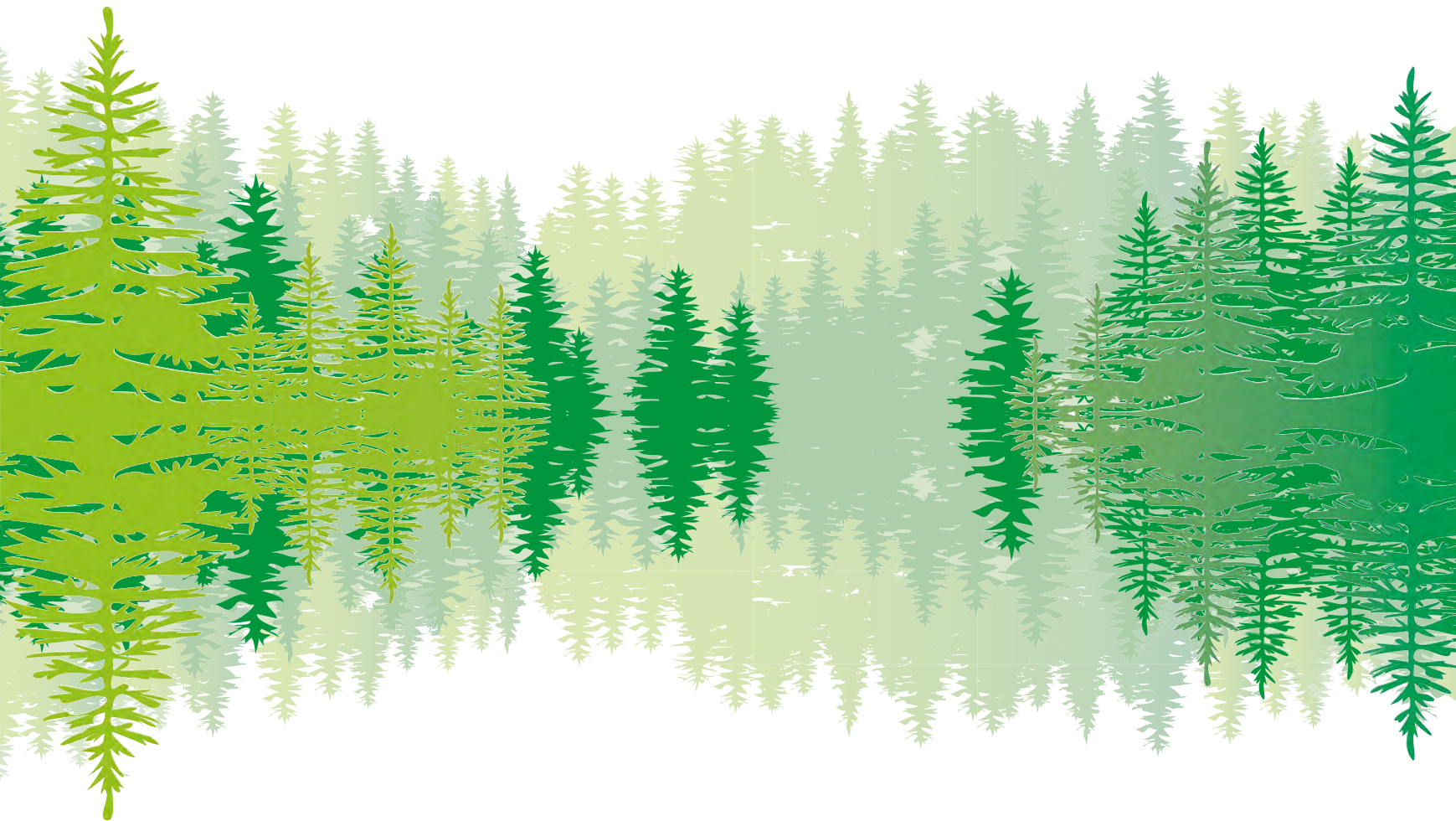




MERCADONA

Environmental Report 2015-2016





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MERCADONA'S ENVIRONMENTAL MANAGEMENT MODEL

Mercadona is a Spanish-owned, family-run chain of supermarkets presided by Juan Roig. Since it was founded, its objective has been that of fully satisfying all the food and beverages and cleaning and personal hygiene needs of its clients, as well as those related to pet care, as specified in the Total Quality Model, the company's management model based on the satisfaction of its five components: "The Boss" (client), The Employee, The Supplier, Society and Capital.

5.1

million households shop at Mercadona

1,614

stores

21,623

million euros sold

79,000

employees

100%

Spanish-owned company

11,071

million "kilitres" sold (sales units)

126

integrated supplier-manufacturers

11

Logistics Blocks

+2,500

suppliers

3

planned/under construction

3

Satellite warehouses



Mercadona's environmental management model also pursues that same objective, and it does so by collaborating with the other components in the chain to improve its environmental behaviour in the three areas where the most impact is felt: logistics optimisation, energy efficiency and waste management, all in aid of tackling new environmental challenges and meeting the efficiency and sustainability goals all of us within the European Union have committed to.

This effort goes hand in hand with important changes, both in terms of conceiving Mercadona's new fresh produce sales models and in the context of the new

store model, which has been redesigned to be more efficient and sustainable, also in line with the company's general objective of doing "more with less", while always guaranteeing food safety, quality and freshness in the products provided for "The Boss" (as the company refers to its clients internally).

Mercadona has invested 52 million euros over these past two years in improving different processes, products and services that impact the environment, which is framed within the commitment acquired in conjunction with the society of which it is part.



Store window of the supermarket in Peligros, Granada

1.

LOGISTICS OPTIMISATION



Mercadona is undertaking an ambitious reshuffling of its sales models. The “Fresh as opposed to Dry” strategy seeks increasing the presence of quality, locally-sourced fresh products, shortening the logistics chain and improving the freshness of the products offered to “The Boss”.

All these improvements entail working towards adapting the strategies that are already implemented, while incorporating technological advances designed to allow us to continue operating efficiently.

66%
of the
lorries are
Euro 6

646
stores supplied
using **silent**
logistics during
off-peak hours
in 2016

+6%
tonnes
transported by
ship in 2016

New
gas-powered
lorries
40%
reduction in
CO₂ emissions

The new sales models entail new logistics challenges

Logistics and the new sales models

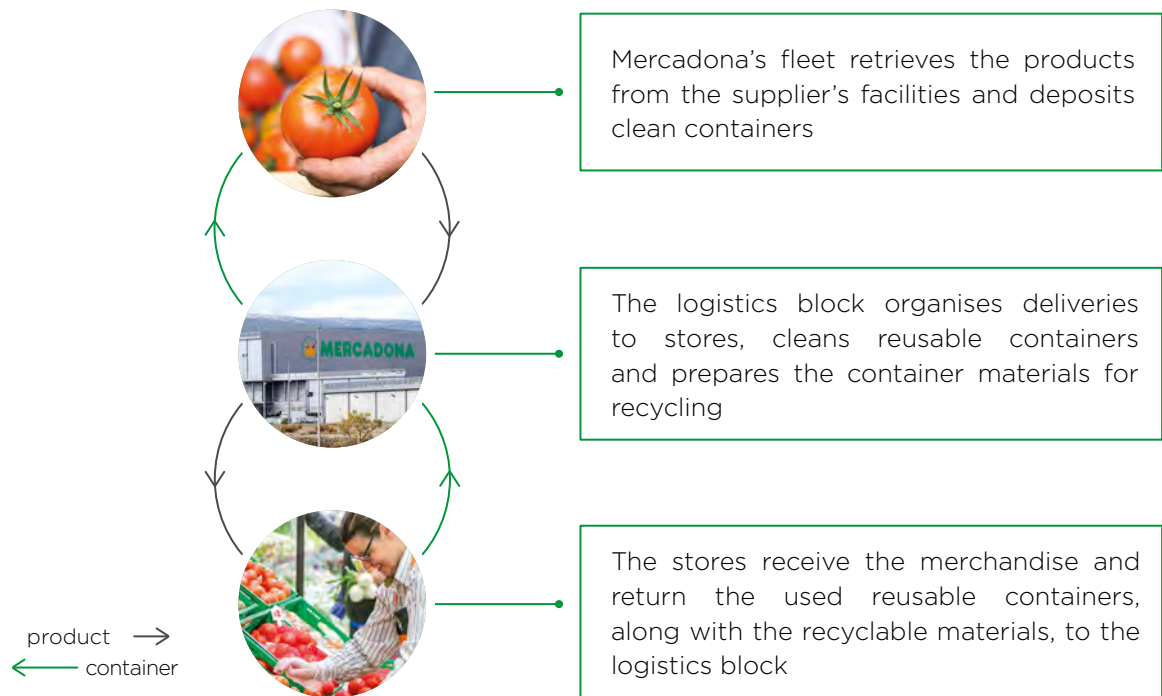
The implementation of the “Fresh as opposed to Dry” strategy has brought about a significant improvement in the quality and freshness of the products. In turn, the number of suppliers has grown, and they are now nearer the logistics blocks. This allows for shortening the distribution chain, which means clients are allowed more time to consume the products at maximum quality and freshness.

