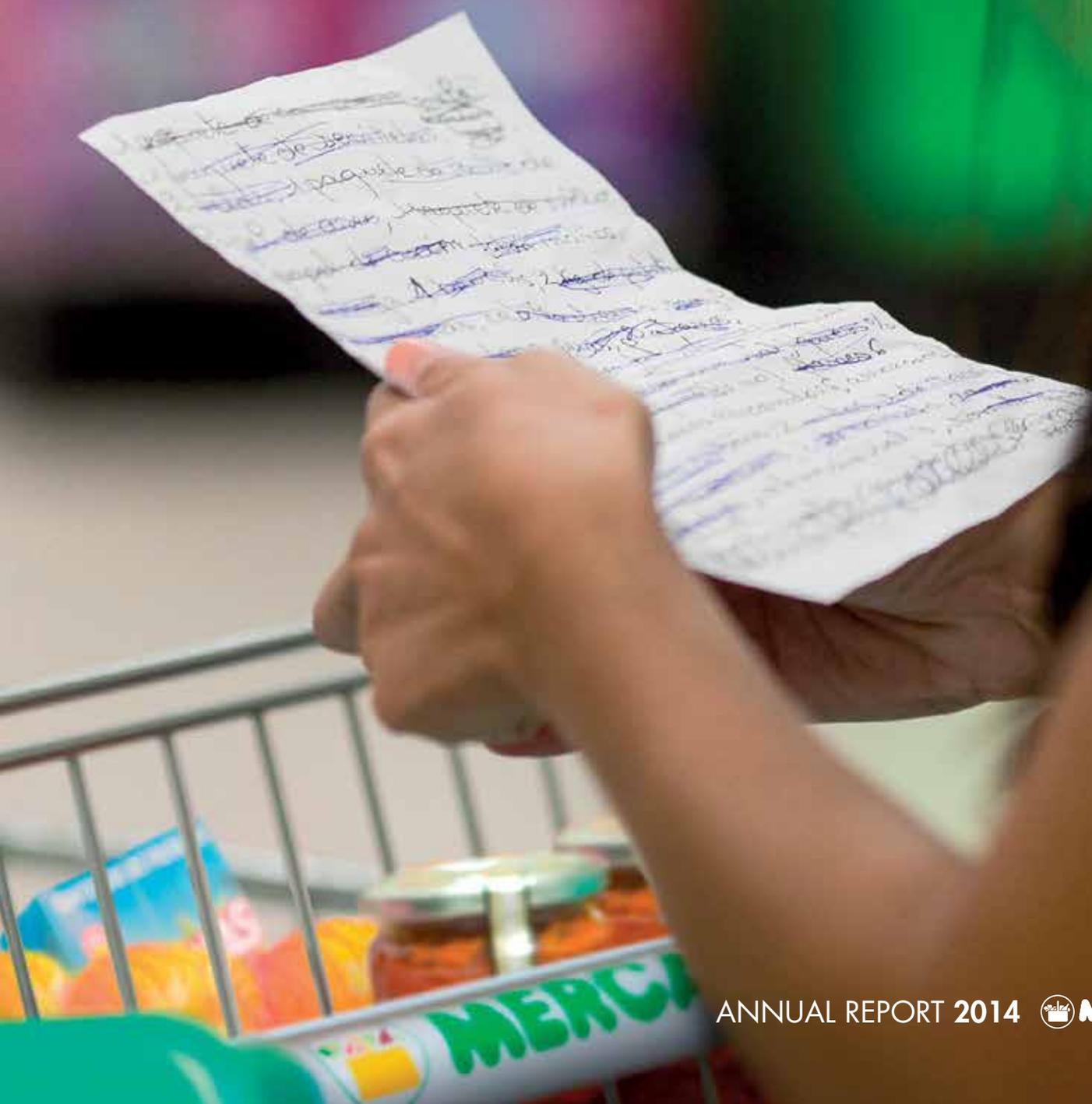


SATISFYING
"THE BOSS",
OUR MAIN
OBJECTIVE:
THE SHOPPING CART MENU



SATISFYING
"THE BOSS", *
OUR MAIN
OBJECTIVE:

THE SHOPPING CART MENU 

So that the "Bosses" can do their *Total Shopping* at the lowest possible monthly cost and with the highest quality

*"The Boss", as we at Mercadona refer to our customers within the company.



Thanks to María José, "Boss" at the Mercadona supermarket in Mazarron (Murcia), for allowing us to use a close-up of herself and her shopping list for the cover of the Annual Report.

MERCADONA ANNUAL REPORT 2014



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OUR MOST SIGNIFICANT ACHIEVEMENTS 2014

THE BOSS

1,521

stores in 2014
60 new openings
30 refurbished

Present in

17

Autonomous Communities

First store opened in the
Basque Country

450

innovations in our product range
100 innovations developed
with the "Bosses"
(co-innovation)

4.9

million households shop at
Mercadona

14.4%

market share of total retail
space in the organised
distribution sector in Spain

THE EMPLOYEE

74,000

employees in long-term,
quality jobs

37

million euros invested in
training

1,270

euros/month gross starting
salary for core staff
1.101 euros/month net

263

million euros in variable
incentive bonuses distributed
among our workforce

+4%

increase in productivity
per employee

THE SUPPLIER

14,900

million euros of purchases in Spain, 85% of the total

120

integrated supplier-manufacturers

500

million euros invested by integrated suppliers

30

new factories and production lines

+2,000

commercial and service suppliers

+20,000

small and medium enterprises (SMEs) and raw material producers

SOCIETY

1,484

million euros in tax contributions

4,100

million euros contributed to Spain's GDP

400,000

direct and indirect jobs

4,100

tonnes of food donated

Collaboration with

73

soup kitchens

53

food banks and other organisations

CAPITAL

20,161

million euros turnover (+2%)

10,103

million kilos/litres (*kilitres*) sold (+3%)

655

million euros investment

543

million euros net profit (+5%)

51

days average payment period to suppliers

MERCADONA

MESSAGE FROM THE PRESIDENT

Over the last few years, our ability and willingness to adapt to changes have been the main distinguishing attitudes of all of us who are part of the *Mercadona Project*. Keenly aware that the best way to build the future is to be ahead of events, acknowledging mistakes and focusing at all times on our guiding principle of satisfying “The Boss”, as we refer to our customers within the company, we at Mercadona are always ready for constant change.

The year 2014, which is now behind us, has been marked by this precept. Moreover, it was a year in which we concentrated all our efforts on ensuring the quality of our day-to-day work. This has enabled us to take steps to stock products that strictly comply with food safety requirements, with high quality and appeal, as part of an effective product range and at the lowest possible price, with convenient supermarkets where people may get their shopping done in the shortest possible time, and with excellent service and treatment. These pledges all spring from the company’s core mandate: to offer our “Bosses” total satisfaction and the best *Shopping Cart Menu* on the market.

Our commitment to excellence in service and all the efforts we devoted to this during the year were also reflected in the progress of the new fresh products sections, and subsequently, in the results obtained in 2014. The company’s sales grew by 3% in volume over these twelve months, to reach 10,103 kilos/litres, whilst turnover rose by 2%, to 20,161 million euros.

Equally noteworthy was the company’s investment of over 655 million euros, devoted primarily to opening or refurbishing supermarkets, constructing new logistics blocks and remodelling the new fresh products sections. This investment effort

has enabled us to reach a figure of 1,521 supermarkets, having passed the momentous milestone of the opening of our 1,500th supermarket last August, in the city of Santander.

As well as this target, which we could hardly have imagined when we began the *Mercadona Project*, 2014 has also witnessed another important event for the company, and more specifically for our 270-strong IT department. After starting our digital transformation plan in 2012, this year we started up the Data Processing Centre, a new IT hub which will enable us to streamline processes and manage the selection in real time, further reinforcing the efficiency and productivity of the company and its suppliers.

The increasing productivity of all of us who play a part in the *Mercadona Project* is based precisely on the idea that the more productive individuals, companies or countries are, the more control they have over their own decisions. And in our case, everyone, from our more than 74,000 employees — who ended the year with a productivity increase of 4% — to our 120 integrated suppliers and suppliers, has managed to increase their efficiency, one of the key foundations of the profitability achieved in 2014.

Throughout the year we continued to work on developing *Mercadona’s Sustainable Agri-Food Chain (CASPOPDONA*, as we call it), an initiative that seeks to foster sustainable economic growth based on collaboration with the primary sector and manufacturers, so as to bring greater efficiency to the chain. We are tackling this challenge, which is still in its first phase, on the basis of a new kind of relationship among all the parties involved: Mercadona, the supplier and the primary sector.



The success of this new relationship model can only be achieved by following one golden rule: listening closely to everyone, because if you listen, you learn. Putting ourselves in the position of each of the other links in the chain when it comes to making a decision enables us to define a common project together, with the aim of ensuring that behind every producer that belongs to our *Sustainable Agri-Food Chain* and shares the *Total Quality Model*, there is a forward-looking, viable project.

This willingness to get involved in order to create a modern, innovative industry is also shared by the integrated suppliers, who have invested 500 million euros in 2014 and with whom over 43,500 people carry out their daily work. These figures are proof of their commitment and demonstrate a core value we shared who are part of the *Mercadona Project*: the conviction that a committed, productive business initiative is a key differential value for a country.

In the case of Mercadona, our business initiative contributes to growth on a shared basis, by improving social welfare and seeking innovative solutions to respond to the challenges of a changing society. It is no accident that Mercadona has increased its tax contribution to the country to 1,484 million euros in 2014.

At Mercadona, we believe that profitability is a result of applying a business model that must first satisfy the other components of the company, namely “The Boss”, The Employee, The Supplier and Society. The application of that model in 2014 has enabled the company to achieve net profits of

543 million euros, and also to share over 263 million euros among the employees in performance-related bonuses, as it has been doing since 2001 — 1 of every 4 euros of total profits, which goes to show that “success is sweeter when it is shared”.

We have many challenges ahead of us in 2015. I am convinced that the best way of tackling them successfully is to develop a capacity for leadership in our daily work, and that this must be the force that drives the talent of all of us who make up Mercadona: talent in the sense of an ability to change things, to create, to learn and to adapt to the future, because the real importance of individual talent lies in the multiplier effect it exerts when it is added to a collective project seeking to maximise the satisfaction of the “Bosses”, our customers.

Juan Roig



Business initiative can contribute to growth on a shared basis, by improving social wellbeing and seeking innovative solutions to respond to the challenges of an ever-changing society



MANAGEMENT COMMITTEE



Juan Roig
President



José Jordá
Managing Director of
Stores and Prescription
of Perishables



Julia Amorós
Managing Director of Dry
Products Prescription



Francisco Espert
Managing Director of
Manufactured Agricultural
Products Purchasing



David Cid
Managing Director of
Petroleum Byproducts
Purchasing



Oriol Montanyà
Managing Director
of Logistics



Ramón Bosch
Managing Director of
Finance and Tax



Juan Antonio Germán
Managing Director
of External Relations,
Construction and Expansion



Félix Peña
Managing Director
of Administration



Rafael Berrocal
Managing Director of
Meat, Fish and
Seafood Purchasing



Francisco López
Managing Director of
Fruit and Vegetables
Purchasing



Héctor Hernández
Managing Director of
Human Resources

BOARD OF DIRECTORS

PRESIDENT

Juan Roig Alfonso

VICE-PRESIDENT

Hortensia M. Herrero Chacón

BOARD MEMBER SECRETARY

Carolina Roig Herrero

MEMBERS OF THE BOARD

Hortensia Roig Herrero

Amparo Roig Herrero

Juana Roig Herrero

Rafael Gómez Gómez

Fernando Roig Alfonso

The Mercadona
model facilitates
decision-making
for all of us who are part of the project



MERC

In August 2014, Mercadona reached its 1,500th supermarket with the opening of a new store in Santander, in José Gutiérrez Solana Avenue, in the Cazoña neighbourhood.

The image shows the exterior of a Mercadona store. The building has a modern facade with large windows. One window displays silhouettes of a family (a man, a woman, and a child) walking with shopping carts. Below the window, the word 'MERCADONA' is written in large, green, 3D block letters. A large green triangle is overlaid on the right side of the image, partially covering the building and the text.

MERCADONA: OUR MODEL

What is Mercadona?

The Mercadona Model

Some achievements in 2014

WHAT IS MERCADONA?

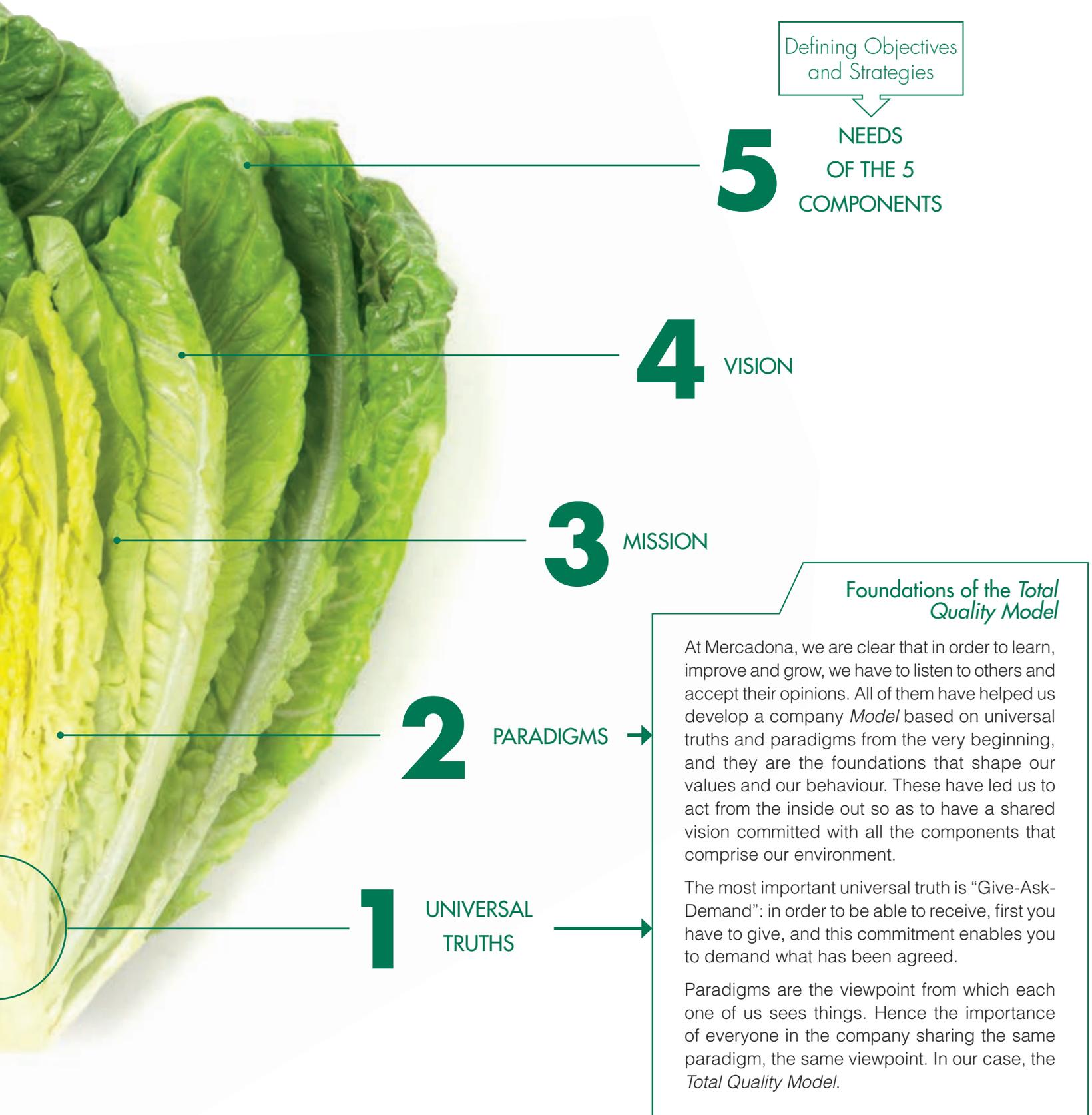
Mercadona is a Spanish family-owned supermarket company. Its mission since its foundation has been to fully satisfy all the food and beverages, cleaning and personal hygiene needs of its customers, as well as those related to pet care. It has a workforce of 74,000 employees who strive every day to offer service of the highest level of excellence. Thanks to their efforts, more than 4.9 million households place their trust in the company every year.

