



Mercadona

ANNUAL REPORT 2017

#IamMercadona





The picture on the cover is of employee Santi in the new bakery section at the Francisca Navarro square supermarket in Burjassot, Valencia





“Bosses” Miriam and César at the La Venta supermarket in Collado Villalba, Madrid.



Coconut cakes in the bakery section, made by the bakery Pastelería e Confeitaria Rolo.



Entrance of a Mercadona supermarket featuring the new Efficient Store Model.



Eva, an employee at the Miralbuena supermarket in Zaragoza.

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Supplier Duart Blay's onions.



New basket-trolley.

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Annual Report 2017
and more information
www.mercadona.com



OUR MOST SIGNIFICANT
ACHIEVEMENTS

2017



“THE BOSS”

1,627

STORES IN 2017
29 inaugurations

157

CENTRES REFURBISHED
IN LINE WITH THE NEW
EFFICIENT STORE MODEL

240

INNOVATIONS
IN THE SELECTION

105

PRODUCT IMPROVEMENTS

5.2

MILLION HOUSEHOLDS
shop at Mercadona

15.2%

market share in terms
of total retail space in
the Spanish organised
distribution sector

THE EMPLOYEE

84,000

EMPLOYEES
in long-term,
quality employment

5,000

NEW PERMANENT
JOBS

120

EXECUTIVES IN
PORTUGAL

65

million euros
invested in training

1,312

EUROS/MONTH GROSS
starting salary for core
staff based in Spain
1,132 EUROS/MONTH NET

313

million euros
in variable incentive
bonuses distributed
among our workforce

THE SUPPLIER

17,533

million euros
IN PURCHASES
WITHIN SPAIN,
more than 85% of the total

120

INTEGRATED SUPPLIER-
MANUFACTURERS

706

million euros
invested by integrated
suppliers and
specialist suppliers

80

NEW FACTORIES,
LINES OR EXPANSIONS

2,700+

COMMERCIAL
and service
SUPPLIERS

20,000+

SMEs AND PRODUCERS
of raw materials

SOCIETY

1,441

million euros
TAX CONTRIBUTIONS

IMPACT OF MERCADONA'S
SUPPLY CHAIN IN SPAIN:

545,000

direct, indirect and
induced jobs
3% of total employment

1.7%

of national GDP
19,500 million euros

SOCIAL COMMITMENT:

140+

soup kitchens

60+

food banks and
other organisations

9,600

tonnes of food donated

28

foundations and
occupational centres

1,000 people suffering
from intellectual disability
make the *trencadís*
murals displayed at the
supermarkets

CAPITAL

22,915

million euros
TURNOVER (+6%)

11,586

MILLION KILOS/LITRES
(*kilitres*) sold (+5%)

1,008

million euros
INVESTMENT (+47%)

322

million euros
NET PROFIT (-49%)

201

million euros
devoted to strengthening
EQUITY CAPITAL

MESSAGE FROM THE PRESIDENT



At Mercadona, we continue to be immersed in a great process of transformation to consolidate the changes that all of us who form part of this project have decided to implement. The path along which we are advancing requires that we leave our comfort zone and start turning words into actions. We know that the best way to involve people in a common purpose is by everyone setting an example for which they are individually responsible.

Our project continues along its path of ongoing adaptation to satisfy the needs of the company's five components ("The Boss", as we call our clients within Mercadona, The Employee, The Supplier, Society and Capital). Because of this, the most stable element in Mercadona is change, while "The Boss" remains our guiding light.

Agility is essential to be able to identify and deal with said change before reality forces us to do so, and it represents a differentiating factor in the decision-making process. Despite often not having all the information available, we are keenly aware of the fact that by waiting to secure it, we risk arriving late. Because of this, and safe in the knowledge that all of us within the company are armed with a Model of reference, agility has arrived at Mercadona, and it's here to stay. We understand that any mistakes we might make represent errors that we have to acknowledge, and that present an opportunity for improvement that allows us to continue learning, innovating

and improving the shopping experience for "The Boss", as well as satisfying the remaining components.

Our company strives to continue incorporating simplicity into its DNA - a feature that is both necessary and essential to move forward. Eliminating complexity and focusing on simplicity - especially in our methods and processes - will bring about a great competitive advantage for the company's supply chain.

To achieve these goals, we must be radical in terms of always doing what we have decided to do, while also continuously guaranteeing the excellence of our daily work. By always having the Mercadona Model as a reference, we must constantly be thinking about how to add value through decisions and reflections that are based on it. To this end, we have put in place an important, disruptive change that is based on the contrasting theory. Instead of measuring ourselves by our results, this change has led us to achieve results through the hard work put in on a daily basis while carrying out our routine work to satisfy all five components.

The actions carried out by the company in 2017 are in line with the application of these concepts. We have continued to boost our effective selection - building it from "The Boss" backwards - by means of which we guarantee the very best quality at the lowest price, day in, day out. We have also reinforced our ability to surprise them through

the innovation and hard work provided by integrated suppliers and specialist suppliers alike. Their collaboration stems from Mercadona's Sustainable Agri-food Chain (CASPOPDONA) and has been instrumental in attracting new "Bosses" to decide to share their shopping experience with us in our 1,627 supermarkets, which among other things, has led to a 6% growth in Mercadona's like for like sales in 2017.

Similarly, throughout these last twelve months, we have refurbished more than 126 supermarkets, which, in addition to the 29 inaugurations carried out, add up to a total of 157 centres featuring the new efficient store model by year-end. Furthermore, in line with our quest to achieve increased freshness and become more like shopkeepers and specialists, we are in the process of developing the Global Fresh Products project, which will feature a number of new improvements to our fresh products sections and allow us to better adapt to the local selection.

All these initiatives have contributed towards the fact that during these last twelve months, Mercadona's sales volume has grown by 5% to 11,586 million kilos-litres. Similarly, turnover has increased by 6% in comparison with 2016, reaching 22,915 million euros.

Another of 2017's advances we would like to point out is regarding what has taken place in Portugal, a country whose tastes and preferences we are still getting to know through co-innovation in conjunction with Portuguese consumers. In this way, we continue to work towards opening the doors of our first four stores in 2019, as well as the first logistics centre.

Furthermore, we have taken steps towards consolidating our digital innovation project. Good examples of this are the five-year agreement signed with market-leading business application software firm SAP as part of the company's digital transformation plan and the progress made in the development of the Mercadona online project.

To achieve all these milestones in a sustainable manner, in the last twelve months Mercadona has invested some 1,008 million euros, which in addition to the initiatives described previously, have gone towards opening and refurbishing new stores and optimising our logistics network. This investment is born from the commitment shown by all of us who form part of the company in terms of doing whatever it takes to transform Mercadona, with our sights set on the medium and long terms, and not the short term.

“At Mercadona, we are immersed in a great, disruptive change, and agility, simplicity and contrasting are here to stay”

This commitment explains the 322-million-euro net profit obtained by the company in 2017, which is 49% less than in 2016. This drop, which the company had already announced, and that it had foreseen to be 70%, stems from a strategic decision of accepting that during the next few years, “profits for all five components in the long term will come by way of investment”, the intention being to build the Mercadona of the future. This is because at Mercadona, the satisfaction of “The Boss” is what comes first - followed by sales, and all of this leads to profit.

In addition to the foregoing, also worthy of mention is the creation of 5,000 new permanent jobs, which has meant we have closed the year with more than 84,000 employees whose talent, motivation and dedication in terms of the daily work they carry out are the main driving forces behind Mercadona's success. For another year running, the company has shared 313 million euros with them by way of performance-related bonuses.

If there is one thing that might be considered an obsession within Mercadona, it is that of building a company model that is based on hard work and leadership. In this way, 2017 has been a turning point in terms of accepting that to have motivated, high-performance teams, the main responsibility lies with individuals and their hard work; then come the results. This is because if we all work hard to satisfy and surprise our “Bosses”, results will ensue.

Our main goal for 2018 is as follows: to carry on building a corporate model that is different, in order to continue to move forward along the established path, and where it does not exist, we will create it; a model within which the shared growth of all five components turns Mercadona into a company whose existence inspires pride in people. To achieve this Vision, in the same way as it has always been throughout Mercadona's history, we count upon the collaboration of our shareholders and Board of Directors, whose implication and commitment I would also like to acknowledge.

Juan Roig

MANAGEMENT COMMITTEE

Ensures the smooth running of the organisation and the fulfilment of the policies and procedures established by the Board of Directors.



Juan Roig
President



José Jordá
Managing Director of
Stores and Perishables
Prescription




José Luis de Diego
Managing Director of
Manufactured
Agricultural
Products
Purchasing



José Miguel Fernández
Managing Director of
Dairy Products and
Beer 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



Aleix Juan
Managing
Director of IT



Rosa Aguado
Managing Director
of Construction
and Expansion

Francisco Espert

Managing Director of Dry Products Prescription



Rafael Berrocal

Managing Director of Meat, Fish and Seafood Purchasing



Francisco López

Managing Director of Fruit and Vegetables Purchasing



Ramón Bosch

Managing Director of Finance and Tax



Héctor Hernández

Managing Director of Legal, Organisation and Marina de Empresas



Oriol Montanyà

Managing Director of Logistics



Board of Directors

It is the entity in charge of the company's management, organisation and representation.

President	Juan Roig Alfonso
Vice-president	Hortensia M ^a 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

Audit Commission

Supports the Board of Directors in supervising, among other issues, accounting, fiscal and financial information, auditing services, fulfilment and risk prevention.

President	Rafael Gómez Gómez
Secretary	Carolina Roig Herrero
Member of the board	Juana Roig Herrero

THE VISION

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

THE MISSION

“Being total prescribers of the products and solutions required to enable ‘The Boss’ to 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 at the lowest monthly cost



**They who have a Model,
have a treasure,
and applying this daily
represents the key to
Mercadona’s success**

Vineyards belonging to the supplier Vitivinícola del Ribeiro in Ribadavia, Orense.

The Model

Our Model dictates that our responsibility as a company is to achieve the satisfaction of all five components - always.

The foundations of the Model

Mercadona's model represents the framework of reference for those who are part of its project, and it helps everyone move in the same direction. It is based on universal truths and paradigms whose daily realisation allow for the consolidation of said Model, and to do so with agility and in an open, collaborative manner. All of the above is in aid of satisfying - in this order and in an equitable manner - the five components that comprise Mercadona's Sustainable Agri-food Chain, namely "The Boss", as clients are known within the company, The Employee, The Supplier, Society and Capital.

In order to build a project of sustainable, shared growth, since 1993 Mercadona has based all its decisions on the Total Quality Model. The model has evolved year by year through the participation of all those who form part of the company. Mercadona uses it to develop specific objectives and strategies in line with a corporate outlook based on a culture of participation. The objective is to generate an innovative, sustained and shared growth with the objective of achieving a differentiating model for a company that society wants to exist - one that facilitates decision-making whilst always keeping the satisfaction of "The Boss" as its guiding principle.

A company that is constantly evolving and that contrasts its daily hard work

Ever since it was founded, Mercadona has been constantly evolving. The thoughts of all the employees have contributed towards enriching the foundations of the Model that serves as a reference in our daily work.

A key basis of the Model is the Contrasting Theory; a great, disruptive change in the company that contributes towards always guaranteeing excellence in a radical manner to satisfy all five components. Its implementation entails being measured in terms of the effort made (following methods) rather than by the results achieved, in the knowledge that if one does one's best, results ensue.

Evolution of the Mercadona Project

Mercadona is a Spanish, family-owned supermarket company. Its mission since its foundation has been to fully satisfy all the food, beverage, cleaning, and personal hygiene needs of its customers, as well as those related to feeding and caring for their pets. The company's 84,000 employee-strong workforce strives to offer a service of the highest level of excellence on a daily basis. Thanks to them, 5.2 million households place their trust in the company every year.

Mercadona boasts a network of 1,627 supermarkets, having opened 29 new stores and closed 16 that did not measure up to the current standards required by the company, in addition to refurbishing 126 supermarkets to adapt them to the new efficient store model. Currently, the company is present in 17 autonomous communities within the country, and in 2018, it foresees opening stores in the autonomous cities of Melilla and Ceuta. In addition, and in line with the implementation of its internationalisation plan, the company has announced its entry into the Portuguese market by opening 4 supermarkets and a logistics centre in 2019. In line with this, the company foresees investing 25 million euros, and has already hired 120 executives who are responsible for leading the corporate project in the Portuguese market.

A Sustainable Mercadona

Mercadona is committed towards sustainable growth, which is reflected in the responsible development of its activities, which in turn allows for achieving the different Sustainable Development Goals fostered by the United Nations. Furthermore, Mercadona forms part of the Global Compact, an initiative promoted by the same Organisation.

To meet these objectives, the company's Management Committee is in charge of devising policies to identify, prevent and manage the main risks derived from Mercadona's activities. The company promotes and supports a firm commitment towards the prevention and management of risks that might affect the company, which de-

rives in numerous strategies implemented to guarantee the satisfaction of all five components. Furthermore, one of Mercadona's objectives where society is concerned relates to the principle of transparency, whereby every year, the company periodically transmits its results to employees, suppliers and society alike; in addition, it publishes its annual and environmental reports, upkeeps a transparency portal and prepares other reports and sustainability initiatives that it shares with the associations of which it is a member.

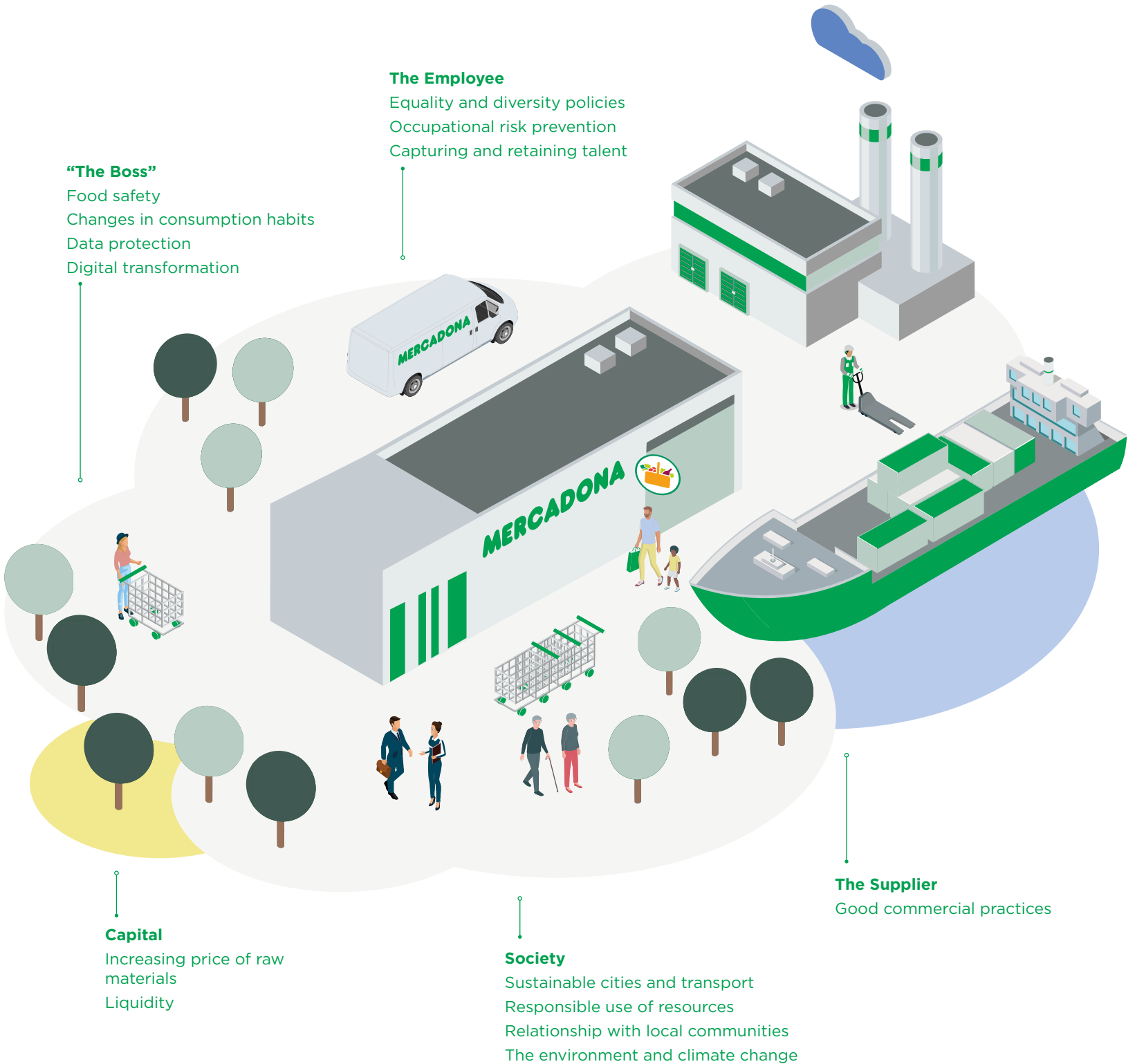
These actions are described in detail in the corresponding sections of this Report. We will now detail some of the more significant ones.