Optimisation measures

Mercadona’s logistics model has been developed within the premise of “transporting more using fewer resources”. To this end, a series of strategies that the company has been applying for years with this objective have been implemented. The Logistics Department reviews and updates said strategies according to the needs that arise while incorporating the technological advances that take place in the sector, all to meet the targets set.

“Estrategia del Ocho” (route planning)

The routes carried out by each lorry are meticulously planned to optimise each trip, aiming to avoid vehicles travelling empty. An example of this optimisation is the use of inverse logistics to carry out warehouse returns, be this for packaging materials for recycling, reusable boxes, pallets or others.



Packing of lorries

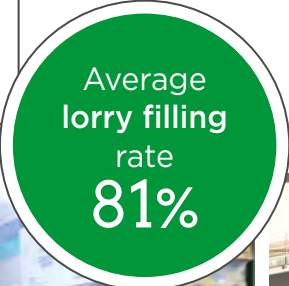
The efficiency of a transport fleet is directly linked to its ability to transport the most number of units in each trip. This is achieved by means of an optimised eco-design of products that considers logistics and storage, by having lorries transport cargo in all their trips and by packing them to capacity, to avoid transporting air.

Mercadona's integrated supplier-manufacturers and specialist suppliers are actively involved in improving their efficiency, and seek applying eco-design measures wherever possible. In this way, in addition to savings in transport, home storage is improved for "The Boss", waste from containers and packing is avoided throughout the process and contaminating emissions are reduced.

Keeping the fleet active for as long as possible and always keeping lorries packed is key for efficient, reduced environmental footprint logistics



A good example of eco-design is the new 24-unit format implemented by integrated supplier Huevos Guillén. The system improves stacking, increases the number of units per pallet and prevents 1,500 lorry trips every year.



Dispatch and transport of products at Mercadona

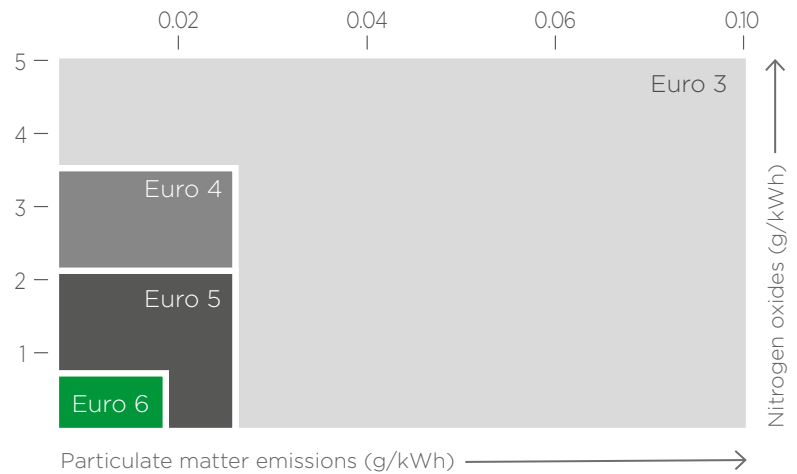
Renewal of the fleet

Most transport is still being done by road, due to which it is increasingly more important to exercise proper fleet management and to have more efficient, less contaminating engines.

The fleet of lorries owned by integrated supplier Acotral, who collaborate with Mercadona, is comprised almost entirely by lorries with Euro 5 and Euro 6 engines, which meet the most stringent European emission standards. This is in line with the policy of renewing the fleet as technological improvements happen.

| | 2015 | 2016 |
|--------------|------------|-------------|
| Euro 3 | 1 | 1 |
| Euro 4 | 3 | 1 |
| Euro 5 | 686 | 368 |
| Euro 6 | 301 | 705 |
| Total | 991 | 1075 |

Fleet lorries by engine emission standard

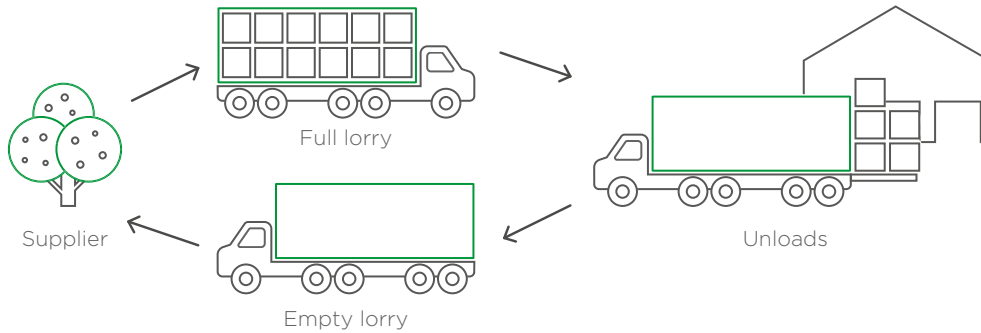


Lorries at the logistics block in Abrera, Barcelona

Purchase on dock

The most common logistics process involves the supplier transporting the products to the supplier's facilities and returning empty:

Normal process

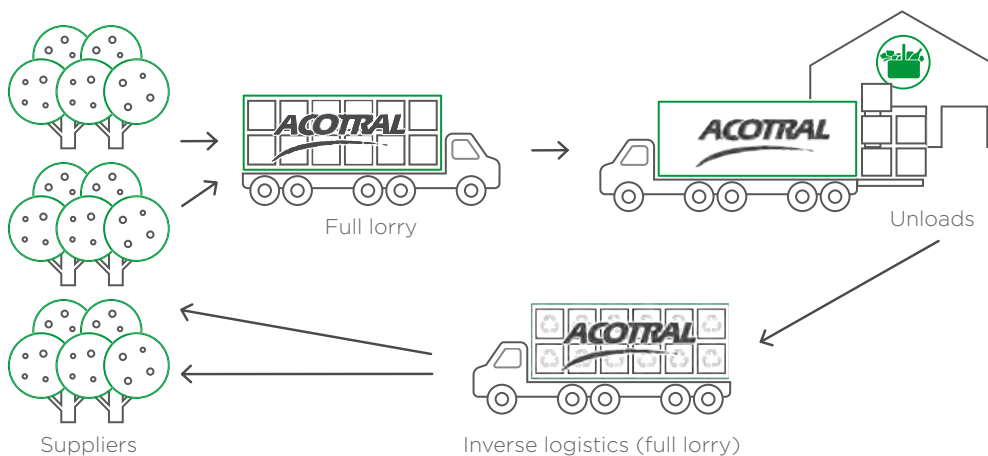


Mercadona has changed this process by implementing a strategy called “Purchase on dock”, whereby the fleet’s lorry is the one that goes to the supplier’s facilities to pick up the products, and then delivers them to the logistics centres, also taking advantage of the inverse logistics to carry reusable containers.

