



Mercadona

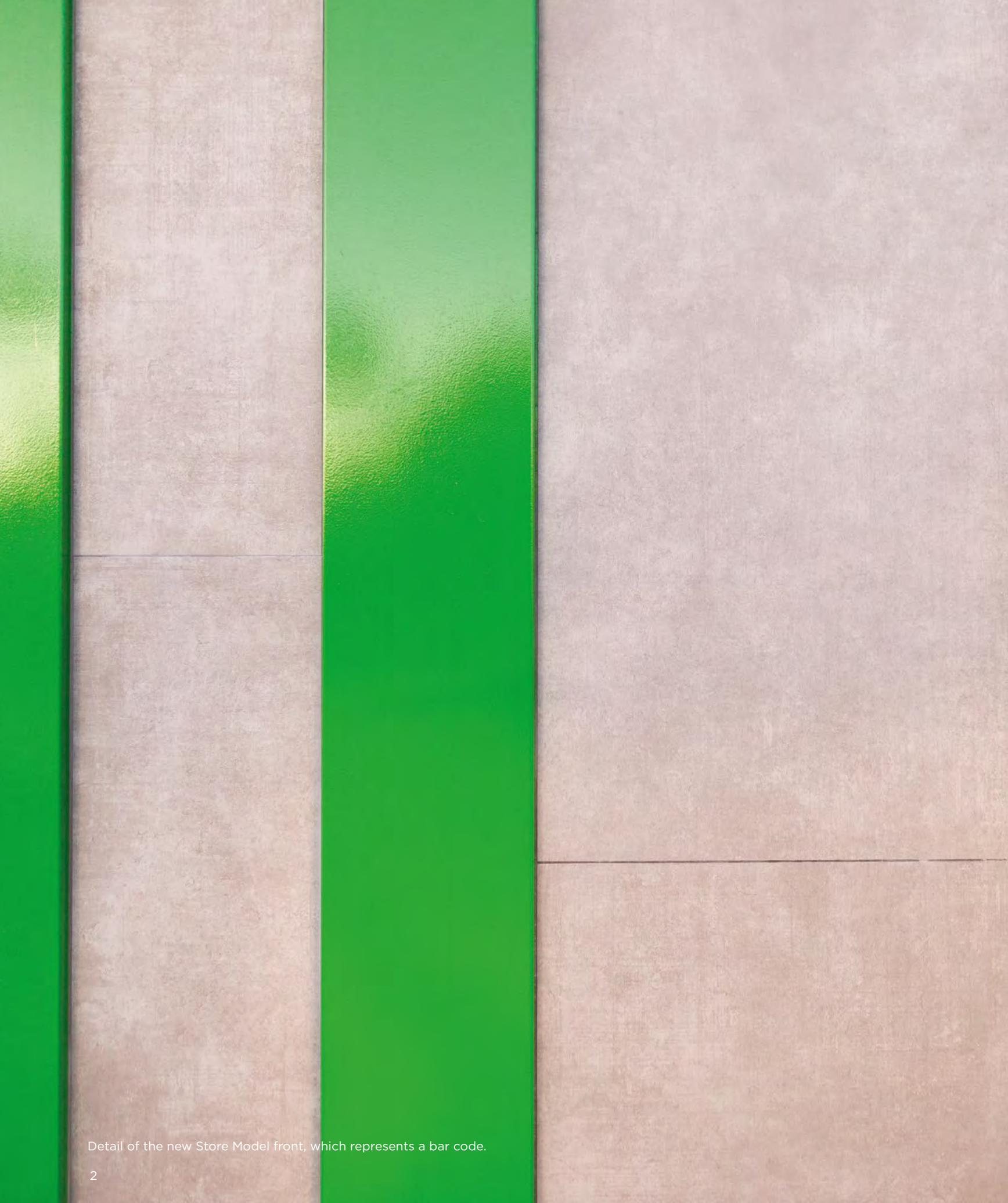
ANNUAL REPORT 2016



Mercadona Annual Report 2016



The picture on the front page is of the New Efficient Store Model's storefront of the supermarket located in the municipality of Peligros (Granada).



Detail of the new Store Model front, which represents a bar code.

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Our most significant achievements

2016

1. "THE BOSS"



1,614

STORES IN 2016
50 inaugurated
and 35 refurbished

Present in

17

AUTONOMOUS COMMUNITIES



300

INNOVATIONS IN THE SELECTION

350 product improvements
and 150 co-innovation
products introduced

5.1

MILLION HOUSEHOLDS

shop at
Mercadona



15%

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

2. THE EMPLOYEE



79,000

EMPLOYEES
in long-term,
quality employment

4,000

NEW PERMANENT JOBS

120 executives
in Portugal

54 MILLION EUROS

€ invested
in training

1,297

EUROS/MONTH GROSS

starting salary for
core staff

1,122 euros/month net

300



MILLION EUROS

in variable incentive
bonuses distributed
among our workforce

3. THE SUPPLIER

16,055

MILLION EUROS IN PURCHASES WITHIN SPAIN, more than 85% of the total

126

INTEGRATED SUPPLIER-MANUFACTURERS

560

MILLION EUROS INVESTED BY THE INTEGRATED SUPPLIERS



65

NEW FACTORIES AND PRODUCTION LINES

2,500+

COMMERCIAL AND SERVICES SUPPLIERS

20,000+

small and medium enterprises SMEs AND PRODUCERS of raw materials

4. SOCIETY



1,468

MILLION EUROS IN TAX CONTRIBUTIONS

IMPACT OF MERCADONA'S PRODUCTION CHAIN IN SPAIN:

660,000

direct, indirect and induced jobs
3.8% of the total employment

1.8%

of national GDP
20,100 million euros

Collaboration with:



120+

SOUP KITCHENS

60

FOOD BANKS AND OTHER ORGANISATIONS

6,500

TONNES OF FOOD DONATED

5. CAPITAL

21,623 €

MILLION EUROS turnover (+4%)

11,071

MILLION KILOS/LITRES (kilotres) sold (+4%)

685

MILLION EUROS in investments

636



MILLION EUROS net profit (+4%)

515

MILLION EUROS devoted to reinforcing equity capital

Message from the President



Once again, in 2016, the individual effort made by every single one of us who are part of the Mercadona Project, has enabled us all to continue building a great company that society wants to exist. And also, thanks to the involvement and commitment shown by everyone, we have been able to achieve important milestones for the company and for all five components of which it is comprised: “the Boss”, as we at Mercadona refer to our clients, the Employee, the Supplier, Society and Capital.

These decisions include the start of our international project, with the announcement of the expansion into Portugal, and the introduction of a fully connected, New Efficient Store Model whereby our fresh sections gain protagonism, improving and optimising the shopping experience for our “Bosses”. All of this, while keeping in mind the strategic development in which the company has been immersed for a number of years and which is leading us towards a common goal: having an Effective Selection that increasingly sets us apart, and in whose achievements our “Bosses”, employees, integrated suppliers and suppliers all feel they participate.

This active participation has also reached our fresh products sections, through the implementation of a number of initiatives, such as the inclusion of fresh-

ly squeezed orange juice and sushi, as well as an improved adaptation to the local selection, favouring locally sourced products to gain in freshness. This has led us to increase the number of local suppliers of fresh products, which has tripled in the past two years.

Similarly, we have seen that the steps taken in 2016 towards the development of the Effective Selection strategy represent a great opportunity, which stems from joining forces, and always having “The Boss” as our guiding principle. This has allowed us to introduce new, successful products and to incorporate more than 500 specialist suppliers into our project - which is another of our unique strengths.

In the context of this collaborative model, and also throughout the year, we have achieved significant improvements in the development of Mercadona’s Sustainable Agri-Food Chain. And while it is true that CASPOPDONA continues to grow and consolidate, we are aware that there is still much to discover, and consequently, to improve, so that between us, Mercadona, our suppliers and integrated suppliers, and the primary sector, we may create an efficient and productive agri-food model whose guiding principle it is to meet the needs of “The Boss”.

“The individual effort made by every single one of us who are part of the Mercadona Project, has enabled us to continue building together, a great company that society wants to exist”

Described above are just some of the numerous initiatives introduced in 2016. All of them stem from our capacity for change, an attribute that gives us agility in making decisions and speed in their execution, because at Mercadona we have a culture of constant innovation with the focus on surprising “The Boss”, with the highest-quality products at the lowest possible price, whilst providing a service of excellence.

It is within this paradigm of fostering participation to satisfy “The Boss” that the outstanding results achieved by the company in 2016 are framed. Last year saw sales rise by 4% in volume to reach 11,071 million kilo-litres, while turnover rose by 792 million euros, 4% more than in 2015, to 21,623 million euros.

To this evolution we must add the sustained investment effort made by the company year after year, which has risen to 685 million euros, largely channelled into the opening and refurbishment of stores, building new logistics blocks and the introduction of new IT solutions aimed at delivering agility and improved decision-making processes throughout the company’s production chain.

To the company’s commitment in terms of investment, we must also add that of generating stable, quality employment, a sustained effort that resulted in the creation of more than 4,000 jobs in 2016. Of this total number, 120 are young Portuguese graduates who are currently

undertaking training, and who will be part of the company’s future management team in Portugal. All in all, a workforce of 79,000 people by year-end whose talent, motivation and exertion in their daily work represent the driving force behind Mercadona’s success.

As a consequence of all of the above, and of satisfying the other components of the company — “The Boss”, The Employee, The Supplier and Society — in 2016, the company’s net profit amounted to 636 million euros, 4% more than in 2015. Subsequently, in order to acknowledge the joint effort made, and because success is sweeter when it is shared, for the fifteenth year running, we have decided to distribute 300 million, 25% of the total profit generated by the company among the employees by way of performance-related bonuses.

I am convinced that 2017 will also be a year of challenges and milestones, such as the start of the building works at Parc Sagunt, our future regulating logistics block, in Sagunt, Valencia, or the development of the company’s online project. Additionally, I also feel sure that we will meet them as long as all of us who form part of the Mercadona Project apply what we have learnt in the past twelve months: that agility in making, executing and comparing decisions will allow us to have a Corporate Model that is stronger and sustainable over time.

To achieve this, we have the very best assets at our disposal: the trust placed in us by 5.1 million households, the commitment of 79,000 employees, the hard work of the integrated suppliers and suppliers, acknowledgement from society, and backing from our Board of Directors. I would like to thank each and every one of you for allowing the Mercadona Project to continue progressing along the path laid out.

Juan Roig

Management Committee



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



Francisco Espert
Managing Director of
Manufactured Agricultural
Products Purchasing



Rafael Berrocal
Managing Director of
Meat, Fish and
Seafood Purchasing



Francisco López
Managing Director of
Fruit and Vegetables
Purchasing



David Cid
Managing Director of
Petroleum Byproducts
Purchasing



Daniel Blasco
Managing Director of
Human Resources



Juan Antonio Germán
Managing Director of
External Relations
and Patronage



Rosa Aguado
Managing Director of
Construction and
Expansion



Aleix Juan
Managing Director of IT

Audit Commission

President	Rafael Gómez Gómez
Secretary	Carolina Roig Herrero
Member	Juana Roig Herrero

The Vision

“To achieve a Sustainable Agri-Food Chain that Society wants and feels proud of, through leadership and having ‘The Boss’ as our guiding principle”

The Mission

“Total prescribers of the products and solutions required so ‘The Boss’ (client) may put together their Shopping Cart Menu* (Fresh and Dry products) within a Sustainable Agri-Food Chain”

*Shopping Cart Menu: “The Boss” Total Shopping at the best quality and the lowest monthly cost.

The Model

**If you have a model,
you have a treasure**

A Model that evolves thanks to the inputs put forward by all of us who are a part of Mercadona, and whose pillars are the universal truths and paradigms that constitute our values and our behaviour, always aimed towards satisfying the company's 5 components

Mercadona is a Spanish, family-owned supermarket company. Since it was founded, its mission has been that of satisfying all the food and beverages, cleaning and personal hygiene needs of its customers, as well as those related to pet care. The company has a workforce of 79,000 people, all of whom strive to offer service of the highest level of excellence on a daily basis. Thanks to them, 5.1 million households place their trust in the company every year.

By year-end 2016, Mercadona had a network of 1,614 supermarkets, having opened 50 new stores and closed 10 that did not measure up to the current standards demanded by the company, which has a presence in all 17 of Spain's Autonomous Communities, and that plans to open its first stores in the autonomous cities of Ceuta and Melilla in 2018. Also in 2016, the company announced the start of its internationalisation plan, whereby it will start by opening an initial 4 stores in Por-

tugal in 2019. To this end, it foresees investing 25 million euros, and has already started hiring 120 executives, many of whom have already started training and will be responsible for leading the project in Portugal.

In order to build a project of sustainable, shared growth, since 1993 Mercadona has been basing all its decisions on a specific management model, which has evolved year by year through the participation of all those who are a part of the company. This model aims to satisfy all five components of Mercadona's Sustainable Agri-Food Chain to the same high standard, and in this order: "The Boss", as clients are referred to internally, The Employee, The Supplier, Society and Capital.

Mercadona's model is the framework of reference for all those who are a part of its project, and it helps towards all of them moving in the same direction. It is based on universal truths and paradigms, and following it on a daily basis allows for consolidating said Model, and to make it evolve with agility, so as to adapt to the needs of the five components in an open, collaborative manner. Thanks to this, specific objectives and strategies are developed within a corporate outlook based on a culture of participation, the aim being to generate an innovative, sustained and shared growth aimed at achieving a differentiated company model that society wants to exist, one that facilitates decision-making whilst always keeping the satisfaction of "The Boss" as the guiding principle.

In order to address its mission and vision in a tangible and attainable way, the company shares strategies across the board throughout the entire chain, enabling it to plan actions jointly with all parties. By doing so, it seeks to identify and prioritise changes in a well-ordered, productive fashion, so as to adjust processes and avoid imbalances, because improvement is an ongoing concern for Mercadona.



Sushi selection

The incorporation, in 17 stores, of 20 types of maki, roll, nigiri and sashimi, as well as other Japanese products and dishes such as salmon poke, wakame seaweed salad and gyozas, by supplier Leroy Processing. In addition to edamame, by the supplier Jinyuan.

Across-the-Board Innovation Model

The ability for collaborating with clients and suppliers alike goes hand in hand with an agile execution to create products that become sales successes

Innovation represents one of Mercadona’s keys for growth. It has always been part of the company’s management model, and it has allowed it to evolve and adapt to new surroundings.

The value of joint innovation

The company has its own Across-the-board Innovation Model that guarantees its present and future competitiveness, and which may be considered a reference on account of its differentiation and the results achieved. In this way, for instance, in its report “The value of joint innovation”, the Cerdà Institute endorses this by concluding that “the commitment upheld by Mercadona and its integrated suppliers in terms of innovation provides a framework for collaboration throughout the distribution chain that allows both for a profound understanding of the end client’s needs, and for the organisations to evolve, adopting a culture of continuous improvement”.

An 82% success rate in new launches

This study certifies that the success ratio for new products launched by Mercadona in collaboration with the integrated suppliers is 82%, which is above the average for the sector, that stands at 24%. In 4 years, the integrated suppliers that were the object of the study launched 580 new products, and increased staff working on innovative activities for the development of 350 R&D lines by 80%, at an investment of 882 million euros in infrastructures.