COMPONENTS	POLICIES AND STRATEGIES	PERFORMANCE 2017
1. "THE BOSS" Our main objective is to fully satisfy our clients	<ul style="list-style-type: none"> - Food Safety Model - Effective selection: maximum quality, minimum price - Global Fresh Products Strategy - Customer Service - Consumer data protection - Across-the-board innovation 	✓ 8 8 ✓ ✓ ✓
2. THE EMPLOYEE They who satisfy "The Boss" must themselves be satisfied	<ul style="list-style-type: none"> - Permanent contracts and salaries above the sector's average - Principle of equity: equal responsibility, equal pay - Performance-related bonuses - Training and internal promotion - Occupational risk prevention - Medical service - Work-life balance - Collective agreement - Equality Plan - Social environment 	✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓
3. THE SUPPLIER Integrated suppliers and specialist suppliers represent the backbone of Mercadona's Sustainable Agri-Food Chain (CASPOPDONA)	<ul style="list-style-type: none"> - Code of Good Commercial Practices - Mercadona Sustainable Agri-food Chain (CASPOPDONA) - Generation of an industrial mesh - Sustainable fishing and animal welfare policies 	✓ 8 8 8
4. SOCIETY The company considers contributing towards the country's sustainable development and social progress to be one of its duties	<ul style="list-style-type: none"> - Model of relationship with the local communities - Dialogue and transparency - Stimulating entrepreneurship - Policies for preventing crime and anti-corruption - Food donation programme - Environmental management system: <ul style="list-style-type: none"> » Contamination prevention » Sustainable use of resources » Control and reduction of emissions 	✓ ✓ ✓ ✓ ✓ 8
5. CAPITAL The objective is to obtain profits as a consequence of doing things properly	<ul style="list-style-type: none"> - Growth and profitability - Financial risk management policies - Reinvestment and long-term vision - Wealth generation and shared value 	✓ ✓ ✓ ✓

✓ Consolidated strategy 8 Strategy being developed

Possible risks

Mercadona works on managing and controlling these risks



Across-the-board Innovation Model

Agility and simplicity in the way of approaching the development of new products and services go hand in hand with the capacity of collaborating to capture new needs. Making use of the knowledge provided by “The Boss”, the employees and suppliers allows Mercadona to offer a total shopping experience. With this in mind, the company takes risks in making decisions and innovating. Mercadona seeks moving forward in terms of offering answers without fear of failure, because the company sees this as an opportunity to continue learning, improving and adapting to the environment in a more agile way, conscious of the fact that the quicker innovations come, the quicker it will be able to learn and make progress, which will in turn allow us to provide more added value.

In the context of this ongoing investment in innovation, the company has in place its own transversal, collaborative innovation model. The model aims to innovate starting from the client’s needs, which has allowed the company to reach new product launch success rates of 82% (as opposed to the sector’s 24%), according to the Cerdà Institute in its “The value of joint innovation” report.

Fostering innovation to grow and stand out

four pillars of innovation

Product

INNOVATION

240 new products, 105 improvements in the selection and an 82% success rate. 16 co-innovation centres to innovate together

Process

INNOVATION

Improvements in the manufacturing processes and in the logistics systems to avoid unnecessary costs. Developing the theory of contrasting and organisation to measure effort and results, as well as establishing each person’s role in each process

Concept

INNOVATION

To add value for “The Boss” by introducing, for instance, the New Efficient Store Model, which optimises their shopping experience and generates energy savings of up to 40%

Technological

INNOVATION

Accelerating decision-making and simplifying processes. Mercadona Online and implementing SAP’s S/4 HANA to increase efficiency and agility throughout the processes, as well as to improve management

Digital transformation to come closer to “The Boss”

2017 has been an especially important year for Mercadona in terms of digital innovation, as a clear turning point in its strategic plan has taken place. The company has entered into an agreement with SAP Spain for the development and execution of its comprehensive digital transformation project, which is aimed at accelerating the transformation and optimisation of all the components in its value chain, and which will imply the large-scale deployment of SAP software and services.

By incorporating the SAP S/4 HANA platform, the company will have all the tools it needs to access immediate information and real-time analysis so as to obtain unique data at any time and at any point within its processes. This information will allow Mercadona to predict the changing needs of its “Bosses” and the marketplace, which will in turn facilitate decision-making to fully satisfy clients.



President of Mercadona Juan Roig visits Mercadona's facilities with SAP SE CEO Bill McDermott to analyse the digital progress made.



Aerial view of the building works of what will become the online purchasing distribution centre in the Vara de Quart industrial estate in Valencia.

Mercadona Online

Also in 2017, Mercadona has taken important steps in its online project, a channel in which it is market leader, and that has been operational since the company decided to launch it in 2001. Throughout these twelve months, the company has managed to consolidate a 150-strong team with the objective of adapting its success model to a technological, agile environment, and further to extend its service of excellence to online commerce, which in 2017 added up to 198 million euros - 1% of the company's turnover, and a 9% growth over the previous year.

The company also expects to start testing this new online shopping project in certain areas of Valencia in 2018. To this end, Mercadona is building a new distribution centre in the Vara de Quart industrial estate in Valencia; it is a 13,000 m² industrial unit that has come at an investment of 12 million euros, and that will serve as a laboratory to test a distribution model that differs from the current one including its own supply chain.

Irmãdona: Mercadona in Portugal

In June 2016, Mercadona decided to initiate its internationalisation plan by entering the Portuguese market. Since then - and also throughout 2017 - the company has been going to great lengths to achieve the objectives set, namely that of in 2019 opening its first four stores out of a total nine that have been agreed on in a country that offers great opportunities, and with whom we have solid links.

After creating the company Irmãdona Supermercados S.A., which means “Mercadona’s sister” in Portuguese, and establishing the headquarters in Porto, Mercadona started its learning process in Portugal. Since then, it has been putting the months that have elapsed into good use by making progress in terms of integrating in Portuguese society, stretching links further, and getting to know, first hand, about the great opportunities this highly competitive market has to offer, as well as delving deeper into the needs of the Portuguese “Boss”.



Irmãdona Supermercados S.A. headquarters in Porto, Portugal

Some Portuguese organisations with whom we collaborate



In February 2017, Mercadona joined the Portuguese Association of Distribution Companies (APED), an organisation that promotes and studies the sector’s interests.



Since March 2017, Mercadona has been a member of the Consulting Council of the Portuguese-Spanish Chamber of Commerce and Industry (CCILE). This institution encourages commercial relationships between Portuguese and Spanish companies.



Accompanied by Eduardo Pinheiro, former mayor of the city and other authorities, Portuguese minister of Economy Manuel Caldeira Cabral visited the Co-innovation centre in Matosinhos in September 2017 together with Elena Aldana, Mercadona Portugal director of External Relations and João Pedro Miranda, who is in charge of the centre. "This investment signifies Mercadona's trust in Portugal, and it opens up opportunities for Portuguese companies to supply products to the group, not just within the Portuguese market, but also throughout the Iberian Peninsula", said minister Caldeira Cabral.

Current Mercadona project in numbers

4
inaugurations
 in 2019

9
stores
 agreed to

€ 25 M
investment

€ 63 M
in purchases
 from Portuguese suppliers

350
employees

Matosinhos Co-innovation centre
 for the development of the selection for Portuguese "Bosses"

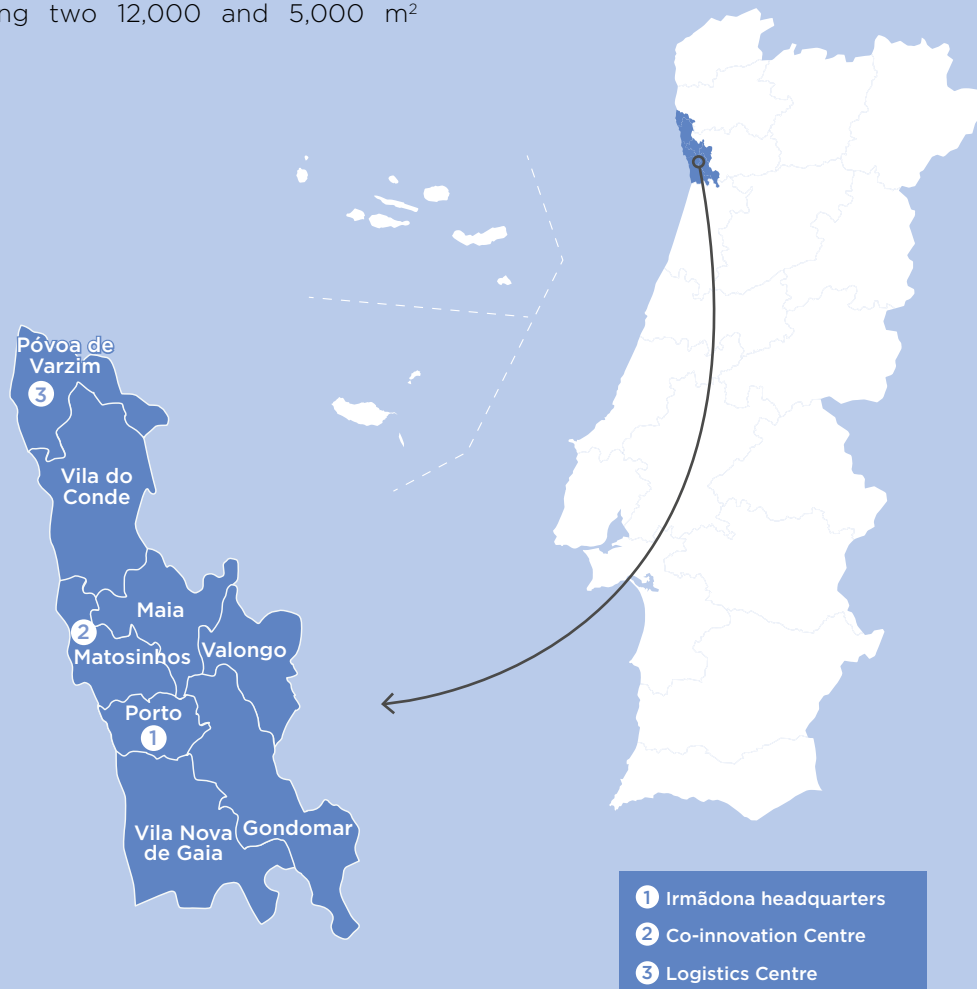
Future logistics centre
 in Povia de Varzim

Mercadona's Investment in Portugal

To start up its project in Portugal, an initial investment of 25 million euros has been made. This investment has allowed for - among other things - inaugurating a Co-innovation Centre in Matosinhos (Greater Porto) for developing and adapting the selection to the Portuguese "Boss".

The company has also announced the construction of a logistics centre in Póvoa de Varzim, boasting two 12,000 and 5,000 m²

industrial units. Its strategic location will allow it to supply the chain's supermarkets in the north of Portugal and to communicate seamlessly with the existing logistics centre in Villadangos del Paramo, in the province of Leon.



Future Stores in Portugal

Mercadona foresees opening four supermarkets in 2019 in the Greater Porto area of northern Portugal. One such supermarket, in Canidelo, Vila Nova de Gaia, where the agreement entered into between Mercadona and the Council has allowed for the full remodelling of the facilities of the football Sport Club of Canidelo, providing improved means for the development of the athletic education of children and youths. Mercadona's new store will be located where the former facilities of the football Club were.

Similarly, a new supermarket will be located in an old canned food factory in Matosinhos, and the company has committed to maintaining the main structure of the historical building in full, thus preserving its centuries-old history and unparalleled architectural context. It is an abandoned building brought back to life by Mercadona, which has in turn revitalised an industrial area in Matosinhos.

Portuguese talent

For the development of the first stage of expansion in Portugal, in 2016, Mercadona announced the creation of 350 jobs. By year-end 2017, the company had managed to incorporate the talent of 120 Portuguese youths, who hold middle management positions and will be in charge of leading the project in the country.

All of them have had a permanent contract from day one and have started their 18-month training process, in which the company has invested some 50,000 euros per employee on average. In this way, Mercadona's Total Quality Model and how it works has been explained to them in detail, while their skills, leadership and specific competences needed in terms of managing the different jobs are reinforced.



New football stadium of the Canidelo Sport Club, Vila Nova de Gaia, Greater Porto.

Innovating with the Portuguese “Boss”

The Co-innovation model represents one of Mercadona’s main differentiating traits. The strategy followed by the chain of supermarkets is that of learning with the clients who use their products, listening to their comments and innovating with them, a collaborative model with a difference that generates higher success rates, and that is already underway in Portugal.

In point of fact, in June 2017, Mercadona inaugurated the Matosinhos Co-innovation Centre (Greater Porto), the first one of its kind in the country, joining the other 15 the

company has in Spain. The company studies the needs and preferences of its clients in the facilities of this two-storey, 1000 m² macro-idea laboratory featuring a product tasting hall and kitchens for the participative sessions in conjunction with the “Bosses”, the intention being to adapt the selection to the Portuguese consumer’s habits. Over the last year, the company organised 1,700 different sessions with the Portuguese “Bosses”, during which they were able to share their suggestions, all in aid of learning more about their consumption habits.



Defining the Portuguese selection at the Matosinhos Co-innovation Centre in Greater Porto with the “Bosses”.

Purchases from Portuguese suppliers

For years, Mercadona has been collaborating with Portuguese suppliers, from whom 63 million euros were purchased in 2017 - 11 million more than the previous year, mainly corresponding to rocha pears, tomatoes, kiwis, biscuits, chocolates, wholesale fish market fish, bakery products, etc. Panpor, Globalfrut and Imperial are some such suppliers, Portuguese companies who contribute towards Mercadona offering an effective selection featuring high levels of innovation and quality.

Panpor, for instance, is a Portuguese confectionary company whose collaboration with Mercadona began in 2014, when its product - custard cream cakes - started to establish itself on our shelves, proof of which is the fact that their products may be found throughout the entire chain in Spain.

Globalfrut supplies rocha pears, a Portuguese variety of pear that has been stocked in Spanish supermarkets since 2014. Currently, this variety is available in more than 500 supermarkets throughout the chain, representing more than 1,000 tonnes in 2017.

Imperial is an important company within the chocolate sector whose history dates back 85 years. The supplier started collaborating with Mercadona in October 2016, since when its product, Pintarolas chocolates - launched in 1980 in Portugal - has been on the shelves across the chain. In 2017, Mercadona purchased almost 2.5 million units from this Portuguese supplier.



Imperial's chocolate sweets, made in Vila do Conde, Porto.



Supplier Panpor's custard cream cakes production line in Rio Maior, Santarem.



Supplier Globalfrut's pears in Lourinhã, Lisbon.



María Emma, "Boss" at the Miralbueno supermarket in Zaragoza.



1. “THE BOSS”

Our ability to collaborate gives us the agility we need to **develop new products and services together and aimed at “The Boss”, the intention being to keep them satisfied and surprise them.**

Our aim is to transform Mercadona to satisfy “The Boss”. To this end, in 2017 we were extremely active, carrying out inaugurations and refurbishments in the network of supermarkets to include the new efficient store model, as well as starting the global fresh products project, in addition to developing initiatives put in place in previous years, such as the effective selection and the co-innovation model.

New Efficient Store Model

In 2017, Mercadona continued to reinforce its sales surface by opening new stores and refurbishing others to adapt some of its supermarkets to the New Store Model the company decided to implement in 2016. Thanks to this, the company has managed to finish the year with a total of 1,627 stores, after inaugurating 29 and closing 16 that failed to meet the company's current standards.

