products compared must have the same purpose and meet the same needs.
- The comparison must be made in objective way between one or more essential, relevant, verifiable and representative features of the goods or services, among which price may be included.
- In the case of products with designation of origin, geographical indication, specific designation or guaranteed traditional specialty, the comparison may only be made with others with the same designation.
- Goods or services cannot be presented as imitations or replicas of other goods or services to which a protected trade mark or trade name applies.
- The comparison may not infringe the provisions on misleading, denigrating or confusing acts, or exploitation of the reputation of others.

Common characteristics

We will not suggest that our products or services possess characteristics which are particular to them when these are common to similar products or services.

Exploitation of the prestige of others and imitation

Our communication shall not contain, either explicitly or implicitly, any reference to the distinctive signs of another advertiser, other than in legal or conventionally permitted cases or in the case of acceptable comparative advertising.

Advertisements will not imitate the general outline, text, slogan, distinctive signs, visual presentation, music, or sound effects of other national or foreign advertisements, even if the campaign has come to an end, when any of these items are protected by industrial or intellectual property rights or the advertising may create a risk of confusion among consumers, or involves taking unfair advantage of the effort or reputation of others.

Denigration

Our practices shall not implicitly or explicitly discredit or denigrate other companies, activities, products or services.

Product availability

Products or services may not be offered that cannot be provided or rendered, unless the advertisement states the time or delivery period or when the service can be rendered. DIA will make every effort to guarantee the availability of products at the stores, working diligently to replenish stocks as soon as possible.

Scientific corroboration

All of the products we sell contain the nutritional information corresponding to total content and to 1 serving.

All content referring to the benefits of the product, as well as all health and nutritional claims, must be substantiated by tests, facts or evidence, in accordance with the regulations in this area.

All the information and advertising statements must be correct, scientifically substantiated, true, objective and balanced and should reflect the current state of knowledge. All statements must be adequately referenced, unless they specifically reflect product information approved by the competent Health Authorities.

Where the promotional material refers to published studies, these should be faithfully reproduced or a clear reference should be provided that makes them easy to consult.

We do not invoke the idea that consuming our brands or purchasing at our store will lead to social or sexual success.

Proof of allegations

Responsibility for proving the accuracy of the statements and allegations contained in the advertising rests with the advertiser.

Technical information

When technical, scientific or statistical data are disseminated in our communication, these shall be relevant and verifiable, and leave no room for error with regard to the individuals or legal entities, the nature of these or other supporting circumstances.

Comparative tests

The dissemination of comparative tests of products and services shall disclose the identity of the individuals or legal entities conducting them, as well as the date on which they were performed. In the case of partial dissemination, this should be carried out in an equitable manner.

Testimonials

When advertising includes recommendations and/or testimonials, that is, assertions from parties not connected to DIA and who are not acting as spokespersons for the latter, whether they are paid or not, these must be truthful, both in regard to the person recommending/testifying and the content of the recommendation and/or testimonial. DIA shall have the written authorization of the person testifying and bears the burden of proving the truth of the advertisement. Such communication may only be used as long as the above conditions are held to be valid.

Guarantees

Our communication shall not contain any reference to a guarantee that does not improve the legal position of the purchaser. The communication may contain the words "guarantee", "guaranteed", "certified" or words having the same meaning provided that it does not deceive or is likely to deceive the consumer regarding the scope of the guarantee.

Prizes, contests, promotions

For each strategic alliance with suppliers or partners, we will choose the attributes of the relationship that best reflect our image and reputation.

The conditions and mechanics of promotions, contests and special offers will be communicated in a clear and simple manner.

The promotions will not encourage the over-consumption of a product, but rather will respond to a scheme that respects an average consumption frequency of the same.

Contest rules will be published in a clear, complete and concise manner and impartial judges will be assigned to determine the winners.

The compulsory communication information will be clearly expressed and easily understood by the general public.

Promotional advertising, such as contests or similar operations, will clearly indicate the main conditions of participation and the duration. Under no circumstances will it conceal the necessary conditions for obtaining the prize or the costs implicit in its receipt or for participating in the promotion.

Sampling

The main objective of giving out free samples is to raise customer awareness of the product and its organoleptic characteristics, in accordance with the spirit of current legislation.

Campaigns with social cause

When our communication refers to the participation of an advertiser in a charitable act or campaign, it shall scrupulously respect the principles of truthfulness and good faith.

The following rules shall also be observed:

- The advertiser shall disclose, explicitly, unequivocally and without being misleading, the extent of its participation in the corresponding charitable act or campaign.
- If the communication refers in any way to a solidarity organization, it must have the consent of the latter and shall respect the instructions it gives or the conditions under which it concedes the authorization.

Investor Relations Communication

The Board of Directors in exercising its supervisory functions shall promote and protect the exercise of the rights of shareholders, institutional investors and markets, according to the following principles:

- Responsibility, diligence and transparency in disseminating information, with regard to interest groups and in the handling of relevant and privileged information, at all times in accordance with that provided by law, the Internal Conduct Regulation and other internal regulations of the Company.
- Equal treatment, promotion and protection of the rights and interests of shareholders. In no case may there be discrimination for the purpose of providing information that may place certain shareholders in a privileged or advantageous position with regard to other shareholders.
- Proactivity in providing information. It shall promote making information available to interest groups for the purpose of providing the most current and complete information possible on the Company.
- Attention and cooperation with interest groups. The Company, through the Department of Investor Relations and via the corporate website (www.diacorporate.com), shall implement the communication and contact actions required to ensure that shareholders, institutional investors and voting advisers have identified partners and the means necessary to easily access Company information on a regular basis.

Communication Procedure And Approval Of Information

The Company, as a listed company, is subject to compliance with certain obligations on information and dissemination, which must be implemented through the CNMV.

The Company, aware of the importance of complying with its information and dissemination obligations, has established an internal procedure in order to strengthen the fluidity and authenticity of information and to ensure the transparency and security of approval channels for the purpose of managing to ensure compliance with the aforementioned obligations.

In accordance with the legal provisions, the Company has established the following criteria regarding: (i) the information subject to communication, (ii) those responsible for the communication and (iii) the approval process.

Information Subject to Communication

The Company shall communicate to the market, accurately, fully and neutrally, and in compliance with the securities market regulation, the following:

- **Relevant Facts:** Relevant Fact as a concept shall be understood to be any event which may positively or negatively affect the legal, economic or financial position of the Company, with the Company itself being obliged to communicate any information which may affect investors in their analysis of acquisition or transfer of shares of a listed company.
- **Periodic financial information:** Within the periodic financial information being published, three types must be distinguished:
 - Annual financial information, which shall be published within the maximum period of four months from the end of the financial year.
 - Half-yearly financial information, which shall be published within a period of two months from the end of the financial year half. If the annual financial report referred to in the paragraph immediately above shall be published within the two months following the close of the previous financial year, the Company shall be exempt from elaborating and publishing the financial information corresponding to the second half of the previous financial year.
 - Intermediate financial information (quarterly), which shall be published within a maximum period of forty-five days from the end of the first and third quarter respectively.
- **Transactions performed with own shares (treasury stock):** The communication shall be made within a period of four trading days from implementing each transaction or each set of transactions that exceeds one per cent of the voting rights of the Company (in other words, when it reaches 1%, 2%, 3% and so forth).
- **Other information of interest:**
 - Results Notice. With the same regularity as corresponds to financial information listed in section b) regarding Financial information, the Company shall draft a results notice which summarizes the content of the financial information which must be published on each occasion, which shall be primarily intended for analysts and investors. This Results Notice shall be communicated to the market as a Relevant Fact prior to its publication.
 - Other information. Similarly, although it may not be considered relevant information from the perspective of applicable regulations, the Company may disclose any other information that it considers pertinent for unique knowledge of the Company by means of press releases, presentations made at meetings with investors, etc., with this disclosure being in compliance with the applicable regulatory framework.

Those Responsible for Communication

The Regulatory Compliance Director, in addition to being the partner assigned to the CNMV, among other duties, assumes the function of communicating Relevant Facts, financial information, information on treasury stock to the market, along with any other which must be disclosed in compliance with legal provisions.

The Regulatory Compliance Director shall appoint a deputy for cases when, due to any circumstance, it may be necessary to substitute him or her in order to comply with the communication obligation.

The communication shall be made through CIFRADOC/CNMV, which is the encryption and electronic signature system used by the CNMV for the electronic transfer of documents. The publication of Relevant Facts must be made as soon as the fact is known or the decision is adopted, and this publication must be made preferably before the opening of the stock market or after its close.

Approval Process

Prior to its transfer to the CNMV, via CIFRADOC, the information being sent must be submitted to the Managing Director and the Corporate Executive Director responsible of the Financial Department for their joint approval. Once this approval is obtained, the Regulatory Compliance Director shall proceed with its electronic transfer. If any of the two latest were absent, it will be substituted by the Board of Directors' Chairwoman or by the Compliance Officer if the latest was absent too (both, the Chairwoman and the Compliance Officer will be responsables if all the initial responsables were absent).

Subsequent to its publication on the CNMV website, the same information shall be published on the Company's corporate website (www.diacorporate.com)

Communication And Contact Channels

The Company must be equipped with sufficient human and technical resources to exercise the communication and contact function with their interest groups in addition to the channels of disseminating information, both public and corporate, among which the following must be noted:

Website of the Comisión Nacional del Mercado de Valores and other regulatory bodies

The principal information channel is the CNMV website (www.cnmv.es) as well as, if applicable, the channels established by other foreign authorities and supervisory bodies, for swift dissemination.

Company website

The official communication channel of the Company with its shareholders and the financial market is its corporate website (www.diacorporate.com) where the information is updated continually. Through this channel, the Company monitors the information which may be of interest to shareholders and other interest groups, which enables, in general terms, immediate and easy access to the information.

For the purpose of achieving the widest possible dissemination, the information released by the Company shall be provided, as far as possible, in Spanish and English, with the Spanish version prevailing in the event of any discrepancy.

The presentation of periodic financial results, and other significant economic and financial presentations, such as the "Investor's Days", shall be simultaneously broadcast via the Company's website, and where appropriate, the relevant channels shall be made available to interested parties to ask questions and request clarification.

Investor Relations Management

The Investor Relations Management together with the Managing Director and Corporate Executive Director responsible of the financial department of the Company, are those responsible for communication and management of queries made by analysts, institutional investors and shareholders, and for this purpose there is an email address (investor.relations@diagroup.com) and a contact telephone number which is stated on the corporate website and in documentation issued by this Management to interested groups.

For the purpose of voting advisers or proxy advisers having the most complete Company information available at the time of issuing their respective voting recommendation reports, the Investor Relations Management and the Regulatory Compliance Director of the Company shall maintain the contact details which are deemed necessary.

Food Quality and Safety Policy

The DIA Group is aware of its responsibility to maintain the quality and safety of its products, and considers it fundamentally important to establish general principles to guide the company's activity in this area.

The purpose of the Quality Policy is to express the following commitments:

- Create trust in consumers by supplying safe, quality products.
- Comply with current law in every one of the countries in which the DIA Group is present.
- Guarantee adequate production conditions for our products and certify our suppliers via food safety audits or by requiring market-standard IFS/BRC audits.
- Guarantee the genuineness, quality, and safety of the products we sell via the definition and implementation of an annual Control Plan that includes internal quality controls of products upon receipt and analyses in accredited laboratories.
- Maintain the quality and safety of our products throughout the supply chain by monitoring storage, transport, and sales processes.
- Offer consumers complete and transparent information on our product labels so as to encourage them to buy in both our brick-and-mortar and online stores.

To work with clear commitment to improve continually and to promote understanding and dissemination of the quality policy within our organisation via internal training and communication channels.