4 lines of innovation

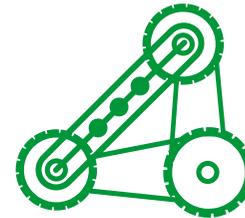


PRODUCT INNOVATION

Developing products that provide a faultless consumer experience

580 new products in 4 years and an 82% success rate

13 co-innovation centres in which 6,100 sessions have been carried out in conjunction with the “Bosses”, for the purposes of joint innovation



PROCESS INNOVATION

Improvements in the manufacturing processes and in the logistics systems to avoid unnecessary costs and reinforce productivity

347 innovations aimed at improving and optimising the company’s supply chain

CONCEPT INNOVATION

Innovations are only pursued if they provide value for the “The Boss”

The New Efficient Store Model optimises the shopping experience for the clients, while generating energy savings of 40%



TECHNOLOGICAL INNOVATION

Speeding up decision-making and simplifying processes

Increased connectivity in stores to maximise efficiency and agility in processes and to improve real time management, as well as a more user-friendly corporate web site that enhances communication with the users

Find out more at

www.mercadona.com

Main milestones 2016

EFFECTIVE SELECTION: FOSTERING CO-INNOVATION

Mercadona's differentiated innovation model has allowed it to continue setting trends within the sector. According to the conclusions of "The value of joint innovation", a report prepared by the Cerdà Institute, "the commitment upheld by Mercadona and its integrated suppliers in terms of innovation provides a framework for collaboration throughout the distribution chain that allows for a profound understanding of the end client's needs". This statement is backed up by facts and figures, as 82% of these innovative products remain in the selection for over a year, while in the distribution sector in general, the percentage is 24%.



580
new
products
in 4 years

82%
success
ratio



126
integrated suppliers
500+
specialist suppliers
in the last few years

SPECIALISATION AND ADAPTING TO THE LOCAL SELECTION

The company concentrates on identifying the needs of "The Boss" through the Prescription departments, in order to adapt the selection swiftly and accordingly, and to be able to satisfy their preferences. To this end, since 2012, the company has fostered specialisation by collaborating with integrated suppliers and specialist suppliers in each product of the selection, which has allowed Mercadona to introduce improvements in terms of adapting to local tastes, and more importantly, to get solutions right.

INTERNATIONALISATION - PORTUGAL

In June 2016, Mercadona decided to start its internationalisation process by entering the Portuguese market, which will initially entail an investment of approximately 25 million euros. The objective is to be able to open its first four stores in Portugal in 2019, and to this end, the company is currently training a leadership team of 120 executives.

4
stores in 2019

€25 M
investment

NEW STORE MODEL

In December, Mercadona opened the first two supermarkets in keeping with the New Efficient Store Model, which improves the shopping experience for the “Bosses” and speeds up processes thanks to increased connectivity, by using new electronic devices. The Puerto de Sagunto (Valencia) and the Peligros (Granada) supermarkets are the first to include these characteristics out of the 126 the company plans to refurbish in 2017, for which it intends to invest 180 million euros.

€180 M
investment

- Improved service
- Connectivity
- Ergonomics
- Energy savings



4,000
new permanent jobs



Lourdes, employee at the supermarket in Valdemoro Sur, Valdemoro, Madrid.

**A HUMAN RESOURCES POLICY
PRAISED BY THE UN**

In its publication “Non-standard Employment around the World”, the United Nations’ International Labour Organisation (ILO) has stated that Mercadona’s Human Resources policy is one of the keys to the company’s competitiveness strategy. According to the ILO, Mercadona’s commitment towards stable, quality employment, its investment in training, and the distribution of profits among its staff are all factors that influence its successful Human Resources policy.



Ana, "Boss" at the supermarket in Villafranca de los Barros, Badajoz.

1. “The Boss”

More stores and a presence abroad

The “Bosses” are at the centre of all our decisions, and they inspire us so we may surprise them

In 2016, Mercadona achieved two very important milestones. Firstly, in October the 1,600-store mark was achieved, reaching 1,614 by year-end, as 50 stores were opened, and 10 that did not adapt to the company’s current standards were closed, while 35 supermarkets were refurbished.

Furthermore, in June 2016, Mercadona made a historical decision, approving the start of the internationalisation project by entering the Portuguese market, where it already carries out purchases to suppliers that add up to 52 million euros. The company’s objective, towards which it has been working for months, is to open its first four stores in Portugal in 2019. The country has

been chosen for Mercadona’s international expansion on account of it being a neighbouring country, and its logistical proximity, which makes it fit in with the company’s organic, natural growth, as it offers numerous opportunities, and it is a country with which we have important ties.

To this end, Mercadona has already created the company Irmãdona, a name that was coined by Miguel Ángel Solaz, an executive of the legal department, and that means “Mercadona’s sister” in Portuguese. Furthermore, the company has decided to establish its headquarters in Porto. Almost 25 million euros have been committed to the start of the internationalisation project, and the hiring of 120 managers to lead it is already underway.

To learn more about our project in Portugal, go to www.mercadona.pt

Innovating to improve the experience, and to optimise shopping times for the "Bosses"

In December 2016, Mercadona introduced its New Efficient Store Model, in whose development more than 65 suppliers have participated. By improving the distribution, connectivity, decoration, eco-efficiency and layout of the different sections, Mercadona reinforces and renews its pioneering atmosphere store model, all in aid of offering "The Boss" a more spacious and comfortable space, and an improved distribution of the assortment.

Two supermarkets of this type had already been inaugurated by the end of 2016, one in Puerto de Sagunto (Valencia), and another in the municipality of Peligros (Granada), and the company plans to invest 180 million euros throughout 2017 to adapt a total of 126 stores.

New Efficient Store Model



Improved service

New distribution and decoration aimed at improving shopping times and the shopping experience. Novelties have been introduced across all sections, which are wider and better adapted, and allow for the "Bosses" to be offered a better service, an example of which is the Meat "finishing station", or the self-service freshly squeezed orange juice in the Fruit and Vegetable section.



Connectivity

State-of-the-art electronic devices have been introduced, allowing for sharing real time information from anywhere in the store, which speed up processes throughout the chain, particularly concerning the management of fresh products.



Ergonomics

Collaboration with Valencia's Institute of Biomechanics to adapt the till workstations and eliminate overexertion. Renovation of the rest areas and innovations introduced in the employees' lockers, where an isolated top section for footwear or helmets has been introduced.



Energy savings

Incorporation of energy saving measures to reduce consumption by up to 40% in comparison to a conventional store. Improvements that propitiate thermal insulation, noise reduction and savings in water.



More space and appeal to improve the shopping experience

Lidia Lourdes, "Boss" at the supermarket in Peligros, Granada.



Collaboration with Valencia's Institute of Biomechanics to adapt the till workstations



New till display.



Storefront of the supermarket in Puerto de Sagunto, Valencia.

an investment of
€180 M

in the refurbishment of
126
stores in 2017

The Value of Prescription

An indispensable task: always thinking about the client, listening to them and observing to understand their real needs, and using co-innovation to surprise them with the right solutions

SPB and the Shopping Cart Menu

In 1993, Mercadona decided to introduce the Always Low Prices (SPB in Spanish) commercial strategy. In the context of this strategy, in 2016 the company has been working towards avoiding unnecessary costs and generating constant savings. Thanks to this, its clients may choose their products from the approximately 8,000 references in its selection to make up their Shopping Cart Menu: the Total Shopping for "The Boss" of the highest quality and at the lowest monthly cost, a highly relevant factor for the budgets of the 5.1 million households that place their trust in the company.

Observing to identify needs

Mercadona invests a great deal of effort on an ongoing basis in order to offer its clients solutions that cover all their needs in terms of food (eating and drinking), cleaning and household products and pet care. Everyone who is a part of the company works towards this objective, especially the Prescription and Purchasing departments, which in the last few years have grown from having 50 to 650 employees, divided into four Purchasing and two Prescription departments, all specialising in satisfying the different needs of the "Bosses".

Furthermore, the company collaborates with specialist suppliers and integrated suppliers, who are also involved in an essential task, which is that of always thinking about the client, listening to them and observing so as to identify their real needs, and surprising them with the right solutions by means of co-innovation.

Effective Selection

By year-end 2016, the company had collaborations in place with 126 integrated suppliers, and more than 2,500 commercial and services suppliers, after having increased the number of fresh and dry products specialist suppliers by more than 500 in the last few years, all of whom specialise on specific products. This allows for offering local products of the highest quality, as well as broadening and adapting the selection to local tastes.

Thanks to this joint effort, the company is now in possession of an effective selection that, regardless of who manufactures each product, responds to the high level of demand, while guaranteeing food safety, maximum quality and appeal at the lowest possible price, a service of excellence and the minimum time to satisfy the shopping experience for the "Bosses".

An ample gluten and lactose-free selection

For years, Mercadona has been highly committed towards the coeliac collective. Currently, the company has a wide selection of gluten-free products, more specifically, 1,040 products that are free of this protein. In this line, we would like to highlight the effort made during 2016 in the frozen food section, where new gluten-free bakery and patisserie lines have been introduced. The company also continues to work on the improvement of the selection, and on identifying lactose-free products, in order that our "Bosses" may be able to shop in all the product categories.

8,000+
products for the “Bosses”
to make up their
Shopping Cart Menu

the Total Shopping for “The Boss”
at the minimum monthly cost

126
integrated suppliers
and
500+
specialist suppliers

capable of assimilating all the information
received to devise the best solutions
at the lowest possible price

650
Sales and Prescription
executives

Deliplus
Compy

BOSQUE
VERDE
HACENDADO

Hacendado, Bosque Verde, Deliplus and Compy are, among others, brands that Mercadona has been developing since 1996, and whose manufacturers are clearly identified on the label



frutos
Conservar en congelación
a temperaturas inferiores a -18°C.
Una vez descongelado no volver a congelar.
Consumir preferentemente antes
del fin de (mes y año)/Lote:
FABRICADO POR: A.I.A.D.H.E.S.A.
Paseo de los Sauces, núm.1 - 03690
San Vicente del Raspeig (ALICANTE)
Telefono de atención
al cliente Mercadona: 900 500 103
ESPAÑA 28.00031/A
EE

Cream flavoured ice-cream with chocolate biscuits by integrated supplier Helados Alacant.

Mercadona's integrated supplier-manufacturers devote more resources to R&D&double-I than the average for the sector in Spain: 2.63% of their workforce as opposed to 1.29% (Source: INE 2015)

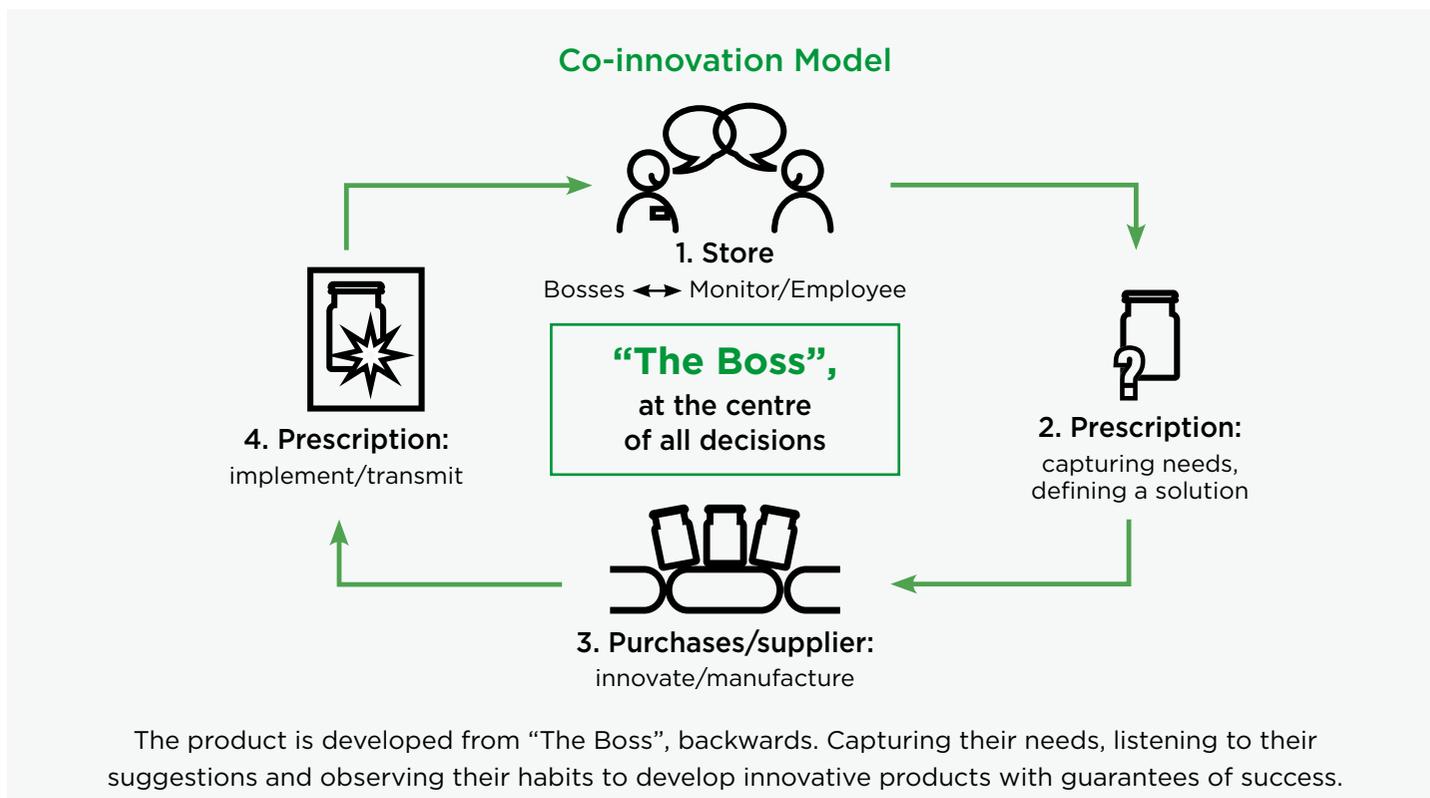
Co-innovation Centres

In 2016, Mercadona reinforced its Co-innovation Model, a pioneering project it started in 2011 with the Apron Strategy, based on sharing experiences and consumption, household cleaning, personal hygiene and pet care habits with clients.

The company has refurbished and enlarged its network of co-innovation centres, of which there are 13, and where 86 monitors specialised in more than twenty consumption categories work. These monitors are responsible for capturing and observing the preferences and needs of the "Bosses" at store level, so that the company may offer them the right solutions.

Furthermore, to adapt the selection to Portuguese consumers, the company has decided to open its first co-innovation centre in Portugal, specifically in the municipality of Matosinhos (Greater Porto), which will be the country's first centre with these characteristics.

Concurrently, the company allocates important resources to improving the fresh products selection through specific initiatives, such as the ones that are being introduced to optimise the process of maturing bananas, or the carving of ham and Iberian cold cuts service.





Some examples

Fresh horchata tiger nut milk: Fresh, seasonal horchata, prepared by specialist supplier Panach, with the Valencia Appellation of Origin, which preserves the flavour of the drink made in traditional horchata stores.

Selection of new healthy products: Broadening of the selection to include new fresh and dry products made by specialist suppliers, such as bimi (Sacoje), kale (Verdifresh), black garlic (Sociedad Agroalimentaria Pedroñeras), quinoa (Fertitecnica Colfiorito), edamame (Jinyuan), and a wide range of seeds, such as chia, flax and mixed seeds (Pedon), as well as natural untoasted and unsalted nuts, including hazelnuts and pumpkin seeds (Importaco).

More than 300 innovative products

In 2016, the “Bosses” actively partook in more than 6,100 sessions, making suggestions and sharing their habits and needs. Thanks to these sessions, 350 improvements have been introduced in the assortment, and 150 co-innovation products have been developed. Furthermore, more than 300 warmly received innovative products have been incorporated. This collaboration between all the links in the chain, from clients to integrated supplier-manufacturers and suppliers, has allowed the company to reach new product launch success rates that are 4 times higher than the average for the sector.