The company has refurbished 126 supermarkets in total, which in conjunction with the openings, adds up to 157 centres adapted to the New Efficient Store Model, all of which has come at a noteworthy investment of 385 million

euros. This new model clearly showcases the company's commitment towards conceptual innovation, which in this case allows for optimising the shopping experience, while bringing about energy savings of up to 40% in comparison to a traditional store.

To undertake the project, the company has hired more than 250 people for the Construction Department, and it has made purchases from specialised suppliers that add up to some 126 million euros, 199% more than the previous year.

Improvements in the New Efficient Store Model

IMPROVED

Service

More space and appeal to improve the shopping experience and to offer a better service. Innovations across all sections and a number of improvements, including the newly-designed baskets and coinless shopping carts.

Energy

SAVINGS

Introduction of energy-saving measures that have brought about a reduction of up to 40% in consumption by means of thermal insulation, noise reduction and water usage savings.

Ergonomics

New checkouts to eliminate overexertion. **Renovation of the rest areas and employee lockers.**

Connectivity

State-of-the-art electronic devices that allow for sharing real-time information from anywhere in the store, and that speed up all the processes throughout the chain.



250+
people hired for the
Construction Department

157
supermarkets featuring
the new store model

Store front at the La Venta supermarket in Collado Villalba, Madrid.

Global Fresh Products

In 2017, Mercadona invested greatly in developing the fresh products it has on offer, which involved a radical change in its purchasing, sales, logistics and ordering models. The company is introducing the concept of Global Fresh Products, which features simultaneous improvements throughout all its fresh products sections, all of which has resulted in a 5.4% increase in fresh products sales in 2017 in the stores where it has been implemented.

Through the research laboratories, the company has improved the service offered to its clients by means of initiatives such as a knife-cut ham service or the evolution undergone by the bakery section, with its new specialities and bread slicer. In line with this, the Sushi laboratory, which by year-end 2017 was present in 173 stores, has established itself.

Additionally, the fresh products sections have continued to adapt to each area in order to respond to local tastes

and habits. Among the new items introduced, we would like to mention corn-fed chicken in Galicia and Pagés butifarra sausage in Catalonia. The company has also been studying how to offer a better service in regard to the fish that comes from the wholesale fish markets through a number of laboratories, whereby it is currently changing and adapting its selection according to the needs identified, which in turn has prompted a considerable growth in the section’s sales. Similarly, the company is also studying broadening the selection through other products such as chopped fruit or roasted pumpkin.

By year-end 2017, the company had 102 stores adapted to the concept of Global Fresh Products, and in order to offer a better service, it has trained 21,500 specialists in fresh products, among whom are deli assistants, fishmongers, greengrocers, butchers and bakery and checkout staff. This specialisation and qualification effort has brought about a boost in sales while offering new alternatives for the needs detected.

102

stores adapted to the concept of Global Fresh Products, which consists of unifying everything we have learnt and done up until now in terms of the fresh products sections in one centre



Sushi mural, freshly made daily.



New meat finishing station.



New bread slicing service in the bakery section.

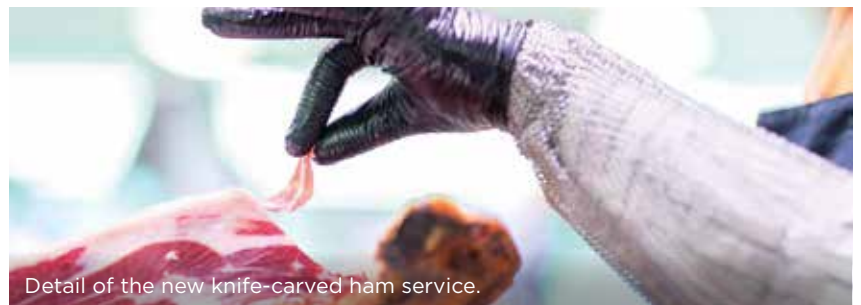
21,500

specialists trained in fresh products: deli assistants, fishmongers, greengrocers, butchers, bakery and checkout staff



Detail of the greengrocer section.

Improved quality, freshness and selection



Detail of the new knife-carved ham service.



Fresh fish from wholesale fish markets.



Freshly squeezed orange juice service.



New scales for weighing and charging at the checkout line.

Effective Selection and Prescription

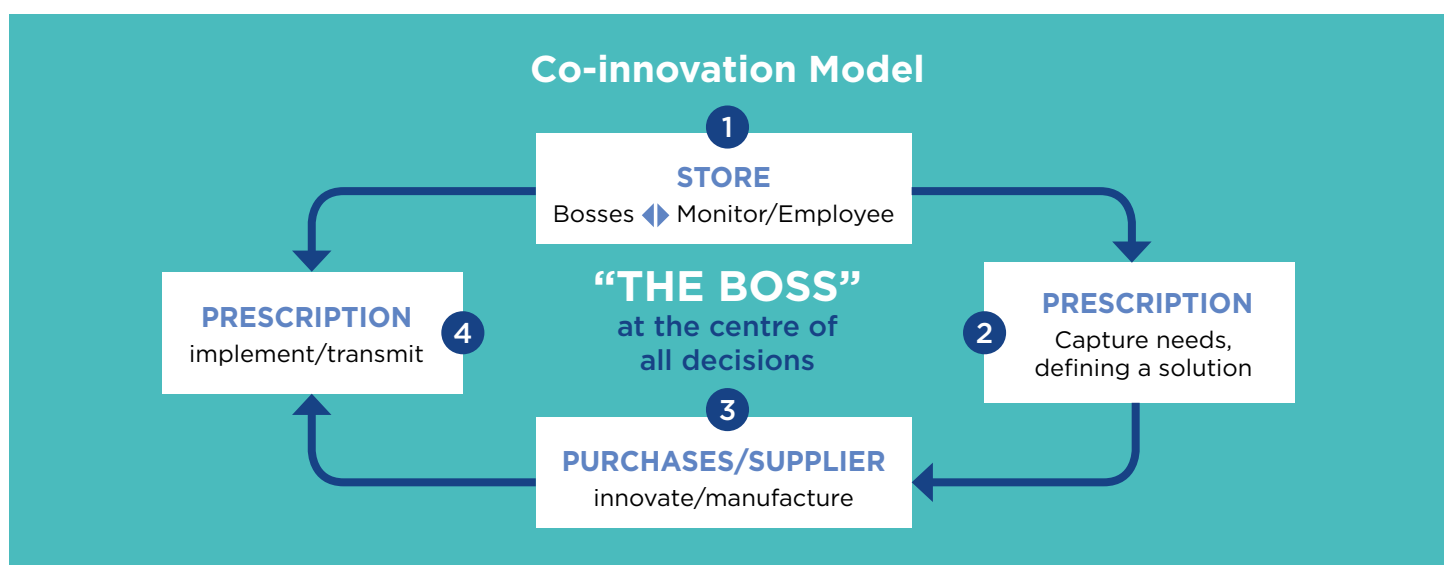
Mercadona has continued to develop its Effective Selection strategy together with integrated suppliers and specialist suppliers. To this end, the company has its Co-innovation model, which is a pioneering project that it started in 2011 through the Apron Strategy, based on sharing food, laundry and household cleaning, personal hygiene and pet care and nourishment client experiences and habits, which allows for capturing needs and offering the right solutions.

Among the milestones achieved, worthy of mention is the inauguration, in June 2017, of the first co-innovation centre in Portugal, namely in the municipality of Matosinhos (Greater Porto), where a total of 40 specialists in local solutions work on a daily basis to offer the Portuguese consumers the products that better adapt to their needs. In addition, the company has inaugurated the new Jarro Co-innovation Centre in Paterna (Valencia); the facilities simulate a real store, only without the “Bosses”, and they are equipped with everything they need to better define the selection and to work on new

product launches, in addition to providing training sessions for the employees without having to interfere in the daily activities of the stores.

With the implementation of the Matosinhos and Jarro co-innovation centres, the company has reached 16 centres of these characteristics, at an investment of 7 million euros in 2017, and 123 specialists work in more than twenty consumer categories in them. They are all responsible for capturing and observing the preferences and needs of “The Boss” “with their aprons on”, in order that the company may offer them the solutions they need.

In order to be able to develop all this co-innovation work, throughout 2017, Mercadona held almost 9,000 sessions with its “Bosses” in its different centres, which allowed it to identify specific needs and provide answers, both by introducing improvements or new references across all sections.



8,000 +
products

in the selection, so “The Boss” may make up their Shopping Cart Menu: Total Shopping for “The Boss” at the minimum monthly cost

120
integrated suppliers

suppliers capable of capturing the needs of “The Boss” to deliver the best solutions at the lowest price

700 +
specialist



Exterior of the Jarro Co-innovation Centre in Paterna, Valencia. The new centre, which has come at an investment of some 3.5 million euros, simulates a real store, but it has no clients, the intention being to better define the selection and to work on the launch of new products.

Successful, innovative products

Within its Co-innovation Model and by means of the Apron Strategy, which is based on sharing consumer experiences with clients to learn about their needs, Mercadona has continued to learn with “The Boss” and to develop new products in conjunction with specialist integrated suppliers to offer better solutions, as is the case with the cut barbecue ribs or the cut chicken wings, both presented in more manageable and convenient packaging to be warmed up directly in the microwave.

These initiatives report results, proof of which is the fact that a number of products have been acknowledged for their innovation in 2017; for instance, the Hacendado lactose-free ham and cheese pizza, the Hacendado frozen pre-cooked quinoa and the Verdifresh mascleta smoothie. In line with this, the Cerdà Institute’s “The Value of Joint Innovation” study certifies that the success rate of new products launched by Mercadona stands at 82%, whereas the sector’s average is 24%.



Improvements in the selection

105 improvements in the selection and 240 new products to surprise “The Boss” with a success rate at launch that is 4 times higher than the average for the sector.



An ample gluten and lactose-free selection

Currently, the company boasts a wide selection of gluten-free products, more specifically, there are 1,200 products that are free of this protein. Mercadona also continues to work on improving the selection and identifying lactose-free products - there are more than 800 - in order that our “Bosses” may be able to purchase in all product categories.



Own brands

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 labelling



New products

Fresh gazpacho and salmorejo: made like they would be at home and free of any thermal treatments, with allows them to maintain all their properties and flavour. Products manufactured by supplier J. García Carrión.

New fresh fruit juice: the new fresh fruit juice section offers a number of fruit and vegetable combinations and special ingredients such as chia, aloe vera and valerian, all producing different effects: relaxing, anti-oxidant, purifying, etc. Made by specialist suppliers Fruity King and Fruity Line.

Nuts: a wide range of natural nuts, including cashew nuts, hazelnuts, peeled sunflower and pumpkin seeds... and mixes to surprise "The Boss" with a perfect solution for snacks, or to go with salads and other recipes. Provided by integrated supplier Importaco.

R&D+i

Mercadona's supplier-manufacturers allocate more resources to R&D+i than the average for the sector in Spain: 2.47% of their workforce as opposed to 1.06% (Source: INE 2016).



At Mercadona,
we have an
**effective
selection** that
is built from
"The Boss"
backwards, by
means of which
we are able
to guarantee
the very best
quality at the
lowest price





The Espinosa Sales family and friends.

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 with all its integrated suppliers and specialist suppliers, and in which they are all equally involved. In order to offer its clients the best possible guarantees, Mercadona has a Quality Management and Food Safety System in place that encompasses the entire supply chain, from the origin, all the way to the final consumer, and it carries out meticulous controls of each and every one of the processes. To this end, it has a number of different systems in place, such as an innovative tool called REMER, a monitoring system for detecting and alerting of any emerging risks.

In 2017, the company carried out extensive training on Food Safety, attended to by more than 70,000 employees - practically the entire workforce - which allowed for each one to update their old Food Handling certificate.

Drills and collaboration with Healthcare Authorities

Similarly, the company also has an in-house Drill Method aimed at dealing with numerous and diverse scenarios, all in aid of improving coordination in the event of a possible incident, as well as to increase food safety levels. From among all the scenarios approached, worthy of mention are those performed in collaboration with the Sanitary Authorities of Galicia, the Spanish Agency of Consumption, Food Safety and Nutrition (AECOSAN) and the Valencian Association of Consumers and Users (AVACU), which allowed for internal systems testing, detection of improvement points, and in some cases, demonstration of their correct functioning.

Since 2015, Mercadona has been a member of the board of directors of the National Accreditation Association (ENAC), with whom it has collaborated to prepare the Good Laboratory Practices Guide for its suppliers. In

addition, the company has reinforced its collaboration with the Food Safety and Pharmacy health authorities in the different Autonomous Communities. Furthermore, Mercadona has actively partaken in Food Safety forums of reference, such as the ones organised by the Spanish Commercial Coding Association (AECOC), the Spanish Association of Convenience Stores and Supermarkets (ASEDAS) and others.

The Golden Rule

Any product in the selection must first guarantee food safety, then quality, followed by appeal, it must also be part of an effective selection, sell at the lowest possible price, the best service must be offered, and lastly, the least possible time must be spent on buying it.



Lorena and Sandra, “Bosses” holding specialist supplier Enervit’s isotonic drink at the Circuit 5K run in Turia Gardens, Valencia.

Food Safety Decalogue in Suppliers and Integrated Suppliers

The objective is to assess and verify food safety levels in an agile, continuous 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 Verification of detectors

8 Verification of quality improvements

9 Alert Management Method

10 Certifications

Food Safety and Quality Control Plan

Control over fresh products and allergens:

1,500+ controls

Biannual evaluation of our Hazard Analysis System and Control of Critical Points with favourable results

Control over logistics processes:

400+ controls

New software for immediate quality input information and management

Food Safety Certifications: Standards IFS and BRC, among others,

in **99%** of integrated suppliers

Assessment of suppliers' facilities and processes:

1,700+ facilities evaluated

Other process controls (surfaces and environments):

1,000+ controls

Studies on the products' lifespan:

2,000+ analyses

Labelling transparency

In 2017, the company continued working towards offering maximum transparency by adapting its labelling to the New Consumer Information Regulations, EU Regulation No. 1169/2011 of the European Parliament, as well as to that of the Council on the Provision of Food Information to Consumers (FIC Regulation).

The company also has in place its own procedure for always identifying the supplier-manufacturers of its own brands in a clear, transparent manner, as well as furnishing the consumers with the tools in order that they might act and buy freely and while being in possession of all the information. The company further believes in the principles of identification and information in regard to said products, allowing “The Boss” to easily identify the product’s information, from the time they purchase until they consume it, as well as any key attributes they might feature, such as, for instance, the use of certain allergens and the conditions of use.

Nourishment and health

In 2017, Mercadona worked closely with integrated suppliers and specialist suppliers alike to introduce important improvements in terms of nourishment, which has brought about important progress in a number of different products.

An example of this is the reduction of sugar, salt and additives present in different products, and the reformulations carried out to reduce caloric content.



Inmaculada and Elisabeth, employee and “Boss” at the Camí Real supermarket in Catarroja, Valencia.

Communication channels with “The Boss”

For Mercadona, upkeeping dialogue and communication with its “Bosses” is key, as their suggestions and thoughts lead to the introduction of improvements. Because of this, everyone who forms part of the workforce is involved in this on a daily basis, and the company places a number of direct communication channels at their disposal.

Customer Service Department (SAC)

Mercadona has a free of charge Customer Service Department available in both Spain and Portugal that acts as a conduit for any concerns raised by customers through the different channels it keeps open for its “Bosses”. This allows the company to listen to their opinions and resolve any queries more quickly and accurately, in addition to channelling other kinds of queries relating to the company and its employees’ ethical behaviour, which are then processed and resolved by means of the mechanisms put in place by the relevant departments.

In 2017, the 54 people who form part of the Customer Service Department received 300,000 different enquiries and suggestions, all of which have contributed towards identifying areas for improvement, enabling Mercadona to fulfil its objective of being a company that offers the best solutions through an effective selection and a positive shopping experience, added to the best service.



Customer Service Department employee Carolina.