At the end of 2014, Mercadona had a network of 1,521 supermarkets, having opened 60 new stores and closed 6 that did not measure up to the current standards demanded by the company. And for the first time it has a presence in all 17 of Spain's Autonomous Communities, following the opening in October of its first store in the Basque Country, in the city of Vitoria-Gasteiz.

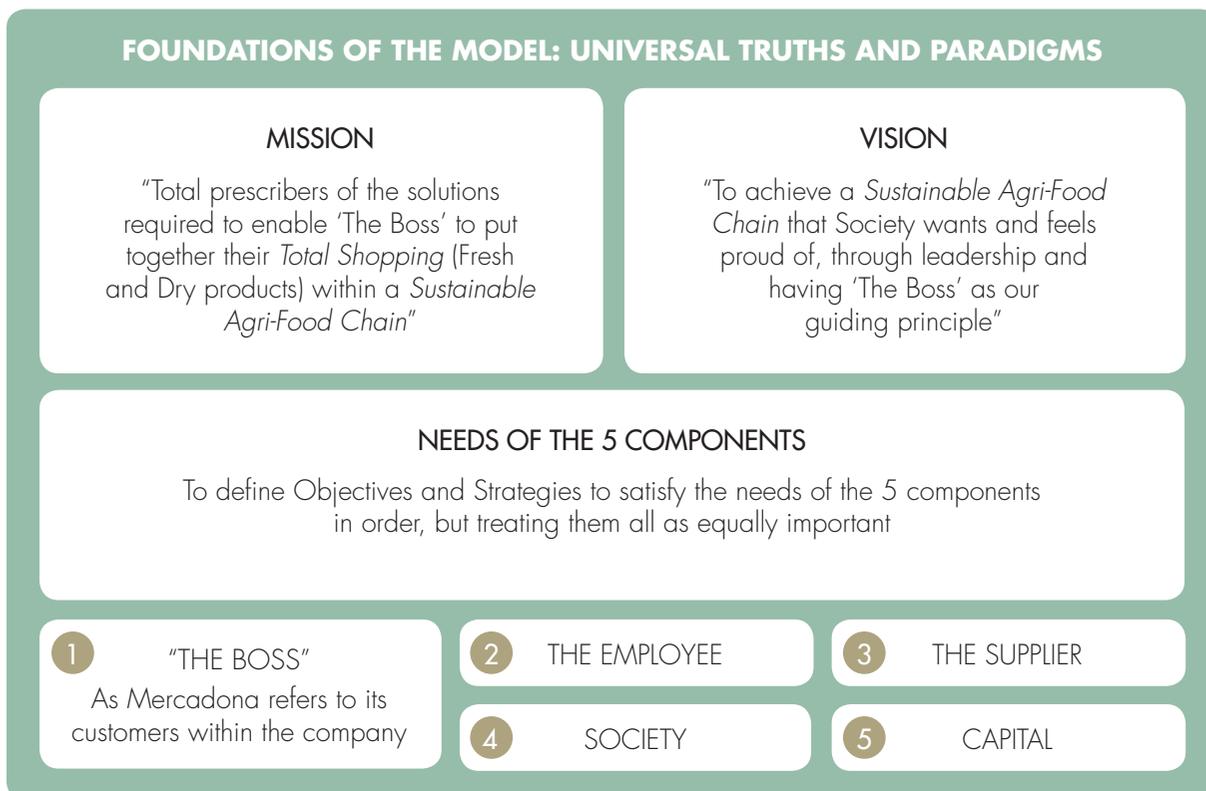
In order to build a project for sustainable, shared growth, Mercadona has based all its decisions since 1993 on a specific management model, which has evolved year by year through the participation of all those who make up the company. This model aims to satisfy the five components of the whole *Mercadona Sustainable Agri-Food Chain* to the same high standard: "The Boss", as it refers to its customers within the company, The Employee, The Supplier, Society and Capital.



THE MERCADONA MODEL



OUTLINE OF THE MERCADONA MODEL



The foundations of the *Mercadona Model* are the universal truths and paradigms it applies, which enable it to have a shared vision committed with all the components within our environment, as well as offering rapid, well-judged solutions, by following a single reference model, because "if you have a model, you have a treasure; and success is sweeter when it is shared".

Using its *Model*, Mercadona develops specific objectives and strategies to satisfy the five components; these include The Supplier, which similarly works to satisfy each of its

components and thereby guarantees the satisfaction of our whole *Sustainable Agri-Food Chain*. Pursuing this approach, and in order to address its mission and its vision in a tangible and attainable way, the company shares strategies across the board throughout the chain, enabling it to plan actions jointly with all the parties. By doing so it seeks to visualise and prioritise changes in a well-ordered fashion so as to adjust processes and avoid imbalances, because improvement is an ongoing issue at Mercadona.

A close-up photograph of a wooden salad spoon lifting a piece of green lettuce from a glass bowl filled with a variety of fresh salad greens, including red and green leafed varieties. The background is softly blurred, focusing attention on the spoon and the fresh produce.

If you have a
model,
you have a
treasure

OBJECTIVES AND STRATEGIES IN THE 5 COMPONENTS

MERCADONA DEVELOPS SPECIFIC STRATEGIES WHICH ENABLE IT TO ACHIEVE SPECIFIC OBJECTIVES TO SATISFY EACH OF THE FIVE COMPONENTS

One of the advantages of having a solid business model is that it helps everyone to move in the same direction, facilitates rapid decision-making in day-to-day work, and makes it possible to develop appropriate strategies and achieve targets, all with the aim of consolidating growth on a long-term basis and sharing the results obtained.

Some of the objectives and strategies to satisfy each of the five components are set out in the following table.

COMPONENTS AND OBJECTIVES

"THE BOSS"	<p>Our main objective is that "The Boss" should always be satisfied.</p> <p>We achieve "The Boss's" satisfaction by guaranteeing food safety and providing the highest quality and maximum appeal, offering an effective product range on a minimum budget, as well as the best service, and in the shortest time.</p>
THE EMPLOYEE	<p>To satisfy "The Boss" you have to be 100% satisfied and 100% committed.</p> <p>We base our employment policy on steady jobs, work and family life compatibility, in-service training and internal promotion, among other things.</p>
THE SUPPLIER	<p>Sharing a common project based on the foundations of the <i>Model</i>.</p> <p>Long-term joint working relationship with a single objective: the total satisfaction of "The Boss".</p>
SOCIETY	<p>Fulfilling the company's mission through satisfying Society by contributing to its development.</p> <p>It is a duty to contribute to the country's economic development and social progress and to minimise environmental impact.</p>
CAPITAL	<p>Profits come after satisfying the other components.</p> <p>We take a long-term view and aim to obtain profits as a result of doing things right.</p>

STRATEGIES

SOME ACHIEVEMENTS IN 2014

▶ The highest quality at the lowest price: <i>Shopping Cart Menu</i>	<ul style="list-style-type: none"> ▶ Reduction in the price of the <i>Shopping Cart Menu</i> to offer the “Bosses” their <i>Total Shopping</i> at the lowest possible monthly cost ▶ Parabens plan in facial and body treatment products
▶ Food Safety always guaranteed	<ul style="list-style-type: none"> ▶ 270 suppliers' facilities assessed ▶ 150 audits of various logistics processes
▶ New fresh products sections	<ul style="list-style-type: none"> ▶ Fish, bread, fruit and vegetables established ▶ 1.2% increase in market share
▶ Across-the-board innovation	<ul style="list-style-type: none"> ▶ New Data Processing Centre (CPD in Spanish) ▶ 450 innovations in the product range ▶ 100 innovations developed with the “Bosses” (co-innovation) ▶ <i>Atmosphere Stores</i> (99%) and Eco-efficiency (40%) plan
▶ Steady jobs, work-life balance, training, promotion, executive leadership	<ul style="list-style-type: none"> ▶ Application of the 2014 Collective Agreement ▶ Starting salary for core staff of €1,270 per month gross, which is €1,101 per month net, plus one or two bonuses for meeting targets, depending on seniority ▶ More than 11,200 people in training plans
▶ Commitment and involvement	▶ 98% of employees receive a performance-related bonus
▶ Equality plan	▶ 64% of the executives promoted in 2014 are women
▶ Minimum rotation	▶ 2.5% (–0.7% compared with 2013)
▶ To promote industrialisation and productive economy with integrated supplier-manufacturers	<ul style="list-style-type: none"> ▶ Over 30 new factories and production lines ▶ Investment of 500 million euros ▶ Transfer of nappy production from Poland and Sweden to Spain
▶ To continue making progress in developing the <i>Mercadona Sustainable Agri-Food Chain Project</i>	<ul style="list-style-type: none"> ▶ Progress in the <i>Supplier Relations Model</i> ▶ To foster working jointly with local producers, 4,800 more than in 2013
▶ To encourage a relationship based on the Code of Good Commercial Practice with integrated suppliers	▶ Agreements with new integrated supplier-manufacturers based on stability and transparency
▶ Shared growth to bring benefits to society	<ul style="list-style-type: none"> ▶ Tax contribution of 1,484 million euros ▶ Investment of 655 million euros
▶ Dialogue and transparency	▶ More than 280 meetings with consumer and food intolerance associations and residents, through the Local Community Relations Plan
▶ Stimulating enterprise	▶ Personal involvement of Juan Roig in the ADE University Degree for entrepreneurs at the EDEM Business School and the King Jaime I Award for Entrepreneurs
▶ Environment and Social Action	<ul style="list-style-type: none"> ▶ <i>Environmental Management System</i> based on logistical optimisation, energy saving and waste prevention and management: 34 million kWh saved ▶ Collaboration with 53 Food Banks and other organisations and daily delivery of products to 73 soup kitchens
▶ Growth and profitability	▶ Increase of 2% in turnover, 3% in volume (<i>kililitres</i>) and 5% in profits
▶ Reinvestment and long-term vision	▶ Increasing our equity capital year by year for an increasingly sound company: 446 million euros of profits devoted to this in 2014
▶ Profit sharing	▶ Out of total profits, 25% is distributed to The Employee (bonuses), 25% to Society (tax), 40% to Reinvestment and 10% to Capital (dividends)



The best way to
build
the future

is to focus at all times on the guiding principle of satisfying "The Boss"

Macarena, "Boss" at the Sierra Mar residential estate supermarket in Nerja, Malaga.



1

THE BOSS

- 1.1 The highest quality at the lowest price
- 1.2 Food safety and quality
- 1.3 Across-the-board innovation
- 1.4 Communicating with "The Boss"



THE HIGHEST QUALITY AT THE LOWEST PRICE

Avoiding unnecessary costs and producing constant savings in our “Bosses” Shopping Cart Menu: Total Shopping with the highest quality at the lowest monthly cost

A hallmark of Mercadona, and a feature of all the methods and processes it designs, is simplicity — one of its main distinguishing values for focusing each and every one of its resources on totally satisfying its “Bosses”. It does so by devoting special effort to seeking excellence in routine day-to-day work, which is the key to always offering its customers the highest quality at the lowest possible price, excellent service and a satisfying shopping experience in the shortest possible time.

In order to be able to fulfil this commitment, Mercadona has relied since 1993 on the *Always Low Prices* commercial strategy (SPB in Spanish), while at the same time striving day by day to avoid unnecessary costs and produce constant savings. This enables it to offer its customers the *Shopping Cart Menu*: the *Total Shopping* cart with the highest quality at the lowest monthly cost, a very important factor for the budgets of the households that place their trust in the company.

In 2014, in the context of this ongoing pursuit of sustainable productivity, which combines efficiency and commitment, Mercadona has worked to bring down the price of the *Shopping Cart Menu*. To achieve this, a range of initiatives and improvements have been implemented in all processes, such as changes in format sizes, the introduction of new product lines and increased efficiency in logistical processes.

In addition, after observing and listening to our “Bosses”, and noticing at the checkout that they had duplicate products, we were able to make decisions to offer them solutions with products that make the *Shopping Cart Menu* cheaper, for example by grouping quantities or changing formats in over 50 products. This approach has enabled us to continue fulfilling the strategy of the highest quality at the lower price. These products have shown an average increase in sales of 12 units per store per day.

ALL THE STRATEGIES IMPLEMENTED BY MERCADONA PLACE “THE BOSS” AT THE CENTRE OF ALL DECISIONS



1.2 FOOD SAFETY AND QUALITY

Exhaustive checking of each and every process to offer consumers maximum assurance

For Mercadona, guaranteeing food safety is not just a priority but an obsession, and one that is also shared by all the integrated suppliers that manufacture the Hacendado, Bosque Verde, Deliplus and Compy brands, among others. To this end, it is constantly working on offering consumers maximum assurance, which means exhaustive checking of each and every process.

The company's commitment in this area is total and is reflected in compliance at all times and in all circumstances with *Mercadona's Golden Rule*, which states, in this order, that any product in its selection must first guarantee food safety; then quality; followed by appeal; fourth, it must provide a service; fifth, it must be competitively priced; and lastly, it must make a profit.

FOOD SAFETY RULES FOR SUPPLIERS AND INTEGRATED SUPPLIERS

These were introduced in 2012, and following the latest update implemented by the company, they enable food safety levels to be assessed and checked rapidly and continuously.

1. Identification of Suppliers
2. Control over production
3. Change implementation control
4. Analysis and Control of Critical Points
5. Control over cleaning and handling
6. Control over facilities
7. Checking of detectors
8. Checking of quality improvements
9. Alert Management Method
10. Certifications

FOOD SAFETY AND QUALITY CONTROL PLAN

Assessment of suppliers' facilities and processes

>270
facilities assessed

Control over fresh products: beef, chicken, milk and dairy products, fish, seafood, fruit, vegetables and pastries

>250
checks carried out

Audits of logistical processes

150
audits

Certifications from IFS (most with the result High Level V6) and BRC Global Standard for Food Safety

95%
of suppliers

ISO 9001 Quality Management Systems certification

96%
of suppliers

In order to offer consumers the maximum assurance, the company has a *Food Quality and Safety Management System*, covering the whole supply chain, from origin to end consumer.

The company has continued working in 2014 to offer maximum transparency by adapting its labelling to the *New Consumer Information Regulations* and EU Regulation 1169/2011 of the European Parliament and the Council on the Provision of Food Information to Consumers (EUFIC). As a result, both products packaged by our suppliers and those sold loose in our stores, and by online sale through our website,

include all the relevant information: product name, list of ingredients, identification of allergens (even at trace level), nutritional composition, adaptation of type size, marking of dates, net quantity, storage conditions and instructions for use. The objective of all this is to make shopping as easy as possible for the “Bosses” and make sure they know that the products they purchase are 100% compliant with food safety requirements. To this end, it is vital that the labelling provides accurate and detailed information. Mercadona has been complying with this by providing maximum transparency since 1996 in all its brands, which include Hacendado, Bosque Verde, Deliplus and Compy, among others.



In 2014 Mercadona bought over 33,400 kg of Alava potatoes from the supplier Udapa S. Coop., and these were sold in the Basque Country and Navarra.

Selection for coeliacs
increased by
70%
in the last ten years



Amalia and María, “Bosses” at the supermarket in Los Mondragones, Granada.

At the end of the year Mercadona had a selection of 900 gluten-free products, compared with 850 in 2013. All these lines, like the other products in the company’s selection, offer the highest quality and comprehensive food safety and nutritional value guarantees.

In addition, the company has also continued to innovate in response to suggestions from its customers on the subject of ingredients. In this respect, the contribution of its “Bosses” has been crucial, for example in undertaking the initiative, started in 2011, to replace parabens in the formulation of its toiletry products, which will be completed in 2015.



900

gluten-free products

COSMETICS INTEGRATED SUPPLIERS WORKING GROUP (GTIC)

In 2014, Mercadona and its integrated supplier-manufacturers launched the Cosmetics Integrated Suppliers Working Group (GTIC in Spanish) with the object of streamlining and strengthening standardised quality and safety methods. Over the course of the year the members of the GTIC held twelve meetings in order to:

Create and propose a
**PRESERVATIVES
POLICY**
providing added value

CLARIFY CRITERIA,
such as
REPLACEMENT OF PARABENS

Analyse
**SUGGESTIONS
FOR IMPROVEMENT**
from the "Bosses"

In addition, in order to inform people of the efforts it is making and to share its objectives, the GTIC has held meetings on the subject with various institutions.