Drawing our inspiration from “The Boss”





los
ta
Barquillos
SIN
azúcar

Orchata
TRISCA
LA HORCHATERIA
PASTELERA

NOEL
MORTADELA
CON ACEITUNAS
Veggie
CON ACEITE
DE OLIVA VIRGEN
0%
CARNÉ

HACENDADO

Edamame
- Vainas de soja verde
500 g
UN SNACK
SALUDABLE

HACENDADO
Mezcla de
frutas rojas
300g e

Muesli
SIN
AZÚCARES
AÑADIDOS
Fuente
de fibra
HACENDADO

SMOOTHIE
Detox
VERBENA
85%
14%
FRUTA
VERDE

120g/100g
AJO
NEGRO
DIENTES PELADOS

JAMON
Y QUESO
COCIDA AL HORNO DE
SIN GLUTEN
SIN LACTOSA

Quinoa
Calentar
y listo!
2 min
micro
HACENDADO
125g

ENERVIT
Sport
BARRITA CON QUINOA
Y VITAMINAS
SIN GLUTEN

BARRITAS
DE SESAMO
GLUTEN

EXCLUSIVE
ANTI-ENVEJECIMIENTO
con DHA

MAGICO
EvoFolante

SISBELA

A requirement that is shared with all the suppliers in order to always be able to offer food safety, and, by means of co-innovation, to surprise “The Boss” with the right solutions

Commitment towards food safety and quality

For Mercadona, guaranteeing food safety in each and every one of the products in its selection is a requirement and a priority that it shares, and in which integrated suppliers and specialist suppliers are equally involved.

In order to offer the clients the best possible guarantees, Mercadona has a Quality Management and Food Safety System that spans the entire production chain, from the origin, all the way to the final consumer, and it performs exhaustive controls on each and every one of the processes.

Mercadona’s Golden Rule

The company is fully committed to food safety, which is reflected in the fulfilment - always and under all circumstances - of Mercadona’s Golden Rule. This rule states that any product in the selection must, in this order, guarantee: (i) food safety; (ii) quality; (iii) appeal; (iv)

an effective selection; (v) the lowest possible price; (vi) maximum service; and lastly, (vii) the minimum time spent buying it.

Additionally, the company has a Practice Drill Method in place. This initiative has allowed for simulating numerous, different drill scenarios in 2016, which has contributed towards improving the coordination of all those who participate in a possible contingency, while increasing the levels of food safety.

Collaboration with Health Authorities

Since 2015, Mercadona has been a member of the Governing Body of the National Accreditation Agency (ENAC in Spanish), with which it has participated closely and actively throughout 2016, especially in regards to promoting accreditation in testing laboratories. Also during the course of the year, the company has reinforced its collaboration with the Food Safety and Pharmacy health authorities in the different Autonomous Communities. Furthermore, Mercadona has actively participated in forums for Food Safety such as the ones organised by the Spanish Consumption, Food Safety and Nutrition Agency (AECOSAN), the Spanish Commercial Coding Association (AECOC) and others.

Food Safety Decalogue in Suppliers and Integrated Suppliers

The objective is to assess and verify food safety levels in a continuous and agile manner

1
Identification and control of its raw material suppliers

2
Control over production

3
Control over change implementation

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

1,000+
facilities assessed

Control over fresh products and cross-contamination of allergens

1,100+
controls carried out

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

 **98%**
of integrated suppliers

Control over logistics processes

500+
controls

Communicating with “The Boss”

For Mercadona, maintaining dialogue and communication with its “Bosses” is essential, as their suggestions and thoughts allow for the introduction of improvements. Because of this, all employees are involved in this endeavour on a daily basis, and the company places a number of direct communication channels at their disposal.

Customer Service Department (SAC)

Mercadona has a Customer Service Department that acts as a conduit for any concerns raised by customers through the different channels it keeps open with its “Bosses”. This enables the company to hear their views and resolve any queries they might have in a swifter, more efficient manner.

In 2016, the Customer Service Department, with a staff of over 40, received a total of 300,000 different enquiries and suggestions, which have contributed towards detecting areas for improvement, enabling Mercadona to fulfil its objective of being the company that offers the best solutions through an effective selection and a positive shopping experience that includes the very best service.



**Customer
Service Department:**
(+34) 900 500 103

www.mercadona.com

www.facebook.com/mercadona

www.twitter.com/mercadona

www.youtube.com/mercadona



490,000

followers on Facebook



119,000

followers on Twitter



203,000

views on Youtube



Sergio and Beatriz, employee and "Boss" at the supermarket in Villafranca de los Barros, Badajoz.

611,900

total followers on social networks

105,000

enquiries on social networks

82,400+ followers in 2016

86,000

average mentions per month



Ana María, employee at the supermarket in Santa Eularia des Riu, Ibiza.

2. The Employee

**The combined talent of
79,000 people committed
towards excellence**

The Mercadona of today
is the result of the ideas
and the hard work of
the entire workforce

For Mercadona, the 79,000 people in its workforce represent its most valuable asset, a high-performance team committed towards excellence in their daily routines, and that share the objective of fully satisfying “The Boss”. To achieve this, the company applies the universal truth that is “giving first, to then receive”. For this reason, Mercadona allocates a great deal of resources towards promoting both the personal and professional development of all those who are a part of the company.

Mercadona encourages a culture that fosters hard work, responsibility, constant improvement and a joint commitment. It does this through a Human Resources policy in which leadership is key. In keeping with this policy, the company has a team that is united and ca-

pable of, in their routine work, taking full advantage of the talent, to constantly improve it and to potentiate its skills and strengths. A team whose merits and efforts are acknowledged, and whose individuals lead the responsibilities they assume.

Thanks to all this, the company’s workforce represents one of its best competitive advantages. It comprises a group of people who are fully committed towards the Mercadona Project, and who fulfil this commitment while developing values such as responsibility, striving to improve and the capacity of taking on new challenges.

The incorporation of talent in Portugal

In 2016, Mercadona started the hiring and incorporation of 120 Portuguese executives who will be in charge of leading the company’s internationalisation process during this first stage. They will all receive comprehensive training on the Mercadona Model, in specific skills and the management of different posts, as well as in the functioning of the company’s different departments.

If you want the best ideas, use the creativity of everyone in the company

The United Nations praises Mercadona's innovative Human Resources model

Mercadona's Human Resources policy has been praised by the International Labour Organization (ILO), a United Nations' agency. In its publication "Non-standard Employment around the World", it points at the way in which Mercadona manages its workforce as being one of the keys to its strategy of competitiveness. According to the ILO, Mercadona's commitment towards stable, quality employment, as well as the efforts it makes in carrying out training, are also factors that contribute towards their Human Resources policy being so successful.

The ILO further highlights the favourable impact that fostering stability, work-life balance, training, promotion and sharing profits has had and continues to have on the company's sustainable growth, and in its consolidation as market leader within its sector. It also explains another

factor that sets its Human Resource Policy apart: having a policy of dialogue and transparency that includes the trade unions, and which, according to the ILO "is an approach that generates dialogue and trust, and that allows for collaboration to achieve results that benefit all parties".

To learn more: goo.gl/9JLV7v

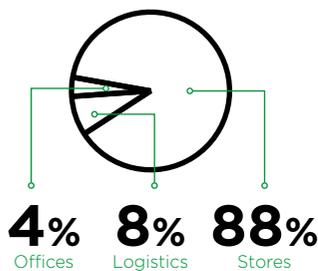
Furthermore, Mercadona's Human Resources policy has once again been praised in 2016, by coming first in the ranking for its sector, and among the top ten in the country, in the Merco Talento Report. Similarly, in 2016 the company came first in the Adecco survey "The happiest companies to work for" in its sector.

These acknowledgements showcase that Mercadona fosters quality employment, and that it will continue to invest heavily in this, while remaining conscious that there is still room for improvement.

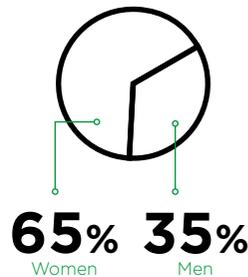


Distribution of the workforce

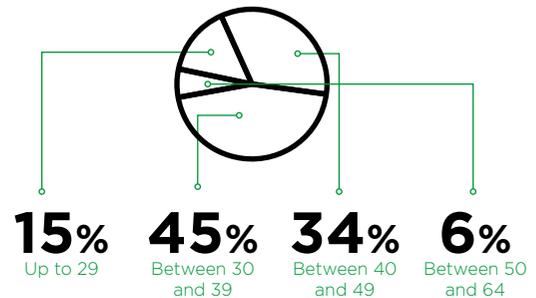
By area of activity



By gender



By ages



Collective Agreement and Equality Plan 2014-2018

The starting point from which to carry out and incorporate constant improvements in terms of the relationship with the workforce

Fulfilment of the commitments

Investment in human capital

Main milestones reached

Creation of employment

4,000 male and female employees

Minimum net starting salary at Mercadona exceeds 1,000 euros

100% of full-time core staff earn an initial minimum of 1,122 euros/month net

Remuneration policy

7,536 male and female employees moved to a higher band in 2016 (11% increase in monthly salary)

Extension of childcare leave to child's 8th birthday

333 applications processed

Training

16,692 people have participated in specific training programmes

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

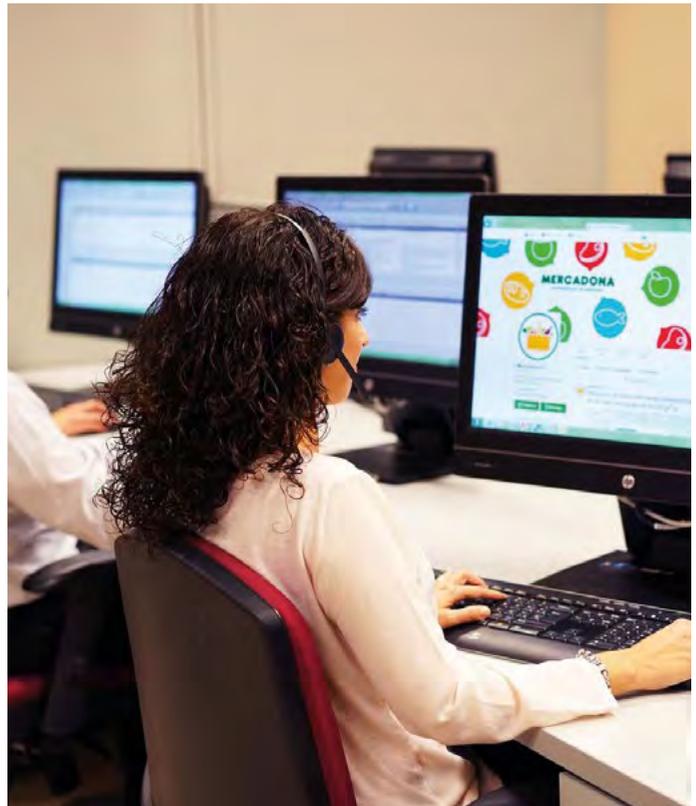
46% of employees promoted in 2016 were women



Enrique, employee at the supermarket in Algeciras, Cadiz.



Building works for the new supermarket in Onda road, in Vila-Real, Castellon.



Inma, employee at the Customer Service Department.

Professional equity

The Human Resources model defends and fosters values that are non-negotiable and that affect people’s personal and professional development. Because of this, it promotes stability, training, effort, leadership, equality and self-demand. It also propitiates a relationship of respect and trust in which tolerance, equality and diversity are considered values that enrich, while joint participation, constructive criticism, debating and continuous improvement contribute towards the ongoing growth of the company.

An obvious example of the equality the company defends is the remuneration policy, which is based on the “same responsibility, same pay” principle. This policy seeks to reward the hard work carried out by employees, men and women alike, with a salary that for years, and once again in 2016, has been above the average for

the sector. As a result of this, productivity has continued to grow.

Sharing profits with the employees

Mercadona has a policy of variable remuneration in place. It recognises achieving the objectives set thanks to individual and collective effort, and shares the profits obtained throughout the year with the employees. As in previous years, and in line with this policy of variable remuneration that was implemented 16 years ago, the company has rewarded employees with more than one year’s seniority, and whose implication during the last twelve months has allowed them to meet their personal objectives agreed on for their post. In 2016, this acknowledgment has come in the form of the distribution of 300 million euros among 98% of its male and female employees.

Table of salaries

Core staff

Table of Mercadona core staff salaries in 12 monthly payments

Seniority	<1 year	2 years	3 years	>than 4 years
Gross/month	€1,297	€1,425	€1,582	€1,755
Net/month	€1,122	€1,213	€1,325	€1,449

In effect as of 01/01/2017

An increase in the payment policy of 1.6% in 2017

84% of core staff

Performance indicators

Performance-related bonuses

300

million euros distributed among the workforce

98%

of employees receive it

Turnover

2.9%

turnover

Work-life balance and a commitment towards the wellbeing of employees

In the context of its commitment towards the wellbeing of its employees, work-life balance is an essential value for Mercadona. Within this permanent commitment, continuous improvement is an ongoing issue. And although there have been a number of initiatives in this respect, the figures speak for themselves: in 2016, 5% of the female employees decided to have children, and 2,552 working mothers opted for extending the legally-established maternity leave of four months by 30 days. Also during the course of the year, 17,776 male and female employees have benefited from shorter working days, while in some cases, they have also taken their children to the free nursery schools the company started opening in some of its logistics blocks in 2001.

2,552

female employees opted for having children and extending their maternity leave by 30 days

17,776

male and female employees benefited from shorter working days

1,471

male employees have benefited from paternity leave

Jezabel, employee at the Los Tempranales supermarket, in San Sebastian de los Reyes, Madrid.



Mercadona employee Marc's son, Gerard, at the "Piu-Piu" nursery school, in the logistics block in Abrera, Barcelona.



15 years of nursery schools

In 2001, Mercadona became a pioneer in Spain thanks to the inauguration of nursery schools in some of its logistics blocks. The first of these, the "Piu-Piu" nursery school at the Sant Sadurni d'Anoia logistics block (Barcelona), was moved in September 2016 to the new Mercadona logistics block in Abrera de Llobregat (Barcelona), after having served hundreds of the company's employees' families for 15 years.

Currently, 40 children aged under 3 attend the centre, which is open on working days from six in the morning to ten in the evening, and where a team of educators, educational psychologists, speech therapists and teachers work. The work they have been developing throughout this time has allowed for this project to continue to grow and make history.

Professional growth and training

If you train people and give them opportunities, you create a pool of talent

Training for professional development

Mercadona allocates a great deal of resources to training its employees, as the company is fully aware of the fact that this investment is not only one that benefits the personal and professional development of the employees, but also that of the company itself. Thanks to this, the company has a high-performance workforce whose skills and knowledge are constantly being strengthened. To reinforce the talent of its employees, in 2016, the company invested 54 million euros in training, 15 million more than during the previous year, whereby 2 million hours of training were imparted, both specific and general. Training begins with the Welcome Programme, on the first day an employee joins the company, and it is maintained throughout their career.

A good example of this is the “Executive Leadership” project, which is in its seventh year, and that in 2016 trained 420 new executives in four different groups, at an average investment per person of 20,000 euros.

Also worth mentioning is the training aimed at the assistants, all drawn from the “homegrown” pool of talent, and who have received 26 weeks’ training throughout the year. Other training actions have included those for boosting the new fresh products sales models, such as the specific course for the new Meat Section Model or Fresh Orange Juice, as well as the logistics courses that have been given to all the employees of the future logistics block in Vitoria-Gasteiz, Araba/Alava.