700,000 total followers on social networks

90,000+ followers in 2017

150,000 enquiries on social networks

97,000 average mentions per month

f **535,000** followers on Facebook

t **140,000** followers on Twitter

i **16,000** followers on Instagram

y **850,000** subscribers on YouTube

Free Customer Service numbers

Spain
(+34) 900 500 103

Portugal
(+351) 800 500 100

Customer Service Channels

www.mercadona.com

www.facebook.com/mercadona

www.twitter.com/mercadona

www.youtube.com/mercadona

www.instagram.com/mercadona



Ana, employee at the Santa Rosa de Lima avenue supermarket, Malaga.



2. THE EMPLOYEE

At Mercadona, talent is a key value. Talent that is focussed on a common purpose: striving to **offer “The Boss” a service of excellence on a daily basis**

In 2017, the company went to great lengths to build the Mercadona of the future, to which end, the talent of the more than 84,000 people who make up the company plays an important role.

To boost the company's growth and development further, Mercadona has introduced a disruptive change based on contrasting. Always keeping the Mercadona Model as a reference, the effort that is put into guaranteeing the satisfaction of all five components through our routine work becomes a priority pillar for analysis.

To this end, and by way of an investment of more than 65 million euros, the company has reinforced its investment in people, which has resulted in a team that is cohesive and focussed on the daily excellence of their routine work. Thanks to this, it has a high-performance workforce and human resources that are among the best in the sector, which has allowed the company to reach the objectives set and consolidate future growth.

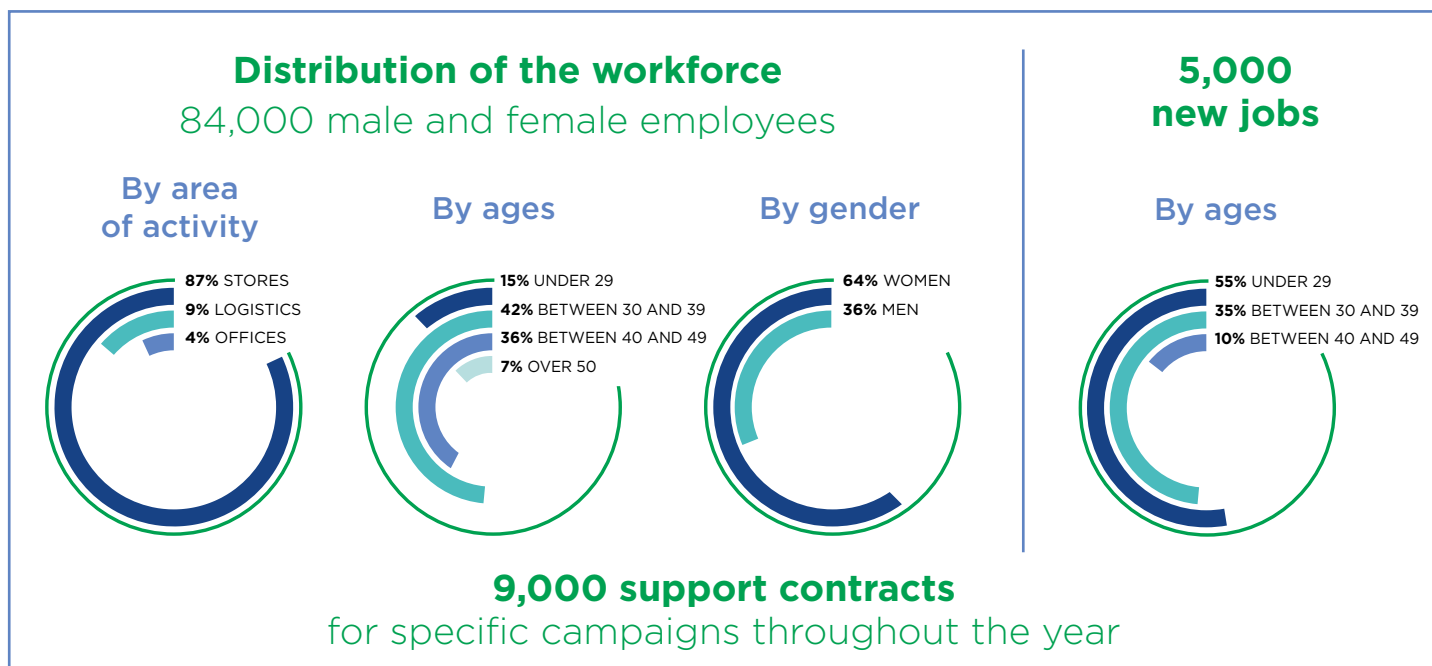
Fostering stable, quality employment

In order to fully satisfy “The Boss”, Mercadona has once again allocated a great deal of resources in fostering the personal and professional development of all who form the company. This includes increasing the talent of its workforce - its most important asset - both by providing training and by creating some 5,000 new stable, quality jobs (15 per day on average), which has resulted in a workforce of 84,000 at the end of the year, including 120 Portuguese executives who are in charge of leading the process of internationalisation in the Portuguese market.

All these people share the values of the Mercadona Model. A team that makes decisions, takes risks and learns from mistakes to further its talent while taking full advantage of its own skills and knowledge to successfully approach the goals set and to continue to further the Mercadona project.



Dani, employee at the Sancho el Fuerte avenue supermarket in Pamplona, Navarra.



Collective Agreement and Equality Plan 2014-2018

The starting point from which to carry out and incorporate constant improvements in relation to the workforce.

Fulfilment of commitments

Investment in human capital

Main milestones reached

Creation of stable, quality employment

5,000 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 1,132 euros/month net

Remuneration policy (11% increase in the monthly salary)

12,324 employees moved to a higher band in 2018

Extension of childcare leave to child's 8th birthday

310 requests received

Training

40,564 people have participated in specific training programmes

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

42% of promotions in 2017 corresponded to women

Core staff salary table

Mercadona core staff salary table in 12 monthly payments per year.

Seniority	- than 1 year	2 years	3 years	+ than 4 years
Gross/month	€1,312	€1,441	€1,599	€1,775
Net/month	€1,132	€1,224	€1,337	€1,462

In effect as of 01/01/2018. A 1.1% increase in the Remuneration policy in 2018.

78%
of core staff

Commitment towards Equality and Diversity

The Human Resources model defends and fosters values that are unwaiverable and that affect people's personal and professional development. Because of this, it promotes relationships that are based on respect and trust, whereby tolerance, equality and diversity are considered positive values. All of this is reinforced through the company's Equality Plan, which stems from a commitment towards developing professional relationships that are based on equality, quality employment and respect towards diversity, whereby any kind of discrimination based on gender is forbidden.

Furthermore, for Mercadona, equality is an inalienable value that forms part of its Model, and this concept has been applied transversally since 1997 through the principle of "same responsibility, same pay". Mercadona also considers diversity to be an integrating value that reinforces development and provides improvements in terms of obtaining results and furthering competitiveness.

Work-life balance is key for Mercadona, and the numbers speak for themselves: in 2017, 4.4% of female employees decided to have children, while 2,402 working mothers opted to extend the legally-established maternity leave of four months by 30 days. Also during the course of the year, 17,682 male and female employees enjoyed shorter working days, while in some cases, they also took their children to the free nursery schools the company started opening in its logistics centres in 2001.

Mercadona rejects any type of violence against women, and forms part of the "Companies for a society that is free of gender violence" agreement, fostered by the Ministry of Healthcare, Social Services and Equality, as well as the Integra Foundation. The company has an in-house behavioural protocol in place by means of which it helps female employees who might fall victims to gender violence, including providing immediate assistance and information to arrive at concrete solutions, authorising leave periods of up to 36 months or transferring to another centre.



Patricia, employee at the Viesques supermarket in Gijón, Asturias.

2,402
female employees
opted to have
children and extend
their maternity
leave by 30 days

17,682
male and female
employees enjoyed
shorter working days

1,490
male employees
benefited from
paternity leave

3,500
disabled people

Internationally acknowledged Human Resources Model

The company’s Human Resources policy has been praised by the Harvard Business Review, which published a study on the employee talent management, whereby according to them, Mercadona excels at extracting “maximum performance” from its workforce by making the most of the “creative problem-solving skills of employees, so they may suggest improvements”.

According to the Harvard Business Review, which compiled the conclusions of the study carried out by the Massachusetts Institute of Technology (MIT) Sloan business school teachers Zeynep Ton and Sarah Kalloch, the employment policy put in place by the chain of supermarkets makes a difference and allows for offering clients a “good experience”.

For another year running, in 2017 Mercadona’s Human Resources policy was acknowledged at the Merco Talento Study, once again coming first in the

ranking for the sector, climbing three steps in the general category to sixth, and coming first as the country’s first unlisted company.

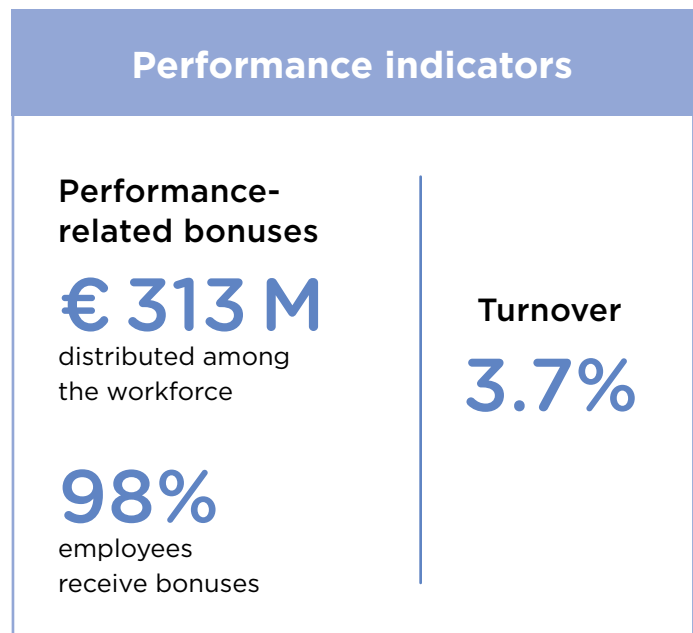
Furthermore, Mercadona’s Human Resources policy has been praised by the International Labour Organization (ILO), a United Nations’ agency. In its publication “Non-standard Employment Around the World”, it hails the way in which Mercadona manages its workforce as being one of the keys to its strategy 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 factors that influence its successful Human Resources policy.



Sharing profits with the employees

Mercadona rewards the hard work carried out by its employees by paying salaries that for years, and once again in 2017, have been above the average for the sector. In return, productivity has continued to grow.

Precisely in order to encourage leadership and to reward the personal and professional effort made, Mercadona has in place a variable remuneration policy through which it acknowledges employees for achieving the objectives set by sharing the profits obtained throughout the year with them. For 17 years, the company has rewarded employees with more than one year’s service whose commitment during the previous twelve months has allowed us to meet the personal objectives that were previously agreed on for their post. In 2017, it distributed a total of 313 million euros among 98% of its male and female employees by way of performance-related bonuses.





Bakery staff and monitors in a training session on the new bakery model.

Training for professional growth

Mercadona fosters ongoing training and allocates a great deal of human and financial resources to this end, and the more obvious return comes in the form of the quality of its human resources.

In 2017, the company invested some 65 million euros in training, 11 million more than the previous year, and in this way, 2.5 million hours of general and specific training were imparted for each post, at an average per-person investment of 780 euros.

Training is started with the Welcome Programme on the very first day employees join the company, and it is maintained throughout their careers. Thanks to this, employees don't only consolidate and improve their skills, they also receive a responsible conduct framework by means of the transmission of the Total Quality Model.

In 2017, a total of 577 people were trained on corporate leadership by means of the "Executive Leadership" programme, 64 of whom are from other countries, which is in line with the internationalisation process the company is immersed in. This programme started in 2009, and to date, it has entailed an average investment per executive of 20,000 euros.

We would also like to highlight the investment carried out in training of personal assistants - at 16,000 euros per person on average - which benefited 54 people in 2017, two of whom are also members of the international team. More specifically speaking, in order to boost the Global Fresh Products strategy, specific training has been provided on the new Sales Models to be able to provide "The Boss" with the service they need. More than 21,500 people have improved their specialisation thanks to attending courses on the New Meat Model, the New Bakery Model, Sushi Sales, Knife-cut Ham, Iberian Cold Cuts and others.



Daniel Blasco, managing director of Human Resources, imparting the executive promotion course.

Opportunities for internal promotion

Internal promotion represents one of Mercadona's main traits, and this is reflected by the fact that in 2017, 741 people have taken on new and more important responsibilities within the company. This professional projection goes right up to the highest level, as showcased by the fact that all the members of the Management Committee come from said internal promotion process.

Furthermore, Mercadona does not allow any kind of discrimination due to gender. In point of fact, currently the number of men and women in executive positions is at parity, which comes a result of its investment in internal promotion, that has allowed for a considerable increase in women executives promoted in the last few years, going from 30% to 47%.

Internal promotion

741
people promoted

Female executives

2010 **30%**

2017 **47%**

Health and safety at work

For Mercadona, protecting the healthcare and safety at work of its employees, both male and female, represents an ongoing, essential objective. To this end, it sees this responsibility as a priority, and unifies most of its efforts in this regard towards furnishing all the different posts and productive processes with the highest levels of safety and ergonomics.

Year after year, the company has also been reinforcing health and safety risk prevention training among its workforce, in which each and every post is involved, and it further contemplates any changes that might arise within the production processes. In 2017, the company allocated 10 million euros towards preventive measures. In addition, it engaged external health and safety consultants such as Quirón Prevención, Previs and Cualtis, who contributed both in terms of training and prescribing criteria and by developing new processes.

In this way, and in the case of health and safety, the prevention team has provided solutions by developing ergonomic solutions, like the new checkout furniture, the meat finishing station, the ham corner and the Bakery section. In turn, its involvement in terms of risk prevention where machinery is concerned has led to improvements in the fruit cutting machine, the fruit juicer and the fish cutting tools, among others. All these tools have not only contributed towards protecting the health of employees, they have also reinforced ergonomics and eliminated overexertion.

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 years - Mercadona has collaborated in exchanging information with its main suppliers' Risk Prevention Services, which is undoubtedly an important field of ongoing improvement for the company.



Victor, maintenance manager at the El Tercer Barrio supermarket, in Palencia.

Risk Prevention Plan + Healthcare Programme

Supermarkets

Risk assessment for the new centres and the refurbishments carried out

Initial and periodic training

155 assessments carried out

100% new intakes and periodic annual training planned

100% butchers - new Sales Model and deli staff - Knife-carved Ham

Logistics Centres

General and specific risks (safety of facilities)

32 courses planned for each logistics centre

Offices

Evaluation of the new offices in Paterna

9 guides on risk prevention criteria

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

14%*

36 days

60%

70%

10 million euros

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



Kale fields of integrated supplier Agromediterránea in Albacete.



3. THE SUPPLIER

In order to be a Totaler and to consistently offer “The Boss” the very best solution, **it is key that our suppliers deliver innovation and productivity**, and this starts by them specialising in what they do best

For years, Mercadona has been allocating a great deal of resources to reinforce its role as a Totaler, a strategy that allows it to connect to the needs to its “Bosses” and offer the best solutions within its sustainable agri-food chain (CASPOP-DONA). With this in mind, the company is committed towards always offering its clients the Shopping Cart Menu - which is what the company calls the products that form part of their daily shop - always of the very best quality and at the lowest cost. Thanks to this, the company has managed to go from retailer to Totaler, prescribing the best products for “The Boss” by means of integrated suppliers and specialist suppliers who share Mercadona’s passion.

Integrated Suppliers and Specialist Suppliers

Suppliers represent one of the main pillars within the Mercadona Project. The development of the supply chain plays an important role within the process of transformation the company is currently undergoing of effectively boosting the Effective Selection. By fostering specialisation, the company strives to offer “The Boss” an Effective Selection that guarantees food safety, quality, service and the lowest possible price in each product.

To achieve this, it collaborates with 120 integrated suppliers and more than 700 suppliers, all specialists in fresh and dry products who have helped to incorporate a certain know-how onto the company’s shelves, while boosting local, proximity products that are fresher and more specialised. The company has worked in close collaboration with all of them to achieve the common objective of fully satisfying “The Boss”, to adapt to their tastes more efficiently and with improved agility and to further reinforce its effective selection.

In order to successfully address these specialisation endeavours, the company has strengthened its Purchasing and Prescription departments, which in 2017 comprised 900 managers divided into five Purchasing and two Prescription departments, all specialising in different products and categories.