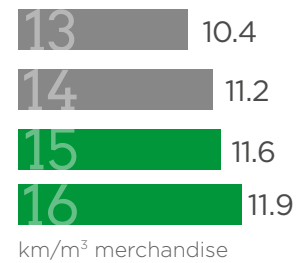
In the last few years, the company has been committed towards providing fresh, locally-sourced products, which has meant an increase in local producers and making more, but shorter trips.

Because of this, mileage has increased, as the company’s fleet has taken on trips that the supplier used to be in charge of, which has improved efficiency.

Mercadona’s Process



Additionally, thanks to the implementation of other strategies such as inverse logistics and lorry filling, this system improves transport efficiency both for the supplier and Mercadona, reducing the total number of trips made on empty and ensuring the use of Euro 5 and Euro 6 lorries for the most part.



Incorporating more suppliers to the supply chain entails more mileage

Silent logistics during off-peak hours improve urban mobility

Last mile

A key stage of the transport of merchandise is the “last mile”, that is to say, the final stretch products travel within the towns before reaching the point of sale, which entails lorries entering cities.

For years, Mercadona has been exercising the so-called “silent logistics during off-peak hours”, which brings about undeniable benefits in terms of urban mobility. It consists of making the most of hours with the least traffic to unload using the largest lorries allowed, adapted for unloading as silently as possible. This allows for reducing traffic jams, noise pollution and total emissions in urban areas, as well as improving transport efficiency, unloading times and minimising public road occupation and annoyances to the neighbours.

| | 2015 | 2016 |
|------------------|------|------|
| Provinces | 42 | 45 |
| Stores | 572 | 646 |

Mercadona's silent logistics during off-peak hours

Gas-powered lorries

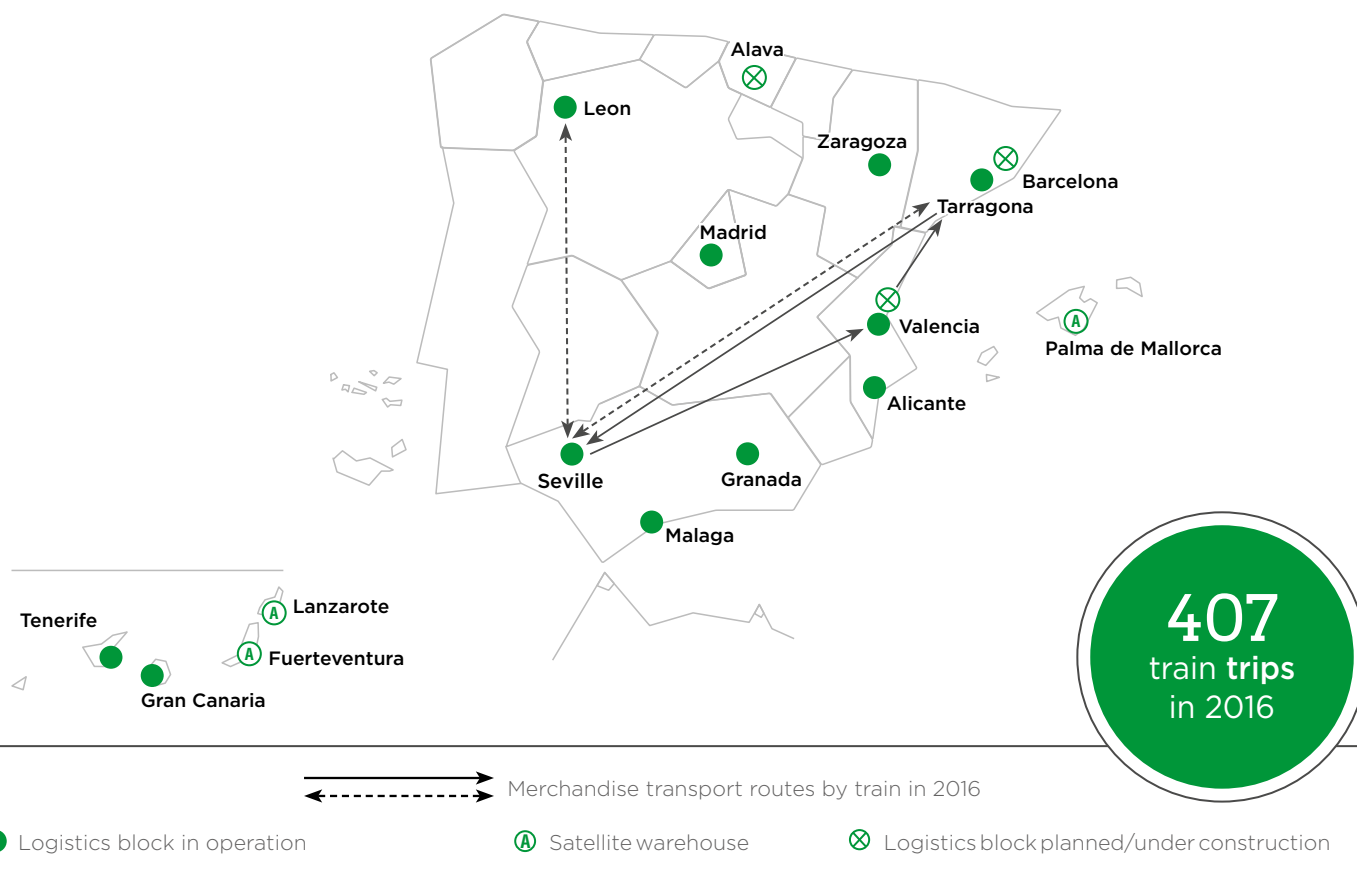
Together with integrated supplier Acotral, Mercadona is carrying out pilot tests for urban distribution using LNG-powered lorries. These engines emit 40% less CO₂ per litre of fuel, additionally, particulate matter emissions are reduced tenfold and they emit 80% less nitrogen oxides in comparison to the Euro 5 standard.



Liquefied natural gas-powered (LNG) lorry providing service for a number of stores in Madrid

Intermodal transport

Although road transport continues to prevail, Mercadona has diversified means of transport of merchandise wherever technically viable, and where the proper infrastructures are available to make it productive. In the last two years, trains and ships have been used to carry out 96,000 fewer road trips.



Integrated supplier Acotral's merchandise transport by train

2.

ENERGY SAVINGS



Mercadona applies a number of measures to reduce energy consumption. These efforts have allowed for the company to adapt to strategies for combating climate change, both European and nation-wide.

Furthermore, many of the decisions taken regarding energy savings arise from the knowledge that it is necessary to achieve an increasingly more efficient productive model that can respond to the challenges we must face as part of society.



40%
estimated
energy savings
thanks to the
New Store
Model

22%
of stores
with telematic
signal control
implemented

100%
of the official
energy
audits
programme
completed

700
tonnes of CO₂
emissions avoided
yearly by store
thanks to the
new refrigeration
system

CO₂ refrigeration
prevents the
yearly emission
of 700 tonnes
of CO_{2e}
per store

Mercadona
completed
its energy
audits
programme
in 2016

Energy Efficiency

Mercadona established its eco-efficient store model in 2007. The model included more than 20 measures aimed at reducing energy consumption by 20% in comparison to a conventional store. Numerous improvements in terms of energy efficiency have successively been implemented over the years.

Important progress has been made in 2016 in terms of fully redesigning the store model, not just in regard to its appearance and warmth, but also by introducing energy efficiency measures that provide savings of up to 20% in comparison to the previous model. This entails an estimated 40% reduction in energy consumption when compared to the initial, conventional store.

Energy audits programme

The European Union is immersed in an ambitious project to move towards an economy that is low in carbon and waste. Directive 2017/27/EU in relation to energy efficiency in buildings has been inserted into Spanish legislation by means of Royal Decree 56/2016. This legislation requires that companies carry out energy audits in their facilities in order to calculate potential improvements and identify the measures needed to achieve them. Mercadona has been able to retrieve useful, necessary information from the audits performed in order to carry on working towards improving its processes and energy behaviour.