Project to develop **PARABEN-FREE PRODUCTS**



2010
First PARABEN-FREE
facial line

2011

2012
Development of new products for facial and body treatments

2013

2014

2015
The project
continues

DATA PROCESSING CENTRE

In 2014, Mercadona implemented a new Data Processing Centre at Albalat dels Sorells (Valencia). This new project, which strengthens the company's competitiveness, involved more than 600 engineers in its design and construction and represented an investment of 45 million euros, as part of the company's Digital Transformation Project, with a total budget of 126 million euros. With the launch of this centre, Mercadona now has a new IT hub, giving its whole structure greater agility in decision-making and in the introduction of new changes to adapt to the conditions on the ground, improve efficiency, contribute to enhancing the quality of products, especially in the fresh products selection, and strengthen traceability systems, so as to be able to fulfil the company's objective of offering "The Boss" an excellent service.

45
million euros
investment

600
engineers involved
in the project



1.3 ACROSS-THE-BOARD INNOVATION

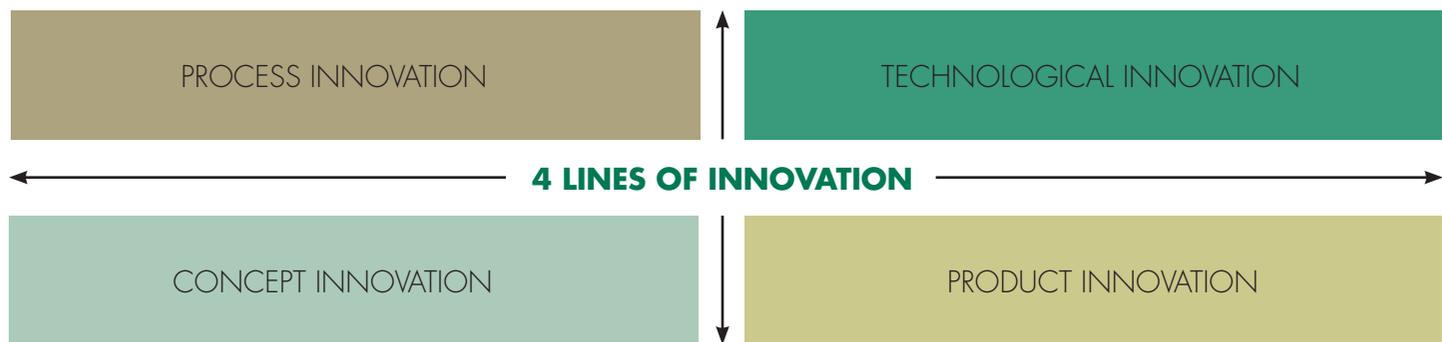
Standing out through innovation means investing in Mercadona's future

For Mercadona, innovating means constantly thinking about the “Bosses” and how to offer them solutions to their needs that give them added value, and for which they are therefore prepared to pay.

The company has its own model of across-the-board innovation which addresses four fundamental areas: process innovation, concept innovation, technological innovation and product innovation. In all these Mercadona is making important advances which are bringing improvements in both productivity and efficiency to the company as a whole.

Within Mercadona's model of across-the-board innovation, an important role is played by co-innovation, which is carried out in close collaboration with customers and suppliers. Over the course of 2014, the company held more than 6,000 sessions with its “Bosses” at the 12 co-innovation centres. As a result of these sessions, more than 100 innovations were included in the selection, out of the 450 new products introduced in 2014, having been very well received.

In addition, the company conducts laboratories, or “test beds” that are located in certain supermarkets, such as the laboratory for fresh and deli meats cut to order, in operation in a total of 252 stores at the end of 2014.



- Eco-design: more than 250 measures to minimise waste, optimise logistics and facilitate recycling.
Plan for synergies among integrated suppliers: taking advantage of products and by-products to enhance efficiency and productivity.
- *Atmosphere Stores*: with a priority focus on principles such as different spaces for different types of business, energy efficiency, productivity of means and convenience of use. At the end of 2014, 99% of the supermarkets had been turned into *Atmosphere Stores*.

- Digital Transformation Project 2012–2018: with an estimated investment of 126 million euros.
 - > Data Processing Centre in Albalat (Valencia): Mercadona's new “IT hub”, which came into operation in 2014 and has involved an investment of 45 million euros.
 - > *Contactless payment*: installation of a total of 16,000 new payment terminals.
- 450 new products in 2014 and various launches among the Top Ten innovative products of the last few years.

In these laboratories, Mercadona investigates and defines initiatives, drawing on the experiences of customers and employees. Once the results obtained have been assessed, it analyses both the successes and the failures, enabling it to decide whether or not to implement the initiative throughout the rest of the chain.

AN EFFECTIVE PRODUCT RANGE TO PRESCRIBE THE BEST PRODUCT

As part of its strategy of constantly encouraging innovation, the company has been working for years to be able to offer “The Boss” an Effective Product Range: products of the highest quality and at the lowest possible price.

In fact, at Mercadona it is crucial to be able to grasp the “Bosses” needs properly in order to be able to offer them

effective answers. Where the selection is concerned, these answers are reflected in the choice of some 8,000 product lines, out of over one million existing food and cleaning products in Spain.

This task of prescription involves being able to offer the 4.9 million households that put their trust in Mercadona a comprehensive range of solutions which is notable for its simplicity, efficiency and competitiveness. It is a range in which any product on its shelves not only has to satisfy customers’ real needs but also provide added value, not give rise to duplication, satisfy stock turnover levels and maintain efficient internal process costs. And in addition, it has to offer total guarantees of appeal, quality, optimum consumption point, service and, of course, food safety, all at the lowest possible price.

FRESH LOCAL PRODUCTS

The new system for managing the selection of fresh products which Mercadona decided to introduce in 2011 has made it possible to strengthen local economies and promote Spanish agricultural products. In 2014, for example, the products purchased by the company included 20 tonnes of summer strawberries from Segovia, 190 tonnes of artichokes from Tudela, 4,000 tonnes of cherries from Extremadura, Aragon and Alicante; over 130,000 tonnes of Spanish oranges and tangerines of a range of varieties, 100,000 tonnes of Spanish potatoes from Murcia, Seville, Huelva, Albacete and Castilla y Leon, 210 tonnes of grapes from Cadiz and Seville, etc.

In addition, over the course of the year the company has continued moving forward with its new models for sale of fresh products. By the end of 2014, all its supermarkets had implemented the new bakery and local fruit and vegetable sections, having had the new fresh fish model since September 2013. Mercadona is also continuing to work on its laboratory for fresh and deli meats cut to order, in operation in a total of 252 stores at the end of 2014.



To achieve this, Mercadona has continued to introduce advances in the management of its selection, having decided in 2013 to move towards specialist suppliers. In doing so, the company has continued to adapt to conditions on the ground to offer its customers the best products available, produced by specialists, with the best value on the market. For example, it has continued to make progress in managing its selection of fresh products, with an increase in market share of 1.2%. By specialising in this way, it is consolidating a model that seeks to draw together both large-scale and small-scale strategies, with the objective of becoming more like shopkeepers: to combine quantity with the quality achieved through specialisation.



The agreements are positive because we offer a good product and we gain in stability



Emilio Sánchez,
President of the Association of Cooperatives
Valle del Jerte



4,000

tons of cherries

bought from local suppliers in the Valle del Jerte (Caceres), the Valdejalón district (Zaragoza) and Villena (Alicante)

30%

more than in the previous campaign

An **effective product range** to prescribe
the best option and offer "The Boss"
 products of the **highest quality**
at the lowest price

100 co-innovation
 products



collaboration



8,000 PRODUCT LINES IN
 THE SELECTION

450
 innovations



Neus, "Boss" and consumer of the new pocket *natillas* (custard dessert) from the integrated supplier-manufacturer Verdifresh, a manufacturer for the Hacendado brand.

1.4 COMMUNICATING WITH “THE BOSS”

360.000 enquiries and suggestions enabled us to get closer to “The Boss” in 2014

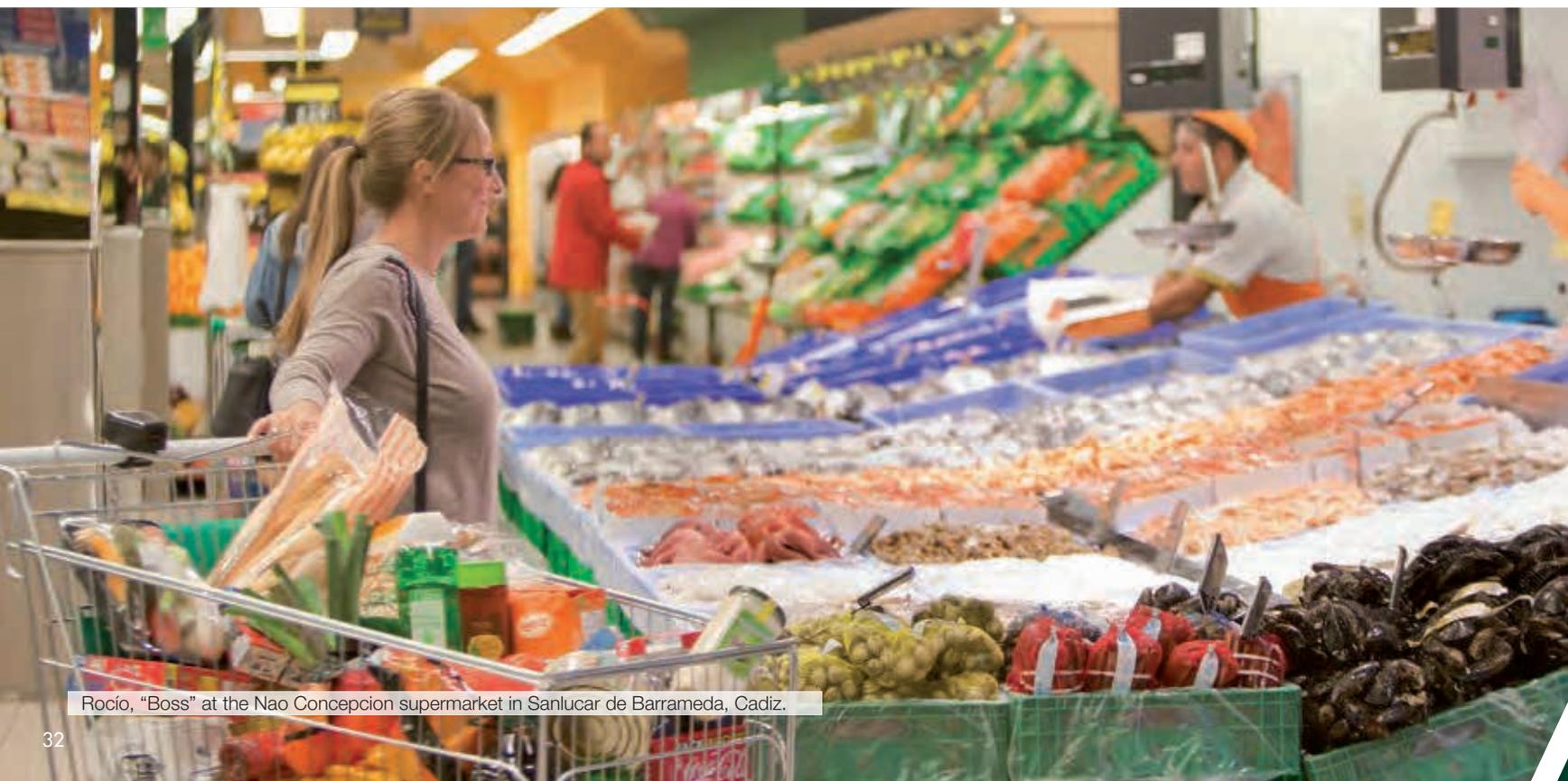
Mercadona maintains a close relationship with its customers based on trust and transparency. It also encourages a willingness to engage in dialogue by fostering the participation of customers, which is key to achieve growth.

Although all members of the workforce are involved in this task on a daily basis, it is especially important to highlight the work carried out in this area by more than 180 monitors in the company’s Prescription Departments, who manage to observe and pick up on the preferences and needs of the “Bosses”, at store level, so that the company may offer them appropriate answers.

CUSTOMER SERVICE DEPARTMENT (SAC)

Mercadona has a *Customer Service Department* as a conduit for all the concerns raised by customers through the various channels it keeps open with its “Bosses”. This enables the company to hear their views and clear up their doubts more swiftly and effectively.

In 2014, the *Customer Service Department*, with a staff of over 40, received a total of 360,000 different enquiries and suggestions, which have contributed to detecting areas for improvement, enabling Mercadona to fulfil its objective of being the company that offers the best solutions through an effective product range and a positive shopping experience with the best service.



Rocío, “Boss” at the Nao Concepcion supermarket in Sanlucar de Barrameda, Cadiz.

 **375,000**
followers on Facebook

 **60,500**
followers on Twitter

 **1,500**
subscribers on YouTube

437,000
total followers on social networks
(93,000 more followers in 2014)

70,000 enquiries on social networks

6,000 mentions per month on average

Customer Service Department
900 500 103

www.mercadona.es
www.facebook.com/mercadona
www.twitter.com/mercadona
www.youtube.com/mercadona





Cristina, an employee at the Casa do Camiño supermarket, Cee, A Coruña.



To learn, improve,
adapt and grow,

talent

counts

2

THE EMPLOYEE

2.1 Fostering leadership to build teams

2.2 Training

2.3 Health and safety at work

2.1

FOSTERING LEADERSHIP TO BUILD TEAMS

Developing values that promote the personal and professional growth of a committed, high-performance workforce

Mercadona devotes a large amount of resources year after year to fostering a culture designed to promote a passion for excellence in service among all its 74,000 employees. To achieve this, the company chooses people with leadership qualities who, in their day-to-day work, know how to inspire their teams, develop their talent, give them autonomy,

set and fulfil commitments, and who firmly believe in the need to develop values such as responsibility, desire for self-improvement and ability to accept risks.

In order to have a committed, high-performance workforce, Mercadona pursues a Human Resources policy based

COLLECTIVE AGREEMENT 2014-2018

the starting-point from which to make and introduce constant improvements in relations with the workforce

FULFILMENT OF COMMITMENTS

INVESTMENT IN HUMAN CAPITAL

MAIN MILESTONES REACHED

Gradual rise in basic salary, which is unrelated to inflation

0.5% increase currently in force in January 2015

Minimum net starting salary at Mercadona exceeds 1,000 euros

100% of full-time core staff earn an initial minimum of €1,101 euros/month net

Performance-related bonuses for

98% of the workforce

Remuneration policy

12,500+ employees moved to a higher salary band in 2014 (11% increase in monthly income)

Extension of childcare leave to child's 8th birthday

90 requests made

Training

11,200+ people have participated in training programmes

Equality Plan based on the Principle of Equity: same responsibility, same pay

64% of posts promoted in 2014 held by women

on the universal truth of giving first, to then receive. And everything it offers its employees starts from the Collective Agreement, which the company sees as the basis on which to make and introduce constant improvements in its relations with the workforce, all of them designed to foster initiatives that promote joint growth in the personal as well as the professional sphere.

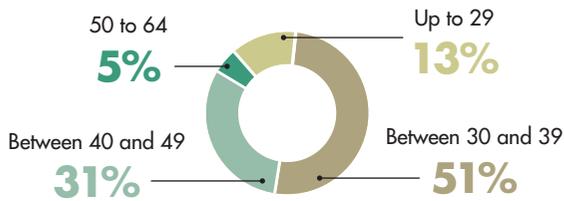
In 2014, the company's new Collective Agreement and Equality Plan, signed in conjunction with the trade union representatives from the Unión General de Trabajadores (UGT) and Comisiones Obreras (CC.OO.), came into force. These twelve months have served not only to confirm that

the commitments made to the workers are being fulfilled as agreed, but also to show that a company's best investment is the one made directly in human capital, on which the returns, in Mercadona's case, have by far exceeded the objectives it set itself.

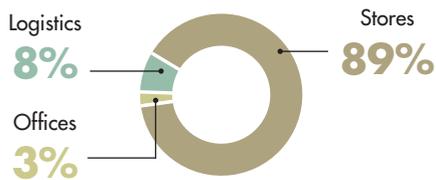
In point of fact, the company's new Collective Agreement has been recognised at the European Level by the Social Dialogue Forum on Trade of the European Commission as one of the best examples of employment practice, highlighting the fact that "Mercadona has continued to expand despite the economic crisis and has a good reputation for its sustainable Human Resources strategy."