Risk Management Policy

The purpose of this document is to define the DIA Enterprise Risk Management Policy and include the key principles as a basis for its adequate performance. On the other hand, it is briefly explained the taken methodology in order to achieve an effective Risk Management that helps to the attainment of business objectives set by the Management.

The Corporate Risk Management is a process that must be developed by the Board of Directors and be supervised by the Audit Committee. However, the correct implementation of a Risk Management and Control System requires the involvement of all Organization staff.

The Enterprise Risk Management Policy is applicable to all companies and territories where DIA operates.

The Management decisions in all of its activities have an influence in the creation of value, from the establishment of the strategy to the Company daily operations. The last one is maximised when strategy and objectives are established with an optimal balance between growth and profitability targets and the associated Risks.

In the implementation of the Corporate Risk Management System, DIA should consider all their activities at the different organizational levels, from those at Group level to the business units and processes. The System should be applicable at the following levels.

The entire Organization plays an important role in the objectives achievement related to the Risk Management System. The approach of Risk Management Model is therefore comprehensive, systematic and is applicable to all companies and territories where DIA operates



Methodology

A Risk Management Integrated Model improves the Organization's ability to manage uncertainty scenarios. It is a systematic and detailed approach that allows the Organization to identify events, assess, prioritize and respond to Risks associated with its main objectives, projects and operations.

The DIA Risk Management process is based on the methodological standard COSO II, Risk Management methodology generally accepted and adapted to DIA needs. This methodology allows DIA to identify, create, capture and sustain the value of Risk Management at the different levels of the Organization.

The methodology establishes three dimensions for analysis:

- Organization Objectives.
- Levels of the organization.
- Where the Risks may materialize and therefore need to be included in the Risk Management Model.

Dimensions in Risk Management



The components in the Management process of the Organization are:

- Internal environment: Management establishes the Risk Management philosophy, determining the level of risk accepted.
- Setting objectives: it is necessary to know the objectives of the Company in order to identify potential events that may affect their achievement.
- Event identification: it must be identified potential events that may impact DIA. In this sense, it will be considered events, from internal and external sources, that may affect the achievement of the objectives, distinguishing between those that mean a Risk and those which represent an Opportunity.
- Risk assessment: Risks are analysed by assessing their probability and potential impact on objectives achievement.
- Risks responses: identify and evaluate possible responses to Risk: avoid, accept, reduce or share.
- Control activities: based on Risk responses, establishing policies and procedures to ensure that they are carried out.
- Information and communication: information obtained from the analysis must be communicated to the implementation responsible.
- Supervision: Risk Management is supervised, so that they can be adapted in case of change of circumstances.

Concept of risk

DIA defines Risk as any contingency, internal or external that in case of materialisation would prevent or difficult the achievement of the objectives set by the Organization.

The DIA Risk Management identifies the different types of risk, financial and non-financial (including operational, technological, social, environmental, political and reputational) facing the Organization, including among the financial or economic risks, fiscal risks, contingent liabilities and other risks present off the balance sheet risks.

Depending on their nature can be classified into Inherent and Residual:

- **Inherent Risks:** Risks related to the nature of business and the Company whose valuation does not take into account existing Organization Controls to mitigate them.
- **Residual Risks:** Risks related to the nature of business and the Company that, remain after the existence Organization Controls to mitigate them.

Each Risk is assessed in terms of probability and impact. DIA considers that a Risk arises as lost Opportunities and / or strengths as well as a materialized threat and / or enhancement of a weakness.

Key principles

The five key principles of DIA Risk Management are:

- In order to achieve the strategic goals, Risks must be managed throughout the all Organization with no exceptions. It is necessary all Organization involvement in the Risk Management System.
- The Risk Management includes identification, assessment, response, follow up or monitoring and reporting according to the established procedures.
- DIA Risk Management should ensure the existence of adequate measures to mitigate the impact of the identified risks, in the event of materialization. The Risk responses should be consistent and be widely adapted to the circumstances of the business and economic environment.
- The Executive Committee (COMEX) will, among other things, evaluate annually the assessment of the main DIA Risks, including the fiscal risks, and review the Risk Tolerance level established.
- Periodically, a monitoring and reporting will be done considering the identification activities, assessment, responses, follow up or monitoring and reporting according to DIA Risk Management Model.

The DIA Risk Management ensures the existence of adequate internal control systems to manage and control the aforesaid risks, including contingent liabilities and off balance sheet risks.

Responsibilities

The Board of Directors, Audit Committee and DIA Management are responsible for the proper functioning of the Risk Management Model.

The Board of Directors is responsible for approving and setting the Enterprise Risk Management Policy. Management is responsible of its implementation, and for establishing the strategy, culture, people, processes and technology that make up the Risk Management Model.

The Executive Committee (COMEX) is responsible to set the level of risk that the organisation considered acceptable (risk appetite), to be approved by the Board of Directors ultimately.

The Audit Committee is responsible for monitoring and periodically reviewing the effectiveness of DIA Internal Control procedures, Internal Audit and Risk Management Systems, verifying the adequacy and completeness of them.

DIA has established a Risk Committee at Corporate level, and has designated a Corporate Risk Coordinator responsible for communication and coordination of meetings and the collection of information and reporting of it. The Coordinator also acts as interlocutor with the countries in the field of Risk Management.

Each country must establish its own Risk Committee.

Each Area Director is responsible for managing (in his/her area) the Risks appropriately. In the case of a Risk occurrence (at one of the areas), the Area Director will be responsible for managing and implementing adequately the necessary mechanisms in order to minimize the impact as much as possible.

The Risk Committee will evaluate later, whether the response after the occurrence of Risk was correct or not, and whether it has been detected the necessity of implementing new Controls or response mechanisms.

Risk Committee

The Risk Committee is composed by the Risk Coordinator (at the quarterly meetings of the Corporate Risk Committee, the Corporate Risk Coordinator will act on behalf of Country Risk Coordinators, reporting to the Corporate Risk Committee the information received from them on Risk Management) and a responsible for each of the functional lines (Area Directors):

- | | | |
|----------------------------|-------------------|-----------------------------------|
| • Franchise | • Human Resources | • Sales |
| • Expansion | • Legal | • Supply Chain |
| • Master Franchises | • Finance | • Quality Control |
| • Organization and Systems | • Fiscal | • Technical Direction and Central |

- Supply
- Trade & Merchandise
- Internal Audit
- External Relations
- Security
- Strategic projects

In its task of Risk Management, the Risk Committee will held quarterly meetings and maintain, apart from the additional duties assigned by DIA, the following basic responsibilities:

- Analysis of the environment and new projects that may directly or indirectly influence the Risks of DIA. Consideration of the inclusion of new Risks and / or disappearance of any of the existing ones.
- Action plans recommendation, monitoring and continuity of existing Action Plans.
- Security

Additionally to the quarterly meetings, annually, the Risk Committee should conduct an assessment and detailed Key Risk Map analysis.

The findings and information from the analysis of the Risk Management Model must be reported to the Management regularly. Additionally, the Risk Committee shall inform to the Management, if relevant topics are detected in its analysis. Finally, Management may request the results report of the Risk Committee.

Supervision of key principles and Enterprise Risk Management Policy

The Audit Committee and Internal Audit, taking into account their responsibilities and independence, are the competent supervisors of Risk Management Control System.

Internal Audit will supervise the Control System and Risk Management. This supervision task involves the review of the entire process, including the performance of the Enterprise Risk Management Function and the effectiveness of Control activities. The results of this supervision will be reported to the Audit Committee.

Risk Appetite, Risk Tolerance

The DIA approach is based on three basic elements and its proper alignment with the Enterprise Risk Management process:

- **Business Objectives:** Strategic & Operating goals of DIA.
- **Risks:** Any situation or event, which may jeopardise the achievement of an objective.
- **Controls:** Management actions and responses put in place for the Risks.
- Controls: Management actions and responses put in place for the Risks.
- Proper alignment between Business objectives, Risks and Controls based on the level of Risk Tolerance and Risk Appetite of DIA.

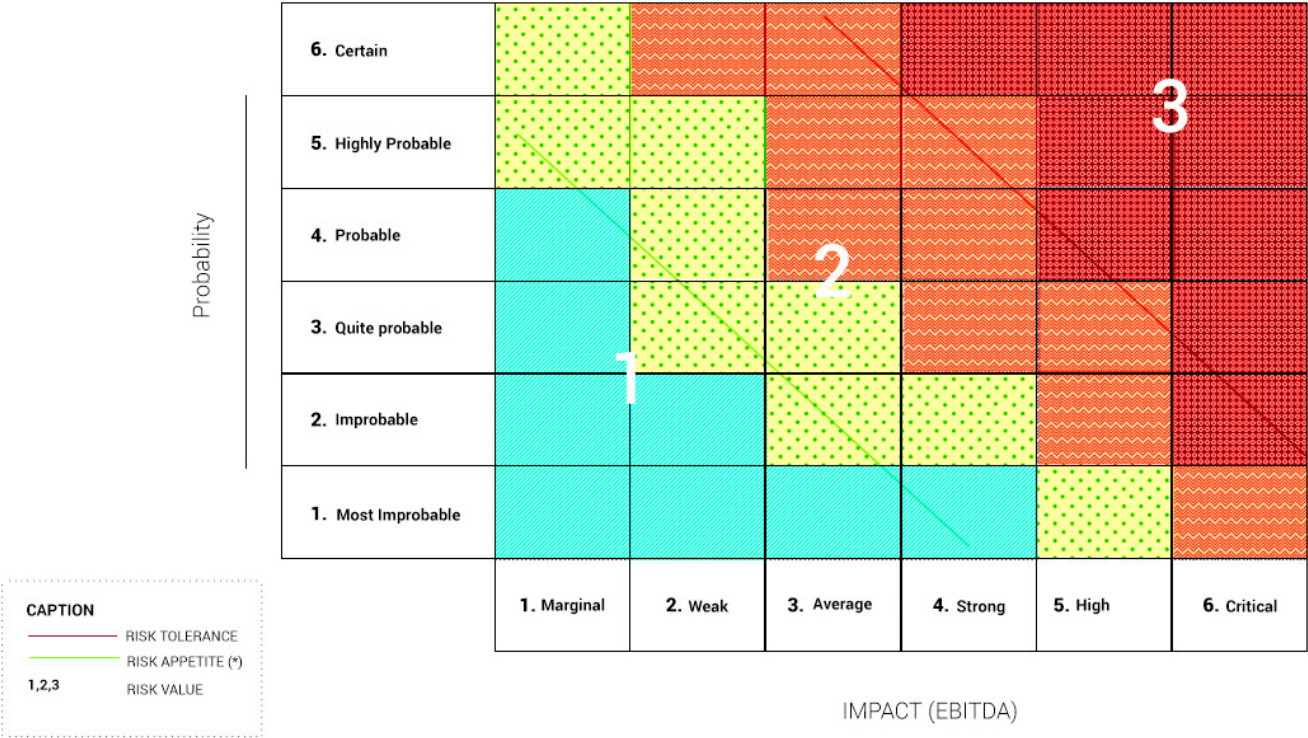
Risk Appetite is defined as the desired level of risk that DIA takes to achieve its objectives. It is considered in the strategy that has been defined by the Executive Committee and validated by the Board of Directors.

Risk Tolerance is defined as the acceptable level of variations is willing to accept regarding the pursuit of its objectives. It is the specific maximum risk that the Organization is willing to take. It is Management's responsibility to define the risk tolerance.

The risk appetite and the risk tolerance are annually reviewed and presented to the Board for approval.

Once the risk appetite and the risk tolerance are defined, these should be compared with the risk value. There are three different possible situations:

DIA RISK EXPOSURE



Example

Situation 1

Risk Value < Risk Appetite < Risk Tolerance

The risk value is within the desirable and acceptable risk levels of the company.