Also within this investment in training, the work carried out for the internationalisation project is worth mentioning, whereby the future executives who have been hired for Portugal are to be immersed in an 18-month internal training programme, at an investment of 50,000 euros per person.

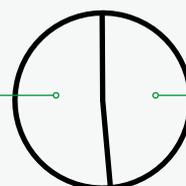
Opportunities for internal promotion

This global commitment towards training allows for the continued development of a corporate model which has internal promotion as one of its distinguishing features. This is showcased by the fact that in 2016, thanks to their worthiness and their capacity, 484 professionals assumed new and greater responsibilities within the company. The company’s commitment towards this issue is such that all the general managers in the Management Committee come from this internal promotion process.

Internal promotion

484
people promoted

46%
women



54%
men

Rosa Aguado, managing director of Construction and Expansion, and Oriol Montanyà, managing director of Logistics, imparting the executive promotion course.



Training Plan

54 million euros
30% more than in 2015

2,200,000 hours of training

16,692
people trained in
specific plans

52
training modules or actions

684
euros per employee

Health and safety at work

For Mercadona, safeguarding health and safety at work for its employees represents a commitment of the highest priority, due to which it seeks to implement the very highest standards of safety and ergonomics in all the different posts, and throughout all production processes, while reinforcing prevention training among its workforce year after year. Because of this, in 2016, the company allocated more than 10 million euros towards preventive measures, through training, introducing specific protective equipment, selecting and adapting machinery and designing new facilities.

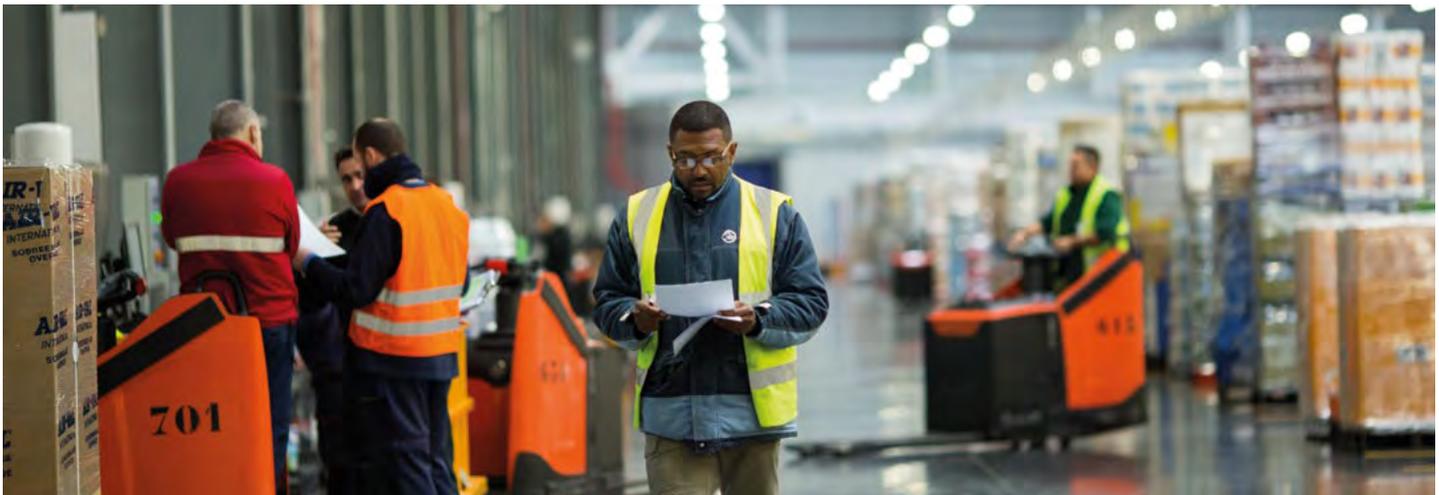
To safeguard and maintain the health of the people who make up its workforce, Mercadona has a team of specialists comprised of 97 professionals, 24 of whom are qualified safety officers specialising in Safety, Occupational Hygiene and Ergonomics and Applied Psycho-sociology, as well as 73 health care professionals. In 2016, this team has not only been in charge of designing the workstations, it has also dealt with selecting equipment and production methods, with the objective of guaranteeing safety at work. Additionally, it has been responsible for furnishing the entire workforce with the specific information and training necessary to carry

out their duties, while minimising the risks derived from their execution; the pertinent medical tests have also been performed through internal and external prevention services.

In line with this, in 2016, the prevention team dealt with specific posts, which has allowed, for instance, for the introduction of new personal protective equipment, as well as implementing a new method for the evaluation of psycho-social risks. The team has also worked in collaboration with Valencia's Institute of Biomechanics in order to adapt the new till workstations in the New Efficient Store Model, reinforcing ergonomics and eliminating overexertions.

Collaboration with health insurance providers and suppliers

Together with the work carried out in conjunction with the 9 health insurance providers affiliated to the Social Security system - and as has been the norm for many years - Mercadona has collaborated in exchanging information with the Risk Prevention Services of its main suppliers, which is undoubtedly an important field of ongoing improvement for the company.



Shipping area of the logistics block in Abrera, Barcelona.

Risk Prevention Plan Health Programme

Supermarkets

Risk assessment for the new centres and the refurbishments carried out

Initial and periodic training

R&D+i Production processes

156 assessments carried out

100% of new intakes and periodic annual training planned

Improvements in the New Store Model and risk assessments

Logistics Blocks

Training of employees (working at heights, aerial work platforms and emergencies)

General and specific risks (security of facilities)

100% of new intakes and periodic annual training planned

15 courses planned

Risk assessment for warehouses and blocks

Offices

Necessary preventive criteria to be included in the design of offices

Initial evaluation of the new offices at Albalat dels Sorells (Valencia)

5 studies on ergonomics

100% completed

Health and Safety at Work

Incidence of workplace accidents

Average period off work

Coverage of the seasonal flu vaccination campaign

Coverage of periodic collective examinations

Investment in occupational risk prevention

18‰*

33 days

53%

77%

10.6 million euros

*Incident rate = No. of accidents with time off work per 1,000 employees.



Salt evaporation ponds at the integrated supplier Salinas del Odiel, Huelva.

3. The Supplier

An open model based on close collaboration

The key to success in specialisation is to concentrate our efforts in what we do best, fostering a culture of innovation to satisfy the needs of “The Boss”

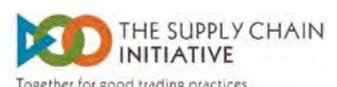
The Supplier plays an important role within the Mercadona Project. At year-end 2016, the company was working with 2,500 commercial and services suppliers, to which we must add 20,000 local SMEs and raw materials producers. In point of fact, their involvement during 2016 has allowed for the consolidation of a project that backs productivity, quality, innovation and the Spanish origin of products, and one that generates value and wealth for our country year after year.

In this respect, we would like to highlight the role played by the integrated suppliers (126 by the end of 2016) with whom the company collaborates closely with the objective of fully satisfying “The Boss”. Furthermore, since 2012, and in line with this same commitment, Mercadona has continued to expand its relationship with specialist suppliers - more than 500 in the last few years -, which has allowed the company to reinforce the adaptation of the selection to local tastes.

Additionally, Mercadona has a presence in more than 30 countries, where it works with the very best suppliers with the objective of always securing the best option available for “The Boss”. In several of these countries it has representative offices, subsidiaries and branches, through which it provides legal coverage for the employees, and from which they may act on behalf of Mercadona.

Code of Good Commercial Practice

Mercadona adheres to the Code of Good Commercial Practices in Food Contracting, a voluntary agreement that is framed within the legislation introducing measures for improving the food chain’s operation. This project is a Ministry for Agriculture and Fisheries, Food and the Environment (MAPAMA) initiative, in collaboration with different associations of the national agri-food chain, and it represents a new step towards encouraging fair commercial practices. Similarly, since 2014, the company has been a member of The Supply Chain Initiative, a voluntary European agreement of good commercial practices in the agri-food chain, started by seven of the sector’s associations, and that has support from the European Commission.





126 integrated supplier-manufacturers

The company also has in place good commercial practices agreements of indefinite duration with integrated suppliers, which constitute the engine behind synergies and productivity. Furthermore, it works in conjunction with all those who are a part of the Mercadona Project to gradually consolidate an industry that sets our country apart, while contributing towards guaranteeing the growth of an efficient, specialised primary sector.

By the end of 2016, the company had 126 integrated supplier-manufacturers, once 5 new ones had been incorporated: Aguamur, as integrated supplier for bottled water; Valle de San Juan, who provide sheep's cheese; Liasa, dairy derivatives; Pastisfred, for cakes, and Làctia Agroalimentaria, for milk.

Good Commercial Practice Framework Agreement

Principles governing Mercadona's relationship with the integrated supplier manufacturers

Shared 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 production chain seeking to achieve 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

Courgette crops by supplier Agromenorca, in Menorca.

Specialist suppliers for each product

Throughout 2016, Mercadona has continued to focus its actions around two important decisions it took in 2012 to specialise the selection even further. Firstly, to decentralise the management of fresh products, which allows for backing suppliers at source, to use locally sourced products and to work with shorter supply channels, thus reinforcing both freshness and quality. Secondly, to rely on specialist suppliers to pursue maximum quality, and to continue to add expertise to the company's selection, increasingly adapting it to local tastes, while solidifying local economies and helping rural populations remain in their territory.

Consequently, by the end of 2016, the company was collaborating with more than 500 specialist suppliers of both fresh and dry products. This translates into more than 300 new lines, products that are fresher, more local and specialised, and ultimately, products that meet the expectations of the "Bosses".

In fact, specialisation represents one of Mercadona's great advances in terms of having an effective selection that contributes towards sustainable growth. To this end, specialist suppliers and integrated suppliers alike concentrate on what they do best, which in addition to making important investments, and constantly seeking innovation, will entail a great leap forward for Mercadona's Agri-Food Chain.

To reinforce said specialisation, the company has been strengthening its Purchasing and Prescription departments. This is showcased by the fact that, between 2008 and 2016, in just eight years, the company has gone from 50 to 650 managers, distributed among four Purchasing and two Prescription departments, all of whom specialise in different products and categories.

Stocking locally-sourced products boosts local economies, reduces food waste, reinforces freshness, avoids unnecessary transport, encourages diversification and strengthens the feeling of identifying with regional products.

Specialist suppliers for each product

A close relationship based on trust and mutual collaboration

In dry products, they have the specific know-how to deliver specific products of the highest quality

In fresh products, they incorporate locally-sourced products that adapt to local tastes

They have the means to enable new products to reach the shelves almost immediately

They have the satisfaction of **"The Boss" as their guiding principle**

Industrial cluster in numbers

The hard work undertaken by both Mercadona and the integrated supplier-manufacturers has allowed them to create an important industrial cluster in the country. By the end of 2016, this cluster had 245 factories, and a total of 48,700 employees, and during the last twelve months, and after having invested 560 million euros, it has managed to incorporate a further 65 new factories and production lines

€560M

investment

65

new factories and
production lines

150,000+

kilos of oranges per day which on account of their appearance and size, would be hard to commercialise in the marketplace



Integrated supplier Interlat's facilities in Funes, Navarra.

Sashimi quality tuna

Unión Martín, specialist integrated-supplier for octopus and salted fish, is now also a supplier of sashimi quality tuna caught in the Atlantic Ocean. It has broadened the selection and created a new plant for packaging fresh and prepared products in a protected atmosphere



Fresh orange juice

Introduction of the freshly squeezed orange juice service in collaboration with supplier Zumex, available in half a litre and one litre formats. This has meant increasing orange purchases by 2,500 tonnes in 2016

Freshly squeezed orange juice machine.

Sushi assortment

100+

trays sold daily in the

17

supermarkets where this service has been introduced



Refrigerated sushi mural.

Francisco Aragón
New technological
R&D+i building in Molina
de Segura (Murcia)

€7.2 M
47 new jobs

Casa Tarradellas
New pastry and
pizza lines in
Gurb (Barcelona)

€36 M
52 new jobs

**Productos Naturales
de la Vega**
Sandwich production
lines in Lodosa (Navarra)

€1 M
34 new jobs

Antonio Álvarez Jamones
New ham drying
facilities in
Portugos (Granada)

€1.2 M



€560 million invested by the integrated supplier-manufacturers in 2016

Examples of some of the investments made

ANDALUSIA

	million €
ANTONIO ÁLVAREZ JAMONES	1.2
Portugos - Trevelez (Granada)	
COVAP	8.5
Pozoblanco (Cordoba)	
DULCES OLMEDO	2.2
Estepa - Osuna (Seville)	
JOSÉ LUIS MONTOSA	2
Velez-Malaga (Malaga)	
PROCAVI	5.1
(Huelva - Malaga - Seville)	

ARAGON

	million €
BEBIDAS NATURALES	5.7
Bronchales (Teruel)	
BYNSA MASCOTAS	3.9
El Burgo de Ebro (Zaragoza)	

ASTURIAS

	million €
QUESERÍA LAFUENTE	2.5
Arriondas (Asturias)	

CANARY ISLANDS

	million €
LOGIFRUIT	2
(Santa Cruz de Tenerife - Las Palmas)	
SAT CANARISOL	1.3
(Santa Cruz de Tenerife)	
SCHREIBER FOODS	1.4
(Santa Cruz de Tenerife)	

CANTABRIA

	million €
IPARLAT	2.9
Renedo de Pielagos (Cantabria)	
QUESERÍA LAFUENTE	2.6
Heras - Penagos (Cantabria)	

CASTILLA - LA MANCHA

	million €
GRUPO HUEVOS GUILLÉN	3.7
Alovera (Guadalajara) - Villaluenga de la Sagra (Toledo)	
INCARLOPSA	43.7
(Cuenca - Toledo)	

CASTILLA Y LEON

	million €
AUDENS FOOD	5
Roales de Pan (Zamora)	
IBERSNACKS	7.2
Medina del Campo (Valladolid)	
QUESERÍAS ENTREPINARES	11
Valladolid (Valladolid)	
VALLE DE SAN JUAN	3.5
Palencia - Villarrabe (Palencia)	

Central Quesera Montesinos
Expansion of the production
in Jumilla (Murcia)

€1.4 M

42 new jobs

Ibersnacks
New corn production lines
in Medina del Campo (Valladolid)

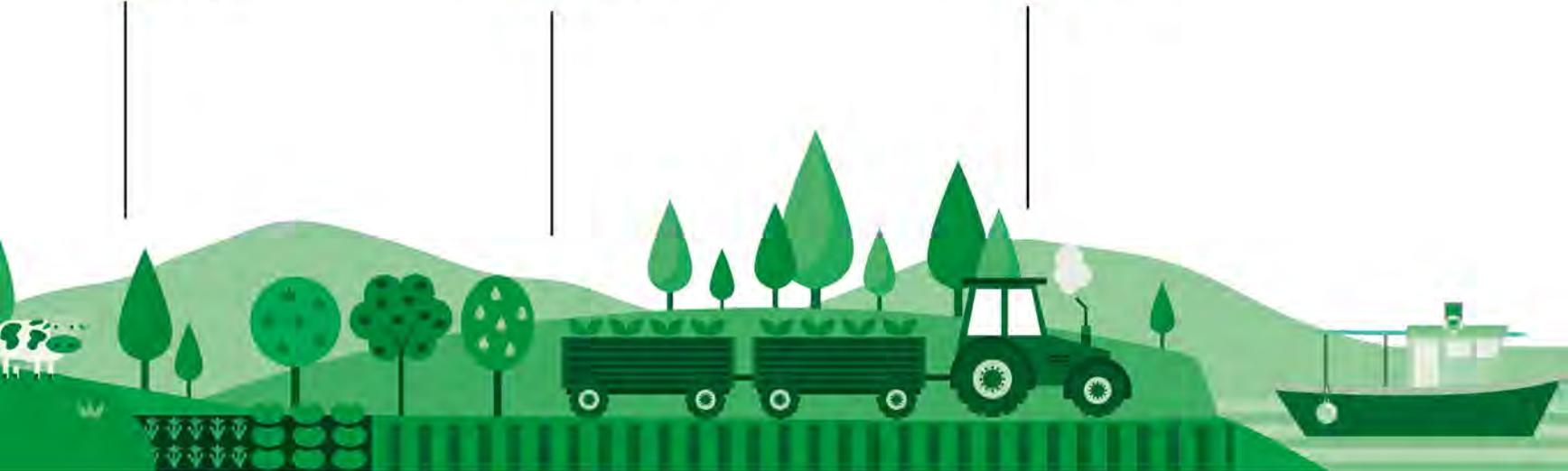
€7.2 M

34 new jobs

Logifruit
Packaging solutions
and logistics (throughout Spain)