In addition, by year-end 2017, the company had collaborated with more than 2,700 commercial and services suppliers, to which we must add 20,000 local SMEs and raw materials producers. Each and every one of them plays an important role in the company’s supply chain, as their joint commitment has allowed for the continued consolidation of a project of shared wealth. This project has generated value and represents a source of productivity for our country, and it continues to foster efficiency, quality innovation, products of Spanish origin and sustainable development.

With the objective of always having the best option available for “The Boss”, Mercadona has a presence in more than 10 countries, where it collaborates with the very best suppliers to reinforce its selection and the service provided. The company also has representative offices, subsidiaries and branches in several of these countries to provide coverage for the employees, from which they may operate in Mercadona’s name.

Farewell to a dear friend and a great entrepreneur

We would like to use these pages to pay tribute to Paco Pons, president of Importaco - a Mercadona integrated supplier-manufacturer for more than 20 years. Paco Pons passed away on the 12th of January in Valencia; he was a great person, a very capable entrepreneur and a great manufacturer and friend to all of us who are part of this Project. The values he transmitted and his honest, humble personality remain a model to emulate and an example to be followed by all of us. His legacy will live on among us all. *Adéu gran amic.*



Specialisation by product

Integrated Suppliers and Specialist Suppliers

1 A close relationship based on trust and mutual collaboration

2 In dry products, being in possession of specific know-how to deliver specific products of the highest quality

3 In fresh products, incorporating locally-sourced products and adapting to local tastes

4 Having the means available to introduce new products to the selection in a timely manner

5 Having the satisfaction of “The Boss” as a guiding principle



Quality control at the facilities of supplier Manuel Busto Amandi in Villaviciosa, Asturias.



Butter buns made by specialist supplier Urrestarazu in Basauri, Bizkaia.



Padrón peppers belonging to supplier Horsal in Cambados, Pontevedra.

Code of Good Commercial Practice

Mercadona adheres to the Spanish Code of Good Commercial Practices in Food Contracting, a voluntary agreement which is framed within a Law of measures for improving the operation of the food chain. This project is an initiative of the Ministry for Agriculture and Fisheries, Food and the Environment (MAPAMA) 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

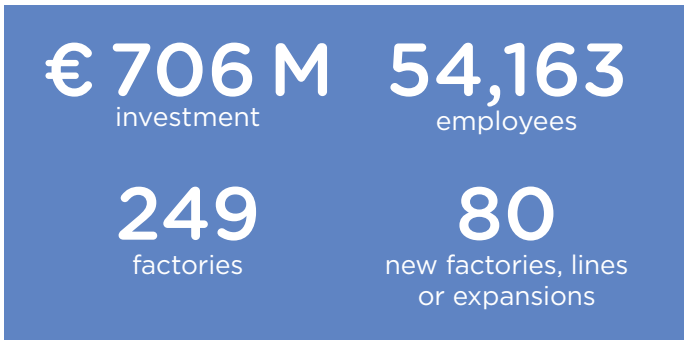
Chain Initiative, a voluntary European Commission-backed agreement of good commercial practices in the agri-food chain throughout Europe which was started by seven of the sector’s associations.



Industrial cluster in numbers

Some examples of investments introducing process improvements and innovations in 2017

Thanks to the joint effort put in by Mercadona together with its integrated suppliers and specialist suppliers, who work specifically for the company, in the last few years it has been possible to create an important industrial cluster in the country. By year-end 2017, the cluster, which comprises 249 factories and 54,163 employees in total, had jointly invested some 706 million euros and generated 80 new factories, production lines or expansions.



Agromediterránea
 New Agronomic Innovation Centre for the investigation of new varieties in Montserrat (Valencia) and improvements in the courgette irrigation and cultivation systems in Murcia.

€ 1.7 M

Ibersnacks
 New crisps production line in Medina del Campo (Valladolid).

€ 3.5 M

42 new jobs

Ultracongelados Virto
 New factory in Santomera (Murcia).

€ 19.7 M

12 new jobs

Chic-kles Gum
 Expansion and improvement of the chewing-gum and assorted sweets lines in its factory in Riba-roja de Turia (Valencia).

€ 14 M

24 new jobs



Arrocerías Pons
Expansion of the rice growing areas of the round, bomba and J. Sendra varieties in Massanassa (Valencia).

€1.6 M
13 new jobs



Casa Tarradellas
New pizza and Hacendado Chicken Strips automated production in its plant in Gurb (Barcelona).

€45.2 M
166 new jobs



SPB
Expansion of capacity, product re-design and improvements in the processes in their plants in Cheste (Valencia) and Huevar del Aljarafe (Seville).

€9 M
37 new jobs

Incarlopsa
Expansion of a ham drying facility in Corral de Almaguer (Toledo).

€27 M
60 new jobs

Covap
Different improvements and new lactose-free liquid cream line in its plant in Pozoblanco (Cordoba).

€4.3 M
43 new jobs

Cidacos
Improvements in several lines in their plants in Autol (La Rioja), Funes (Navarra) and Coria (Caceres).

€3.7 M
56 new jobs

Elaborados Naturales de la Ribera
Improvements in their Hacendado prepared omelette production lines in their plant in Corella (Navarra).

€2.1 M
11 new jobs

Logifruit
New packaging and logistics plant in Vitoria-Gasteiz (Araba/Alava).

€6.7 M
36 new jobs

Embutidos Martínez
Renewal of products for the new Meat Model in their plants in Cheste, Torrente and Buñol (Valencia).

€4 M
46 new jobs

Frutas Montosa
Expansion of the facilities and guacamole production line in Valle-Niza (Malaga).

€6.3 M
41 new jobs



Annual meeting of Integrated Suppliers

In June, Mercadona held its annual integrated supplier manufacturer meeting in Valencia. The gathering allowed for considering the importance of specialisation within the Mercadona Project, due to it being a key factor to reinforce both the quality and safety of the products and to provide an effective selection that satisfies the needs of “The Boss”.

Furthermore, the annual meeting also served the purpose of sharing the new challenges the company faces and presenting the tools with which to successfully tackle them, while satisfying the five components by means of ongoing innovation, daily hard work and a continued quest for excellence in routine work.





Some integrated supplier-manufacturers and specialist suppliers

Clearly identified on the packaging of the products they manufacture for Mercadona



Good Commercial Practice Framework Agreement

Principles governing Mercadona's relationship with its integrated supplier manufacturers

1

Shared objective

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

2

Mutual cooperation

Synergies throughout the supply chain's processes, seeking to achieve maximum efficiency

3

"Win-win principle"

Agreements that are beneficial for both parties

4

Fulfilment

By both parties of all the commitments within the agreed deadlines

5

Transparency

Working together with the objective of increasing productivity and competitiveness

6

Stable relationship

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





Nectarine plantation belonging to supplier Tany Nature in Zurbaran, Badajoz.

Collaboration with the primary sector

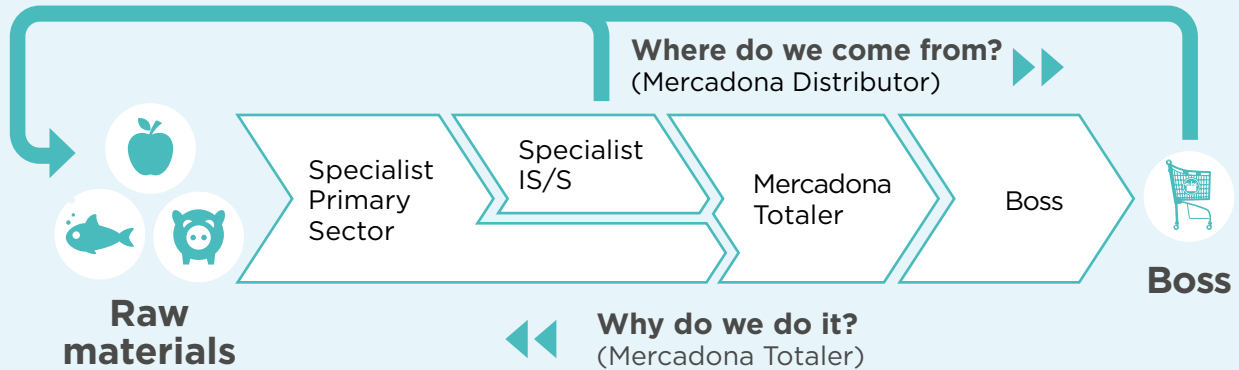
In 2017, the company continued to develop Mercadona’s Sustainable Agri-Food Chain (CASPOPDONA). The project pursues modernising the sustainable agri-food chain, and to achieve this objective, one of the key factors has been strengthening bonds with the Spanish agri-food industry’s strategic sectors, such as the agricultural, fisheries and livestock industries.

To this end, it has continued to foster stability, foresight, safety in shopping and specialisation. In line with this, all the links have continued to share knowledge and expe-

riences, which has allowed CASPOPDONA to become a project of continued shared knowledge, a project that grows and consolidates and allows for all its constituents to obtain profitability. Additionally, Mercadona has reinforced its effective selection by having the best suppliers in the sector. These suppliers are increasingly more local and specialised, and in addition to offering products of the utmost quality and freshness, for the most part they allow for continuing to advance in the commitment of using raw materials of Spanish origin whenever possible.

<p>Collaboration in conjunction with</p>	<p>8,600 farmers</p>	<p>5,200 stockbreeders</p>	<p>12,000 fishermen</p>
<p>A sustainable, 100% national dairy sector Mercadona is a signatory of the “Agreement for stability and sustainability in the dairy sector”, as well as the Sustainable Dairy Products programme, both fostered by the Spanish Ministry of Agriculture and Fishing, Food and the Environment (MAPAMA). They seek to value the national origin of milk and encourage the consumption of dairy products, a good example of which is its support of the “Local dairy products daily” campaign.</p>			
	<p>Orencio Hoyo A family company and specialist supplier of D.O. La Vera sweet and hot paprika. The company has agreements in place for collaboration and technical assessment with more than 40 agricultural producers in the valleys of Vera, Tietar, Alagon and Abroz, at a total of 200 hectares of pepper production.</p>		

CASPOPDONA Creating a common project



CASPOPDONA'S MAIN STRATEGIES

STABILITY ◀ ▶ PRODUCTIVITY ◀ ▶ DIALOGUE ▶

OBJECTIVE:

SHARED GROWTH AND SUSTAINABILITY



Frutas Fajardo

This family-owned company has 200 hectares of in-house production and agreements in place with more than one thousand predominantly small farmers. Thanks to this, it has managed to reinforce its specialisation in avocado, custard apple, mango and loquats.

Importaco

As part of its policy of good practice in farming to guarantee the safety and productivity of Spanish almonds, the company collaborates with 56 farmers, with a joint production of 7,300 hectares.



Logistics centres

Mercadona strives to develop its logistics network with the objective of transforming it to optimise its full potential. To be a step ahead of the game within its supply chain in terms of efficiency, the company has been making constant investments for more than a decade, which have resulted in not only reinforced efficiency, but also in innovation, as incorrect handling and over-exertion by employees in its logistics centres has been eliminated, which prevents and reduces the risk of accidents in the workplace. As a matter of fact, Mercadona has consolidated its investment in quality employment in the warehouses by introducing automated logistics centres that are pioneering in the sector and that represent an engine of productivity and competitiveness.

To face the challenge of increasing capacity while maintaining the company's constant growth, Mercadona is developing its logistics project in a sustainable manner while defining its stock, logistics processes and resources criteria and establishing the best location for its logistics hub.

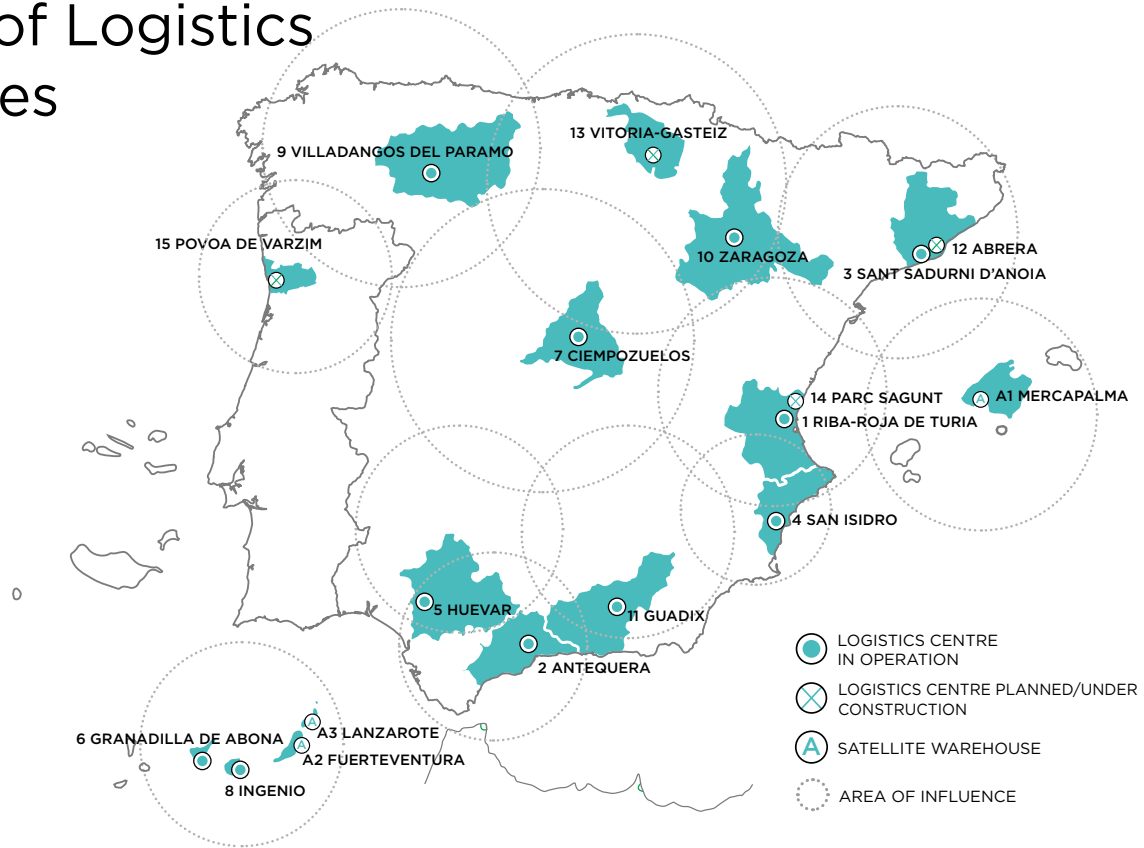
It is within the development of this strategy that we find the acquisition of the new plots in the Parc Sagunt business park in Sagunt (Valencia). In total, its 550,000 square metres have come at an investment of 41 million euros. Thanks to the 400 million euros invested in the construction of this new logistics centre, it will become the company's best and most modern logistics centre, improved thanks to the technological experience acquired in Mercadona's other warehouses.

The strategic location of the Parc Sagunt logistics centre represents a clear opportunity for increasing the company's energy efficiency, and it will entail the restructuring of the logistics centre the company has in Riba-roja de Turia (Valencia), which will adapt its activities on account of it not being possible to automate it. As a consequence, both centres will have an approximate joint workforce of some 1,000 people.



Aerial view of one of the plots where the new Parc Sagunt logistics centre in Sagunt, Valencia will be located.

Map of Logistics centres



- 1.** RIBA-ROJA DE TURIA, Valencia
- 2.** ANTEQUERA, Málaga
- 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)

- 15.** POVOA DE VARZIM, District of Porto (Portugal)
- A1.** MERCAPALMA, Palma de Mallorca (Balearic Islands)
- A2.** FUERTEVENTURA, Fuerteventura (Las Palmas)
- A3.** LANZAROTE, Lanzarote (Las Palmas)

Mercadona has an efficient logistics network that, put together, boasts a surface area of 1,099,000 square metres. Through its 15 logistics centres, four of which are in project and construction stages, and 3 satellite warehouses, it supplies all its supermarkets - 1,627 by the end of 2017.

1,099,000
square metres of surface area

15 logistics centres

Abrera and Vitoria-Gasteiz logistics centres

Mercadona finished the first stage of its building works in the Vitoria-Gasteiz (Araba/Alava) logistics centre with the start of activities in dry products, packaging, cold and perishables, which has thus far come at an investment of 50 million euros. This project was started in 2015 to supply the supermarkets in Euskadi, Navarra, La Rioja, Cantabria and Burgos.