Action Plans:

Keep the present situation considering the possibility of taking more risk.

Situation 2

Risk Appetite < Risk Value < Risk Tolerance

The risk value is out of the desirable risk levels but within the acceptable risk levels of the company.

Action Plans:

Take measures to mitigate risk adjusting it to the Organization risk appetite, otherwise approve to maintain the risk value out of the risk appetite in order to achieve the business objective.

Situation 3

Risk Appetite < Risk Tolerance < Risk Value

The risk value is out of the desirable and acceptable risk levels of the company.

Action Plans:

Management must analyze the situation and the necessary action plans to reduce the risk value at least within the acceptable risk levels.

Regarding the risk appetite, the Board of Directors must continuously have sufficient information of the entire Organization for a proper decision-making.

Environmental Policy

The DIA Group is aware of its responsibility toward the environment and considers it fundamentally important to establish general principles to govern the management and planning of the company's activities that integrate energy efficiency and sustainability criteria.

The purpose of this policy is to express the DIA Group's commitments in this area:

- Comply with current environmental law in every one of the countries in which the DIA Group is present.
- Promote responsible use of resources.
- Apply sustainability and eco-design criteria as we develop our products and packaging.
- Manage the waste generated via a prioritisation model that favours prevention, reuse, recycling, and recovery.
- Take measures to reduce greenhouse gas emissions.
- Work actively to identify opportunities to improve by developing and implementing environmental auto-diagnostic procedures.
- Encourage our personnel via training and awareness campaigns to actively help implement these commitments.

To work with clear commitment to improve continually and prevent the Group's activities from impacting the environment.

External Relations Policy

The DIA Board of Directors approves the corporate social responsibility policy, whose principles include creating and maintaining fluid and responsible communications with interest groups.

Communications with shareholders is included in investor relations. Communications with employees is included in the company's HR policy. Communications with customers and the media with regard to advertising is included in our marketing and public relations policy.

Communications with the media with regard to the provision of information, and also communications with public administrative authorities and third parties not included in the paragraph above are included in this present document.

In conformity with the stipulations in our CSR policy, our external relations policy promotes reaching the objectives the company has specified in its strategic plan and achieving a better market position.

Basic principles

- Information provided to the media, regulatory bodies, and any associative network, regardless of its social purpose, shall be based on transparency, accessibility, freedom of expression, equal treatment, and mutual respect.
- The following are the tools to guarantee information is transmitted fluidly to the media: the corporate webpage, which shall always be duly kept up to date, the press room, press releases, personal and group meetings with interested media, and the social network communications channels whenever possible.
- Relations with regulatory bodies are maintained via bilateral meetings or the company's representative sectorial associations. All meetings with regulatory bodies shall maintain the principles of legality, respect for competitive freedom, and political neutrality. In addition, when conducting such relations, all company employees shall follow the DIA Group code of ethics principles expressed in the anti-corruption policy.
- Relations with associative networks, whether they be sectorial or public, shall be conducted with respect for the interests of both parties, liberty of expression, and transparency.

The company has developed a monitoring system that uses indicators to assess the degree to which this policy is being followed.

Tax

DIA's tax strategy is essentially oriented to ensuring responsible compliance with the tax regulations in such a way that takes into account the company's interests and helps achieve the DIA Group's business strategies.

DIA acknowledges the social function of the tax system and wishes to ensure that its corporate interests and the interests of its stakeholders (e.g. shareholders, customers, franchisees, employees and suppliers), its social and corporate responsibility, and the trust placed in DIA in the communities where it operates receive due consideration in the course of the development of its tax function.

The goals, principles and good tax practices that make up DIA's tax strategy must guide its decision-making process at every level, and the actions of DIA Group companies in accordance with Section 5 below.

Guiding Principles

DIA's compliance with its tax obligations will be governed by the following principles:

- DIA will comply with all tax legislation and regulations that are applicable to it in the jurisdictions in which DIA carries out its business and will pay all taxes due.
- DIA's tax strategy will be based on a reasonable and responsible interpretation of tax laws. Accordingly, DIA will seek to ensure that the application of the tax regulations is well founded in law, especially when they are unclear or subject to interpretation.
- DIA will endeavour to ensure that decisions affected by tax legislation are taken at the appropriate level.
- DIA will endeavour to promote good faith, transparency, collaboration and reciprocity in its relations with the tax authorities, according to the law and without prejudice to the defence of its legitimate interests and, where appropriate, of the reasonableness of its interpretation, and will endeavour to reach agreement and consensus with the tax authorities to resolve possible conflicts.
- DIA will develop a Risk Management Policy and establish a system to control and manage tax risks, aiming to prevent and minimise significant tax risks.
- DIA is committed to adhering, in the course of its business, to good tax practices that aim to reduce significant tax risks and prevent conduct capable of generating such risks. In particular, DIA will adhere to the good tax practices set out below.

Good Tax Practices

DIA will direct its activity to pursuing the following good practices:

- DIA does not use opaque corporate structures or those situated in tax havens to hide relevant information from the tax authorities.
- DIA will avoid the use of contrived investment structures for tax purposes.
- DIA will avoid abusive practices aimed at avoiding paying tax or obtaining undue tax advantages.
- DIA acknowledges the utility of legal instruments such as tax rulings and agreed prior assessments provided for in the tax regulations to determine the applicable tax treatment, where reasonable, depending on the available legal instruments, the matter at stake and the timeframe.
- DIA will provide the tax authorities with the information they required in accordance with statutory procedures and in the shortest time reasonably possible.
- DIA will endeavour to minimise the costs of compliance with its formal tax obligations that arise from the application of the tax provisions in force.

Monitoring And Control

DIA will integrate the tax dimension in its risk control and management system to evaluate and efficiently manage tax risks that may arise in the performance of its activity. To this effect, DIA will endeavour to establish defined criteria for the detection, evaluation and management of tax risks and encourage and promote smooth communication between the tax department and the rest of DIA's departments, to ensure the evaluation of relevant tax aspects in the decision-taking process, the supervision process and the evaluation of compliance.

For this purpose, DIA will allocate sufficient human and material resources to ensure the correct functioning of the tax risk control and management system.

The Audit and Compliance Committee, according to the provisions set out in its Regulation, will supervise the effectiveness of the tax risk control and management system and inform the Board of Directors about related issues regulated by law.

Promoting And Updating

DIA will work to ensure that the principles and policies set out herein inspire and enlighten the actions of all the companies of the DIA Group, subject to the necessary adjustments to the jurisdictions in which those companies operate.

This is intended to be a long-term strategy that may nonetheless be modified and updated as necessary to adapt it to applicable regulations or in accordance with instructions from the competent body within DIA.

Franchise Relationship Policy

The general principles of the policy for relationships with franchises are the same as the company's values: effectiveness, initiative, respect, team spirit and customer focus. The relationship that DIA has with its franchisees is based on DIA's code of ethics, which is available on its corporate website at www.diacorporate.com.

The guiding principles for development and the relationship with the franchise are the following:

- The DIA group's franchising activity is undergoing constant further development, including with regards to compliance with the law of each country, the accuracy of information shared, and the fulfilment of the agreements signed with the franchisees, their legal and financial independence, as well as the ability to organise and manage their staff effectively.
- The company offers an effective business model, which was previously applied to the company's own shops, as well as the innovations made by DIA in its different formats.
- The goal of the relation with the franchise is as follows:
 - **Constant improvement**
 - **Teamwork**
 - **Customer recognition**

Such service takes place using a system that utilises a number of channels and tools and that is characterised by responsibility, seamlessness and two-way communication. The communication tools are: franchise satisfaction surveys, the franchise webpage, newsletters, focus groups and the personal relationship between DIA as a company and its franchises, without these tools posing any limitations to the development of new communication channels.

- The training, support, assistance and ongoing consultation for the franchisee are always focussed on allowing his or her business to develop and improve.
- The resolution of disagreements is based on goodwill, communication and negotiation from both sides, promoting a dialogue and solutions for reconciliation.
- DIA recognises the franchisees' contribution to the success of the company and to the invigoration of the local economy and employment.

The company conducts other types of business such as the export of products or the assignment of trademarks which, although not constituting a franchise business, is governed by the same basic principles as those set out in this policy.

Crime prevention and anti-corruption policy

The crime prevention and anti-corruption policy has the objective of defining and establishing the operating principles and rules of conduct that should govern the actions of the administrators and employees of the DIA Group in the course of their duties in relation to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

This policy is applicable to all employees and administrators of the DIA Group, and is published on the corporate web page www.diacorporate.com and will be applicable until the board of directors of DIA approves its update, revision or repeal.

Principles of Action

The principles of action of the crime prevention and anti-corruption policy are as follows:

- Comply with current legislation and with internal regulations, acting in accordance with the values and the Code of Ethics of the DIA Group.
- Promote a culture of fighting corruption and crime prevention, applying, to the fullest extent, the principle of "zero tolerance" to corruption described in the Code of Ethics of the DIA Group.
- Provide the necessary human and material resources so that, in an efficient manner, the work of promotion of this policy can be carried out, as well as implementing the methods for the prevention and detection of illegal actions.
- Implement the models for oversight and prevention of crimes and anti-fraud systems for all of the companies that are included within the DIA Group.

- Analyse and investigate, as quickly as possible, any report on conduct that is contrary to the Code of Ethics or external or internal regulations, applying the principles of confidentiality, non-reprisal, and protection of personal information for all persons affected by the investigation process, with particular attention in relation to the reporting and reported person.
- Collaborate and cooperate with the State's security forces and any judicial or administrative body, in relation to the investigation of alleged criminal acts by the administrators and employees of the DIA Group.
- Incentivise the use of the ethics channel for consultation and information that the DIA Group has made available to employees and third parties, in order to be able to report on possible criminal actions or those that are contrary to the Code of Ethics.
- Provide suitable ongoing training in relation to ethics and compliance, whether in person or through e-learning, to all of the administrators and employees of the DIA Group, placing special emphasis on the fight against fraud and corruption.
- Impose relevant disciplinary measures on persons responsible for conduct that is corrupt or contrary to the Code of Ethics, and on those who, with their behaviour, cover up or prevent the investigation or clarification of the allegedly criminal actions, all of this in accordance with the penalty scheme applicable in each jurisdiction to each company of the DIA Group.

Implementation of the Crime Prevention and Anti-Corruption Policy

The suitable implementation of the crime prevention and anti-corruption policy has the objective of mitigating the risk of non-ethical and corrupt practices within the DIA Group.

In order to achieve this objective it will be necessary for the DIA Group to carry out the following actions:

- Approve a Code of Ethics and create a communications channel for consultation and ethical information that is a channel for communication and information in relation to behaviour that is contrary to the Code or which relates to corrupt practices.
- Design and implement a model for the prevention of crimes (Modelo de Prevención de Delitos, MPD) within all of the companies of the DIA Group located in Spain.
- Design and implement an anti-fraud program.
- Design and implement a program for regulatory compliance.
- Implement a system for the management of risks, with particular oversight of regulatory compliance risks, actions that are corrupt or contrary to the Code of Ethics and in relation to the criminal responsibility of legal entities.
- Carry out "due diligence of compliance" in strategic and corporate operations.

Code of Ethics and channel for consultation and information

The DIA Group possesses an instrument that enables it to put a comprehensive compliance policy into practice, guiding employees through example with particular methods of conduct or behaviour, the Code of Ethics of the DIA Group.

The Code establishes and outlines five principles of conduct, the first of them highlighting “compliance with standards, both external, such as laws and regulations, as well as internal, which are included in policies, procedures and control mechanisms,” and the second “the fight against corruption.”