€35.3 M

115 new jobs



CATALONIA

	million €
CASA TARRADELLAS (Barcelona)	36
EMBUTIDOS MONTER (Girona)	7.1
PASTISFRED (Montblanc (Tarragona))	0.9
SCA HYGIENE PRODUCTS (Valls (Tarragona))	11.1
WE COLORS (Vilassar de Dalt (Barcelona))	2.2

VALENCIAN COMMUNITY

	million €
FRUTAS TONO (Valencia)	2.5
GRUPO ANITÍN (Carlet (Valencia))	4.3
JESÚS NAVARRO (Novelda (Alicante))	1.5
LA TAHONA DE UTIEL (Utiel (Valencia))	1.1
SPB (Chestre (Valencia))	7.5
VERDIFRESH (Carlet - Ribera-roja de Turia (Valencia))	5.2

BASQUE COUNTRY

	million €
INTERAL (Lezo (Gipuzkoa))	0.9
IPARLAT (Urnieta (Gipuzkoa))	2.9

EXTREMADURA

	million €
ARROCIERÍAS PONS (Don Benito (Badajoz))	0.9
GRUPO EL CIDACOS (Coria (Caceres))	1.8

GALICIA

	million €
CONGALSA (A Pobra do Caramiñal (La Coruña))	2.4
ESCURÍS (A Pobra do Caramiñal - Boiro (La Coruña))	4.2
QUESERÍAS ENTREPINARES (Vilalba (Lugo))	2.2

BALEARIC ISLANDS

	million €
ACOTRAL (Coll de Rabasa (Mallorca))	3
LOGIFRUIT (Palma de Mallorca (Mallorca))	0.9

LA RIOJA

	million €
BODEGAS ONTAÑÓN (Aldeanueva de Ebro (La Rioja))	1.1
ELABORADOS NATURALES DE LA RIBERA (Aguilar del Rio Alhama (La Rioja))	0.8

MADRID

	million €
ACOTRAL (Ciempozuelos (Madrid))	7.9
LOGIFRUIT (Ciempozuelos (Madrid))	6.9
PANIFICADORA ALCALÁ (Alcalá de Henares (Madrid))	3.4

MURCIA

	million €
FRANCISCO ARAGÓN (Molina de Segura (Murcia))	7.2
PLASBEL (Alcantarilla (Murcia))	8.7
SAT AGRÍCOLA PERICHÁN (Mazarron (Murcia))	4.9
TANA (Los Ramos (Murcia))	1.3

NAVARRA

	million €
PRODUCTOS NATURALES DE LA VEGA (Lodosa (Navarra))	1.1
SCA HYGIENE PRODUCTS (Allo (Navarra))	4.3
ULTRACONGELADOS VIRTO (Azagra - Funes (Navarra))	6.4

Annual Meeting of Integrated Suppliers

Last May, Mercadona's annual integrated supplier meeting was held in Valencia, to which a number of specialist suppliers also attended.

The meeting allowed us to share relevant ideas and thoughts, such as opportunities for improvement derived from analysing and answering complaints or suggestions from the clients, the need to guarantee the quality of the products supplied to the "Bosses" on a daily basis, and advancing in specialisation, one of the

main challenges faced by everyone who forms part of the Mercadona Project.

Although a great deal of conclusions were arrived at, the main one was the importance of having specialist suppliers throughout all the links of the Agri-Food Chain, from the origin of the raw materials all the way to the finished product. Only in this way will the company manage to ensure the ongoing satisfaction of "The Boss" and the rest of the components.



Integrated Supplier-Manufacturers

They are clearly identified on the packaging of the products they manufacture for Mercadona, and the company maintains a relationship based on the principles of the Good Commercial Practice Framework Agreement with them (see page 44)



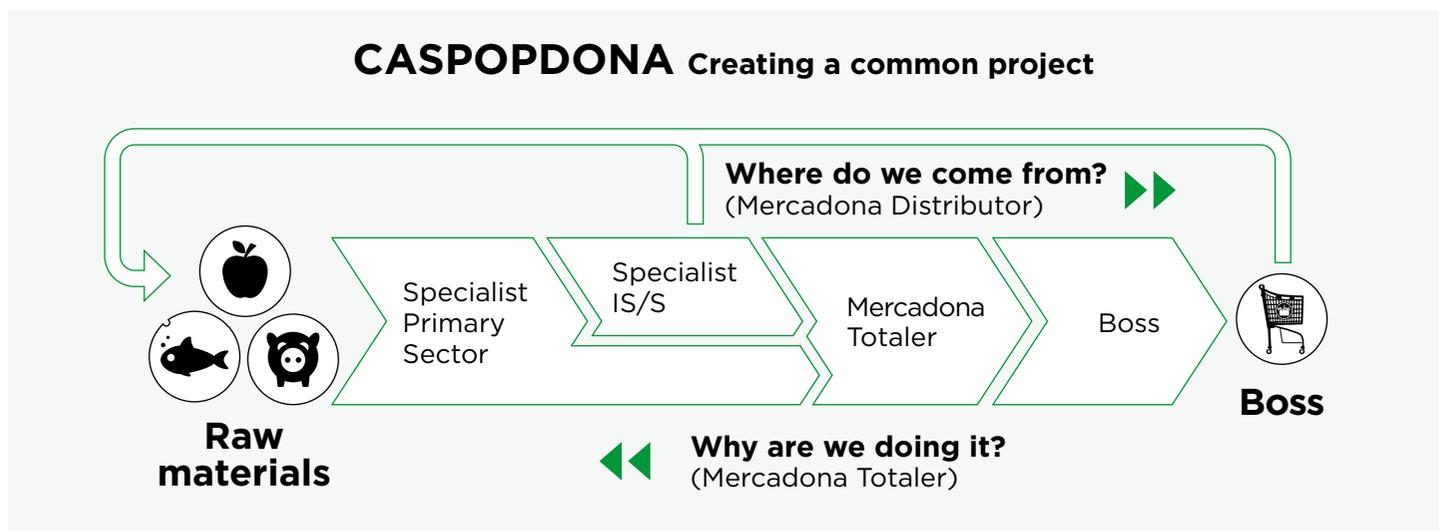
Collaboration with the primary sector

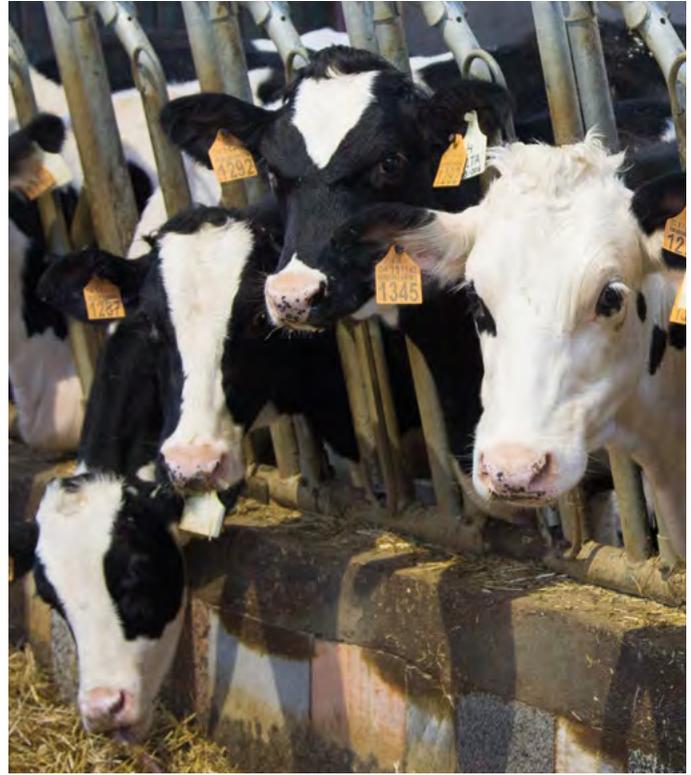
During the course of 2016, the company has continued to reinforce its collaboration with the Spanish primary sector - with which it has been working for years - hand in hand with the integrated supplier-manufacturers and specialist suppliers, and developing Mercadona's Sustainable Agri-Food Chain (CASPOPDONA). Since this project started in 2010, Mercadona has managed to strengthen links with the strategic sectors of the Spanish agri-food industry - agriculture, fisheries and livestock.

Through this common project, by sharing knowledge, working together in the long term, reinventing oneself and specialising in products as opposed to categories, Mercadona seeks to modernise its sustainable agri-food chain. In order to generate prosperity throughout all the links of which it is comprised, in 2016 CASPOPDONA has continued to invest in productivity, creating employment, efficiency and optimising the use of natural resources. For another year running, all these factors have contributed to draw closer to the Vision established: "achieving a Sustainable Agri-Food Chain that Society wants and feels proud of, through leadership and by having 'The Boss' as our guiding principle".

It is a project that is ongoing, and that consolidates year after year thanks to the fact that each one of its links shares their expertise. A project that keeps enriching, as fishermen, crop producers and livestock producers concentrate on providing excellence in their fishing, growing and cattle breeding activities, while in turn Mercadona invests all its resources in offering the "Bosses" products of the maximum quality and freshness. A model in which knowledge is shared to multiply excellence.

CASPOPDONA is governed by stability, planning for the future, safety when it comes to shopping and specialisation, which allows for planning and investing in order that all links may be profitable. Additionally, Mercadona is able to secure the best suppliers for each sector. These suppliers are increasingly more local and specialised, they offer products of the utmost quality and freshness, and in the majority of cases, they also allow the company to advance in its commitment of using raw materials of Spanish origin whenever possible.





Collaboration with

8,000
crop producers

12,000
fishermen

4,800
livestock producers



Vines at supplier Covisan's fields in Sanlúcar de Barrameda, Cadiz; Finca Asunción livestock producer, Touro, La Coruña; fishing vessel belonging to supplier Hermanos Plomer, in the port of Vinaros, Castellon.

Advances in CASPOPDONA

Building together to grow together

A 100% national and sustainable dairy sector

Mercadona is a signatory of the “Agreement for stability and sustainability in the dairy sector”, and the Sustainable Dairy Products programme, both promoted by the Spanish Ministry of Agriculture and Fishing, Food and the Environment (MAPAMA), through which the national origin of milk is given value, and the consumption of dairy products encouraged.

It further maintains stable and sustainable relationships with more than 3,000 milk farms.

Furthermore, during the course of the year, Mercadona contracts external companies to carry out traceability studies for the purpose of endorsing this commitment to, whenever viable, guaranteeing the purchase of national products. An example of this is the study prepared by the specialised auditing company Neoris, which has certified that the origin of liquid milk, both basic and specialised, is 100% national. More information: goo.gl/k2wtb5

Specific measures devised to modernise and potentiate the efficiency of this sector:

COVAP has started a project called Milk 10, with the double objective of defining the quality of the milk, and establishing processes that guarantee it on a daily basis. The work carried out has entailed checking more than 100 parameters and introducing adaptations across all its stages, from collecting the milk from the cattle breeders to packaging and final boxing, which translates into important improvements for the final consumer.

Montesinos, in collaboration with the association of cattle breeders AGAMON, introduced a project in

2016 for the improvement of the quality of the milk. Additionally, it has reinforced aid to cattle breeders, by broadening the services offered through this association: veterinary assessment, facilities’ auditing, milking machines checks...

Félix Asensio and Javier Pérez

For over 20 years, these crop producers have collaborated with integrated supplier Ultracongelados Virto. Throughout these last two decades spanning several generations of crop producers, they have both reinforced their specialisation. Félix Asensio has more than 450 ha. of beetroot, corn, peas and sweetcorn crops near Toro (Zamora), and Javier Pérez has 200 ha. of pea, potato and corn crops in Laguna de Duero and Tordesillas (Valladolid).

Illa Verde

This family business has had a relationship based on transparency with integrated supplier Procam since 2005. Thanks to this, it has continued to reinforce specialisation in naturally fed black pig from Mallorca, which Procam then uses to make sobrasada for Mercadona.

100% national olive oil

The company’s olive oil is also audited by Neoris, who have certified that 100% of the 2014-2015 crop is of Spanish origin. More information: goo.gl/Dx1mZ9

100% of Hacendado milk
and olive oil
is of Spanish origin

Certified by external
auditors Neoris



Main CASPOPDONA strategies



STABILITY

Long-term relationships creating value in both directions, always with the end customer in mind



PRODUCTIVITY

Efficiency in the chain: keeping our feet on the ground and knowing producers' needs, logistical efficiency and cost-saving, technology and process innovation, and having a grasp of the preferences of the "Bosses"



DIALOGUE

Constant communication and transparency, and pooling knowledge to achieve better planning among all the components in the chain: synchronised same-day orders and real-time management

Objective:

SHARED GROWTH AND SUSTAINABILITY

A joint project to work on in search of synergies to become more competitive



Seasonal fresh horchata with Valencia Appellation of Origin, prepared by specialist supplier Panach in Alboraiá, Valencia.

Logistics blocks

Innovating to eliminate overexertion and to transport efficiently

Logistical efficiency: transporting more with less

Mercadona has an efficient logistics network that, put together, boasts 900,000 square metres of surface. Through its 14 logistics blocks, three of which are in the project and construction stages, and 3 satellite warehouses, it supplies all its supermarkets, of which there were 1,614 at the end of 2016. To this end, it constantly allocates a great deal of hard work and resources to modernising its logistics network, where more than 6,400 people work on a daily basis, and in which more than 900 million euros have been invested in the last few years.

Intelligent logistics blocks

Almost a decade ago, Mercadona decided to innovate its logistics network by developing and starting up fully automated warehouses. This type of logistics block, which is pioneering in the sector, represents Mercadona's investment in quality work in the warehouses, as it completely eliminates handling and overstraining by the employees, which in turn contributes towards preventing and reducing the risk of work accidents, while increasing productivity and efficiency.

Furthermore, the company has continued to advance the building works of the logistics block in Vitoria-Gasteiz (Araba/Alava), from which all the supermarkets in the northern area will be supplied. This project was started in 2015, and the company plans to finish the first stage in 2017, when it will start activities with dry products, packaging and refrigerated products, all of which has come at an investment of 43 million euros during the past twelve months.

Mercadona has also been working on the construction of its fifth intelligent logistics block in Abrera (Barcelo-

na), which should be finished and fully operational by 2018, at a total investment of 300 million euros divided into different phases, and in whose development 150 SMEs are involved. These SMEs in turn employ 600 people, which has brought about an important boost for the financial recovery of the area during the execution of the building works. In August 2016, a part of the dry products' warehousing activities was incorporated, as well as those of refrigerated and frozen products, the bread plant and packaging management section.