At the same time, Mercadona has continued to move forward in the construction of its fifth intelligent logistics centre in Abrera (Barcelona). Throughout these months, Mercadona started the first stage of the fresh products platform integrated within the cold products warehouse (where the refrigerated and frozen products are also located). This will be added to the warehouse's activities in dry products, the bread line and the packaging management department. At a total investment of 300 million euros carried out in different stages, 150 SMEs will participate in its development, which will in turn provide jobs for 600 people, an important boost for the economic reactivation of the area for the duration of the building works.

Also in 2017, Mercadona signed a contract to develop its first logistics centre in Portugal. It is located in Povia de Varzim and has two 12,000 and 5,000 square metre industrial units, where dry, perishables, refrigerated and frozen products will be stored. The company foresees having the new platform fully operational in the first semester of 2019.



Outside of the logistics centre in Abrera, Barcelona.



Facilities of the logistics centre in Abrera, Barcelona.



Outside of the logistics centre in Vitoria-Gasteiz, Araba/Alava.



"Boss" Pau at the Blasco Ibáñez avenue supermarket in Valencia.



4. SOCIETY

A game-changing initiative based on shared growth to generate a social impact that creates progress and sustainable development

Mercadona's Total Quality Model is an ethical management model that generates value for all its components by pursuing sustainable growth. In keeping with its theory of change being the most stable of the company's features, Mercadona incorporates ongoing improvements that have contributed towards building its project, a project that has evolved through responsibility, transparency, cooperation, dialogue and empathy.

Thanks to this Model, which favours shared prosperity among all its components, one of the commitments Mercadona has towards society is that of contributing to its development and progress in a sustainable manner. By means of its Social Responsibility strategy, the company fosters entrepreneurship and encourages talent, while constantly working on measures that might reduce the impact of its activity on the environment.

This way of understanding its activities is shared with all those who are part of the company, who on a daily basis, collaborate towards a common objective, namely "to continue building a company model of which people feel proud of".

Creation of value through actions

The transformation Mercadona is undergoing also generates an important positive impact in society. As a matter of fact, the 1,008 million euros investment made in 2017 alone has had an important multiplier effect on the economy, as it generates a very real boost to industrial activity, employment and income in the areas where the company develops its activities.

Equally relevant is the generation of stable, quality employment, which in 2017 represented the creation of 15 new jobs per day. In total, 5,000 stable, quality jobs were created, and the company also invested in promotion and personal and professional development by offering conditions that are above average for the sector, as showcased by the fact that the minimum starting salary is 1,132 euros net per month.

In addition to the above, which in itself reflects Mercadona's level of commitment towards Society, in 2017 the company once again showed its direct and

indirect contribution through numbers: 1,441 million euros paid by means of direct and indirect taxes to the Government, of which 758 million euros correspond to Social Security payments, 108 to corporate income tax, 478 to VAT and Personal Income Tax, and 97 to other taxes and duties, as well as a contribution of 4,160 million euros to the national GDP.

Similarly, by means of the collaboration it has in place with more than 2,700 commercial and service suppliers and 20,000 SMEs and local raw materials producers, Mercadona's indirect activity also represents an engine for shared growth in Society. A good example of this are the numbers published by the 120 integrated suppliers and certain specialist suppliers who work specifically for the company. In 2017, they created some 3,720 jobs, at a total of 54,163 direct jobs, and have jointly invested 706 million euros, which reflects the firm commitment Mercadona has towards society.



Store front of the supermarket in Carretera de Onda in Vila-real, Castellon.

Impact of the economic activity exerted by Mercadona and its supply chain in Spain

Total Income and Employment Contribution

19,500*
million euros combined
contribution to GDP
1.7% of GDP

545,000*
jobs in Spain through the direct, indirect
and induced activity of Mercadona
3% of Spain's total employment

Numbers for Mercadona's Sustainable Agri-Food Chain

Purchase volume in Spain
17,533
million euros (€1,478 M + than in 2016)

85% of the total purchase volume
(products+services)

2,700+
commercial and
service suppliers

20,000+
SMEs and raw
material producers

120
integrated
supplier-
manufacturers

1,714
million euros combined investment
by Mercadona, integrated suppliers
and some specialist suppliers

Tax contribution

Direct and indirect taxes **1,441** million euros

Direct Tax Contribution

Social Security
634
million euros

Corporate tax
108
million euros

Other taxes and duties
97
million euros

Indirect Tax Contribution

Social Security
124
million euros

Personal Income Tax
313
million euros

VAT
165
million euros

*Data updated according to the methodology defined by Valencia's Institute for Economic Research (IVIE) in 2017.

Dialogue and Transparency

Mercadona strives to better adapt to the environment of which it forms a part. In line with its theory of “giving first, to then receive”, and with the objective of fostering shared growth and coexistence, Mercadona has developed strategies that offer more appropriate, fitting solutions. Thanks to ongoing dialogue, the company is able to acquire in-depth, first-hand knowledge of the needs and concerns of all that surround it, including neighbours, consumers, associations and institutions.

In the same way, the company has participated in numerous forums and meetings with different organisations and associations belonging to a number of fields. In all of them, it has had the opportunity of explaining its Project and its Company model and detecting areas for improvement. In 2017, it prepared the “Analysis of the perception and expectations of NGO’s and foundations, consumer organisations and the agriculture-livestock sector concerning Mercadona” together with KPMG, with the objective of identifying improvements in its relationship with the interest groups.

Likewise, Mercadona considers transparency to be a key factor which it endorses and treats as a priority responsibility, as may be seen on its website. Here, the company periodically publishes and keeps updated all the pertinent institutional and financial information needed to guarantee transparency vis à vis the way its public actions work and how they are controlled.



Rebeca and Borja, “Boss” and employee at the Kansas City avenue supermarket in Seville.



Nuria and Marta, “Bosses” at the Sancho el Fuerte avenue supermarket in Pamplona, Navarra.

Some of the social acknowledgements in 2017

As a result of its involvement with Society, the company has received a number of acknowledgements, which constitute an incentive to continue working and promoting initiatives in its surrounding area.

Merco Empresas Report:

For the third consecutive year, in 2017 Juan Roig was ranked Spain's business leader of the best reputation in Merco Report's ranking. Mercadona was also consolidated in said ranking as the company with the best corporate reputation of the generalist retail sector, and it came second across all sectors in the country.

A Trustworthy Mercadona

In 2017, 85% of Spaniards chose Mercadona as the most trustworthy company, according to the "Citizen's perception and evaluation barometer of Spain's most prominent companies", published by Metroscopia.

FES Social Responsibility

In 2017, Mercadona was awarded the Social Responsibility Distinction by the Segovia Corporate Federation (FES) due to its sensitivity as a company towards social issues.

"Last minute" food

In 2017, the Gipuzkoa Local Government and Food Bank awarded the company a diploma by way of acknowledgement towards its promoting "last minute" food donations, which are products that are past their sell-by date but perfectly fit for consumption.

Solidarity Dish

In 2017, the Valladolid Food Bank Foundation granted Mercadona the 2017 Solidarity Dish award in the Companies category due to its ongoing support since the start of their collaboration in 2014.



High Distinction

In October, Mercadona's vice-president Hortensia Herrero received the High Distinction awarded by the Government of Valencia in acknowledgement of the work that, through the Hortensia Herrero Foundation, seeks to recuperate, protect and promote the artistic heritage of the city of Valencia, while contributing towards positioning the city as a reference in the arts and culture. According to the foundation's president Hortensia Herrero, "receiving this High Distinction represents a great honour and a responsibility that serves as a boost for the future, a boost to continue working daily on a project that promotes Valencia, one that showcases all its history and true worth".

Mercadona's vice-president, Hortensia Herrero with the president, Juan Roig and three of their daughters, after receiving the High Distinction from the Government of Valencia on the 9th of October 2017.

Relationship with the consumers

For years, Mercadona has been encouraging participation and collaboration by promoting individual or collective actions with the most prominent national Consumer Associations, as well as in autonomous communities and provinces. Thanks to this, it is able to come close to consumers, to learn about their opinions, in addition to collaborating and participating in training and informative activities.

Also, in 2017 the company extrapolated this need at a European level, and so decided to visit the Bureau Européen des Unions de Consommateurs (BEUC) in Brussels in order to explain its business model to the institution (which comprises 43 consumer organisations from 23 countries) first hand. In the same way, Mercadona became closer with Deco Proteste, a reference association for the defence of consumer rights in Portugal, where the company plans to open its first four supermarkets in 2019.



Ana Belén Martínez, External Relations director for the Murcia Region at the II Directing Homes Conference, organised by La Verdad newspaper in collaboration with the ThaderConsumo Consumer Federation.

“Participation Table” project

Throughout 2017, the company continued its collaboration on the “Participation Table” project, which started in 2015 in collaboration with the food sector’s national consumer association federations, namely CECU, FUCI, UNAE and CAUCE. The participants held periodic meetings throughout the year, and their work earned them the award from Valencia’s Association of Consumers and Users AVACU 2017, which acknowledged the activity as the “Best Consumer Defence Action”.

Additionally, during the last twelve months, through the said “Participation Table”, the company also worked on preparing the “Consumption Habits 2017” survey, which encompassed more than 2,500 families. The survey’s conclusions allowed for carrying out an in-depth analysis of the purchasing habits of Spanish consumers, identifying the information and general knowledge they have in terms of nutrition and labelling, as well as their willingness to collaborate in relevant issues such as Social Responsibility and Food Waste, for instance.



Representatives of CAUCE, CECU, Mercadona, FUCI and UNAE, participants of the “Participation Table”.

Collaboration in

22

studies and publications
related to the sector

Supporting

37

ceremonies and actions organised
by consumer associations

143

briefing
meetings

17

collaboration
agreements



Vanessa, "Boss" at the El Tercer Barrio supermarket in Palencia.



María Dolores, "Boss" at the Burgos avenue in Logroño, La Rioja.

Collaboration in
conjunction with

18

associations of coeliacs, different
intolerances and other allergies

Close contact with

61

national and autonomous
communities consumer
association

Participation in

15

conferences, seminars and
talks about the sector

44

talks in consumer
associations

31

visits to facilities belonging
to the company and
integrated suppliers

Contributing towards a more sustainable urban world

In 2017, Mercadona continued to further the construction of urban gardens, an initiative that contributes towards improving the image portrayed by the company and the quality of life of neighbours living near the stores where they are present. These “green roofs” are located in centre courtyards, and they are prepared using autochthonous species presenting low water needs; they contribute to reduce contamination and the “heat island” effect, as they are an outstanding insulator.

Mercadona plans to continue entering into these kinds of initiatives, which also contribute towards achieving the objectives defined in the Urban and Local Sustainability Green book, published by the MAPAMA.

In addition to the foregoing, the company is pilot testing urban distribution through 7 liquefied natural gas-propelled lorries. Their engines emit 40% less CO₂ per litre of fuel, particulate matter emissions are reduced tenfold and they emit 80% less nitrogen oxide in comparison to the Euro 5 standard, due to which the company plans to incorporate a further 40 lorries in 2018. Concurrently, Mercadona is also testing the use of both electric and diesel hybrid vans.

Management that is Proactive towards the Neighbours

The relationship Mercadona has with its neighbours is based on respect, mutual understanding and adaptation. Because of this, the company listens to them and introduces initiatives to consolidate a relationship of coexistence that prevents its commercial activities from interfering or generating unpleasant impacts in the surroundings or neighbourhoods where it is present.

Within this framework of constantly seeking solutions, Mercadona has continued to advance in the “Proactive Management with Neighbours” project, started in 2014. This preventive mechanism has resulted in avoiding any possible annoyances by carrying out 4,500 checks in the loading and unloading processes, as well as 4,300 in the internal processes of facilities and supermarkets.

In addition, in 2017, 316 suggestions, complaints and improvements submitted by neighbours were analysed, 73% of which were satisfactorily resolved within 30 days, while the resolution time of the remaining ones depended on the required action.



Gardened rooftop of the supermarket in Quevedo circus, Madrid.

Integration in local town markets

Mercadona stimulates retail trade in its immediate vicinity and is especially committed to coexisting with traditional forms of trading. In 2017, the company continued to foster the revitalisation of local town markets - a project it started in 2001 - and there are currently 37 stores located inside municipal markets. Thanks to this, it shared its investment in the coexistence of formats with more than 1,800 different traders, after having inaugurated a new supermarket at the Tarragona Mercat Central (Tarragona).

Collaboration with local traders

<p>37 stores in municipal markets</p>	<p>1,800+ local traders share the excitement of bringing back traditional commerce</p>
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Supermarket in Tarragona's Local Town Market, Tarragona.

Support for Entrepreneurship

Mercadona believes that being able to capture, retain and boost talent constitutes a responsibility that contributes towards Society's growth. Because of this, in addition to contributing towards its development internally, it also does so externally. This commitment allows the company to give back some of what it receives to its surrounding areas, by sharing innovative initiatives that generate efficiency and productivity.

An example of support for entrepreneurship comes in the form of the collaboration with the King Jaime I Awards Foundation in the "Award to the Entrepreneur" category, together with EDEM Business School and Valencia's Association of Businesspeople (AVE). Alicia Asín Pérez, chief executive officer and co-founder of Libelium Comunicaciones Distribuidas was the winning entrepreneur of the category's eighth edition in 2017. Its telecommunications project, which specialises in designing and manufacturing wireless sensors that allow for monitoring any object or environment and sending this information in real time and wirelessly through the internet. Thanks to this innovative technology, which has provided a solution to logistics, industrial and agricultural needs, among others, Libelium has reported a sustained growth that has taken it past the one hundred employee mark.

Furthermore, for years Mercadona has maintained a close relationship with the training sector through EDEM, a foundation that is presided by Hortensia Roig, of which the company is a Patron and that is currently immersed in a process of growth and development in terms of its strategic plan. Juan Roig once again participated as a teacher in the 2017, twelfth edition of the senior management course "15x15: fifteen days with fifteen business leaders", in addition to a number of Mercadona executives, who imparted lessons in the "ABC" corporate management programmes, in senior training, the ADE Degree for Entrepreneurs, the Degree in Engineering and Corporate Management, the Junior MBA and the Master's Degree in Entrepreneurship and Leadership.

Similarly, numerous students from the University Centre carried out their internships in Mercadona last year.

The objective of this commitment towards teaching activities entered into by the company is to contribute towards training businesspeople, executives and entrepreneurs by instilling in them the fundamental values of the Total Quality Model. Together with the accelerator Lanza-dera and the investment company Angels, EDEM forms part of Marina de Empresas, one of Juan Roig's personal initiatives, whose mission it is to train, advise and finance entrepreneurs of today and of the future, which constitutes a commitment towards generating wealth and employment, as well as fostering entrepreneurship.

An active member of the Global Compact

Mercadona is signatory and a partner of the Global Compact, which is the largest association in existence for the defence of fundamental values in terms of Human Rights, Labour Standards, the Environment and Anti-Corruption. It has continued to work towards fostering the different initiatives that are in existence under the umbrella of this Pact. Furthermore, it has actively participated in the creation of a guide of good practices aimed at helping food and beverages companies promote the United Nations' Sustainable Development Goals.

Through its active involvement, the company seeks to reaffirm its support of the ten principles and values of this compact, all of which is recorded in the progress report confirming the application of said principles, which has been submitted to the Spanish Global Compact network.

More information is available in the
Environmental Report:
www.mercadona.com





Mercadona, Valencia's Association of Businesspeople (AVE) and EDEM Business School, sponsors of the King Jaime I Award for Entrepreneurs, together with the winner, Alicia Asín Pérez, chief executive officer and co-founder of Libelium Comunicaciones Distribuidas, during the ceremony.



Juan Roig imparting EDEM's "15x15" senior management course.

A Social, Responsible Mercadona

The company has continued to further its Social Action Plan, through which it has supported several different institutions and social organisations that, during the course of the year, have continued their important aid activities. Mercadona participated in different initiatives in all the Autonomous Communities, and in this way, in 2017 it donated 9,600 tonnes of food, which represents 3,100 tonnes more than the previous year.

In line with this, Mercadona has continued to support the work of more than 140 soup kitchens in different Spanish towns, to whom the company donates products that are unfit for sale, but perfectly good to consume.