DISTRIBUTION OF THE WORKFORCE

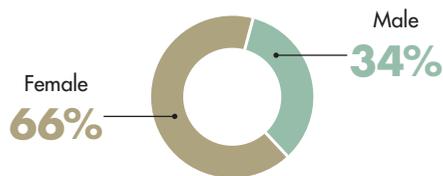
BY AGE BAND



BY AREA OF ACTIVITY



BY GENDER



PERFORMANCE INDICATORS

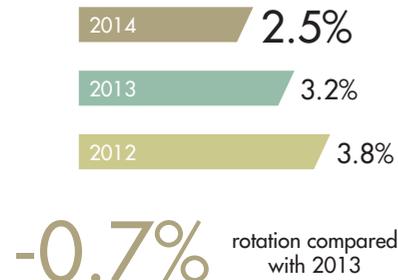
PRODUCTIVITY



BONUS FOR MEETING TARGETS



ROTATION



A man in a blue uniform and safety harness is working in a warehouse. He is standing on a metal platform, holding a vertical metal bar. The background shows a large industrial facility with metal shelving units and a conveyor belt system. The lighting is bright, and the overall atmosphere is industrial and professional.

**Mercadona's
Human Resources**
policy has been
**internationally
recognised**
in the book *The Good Jobs Strategy*

Vicente, an employee at the refrigerated products warehouse in the Abrera logistics block, Barcelona.

QUALITY JOBS AND FOSTERING FAIRNESS AND STEADY EMPLOYMENT

To keep the workforce as a whole one hundred per cent committed to the progress and development of the *Mercadona Project*, the company pursues a Human Resources policy which fosters values that are inalienable and essential to people. It is committed to personal and professional development, steady employment, training, leadership, equity and the concept of self-demand, while promoting a culture of respect, equality and diversity. Key elements in this culture are getting everyone involved and being able to “speak your mind”, and for this reason the company encourages disagreement, constructive criticism and debate, which are indispensable in order to learn and grow as a company.

In addition, the company has a remuneration policy which seeks to reward the effort of its employees on the basis of fairness. In fact, its salaries are above the industry average, and this is reflected in a productivity return that was 4% higher in 2014 than in 2013 and has also been above the industry average for years.

In order to acknowledge the individual and collective effort which leads to the achievement of joint objectives, Mercadona shares the profits obtained over the year through its performance-related bonus. This means that it pays bonuses to all members of the workforce with more than one year’s seniority and whose involvement during the financial year has made it

possible not only to attain the company’s general goals but also to fulfil the personal objectives specifically agreed for their particular post. In 2014 the company decided, under this performance-related bonus, to distribute a total of 263 million euros in bonuses for meeting targets among 98% of the employees.

Mercadona’s Human Resources policy has once again been recognised nationally and internationally in 2014. It features prominently, for example, in *The Good Jobs Strategy* by Professor Zeynep Ton of the MIT Sloan School of Management. In this book, which has become a manual of reference in the United States, the author cites Mercadona as an example company where employment is concerned, highlighting the fact that employees receive good salaries and a high level of training, have an excellent working environment and feel valued. The book concludes that Mercadona has understood for some time that sharing success is one of the keys to ensuring constant growth.

This approach to managing Human Resources has also enabled the company to consolidate its position once again as the highest-rated company in this respect in the distribution sector, according to data drawn from the *2014 Merco Personas* report.



WORK-LIFE BALANCE, A KEY TO MUTUAL GROWTH

Being aware that those whose job it is to satisfy “The Boss” have to be satisfied themselves, Mercadona has for many years maintained a major commitment to work-life balance of work and family life, which it consolidates year after year by introducing pioneering measures that promote greater employee satisfaction. Among other figures, it is worth highlighting the fact that, in 2014, 6.5% of the female employees in the workforce decided to have children, and also that 3,063 working mothers opted to extend their legal entitlement of four months’ maternity leave by 30 days, confirming Mercadona’s position as a company committed to protecting maternity.

But in addition it has continued throughout the year to promote improvements related to the care of children in its charge, as is shown, for example, by the fact that 13,019 employees have benefited from shorter working days. In some of these cases, moreover, they have taken their chil-

dren to the free nursery schools the company has in some of its logistics blocks, a pioneering measure which started to be implemented in 2001.

Despite Mercadona being aware that it still has a long way to go, consolidating this commitment by implementing measures that make it possible to reconcile the private and working lives of its workforce has enabled it to become the best company in its sector and the fourth best in Spain, according to the report on the Compatibility Situation in Spain compiled by the International Institute of Political Sciences.

According to the conclusions of this study, Mercadona belongs to a set of companies that “take into account the fact that their image and their decisions and behaviour create a brand or style to be followed at a social level, and that this means that they must not only comply with the law but also try to improve the quality of life of their employees, society and their customers”.

Best company in the distribution
sector and fourth best in Spain in

work-life balance policies,

according to the report on the
Compatibility Situation in Spain
compiled by the International
Institute of Political Sciences

COMMITTED TO
WORK-LIFE BALANCE

3,063

female employees opted to extend
their maternity leave by 30 days

13,019

employees benefited from
shorter working days
in 2014



María José, an employee at the Nao Concepcion supermarket in Sanlucar de Barrameda, Cadiz.

2.2 TRAINING

Fostering talent to offer our “Bosses” maximum satisfaction

Mercadona attaches special importance to talent, and for this reason it devotes considerable efforts to promoting and reinforcing it among all its employees. It does so through training, being aware that investing resources on enhancing the skills and knowledge of its workforce has a direct impact on the quality of its Human Resources and the attainment of objectives.

As a result, Mercadona has a workforce that is involved and committed to high performance. The more training the employees receive, the more willing they are to work as part of a team, to accept risks for the sake of achieving the goals set, by means of effort, responsibility and desire

for self-improvement. And this is even more effective when coupled with the knowledge and experience accrued over time.

In 2014, in the context of its commitment to training, Mercadona invested almost 37 million euros, amounting to a total of 1,400,000 hours of training, both general and specific, among which particular attention should be drawn to 9 training actions.

To promote the professional development of every member of its workforce, Mercadona conducts training activities that start with the Welcome Programme on the first day employees join the company, and maintains them throughout their

Paco Casado, Fish Prescription coordinator, teaching an Executive Promotion course.



career. This makes it possible to have highly qualified and motivated employees, who know exactly what the company expects from them and whose leadership makes them highly decisive people.

Indeed, having a highly qualified workforce also enables the company to consolidate its internal promotion plan, a differential model which raises professional prospects right up to the highest level, the Management Committee, as demonstrated by the fact that all the managing directors have been promoted through an internal promotion process.

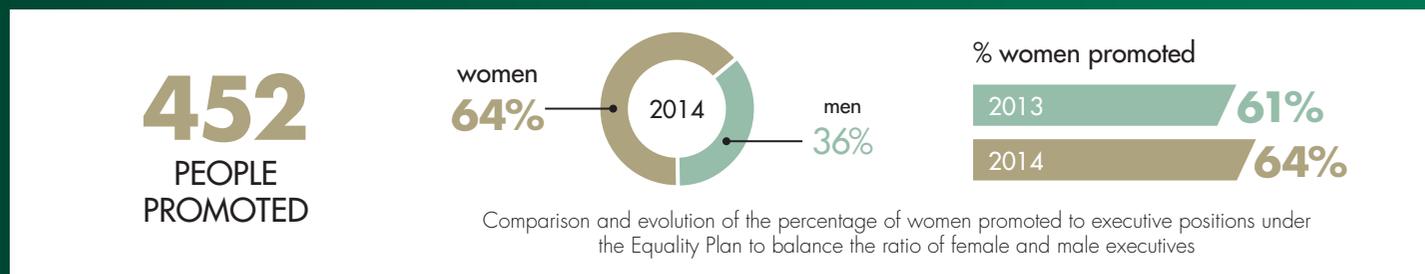
In 2014, this commitment to internal promotion has led to a total of 452 people taking on new and greater responsibilities within the company, through their merits and abilities, where they will be able to put into practice not only the leadership abilities acquired, but also the other knowledge transmitted to them through the various training programmes received year by year.

In this context, we should highlight the training actions aimed at the group of assistant coordinators, who receive 26 weeks' training at an average investment of 16,000 euros per person. For this post Mercadona has also relied on its "homegrown" pool of talent, since all of them come from internal promotion.

TRAINING PLAN 2014



INTERNAL PROMOTION 2013-2014 PEOPLE PROMOTED TO EXECUTIVE POSITIONS



2.3

HEALTH AND SAFETY AT WORK

A specific risk prevention policy to adapt to the needs of each post

For Mercadona, safeguarding health and safety at work is a priority responsibility and an ongoing commitment, which it pursues through its risk prevention policy, affecting each and every one of its production processes and jobs.

For this purpose, the company has a *Risk Prevention Plan* and a *Health Programme*, whose effectiveness is periodically reviewed both by the statutory audits of its occupational risk management system and by the participation of the employees themselves through the various health and safety committees that have been established. This enables its risk prevention policy to be effective and appropriate to the various activities carried out, and at the same time to remain open to any suggestion for improvement from members of the workforce.

In 2014, to strengthen its commitment in this area still further, the company devoted 12 million euros to introducing a number of preventive improvements, both through training and by investing in specific protective equipment, improving access to machines and facilities for maintenance, obtaining certifications and installing systems that avoid unnecessary strain on the part of employees in the stores and warehouses.

To maintain its highly demanding standards, over the course of 2014, each and every one of the new risk prevention and employee safety processes, such as those associated with the new fresh products sales models, has been assessed right from the design stage. In addition, all the new posts that have been introduced have been standardised against strict safety and ergonomic criteria, both in production processes in stores and in offices and logistics centres.

To safeguard and maintain the health of the people who make up its workforce, Mercadona has a team of specialists comprised of 45 professionals, 22 of whom are qualified safety officers specialising in Safety, Occupational Hygiene and Ergonomics and Applied Psycho-sociology, as well as 40 health care professionals. In 2014, this team was responsible for developing and implementing all these improvements, while at the same time providing all employees with the specific information and training needed to carry out their tasks and minimise the resulting risks.

Together with the work carried out with collaborating industrial accident and professional illness insurance providers, Mercadona has collaborated in exchanging information, as it has traditionally done for some years, with the Risk Prevention Services of its main suppliers, which is certainly an important issue of ongoing improvement for the company in this area.



Luis, an employee at the Narangel Ave. supermarket in Tudela, Navarra.

RISK PREVENTION AUDIT

In December, the company received the report produced by the auditing company Enarila, after an exhaustive process of analysis and study which began in September 2012. The checks performed were carried out throughout these months on a random basis both in stores and in logistics blocks, and also included construction processes. Not only were the results favourable, but the audit team referred to "the effort the company is making to have a risk prevention system of a higher standard than that required under current legislation."

RISK PREVENTION
PLAN

+

HEALTH
PROGRAMME

SUPERMARKETS

Initial risk assessment of the new
fresh products sales model

250 assessments
carried out

LOGISTICS CENTRES

Audit on transport of dangerous goods

13 audits

Construction of the Abrera automated warehouse

90% completed

OFFICES

Selection of the new computer tools and of
ergonomic criteria in software design

3 new tools
implemented

HEALTH AND SAFETY AT WORK

Incidence of workplace accidents

13‰*

Average period off work

26 days

Coverage of seasonal flu
vaccination campaign

57%

Coverage of periodic collective
examinations

58%

Investment in occupational risk prevention

+12 million
euros

(*) Incident rate = No. of accidents with injuries / for every 1,000 employees

The image shows two large, cylindrical stainless steel storage tanks standing side-by-side against a clear blue sky. The tanks are made of polished metal with visible horizontal weld lines. Each tank has a vertical ladder on its side and a small access hatch at the top. The tank on the left has the company logo and name 'JOSÉ ESTÉVEZ, S.A.' printed on its upper section. The tank on the right has the number '409' at its base. A third tank is partially visible behind the one on the left.

Storage tanks at
Bodega José Estévez

JOSÉ ESTÉVEZ, S.A.

410

409

Storage tanks at Bodega José Estévez, the winery of the integrated supplier-manufacturer José Estévez in Jerez de la Frontera, Cadiz.

Business initiative is a

key differential value

in the development
of a country

3

THE SUPPLIER

- 3.1 A project for industrial growth and consolidation
- 3.2 A Sustainable Agri-Food Chain
- 3.3 Logistics blocks

3.1

A PROJECT FOR INDUSTRIAL GROWTH AND CONSOLIDATION

Stable, transparent relationships to energise the economy

For some years now, in conjunction with its suppliers and integrated suppliers, Mercadona has taken up the social challenge of helping boost the industrialisation of our country. Year by year, it devotes substantial resources towards this, and these do not only benefit its customers, they also contribute towards energising the economy by implementing numerous business initiatives which, all in all, are the most important differential value that characterises the development of a country. This industrial cluster currently takes the form of over 220 factories all over Spain.

In order to be able to undertake this project for common, shared growth, Mercadona establishes close links with its integrated suppliers and suppliers through a long-term, transparent relationship model, which leads, on many occasions, to the signing of agreements for an indefinite period and to the creation of synergies, making use of our country's remarkable industrial potential.

Within this industrialisation plan, which gathered pace in 2008, Mercadona continued to take advantage of opportunities and promote initiatives to manufacture products in Spain that it previously imported over the course of the year. A clear example of this is the decision by the integrated supplier-manufacturer SCA to install its first nappy production line in its factory at Valls (Tarragona), which entails an investment of 30 million euros. When this line, with an area of 12,000 square metres, starts up at full capacity, which is set to happen from the first quarter of 2015, it will allow for all of Mercadona's Deliplus nappies to be manufactured in Spain.

This initiative is added to those that the company and the integrated supplier-manufacturers have implemented over the last few years, such as the investment of over 70 million

euros that both Grupo Siro and Queserías Entrepinares have made to build new factories, located in Castilla y Leon and Galicia, that will be producing cereal bars, block cheese and spreadable cheese, which were previously made in factories abroad. Or that of the Cantabrian firm Quesería Lafuente, which markets mozzarella that Mercadona used to have to import.

In 2014, in the context of generating industry and creating added value, the company's integrated suppliers have continued consolidating their commitment to create quality employment, ending the year with a combined total workforce of 43,500 people. They have also invested a total of 500 million euros, and during the year they have collaborated with over 20,000 local SMEs and raw material producers. All these figures demonstrate that the efforts made by the integrated supplier companies and their involvement in the *Mercadona Project* strengthen the competitiveness of the Spanish economy.

The integrated supplier-manufacturer SCA has transferred production of nappies from Poland and Sweden to Spain. The new production line at Valls (Tarragona) has created 50 new jobs



PRINCIPLES GOVERNING MERCADONA'S
RELATIONSHIP WITH INTEGRATED
SUPPLIER-MANUFACTURERS
Good Commercial Practice Framework Agreement

JOINT OBJECTIVE
A relationship based on applying
the basic principles of the *Total
Quality Model* to satisfy
"The Boss"

MUTUAL COOPERATION
Synergies among all the processes
of the assembly chain in pursuit of
maximum efficiency

"WIN-WIN" PRINCIPLE
Agreements that are beneficial
for both parties

FULFILMENT
By both parties of all
commitments by the agreed
deadlines

TRANSPARENCY
Working together with the
objective of increasing productivity
and competitiveness

STABLE RELATIONSHIP
Agreements for indefinite periods
with deadlines and notice periods
known to both parties

MAIN FIGURES FOR
INTEGRATED
SUPPLIERS

500
million euros
investment

30
new factories and
production lines

120
integrated supplier-
manufacturers

>220
factories in Spain

43,500
employees

In 2014 **100+** new specialist suppliers have joined us



Mercadona is one of the signatory companies to *The Supply Chain Initiative*, the voluntary European agreement on good practice in the agri-food chain, sponsored by seven industry associations and supported by the European Commission. The purpose of the initiative is to promote fair trade practice in the agri-food chain as a basis for commercial transactions, producing a cultural change through the commitment of the signatory companies throughout the European Union.