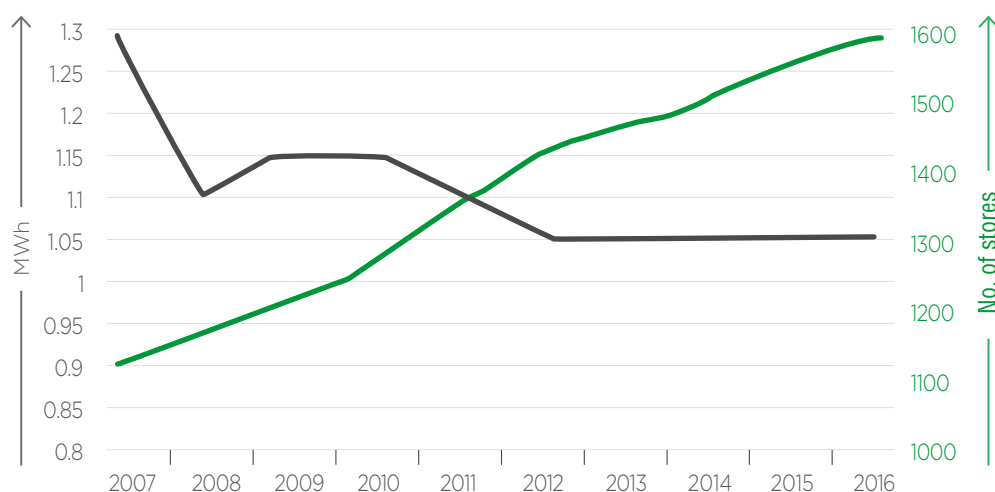


Frozen food section in the supermarket in Peligros, Granada

From the eco-efficient store to the New Efficient Store Model

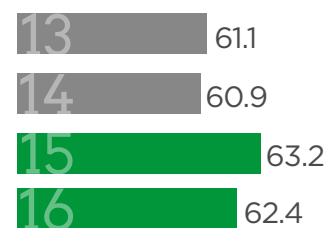
Energy efficiency is an increasingly important issue for any company. Rising average temperatures and extreme climatic events make it necessary for buildings and facilities to adapt, so as to guarantee the food's cold chain and comfort inside the stores at the lowest possible cost in terms of energy.

The measures incorporated to the eco-efficient store have contributed towards stabilising average store consumption, but within the current context, considering more ambitious measures is necessary. Furthermore, the high temperatures reached in 2015 and 2016, together with the entry into operation of a part of the Abrera logistics block - Sant Sadurní still being in operation - have resulted in an increase in total consumption. This prompted us to start work on the New Store Model which, among other measures, seeks reducing energy consumption by cubic metre of merchandise transported.



Energy consumption per store has been kept stable since 2012, but improvements are needed in this respect. To this end, in 2015 Mercadona started to work on the New Store Model, which saw the light at the end of 2016.

— Number of stores — Average yearly electricity consumption per store (MWh)



Electricity consumption: kWh/m³ merchandise

The 2015 rise in electricity consumption boosted the New Store Model's efficiency measures

Refrigerant gases

Mercadona is substituting refrigerant gases for others that present less global warming potential wherever technically viable. This measure reduces atmospheric emissions and improves energy efficiency in the facilities.

The New Store Model boasts a subcritical CO₂ system (R134a+CO₂) that is currently the most suitable and viable solution for the different climate zones that exist in our country. Said system, which is also being installed in some of the stores being refurbished, allows for preventing the yearly emission of 700 tonnes of CO₂ equivalent per store.

| | | Number of stores | | | |
|----------------------|-----------------------|------------------|--------------|--------------|--------------|
| | | 2013 | 2014 | 2015 | 2016 |
| Refrigeration system | R404A | 1,463 | 959 | 457 | 442 |
| | R134a+R404A | 4 | 70 | 72 | 72 |
| | R134a+CO ₂ | 0 | 3 | 60 | 127 |
| | R407A+R404A | 0 | 489 | 958 | 973 |
| Total Stores | | 1,467 | 1,521 | 1,547 | 1,614 |

Together with the leak control programme implemented in 2011, the substitution of gases has allowed for a 40% decrease in greenhouse effect gas leaks since 2013.

New Efficient Store Model

The New Store Model has been designed to offer a more spacious, comfortable area and an improved arrangement of the selection for clients. Furthermore, it presents improved ergonomics and comfort for employees and incorporates new energy efficiency measures that reduce its environmental footprint.



Closed freezer units

The design of the freezer units featuring doors, together with other existing measures, such as floating condensation systems, help reduce the loss of cold and save energy. Floating condensation has also been incorporated to the refrigerated cabinets, improving the entire system's efficiency.

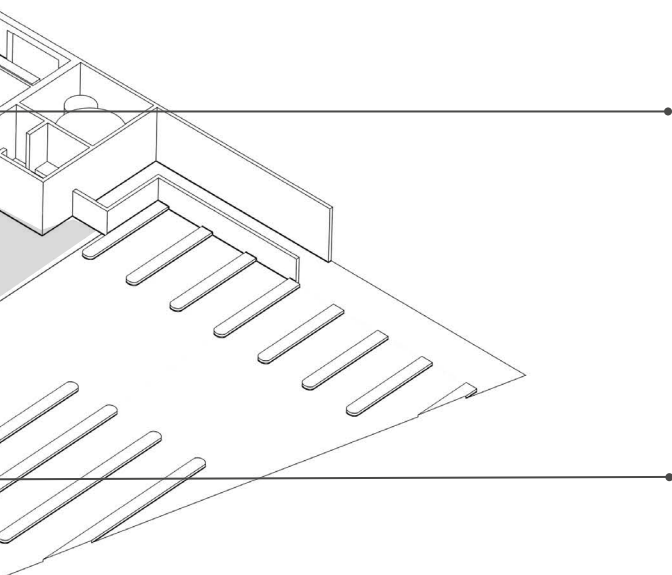
Some of the measures incorporated

- Building envelope improvement
- LED lighting
- Frozen food aisles and cabinets with lids and doors
- Cooling using air from the outside to reduce energy use
- Electric fans in air conditioning units
- Compressor partialisation in air conditioning units
- Floating condensation in the positive refrigeration installation with the store open

40%
estimated savings
compared to a
conventional
store

Signal control: uninterrupted refrigerant gas consumption and leak measurement system, including precocious detection. Allows for a 25% reduction in greenhouse effect gas leaks.

By the end of 2016, it had been installed in 347 stores (22% of the chain's total), and the objective is to complete implementation in 2019.



LED lighting

The store is lit in its entirety using LED technology, which reduces energy consumption and allows for intelligent energy management.

Energy management by zone

A centralised control system allows for adjusting energy consumption in line with needs, modulating lighting and air conditioning according to the time of day or task to be performed by the personnel.



Improved insulation

Improvements have been introduced to the thermal insulation and building envelope to adapt to the climatic area the store is located in. This measure allows for improved temperature control and reduces energy consumption.

Green walls and roofs

Green walls and roofs have been built in certain stores, improving not only their integration with the surroundings, but also aiding the building's thermal and acoustic insulation.

These structures also act as a visual barrier, and are establishing themselves as a way of increasing green areas in urban surroundings.



Capacis Foundation

The maintenance of these displays is carried out thanks to the existing collaboration between Mercadona and the Capacis Foundation, a social institution that employs people suffering from intellectual disability.



Vertical garden of the supermarket in Asura street, Madrid



Garden on the roof of the supermarket in Madrid's Paseo General Martínez Campos, located within a neighbourhood courtyard



Trencadís of the fresh meat and deli meats section in the supermarket in Peligros, Granada

Trencadís murals

The company also collaborated with a number of foundations and occupational centres that employ more than 200 people with intellectual disability to make the more than 3,480 trencadís murals that may be admired throughout all the chain's stores.

3.

WASTE MANAGEMENT



Waste management is gaining growing protagonism as new techniques to convert waste into resources start to be developed and implemented. An efficient management strategy must be based on prevention, but in addition, other ways of reincorporating waste into the productive economy as raw material through other processes must be sought.

For a supermarket chain such as Mercadona, maximising the use of food products is of the utmost importance. To this end, the company implements

numerous strategies to avoid unnecessary waste that add to the corporate collaboration projects undertaken by its suppliers and integrated suppliers, in order that by-products from one process may be used in another.