New regulating logistics block in Parc Sagunt

In 2016, Mercadona announced the building of its main regulating logistics block in Sagunt, Valencia. The company has already acquired a 358,270 square metre plot in the Parc Sagunt industrial estate. In addition to having a strategic location, the project, which will be built in different stages, represents a clear opportunity for increasing the company's logistical efficiency, by including a warehouse capable of supplying Mercadona's entire logistics network.

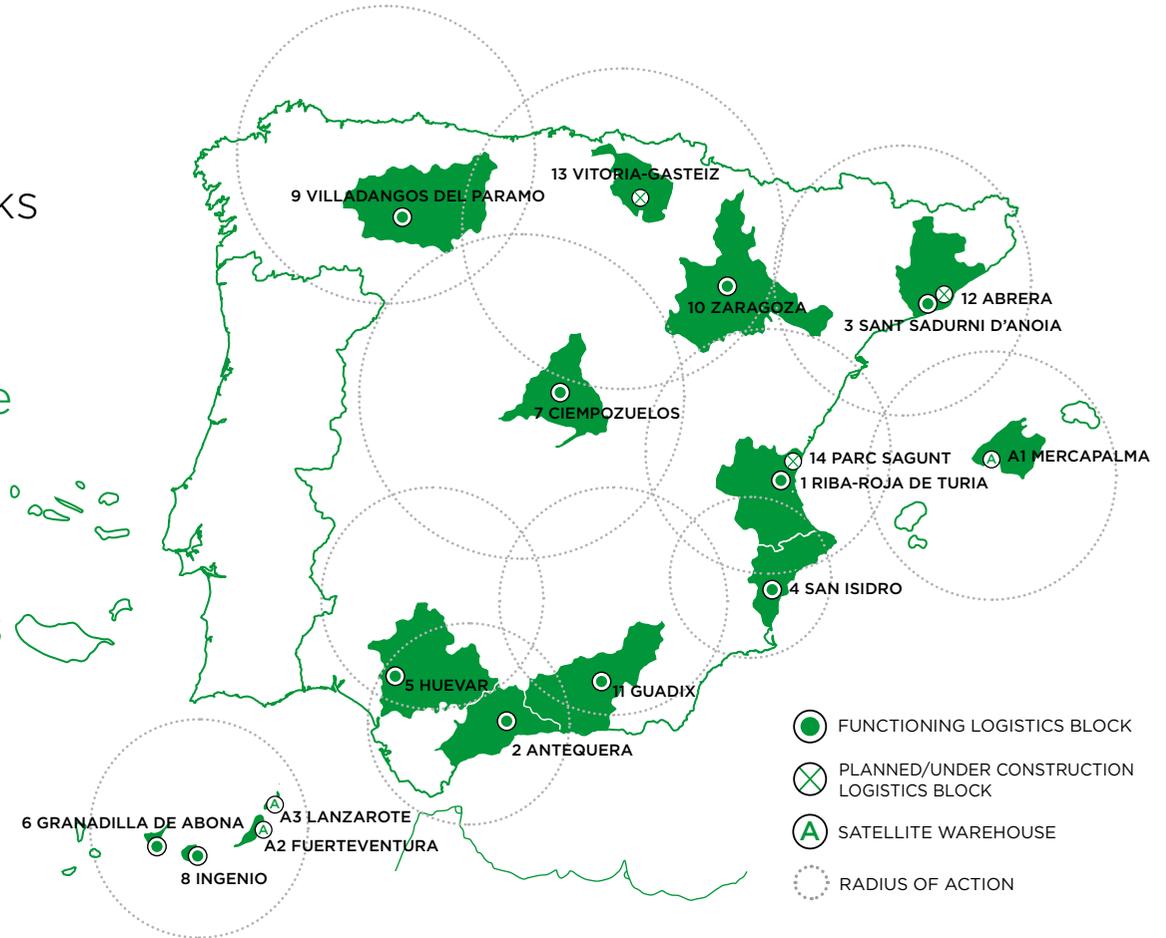
First trials with mega-trailers

With the objective of reinforcing logistics, in 2016, Mercadona's integrated supplier Acotral incorporated to its fleet 2 mega-trailers, which are 25.25 metre long vehicles capable of transporting up to 60 tonnes per trip.

In line with the company's strategy, this initiative aims to "transport more, using fewer resources, and being invisible to the environment", and the first tests have already been performed. In fact, this increase in 40% of merchandise transported does not just generate important savings, but also results in considerable reductions in CO₂ emissions to the atmosphere.

Map of Logistics Blocks

Almost 900,000 m² of built surface destined towards guaranteeing the company's production 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

- 14. PARC SAGUNT, Sagunt (Valencia)
- A1. MERCAPALMA, Palma de Mallorca (Balearic Islands)
- A2. FUERTEVENTURA, Fuerteventura (Las Palmas)
- A3. LANZAROTE, Lanzarote (Las Palmas)



Vitoria-Gasteiz, Araba/Alava logistics block, under construction.

Logistics block in Abrera

Mercadona has continued to advance in the construction of its fifth intelligent logistics block, located in Abrera (Barcelona). In addition to the refrigerated and frozen products, packaging and bread plant activities, in 2016 it also incorporated a part of the dry products warehousing's activity.

Since it decided to back this type of intelligent logistics blocks over a decade ago, the company has invested more than 900 million euros in eliminating overexertions and increasing productivity and efficiency.





€900 million+

invested in the last 10 years in the
elimination of overexertion

14

logistics blocks

6,400

employees

Inside of the logistics block in Abrera, Barcelona.



Storefront of the supermarket in Nueva Plaza de Armas, Seville.

4. Society

The way in which we have created value in 2016

Our responsibility as a company is to contribute and share to create a virtuous circle that generates quality employment, wealth and wellbeing among society

Mercadona's Total Quality Model is an ethical management model that generates value. It is a model based on a stable, sustainable and inclusive commitment that seeks the creation of value among all its components. Since it was created in 1993, this model has been evolving by incorporating improvements and dialogue, transparency, cooperation and debate in conjunction with clients, employees, suppliers and society.

Thanks to all of this, Mercadona gives back to society part of what it receives from it. The company does this by investing in its model, through management practices that seek to consolidate shared prosperity measures and that encourage the common good, such as the personal and professional development of all those who make up its workforce, the introduction of policies for work-life balance and having clients participate in the development of products and services. All of this, added to encouraging commercial relations based on stability, placing trust in collaborations with suppliers and the ongoing inclusion of initiatives that reduce environmental impact. This allows for the company to create value by generating employment and wealth, while fostering shared growth.

Contribution through facts

In 2016, the company has once again proved, factually, this contribution towards Society, both directly and indirectly. This is showcased by the 1,468 million euros paid by means of direct and indirect taxes to the Government, of which 693 million euros correspond to payments made to Social Security, 165 to corporate income tax, 525 to VAT and Personal Income Tax (IRPF), and 85 to other taxes.

Mercadona has also contributed towards the productive growth of Society by generating stable, quality employment: 4,000 new jobs have been created in 2016, finishing the year with a workforce of 79,000. Additionally, it has contributed 4,352 million euros to the country's GDP, which in itself is a reflection of the relevance of the Mercadona project.

Furthermore, and thanks to its collaboration with more than 2,500 commercial and services suppliers who are Mercadona's partners, in 2016 the activity the company indirectly generated has been an engine for shared growth in Society. Thanks to this base commitment, all the 126 integrated suppliers have also boosted the country's economy, as shown by the figures: 3,150 new jobs, reaching 48,700 direct employees, in addition to investment efforts in 2016 of more than 560 million euros, and collaboration agreements with more than 20,000 SMEs and local raw materials producers.

All this information reflects the commitment Mercadona maintains with Society, and especially the effort made by the company on an ongoing basis to reach one of its main objectives: "consolidating a corporate project Society is proud of and wants to exist".

Impact of the economic activity of Mercadona and its production chain in Spain

Total Income and Employment Contribution

20,100*

million euros combined contribution to the GDP
1.8% of the GDP

660,000*

jobs in Spain through the direct, indirect and induced activity of Mercadona and its partners
3.8% of Spain's total employment

Numbers for Mercadona's Sustainable Agri-Food Chain

Volume of purchases in Spain

16,055 million euros
€662 million+ than in 2015

85% of total purchase volume
(products+services)

2,500+

commercial and services suppliers

20,000+

SMEs and raw material producers

126

integrated supplier-manufacturers

1,245

combined investments by Mercadona and integrated suppliers

Tax contribution

Direct and indirect taxes **1,468** million euros

Direct Tax Contribution

Social Security

579

million euros

Corporate income tax

165

million euros

Other taxes

85

million euros

Indirect Tax Contribution

Social Security

114

million euros

Personal Income Tax (IRPF)

288

million euros

VAT

237

million euros

*Data updated according to the methodology defined by the Valencian Economic Research Institute (IVIE) in 2015.

The impact caused by Mercadona's activity in society as a whole is relevant in terms of income, employment, and direct and indirect financial contribution

Dialogue and transparency

Mercadona maintains a relationship with Society whereby closeness and proximity are key. This implies fostering communication, a value that propitiates mutual understanding. Thanks to this ongoing dialogue, the company manages to acquire an in-depth, first-hand knowledge of the needs and concerns of all that surround it, including neighbours, consumers, associations and institutions. As a consequence, the company is able to better adjust to its environment, by developing strategies that are more appropriate and adapted, and ones that promote shared growth and coexistence, in line with the company's motto "giving first, to then receive".

In order to promote itself in Society, in 2016 the company has taken part in numerous forums and meetings with different organisations and associations in a range of fields. In all these, it has upheld an attitude of being open to dialogue, which has in turn allowed it to enrich its project thanks to the suggestions for improvement it has received.



José Carlos Díez, economist; Juan Antonio Germán, Mercadona's managing director of External Relations and Patronage; Cristina Garmendia, president of the Cotec foundation; and Carlos Cabrera, managing director of the Cerdà Institute, during the presentation of the report "The value of joint innovation".

In 2016, Mercadona has continued to reinforce its commitment towards transparency, which is one of the company's fundamental values, and that may be seen in its website. The company's relevant institutional and financial information is periodically published and updated in order to guarantee transparency in relation to the functioning and control of its public activities.

In line with this, Mercadona received a visit from a delegation of the Japanese Consumers' Cooperative Union (JCCU), the world's largest cooperative group, which is made up of 571 Japanese cooperatives comprising the foodstuffs, healthcare, university, insurance, tourism and housing sectors. The meeting represented an opportunity for the company to present its model of shared prosperity to the delegation, which constitutes proof of the interest Mercadona's Total Quality Model generates not only in Spain, but also abroad.

"Participation Forum" project

Being close to consumers is a key issue for Mercadona, as it believes that working hard to gain profound knowledge of their concerns, preferences and tastes constitutes both a necessity and a responsibility. Because of this, throughout 2016 the company has collaborated in the "Participation Forum" project, started a year previously in collaboration with the national federations for consumer associations in the food sector: CEACCU, CECU, FUCI, UNAE and CAUCE-UCA. The participants, who have in place a framework agreement for active collaboration, have held periodic meetings during the course of the year.



Representatives of the national federations of consumer associations CEACCU, CECU, FUCI, UNAE and CAUCE-UCA, all members of the "Participation Forum", with Clara Medina, responsible for Mercadona's Corporate Information.

Furthermore, during these last twelve months, through the “Participation Forum”, the company has worked on preparing the “Consumption Habits 2016” survey, of which 2,000 families have taken part. The survey has provided more than 10,000 pieces of information that

have allowed for an in-depth analysis of consumers’ purchasing habits, to identify the information and general knowledge they have in terms of nutrition and labelling, and to gage their willingness to collaborate in relevant issues such as Social Responsibility and Food Waste.

Dialogue with Society



Marta, “Boss” at the supermarket in the Nueva Segovia Neighbourhood, Segovia.

Close contact with
68
consumer associations,
at national and autonomous
community level

Collaboration with
21
coeliac, intolerance and
other allergy associations

Collaboration in
11
studies and publications
of the sector

17
collaboration
agreements

Participation in
17
conferences and
seminars on the sector

Support of
37
ceremonies and actions
organised by the associations

122
briefing meetings

31
visit to facilities belonging to the
company and integrated suppliers

Social awards and recognition in 2016

As a result of its engagement with Society, the company has received a number of acknowledgements, which constitute an incentive to continue working and promoting initiatives with local communities



Mercadona's president, Juan Roig, together with the vice-president, Hortensia Herrero, and daughters Hortensia, Carolina, Amparo and Juana, during the ceremony of acceptance of the Gold Medal for Merit at Work.

Gold Medal for Merit at Work: In May 2016, Mercadona's president, Juan Roig received the Gold Medal for Merit at Work, issued by the Spanish Government, on the recommendation from the Ministry of Employment and Social Security. In his acceptance speech, he paid tribute to his mother, Trinidad, who taught him that one must "give first, to then receive". The President of Mercadona said, "this award is of great significance to me, as it allows me to prove that hard work and effort generate wealth, employment and wellbeing in our society".

Merco Report: In 2016, and for the second consecutive year, Juan Roig was ranked as Spain's business leader with the best reputation in Merco Report's ranking. Mercadona was also consolidated in said ranking as the company with the

best corporate reputation in the generalist distribution sector, and it came second across all sectors in Spain.

Alicante se mueve Being Smart: The Alicante Town Hall praised Mercadona for supporting the project, which boasts the best valuation in the smart cities category.

Ramón Rubial Company of the Year Award: An award for contributions towards the financial development of the Basque Country.

Companies Committed towards Equality Diploma: Acknowledgement, for the third consecutive year, in Asturias.

Management that is Proactive towards the Neighbours

One of Mercadona's objectives is to create and consolidate a relationship of coexistence with its neighbours, whereby understanding and mutual respect are essential. It works in a specific way so that its commercial activities do not interfere or cause annoyance in the areas or neighbourhoods in which it has a presence, and analyses and values any suggestions put forward. This allows for resolving any possible mistakes, and introducing solutions to the neighbours' requests.

Because of this, Mercadona has continued to advance in the "Proactive Management with Neighbours" project, started in 2014. This preventive resource has allowed the avoidance of any possible annoyances, by carrying out 4,892 checks in the loading and unloading processes, as well as 5,181 in internal processes of facilities and supermarkets.

In addition to this, in 2016, 236 suggestions, complaints and improvements submitted by the neigh-

bours were analysed, 78% of which were satisfactorily resolved in under 30 days, a ten-point improvement over the previous year, while the resolution time of the remaining ones depended on the type of intervention to be made.

A vertical garden in collaboration with the Capacis Foundation

In 2016, together with the Capacis Foundation, Mercadona started a project for the social and workplace insertion of people with disabilities, by creating a vertical garden in its store in Asura street, Madrid. This project allowed for the improved integration of the supermarket in its surrounding areas, while avoiding annoyances related to the company's activities, by isolating part of its facilities both acoustically and visually. Moreover, it exemplifies the company's relationship with social institutions, such as the Capacis Foundation, with which it works on maintaining the gardens of some of its stores.



Vertical garden at the supermarket in Asura street, Madrid.

Integration in local town markets

Mercadona stimulates retail trade in the neighbourhoods and areas in which it operates, and is especially committed to coexisting with traditional forms of trading.

In 2016, the company has continued to boost the revitalisation of local town markets, a project it started in 2001. Thanks to all of this, it shares its backing of the

coexistence of both formats with more than 1,760 different traders, after the inauguration of 3 new markets in Barcelona: Mercat de Sant Adrià (Sant Adria de Besos), Mercat de La Florida (L´Hospitalet de Llobregat) and Mercat Plà de Montgat (Montgat). With a total of 36 stores in local town markets by the end of the year in 2016, the company plans to continue consolidating this project of coexisting with traditional formats.