500 MILLION EUROS INVESTED BY INTEGRATED SUPPLIER-MANUFACTURERS IN 2014

SOME EXAMPLES OF INVESTMENTS AND FACTORIES

CANTABRIA

million €

IPARLAT.....5.3
 Renedo de Pielagos (Cantabria)

ASTURIAS

million €

QUESERÍA LAFUENTE.....1
 Arriendas (Asturias)

GALICIA

million €

ESCURIS.....3.8
 A Pobra do Caramiñal - Boiro (A Coruña)
 CONGALSA.....1.4
 A Pobra do Caramiñal (A Coruña)
 MASCATO.....7.1
 Salvaterra do Miño - Vigo (Pontevedra)

CASTILLA Y LEON

million €

AUDENS FOOD.....0.9
 Roales del Pan (Zamora)
 IBERSNACKS.....2
 Medina del Campo (Valladolid)
 GRUPO SIRO.....30.8
 (Palencia - Zamora - Valladolid - Burgos - Segovia)

MADRID

million €

QUESERÍAS ENTREPINARES.....1
 Fuenlabrada (Madrid)
 PANIFICADORA ALCALÁ.....5.2
 Alcala de Henares (Madrid)
 GRUPO UBESOL.....2.1
 San Fernando de Henares (Madrid)

CASTILLA - LA MANCHA

million €

INCARLOPSA.....11
 (Cuenca - Toledo)
 CHAMPINTER.....4.8
 (Albacete)

EXTREMADURA

million €

GRUPO HUEVOS GUILLÉN.....1.3
 Almodralejo (Badajoz)
 CATAFRUIT.....1
 Merida (Badajoz)
 CONSERVAS EL CIDACOS.....1.7
 Coria (Caceres)

ANDALUSIA

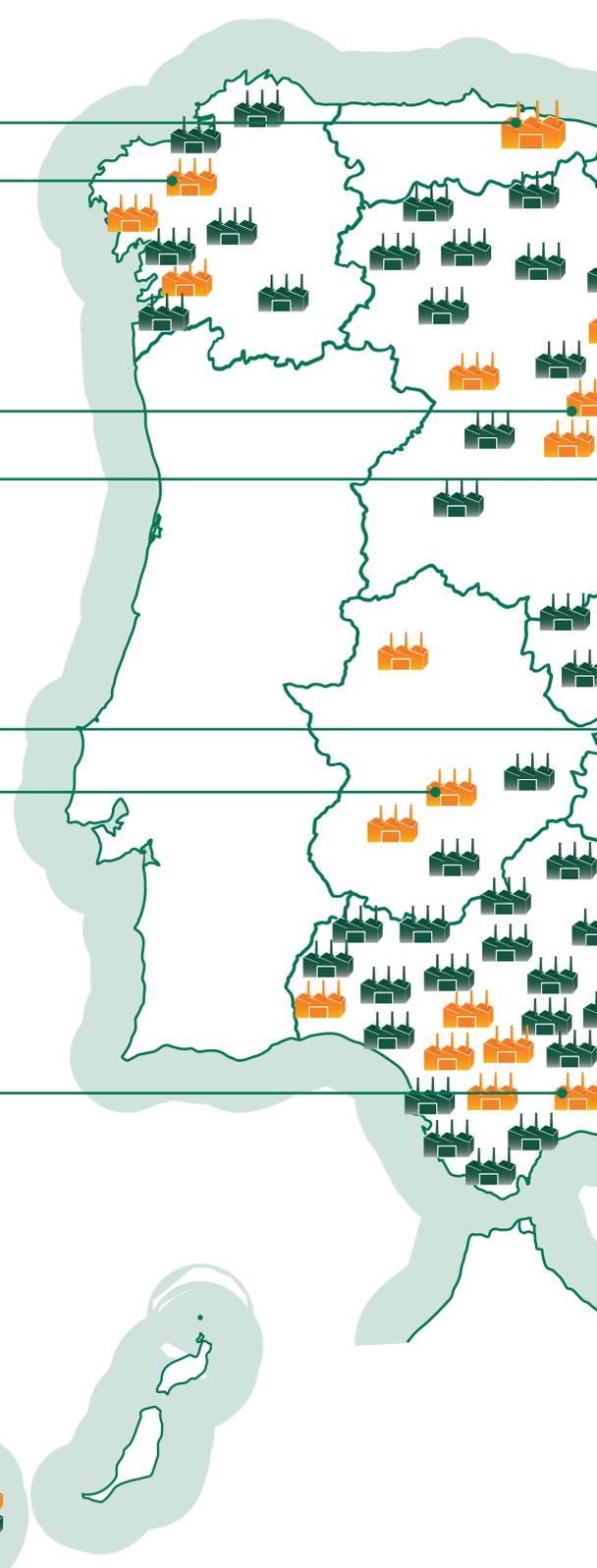
million €

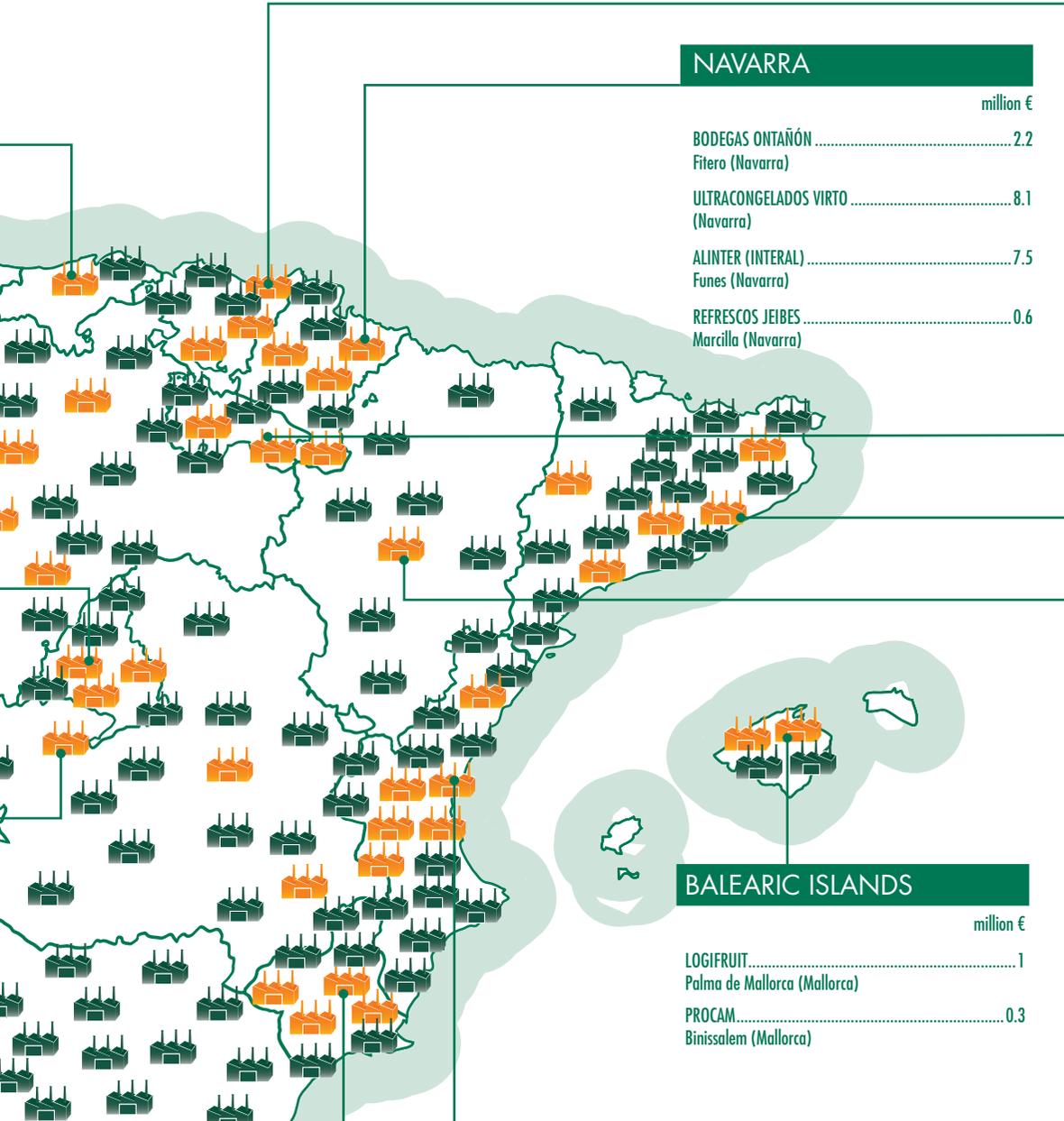
PROCAVI.....16
 (Huelva - Malaga - Seville)
 DULCES OLMEDO.....3.8
 Estepa - Osuna (Seville)
 JOSÉ ESTÉVEZ.....1.5
 Jerez de la Frontera - Sanlucar de Barrameda (Cadiz)
 PERSAN.....17.4
 (Seville)

CANARY ISLANDS

million €

SAT CANARISOL.....0.9
 (Santa Cruz de Tenerife)
 UNIÓN MARTÍN.....1.6
 (Las Palmas)
 LOGIFRUIT.....1.7
 (Santa Cruz de Tenerife - Las Palmas)





NAVARRA

	million €
BODEGAS ONTAÑÓN Fitero (Navarra)	2.2
ULTRACONGELADOS VIRTO (Navarra)	8.1
ALINTER (INTERAL) Funes (Navarra)	7.5
REFRESCOS JEIBES Marcilla (Navarra)	0.6

MURCIA

	million €
SAT AGRÍCOLA PERICHAN Mazarron (Murcia)	4.5
TANA Los Ramos (Murcia)	1
FRANCISCO ARAGÓN Molina de Segura (Murcia)	5.8
PLASBEL Alcantarilla (Murcia)	3

BALEARIC ISLANDS

	million €
LOGIFRUIT Palma de Mallorca (Mallorca)	1
PROCAM Binissalem (Mallorca)	0.3

BASQUE COUNTRY

	million €
IBERSNACKS Vitoria-Gasteiz (Araba/Alava)	0.6
INTERNAL Lezo (Gipuzkoa)	1.2
IPARLAT Urnieta (Gipuzkoa)	3.5

LA RIOJA

	million €
ELABORADOS NATURALES DE LA RIBERA Aguilar del Rio Alhama (La Rioja)	0.6
CONSERVAS EL CIDACOS Autol - Albelda de Iregua (La Rioja)	1.2

CATALONIA

	million €
CATAFRUIT La Portella (Lleida)	2.2
SCA HYGIENE PRODUCTS Valls (Tarragona)	27
SAPLEX Canovelles (Barcelona)	1.2
CASA TARRADELLAS Olost - Gurb (Barcelona)	43
EMBUTIDOS MONTER (Girona)	6.3

ARAGON

	million €
BYNSA MASCOTAS El Burgo de Ebro (Zaragoza)	7

VALENCIAN COMMUNITY

	million €
AVINATUR Liria (Valencia)	10.2
DELIBREADS EUROPE Liria (Valencia)	2.5
GRUPO VERDIFRESH Riba-roja de Turia - Carlet (Valencia)	13
MARTINAVARRO (Valencia - Castellon)	2.9
SP- BERNER PLASTIC GROUP Aldaia (Valencia)	10



Some of the investments by integrated supplier-manufacturers in 2014



Some of the more than 220 factories in Mercadona and its integrated suppliers' industrial agri-food cluster

ANNUAL MEETING OF MERCADONA'S INTEGRATED SUPPLIERS

As Mercadona has been doing for 16 years, and as part of the commitment to transparency that the company insists on maintaining with all its components, it held its annual meeting with its integrated supplier-manufacturers in Valencia on 4th February. The meeting analysed the work carried out over the course of 2014, sharing experiences and reinforcing the joint commitment to create industry and develop *CASPOPDONA*, as Mercadona internally refers to its *Sustainable Agri-Food Chain*.

In addition, the new integrated supplier-manufacturers that joined the *Mercadona Project* in the past year were welcomed. Most of them are from the primary sector, such as fishing fleets and fishermen's associations, and also from the food and cosmetics manufacturing sector.





INTEGRATED SUPPLIER-MANUFACTURERS

CLEARLY IDENTIFIED ON THE PACKAGING OF THE PRODUCTS THEY MANUFACTURE FOR MERCADONA





3.2 A SUSTAINABLE AGRI-FOOD CHAIN

Forging closer connections with the primary sector contributes to modernising all the links in the chain and increasing their prosperity

In 2010, the company introduced the basic principles of *CASPOPDONA*, a project to develop *Mercadona's Sustainable Agri-Food Chain*. This initiative, which seeks to further strengthen its firm commitment to the primary sector, is vital to the company and to the crop-producing, fishing and livestock sectors with which we work in Spain. Moreover, they have the common objective of joining forces and sharing knowledge to contribute to the modernisation, productivity and prosperity of all the links in Mercadona's agri-food chain.

In fact, with the Vision of achieving "a *Sustainable Agri-Food Chain* that Society wants and feels proud of before 2020, through leadership and having 'The Boss' as our guiding principle", we have been developing a common project in the last few years to share the *Total Quality Model* with everyone.

The appropriate foundations are being established and the necessary conditions developed to advance towards this new challenge.

During 2014, all of us who make up the *Sustainable Agri-Food Chain*, from Mercadona to the primary sector, have continued moving forward in this direction and joining forces. And all through a relationship based on dialogue and transparency, in which specialisation, purchasing confidence, profitability, vision for the future, planning and investment enable both sides to concentrate on what they really know how to do, all for the benefit of "The Boss": fishermen, crop producers and livestock producers, on fishing, growing and rearing; and Mercadona, on offering its customers products of the maximum quality and freshness at the lowest possible price.

LONG-TERM AGREEMENTS WITH:



MORE THAN
12,000
FISHERMEN
40,000 tonnes of fresh fish in 2014

1
6,000
CROP PRODUCERS

2

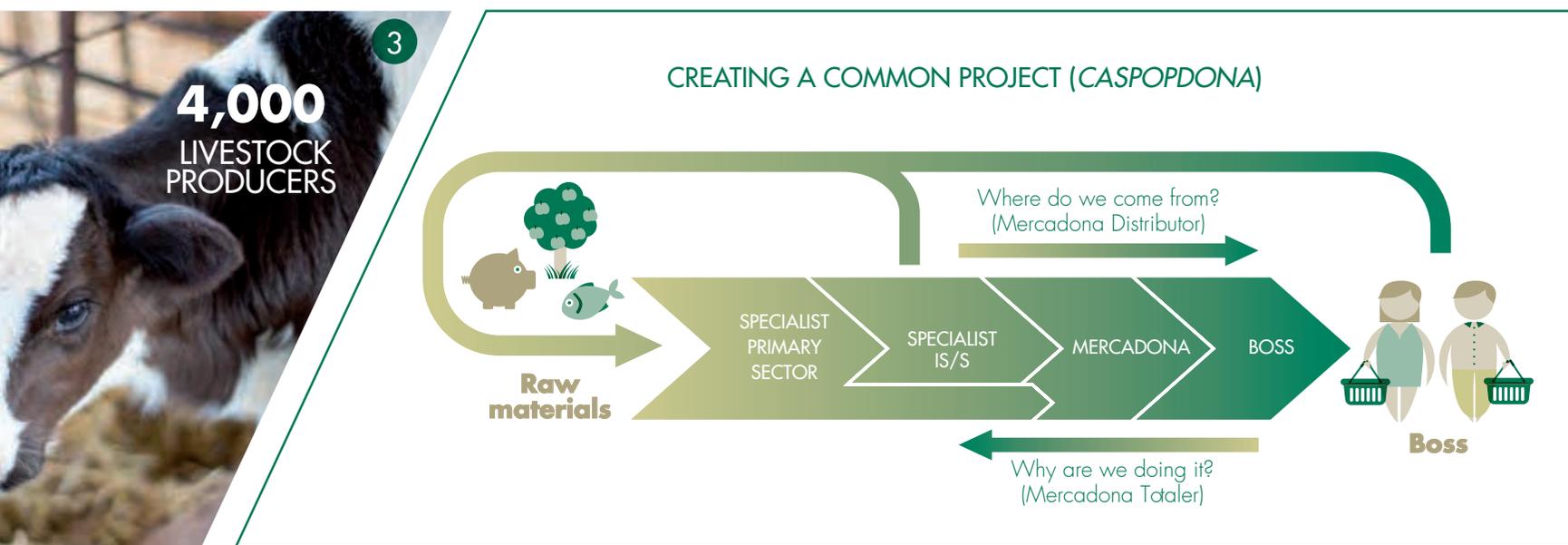
THE INVOLVEMENT OF THE INTEGRATED SUPPLIERS IN CASPOPDONA

To pursue this model of a *Sustainable Agri-Food Chain*, the involvement of the integrated supplier-manufacturers in the project is crucial. And that commitment, over the course of 2014, has meant reinforcing their closeness to producers in order to get to know their products and their needs, encouraging greater specialisation, as well as establishing relations of consensus to achieve synergies in all areas (logistics, technology, innovation, etc.) so as to generate productivity and efficiency.

