

6. Sourcing Responsibly

6.1. Introduction

Jerónimo Martins believes that developing partnerships with its suppliers and service providers is essential to reinforce its value proposition and to foster socio-economic development in the regions where it operates. The Group seeks to integrate social, environmental and ethical criteria in its choices and decision-making, aiming to promote an ongoing reduction in the impacts of its activities today and in the future, as advocated in its Sustainable Sourcing Policy and its Supplier Code of Conduct¹⁷.

6.2. Commitment: Local Suppliers

Under equal commercial terms, the Group prefers to choose local suppliers. Importing essentially occurs in the following cases:

- i. products are scarce, due to production seasonality, common in the Fruit and Vegetables area;
- ii. when there is no local product, or the quantity produced is insufficient to guarantee the supply to the chain stores;
- iii. when the quality-price ratio of domestic products does not allow the Group to keep its best price and quality commitment to its consumers.

In 2017, 92% of the products sold in Poland were sourced from local suppliers. In Portugal, that ratio stood at 84% and in Colombia at over 95%.

Perishables and Private Brand

Regarding Private Brand, most of the products were also purchased from local suppliers: more than 95% in Colombia, 92% in Poland, and between 60% (Pingo Doce) and 72% (Recheio) in Portugal. The Perishables¹⁸ area shows the same trend, with 67% of products in Portugal being sourced from local suppliers, while this figure is 83% in Poland. In Colombia, this ratio is above 95%.

As a means of raising the awareness of its consumers and fostering the purchase of products of local origin, the Group uses specific signs.

In Portugal, domestic Perishable products are identified by “O Melhor de Portugal Está Aqui” (The Best of Portugal is Here) stickers. The nationally produced Private Brand products are identified by “Produzido em Portugal” (Made in Portugal) and “Fruta 100% Portuguesa” (100% Portuguese Fruit). In Poland, domestic products are identified by the “Polski Produkt” (Polish Product) sticker or by the “#jedzcopolskie” (Eat what is Polish) sticker. In the case of the latter, Biedronka maintained the www.jedzcopolskie.biedronka.pl website to promote the consumption of fruit and vegetables, and also for sharing information about the local suppliers it works with, as well as suggested recipes.

In Colombia, domestic products are marked with the “Hecho en Colombia” (Made in Colombia) sticker and Private Brand products are marked with the “Una Marca de Ara” (An Ara Brand) sticker.

Supplier Engagement

The Group prefers to develop lasting relations for cooperation with its producers and suppliers, which may encompass technical follow-up, support in optimising their processes and/or guaranteeing product outflow, therefore stimulating local economies. The following initiatives are highlighted:

¹⁷ Available for consultation in the “Responsibility” area at www.jeronimomartins.com.

¹⁸ Information about the proportion of products sourced from suppliers in each of the Perishables categories is available in the “Responsibility” area at www.jeronimomartins.com.

Portugal

- In 2017, Pingo Doce entered into a partnership with a local supplier for stocking its stores with “Maçã das Beiras”, an apple of Portuguese origin, having sold more than 1,000 tonnes;
- the partnership with a cooperative of fishermen in the Sesimbra area was maintained for catching black scabbard fish, ensuring quality and price competitiveness, as well as maintaining traditional fishing practices that enable the sustained regeneration of the species;
- in July 2017, the Group launched a promotional campaign for 100% domestic pork in around 40% of the Pingo Doce Stores, aiming to promote local production. During the year, over 26.5 thousand tonnes of the pork sold was of Portuguese origin;
- in 2017, Pingo Doce continued the extraordinary measure of supporting Portuguese producers of Perishables with whom it works and who are members of the Confederação dos Agricultores de Portugal - CAP (Portuguese Farmers' Confederation). This measure consists of Pingo Doce anticipating payment terms to an average of 10 days (instead of the 30 days established by law), without financial costs to the producer. Since its implementation in 2012, approximately 500 producers in the categories of Fruit, Vegetables, Meat, Fish, Cold Meat and Wine have already benefited from this initiative.