The Code, as well as the rest of the rules of the DIA Group, must be complied with obligatorily by all employees.

Starting from the premise that what is important is not the existence of a code but rather that it be understood and observed, within the DIA Group there is an Ethics Committee at a corporate level and an Ethics Committee (hereinafter “Committee”) within each country or jurisdiction.

The corporate and country Committees have, among their principal tasks, that of facilitating the dissemination and implementation of the Code, ensuring that it is observed, understood, and followed, as well as implementing, assessing, and reviewing the models or programs for the prevention of crime and the fight against corruption.

The DIA Group has an Ethics Channel for consultation and information (by electronic mail and postal address) at a corporate level and at the level of each jurisdiction in which the Group operates, in order to clarify queries on interpretation and in order to analyse, investigate and resolve possible violations of the Code or corrupt actions.

Violations of the Code will be analysed and dealt with by the corporate and/or country Ethics Committees in accordance with their operating protocol and will be resolved in accordance with the applicable internal and external regulations.

Model for the Prevention of Crimes (MPD)

The companies of the DIA Group based in Spain have implemented a MPD which identifies and assesses the risks of committing crimes associated with each area and activity of the corporate structure which can result in criminal liability for the legal entity, as well as the respective regulations, procedures, and control mechanisms for the identification and prevention of the commission of said crimes.

The purpose of the MPD is to establish the most appropriate internal control procedures and policies in order to prevent the omission of illegal acts, and when applicable, to be able to exempt the companies of the DIA Group from liability, in accordance with the provisions of the current Organic Law 1/2015 of 30 March 30, which modifies Organic Law 10/1995, 23 March of the Penal Code.

Anti-fraud and corruption fighting program

The companies of the DIA Group will have an anti-fraud and corruption fighting program which identifies and assesses the risks of corruption and fraud in relation to their activity, as well as the associated control mechanisms for the prevention and detection of the commission of corrupt and fraudulent practices. As a consequence of this program, the DIA Group will have a fraud risk matrix that analyses them in relation to their frequency and impact, which should incorporate the existing control mechanisms in order to avoid said conduct.

Compliance procedures for the various regulations that affect the DIA Group

The DIA Group has the responsibility of identifying, assessing and minimising the legal risks, continually complying with the applicable regulatory framework and reporting on compliance with legal obligations to the internal persons who are responsible for operations.

In order to suitably carry out the duties of identification of the regulatory framework and of supervising compliance with it, the DIA Group has implemented a procedure for regulatory identification and monitoring.

Each company of the DIA Group has a “regulations map” which identifies and describes all of the regulations that apply to DIA, with particular emphasis on the key legislation for the principal processes of the supply chain.

In order to carry out this function, the DIA Group has established a procedure for monitoring and updating the regulations which defines the internal and external resources, responsibilities and tools needed in order to carry out this task and to achieve the dual objective of having an updated regulatory map and an organisation that is informed on its legal obligations.

Due Diligence of compliance

For all strategic and corporate operations in which any company of the DIA Group intervenes it will be essential, prior to the formalisation of the operation, to review the current status, in the area of compliance in which the company subject to purchase or merger is found, or the partner, legal entity or individual with which it is intended to enter into a joint venture, commercial, or strategic agreement.

Oversight and Review

The Ethics Committee has, among its main duties, to facilitate the dissemination and implementation of the Code, safeguarding its observance, understanding and compliance, as well as implementing, assessing and reviewing the models for the prevention of crimes and fight against corruption.

The Ethics Committee should keep a record of all of the communications received through the ethics channel, including the information for the respective investigations and the results of these investigations.

On an annual basis, a report will be submitted to the Auditing and Compliance Commission of the board of directors, which will provide consolidated statistical and detailed information at a Group level in accordance with the information received from each of the jurisdictions.

The Ethics Committee will control the implementation and development of the MPD in the companies of the DIA Group in Spain, the Legal and Compliance Department being responsible for coordinating and supervising the implementation and development of anti-fraud and corruption fighting programs in the other companies of the DIA Group that operate outside of Spain.

The Legal and Compliance Department will be responsible for the review of this policy on an annual basis, and will propose to the board of directors its modification or updating with the purpose of optimising the process of the fight against corruption and the prevention of non-ethical conduct.

A hand holding a black smartphone is positioned over a tablet. The tablet displays a still life painting of various fruits and vegetables, including lemons, limes, and green beans. The background is a dark, textured surface with several white buttons visible. A red horizontal bar is positioned behind the title text.

Activity Report

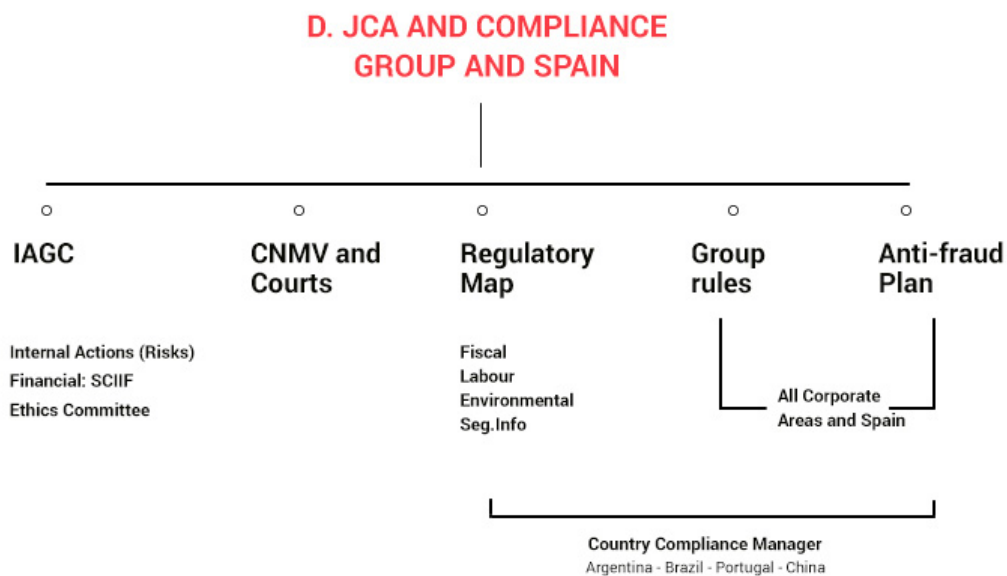
Corporate Governance

DIA

DIA compliance model

CORPORATE GOVERNANCE	INTERNAL CONTROL AND LEGAL SECURITY	FRAUD PREVENTION AND DETECTION
OBJECTIVES		
<p>To have a strict regulatory body in the area of Good Governance</p> <ul style="list-style-type: none"> UGA, CdA and RIQ Statutes and Regulations Issue of AGC, IAR and Relevant Facts Control of Securities and Treasury Stock operations and Privileged Information <p>Adoption of company agreements in accordance with the Law</p> <ul style="list-style-type: none"> Control and coordination of Subsidiaries Design of a framework for the delegation of safe powers (centralization of powers, joint signature and financial restrictions) (centralization of powers, joint signature and financial restrictions) 	<p>To have an internal control system and risk management that ensures an adequate control environment</p> <ul style="list-style-type: none"> Risk Management Control System Implementation of Regulations Internal Control (SCIIF + operations) Corporate and Local Insurance Programmer <p>Provide legal certainty to the company in business trade</p> <ul style="list-style-type: none"> Regulatory Map Contractual Control (standard model) Data Protection (Consultation Office) 	<p>To embody a culture of compliance through an ethical model for employees</p> <ul style="list-style-type: none"> Code of Ethics Crime Prevention Model (Spain) Anti-Fraud and Anti-Corruption Programmer <p>To have channels for the detection of bad conduct</p> <ul style="list-style-type: none"> Ethical Channel Forensic actions (DD in compliance in M&A)
AREAS RESPONSIBLE FOR SUPERVISION AND CONTROL		
<p>SECRETARY OF THE BOARD LEGAL COUNSEL AND COMPLIANCE DEPARTMENT</p>	<p>INTERNAL AUDIT FINANCIAL DEPARTMENT LEGAL COUNSEL AND COMPLIANCE DEPARTMENT</p>	<p>ETHICS COMMITTEES LEGAL COUNSEL AND COMPLIANCE</p>

DIA Compliance Structure



Governing Bodies

The DIA Group has a Corporate Governance and compliance system that ensures an environment of proper control and compliance with regulations, both external and internal. This involves a regulatory body adapted to the regulation of capital companies and to the stock market, and which is highly demanding in terms of compliance with the Good Governance recommendations.




This model is designed to fulfil the corporate objectives that are established within the Governing Bodies of the Group and protect the interests of all of its stakeholders in a transversal and transparent manner.

In 2016, the DIA Group worked on the implementation of a series of modifications of its internal Rules of Conduct to adapt them to the new standards on market abuse, as well as the implementation and start-up of an anti-fraud plan in each of the countries in which it operates.

Board of Directors

The DIA Group has a Board of Directors comprised of a total of 10 members, of which seven are independent, one executive and one classified as “other external directors”, in the case of the non-executive Chairwoman.

The composition Board of Directors, at 31 December 2016, is follows:

Positions	Date appointed	Election procedure
◆ Other External ◆ Executive ◆ Independent	🕒 First and last appointed	□ Co-optation □ Resolution of the General Shareholders' Meeting
		
<p>◆ □</p> <p>Ana María Llopis Rivas</p> <p>Non-executive Chairwoman</p> <p>05/07/2011 - 26/04/2013</p> <p>🕒</p>	<p>◆ □</p> <p>Mariano Martín Mampasso</p> <p>Vice-Chairman</p> <p>05/07/2011 - 26/04/2013</p> <p>🕒</p>	<p>◆ □</p> <p>Ricardo Currás</p> <p>Chief Executive Officer</p> <p>05/07/2011 - 26/04/2013</p> <p>🕒</p>



◆ □
Antonio Urcelay Alonso
Director
05/07/2011 - 25/04/2014
🕒



◆ □
Julián Díaz González
Director
05/07/2011 - 26/04/2013
🕒



◆ □
Richard Golding
Director
05/07/2011 - 25/04/2014
🕒



◆ □
Juan María Nin Génova
Director
15/10/2015 - 15/10/2015
🕒



◆ □
Ángela Spinder
Director
08/02/2016 - 08/02/2016
🕒



◆ □
Borja de la Cierva
Director
05/09/2016 - 05/09/2016
🕒



◆ □
María Luisa Garaña

Director

14/12/2016 - 14/12/2016



The main function of the Director is to supervise and submit for consideration all business matters of particular importance for the Group, generally relinquishing the ordinary management to the members of Senior Management.

DIA's Board is responsible for approving the Company's general policies and strategies, as well as approving the necessary tools for implementation, placing special emphasis on the strategic plan, management objectives and annual budget, as well as the investment and financing policy, the Company's fiscal strategy, the Good Governance policy, the remuneration policy, and performance assessment of the management team, among others.

Changes in the Board

In 2016, the Board of Directors of the Group undertook a series of changes in its composition as a result of the resignation of some of its members due to them taking on new professional commitments. This is the case of Rosalía Portela, who resigned from her position as independent director and, consequently, also as a member of the Audit and Compliance Committee.

Likewise, coinciding with the end of his term, Pierre Cuilleret, also an independent director and member of the Remuneration and Appointments Committee, submitted his resignation from the position due to new professional commitments.

As a consequence of this resignation, on 6 July 2016, the Board of Directors agreed to appoint Borja de la Cierva Álvarez de Sotomayor by co-optation as an independent director and member of the Audit and Compliance Committee.

On 14 December 2016, the Board of Directors also appointed María Luisa Garaña Corces by co-optation as an independent director of the company, who in turn will form part of the Audit and Compliance Committee as a member.