In the context of *CASPOPDONA*, Mercadona has continued throughout the year pouring its efforts into generating growth in the Spanish fruit and vegetable, fisheries and livestock sector, and has further pursued its commitment to use raw materials of Spanish origin whenever viable. This commitment has been

matched by facts, as demonstrated by the collaboration agreements it has reached with the primary sector, which have enabled the company, at the end of 2014, to maintain close links with over 6,000 crop producers, 4,000 livestock producers and more than 12,000 fishermen belonging to various fishing organisations along the entire Spanish coastline.

All these agreements are a source of synergies, knowledge and mutual learning. They help to structure local economies, reinforce the enormous potential that exists in rural areas, and generate efficiency and productivity. All this enables the national industry that works with us to be more competitive, better adapted to its needs and capable of innovating more rapidly, resulting in a more efficient supply of quality products for consumers, who also, thanks to this commitment by Mercadona, have products available from increasingly local and specialised suppliers.



1. Fishermen from the integrated supplier Proyecto Ondarrea S.A. in the Port of Ondarrea, Bizkaia. **2.** Harvesting strawberries in the Finca Las Palmeritas of the integrated supplier Sat Palmeritas in Lepe, Huelva. **3.** Dairy farm of José Antonio Jurado González e Hijo S.C.P. for the integrated supplier Covap in Dos Torres, Cordoba.

CASPOPDONA IN SPECIFIC CASES

• **El Perelló Cooperative:** The integrated supplier-manufacturer Pinchos Jovi has reached an agreement with this cooperative for sowing whole fields of peppers on summer, which it then uses to make its brochettes. In return for the agreed volumes and quality, Pinchos Jovi guarantees fixed prices and stability, which has enabled the El Perelló Cooperative (Valencia) to plant 5,600 hectares of green peppers, 3,600 of its own and 2,000 belonging to the Viver cooperative, amounting to the production of approximately 140,000 kilos of green peppers in Valencian fields.

• **Dafran&Darzoves:** Mercadona has signed a contract with this tomato-producing company based in Almeria, which supplies it with 140,000 kilos of tomatoes per week. The agreement reached in 2014 has enabled this company to increase its turnover by 50%, by keeping its facilities operating throughout the year, and to employ twice as many people, with as many as 250 employees.

• **Dulces Olmedo:** Through its agreement as a Mercadona integrated supplier, this family-run business based in Estepa (Seville) has managed to break away from the seasonal nature of its production, which has been mainly concentrated up to now on manufacturing traditional Christmas confectionery such as *polvorones* and *mantecados*. It has devoted substantial resources to launching new chocolate product lines onto the market, and these have enabled it to expand its production, establish long-term agreements with its suppliers and reach a figure of 210 employees, creating 50 new full-time jobs over the course of the year. This is a historic turning-point for a company that began as a small workshop in the 1950s.

• **Salinas del Odiel:** Five years after its startup, this integrated supplier-manufacturer of salt for Mercadona has managed to become a national leader in its sector. During this period, it has created around one hundred direct jobs, thanks to its commitment to innovation and quality.

A MAJOR COMMITMENT TO SPANISH PRODUCTS

For years, Mercadona has maintained a commitment to use raw materials of Spanish origin whenever viable. This commitment has continued to be strengthened in 2014, a year in which 85% of the product lines sold by Mercadona, in both its fresh and dry products sections, were grown, caught and made in Spain.

A clear example of this is Sovena, whose Hacendado olive oil is of 100% Spanish origin, as certified in the study by the independent organisation Det Norske Veritas (DNV-GL). The oil is therefore identified on the labelling as 100% Spanish origin.



THE MERCADONA COMMITMENT:

to use raw materials of Spanish origin whenever viable for reasons of closeness and seasonality

POTATOES

100,000

tonnes (80% of the total)

ORANGES AND TANGERINES

>130,000

tonnes (a 15% increase on the previous year)

OLIVES

450,000

tonnes for production of Hacendado olive oil

Toni Crespi, a crop producer for Can Morb  SAT, harvesting spring onions at the Finca Sa Llebre in Sa Pobla, Mallorca. In 2014 the supplier Can Morb  SAT provided 651 tonnes of spring onions, leeks and smooth-leafed and crinkle-leafed cabbage for sale in the stores on the island of Mallorca.

3.3 LOGISTICS BLOCKS

An efficient network capable of transporting more and more using fewer resources

Mercadona has an efficient logistics network comprising, in total, an area of over 847,000 square metres. It enables the company to efficiently supply all its supermarkets (1,521 at the end of 2014), and further aims at transporting more and more using fewer resources and remaining “invisible” to the environment.

But in addition, almost a decade ago, the company made the decision to innovate in its logistics network by developing and introducing totally automated intelligent warehouses. This type of logistics block, a pioneering development in the sector, represents a commitment by Mercadona to quality employment at its warehouses, as it completely eliminates handling or overstrain by employees, helping to prevent and reduce the risk of industrial accidents, as well as increasing productivity and efficiency.

Having opened its first block of this type in 2007, in Ciempozuelos (Madrid), Mercadona currently has a further three intelligent warehouses, in Riba-roja de Turia (Valencia), Villadangos del Paramo (Leon) and Abrera (Barcelona). The last of these is gradually being incorporated into the company’s logistics network while its construction is still underway. In 2013 the company also installed the so-called PPG (*Picking Puente Grúa*) automated gantry crane in its logistics block at Guadix (Granada), a system for automated storage and preparation of pallets of meat, fruit and vegetables in which it invested 5 million euros.

In the first phase of operation of the block in Abrera, the frozen products, refrigerated products and fruit and vegetable warehouses currently supply 230 of the company’s supermarkets. For its construction, which is expected to be finally completed in 2017, Mercadona is collaborating with 150 SMEs, which in turn provide employment for 600

people, representing an important boost to the economic regeneration of the area while the works are underway.

To continue reinforcing the efficiency of its logistics chain, Mercadona also signed an agreement in 2014 with the city council of Vitoria-Gasteiz and the public company Gilsa to build its future intelligent logistics block for the Basque Country. For the construction of this block, the first phase of which is expected to begin in the second quarter of 2015, the company has allocated an investment of 50 million euros for the first stage alone, as well as the creation of 100 jobs.

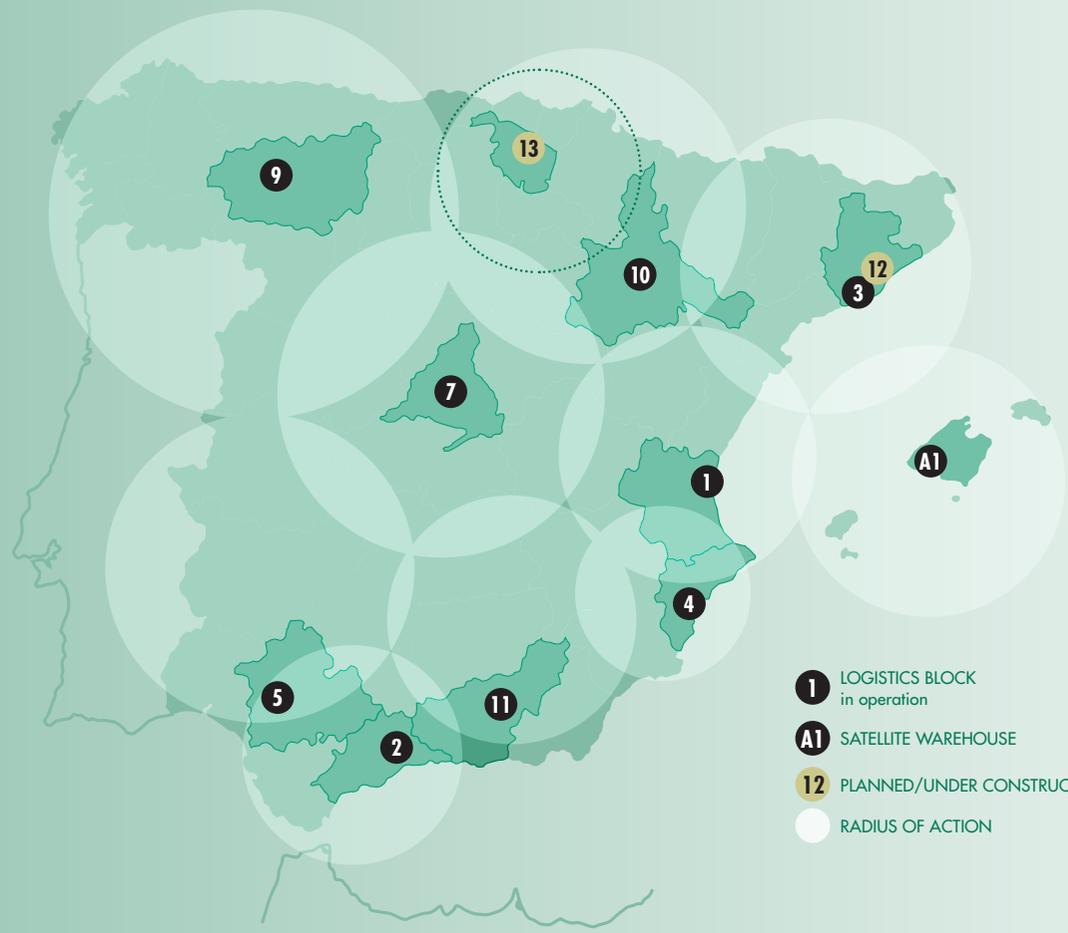
Overall, since it decided to commit to this logistics model which eliminates overstrain and increases productivity, Mercadona has devoted substantial efforts and resources to modernising its intelligent logistics network, for which over 1,300 people work every day and in which it has invested more than 700 million euros over the course of these years.



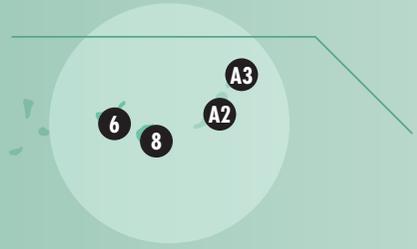
Construction of the logistics block in Abrera, Barcelona.

MAP OF LOGISTICS BLOCKS

OVER 847,000 M² DEVOTED TO GUARANTEEING THE COMPANY'S SUPPLY CHAIN



- 1. RIBA-ROJA DE TURIA**, Valencia
- 2. ANTEQUERA**, Malaga
- 3. SANT SADURNI D'ANOIA**, Barcelona
- 4. SAN ISIDRO**, Alicante
- 5. HUEVAR**, Seville
- 6. GRANADILLA DE ABONA**, Tenerife (Santa Cruz de Tenerife)
- 7. CIEMPOZUELOS**, Madrid
- 8. INGENIO**, Gran Canaria (Las Palmas)
- 9. VILLADANGOS DEL PARAMO**, Leon
- 10. ZARAGOZA**, Zaragoza
- 11. GUADIX**, Granada
- 12. ABRERA**, Barcelona
- 13. VITORIA-GASTEIZ**, Araba/Alava
- A1. MERCAPALMA**, Palma de Mallorca (Balearic Islands)
- A2. FUERTEVENTURA**, Fuerteventura (Las Palmas)
- A3. LANZAROTE**, Lanzarote (Las Palmas)



TECHNOLOGICAL INNOVATION PLAN 2006-2014 TO ELIMINATE OVERSTRAIN

LOGISTICS BLOCK	INVESTMENT million euros
CIEMPOZUELOS	300
VILLADANGOS DEL PARAMO	200
GUADIX	60
ABRERA	300*
VITORIA-GASTEIZ	50**

* Under construction
 ** Investment expected in 1st phase of construction



Consolidating a
company
that Society wants

Supermarket in Sants Market, Barcelona.



4

SOCIETY

- 4.1 Sustainable, shared growth
- 4.2 The profitability of transparency
- 4.3 Relations with the local community
- 4.4 Mercadona's social action
- 4.5 The environment and sustainability

4.1

SUSTAINABLE, SHARED GROWTH

Commitments matched by deeds to give back to Society some of what we have received from it

Mercadona is committed to participation as a way of generating growth. The relationship it maintains with Society is therefore based on active listening and getting to know each other. It also conducts a constant exercise in transparency, sharing all its projects and incorporating thoughts and proposals, true to its objective of consolidating a company “that Society wants”.

For all these reasons, Mercadona is pledged to shared prosperity between the company and Society as an engine of economic development and social progress. To achieve it, the company backs up this responsible attitude year by year with deeds, confirming that its commitment is not only unwavering but is growing firmer and more extensive, in order to give back to Society some of what it receives.

The clearest example of how it fosters economic and social development in Spain is the contribution it makes through direct and indirect taxation, which increased in 2014 to 1,484 million euros. Of this total, 639 million euros corresponded to Social Security contributions, 236 to corporate income tax, 533 to collected VAT and IRPF (Personal Income Tax), and 76 to other local, regional and national taxation.

Through its engagement to creating productive growth, the company has also contributed 4,100 million euros to the national GDP, 2% more than in 2013, while at the same time maintaining a stable workforce of 74,000 employees.

Equally committed to generating shared growth are the 2,000 commercial and service suppliers that are a part of Mercadona's circle of influence, 100 of which joined it in 2014 as a result of the company's pledge towards using specialist suppliers. Their activity boosts the economies of the areas where they operate. Particularly noteworthy in this respect is the contribution of the 120 integrated supplier companies, which, with more than 43,500 direct employees, undertook an investment effort of over 500 million euros in 2014. Moreover, one must also add the indirect contribution that the suppliers and integrated suppliers, like Mercadona, have made, which in 2014 took the concrete form of activity generating 400,000 direct and indirect jobs and the collaboration of 20,000 local SMEs and raw material producers.



Batavia lettuce crop of the supplier Provedis at the Finca El Olivar in Sartaguda, Navarra.



Harvesting of artichokes at the Finca El Merino of the integrated supplier Frutas Esparza, in Valladolises, Murcia.

IMPACT OF MERCADONA'S ECONOMIC ACTIVITY IN SPAIN

TAX CONTRIBUTION

DIRECT AND
INDIRECT TAXES

1,484 million euros

DIRECT TAX CONTRIBUTION

Social Security

534

million euros

Corporate income tax

236

million euros

Other taxes

76

million euros

INDIRECT TAX CONTRIBUTION

Social Security

105

million euros

Personal Income Tax

306

million euros

VAT

227

million euros

FIGURES FOR MERCADONA'S SUSTAINABLE AGRI-FOOD CHAIN

PURCHASE VOLUME
IN SPAIN

14,900
million euros

85% of total
purchase volume
(products + services)

+2,000

commercial and service
suppliers

120

integrated supplier-
manufacturers

+20,000

SMEs and raw
material producers

1,155

million euros
combined investment Mercadona
and integrated suppliers

400,000

jobs
in Spain through the direct and
indirect activity of Mercadona and its partners

51 days

average payment
period to suppliers



Francisco, "Boss" at the Iturrondo supermarket in Burlada, Navarra.

SOCIAL AWARDS AND RECOGNITION IN 2014

- *Spain Most Authentic Brands*: Top of the international ranking compiled by *The Age of Authenticity*, in which consumers recognise the company's transparency and honesty.
- Merco Report: Second highest-rated company for Reputation, Leadership, Responsibility and Corporate Governance.
- Recognition of Mercadona's Collective Agreement and Equality Plan for 2014–2018 by the European Commission's Social Dialogue Forum on Trade, highlighting it as an example of best practice in human resources management.
- "Business Initiative" Award from the Spanish Federation of Coeliac Associations (FACE), recognising Mercadona as a company which is committed to the coeliac community.
- Opinea: Leading Spanish national benchmark in terms of Social Business Reputation.
- Recognition from the newspaper *La Razón (A Tu Salud)* for promoting "Foods for coeliacs, allergy sufferers and other people with special requirements for healthy nutrition".
- The Cocina Económica soup kitchen in Logroño awarded Mercadona its "Solidarity Apron" in recognition of its daily donations of food.

4.2 THE PROFITABILITY OF TRANSPARENCY

Dialogue and closeness make it possible to offer answers to the concerns of our local community

For Mercadona, engaging in dialogue with the local community is both a requirement and a necessity, because knowing what its neighbours expect of it is vital in order to be able to offer them appropriate answers and solutions. Therefore, the company is keenly aware of the concerns of those around it when designing its various strategies, which it always develops after listening first hand to the needs of the community, with which it fosters fluid and constant communication.