Collaboration with local traders



36
stores
in local town markets

1,760+
traders
share the ambition of recovering
traditional trading practices

Store front of the supermarket in the Sant Adria de Besos Local Town Market, Barcelona.

Support of Entrepreneurship

Mercadona believes entrepreneurship to be one of the engines for growth in Society. Because of this, it encourages it both inside and outside the company, allowing for the incorporation of talent into the development of the Mercadona Project, as well as sharing innovative initiatives with Society that create growth and productivity.

An example of its support for entrepreneurship is its sponsorship, together with EDEM and the Valencian Association of Business People (AVE in Spanish), of the “Entrepreneur” category of the King Jaime I Awards. In 2016, the seventh year in which this new category has been awarded, the entrepreneur chosen to receive the award was Alberto Gutiérrez Garrido, founder of Aquaservice, a leading company dealing in the distribution of water through dispensers, after having proven a capacity for generating employment, innovation and wealth around a basic commodity such as water.

For some years, Mercadona has also maintained close relations with the academic community, becoming involved with it through the EDEM Business School’s University Centre, of which the company is Patron. To contribute to the training of future entrepreneurs and executives by transmitting the essential values of the Total Quality Model, in 2016, Juan Roig was a lecturer at the BA Business Administration Degree for Entrepreneurs, where he imparts classes on several Saturday mornings, and he also acts as patron for the first set of graduates. A number of Mercadona executives are also part of the teaching staff of these young graduates.

In addition, Mercadona has once again supported the important work EDEM has been doing for a number of years in terms of training entrepreneurs. In 2016, the President of the company, Juan Roig, participated in the Course “15x15: 15 days with 15 Business Leaders”. Together with Lanzadera and Angels, EDEM Business School is integrated in the Marina de Empresas project,



Mercadona, the Valencian Association of Businesspeople (AVE) and the EDEM Business School, sponsors of the King Jaime I Award for Entrepreneurs, with the winner, Alberto Gutiérrez, founder and CEO of Aquaservice, during the ceremony.

a major Mediterranean entrepreneurial centre, covering all the stages involved in the process of creating a company: academic training, help in the start-up of projects and the financing of corporate initiatives.

An active member of the Global Compact

Since 2011, Mercadona has adhered to the Global Compact in defence of fundamental values in Human Rights, Labour Standards, the Environment and Anti-Corruption. Having committed to membership in 2015, throughout these last twelve months, it has continued to work on endorsing the values of the Global Compact's principles. Through its active implication, the company thereby reaffirms its support for the ten principles and values of this compact, all of which is recorded in the progress report confirming the application of such principles, which has been submitted to the Spanish Network of the Global Compact.



Red Pacto Mundial
España

See our progress report: goo.gl/tVWGcH



Inauguration of the Marina de Empresas facilities, held in September 2015, together with selected entrepreneurs from the fourth edition of the business acceleration initiative Lanzadera.

A Social, Responsible Mercadona

Throughout 2016, Mercadona has donated 6,500 tonnes of food, and a further 6,900 tonnes have been donated by our “Bosses” in the different editions of “Operation Kilo”

One of the commitments Mercadona has towards society is that of giving back some of what it receives. In 2016, and within its commitment towards corporate responsibility, the company has continued to further its social action plan, through which it has supported a number of different institutions and social organisations that, during the course of the year, have continued to provide an important service in terms of aid. In total, through the different initiatives of which it has partaken in all the different Autonomous Communities,

it has donated 6,500 tonnes of food, the equivalent of 108,000 shopping trolleys.

In this same context, Mercadona has also continued to collaborate with soup kitchens. In fact, in 2016 Mercadona supported the work of more than 120 institutions in different towns and cities throughout Spain, to which it donates products that, while unsuitable for selling, are perfectly fit for consumption.

Operations Kilo and Great Collection

In addition, through its supermarkets, Mercadona has collaborated with a number of “Operation Kilo” food collections, as well as in the “Great Collection” organised by food banks. The response from the “Bosses” to all these initiatives has been extraordinarily generous, as 6,900 tonnes of food have been donated. The company’s employees have also collaborated enthusiastically in these operations, by providing in-store management and logistic support.



Salvador Botia, responsible for the warehouse of the Soup Kitchen in the San Gabriel neighbourhood (Alicante); José Ramón, Mercadona delivery person; and Antonio Moya, president of the La Prosperidad “San Gabriel”, Neighbourhood Association and person in charge of the soup kitchen.



Fresh meat and deli meats section trencadís mural in the supermarket in Peligros, Granada.



The Valencian Community Roig Alfonso Foundation making the murals.

The trencadís murals that decorate Mercadona's fish, meat and deli sections are the result of the effort put in by more than 1,000 people who are involved in this project on a daily basis. The company would like to thank them for their effort and commitment, as well as that of the foundations and occupational centres they belong to: the Roig Alfonso Foundation, the Down Syndrome Foundation, Fundaempleo Azahar and Espurna Foundation; the Purglass and Ivas Special Employment Centres; the Rinconet Farm Home; the Afanías Association; the Torreblanca, Ivas el Maestrazgo, El Molí, Ivas Belcaire, Buris-Anna, La Torre, La Xara, El Castellet, Hort de Feliu, Mislata and Xirivella Occupational Centres; the Koynos Cooperative and the Sueca, Requena and María Rafols Municipal Occupational Centres.



Trencadís murals

In 2016, in conjunction with Pamesa Cerámica, Mercadona has continued to collaborate with a number of foundations and occupational centres by decorating its stores with trencadís murals (mosaic technique). Thanks to this support, since the project began in 2011, over 200 people with learning needs have worked on manufacturing more than 3,480 different murals, which the company displays mainly in its fish, fresh meat and deli meats sections, and that have become another differentiating feature of the New Store Model.

As a matter of fact, in December 2016, the company presented its new store model, that includes a renewed design of the trencadís murals, and which will start to be installed gradually in the supermarkets inaugurated by the chain, as well as in the ones it plans to refurbish.

Mercadona will invest 1.5 million euros in 2017 to continue developing this project, and to this end, it will collaborate with around twenty foundations and occupational centres.

The environment and sustainability

Doing more with less

The company believes the protection and efficient use of natural resources to be key, and it is conscious of the fact that any improvements implemented to add value for “The Boss” must be approached from the premise of “doing more with less”. To achieve this, the company develops optimisation strategies and plans whose main objectives are to take maximum advantage of the resources available, while minimising the generation of waste.

To this end, the company has its own Environmental Management system that is focussed on three main areas: logistical optimisation, energy efficiency and waste management. In this context, in 2016 Mercadona decided to undertake its New Efficient Store Model, a highly relevant project framed within its commitment towards the environment, as it generates energy savings of 40% in comparison to a conventional store.

Main lines of action

Logistics optimisation and sustainable transport: transporting more with fewer resources, and maximising space in lorries. The fleet of lorries is comprised entirely of vehicles that comply with Euro 5 and Euro 6 standards, which are the most stringent in terms of atmospheric emissions. Furthermore, Mercadona is working on the Sustainable Urban Distribution Project, involving gas-propelled lorries.

Energy efficiency: using only the energy needed and implementing measures to ensure an efficient use of energy. Mercadona’s New Efficient Store Model includes new measures for insulation and savings that allow for energy consumption savings of 40% in these stores in comparison to traditional ones. Furthermore, they prevent the emission of approximately 700 tonnes of CO₂ per store, per year.

Waste management: recycling all cardboard, plastic, polystyrene and wood waste through authorised handlers, while attempting to reduce the generation of waste. Mercadona also works towards reducing the waste generated at stores by the correct management of orders, markdowns of fresh products and the donation of food that is suitable for consumption, but not for commercialisation.

20
million KWh
energy Saving

€27M
invested in protecting
the environment

869
eco-efficient stores
50% of the network of stores

16,000
tonne
reduction in CO₂ emissions



Store front of the Los Tempranales supermarket in San Sebastián de los Reyes, Madrid.

Circular economy

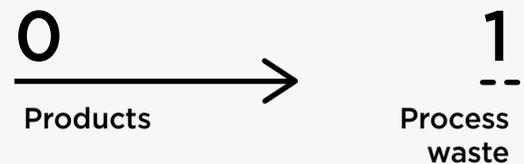
Turning waste into resources

For years, Mercadona has been promoting the Circular Economy strategy to optimise the use of natural resources, in keeping with the premise of converting waste into resources. This allows the company to take better advantage of the waste generated from its processes, which it turns into resources to be re-incorporated to the economic production cycle, thus reducing the environmental impact of its activity.

Thanks to this strategy, which it develops and implements in collaboration with the integrated suppliers, the company works on building a virtuous circle by means of which waste is treated to recover raw materials that are then converted into new products.



María Pilar, employee at the supermarket in the Ébora Centro shopping centre in Talavera de la Reina, Toledo.



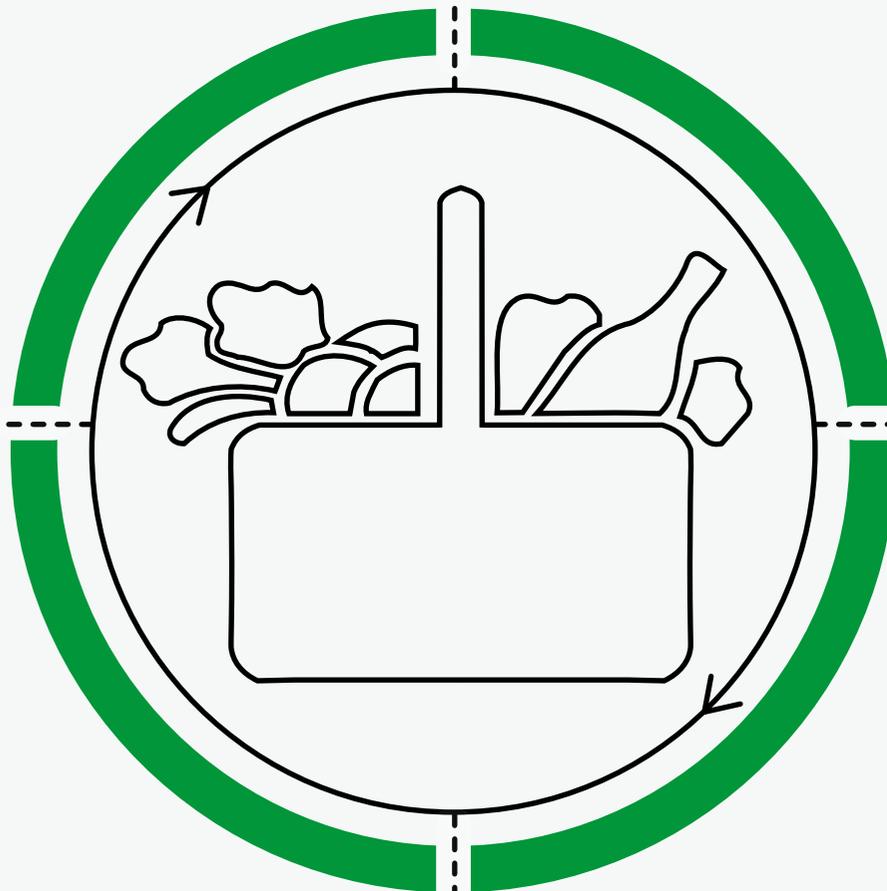
The waste that may be used in other processes is identified and contact is made with the integrated supplier-manufacturers that are capable of undertaking the new project.

Example: Use of rice husks by integrated supplier-manufacturer Arrocerías Pons as organic fertiliser, achieving zero waste.

2 Treatment

The waste is treated by being cleaned, purified and refined, with the objective of reusing it as raw material, which can entail an important investment by the integrated supplier-manufacturer assuming the commitment.

Example: Integrated supplier Anitín's crumbed bread is used by integrated supplier Cunicarn as the raw material for making animal feed.



3

Retrieval of raw materials

Once the waste has been duly processed, the raw material that is suitable to be a part of the new productive process is recovered. In this way, the waste is once again turned into a valuable asset.

Example: Reuse of integrated supplier Profand's flying squid wings and cuttlefish ink for the integrated supplier Escurís to make tinned food.

4 New products

The Circular Economy completes its cycle once the products prepared from the recovered raw materials are returned to the shelves at the stores.

Example: Reuse of the integrated supplier Agromediterránea's broken broccoli pieces as broccoli florets for boiling, by integrated supplier Verdifresh.

Avoiding food waste

Mercadona has in place a number of initiatives to reduce food waste wherever possible. In fact, it has internal tools that propitiate the maximum adjustment in orders, which in turn allows for selling all the produce that is received in the stores.

Furthermore, in 2016 it participated in the MAPAMA “More food, less waste” strategy, whose objective is to prevent and reduce food waste. In addition, for another year running, Mercadona has been part of the AECOC initiative “Food should not be wasted, make good use of it”, which puts all the participants in the production chain in touch with one another to create synergies and prevent food waste at every point.

Retail Forum

Since its foundation in 2009, Mercadona has been a member of the European Retail Forum for Sustainability (REAP), in which retailers from all over Europe adopt commitments and share good practices to improve the sustainability of their processes. The distributors who participate in this project are monitored annually by an external auditing company.



REAP is co-chaired by the European Commission, and its founding objective, towards which it has continued to work in 2016, is to continue advancing towards the common goal of achieving a circular economy in which natural resources are made the most of, and waste is minimised.

Belonging to REAP implies accepting its code of conduct, by which the signatories undertake to:

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

Sustainable fishing

By the end of 2016, Mercadona had managed to have all its suppliers ratify the Fishing Products' Purchasing Policy that the company developed in 2012. Thanks to this joint effort, which has been meticulously worked on throughout all these years, Mercadona and its suppliers guarantee its “Bosses” a commitment towards the sustainability of the fishery products it offers them.