Committee

Remuneration and Appointments Committee

The Remuneration and Appointments Committee is made up of three members. An independent Chairperson and another member, also independent. In 2016, it met on **6 occasions**.

Name	Position	Type of position
Mr. Mariano Martín Mampaso	Chairman	Independent
Ms. Ángela Spindler	Member	Independent
Mr. Antonio Urcelay Alonso	Member	Independent

Audit and Compliance Committee

The Audit and Compliance Committee is made up of five members. An independent Chairperson and four other members, also independent. In 2016, it met on **6 occasions**.

Name	Position	Type of position
Mr. Richard Golding	Chairman	Independent
Mr. Julián Díaz González	Member	Independent
Mr. Borja de la Cierva	Member	Independent
Mr. Juan María Nin Génova	Member	Independent
Ms. María Garaña Corces	Member	Independent

All of the members of the Board of Directors are professionals with a strong executive profile and extensive experience in business relating to distribution and consumer goods.

DIA Group Management Committee

Name	Position
Mr. Ricardo Currás de Don Pablos	Chief Executive Officer
Mr. Diego Cavestany de Dalmases	Executive Manager of Operations Spain
Mr. Antonio Coto Gutiérrez	Executive Director Latin America and Partnership
Mr. Juan Cubillo Jordán de Urrés	Business Manager and Merchandise
Mr. Francisco Javier La Calle Villalón	Resources Corporate Director and Executive in China
Mr. Amando Sánchez Falcón	Corporate Director of Services and Executive in Portugal

General Shareholders' Meeting

DIA held a General Shareholders' Meeting in 2016 on 22 April. This meeting was attended in person or by proxy by 817 shareholders, representing ownership of 61.86% of the shares.

Quorums at the last General Shareholders' Meetings

JGA	Shareholders	Number of shares	%Capital
13 june 2012	In person	53	98,719,973
	By proxy	272	272,179,640
	Total	325	370,899,613
26 april 2012	In person	88	54,283,482
	By proxy	463	348,382,403
	Total	551	402,665,885
25 april 2013	In person	65	6,385,360
	By proxy	456	381,574,742
	Total	551	402,665,885
25 april 2014	In person	65	6,385,360
	By proxy	456	381,574,742
	Total	521	387,960,102
April 2015	In person	69	250,743,01
	By proxy	442	404,517,663

April 2016	In person	134	48,880,634	7.85%
	By proxy	683	336,192,892	54.01%
	Total	817	385,073,526	61.86%

During the General Shareholders' Meeting held on 22 April 2016, a report was given on the modification and subsequent approval of the Regulations of the Board of Directors of the Company for the purpose of incorporating the regulatory changes introduced by the Capital Companies Act following the approval of Law 22/2015, on Account Auditing, as well as to include certain technical improvements that enable clarification of certain matters, refine the language, and make it easier to understand.

This regulation is registered in the Commercial Registry of Madrid, and both this text and the explanatory report of the modifications approved are available on the Company's website.

Likewise, the Company's annual individual accounts were submitted for examination and subsequent approval, as well as the consolidated accounts with its subsidiary corporations, in addition to the individual management report and consolidated management report corresponding to the year ending 31 December 2015.

The Meeting also authorized the Board of Directors, with express power of delegation, for a maximum period of five years, to increase the share capital in accordance with the provisions of Article 297.1.b) of the Capital Companies Act, to up to half of the share capital on the date of authorization. It also authorized the Board to issue exchangeable debentures or bonds and/or convertible into shares of the Company.

Lastly, the General Shareholders' Meeting approved the Long-Term Incentive Plan (2016-2018) through the delivery of shares to directors of the Company.

Ethical channel

The DIA Group remains committed to compliance with current regulations at all levels, and it has control and monitoring tools in place that ensure the correct functioning and operation of all the stakeholder groups that form part of the company. These mechanisms are incorporated in the corporate management systems and are updated on a regular basis, ensuring a perfect balance between the best business opportunities and risk management.

With its corporate values (**Effectiveness, Initiative, Respect, Team and Customer**) serving as the foundation, the DIA Group has a Code of Ethics implemented in all the countries, where it draws up the conduct guidelines that must be followed by the people participating in the company's activity.

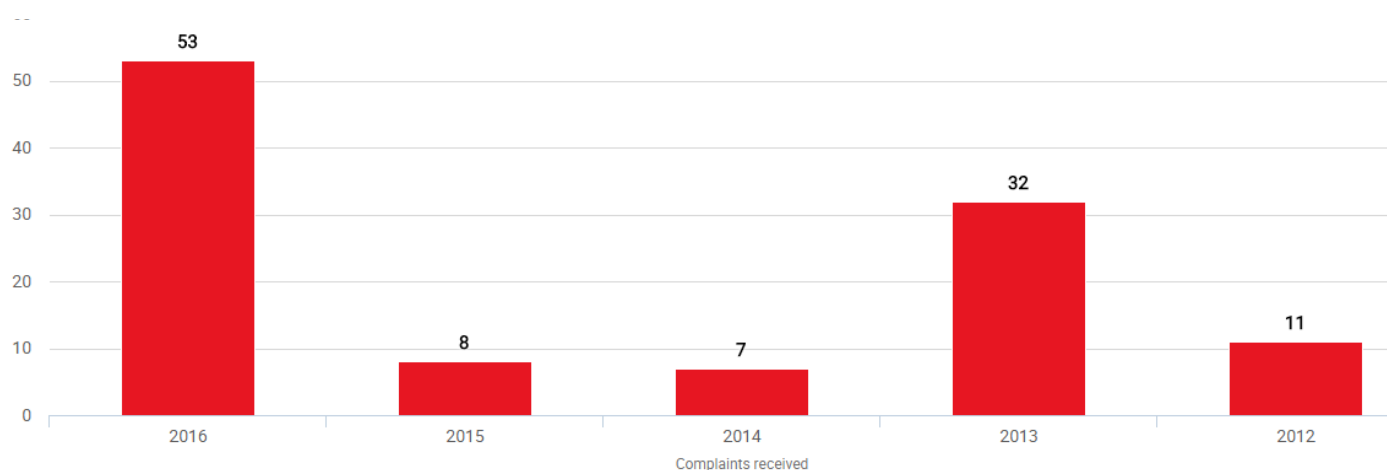
In previous financial years, it has worked on the modification and updating of its Code of Ethics, while deciding to open it up to other day-to-day players of the company, such as suppliers, franchisees and contractors. In 2016, the company worked on the dissemination and communication of this new version to raise awareness of the Code and of DIA's compliance model in all countries.

Through virtual training, **2,981 employees** have completed a course that explains the key points of this code in Spain and China. For the coming year, it is expected that this training will be continued in the rest of the countries. In turn, the Ethics Committee is responsible for managing matters arising under the Code of Ethics through its own channel, always with a guarantee of confidentiality, anonymity, and respect.



Quarterly, during 2016, the Ethics Committees of each country disclosed to the corporate Ethics Committee a detailed breakdown of the consultations and/or communications received in the immediately preceding quarter, indicating the reference or registration number, date of receipt, collective complainant (employee, franchisee, service or goods provider and others), the ethical principal infringed, assessment of reliability/accuracy of the facts that are the subject of the communication, current status of the file and, where appropriate, resolution of the same. Also, on an annual basis, a report is presented to the Audit and Compliance Committee, facilitating detailed consolidated statistical information at a Group level in accordance with the information received from each of the jurisdictions.

Use of ethical channel



Code of ethics

- **We comply with the rules and respect people.** Compliance with the rules and respect for people constitute the basis of our ethical behaviour.
- **We are ethical in our decisions and relations:** we say no to corruption. The DIA Group is aware that individual success is only possible as a collective. And collective success is only possible from an ethical standpoint.
- **We protect assets and information.** We are rigorous, professional people, loyal to the company. We make the best use of the assets and resources that the DIA Group places at our disposal, remembering that we must limit their use, in general, to strictly professional purposes.
- **We are committed to the customer and to society.** We compete fairly, avoiding manipulation, deceit or any other type of behaviour that might unduly place us in a favourable position.
- **We lead by example.** We are responsible for ensuring that our company maintains the ethical conduct that we desire. Our values and behaviour principles are not merely words, they must determine our behaviour every day.

In financial year 2016, the ethical and information consultation channel received a total of 80 communications, of which 53 were complaints and 27 were consultations. Of the 53 complaints, 46 were filed by employees (87%), 2 by suppliers (4%) and the other 5 (9%) were anonymous. At 31 December, 36 of the complaints had been resolved and 17 remain under investigation.

Of the complaints resolved, 24 were closed due to lack of evidence (67%); 9 were resolved with training and coaching actions for those reported (25%); disciplinary measures of dismissal were applied in two cases, including a director (5%); and the last was resolved upon communication of the voluntary resignation of the person against whom the claim was brought (3%).

Regarding consultations, 19 were raised by employees (70%), 6 by suppliers (22%) and 2 by franchisees (8%). At 31 December, 24 consultations were resolved and 3 remained under analysis.

Of the consultations resolved, in 11 the concerns were resolved directly by the Ethics Committee (46%); 7 were transferred to the management department, where the issue raised by the sender was clarified or solved (29%) and 6 were transferred to the Human Resources department in order to directly resolve the doubts of the employee (25%).

Internal control and compliance

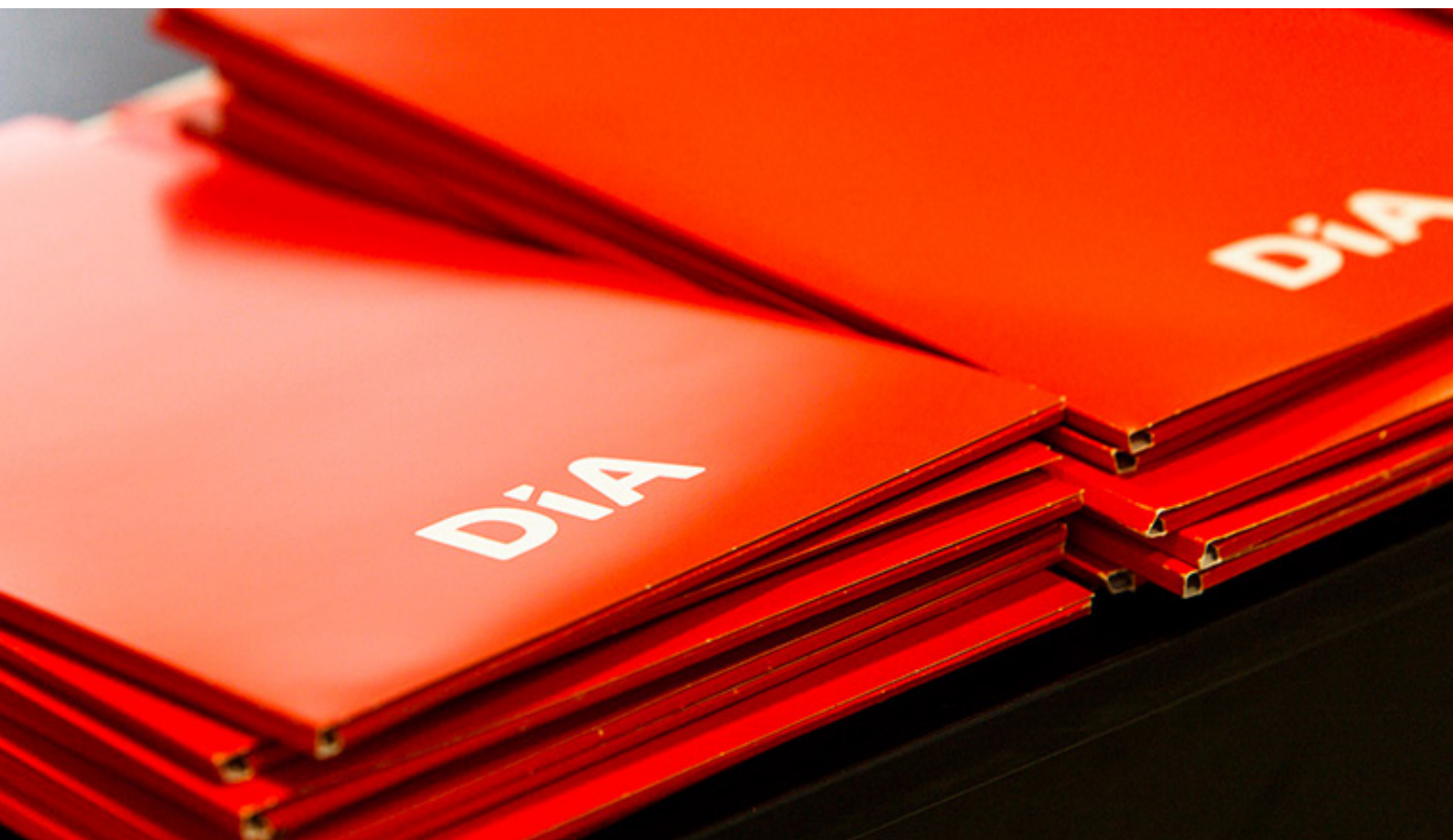
Adaptation of the Internal Code of Conduct

With the entry into force of the new standards on market abuse for listed companies, in 2016 the DIA Group updated its Internal Code of Conduct, with which it establishes rules for the management and control of the use of privileged information, treasury stock operations, and the transparent communication of relevant information.