In 2014, Mercadona has continued to bring its business model and the values that underpin its project to the attention of Society by participating in a wide range of forums, as well as meetings with a number of organisations and associations in very diverse fields.

This activity of transparency, dissemination and proximity has given Society a deeper knowledge of the company and its

values. This, in turn, contributes to increasing and enhancing Mercadona's corporate reputation. The company imposes very high standards on itself in pursuit of constant improvement, as demonstrated, for example, by having incorporated all the information required by the Transparency Act, which came into force in December 2014, into its website.

The active participation in Society that the company has maintained for years, and which it has reinforced in 2014, enables it to be closer to the community around it. Moreover, as a result of its engagement with Society over the course of the year, the company has received a number of acknowledgements, and these constitute an incentive to continue working and promoting initiatives with its neighbours, since Mercadona is aware that there are many improvements that it can and must continue to introduce in this area.

DIALOGUE WITH SOCIETY

Participation in forums **17** lectures given in 2014

With consumer organisations

Collaboration in 13 publications	Participation in 35 conferences and seminars	Close contacts with 65 different associations, at both national and regional level
25 collaboration agreements	101 briefing meetings	22 visits to the company's facilities

With associations of allergy and intolerance sufferers (Coeliacs)

Collaboration with 16 coeliac associations, at both national and regional level	Collaboration with 1 lactose intolerance association	Participation in 7 conferences and seminars
	21 meetings held	Collaboration in 4 publications

4.3 RELATIONS WITH THE LOCAL COMMUNITY

Self-imposed standards of excellence and constant improvement to build relations of respect and closeness with our neighbours

BEING “INVISIBLE” TO OUR NEIGHBOURS

For Mercadona, getting on well with its neighbours is a priority, and to this end, for years it has been developing specific plans to ensure that its commercial activity does not impinge on or cause any nuisance to those areas and neighbourhoods in which it operates. With this objective in mind, it analyses and evaluates every suggestion it receives, which enables it to rectify possible faults and implement solutions.

In addition, the company has continued moving forward in this direction in 2014 by introducing a preventive tool called “Proactive Neighbour Management”, which has enabled it to identify potential trouble spots so as to avoid them becoming an issue. For this purpose, over 2,000 checks have been carried out during the year on loading and unloading processes, as well as over 2,800 on internal processes in our facilities and supermarkets.

SUPPORTING TRADITIONAL TRADING: LOCAL TOWN MARKETS

Mercadona stimulates retail trade in its immediate vicinity in the neighbourhoods and areas in which it operates and is especially committed to coexisting with traditional forms of trading. This commitment is the framework for its plan, initiated in 2001, to revitalise local town markets, and by the end of 2014 the company was sharing its enthusiasm for this project with over 1,470 different traders.

At the end of the year, the company had 28 stores in local town markets, having opened three in Catalonia: Sants Market, in Barcelona, Constitucio Local Town Market, in Viladecans (Barcelona), and Olot Market, in Olot (Girona).

Mercadona intends to continue its policy of coexisting with traditional forms of trading, and for this reason it is planning to open eight more stores in traditional markets in the next few years.

RESOLUTION OF NEIGHBOURS' COMPLAINTS IN 2014

70

suggestions, complaints and proposed improvements received from our neighbours

37%

satisfactorily resolved in less than 15 days; for the rest the time taken depended on the type of action to be implemented

COLLABORATION WITH LOCAL TRADERS

28

stores in local town markets

>1,470

traders share the ambition of recovering traditional trading practices



We are surprised by how good a partnership we have formed with Mercadona; it complements the range offered by the market stalls, and we have all benefited



Francesc Leyva,
Vice-President of the Traders' Association at Sants Market
(Barcelona)



Supermarket in Olot Market, Olot, Girona.

SUPPORT FOR TEACHING AND ENTERPRISE

Mercadona is also heavily engaged in the field of teaching, with which it has become involved through the ADE University Degree for Entrepreneurs at the EDEM Business School, of which the company is Patron. This official national degree programme, taught at the EDEM University Centre, seeks to instil a spirit of entrepreneurship in young people through formal training. To contribute towards the training of future entrepreneurs by espousing the fundamental values of the *Total Quality Model*, in 2014 Juan Roig has once again been the lecturer in charge of the course unit on Foundations of Business Management, a subject he has taught on Saturday mornings.

In addition, Mercadona has again lent its support to the important work that EDEM has been doing for some years now in training businesspeople, executives and entrepreneurs. In 2014, the President of the company, Juan Roig, participated

in the *15x15 Course: 15 Days with 15 Business Leaders*, and a number of Mercadona's executives collaborated in some of the business management courses taught at EDEM.

Mercadona also encourages enterprise, one of Society's engines of growth. It does so both inside and outside the company, enabling it to incorporate talent into the development of the *Mercadona Project* and also share innovative initiatives it creates with Society, through differentiation, growth and productivity.

Examples of the commitment the company has made internally to enterprise projects in the last two years are those of Jesús Iborra (Jeibes), Laureano Salcines (Cosmoral) and Ernesto Badía and Diego Fernández (Neocos Laboratorios). These integrated suppliers are specialised in soft drinks, oral hygiene and hair treatments respectively.

Juan Roig teaching the Foundations of Business Management subject as part of the ADE University Degree for Entrepreneurs at EDEM.



Outside the company, an example of Mercadona's support for enterprise is its sponsorship, together with EDEM and the Valencian Association of Businesspeople (AVE), of the "Entrepreneur" category of the King Jaime I Awards. In 2014, the fifth year in which this new category has been awarded, the entrepreneur chosen to receive the prize was José Vicente Tomás Claramonte, founder of KERAjet, a public limited company from which he has developed the first industrial digital printing machine to be applied to the production of ceramics.

His commitment towards Innovation in a sector as mature as ceramics is changing the way these products are decorated all over the world, and at the same time it will serve as a driving force for introducing similar innovations in other related sub-sectors. For all these reasons, the jury of the King Jaime I Awards decided to give the award to this Industrial Engineering graduate from the Polytechnic University of Valencia.

GLOBAL COMPACT

Since 2011, Mercadona has been a member of the Global Compact in defence of fundamental values in Human Rights, Labour Standards, Environment and Anti-Corruption. The company has continued working during 2014 to reaffirm the ten principles and values of this compact, all of which is recorded in a progress report confirming the application of these principles, which has been submitted to the Spanish Network of the Global Compact.



Red Pacto Mundial
España

Consult our progress report at the following address:

► <https://www.unglobalcompact.org/COPs/active/93951>

Mercadona, the Valencian Association of Businesspeople (AVE) and the EDEM Business School, sponsors of the King Jaime I Award for Entrepreneurs, with the winner, José Vicente Tomás Claramonte, founder of the KERAjet company, during the award ceremony.



4.4 MERCADONA'S SOCIAL ACTION

In 2014, Mercadona donated 4,100 tonnes of food, to add to the total of over 6,500 tonnes donated through the generosity of our "Bosses"

In 2014, Mercadona has continued to develop its social action plan by supporting a number of social institutions and organisations which have helped many people over the course of the year. In all, it has donated 4,100 tonnes of food, equivalent to 69,800 shopping trolleys, compared with 32,000 in 2013, through the various initiatives in which it has participated in all of Spain's Autonomous Communities.

In addition, by means of its supermarkets, Mercadona has collaborated in a number of "Operation Kilo" food collections and in the "Great Collection" organised by the food banks. In all these initiatives, the response from the "Bosses" has been spectacularly generous: over 6,500 tonnes, 50% more than in 2013. Our employees have collaborated enthusiastically

in these operations, devoting more than 8,500 hours within their working day to the Great Collection alone, an operation in which Mercadona has also contributed logistical help to the tune of 98,000 euros.

The company has also expanded its programme of collaboration with soup kitchens. In 2014, Mercadona supported the work of 73 institutions in a number of towns and cities in Spain, to which every day it donates products that are not suitable for sale but are perfectly fit for consumption. In addition, the company once again responded to the call "Now More than Ever", issued by the Spanish Red Cross, by donating 774,000 nappies to help the families most affected by the financial crisis.

Collaboration with

73

soup kitchens

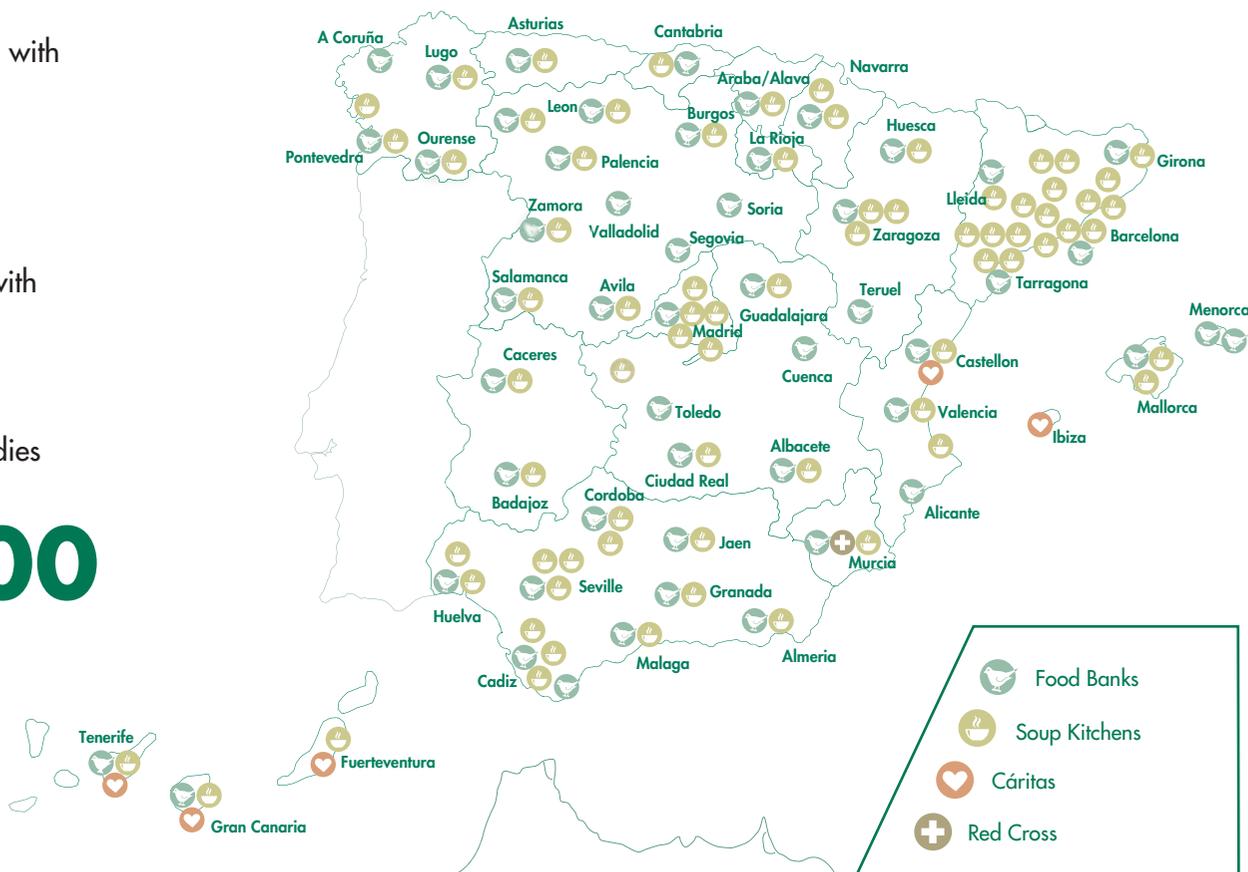
Agreements with

53

food banks and other bodies

4,100

tonnes of food donated



TRENCADÍS MURALS

In 2014, in conjunction with Pamesa Ceramics, Mercadona has continued to collaborate with the “El Molí” Occupational Centre in Onda, the “El Rinconet” Farm Home in Villafamés, the Koynos Valencian Cooperative in Godella, the Torreblanca Occupational Centre, Afanias, the Occupational Centres of the Valencian Institute for the Care of the Disabled and Social Action, Buris Ana, El Maestrat, Belcaire and Rafalafena, and the Roig Alfonso Foundation of the Valencian Community.

Thanks to this support, since the project began in 2011, some 200 people with intellectual disabilities have worked on manufacturing more than 3,500 murals in a variety of *trencadís* mosaics, which the company places as decoration mainly in its fish, fresh meat and deli meats sections.



Centres collaborating in producing the murals, made using the *trencadís* mosaic technique, for various sections of the supermarkets.



Joaquín, an employee at the Sierra Mar residential estate supermarket in Nerja, Malaga, in front of the decorative mural made using the *trencadís* technique in the fish section.



Users of the Roig Alfonso Foundation of the Valencian Community making the murals.

4.5 THE ENVIRONMENT AND SUSTAINABILITY

Optimising consumption of resources is a commitment shared by all of us who are part of the *Mercadona Project*

Mercadona is committed to sustainability and it works constantly to reduce the impact of its activity on the environment. It does so by implementing optimisation plans based on “doing more with less”, as long as this provides added value for “The Boss”. To achieve this, the company has established impact control and process optimisation mechanisms in three main areas: logistics, energy efficiency and waste management. This translates into a whole range of initiatives which the company has adopted across the board and in which it involves all its integrated suppliers and suppliers, enabling us to save energy, reduce waste and minimise consumption of resources at every point in the chain.

In addition, the company has continued in 2014 to develop several strategies for reducing the production of waste in its stores and logistics blocks and to find new uses for that which is produced, either through recycling or by making use of it for other processes.

SOME EXAMPLES OF MEASURES DEVELOPED

► **Logistical optimisation:** achieving the greatest possible efficiency by making maximum use of the space in each lorry, so as to transport more using fewer resources. Mercadona’s suppliers are also introducing innovations in eco-design to transport more product while reducing weight and volume of packaging. A notable example is the initiative of the integrated supplier Maverick to build a PET bottle-blowing plant in its facilities in Tarragona. This project makes it possible to save 1,050 trips of lorries loaded with empty bottles and 135,000 tonnes of cardboard, as well as avoiding 100 tonnes of CO₂ emissions per year. Maverick has invested 8 million euros in this plant.

► **Energy efficiency:** the automated logistics blocks include the latest technological advances to utilise the residual heat of machinery, minimise cold losses and automate work, avoiding overstrain for employees, as well as man-

CIRCULAR ECONOMY





 **MERCADONA**

SOME FIGURES FOR 2014

INVESTMENT
IN PROTECTING
THE ENVIRONMENT

25 MILLION
EUROS

ENERGY SAVING

34 MILLION
kWh

REDUCTION IN
CO₂ EMISSIONS

23,400
TONNES

agement errors that may result in product breakages. In addition, Mercadona's more than 600 eco-efficient stores are equipped with numerous energy-saving measures, including installation of low-consumption lighting, timers and systems for recovering the residual heat from the plant room to air-condition sections of the store.

► **Waste reduction:** cardboard, plastic, expanded polystyrene and wood waste produced during Mercadona's operations is recycled after an initial phase of sorting and compacting in the stores. In addition, among many other measures, Mercadona has IT tools that help to adjust orders to demand in the stores so as to reduce food wastage.

RETAIL FORUM

Mercadona has been a member of the European Retail Forum for Sustainability since it was founded in 2009. In this forum retailers from all over Europe adopt undertakings and share good practices to improve the sustainability of their processes. The distributors participating in this project, under the joint presidency of the European Commission, are monitored annually by an external auditor.



Belonging to the Retail Forum involves accepting its code of conduct, by which the signatory companies undertake to:

1. Promote the production and use of sustainable products
2. Reduce the environmental impact of their stores
3. Optimise transport of goods
4. Reduce packaging and minimise waste
5. Improve access to premises
6. Improve communication with customers

SUSTAINABLE TRANSPORT

The main effort of Mercadona's logistical processes regarding its environmental behaviour focuses on "transporting more using fewer resources", which not only reduces the impact this activity generates but also achieves major savings in energy and resources.

Over 17.6 million euros have been invested in acquiring a more sustainable lorry fleet, 99% of which complies with the Euro 5 and Euro 6 standards. These are currently the most stringent existing standards on atmospheric emissions.

MERCADONA
ENVIRONMENTAL
POLICY REPORT

For further information, consult Mercadona's Environmental Policy Report, issued every two years, the latest edition of which covers the years 2013 and 2014.