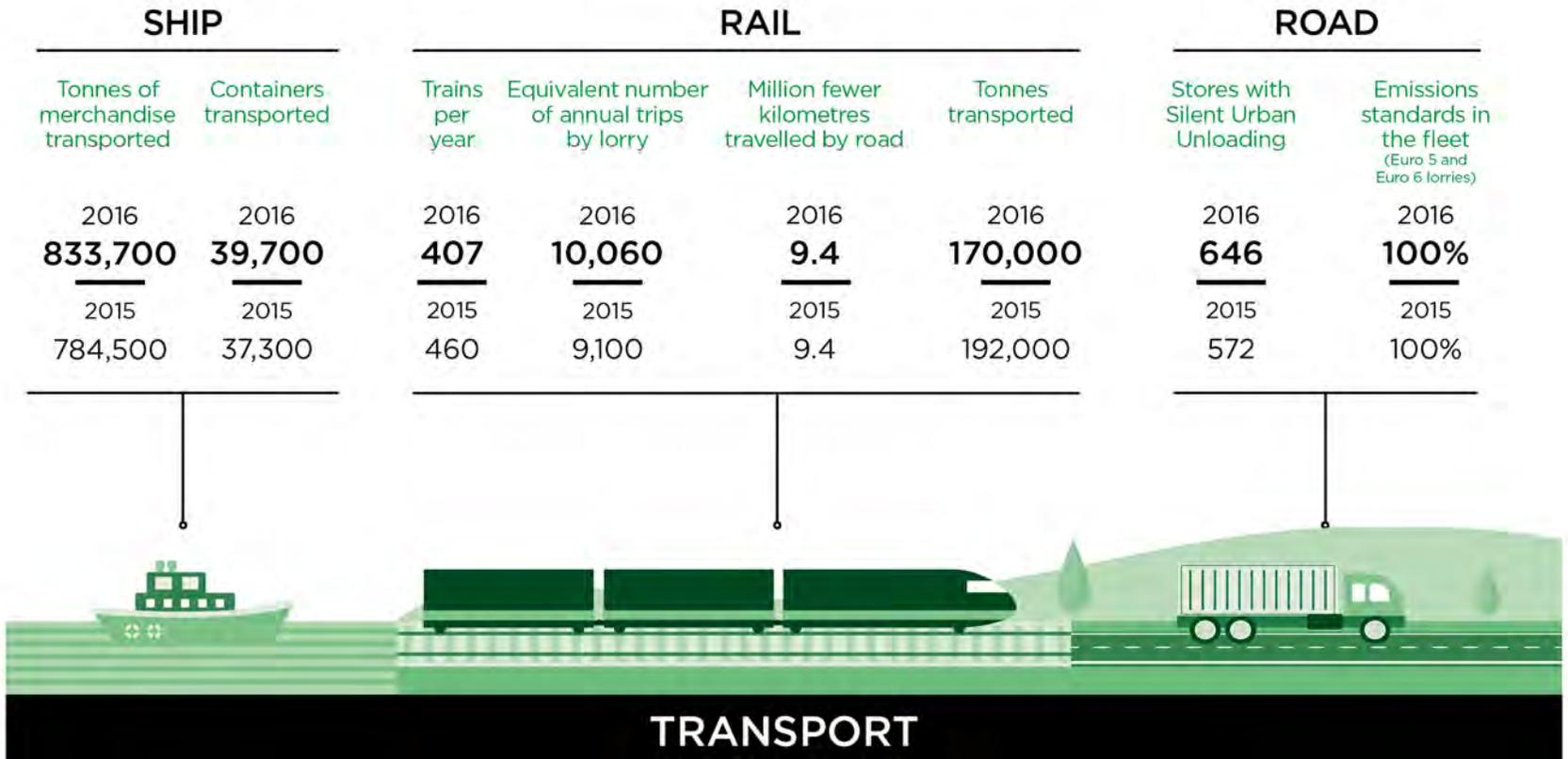
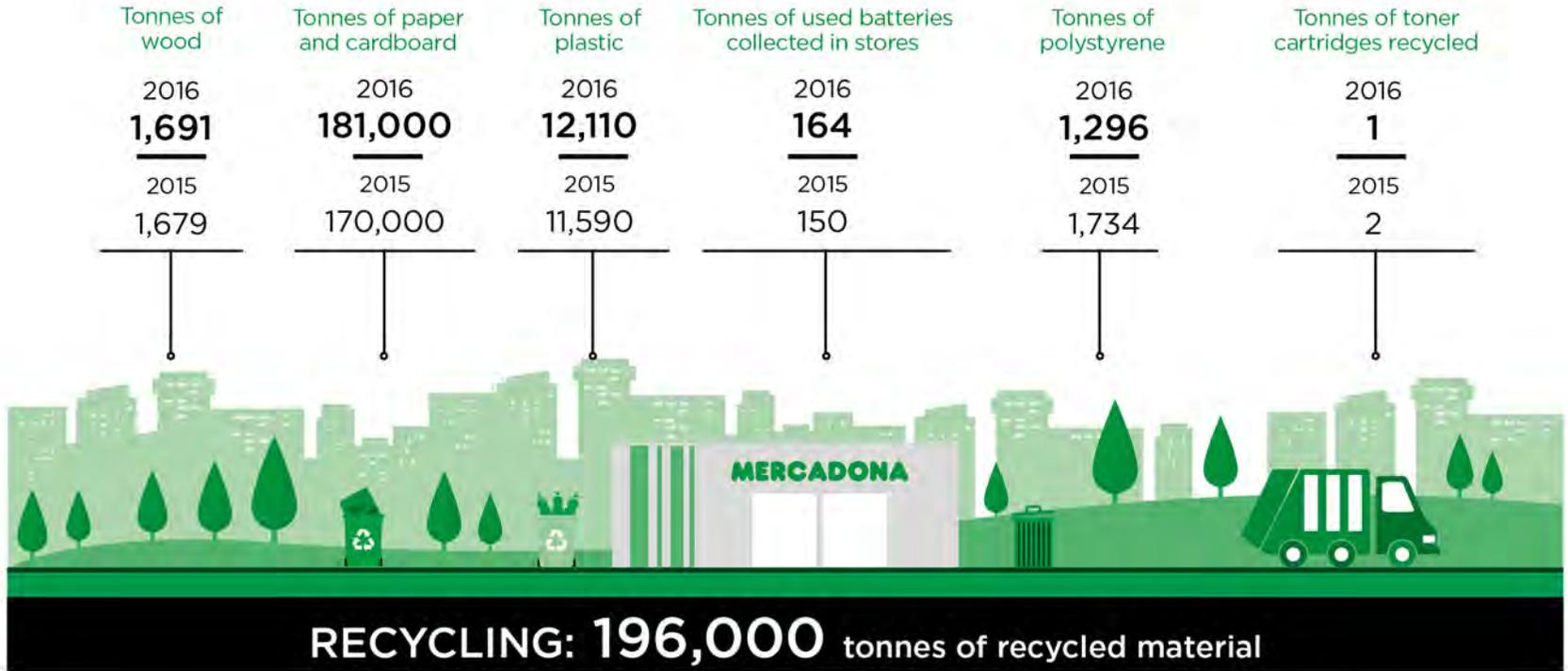
For more information, please see the Mercadona Environmental Policy Report, published biannually: goo.gl/31vHlu

Accessible from:



Environmental Management, Efficiency and Sustainability

Significant Data



Some of the institutions and organisations with which Mercadona collaborates



AECOC
Spanish Commercial Coding Association



AECOSAN
Spanish Consumption, Food Safety and Nutrition Agency



ASEDAS
Spanish Association of Distributors, Self-Service Shops and Supermarkets



AINIA
Agri-Food Industry Research Association



AVE
Valencian Association of Businesspeople



Spanish Chamber of Commerce



Official Spanish Chamber of Commerce in Belgium and Luxembourg



Chair of Family Businesses at the University of Alicante



ERRT
European Retail Round Table



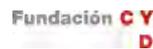
FACE
Spanish Federation of Coeliac Associations



Inter-Food Forum



COTEC Foundation



CyD Foundation
Knowledge and Development



ETNOR Foundation



Seres Foundation



IEF
Family Business Institute



Store front of the supermarket in Santa Eularia des Riu, Ibiza



CEOE
Spanish Confederation of Business Organisations and its respective territorial and regional organisations



Agri-Food Advisory Board of the San Telmo Institute



MAPAMA
Directorates General of the Ministry for Agriculture and Fisheries, Food and the Environment



Ecoembalajes España



EDEM
Business School



ENAC
National Certification Organization



ESCODI
School of Commerce and Distribution in Terrassa



EuroCommerce



Master's degree programme in Agri-Food Business Administration of the Lafer Foundation



Global Compact



Retail Forum
European Retail Forum for Sustainability



Respon.cat
Catalonian Social Responsibility



SESAL
Spanish Food Safety Society



Transforma España

Health and Food Safety Authorities in the different Autonomous Communities





Storefront of the supermarket in Puerta de Alicante, Alicante.

5. Capital

Corporate activity and evolution

Profits must come once the rest of the components have been satisfied

Mercadona was founded in Tavernes Blanques (Valencia) in 1977, and its corporate purpose is that of “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 manner 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 control of companies”.

The company’s main business is the distribution of food and beverages, cleaning and household products and cosmetics through its 1,614 supermarkets, which are supplied from the company’s logistics blocks, strategically located throughout the country.

The company’s financial data reflects the satisfaction of the fifth component, Capital; this would not be possible if the satisfaction of the remaining components was not previously achieved, as defined in Mercadona’s Model. The trust placed in the company on a daily basis by over 5.1 million households, the hard work put in by its 79,000 employees in the performance of their routine duties, the commitment of its suppliers and the favourable response by society have all enabled the company to achieve its financial objectives, as a result of following 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, as is customary, issued an unqualified report on 27 January 2016. Together with the annual accounts, this report has been duly deposited at the Valencia Mercantile Registry.



María del Carmen, "Boss" at the supermarket in Algeciras, Cadiz.

Success is sweeter when it is shared

Key Figures (million euros and <i>kilograms</i>)	2015	2016	% Change
Sales Units kilos-litres	10,649	11,071	+4%
Turnover	20,831	21,623	+4%
Operating income	765	779	+2%
Income before tax	810	803	-1%
Income after tax	611	636	+4%

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

Sales units (*kilitres*)

At year-end, the company had reached 11,071 million *kilitres* sold, a 4% increase over the 2015 total of 10,649. The company is satisfied with this figure, as it clearly shows the trust placed in it by 5.1 million households over these twelve months.

Kilitres sold



million kilos/litres (*kilitres*)

Sales

The trust of its “Bosses”, the opening of 50 stores (and 10 closures), the refurbishments carried out in 35 supermarkets and the firm commitment towards prescribing a selection that offers the best possible value for money have all enabled Mercadona to achieve a turnover of 21,623 million euros in 2016, a 4% increase over 2015.

Gross sales



million euros

Profit

Profit before tax stood at 803 million euros in 2016, compared with 810 million the previous year. Net profit in 2016 was 636 million euros, 4% up on 2015, a year in which Mercadona achieved a net profit of 611 million euros.

Net profit



million euros

EBITDA

Mercadona’s operating income has remained in line with its other business figures, with the company’s EBITDA standing at 1,092 million euros by the end of 2016, compared with the 1,120 million euros achieved in 2015.

EBITDA



million euros

CAPEX

As of 31 December 2016 Mercadona had a total of 1,614 supermarkets located in every province and Autonomous Community throughout the country. Furthermore, it shortly plans to open stores in Ceuta and Melilla.

During these twelve months, Mercadona has invested 685 million euros, destined mainly towards continuing the building works for the new logistics block in Abrera (Barcelona), and the one in Vitoria-Gasteiz (Araba/Alava), as well as the construction of 50 new stores, and the refurbishment of a further 35, to adapt them to the chain's standards in terms of comfort and energy efficiency.

Furthermore, a plan of actions and refurbishments has been devised for the next few years; it will include the replacement of any assets that do not meet the parameters defined in the new models, the optimisation of the strategies for maintaining assets and new actions to modernise the company's logistics, as well as the improvement of the quality of the work carried out in its facilities.

CAPEX



million euros



Equity capital

The capitalisation of virtually the whole of Mercadona's profits has brought its equity capital at the end of 2016 up to a total of 4,912 million euros. This policy reflects on ratios such as Return on Equity (ROE), defined as the Profit between average Equity for the year, which showcases its strength, and the coherence behind applying the Total Quality Model, where the satisfaction of the Capital Component is understood in the long-term context, and is achieved once the remaining components are satisfied.

In million €	2016	% Change
Profit	636	+4%
Equity Capital at start of year	4,392	
Equity capital at year-end	4,912	
Average equity capital	4,652	+12%
ROE	14%	

It is worth noting the steady increase in the ratio of equity capital to total assets, which went from 57% in 2015 to 60% in 2016.

Other indicators

The average payment period to suppliers was 45 days, and the stock turnover period was 15 days.

The Working Capital data for this year is as follows:

In million €	2016
Current assets	4,249
Current liabilities	3,191
WORKING CAPITAL	1,058

Mercadona's capacity for meeting its obligations and investment and expansion projects through the results generated from operating activities, without resorting to external financing, are shown in the Operating Cash Flow:

In million €	2016
Operating cash flow	880
Cash flow from investing activities	(719)
Cash flow from financing activities (<i>dividends</i>)	(116)
Net Increase in Cash	45

MERCADONA, S.A.

Balance sheet as of 31 December 2016

(thousands of euros)

NON-CURRENT ASSETS	3,945,720
Fixed assets and non-current investments	3,898,464
Deferred tax assets	47,256
CURRENT ASSETS	4,248,917
Inventories	716,407
Trade and other receivables	128,180
Current investments	102,520
Cash and cash equivalents	3,301,810
TOTAL ASSETS	8,194,637
EQUITY	4,911,843
Capital	15,921
Reserves	4,259,662
Profit for the period	636,260
NON-CURRENT LIABILITIES	91,743
Non-current provisions and payables	25,272
Deferred tax liabilities	66,471
CURRENT LIABILITIES	3,191,051
Suppliers	2,266,580
Creditors	339,318
Public Entities	337,440
Personnel	247,713
TOTAL EQUITY AND LIABILITIES	8,194,637

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 31 December 2016
(thousands of euros)

Revenue	19,802,382
Supplies	(15,028,974)
Other operating income	21,133
Personnel expenses	(2,502,267)
Other operating expenses	(1,199,952)
Amortization	(312,977)
RESULTS FROM OPERATING ACTIVITIES	779,345
Finance incomes	26,161
Impairment and net result on disposal of financial instruments	(2,594)
NET FINANCE INCOME	23,567
PROFIT BEFORE INCOME TAX	802,912
Income tax expenses	(166,652)
PROFIT FOR THE PERIOD	636,260

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.

HORARIO
OPENING TIMES

9 a 21:30 h

LUNES A SÁBADO
MONDAY TO SATURDAY

DOMINGO CERRADO | SUNDAY CLOSED

History of Mercadona 1977-2016



1977

Francisco Roig Ballester (1912-2003) and his wife Trinidad Alfonso Mocholí (1911-2006) start Mercadona's activities within the Cárnicas Roig group. What had been family-run butcher shops become grocery stores.



1981

Together with his siblings Fernando, Trinidad and Amparo, Juan Roig and his wife buy Mercadona from their father. The business consists of 8 shops and has approximately 300 square metres of retail space. Juan Roig assumes control of the company, which starts its activity as an independent business.



1982

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



1986

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



1988

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

Acquisition of Superette Supermarkets, which had 22 stores in Valencia.



1990

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



1993

The Always Low Prices (SPB) commercial strategy is introduced on reaching 10,000 employees and 150 stores. The strategy would later evolve to become 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 is signed for the benefit of all employees.



1997

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



1999

Completion of the process whereby all staff contracts are made permanent, which had started in 1995; at that time, the number of employees stood at 16,825.

Opening of the Antequera (Malaga) logistics block.

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



2000

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

The first Atmosphere Store opens in Massanassa (Valencia).

The first Integrated Supplier Meeting is held.

Signing of the Collective Agreement (2001-2005).



2001

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

Mercadona reaches 500 stores with the opening of its first supermarket in Linares (Jaen).



2003

First company to carry out an Ethical Audit.

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

Launch of the new Hortensia H perfume line.

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



2004

Opening of the Huevar (Seville) logistics block, and 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 following 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's new image.



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

Mercadona realigns with the Total Quality Model, fifteen years after its implementation.

Shopping Cart Menu to offer “The Boss” the finest and cheapest Total Shopping on the market.

Opening of the Ingenio (Gran Canaria) logistics block.



2013

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

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

Mercadona starts developing the Sustainable Agri-Food Chain.

Opening of the Guadix (Granada) logistics block.



2014

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

The new Data Processing Centre in Albalat dels Sorells (Valencia) becomes operative.



2015

New Training and Services Centre in Albalat dels Sorells (Valencia).

Mercadona's radical innovation model is praised internationally.



2016

Mercadona starts its process of internationalisation by entering the Portuguese market.

The first two supermarkets to include the New Efficient Store Model are inaugurated in Puerto de Sagunto (Valencia) and Peligros (Granada).





**The Mercadona project
continues to move forward...**

Inside of the supermarket in the La Marina shopping centre, Finestrat, Alicante.



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