The Internal Code of Conduct imposes obligations and limitations on the people affected and treasury stock managers, in order to protect the interests of its investors and avoid any type of abusive situation, while facilitating the participation of managers and employees in the capital of the company, in strict observance of current legislation.

Transparency and the fight against corruption

The DIA Group has developed and implemented a crime prevention model with the aim of establishing the most adequate internal control procedures and policies to prevent illegal offences being committed. In addition to analysing the activities of each business area to evaluate the risk of criminal activity in each one, the DIA Group has a Prevention Manager who reports to the Ethics Committee and to the Regulatory Compliance Manager.



In order to obtain greater control and security, the DIA Group analyses the activities performed by the different business areas and assesses the risk of each activity in regard to the possible commission of offences in terms of probability and impact, taking into account the controls already implemented. In 2016, the crime prevention model was the study of analysis and expert opinion of a consulting firm with experience in the field of forensics. Therefore, the model implemented by DIA has adequate and efficient control measures for preventing and detecting the commission of offences which could result in criminal liability for DIA.

The DIA Group also has an anti-fraud plan, new this year, which has already been implemented in all the countries in which the company operates. In this respect, in each country the company has a fraud risk matrix, which conducts an analysis in terms of frequency and impact and incorporates the existing controls to prevent such conduct. An anti-fraud manager has been designated who, in turn, is responsible for the prevention of offences.

During 2017, specific anti-fraud training will be given to employees in each country.

Control of financial information

The company has an Internal Financial Information Control System Policy (SCIIF) that covers the general description of the system and its objectives, roles and responsibilities, methodology for the development of the internal control of financial information, and risk management.

The SCIIF affects all levels of the organization and its maintenance is the responsibility of the Board of Directors, while its supervision is carried out by the Board's Audit Committee.

The DIA Group has documented the processes that may be considered to have a risk of material impact on the preparation of financial information, also covering the risk of fraud.

Process Map

During financial year 2016, for the purpose of strengthening the internal control system with an integral vision that not only contributes to reliability, but also to the effectiveness and efficiency of the operations, the "Process Map" of the Group in Spain has been defined.

This map identifies all the Spanish and Corporate processes and sub-processes and was approved by the Group Management Committee and presented to the Audit and Compliance Committee in September.

The "Process Map" provides a unique reference framework for the control and risk systems.

Regulatory Map

In each country where the company operates, the Legal Department has what is known as a "Regulatory Map", which identifies and details all regulations applicable to DIA, with special attention given to key legislation in the main supply chain processes, which has been classified in six sections:

- Legislation applicable to the product negotiation process, that is, in regard to DIA's relations with its service and goods providers, competitors, regulatory boards, and brands;
- Legislation applicable to the logistics activity, that is, the exercise of storage, distribution and goods transport activities;
- Legislation applicable to the wholesale and retail business;
- Legislation applicable to commercial premises, urban leases, horizontal property, local taxes, business hours;
- Legislation applicable to DIA's customer relations, personal data protection, consumption, payment method, advertising and sales promotions;
- Legislation applicable to DIA, as a listed company, in regard to the stock market and Internal Code of Conduct.

The Legal Department, in turn, is responsible for reporting to the rest of the areas or departments of the Company on the content and scope of new features and/or regulatory changes, designing and holding training sessions, either in person or via e-Learning, when the new legislation could have a significant impact on DIA's activity.

To carry out this function, the Legal Department has established a procedure for the monitoring and updating of regulations and communication, which defines the necessary resources, responsibilities and internal and external tools to perform this duty and achieve the twofold objective of having an updated regulatory map and an organization aware of its legal obligations.

This Regulatory Map is revised annually.

A hand holding a black smartphone is positioned over a tablet. The tablet screen shows a vibrant image of various fruits and vegetables, including lemons, limes, and green beans. The word 'DIA' is printed in white on the right side of the tablet's display. The background consists of a dark, textured sweater with visible buttons.

Activity Rport

Risk Management

Description of Risk system



The DIA Group has a Risk Management Model (RMM), which it uses to detect and respond to any incidents that could hinder the normal functioning of the institution, as well as the achievement of its objectives.

In keeping with the principles of its Risk Management policy approved by the Board of Directors, the company has an integral model applicable in all the countries in which DIA is present, which enhances the organization's ability to manage scenarios of uncertainty.

The DIA Group's risk management process is based on the **standard of COSO II**, risk management methodology generally accepted in the market that has been adapted to the specific needs of the company.

To implement this methodology, the DIA Group has an IT tool in the areas in which it operates, which standardizes and facilitates risk management.

Based on COSO II methodology, the DIA Risk Policy is governed by the following principles:

- **Risks must be managed throughout the organization**, with no exceptions for achieving the strategic objectives set. It is essential that the entire organization be involved in the risk management system.
- **Risk management includes the identification**, evaluation, response, monitoring or follow-up and reporting in accordance with the procedures designed for that purpose.
- **Responses to risk must be consistent** and broadly adequate for the business conditions and the economic environment.
- **The Risk Committee of the DIA Group must, among other duties, make an annual assessment of the main risks of DIA** and revise the risk tolerance level. This information gives rise to the annual updating of the Group's risk Map, as well as the risk maps of the countries that make up the Group. The key Risk Map is validated by the Management Committee.

Organization and responsibilities

The Board of Directors, the Audit and Compliance Committee and the DIA Group Management Committee are in charge of ensuring the good functioning of the Risk Management system.

Periodically, a report is given to the Audit and Compliance Committee of the Board of Directors regarding the activities of identification, evaluation, response, monitoring or follow-up and reporting.

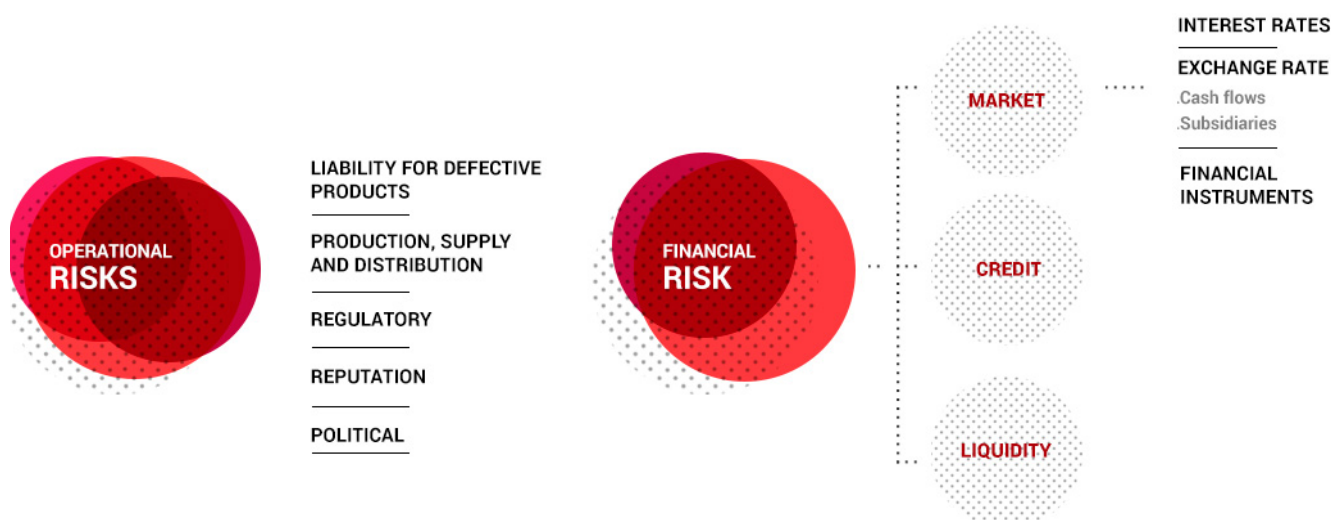
Each business unit has its own Risk Committee, in which all departments of the company are represented, with the director assuming direct responsibility for the management of each of the risks identified in his or her department.

These committees report directly to the DIA Group's Corporate Risk Committee and the Management Committee. They meet on a quarterly basis.

Types of risk

In the DIA Group, each country works on an average of 80 risks, among which around 20 have been identified as key risks for each country.

TYPES OF RISK - DIA GROUP



Operational Risks

Risk of liability for defective products

In order to minimize the risk of placing defective products on the market, the DIA Group guarantees the quality and safety of the products, both of its own-label products and national brands, through an advanced management programme certified under the ISO 9001:2008 standard, which affects all links of the supply chain, from the negotiation and development of each product up to its arrival at the store.

All processes and actions in regard to food quality and safety are described and developed in the corresponding chapters of this report.

With the same objective of mitigating this risk, the company also has an adequate insurance policy in respect of liability coverage for defective products.

The quality documents, in turn, establish supplier liability with respect to the safety and legality of the product.

Risks associated with production, supply and distribution

The products marketed by the DIA Group are manufactured or come primarily from the country in which the activity is carried out or from neighbouring countries. This implies a risk in those countries that are more exposed to situations of political and economic instability, acute labour conflicts, and possible contingencies arising from natural disasters.

Given that some of the products distributed are perishables, an inadequate assessment of demand or the inability to preserve the products in stock may complicate stock management and have a negative impact on the Group's operating results.

In regard to product distribution, the DIA Group has a series of transport and distribution contracts (activities entrusted entirely to third parties). Any significant interruption in the functioning of the transport network, or the bankruptcy of its suppliers and carriers, may cause delays in the distribution of products and potential shortages in the commercial establishments. Furthermore, failure to comply with tax obligations and Social Security by carriers may imply additional costs regarding possible subsidiary liability in those countries where provided for by law.

If these external suppliers and carriers do not make deliveries or perform their jobs, or experience delays in deliveries or in the performance of their tasks, as well as any extra costs associated with such delays or faults, this could result in additional expenses and have a negative impact on our activities.

The DIA Group has prepared a standard transport contract that it uses for hiring companies to handle the loading, transport and unloading of merchandise, which establishes, among other aspects, the obligation to comply with the internal rules established for the execution of the service both in terms of quality and prevention of occupational risks.