Furthermore, in 2017, Mercadona collaborated with the solidarity race for adopting and responsibly caring for pets “Petorrón Madrid 2017”, attended by more than 4,000 people. The company donated dog food from its brand Compy to all the attendees.

Operation Kilo and Great Collection

Through its supermarkets, Mercadona collaborated with a number of “Operation Kilo” food collections, as well as in the “Great Collection” organised by the food banks. The response from the “Bosses” to all these initiatives has been extraordinarily generous, as 6,000 tonnes of food have been donated.

Agreements with

60+

food banks and other organisations

Collaboration in conjunction with

140+

soup kitchens

9,600

tons of food donated



Cristina, loan and Cristian preparing a delivery of milk at the Barcelona food bank.



José, Sara and Rosario, “Boss”, employee and volunteer at the Los Molinos supermarket in Paterna, Valencia, during the 2017 Great Food Collection.

Trencadís murals

In 2017, Mercadona consolidated the social innovation of its stores by investing more than 1.5 million euros to make the 3,142 new *trencadís* (mosaic technique) murals that it has installed in the fishmongers and meat finishing stations in its stores.

To achieve this, the company has collaborated with 28 foundations and occupational centres, as well as with Pamesa Cerámica. More than 1,000 people suffering from intellectual disability have worked daily on making the murals, which have acquired a broader, more modern design that is more in line with the characteristics of Mercadona's New Store Model.

Currently, the company collaborates with the Roig Alfonso Foundation, the Down Syndrome Foundation, Fundaempleo Azahar and Espurna Foundation, the Purglass,

Ivas, Tola and Di-Kapacitats Special Employment Centres, the Rinconet Farm Home, the Afanías Association, the Torreblanca, Ivas el Maestrazgo, El Molí, Ivas Belcaire, Buris-Anna, La Xara, El Castellet, Hort de Feliu, Mislata, Xirivella, El Prat, La Ribera, Monduber and Moixent occupational centres, the Koynos Cooperative and the Sueca, Requena and María Rafols Municipal Occupational Centres, whose daily hard work the company is thankful for.

Responsibility and Corporate Governance

Mercadona has been acknowledged as the second most responsible company by the Merco Responsibility and Corporate Governance 2017 ranking, which evaluates variables such as ethical behaviour, transparency, commitment towards the environment and employment quality.

3,142
new *trencadís*
murals

1.5
million
euros

28
foundations and
occupational centres

1,000
people suffering
from intellectual
disabilities



Trencadís mural in the fishmonger section of Mercadona's New Efficient Store Model.



Members of the Valencia Autonomous Community Roig Alfonso Foundation making the murals.

The environment and sustainability

The Mercadona project considers all the effects its activities might exert upon the environment and is fully committed towards the protection and efficient use of natural resources. Based on this responsibility, it incorporates improvements that add value for “The Boss”, all within the premise of “doing more with less”. To achieve this, the company has an in-house Environmental Management system in place whose main objective is to take full advantage of the resources available while minimising waste generation. It is focussed on three main areas: logistic optimisation, energy efficiency and waste reduction.



Bicycle parking facilities at the Parque avenue supermarket in Lucena, Cordoba.

Main lines of action

Logistics optimisation and sustainable transport

Transporting more with fewer resources and making the most of the space in each lorry represent the company's main logistics strategies. Since 2017, the fleet of lorries has been entirely made up of vehicles that comply with Euro 6 and Euro 6c standards, which are the most stringent in existence in terms of atmospheric emissions. Furthermore, Mercadona is working on the Sustainable Urban Distribution Project, involving gas-propelled lorries. With the objective of reinforcing logistics, Mercadona's integrated supplier Acotral added 11 mega-trailers to its fleet. Mega trailers are 25.25-metre vehicles capable of transporting up to 60 tonnes per trip. Thanks to this initiative, whereby 40% more merchandise is transported, the company is able to reduce CO₂ emissions to the atmosphere.

Energy efficiency

Using only the energy needed and introducing measures for making an efficient use of it, Mercadona's New Efficient Store Model includes new insulation and savings measures that reduce energy consumption by 40% in comparison to traditional stores. Furthermore, they prevent the emission of approximately 700 tonnes of CO₂ per store, per year.

Waste management

All cardboard, plastic, polystyrene and wood waste is recycled by authorised handlers, while efforts are made to reduce in-house waste generation. Mercadona also works towards reducing the waste generated at stores by managing orders efficiently, selling out of fresh products and donating food that is suitable for consumption, but not for commercialisation. In the same way, both the company and some of its integrated suppliers and suppliers have established synergies to reuse waste generated by one, to be used by the other. This is in keeping with the circular economy strategy, which follows the premise of converting waste into resources, to then reincorporate them in the productive economy cycle.

€ 34 M

invested in
environmental
protection

67,000

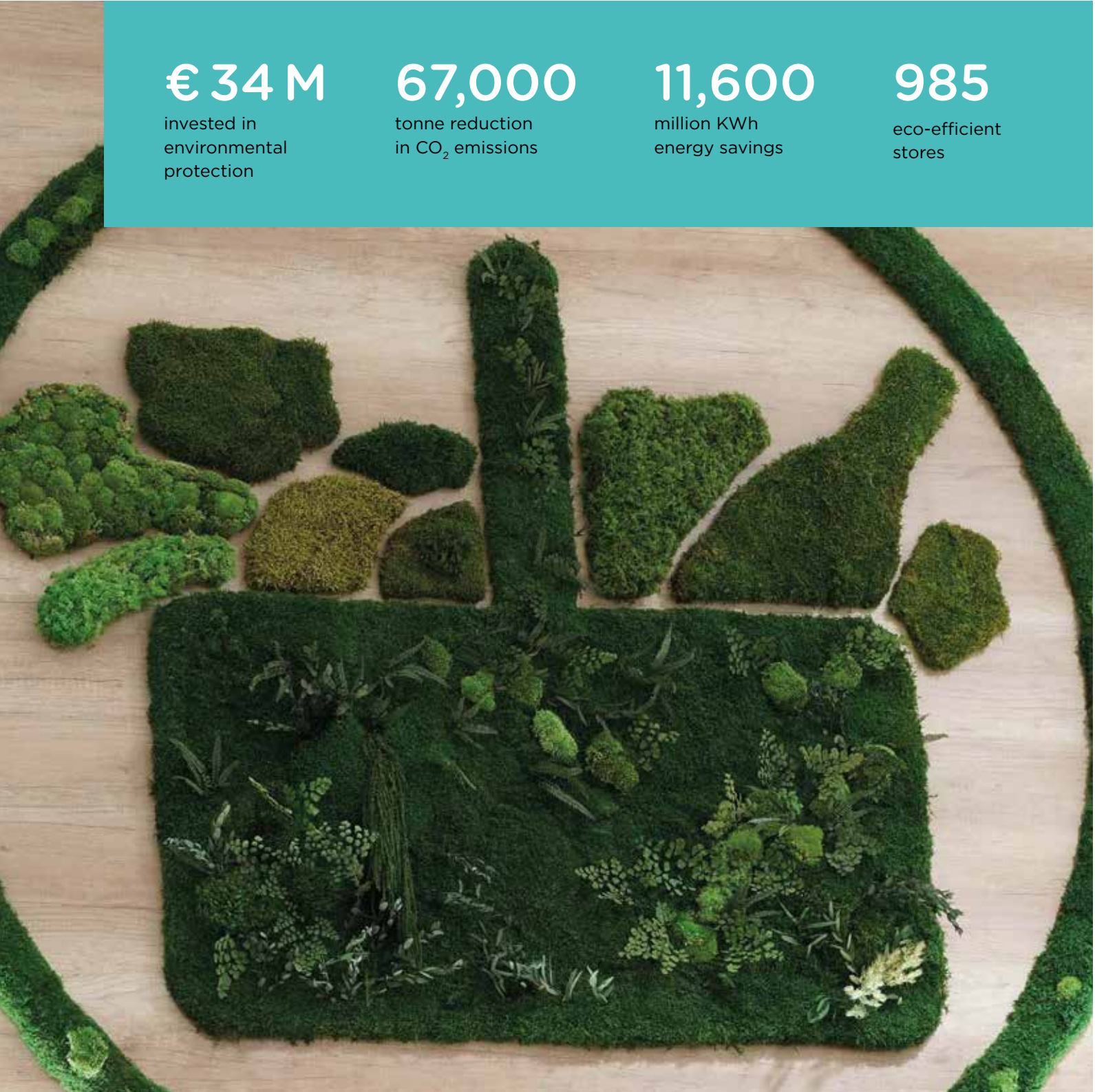
tonne reduction
in CO₂ emissions

11,600

million kWh
energy savings

985

eco-efficient
stores



Mercadona logo at the supermarket in the ABC Serrano shopping centre, in Madrid.

Avoiding food waste

Mercadona has a number of initiatives in place to reduce food waste wherever possible. As a matter of fact, it has introduced internal mechanisms that promote adjusting orders as much as possible, which in turn allows for the sale of all the produce received at the stores.

Furthermore, it participated in the MAPAMA “More food, less waste” strategy, whose objective it is to prevent and reduce food waste. Concurrently, for another year running, Mercadona has participated in the AECOC initiative “Food is too good to waste”, which puts all the actors in the supply chain in touch with one another to create synergies and prevent food waste at every point.

Investment in sustainable fishing and animal welfare

For years, Mercadona has been collaborating with its suppliers to guarantee a commitment towards sustainability in the fishing products it offers to its “Bosses”. After achieving that all its suppliers ratify the Fishing Products Purchasing Policy that the company entered into in 2012, Mercadona reached another milestone by ensuring that 100% of the Hacendado canned tuna fish

comes from responsibly-managed fishing grounds, in compliance with the required ISSF certifications.

Mercadona has liaised with its suppliers in protecting animals in farms and during transport and slaughter by means of a number of programmes and collaborations with institutions such as the Agri-food Investigation and Technology Institute (IRTA) and the Technological Institute of Investigation and Development (NEIKER-Tecnalia).

In 2017, the company managed to fulfil its commitment of having all its suppliers apply animal welfare regulations throughout the animal’s life, as well as implementing the relevant certifiable standards in this respect, which had been planned for 2021.

More information is available in the
Environmental Report:

www.mercadona.com



Huevos Guillén

The company plans to invest some 60 million euros before 2025 to produce 100% of its eggs using cage-free systems. This initiative reinforces a commitment it acquired in 1999, whereby the company pioneered in commercialising eggs from free-range hens.

Integrated supplier Huevos Guillén’s free range laying hens.

Environmental Management, Efficiency and Sustainability

Significant Data

RECYCLING

TONNES OF PAPER AND CARDBOARD 2016 181,000 2017 202,421	TONNES OF POLYSTYRENE 2016 1,296 2017 2,494	TONNES OF PLASTIC 2016 12,110 2017 13,001
TONNES OF USED BATTERIES COLLECTED IN STORES 2016 164 2017 167	TONNES OF TONER CARTRIDGES RECYCLED 2016 1 2017 1	TONNES OF WOOD 2016 1.691 2017 1,878
RECYCLING RATE		
RECYCLING/ VALUATION 2016 74% 2017 78%	PAPER SHREDDING 2016 26% 2017 22%	

CO₂ EMISSIONS by cubic metre of merchandise in kilos*

DIRECT EMISSIONS (SCOPE 1) 2016 14.73 2017 14.13	EMISSIONS DUE TO ELECTRICAL CONSUMPTION (SCOPE 2) 2016 18.29 2017 17.98
EMISSIONS DUE TO TRANSPORT (SCOPE 3) 2016 14.07 2017 13.27	



OTHER DATA

ENERGY CONSUMPTION IN GJ 2016 7,441,000 2017 7,745,047	TOTAL CO₂ EMISSIONS (THOUSANDS OF TONNES) 2016 1,567 2017 1,593
--	--

TRANSPORT BY ROAD

STORES WITH SILENT URBAN UNLOADING 2016 646 2017 664	FLEET EMISSIONS STANDARDS 2016 Euro 5 and Euro 6 (100%) 2017 Euro 6 (57%) Euro 6c (34%) Euro 5 (9%)
--	---

*The CO₂ emission data corresponds to the period between December 2016 and November 2017, both included.



Entrance to a Mercadona supermarket featuring the New Efficient Store Model.

Some of the institutions and organisations with whom Mercadona collaborates

AECOC

Spanish Commercial Coding Association

AECOSAN

Spanish Agency of Consumption, Food Safety and Nutrition

AINIA

Agri-Food Industry Research Association

APED

Portuguese Association of Retail Companies

ASEDAS

Spanish Association of Retailers, Convenience Stores and Supermarkets

Catalonian Association of Coeliacs

AVE

Valencia's Association of Businesspeople

Spanish Chamber of Commerce

Portuguese-Spanish Chamber of Commerce and Industry

Official Spanish Chamber of Commerce in Belgium and Luxembourg

Chair of Family Businesses at the University of Alicante

CEOE

Spanish Confederation of Business Organisations and its territorial and regional organisations

Circle of Businesspeople

Agri-Food Advisory Board of the San Telmo Institute

Ecoembalajes España

EDEM

Business School

ENAC

National Certification Organisation

ESADE

Higher School of Corporate Administration and Management

ESCODI

Terrassa School of Commerce and Distribution

EuroCommerce

ERRT

European Retail Round Table

FACE

Spanish Federation of Coeliac Associations

Forética

Foro Interalimentario

COTEC Foundation

ÉTNOR Foundation

Seres Foundation

Transforma España Foundation

IEF

Family Business Institute

MAPAMA

Ministry of Agriculture, Fisheries, Food and the Environment

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

Global Compact

Retail Forum

European Retail Forum for Sustainability

Respon.cat

Catalonian Social Responsibility

SESAL

Spanish Food Safety Society

Healthcare and Food Safety Authorities in the different Autonomous Communities

Mercadona's contribution towards sustainable development

Mercadona is firmly committed towards sustainable growth, which it shows by conducting its business responsibly, and this in turn allows the company to meet with the Sustainable Development Goals established by the United Nations.

“THE BOSS”



Mercadona collaborates closely with suppliers and integrated suppliers alike to always deliver the utmost food safety. The company has transversal work teams in place to study and foresee food safety legislation and to offer an Effective Selection

that is also apt for people suffering from different food intolerances. Because of this, it has 1,200 gluten-free products, 800 lactose-free products, products with no added sugar, products that are suitable for vegetarians, etc. Mercadona encourages the consumption of high quality fresh products by means of the Global Fresh Products strategy.



Mercadona was a pioneer in the development of responsible production and consumption. In 1993, it put in place its commercial policy of SPB - Always Low Prices, eliminating offers and encouraging responsible consumption. The company is constantly

updating its Effective Selection, through which it prescribes products of the utmost quality and at the lowest price (Totaler), a selection that is predictable and known by “The Boss”, while seeking to provide real solutions.

THE EMPLOYEE



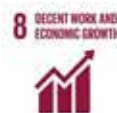
Mercadona constantly boosts its employees' skills and knowledge by investing in ongoing training, which contributes towards having a more qualified, employable workforce. In 2017, the company invested some 65 million euros in training, 11 million

more than in 2016, and a total of 2.5 million hours of training were imparted.



Mercadona is governed by the Principle of Equality “same responsibility, same pay”. Internal promotion is one of the main traits of Mercadona's corporate model, which is based exclu-

sively on getting people qualified and valuing them.



Mercadona has 84,000 employees, all of whom have permanent contracts with salaries above average for the sector. In 2017 alone, the company created 5,000 new stable, quality jobs.

THE SUPPLIER



Mercadona collaborates with manufacturers and suppliers to foster shared, sustainable growth that generates value in the surroundings where it is present. Additionally, for years the company has been working towards creating and consolidating

a productive, efficient industry in the country. It collaborates with 120 integrated suppliers and more than 700 suppliers in total, all of whom are specialists, and so boosting an important industrial cluster in the country in the last few years. By year-end 2017, the cluster boasted 249 factories and a total of 54,163 employees, which during the last twelve months, and after having invested 706 million euros, has managed to incorporate a further 80 new factories, lines or extensions.



Both the integrated suppliers and the specialist suppliers invest in responsible production, due to which they develop joint initiatives which, by means of projects based on the circular economy, allow for reduced consumption of raw materials as much as possible. All of Mercadona's integrated suppliers have internationally acknowledged certifications that endorse their good environmental practices (ISO 14001, EMAS or equivalents).