Although the majority of its products are transported in reusable containers, thanks to inverse logistics, Mercadona sends 100% of the one-use commercial packaging material it uses for recovery.

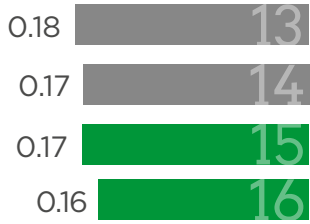
74%
of Mercadona's
waste is
recovered

10,000
tonnes of food
redistributed in
2015 and 2016

2,500
tonnes of
containers
reduced thanks
to the measures
implemented by
the integrated
suppliers

100,000
tonnes of
cardboard
saved thanks
to the use
of reusable
containers

One-use bags
per receipt



Prevention

The main and most important strategy for achieving an efficient economy where use of resources is concerned lies in reducing the waste generated. As a retailer of food products, Mercadona has numerous measures implemented to make the most of all the food throughout the chain, and when this is not possible, it has redistribution programmes in place to make sure it reaches the people who need it the most.





Making the most of small calibre oranges for freshly-squeezed orange juice in stores



In the context of these strategies, Mercadona seeks to implement formulas for by-products from one integrated supplier to be used as raw material for another.

The introduction of the freshly-squeezed orange juice service in 2016 brought about the optimisation and purchase of 2,500 tonnes of oranges from crop producers that would not have been easily commercialised on account of their appearance or size.

Furthermore, pieces of broccoli presenting a size or weight that differs from the standard, which had previously been discarded by the agricultural integrated supplier, are used by Verdifresh as Broccoli Florets in its vegetable sachets, commercialising a product of the utmost quality.

Fruit and vegetable may be sold in different formats at Mercadona stores, which allows for making the most of products of the very best quality

Mercadona
has redistributed
10,000
tonnes of food
in 2015-16

Redistribution

Food that is unsuitable for sale, but that is perfectly fit for consumption (such as packs presenting broken units) are donated by the company thanks to the collaborations it has in place with local soup kitchens.

This process allows for making the most of fresh products, using extremely short distribution chains and providing daily deliveries to the soup kitchen, which ensures food is made the most of.



A Mercadona delivery person taking food to the Sant Joan de Deu social services centre in Valencia

Donations to
soup kitchens
are based on
proximity and
daily deliveries,
in order to
maximise the
use of fresh
products

Currently Mercadona collaborates with 120 soup kitchens strewn all over the Spanish territory. A dedicated software package is used for ensuring traceability and food safety throughout the process.



For more information, watch the video on Mercadona's collaboration with the soup kitchen at the social-educational Association "Joventut i Vida", in the Bonavista neighbourhood (Tarragona)

Waste management

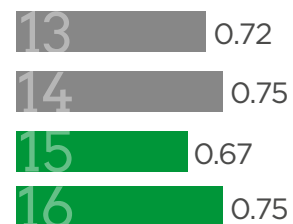
In addition to the actions we have already mentioned, the waste generated by Mercadona in general, both hazardous and non-hazardous, is sent to authorised handlers for processing and recovery. In the logistics blocks, where the majority of hazardous waste is produced, it is stored in an ad hoc Clean Spot; a roofed, enclosed, correctly signposted area featuring individual protective equipment and all the necessary safety measures to avoid the risk of spillage or filtration to the environment.



Clean spot in the Abrera logistics block, Barcelona

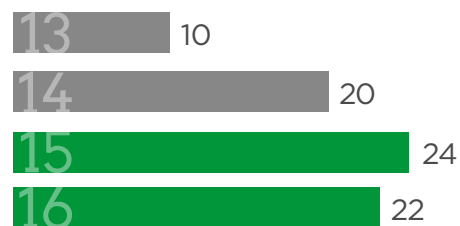
Mercadona applies numerous strategies to maximise the waste produced, both in stores and warehouses. Conscious of the importance of reducing the waste to be managed wherever possible, ways to avoid and reuse it are constantly being sought, in order that any waste that does not qualify is duly delivered to authorised handlers.

The programmes for waste reduction and preventive maintenance of the facilities are measures that contribute towards optimising the running of the stores and warehouses while reducing the amount of waste that goes to the dump.



% Waste/kg served

Waste generation is kept below 1% of product served



Maintenance waste: g/m³

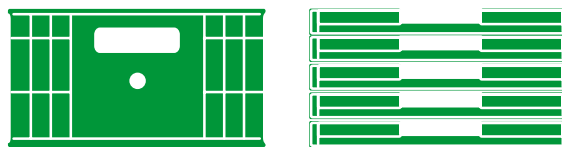
Mercadona's integrated suppliers reduced the use of packaging material in 2015 and 2016 by 2,500 tonnes

Reusing

Important savings are achieved thanks to integrated supplier Logifruit's pool of reusable containers - which Mercadona uses to transport and store products.

Each box has an average lifespan of 5 years, and it carries out the entire logistics process some 13 times a year. This brings about important savings in materials and resources when compared to one-use cardboard boxes. Due to these reusable containers, the use of more than 100,000 tonnes of cardboard is avoided every year, while improving the entire process.

Mercadona's integrated suppliers also develop their own strategies in this respect. According to data provided by Ecoembes' Corporate Prevention Plan, more than 300 measures have been implemented in the last two years, saving a total amount of 2,500 tonnes of packaging material.



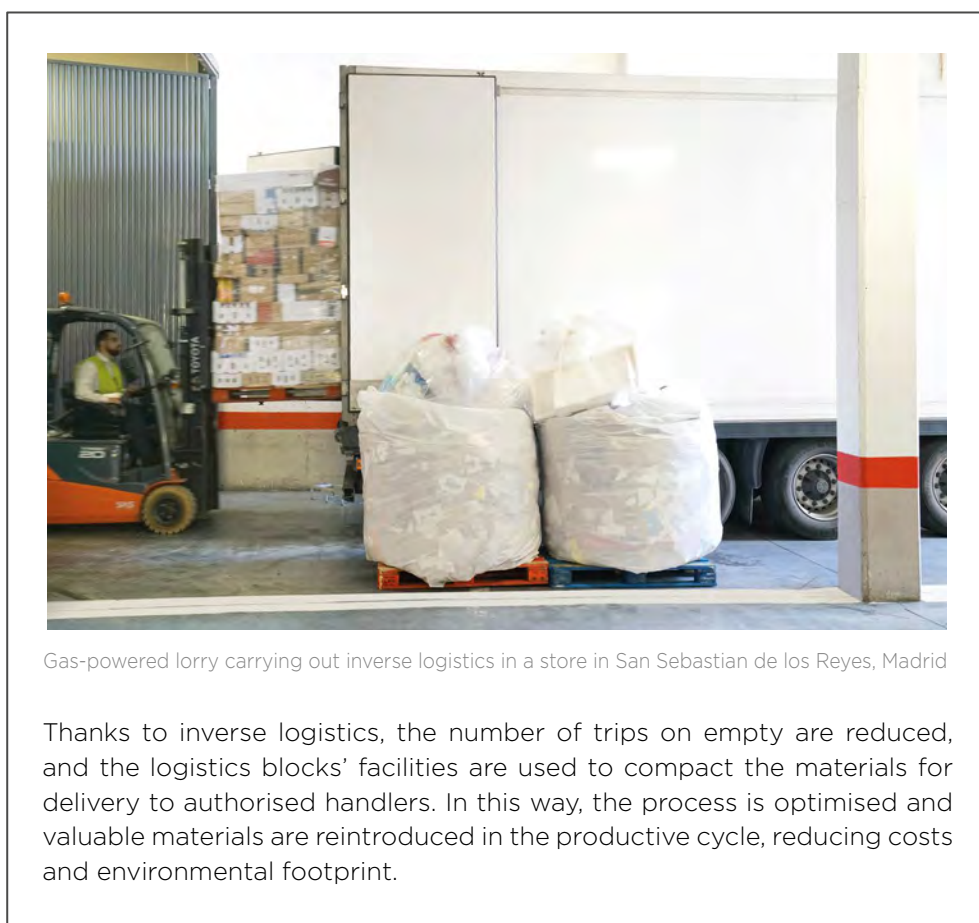
The use of Logifruit foldable boxes saves 80% of space in inverse logistics



The use of Logifruit boxes in Mercadona's processes saves energy and avoids waste

Recycling

Although it is necessary to prioritise cutbacks and reusing, recycling represents an indispensable part of a supermarket's processes. All the commercial packaging material from stores is returned to the logistics blocks by means of inverse logistics, where it is compacted and sent to authorised handlers for processing and recovery.