It has also established ongoing control to verify compliance by carriers of their tax and labour obligations, guaranteeing through regular checks that they are up to date in their payments at all times.

The DIA Group has a policy of diversification and distribution of volumes of each platform among a sufficiently large number of companies. Accordingly, a temporary problem affecting one of them can be quickly covered by the rest or by new companies, limiting the impact on the company's activity.

Regulatory risk

The DIA Group's business is subject to a broad spectrum of regulations (labour, environmental, fiscal, data protection, retail trade, franchise-related, food handling and safety legislation, etc.) in the different jurisdictions in which it operates. The differences between the applicable regulatory requirements in each jurisdiction may pose a significant challenge in operational terms, by requiring the DIA Group to adapt its business to different regulatory systems.

The DIA Group's operations can also be affected by regulatory changes applicable to it and, in particular, by regulatory changes affecting opening hours, the construction and opening of new establishments, price setting, and taxes. Any breach of the applicable regulations may result in the imposition of fines, penalties, administrative sanctions, and even potential sanctions of a criminal nature.

DIA is responsible for identifying, measuring and minimizing the legal risks, continuously monitoring the applicable regulatory framework and informing about compliance with legal obligations to the internal operations managers.

In order to develop and adequately comply with this function, the Group has an organizational structure comprised of a Human Resources Department, a Financial and Fiscal Department, and a Legal Department in all the jurisdictions in which it operates, which have the duty to identify the applicable regulations and supervise their compliance.

To adequately carry out the functions of identification of the regulatory framework and supervision of its compliance, the DIA Group has a regulatory map, which identifies and details all regulations applicable to the Group, with special attention given to key legislation in the main supply chain processes.

To carry out this function, the managers have established a procedure for the monitoring and updating of regulations and communication, which defines the necessary resources, responsibilities and internal and external tools to perform this duty and achieve the twofold objective of having an updated regulatory map and an organization aware of its legal obligations.

Likewise, the DIA Group has policies and procedures aimed at informing and training employees on certain behaviour principles and preventing and detecting inappropriate conducts. In this respect, it is important to mention the existence of the DIA Group's Code of Ethics and an Ethical and Information Consultation Channel, as well as the implementation of a crime prevention model in the Company.

Reputation Risk

The company faces reputational risks due to its public exposure. All impacts arising from such exposure are monitored and analysed on a regular basis. To minimize risks, the DIA Group has external communication rules and an External Relations Policy.

In 2016, a small group of ex-franchisees repeatedly visited different media to slander DIA. The effect of the appearances in the media or social networks could have a negative impact, although very limited, due to the small number of people and lack of legal backing in regard to their information.

DIA works to continuously improve its franchise network and, in the course of 2016, noted a positive trend in its annual franchise survey, as well as the commercial evolution of the network. The company has also worked to make society aware of the work and dedication of its more than 3,500 franchises in the countries in which it is present.

Political risks

The company has risks associated with the political management of market issues and interpretation of laws, as well as the corresponding risks that could arise due to delays or inconsistency with European regulations. These risks could result in negative reputational impacts or have an impact on its operational management.

In 2016, reactions of a political nature occurred in Spain in regard to DIA's commercial operations, which sought to benefit the consumer and were associated by the political environment with selling at a loss. This relationship could have caused reputational damage in spite of commercial success.

During 2016, the National Commission for Markets and Competition (CNMC) decided to take no further action in re-

lation to the complaint submitted by the FIAB and PROMARCA against the cooperation agreement of Eroski and DIA signed in 2015. However, only one day after the communication of the dismissal of this case, the Agency for Food Information and Control (AICA) notified the opening of disciplinary action for both companies due to alleged infringements of the Law on Measures to Improve the Operation of the Food Supply Chain, linked to the implementation of said agreement.

At the close of 2016, this situation was pending resolution.

Financial risks

Financial risk management is controlled by the Group's Financial Management. This management identifies, evaluates, and covers financial risks in close collaboration with the business units.

Market risk

A- Interest rate risk

The Group's interest rate risk arises from fluctuations in interest rates that affect the financial costs of long-term debt issued at variable rates.

The Group carries out various interest rate hedging operations to mitigate its exposure in accordance with its Risk Management Policy. At 31 December 2016 and 2015, there were no outstanding derivatives with external counterparts to cover the risk of long-term interest rate financing.

During 2016, the average percentage of hedges against the level of gross debt was 59.33% compared to hedges of 78.70% in the previous year.

Elsewhere, the group's policy regarding financial assets is to maintain their liquidity, making them available for use. These balances are held in financial institutions with the highest credit ratings.

Exchange rate risk

Operational: cash flows

Currency fluctuations, other than those of the local currency, can have a positive or negative impact on the consolidated accounts. The Group strives to minimize the risk through the negotiation of forward currency exchange contracts managed by the Group's Treasury Department. The sum of the hedging operations carried out in financial year 2016 was USD6.552m and USD5.359m in 2015. This amount represents 66.09% of the operations carried out in this currency in 2016 (98.38% in 2015). At the close of financial year 2016, current hedges in dollars reached USD1.803m (USD1.284m in 2015), with maturities in the next eleven months. These operations are not significant with respect to the Group's total purchasing volume.

Subsidiaries

DIA has various investments in foreign businesses, whose net assets are exposed to foreign exchange rate risk. Exchange rate risk on the net assets of the Group's foreign operations in Argentine Pesos, Chinese Yuan and Brazilian Reals are mainly managed through external resources denominated in the corresponding foreign currencies.

The exchange differences included in other comprehensive income are significant, due to the strong devaluations of the Argentine Peso and the Brazilian Real. The variation that would have occurred in the exchange differences, if the exchange rates of Group countries that use a currency other than the euro were to depreciate/appreciate by 10%, would have been +32.71% / -32.71%, respectively, in the net equity of the DIA Group.

Financial instrument risk

The Parent Company has "Equity Swap" contracts for an amount of EUR39.944m. At the close of 2015, this amount reached EUR42.266m. These operations are carried out to comply with the payment obligations resulting from the Long-Term Incentive Plan (LTIP) of the Group's Directors. They are described in note 16 of the report on the Consolidated Annual Accounts.

Credit risk

The Group does not have a significant credit risk. Active risk policies are maintained to ensure that wholesale selling is made to clients with verified credit solvency. Retail sales imply a lesser risk, since payment is made in cash or by card.

Cash and derivative transactions are made with Financial Institutions with high-quality credit ratings, with a minimum applicable rating of BBB. In countries where the rating is below that rating, it operates with local financial entities that are considered high credit quality by local standards.

In addition, cash surpluses are placed in high quality assets with maximum liquidity. The policy set by the Group's Corporate Executive Management is based on criteria of liquidity, solvency and diversification, establishing maximum amounts to invest by counterparty, within a maximum term of 90 days of investment duration and definition of the instruments for which the placement of surpluses is authorized.

The Group does not have a significant concentration of credit risk.

Liquidity risk

The Group applies a prudent liquidity risk management policy, ensuring compliance with payment commitments, both commercial and financial, for a minimum period of 12 months; covering financing needs through recurring cash flow generation of its businesses, as well as contracting long-term loans and financing facilities.

At 31 December 2016, liquid assets reached EUR1.258.1bn, including cash and other liquid assets and available credit lines.

A hand holding a black smartphone is positioned over a tablet. The tablet displays a vibrant image of various fruits, including lemons and limes, with the word 'DIA' in white capital letters. The background is a dark, textured surface, possibly a wooden table, with a blue buttoned shirt visible in the upper right.

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 EU-R10.500bn, 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 EU-R232.4m, 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%
<i>Non-recurring cash items</i>	<i>-73.0</i>	<i>-0.8%</i>	<i>-22.6%</i>		
<i>Incentive plans</i>	<i>-15.2%</i>	<i>-0.2%</i>	<i>246.8%</i>		
<i>Other non-recurring items</i>	<i>-9.5</i>	<i>-0.1%</i>	<i>-59.3%</i>		
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.

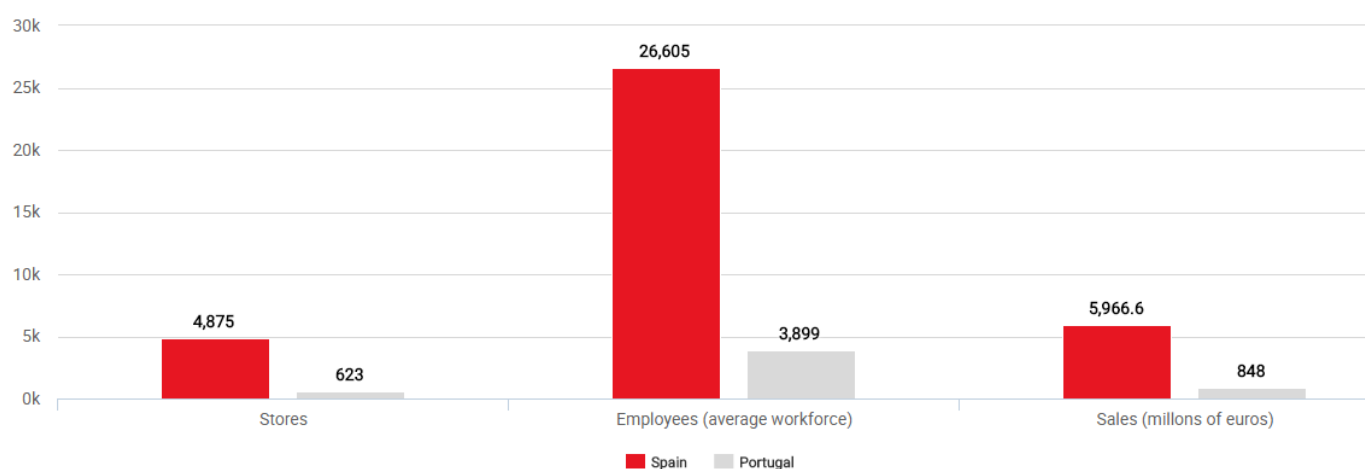
Iberia

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%.



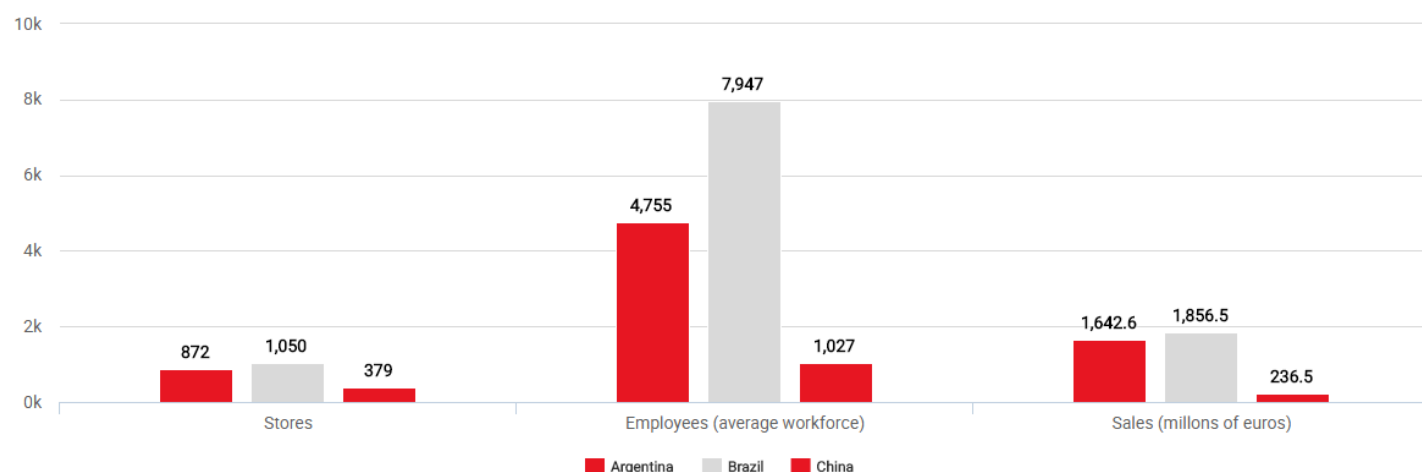
Thanks to the appreciation of the Brazilian Real against the euro at the end of 2016, the negative effect of currency in the growth of gross sales under banner decreased significantly in the fourth quarter, to 16.5% from the 28.3% accumulated during the entire financial year.