Poland

- Poland is one of the largest producers of strawberries in Europe. To cope with the limited useful life for this fruit to be eaten, Biedronka established a network with more than 100 suppliers, located in regions close to the DC, as a way of guaranteeing quality strawberries in sufficient quantity, thereby reducing the time between the harvest and the product being available in the stores. In the first year of the project (2014), 74 tonnes were sold between July and September. In 2016, and as a result of consolidating this initiative, it was possible to sell 650 tonnes in the same period. In 2017, Biedronka reached 1,000 tonnes, an increase of around 54% compared to 2016;
- in 2017, Biedronka increased the number of organic Private Brand Perishable SKUs to 22, compared to the nine launched in 2016. These are part of the permanent Fruit and Vegetables assortment, like apples, onions or root vegetables, and part of the offer of seasonal products such as citric fruit, tomatoes and pumpkin. The volume sold increased by 150% compared to 2016, corresponding to a total of 1,700 tonnes and along with their suppliers, contributing towards an increase in the offer of these types of products in Poland;
- in the Bakery area, Biedronka created a traditional type of bread baked in a wood oven, as part of a project in partnership with a Polish Bakery - Nowakowski Piekarnie- founded in 1925. It is made based on a traditional recipe, kneaded by hand and baked in an oven with certified beech. Over 2.3 million units were sold in 2017;
- within the Butcher's section, of note is the partnership developed with a Polish producer of beef, whose life cycle is controlled in conjunction with Biedronka in a “field to fork” approach. The Veal Festival, which began in April, takes place during the second week of each month in about 100 stores. During the project's first year, over 30 tonnes were sold.

Colombia

- Since it started doing business in 2013, Ara has been aiming to establish stable relations and partnerships with Colombian suppliers. In 2017, Ara cooperated with 95 local suppliers which provided more than 580 Private Brand products;
- the 5th edition of the Ara Private Brand Congress took place in Bogotá, under the theme “Giving Wings to a Better Retail”, which was attended by 170 current and potential local suppliers;
- with the support of a local supplier, Ara created a product called “BBQ wings”, the first of its kind in the Colombian market. The product is served with a spicy barbecue sauce without artificial colourants or sodium glutamate. In just six months, the product was included in the 25 top-selling products in two of the three regions where the Group is present: The Coffee Growing Region and Bogotá;

- Ara decided to extend its bakery product portfolio, which up to now focused on bread and baguettes, to flaky pastry. To do so, it brought together technicians from its quality team, professional chefs and the three suppliers who already had experience in producing pastries. Five products were created including a French croissant and a chicken/meat pie, which contributed towards around a double-digit like-for-like increase in the Bakery and Pastries category.

6.3. Commitment: Human and Workers' Rights

Jerónimo Martins works with suppliers who are committed to complying with the legal provisions and national and international agreements applicable to the area of Human and Worker's Rights, as set out in its Sustainable Sourcing Policy¹⁹.

The Group has undertaken the commitment to terminate business relations with suppliers whenever it learns that they and/or their suppliers violate Human, Children's and/or Workers' Rights and/or if they do not incorporate ethical and environmental concerns when conducting their business, and/or when they are not willing to draw up and implement a corrective action plan.

Additionally, and as part of the Group's participation in The Consumer Goods Forum, it has undertaken the commitment to contribute towards eradicating forced labour – as defined by the International Labour Organization – throughout its banners' supply chains and to continue to ensure its absence in its operations.

6.4. Commitment: Promotion of More Sustainable Production Practices

Along with the ethical and social aspects already mentioned, Jerónimo Martins also favours production methods that have a lower consumption of natural resources and impacts on the ecosystems.

Deforestation

The Group highlights its actions linked to deforestation commodities (palm oil, soy, beef, wood and paper) in order to reduce carbon emissions linked to forest destruction, preserve biodiversity in these ecosystems and contribute towards eliminating Human Rights violations of Children and/or Workers that have been reported.

To do so, since 2014, the Group has been mapping the presence of these ingredients in the Private Brand and Perishable products sold in Portugal, Poland and Colombia. Additionally, it asks its suppliers, who have products where these ingredients were identified, about their respective origin and the existence of sustainability certification. The results of this work are publicly disclosed in its annual response to the Carbon Disclosure Project (CDP) Forests. For the first time, the figures for 2017 were verified by an external entity.

Jerónimo Martins' goal is to progressively ensure the sustainable origin of these raw materials, in line with the commitment to "Zero Net Deforestation by 2020" made within the scope of its participation in The Consumer Goods Forum²⁰. The following results were obtained in 2017:

- Palm oil
 - In 2017, 22,956 tonnes were present in the Group's Private Brand products and Perishables, a reduction of 38%, compared to 2014. This reduction is the result of replacing palm oil with vegetable oils with a better nutritional profile;
 - out of the total palm oil used, about 26% is RSPO certified.