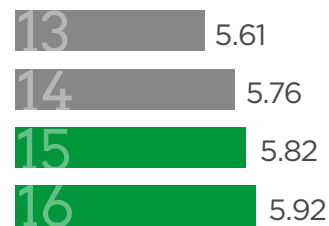
Gas-powered lorry carrying out inverse logistics in a store in San Sebastian de los Reyes, Madrid

Thanks to inverse logistics, the number of trips on empty are reduced, and the logistics blocks' facilities are used to compact the materials for delivery to authorised handlers. In this way, the process is optimised and valuable materials are reintroduced in the productive cycle, reducing costs and environmental footprint.

Recycling rate

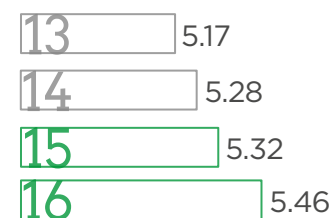
| | 2015 | 2016 |
|---------------------------|------|------|
| Recycling/Recovery | 73% | 74% |
| Destruction | 27% | 26% |

Mercadona sends almost three fourths of the waste it generates for recovery or recycling. We strive to see this number improve on a yearly basis.

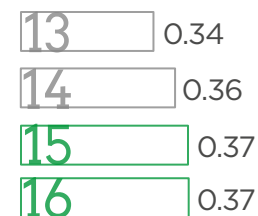


Recycling: kg/m³

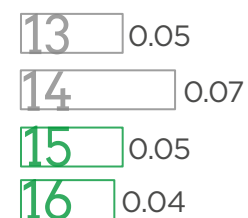
Cardboard



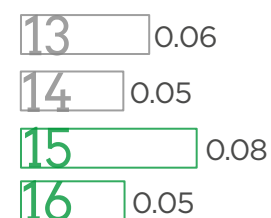
Plastic



Polystyrene



Wood



4. SUPPLY CHAIN



Mercadona's work as a distributor depends on close collaboration with its integrated supplier manufacturers and specialist suppliers. Thanks to the communication that exists between all the links of the supply chain, methods may be found for improving efficiency, reducing the consumption of resources and making the most of the waste generated.

An example of this are the numerous improvements and good practices initiatives that Mercadona's suppliers and integrated suppliers are constantly implementing. We would like to highlight some examples of the ongoing work and commitment shown by all of them towards sustainability.

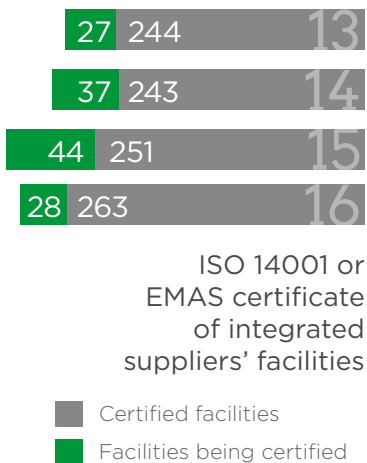


90%
of Mercadona's
integrated suppliers
are in possession of
an environmental
certification

More than
400
specific
measures for
water and
power **savings**

Elimination
of **plastic**
microspheres
in all
Mercadona's
cosmetics

More than
900
integrated
supplier
environmentally
relevant
measures



Environmental certifications

Mercadona's model requires that its integrated suppliers' facilities have internationally-acknowledged environmental certifications (ISO 14001, EMAS...) in place to attest to the fulfilment of best practices in this field.

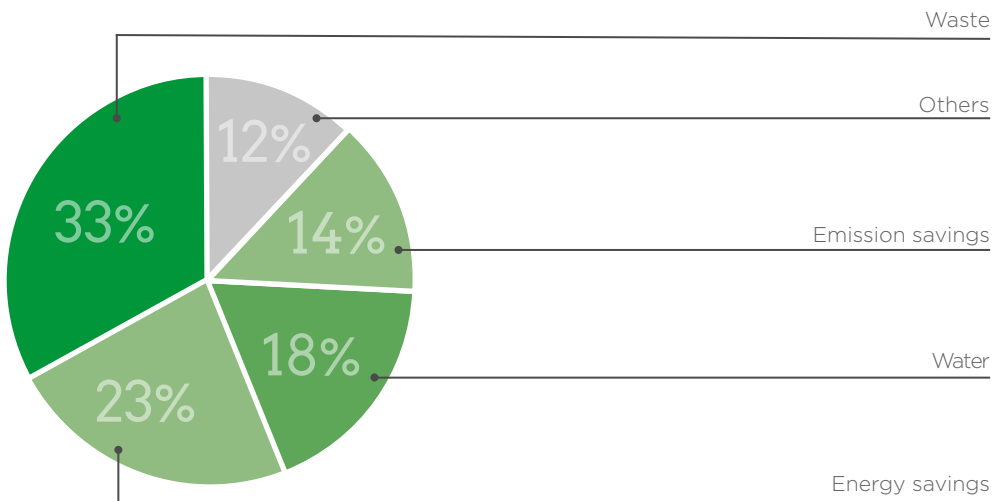
Currently, 90% of Mercadona's integrated suppliers' facilities are in possession of an environmental certification. The remainder are in the process of being certified, and they correspond to new factories or locations.

Best practices by the integrated supplier-manufacturers

All the company's integrated suppliers are constantly striving to offer "The Boss" their Total Shopping of the best quality and at the lowest possible monthly cost. This requires them to seek the best possible efficiency in their processes. All of them have incorporated several energy-saving measures in order to use fewer material resources, water and power, or to reduce, and in some cases, eliminate waste from the process altogether.

Within these measures, a growing trend towards efficient waste management may be perceived, be this by reusing it in an in-house process (cogeneration, fertilisers...) or by handing it over to another integrated supplier in order that they may use it in their productive process, going full circle - in line with the Circular Economy.

As a result of this effort, in 2015 and 2016, they have introduced more than 900 measures. We would like to highlight the interest shown by some of them, who have demonstrated their ongoing quest to find the best solution in order to offer products of the utmost quality for Mercadona's "Bosses".



The measures implemented by the integrated suppliers are mainly aimed at energy savings and waste reduction



List of Mercadona's integrated suppliers, clearly identified on the containers of the products they provide (Updated as of 31/12/2016)



Huevos Guillén

This integrated supplier has incorporated an innovative system for poultry manure drying in its farm located in Bullas (Murcia), which allows for reducing the amount of ammonia in the manure by 80%. The system is capable of processing more than 70,000 tonnes of waste every year, while preventing an important environmental contamination issue.



Grupo Ubesol-Maverick

The personal hygiene integrated supplier group's bottle blow moulding plant has increased the number of items manufactured, which has entailed a saving of 55 tonnes of plastic on a yearly basis, in addition to having 50 fewer lorries on the roads. The logistics of many products have also been improved, allowing for better stacking, and saving 70 road trips every year.

SPB

SPB produces bleaches and home cleaning products for Mercadona, and it has incorporated a series of improvements to its blow moulding plant for containers that allow for saving 500,000 kWh per year, thanks to improved consumption management, in addition to reusing cuttings and ground material from the bottles at the blow moulding plant, thus recuperating 120 tonnes of plastic every year. It has also incorporated eco-design measures to its containers, changing the materials of some items from polystyrene to PET, which is an improvement in terms of recyclability, and saves up to 100 tonnes of packaging materials every year.