<http://www.mercadona-online.com/memoria/visor/>

ENVIRONMENTAL MANAGEMENT, EFFICIENCY AND SUSTAINABILITY

Significant data

RECYCLING

	Tonnes paper and cardboard	Tonnes plastic	Tonnes polystyrene	Tonnes wood	Tonnes used batteries collected in stores	Tonnes toner cartridges recycled
2014	159,300	10,800	2,060	1,650	152	3
2013	150,700	9,850	1,360	1,870	160	8

174,000 tonnes of material recycled

TRANSPORT

ROAD

	Stores with <i>Silent Night-time Unloading</i>	Emissions standards in the fleet
2014	523	99% (Euro 5 and Euro 6 lorries)
2013	500	93% (Euro 5 lorries)

SHIP

	Tonnes of merchandise transported	Containers transported
2014	686,500	32,700
2013	557,000	30,600

RAIL

	Train loads per year	Containers transported	Million fewer kilometres travelled by road	Fewer tonnes of atmospheric CO ₂ emissions	Tonnes transported
2014	600	11,500	9.6	8,700	242,000
2013	636	11,880	9.8	8,900	249,500



Supermarket in Santa Anna Street, Cerdanyola del Valles, Barcelona.

SOME OF THE INSTITUTIONS AND ORGANISATIONS WITH WHICH MERCADONA COLLABORATES

- ▶ Spanish Commercial Coding Association (AECOC)
- ▶ Spanish Consumption, Food Safety and Nutrition Agency (AECOSAN)
- ▶ Spanish Association of Distributors, Self-Service Shops and Supermarkets (ASEDAS)
- ▶ Agri-Food Industry Research Association (AINIA)
- ▶ Valencian Association of Businesspeople (AVE)
- ▶ Health and Food Safety Authorities in the various Autonomous Communities
- ▶ Spanish Chamber of Commerce
- ▶ Official Spanish Chamber of Commerce in Belgium and Luxembourg
- ▶ Chair of Family Businesses at the University of Alicante
- ▶ Spanish Confederation of Business Organisations (CEOE) and its respective territorial and regional organisations
- ▶ Agri-Food Advisory Board of the San Telmo Institute
- ▶ Advisory Board of the Master's Degree in Commercial Distribution Business Administration (Ministry of Economy and Competitiveness)
- ▶ Advisory Board of the Advanced Training Programme for managers of companies in the agri-food chain (Ministry of Agriculture, Food and the Environment)
- ▶ Business Council for Competitiveness (CEC)
- ▶ Directorates General of the Ministry of Agriculture, Food and the Environment (MAGRAMA)
- ▶ EDEM Business School
- ▶ School of Commerce and Distribution in Terrassa (ESCODI)
- ▶ EuroCommerce
- ▶ European Retail Round Table (ERRT)
- ▶ Inter-Food Forum
- ▶ COTEC Foundation
- ▶ CyD (Knowledge and Development) Foundation
- ▶ ETNOR Foundation
- ▶ Family Business Institute (IEF)
- ▶ Master's degree programme in Agri-Food Business Administration of the Lafer Foundation
- ▶ Global Compact
- ▶ Retail Forum (European Retail Forum for Sustainability)
- ▶ Spanish Food Safety Society (SESAL)

"Thanks to everyone for helping us to improve every day through their contributions and suggestions"

Profit is the result of
satisfying

the other components
first "The Boss", The
Employee, The Supplier,
Society and Capital

5

CAPITAL

5.1 Corporate activity
and company trends

5.2 Sales units (*kilitres*)

5.3 Sales

5.4 Profit

5.5 EBITDA

5.6 CAPEX

5.7 Equity capital

5.8 Productivity

5.9 Other indicators

5.1 CORPORATE ACTIVITY AND COMPANY TRENDS

Founded in Tavernes Blanques (Valencia) in 1977, Mercadona's corporate purpose is "purchasing, selling and marketing all kinds of goods in the grocery sector, for which it may open establishments for the retail or wholesale selling of such products, providing services for the transport of all kinds of merchandise and carrying out studies, programmes, reports and any other activity directly or indirectly related to computing and to the management, accounting, administration and corporate management".

Mercadona's main business is the distribution of food and beverages, cleaning and household products and cosmetics through its 1,521 supermarkets, which are supplied from the company's various logistics centres strategically located throughout the country.

The satisfaction of the company's other core components has once again been reflected this year in its financial results and has consequently made it possible to satisfy the fifth component: Capital. The trust placed in the company by over 4.9 million households day by day, the efforts of its 74,000 employees in the daily performance of their duties, the commitment of its

suppliers and the favourable response of society have enabled the company to achieve its financial objectives, as a result of the *Culture of Endeavour and Hard Work* and the application of the management model based on *Total Quality*.

As in previous years, the annual accounts have been audited by Deloitte, S.L., which issued an unqualified report, as usual, on 30th January 2015. This report, together with the annual accounts, has been duly deposited at the Valencia Mercantile Registry.

KEY FIGURES (millions of euros and of <i>kilotres</i>)	2013	2014	% change
Sales units (kilos/litres)	9,845	10,103	3%
Turnover	19,812	20,161	2%
Operating income	630	675	7%
Income before tax	718	738	3%
After-tax income	515	543	5%

These figures confirm the soundness of management based on the *Total Quality Model*.

5.2 SALES UNITS (KILITRES)

At year-end, the company had reached a figure of 10,103 million *kilitres* sold, a 3% increase over the 2013 total of 9,845. The company is satisfied with this figure, as it clearly shows the trust placed in it by 4.9 million households over these twelve months.

KILITRES SOLD



millions of kilos/litres (*kilitres*)

5.3 SALES

The confidence of its “Bosses”, the opening of 60 stores (with 6 closures), the refurbishments carried out in 30 supermarkets and the firm commitment to prescribing the selection that offers the best possible value for money, have enabled Mercadona to achieve a turnover of 20,161 million euros in 2014, a 2% increase over 2013.

GROSS SALES



millions of euros

Iturrondo supermarket in Burlada, Navarra.



5.4 PROFIT

Profit before tax stood at 738 million euros in 2014, compared with 718 million the previous year, which represents an increase of 3%. Profit after tax in 2014 was 543 million euros, 5% up on 2013, a year in which Mercadona achieved a net profit of 515 million euros.

NET PROFITS



millions of euros

5.5 EBITDA

Mercadona's operating income has remained in line with its other business figures, with the company's EBITDA standing at 1,070 million euros at the end of 2014, compared with 1,060 million euros for 2013.

EBITDA



millions of euros

Gema and Juan Carlos, employees in the IT Monitoring department at the Data Processing Centre in Albalat dels Sorells, Valencia.



5.6 CAPEX

As of 31st December 2014, Mercadona had a total of 1,521 supermarkets located in 48 provinces in 17 Autonomous Communities, and was continuing to expand throughout the country.

Mercadona's investments over these twelve months have included a total of 655 million euros devoted primarily to building 60 new stores and refurbishing 30 supermarkets to bring them up to the chain's standards of comfort and convenience, and to introducing the new models for meat and fish, bakery and fruit and vegetable sections.

Works continued throughout 2014 on the new logistics block in Abrera (Barcelona). During the current year, several warehouses in this logistics block have come into operation,

including those for packaging and frozen products, as well as two production lines for rustic and sliced bread.

In addition, the new Data Processing Centre in Albalat dels Sorells has also come into operation, as part of the digital transformation project that Mercadona is undertaking.

CAPEX



millions of euros

Puig d'en Valls supermarket, Santa Eularia des Riu, Ibiza.



5.7 EQUITY CAPITAL

The capitalisation of virtually the whole of Mercadona's profits has brought its equity capital at the end of 2014 up to a total of 3,884 million euros.

It is worth noting the steady increase in the ratio of equity capital to total assets, which went from 53% in 2013 to 55% in 2014.

EQUITY CAPITAL



millions of euros

5.8 PRODUCTIVITY

Productivity has increased by approximately 4% in 2014, standing at 25,400 euros in sales per person per month, compared with 24,500 in 2013.

This figure reflects the commitment of everyone involved in the *Mercadona Project* to achieving the objectives set by the company.

PRODUCTIVITY



sales/person/month in euros

Susana, an employee at the Sants Market supermarket, Barcelona.



5.9 OTHER INDICATORS

5.9.1 RETURN ON EQUITY (ROE)

Defined as Profit divided by average Equity Capital for the year.

The figures are consistent with Mercadona's capital structure, based on the strength of its Equity Capital, and with the *Total Quality Model*, in which the satisfaction of the Capital component is achieved after satisfying the other components.

MILLIONS OF €	2013	2014
Profit	515	543
Equity Capital at start of year	3,019	3,438
Equity Capital at year-end	3,438	3,884
Average Equity Capital	3,229	3,661
ROE	16%	15%

5.9.2 OPERATING CASH FLOW

Defined as cash flow generated from operating activities.

Cash generated from business operations has financed Mercadona's organic growth and investment for the year, as well as maintaining the solid cash position.

MILLIONS OF €	2013	2014
Income before tax	718	738
Adjustments to income	348	359
Changes in working capital	(135)	80
Operating Cash Flow before tax	931	1,177
Income tax paid	(253)	(237)
OPERATING CASH FLOW	678	940

5.9.3 WORKING CAPITAL

The average payment period to suppliers was 51 days and the stock turnover period was 16 days.

MILLIONS OF €	2013	2014
Current assets	3,311	3,608
Current liabilities	(2,924)	(3,041)
WORKING CAPITAL	387	567

MERCADONA, S.A.

Balance Sheet as of December 31, 2014

(Thousands of euros)

NON-CURRENT ASSETS	3,452,266
Fixed assets and non-current investments	3,413,712
Deferred tax assets	38,554
CURRENT ASSETS	3,608,120
Inventories	612,458
Trade and other receivables	78,260
Current investments	33,988
Cash and cash equivalents	2,883,414
TOTAL ASSETS	7,060,386
EQUITY	3,884,206
Capital	15,921
Reserves	3,325,026
Profit for the period	543,259
NON-CURRENT LIABILITIES	135,498
Non-current provisions and payables	28,195
Deferred tax liabilities	107,303
CURRENT LIABILITIES	3,040,682
Suppliers	2,096,411
Other payables	676,015
Personnel	233,789
Current tax liabilities	34,467
TOTAL EQUITY AND LIABILITIES	7,060,386

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish-language version prevails.

MERCADONA, S.A.

Income Statement for the period ended on December 31, 2014

(Thousands of euros)

CONTINUING OPERATIONS

Revenue	18,441,861
Supplies	(13,907,913)
Other operating income	17,106
Personnel expenses	(2,329,392)
Other operating expenses	(1,216,019)
Amortization	(330,375)
RESULTS FROM OPERATING ACTIVITIES	675,268
Finance incomes	61,665
Impairment and net result on disposal of financial instruments	982
NET FINANCE INCOME	62,647
PROFIT BEFORE INCOME TAX	737,915
Income Tax Expense	(194,656)
PROFIT FOR THE PERIOD	543,259

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish-language version prevails.

HISTORY OF MERCADONA



1977-2014





1977

Francisco Roig Ballester (1912–2003) and his wife Trinidad Alfonso Mocholí (1911–2006) start operating Mercadona as part of the Carnicas Roig group. What had been family-run butcher's shops become grocery stores.



1981

Juan Roig and his wife, together with his brother Fernando and sisters Trinidad and Amparo, buy Mercadona from their father.

The business consists of eight shops with approximately 300 square metres of retail space. Juan Roig assumes control of the company, which commences its activity as an independent business.



1982

First company in Spain to use scanners to read bar codes at points of sale.



1986

Introduction of free customer credit cards for "The Boss".



Lucía, an employee, prescribing to Alicia and Samuel, "Bosses" at the Sierra Mar residential estate supermarket, Nerja, Malaga.

1977-1991



1988

Opening of the logistics block in Riba-roja de Turia (Valencia), the first fully automated distribution centre in Spain.

Acquisition of Superette Supermarkets, with 22 stores in Valencia.



1989

Acquisition of Cesta Distribución and Desarrollo de Centros Comerciales, enabling the company to establish a presence in Madrid.



1990

Juan Roig and Hortensia M. Herrero become the company's majority shareholders.



1991

Acquisition of Dinos and Super Aguilar.

Electronic Data Interchange (EDI) is initiated with suppliers.



Marta, "Boss" at the Santa Anna Street supermarket in Cerdanyola del Valles, Barcelona.



1992

The company reaches figures of 10,000 employees and 150 stores.



1993

Introduction of the *Always Low Prices* (SPB) commercial strategy, which would later evolve into the *Total Quality Model*.



1996

Launch of the Hacendado, Bosque Verde, Deliplus and Compy brands.

Supermarket number 200 opens in Segorbe (Castellon).

The company's first collective agreement for all employees is signed.



1997

Joint venture agreement with Almacenes Gómez Serrano of Antequera (Malaga).



Mirian, employee at the San Roque supermarket, Badajoz.

1992-2001



1998

Acquisition of Almacenes Paquer and of Supermercados Vilari, both in Catalonia.



1999

The process of making all staff permanent employees (a process started in 1995) is completed; at that time, the number of employees was 16,825.

Opening of the logistics block in Antequera (Malaga).

The project for a new design and model for the cosmetics section is initiated.



2000

Construction of the logistics block in Sant Sadurni d'Anoia (Barcelona).

The first *Atmosphere Store* opens in Massanassa (Valencia).

The first Integrated Suppliers Meeting is held.

Collective Agreement (2001-2005) signed.



2001

Inauguration of the first free nursery school for children of employees at the logistics block in Sant Sadurni d'Anoia (Barcelona).

Mercadona reaches 500 supermarkets with the opening of its first store in Linares (Jaen).



Cala Rajada supermarket, Capdepera, Mallorca.



2003

First company to carry out an Ethical Audit.

Opening of the logistics block in San Isidro (Alicante) and of the company's second nursery school.

Launch of the new Hortensia H perfume line.

Opening of a supermarket in the precincts of the L'Olivar Market in Palma de Mallorca.



2004

Opening of the logistics block in Huevar (Seville) and of the company's third nursery.

The Management Committee decides not to open the supermarkets on Sundays as a general rule.



2005

Introduction of the new Mercadona uniform.

Opening of the logistics block in Granadilla de Abona (Tenerife).

Signing of the new Collective Agreement for the next four years (2006–2009).



2006

The company's twenty-fifth anniversary.

Opening of the company's 1000th store in Calp (Alicante).

Relaunch of the *Mercadona Credit Card* with a new image.



2002-2010



2007

The first phase of the *Twenty-First-Century Warehouse* logistics block comes into operation in Ciempozuelos (Madrid).

Fourth-ranked company in the world for Corporate Reputation, according to the New York *Reputation Institute* survey.



2008

Realignment of Mercadona with the *Total Quality Model*, fifteen years after its introduction.

Shopping Cart Menu to offer "The Boss" the finest and cheapest *Total Shopping* on the market.

Opening of the logistics block in Ingenio (Gran Canaria).



2009

Back to basics for an effective product range by doing what adds value for "The Boss".

Signing of the new Collective Agreement and Equality Plan (2010–2013).



2010

Human Resources management model based on Leadership and the *Culture of Endeavour and Hard Work*: the keys to being a high-performance, high-productivity company.



Harvesting olives in Alcaudete (Jaen) for Virgen del Perpetuo Socorro S.C.A., supplier of olives to the integrated supplier-manufacturer Sovena (Brenes, Seville).



2011

Mercadona celebrates thirty years of its sustainable model based on promoting growth of the five core components of the company.

It begins charging for plastic bags in accordance with Spain's *National Integrated Waste Plan*.



2012

The company reaches figures of 1,400 stores and 74,000 employees.

Agreements are reached with Fishermen's Associations for direct purchasing of fish.



2013

Signing of the Collective Agreement and Equality Plan (2014–2018).

Redefining ourselves to be "more like shopkeepers". Introduction of new fresh products sections.

The *Mercadona Sustainable Agri-Food Chain* begins to be developed.

Opening of the logistics block in Guadix (Granada).



2014

Opening of the 1500th supermarket in the city of Santander, in the Cazoña neighbourhood.

The new Data Processing Centre in Albalat dels Sorells (Valencia) comes into operation.



First store in the Basque Country, the Alto de Armentia Street supermarket in Vitoria-Gasteiz (Araba/Alava).

2011-2014

The Mercadona Project continues to move forward...



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