SOCIETY



1 NO POVERTY
One of the commitments Mercadona has towards society is that of giving back some of what it receives. Within its social action plan, and through a number of different initiatives in which it has participated in all the Autonomous Communities, it has managed to help with the donation and distribution of more than 9,600 tonnes of food through more than 200 charities.



4 QUALITY EDUCATION
Mercadona fosters talent and its development and promotion both internally and externally. To this end, it has initiatives in place to support entrepreneurship, including its collaboration with EDEM Business School, both through teaching and by sponsoring the King Jaime I Awards.



8 DECENT WORK AND ECONOMIC GROWTH
Mercadona is a corporate project of shared growth. In 2017, the company invested 1,008 million euros and contributed some 1,441 million euros by way of direct and indirect taxes to the Public Administration. In addition, it contributed some 4,160 million euros to the national GDP and generated 5,000 new jobs.



11 SUSTAINABLE CITIES AND COMMUNITIES **13 CLIMATE ACTION**
Mercadona is firmly committed towards the efficient protection and use of natural resources. The company has an in-house Environmental Management system in place whose main objective is to take full advantage of the resources available while minimising waste generation. The system is focused on three main areas: logistic optimisation, energy efficiency and waste reduction.



12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Mercadona works with its suppliers in encouraging the protection of animals in farms, during transport and slaughter through a number of programmes with different institutions. The company finished 2017 having fulfilled its commitment of all suppliers applying animal welfare regulations throughout the animal's life and implementing the relevant certifiable standard, which had been planned for 2021.



14 LIFE BELOW WATER
For years, Mercadona has been collaborating with its suppliers to guarantee their commitment towards sustainability in the fishing products it offers. In 2017, after achieving that all its suppliers ratify the Fishing Products Purchasing Policy that the company entered into in 2012, Mercadona reached another milestone by ensuring that 100% of the Hacendado canned tuna fish comes from responsibly-managed fishing grounds, in compliance with the required ISSF certifications.



17 PARTNERSHIPS FOR THE GOALS
By means of a number of different institutions that form part of the forums of which it participates, Mercadona reinforces and publicises its values and commitment towards corporate ethics. Since 2011, Mercadona has adhered to the Global Compact in defence of fundamental values in Human Rights, Labour Standards, the Environment and Anti-Corruption.

CAPITAL



8 DECENT WORK AND ECONOMIC GROWTH
The principle behind Mercadona's Model dictates that success is sweeter when it is shared, and that profits come once the company's other components have been satisfied. Thanks to this, for another year running, the company continued sharing part of its

profits with the employees - 313 million euros in performance-related bonuses. Furthermore, Mercadona has invested a record 1,008 million euros to continue building the Mercadona of the future, because the long-term is at the centre of all its decisions.



Front of the store in Yuncos, Toledo.

5. CAPITAL

In 2017, we continued advancing along the established path, building **a different company model that invests in shared growth with all five components**

Mercadona was founded in Tavernes Blanques (Valencia) in 1977, and its mission statement 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 kinds of merchandise and carrying out studies, programmes, reports and any other activity directly or indirectly related to computing and to the management, accounting, administration and control of companies”.

Mercadona’s business activity is the distribution of food and beverages, cleaning and household products and

cosmetics by means of its 1,627 supermarkets, which are supplied from the company’s different logistics centres, strategically located throughout the country.

The satisfaction of the fifth component, “Capital”, is one of the objectives of Mercadona’s Model, and it would not be possible without first achieving the satisfaction of the remaining components. The trust placed in the company by over 5.2 million households day by day, the effort put in by its 84,000 employees in the daily performance of their duties, the commitment shown by its suppliers and the favourable response perceived in society have all allowed for the company to achieve the sales objectives set for 2017. The changes made by Mercadona in regard to the Efficient Store Model, the Effective Selection, the logistics centres and the IT systems have been introduced in line with the management model based on Total Quality, considering the generation of sustainable profits in the long term.

As in previous years, the annual accounts were audited by Deloitte, S.L., which, as is customary, issued an unqualified report on 02 February 2018. Together with the annual accounts, this report has been duly deposited at the Valencia Mercantile Registry.



Store front of the supermarket in Belartza, Donostia / San Sebastian, Gipuzkoa.

Key Figures

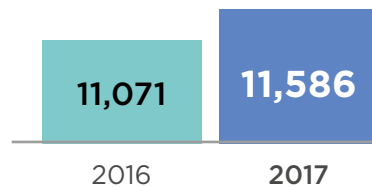
(millions of euros and <i>kilograms</i>)	2016	2017	% Change
Sales Units kilograms	11,071	11,586	+5%
Turnover	21,623	22,915	+6%
Operating income	779	395	-49%
Income before tax	803	402	-50%
Income after tax	636	322	-49%

Sales units (*kilitres*)

By year-end, the company had reached 11,586 million *kilitres* sold, a 5% increase over the 2016 total of 11,071. The company is satisfied with this figure, as it clearly shows the trust placed in it by “The Bosses” over the last twelve months.

Evolution *kilitres* sold

millions
kilos/litres (*kilitres*)

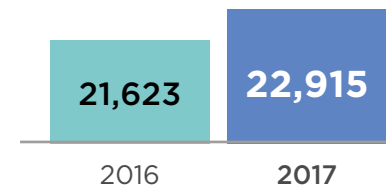


Sales

The trust of its “Bosses” and a firm commitment towards prescribing a selection that offers the best possible value for money have enabled Mercadona to achieve a turnover of 22,915 million euros in 2017, a 6% increase over 2016.

Gross sales

million euros



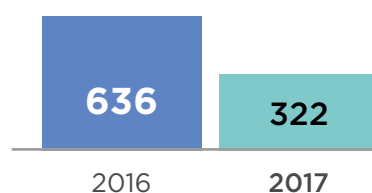
Profit

Profit before tax stood at 402 million euros in 2017, compared with 803 million the previous year. Net profit in 2017 was 322 million euros, whereas in 2016 Mercadona achieved a net profit of 636 million euros.

The evolution of the results and the sales are evidence of the fact that decisions have been taken in keeping with the following sequential order: 1st “The Boss”, 2nd Sales and 3rd Profits

Net profit evolution

million euros

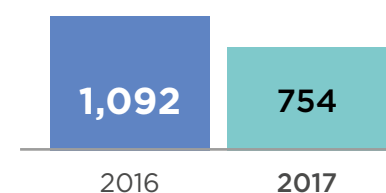


EBITDA

The company’s EBITDA at year-end 2017 stood at 754 million euros, as opposed to the 1,092 million of 2016. Mercadona’s operating income evolved in accordance with the profits expected, coherent with the strategy for the year, and is in line with the company’s long-term investment goals.

EBITDA evolution

million euros





For each euro of income generated by Mercadona's investments, **4 are generated in the Spanish economy**

CAPEX

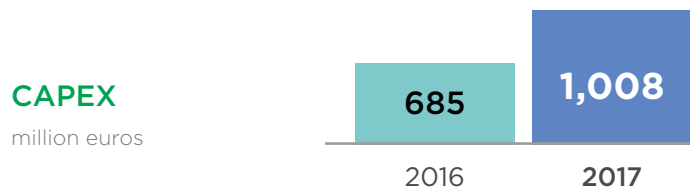
In 2017, 1,008 million euros were invested, whereas in 2016 it was 685 million. The 1,008 million were invested 100% in-house by Mercadona, which showcases the solidity of its treasury, its commitment towards its projects and its capacity of generating cash flows.

By year-end, Mercadona had 1,627 supermarkets distributed throughout all the provinces and Autonomous Communities in Spain, and its presence in Ceuta, Melilla and Portugal is planned for in the short-term. During the course of 2017, the company built 29 stores, refurbished 126 and continued to implement the new Efficient Store Model, a strategy that seeks to improve the shopping experience for "The Boss", and that is set to finish in the next few years.

This year, Mercadona has started a number of building works projects in the logistics centres, among which are those of the perishables warehouse in the Abrera

(Barcelona) logistics centre, the packaging, cold and dry products warehouses at the Vitoria-Gasteiz (Araba/ Alava) logistics centre and the construction of banana maturing chambers in Villadangos (Leon). Similarly, the company has also started the building works for the future centre in Parc Sagunt (Valencia).

All of this, added to modernising its logistics and improving its facilities and consolidating investments in the digital transformation project.



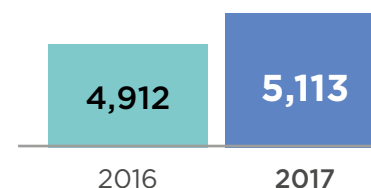
Equity capital

The profit obtained for the year and the capitalisation of almost all of it has meant that, by year-end 2017, equity capital stood at 5,113 million euros, and the company's worth grew in regard to the previous year.

It is worth noting that the ratio of equity capital in comparison with the total assets remained at around 60% in 2016 and 2017.

Equity capital

million euros



Other indicators

Suppliers

The average payment period to suppliers was 44 days, while the stock turnover period was 14 days.

The Working Capital data for this year is as follows:

In million €	2017
Current Assets	3,932
Current Liabilities	3,254
WORKING CAPITAL	678

Liquidity Ratio

The Liquidity Ratio, which is defined as Current Assets / Current Liabilities was 1.21 in 2017.

Thinking in the long-term is our purpose as a responsible, sustainable company in order to increase the **satisfaction of all 5 components**

Cash Flows

The generation of Cash Flow in 2017 was as follows:

In million €	2017
Operating cash flow	704
Cash flow from investing activities	(1,037)
Cash flow from financing activities (dividends)	(120)
Net Increase in Cash	(453)

The investments described previously were carried out using the company's own resources, resulting in a reduction in the treasury.

Productivity

During 2016 and 2017, Mercadona maintained its productivity, which is defined as sales in euros / No. of employees - a reflection of the implication of all those who form part of the Mercadona project to achieve the objectives set forth by the company.

MERCADONA, S.A.

Balance sheet as of 31 December 2017

(thousands of euros)

NON-CURRENT ASSETS	4,518,292
Fixed assets and non-current investments	4,463,089
Deferred tax assets	55,203
CURRENT ASSETS	3,932,262
Inventories	747,835
Trade and other receivables	142,973
Current investments	192,215
Cash and cash equivalents	2,849,239
TOTAL ASSETS	8,450,554
EQUITY	5,113,282
Capital	15,921
Reserves	4,775,136
Profit for the period	322,225
NON-CURRENT LIABILITIES	82,803
Non-current provisions and payables	26,470
Deferred tax liabilities	56,333
CURRENT LIABILITIES	3,254,469
Suppliers	2,344,878
Creditors and debts with Public Entities	650,211
Personnel	259,380
TOTAL EQUITY AND LIABILITIES	8,450,554

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 2017

(thousands of euros)

Revenue	21,011,533
Supplies	(16,086,738)
Other operating income	60,896
Personnel expenses	(2,731,497)
Other operating expenses	(1,500,370)
Amortization	(358,382)
RESULTS FROM OPERATING ACTIVITIES	395,442
Finance incomes	20,226
Impairments	(13,604)
NET FINANCE INCOME	6,622
PROFIT BEFORE INCOME TAX	402,064
Income tax expenses	(79,839)
PROFIT FOR THE PERIOD	322,225

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.

Additional Relevant Information

INDICATOR	DESCRIPTION
Policies and procedures in communication and training on combating corruption	Ethical behaviour and combating corruption represent fundamental principles in our Model.
Confirmed corruption cases and measures taken	No cases of corruption have been detected during the period analysed.
Number of court cases on account of unfair competition, practices of monopoly or against free competition and their consequences	None have taken place during the period.
Percentage of supplier plants analysed according to environmental criteria	94% of the supplier plants are certified in a quality standard, such as ISO 14001, EMAS or equivalents.
Number of cases of discrimination and corrective measures implemented	In 2017, Mercadona did not register any cases of discrimination through the available channels.
Identification of centres and suppliers presenting a significant risk of child labour and measures in place to contribute to abolish child exploitation	The company guarantees that there are no cases of child labour in its work centres. No significant suppliers in a situation of risk have been identified.
Centres and suppliers presenting a significant risk of having episodes of forced labour and measures adopted to contribute towards the elimination of all forms of forced labour	The company guarantees that there are no cases of forced labour in its work centres. No significant suppliers in a situation of risk have been identified.
Hours of training for employees on policies and procedures relating to human rights issues that are relevant towards their activities, including the percentage of disabled employees	The entire workforce receives training on the Mercadona Model, which includes all the values and behaviours pertaining to the company.

INDICATOR	DESCRIPTION
Percentage of new suppliers who were examined in regard to criteria connected to human rights, labour practices and social repercussions	85% of purchases are carried out in Spain from suppliers that have been audited according to the Mercadona Model, which contemplates satisfying the needs of the employees.
Number of incidents of non-fulfilment of regulations and voluntary codes relating to the impact of products and services on health and safety throughout their life cycles, sorted by type of result of said incidents	During the period informed, there have been no significant incidences of non-fulfilment in this regard.
Number of non-fulfilments of regulations and voluntary codes relating to the information and labelling of products and services, sorted by type of result	During the period informed, there have been no significant incidences of non-fulfilment in this regard.
Number of cases of non-fulfilment of norms or the voluntary codes relating to marketing communications, such as advertising and sponsorship, sorted by type of result	During the period informed, there have been no incidences of non-fulfilment in this regard.
Number of complaints regarding violations of privacy and client data leaks	The company is not aware of any significant incidents in this respect during the period informed.
Amounts relating to significant fines due to a non-fulfilment of the standards and legislations in regard to the supply and use of products and services, monetary value of the significant fines and number of non-monetary sanctions due to the non-fulfilment of the law and norms	There are no significant non-fulfilments of the norm. *

*The company considers a fine to be significant when it exceeds €50,000

More information in www.mercadona.com



HISTORY OF MERCADONA 1977-2017

Our project continues its ongoing adaptation, because at Mercadona, **from our very beginning, change has been the most stable feature, while always having “The Boss” as our guiding light**



Entrance of the supermarket in Ansoain, Navarra.

1977



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

1981



Together with his siblings Fernando, Trinidad and Amparo, Juan Roig and his wife purchased Mercadona from their father. The company had 8 stores and approximately 300 m² of retail space. Juan Roig took control of the company, and it started to operate as an independent business.

1982



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

1986



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

1988



Opening of the Riba-roja de Turia (Valencia) logistics centre, 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 became the company's majority shareholders.

1993



On reaching 10,000 employees and 150 stores, the Always Low Prices (SPB) commercial strategy was introduced; it would later evolve to become the Total Quality Model.

1996



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

Supermarket number 200 opened in Segorbe (Castellon).

The company's first collective agreement was 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 were made permanent, which had started in 1995; at that time, the number of employees stood at 16,825.

Opening of the Antequera (Malaga) logistics centre.

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

2000



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

The first Atmosphere Store opened in Massanassa (Valencia).

The first Integrated Suppliers Meeting was held.

Collective Agreement (2001-2005) signed.

2001



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

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

2003



First company to carry out an Ethical Audit.

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

Launch of the new Hortensia H perfume line.

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

2004



Inauguration of the Huevar (Seville) logistics centre, and the company's third nursery.

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

2005



Introduction of the new Mercadona uniform.

Opening of the logistics centre 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).

Relaunching of the Mercadona Credit Card with a new image.

2007



The first phase of the 21st Century logistics centre comes into operation in Ciempozuelos (Madrid).

The company ranks fourth in the world in terms of 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 centre.

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 centre.

2014



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

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

2015



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

Mercadona's radical innovation model is internationally acknowledged.

2016



Mercadona started its internationalisation project by entering the Portuguese market.

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

2017



Development of the Global Fresh Products Strategy to boost and modernise the new fresh products sections.

Acquisition of plots for the new Parc Sagunt logistics centre in Sagunt (Valencia).

Start of the digital transformation plan with technology company SAP.

The Mercadona Project continues to move forward...



New scales for weighing and charging at the checkouts which make the shopping experience more seamless and practical.



Yenmis, employee at the Cotlliure street supermarket, in Palma de Mallorca.



Store front of the supermarket in Tacoronte, Santa Cruz de Tenerife.



Jenifer, "Boss" at the Murcia avenue supermarket in Alcantarilla, Murcia.



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