Persán

Integrated supplier for cleaning, clothing and crockery care products Persán has managed to achieve zero discharge of their waste, which has been 100% recovered, both material and energetically. Furthermore, improved use of the space on the pallets has allowed for savings of up to 1,500 lorry trips per year.



SAT Canarisol

Integrated supplier providing vegetables and green vegetables to Mercadona in the Canary Islands SAT Canarisol has implemented new measures for savings and energy efficiency, reducing water and power consumption in the farms it grows its crops in. Furthermore, it has implemented a system for utilising waste in their new facilities, and in this way, they are able to deliver almost 1,200 tonnes of by-products for animal feed on a yearly basis.



Importaco-Casa Pons

Importaco-Casa Pons, integrated supplier for nuts and snacks, has put in place eco-design measures for improving the logistics of peanuts with shells. This has allowed for increasing the amount of product per box, and in this way, reducing the number of lorry trips needed to transport the same amount of product, as well as saving 140,000 cardboard boxes per year, at a saving of almost 50,000 kilos of this material.

GRUPO SIRO



Grupo Siro

This integrated supplier for biscuits, alimentary paste, patisserie and cereals is in possession of a recovery facility that has allowed it to recover 82,000 tonnes of by-product from different processes, both in-house and from other integrated suppliers, to then turn it into raw materials for animal feed. Furthermore, within their overall strategy of reducing and utilising waste, it uses sewage sludge as a fertiliser by previously turning it into compost. Furthermore, in 2016 it reduced emissions by 52% in comparison to 2015.

Anitín

This integrated supplier of special types of bread sends some of the organic by-products generated to Cunicarn, also one of Mercadona's integrated suppliers. Since the collaboration between them started, Anitín has sent more than 5,000 tonnes of by-product to Cunicarn for utilising as rabbit feed.

ANITÍN

Arrocerías Pons

Broken rice, which is one of the by-products of the rice production process, is used by another integrated supplier (Bynsa Mascotas) for preparing animal feed for pets. Thanks to this, 3,100 tonnes of broken rice are reintroduced in Mercadona's processes, improving the efficiency of both integrated suppliers and optimising costs and processes.



ARROCEERIAS PONS S.A.

APISOL

Apisol

Honey producer Apisol sends the water honey that would otherwise be managed as waste to an anaerobic digestion plant. Currently, 1,700 tonnes are used to generate gas and electricity at the plant.

JR Sabater

JR Sabater

JR Sabater produces vinegars, syrups and dressings for Mercadona, and has introduced significant logistics improvements in its processes; on the one hand, it has improved the stacking of 1 litre bottles and the 250 ml bottle cardboard boxes, at a saving of 2,800 pallets of product per year, and it has also changed the format, going from 12 to 24 unit boxes, saving almost 10 tonnes of cardboard every year.





Castletownbere

Fish integrated supplier Castletownbere Fishermen's Co-op is currently carrying out a pilot test for anisakis. Thanks to a reactor that applies a magnetic fields and microwaves thermal treatment, it rises the temperature of fish guts quick and uniformly to neutralise the existing parasites. In this way, thanks to being devoid of live anisakis, re-infestation is avoided when the guts are ingested by other fish. This pioneering system, which has come at an investment of €23,000, has been tested on board the vessel "Tea Rose" and will be fully operational in 2017.



SP-Berner

Integrated supplier SP-Berner continues to improve its processes, and to advance in the Circular Economy to offer a line of home cleaning products made from by-products from other Mercadona integrated suppliers, some of which are as complex to recycle as agricultural thermal blankets.

5. COMMITMENTS



Mercadona's Fishing Products Purchasing Policy aims to guarantee the sustainability of the fishing products it commercialises. It has now been agreed to by all the fish suppliers and integrated suppliers, and it keeps solidifying and improving every year. Similarly, both the company and its integrated suppliers have a solid commitment towards animal welfare, as detailed in the Animal Welfare Policy, approved in 2016.

Mercadona also continues to collaborate and actively participate in different national and international forums related to sustainability, where the company endeavours to relay its efforts in the field, and to contribute towards the construction of a food chain that is increasingly more sustainable.

100%
of suppliers
adhere to the
fishing policy

Publishing of
the **animal
welfare
policy**

Commitment:
Reconversion
of farms that
have **egg-
laying hens**
in cages to
alternative
methods
by 2025

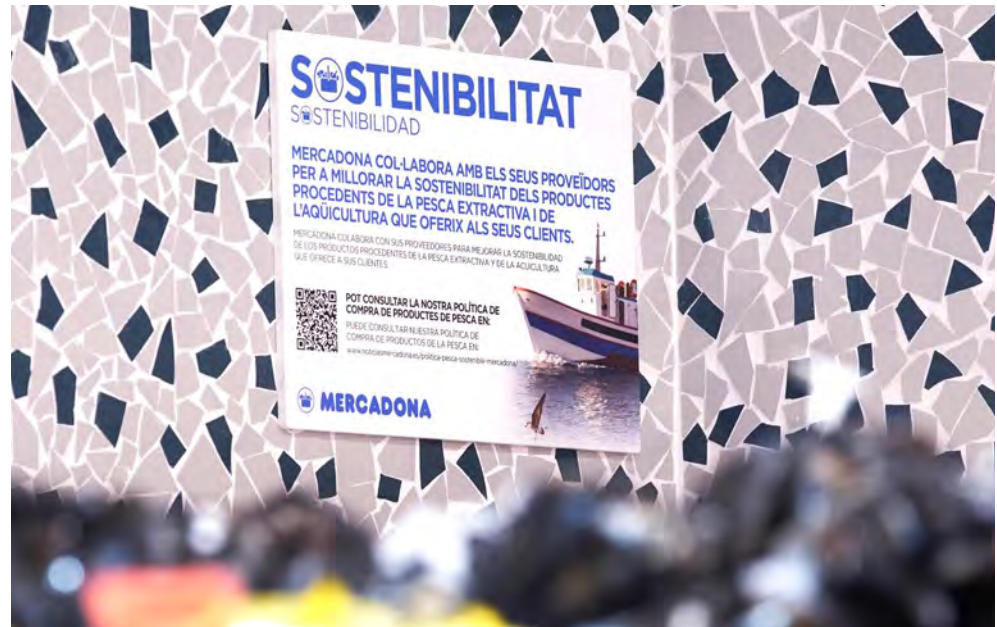
AWARD
 “Sustainable Fish
 Business” to
 Castletownbere



Integrated supplier Castletownbere Fishermen's Co-op received the Green Awards to the “Sustainable Business of the Year” and “Sustainable Fish Business” for good practices and sustainability in the fishing sector.

Sustainable fishing

All fishing integrated suppliers and suppliers have already committed to adhering to Mercadona's Fishing Products Purchasing Policy.



Fishing Products Purchasing Policy



Mercadona's Fishing Products Purchasing Policy is published in the company's corporate web site

- *Not having products derived from illegal, undeclared or unregulated fishing.*
- *Guaranteeing traceability from point of capture to sale.*
- *Labelling products in fulfilment with the applicable law, providing clear, veritable and understandable information to the consumer.*
- *Guaranteeing the legal fulfilment of the set of laws in place in regard to minimum size, biological stoppages and closed seasons, among others.*
- *Supporting the continuous improvement and any technical advances available regarding fishing methods and techniques.*
- *Supporting the incorporation of new products that meet with the sustainability criteria.*
- *Eliminating species that are threatened or in danger of extinction, or those that come from seriously threatened ecosystems from the selection.*
- *Fomenting sustainable aquaculture products through internationally-acknowledged good practices standards.*
- *Supporting local fishing.*
- *Respecting dignified working conditions.*

All decisions will be taken based on the scientific information available from organisations and institutions of acknowledged credibility.

Collaboration with the ISSF

100% of Hacendado's tinned tuna fish comes from responsibly managed fishing grounds, thanks to the ongoing work and collaboration between integrated supplier Ecurís (Jealsa-Rianxeira) and the ISSF (International Seafood Sustainability Foundation), a non-profit organisation promoting the sustainability of tuna fishing.