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.

A hand holding a black smartphone is positioned over a tablet. The tablet screen shows a still life image of various fruits and vegetables, including lemons, limes, and green onions. In the bottom right corner of the tablet screen, the letters 'DIA' are displayed in a white, bold, sans-serif font. The background of the image shows a person wearing a dark, textured sweater and a blue button-down shirt.

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		

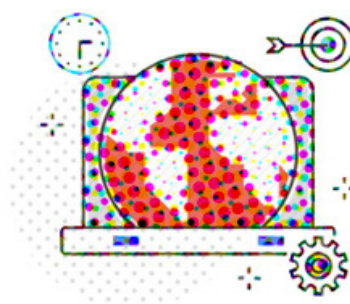
Progress in omni channel

Online Commerce



ENSEÑAS

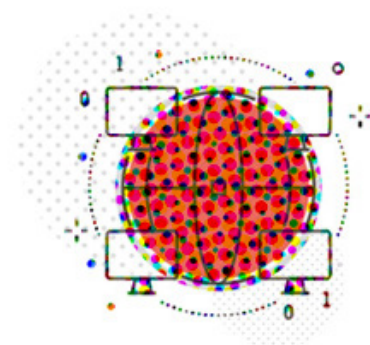
DIA.es/laPlazadeDIA.es
Clarel.es
Oportunidades DIA
Diatiantian.com (China)



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.

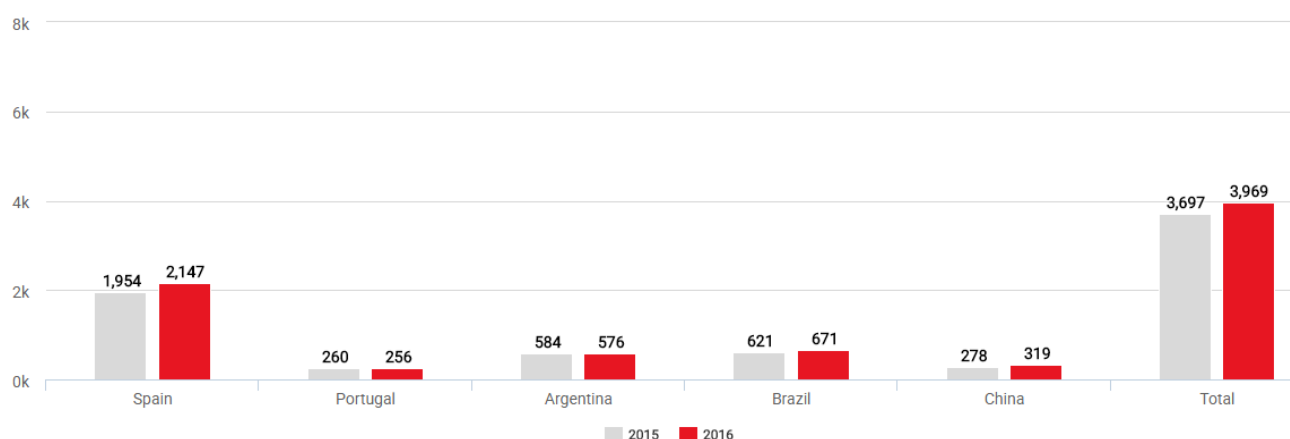
More franchises every year

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.

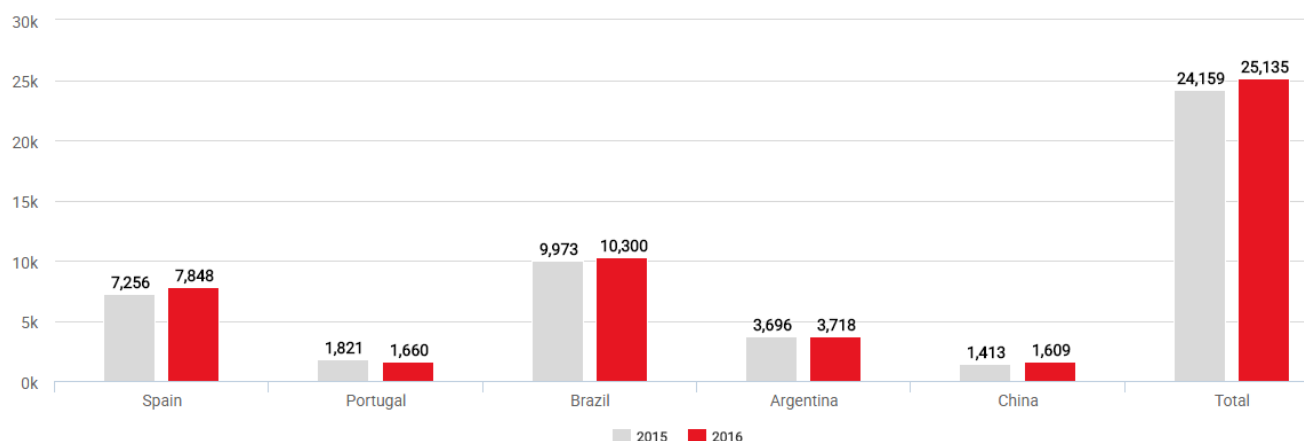
By region, in 2016, franchises accounted for 43% of stores in Iberia (Spain and Portugal) and 68.1% in emerging countries (Argentina, Brazil, and China).

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.



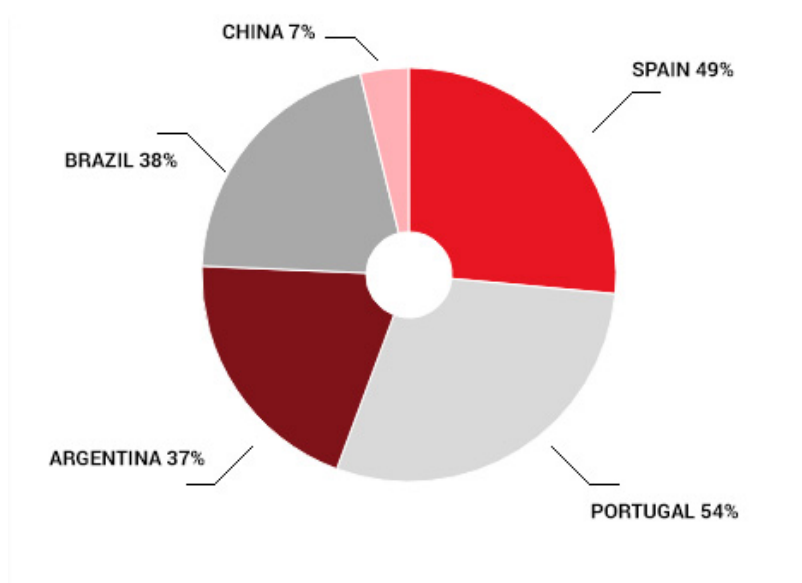
This is the banner for baby and child care. At the end of 2016, it had more than 230 SKUs.



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.

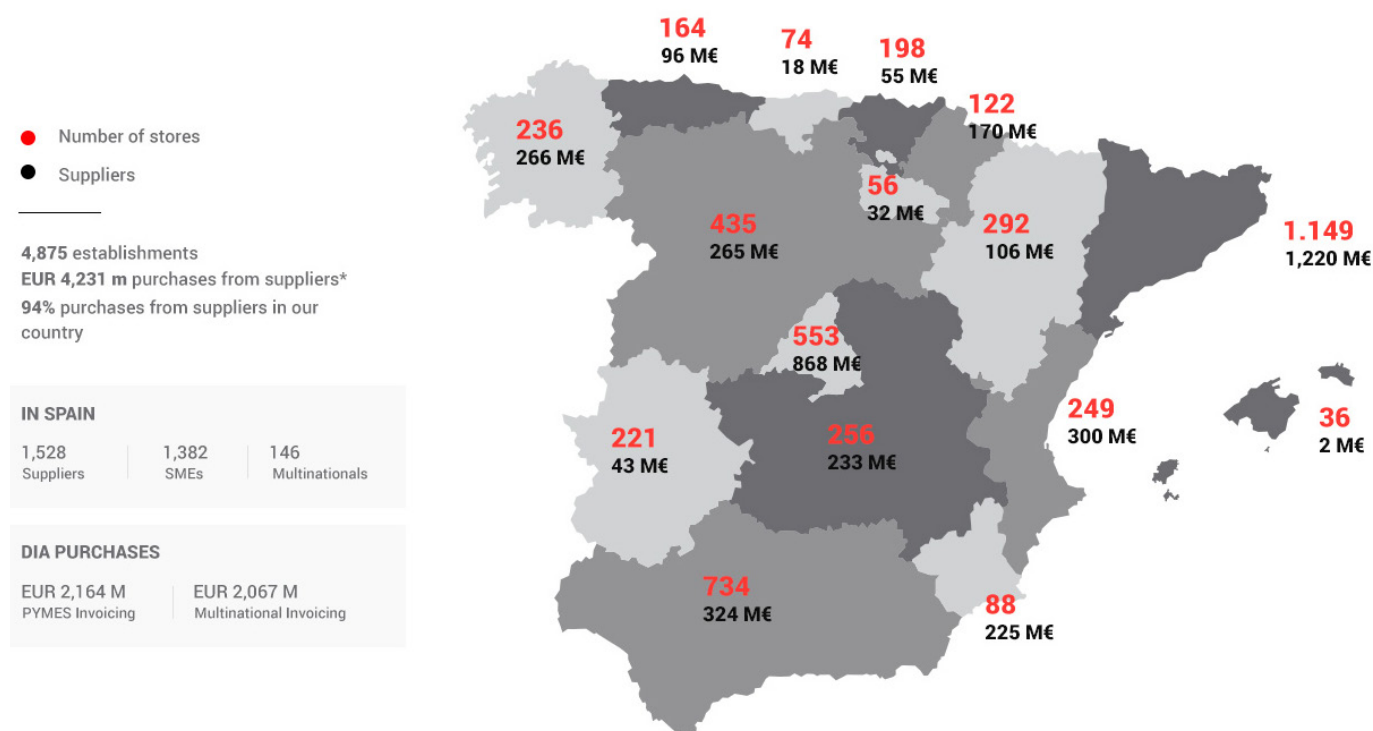
The DIA Group selects its suppliers based on criteria of competitiveness, process flexibility, and maximum product quality. All suppliers responsible for manufacturing DIA brands are subject to several internal and external audits, both of their own factories as well as the product, which are conducted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

▪ Azores

▪ Benin

▪ Bulgaria

▪ Central America

▪ Comoros

▪ Congo DRC

▪ Ivory Coast

▪ Cyprus

▪ Ghana

▪ Guinea Conakry

▪ Mayotte

▪ Gambia

▪ Ghana

▪ Guinea Conakry

▪ Equatorial Guinea

▪ The Netherlands

▪ Hong Kong

▪ Reunion Island

▪ Angola

▪ England

▪ Mauritius

▪ Nigeria

▪ New Caledonia

▪ Dominican Republic

▪ Romania

▪ Saint Martin

▪ Senegal

▪ Others: Traders export

▪ Sao Tome

▪ Others: Azores_Madeira