Ecurís (Jealsa-Rianxeira) is audited yearly to verify its commitment towards all the conservation practices endorsed by the ISSF, including full traceability of the product and training practices for the vessels' captains in good practices in sustainability.

Also as part of this collaboration, together with 83 organisations from around the world (including NGOs, fishing fleets and distributors), Mercadona has adhered to the letter the ISSF has sent to the competent authorities requesting actions to improve sustainability of tuna fishing products.



83 organisations from around the world, including Mercadona, request priority action from the authorities in favour of fishing sustainability



Animal welfare

For Mercadona, its suppliers and integrated suppliers, animal welfare is an inalienable principle in all its implications, and the company has been proving this throughout the years by adapting to and anticipating the different requirements and improvements the sector has been requiring.

Mercadona's Animal Welfare Policy reflects these commitments, and in collaboration with its suppliers and integrated suppliers, it will adopt the necessary measures to meet the objectives that are detailed within it:

Mercadona's Animal Welfare Policy

Animal welfare
is an inalienable
requirement for
Mercadona and
its suppliers

- *Animal welfare is an inalienable ethical and social requirement, a prerequisite to guarantee the quality of the products Mercadona offers its Bosses.*
- *Mercadona is committed towards the protection and wellbeing of the animals in the livestock farms.*
- *Because of this, it is necessary that in addition to fulfilling the specific legislation about this in the livestock farms and in the rest of the processes, animal welfare rules are applied throughout the animal's life, and to this end, the company works closely with its suppliers to:*
 1. *Ensure that the animals providing meat, eggs or other animal origin products are reared in such conditions that avoid:*
 - *Thirst and hunger, providing them access to drinking water and the diet needed to maintain their health and strength.*
 - *Discomfort, furnishing them with an appropriate environment that includes shelter and a comfortable, suitable rest area.*
 - *Pain, wounds and illness, by applying preventive measures, timely diagnostics and adequate treatment.*
 - *Their not being able to present totally normal behaviour, providing them with sufficient space, adequate facilities and the company of other animals of their same species.*
 - *Fear and anguish, guaranteeing adequate handling that avoids unnecessary suffering.*
 2. *Make sure personnel at the livestock farms are sufficiently trained to avoid any type of pain or suffering induced by handling during rearing, transport and slaughter.*
 3. *Implement any future certifiable animal welfare standards applicable by 2021.*

Ground reared laying hens

In 2007, Huevos Guillén (Mercadona integrated supplier for eggs) started to adapt its farms to the new animal welfare legislation for laying hens, in anticipation to its entry into validity in 2012. They were Spain's first producer to meet with the legislation.

Nevertheless, the company is conscious of and shares society's growing concern about aspects relating to the welfare of farmyard animals.

This concern, which is shared by integrated supplier Huevos Guillén and the rest of the suppliers, led the company to be pioneering in the sale of eggs from free range hens (not reared in captivity) at the beginning of the 90's. They may now be found in all the chain's supermarkets.

After two years of work in conjunction with Huevos Guillén, in 2017 we expect to be able to offer our clients eggs from hens reared on the ground, and not in a cage. This will be another option within the assortment of eggs, aimed at increasing the selection for consumers. We are collaborating for the reconversion of the farms, the objective for this being 2025.

Reconversion
of farms that
have egg-laying
hens in cages
to alternative
methods
by 2025



Laying hens reared free (free-range) from integrated supplier Huevos Guillén

Collaborations

Mercadona collaborates with several forums, associations and initiatives, both national and internationally, to put forward and exchange best practices regarding sustainability. This is showcased by the seminars held on environmental relevance of its processes and those of its integrated suppliers, and by the initiatives entered into in relation to sustainable distribution.

REAP

The Retailer's Environmental Action Programme (REAP) is a European platform that was created in 2009 in collaboration with the European Commission, and whose objective it is to bring to light environmental best practices in distribution, in addition to facilitating communication between the different interest groups throughout the supply chain. The goals of the REAP's code of conduct are as follows:

1. Promoting the production and use of sustainable products
2. Reducing the environmental footprint of stores
3. Optimising the transport of goods
4. Reducing overpacking and minimising waste
5. Improving access to premises
6. Improving communication with customers

Mercadona has been a member of the REAP since it was founded in 2009, and actively participates of its commitments and events.



http://ec.europa.eu/environment/industry/retail/index_en.htm



Participation of Mercadona Environment Manager Adela Torres in the session held by Comertia, the Catalan association of family-owned companies on "Retail and Circular Economy", held in November 2016



Participation of Margarita Muñoz, Mercadona Environment Director in Recuwatt, international waste management conference, held in Barcelona in October 2016

Global Compact

Mercadona is signatory and a partner of the Global Compact in defence of fundamental values in Human Rights, Labour Standards, the Environment and Anti-Corruption. The company's commitment towards continuing to support and reinforce the ten principles and values that sustain the pact is showcased by the progress report that validates the fulfilment of these principles.



Red Pacto Mundial
España

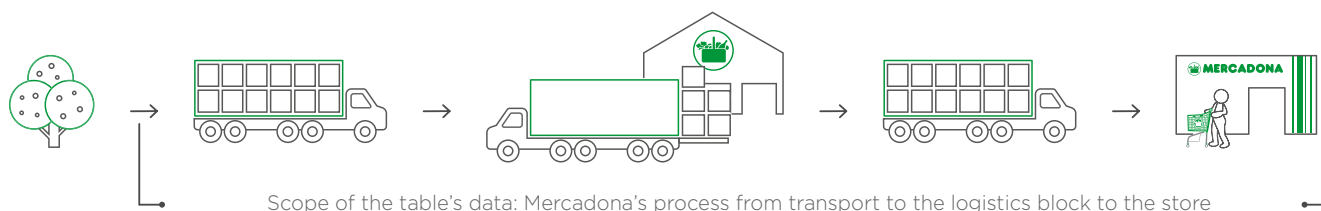
Mercadona's 2016 Global Compact
progress report

AECOC

Conscious of the fact that food waste affects the entire supply chain, Mercadona joined the AECOC initiative "Food is too good to waste", which puts all the actors in the production chain in touch with one another to create synergies and prevent food waste at all levels. The initiative adds to Mercadona's own measures, which it has been implementing throughout all its processes for years, and to other initiatives of the same nature in conjunction with institutions such as the Organisation of Consumers and Users (OCU).



6. SIGNIFICANT DATA



| | | 2015 | 2016 |
|--|--------------------------|-----------|-----------|
| Million € invested in protecting the environment | | 25 | 27 |
| Million fewer kilometres travelled by road | | 352,000 | 435,000 |
| Tonnes transported by train | | 192,000 | 170,000 |
| Tonnes transported by ship | | 784,500 | 833,700 |
| Stores with Silent Night-time Unloading | | 572 | 646 |
| Eco-efficient stores | | 819 | 869 |
| Energy saving (millions of kWh) | | 10 | 20 |
| Total energy consumption (electricity + gas) in GJ | | 7,217,000 | 7,441,000 |
| Water obtained from the municipal network | | 100% | 100% |
| Tonnes of cardboard recovered | | 170,000 | 181,000 |
| Tonnes of plastic and polystyrene recovered | | 13,300 | 13,400 |
| Tonnes of wood recovered | | 1,679 | 1,691 |
| Tonnes of materials recovered | | 185,000 | 196,000 |
| Recycling rate | Recycling/Recovery | 73% | 74% |
| | Destruction | 27% | 26% |
| Tonnes of batteries recovered | | 150 | 164 |
| kg of CO ₂ equivalent per m ³ of merchandise served to the store | Transport of merchandise | 13.23 | 12.93 |
| | Energy consumptions | 18.53 | 18.27 |
| | Personnel displacements | 0.84 | 0.88 |
| | Refrigeration | 15.18 | 15.21 |
| CO ₂ emissions per m ³ of merchandise (kg) | | 47.78 | 47.29 |
| Total CO ₂ emissions (thousands of tonnes) | | 1,515 | 1,567 |



Upkeeping sustainable environmental management is crucial for any company's good practices.

We are aware that there is much to be improved,
but the results achieved make us want to keep working towards this.





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