¹⁹ Available for consultation in the "Responsibility" area at www.jeronimomartins.com.

²⁰ For further details about the Group's actions on this subject, please go to www.cdp.net.

- Soy
 - 13,649 tonnes of soy as a direct ingredient were present in the Group's Private Brand products and Perishables in 2017. Of these, 8,215 tonnes are from countries at risk of deforestation²¹, a value about six times above the observed in 2014. This increase in soy from countries at risk of deforestation is mostly due to the Group's operations expansion in Colombia, a country with a high consumption of vegetable oils containing soy and where a significant percentage is sourced from Bolivia. The Group is investing efforts to characterize the agricultural practices adopted by these suppliers. Embedded soy (e.g., used in animal feed) was calculated at 283,667 tonnes;
 - regarding levels of sustainably certified soy (e.g., RTRS and ProTerra), these were of less than 1% for direct soy and of about 3% for embedded soy. It should be noted that only 3% of the total soy available in the market holds this type of certification²².
- Paper and Wood
 - Private Brand products represented a consumption of 108,439 tonnes of paper and wood in 2017, excluding packaging, an increase of 8%, compared to 2014. Of these, 9,417 tonnes are from countries at risk of deforestation²¹, representing a reduction of 41%, compared to 2014. Paper and wood present in packaging were responsible for 94,460 tonnes;
 - out of the total paper and wood used in its Private Brand products 7% has sustainable certification, as is the case of 66% of the paper and cardboard product packaging.
- Beef
 - In 2017, 42,849 tonnes were present in the Group's Private Brand products and Perishables an increase of 37%, compared to 2014. Of these 938 tonnes are from countries at risk of deforestation²¹, compared to the 2.83 tonnes in 2014. This evolution is mostly due to the increase of sourcing from countries such as Uruguay, Brazil and Argentina;
 - less than 2% of the total beef used in these products comes from these countries.

The Group also joined the Roundtable on Sustainable Palm Oil in 2017 and took the first steps towards joining the Soy Buyers Coalition, a project led by the Consumer Goods Forum, in which more than 10 companies from the manufacturing and retail sectors participate, aiming to develop and implement projects that contribute towards curbing deforestation in the main soy-producing regions in Brazil.

Jerónimo Martins Group achieves an "A-" and "B" scores in the CDP Forests 2017

In 2017, the Group obtained an overall "A-" score for palm oil, and paper and wood, positioning the Group at the "Leadership" level, one step away from achieving the highest score (A). The commodities soy and beef obtained a classification of "B", the equivalent of the "Management" level.

The CDP "Forests" programme assesses its performance in terms of the strategy for commodities linked to deforestation, including transparency when reporting information and risk management. CDP is a non-profit international organization which develops programmes for companies and cities to measure, disclose and manage important environmental information.

Fish

In the context of its sustainable fishing strategy, and as a result of the studies which have been carried out in this area²³, the Group defined courses of action to reduce pressure on threatened

²¹ Countries at risk of deforestation considered are defined according to the Consumer Goods Forum' Guidelines for soy and paper and timber. Regarding beef, the Group considers the same origins considered for soy.

²² Information provided by The International Institute for Sustainable Development in the report 'Standards and Biodiversity: Thematic Review' (2017).

²³ To find out more about the actions carried out by the Group in this area, see sub-chapter 5. "Respecting the Environment" in this chapter.

species²⁴. These include: i) banning the purchase and sale of species classified as “Critically Endangered” for which there are no extraordinary licences; ii) looking for alternatives to aquaculture for species classified as “Endangered”, and not carrying out promotional activities involving fish from wild populations that have not come from sustainably-managed stocks and/or that do not have a sustainability certificate; and iii) limit promotional actions for species classified as “Vulnerable” whenever they do not come from aquaculture and/or have not come from sustainably-managed stocks and/or that do not have a sustainability certificate.

In 2017, and based on the species identified in 2015, the Group verified compliance with the courses of action defined above:

- species classified as “Critically Endangered”, for which there were no extraordinary licenses, were not sold;
- promotions of species classified as “Endangered” were only carried out for species from aquaculture;
- there was a 10% reduction in the promotion of species classified as “Vulnerable”, of these over 95% were either sourced from aquaculture or from sustainably-managed stocks.

Partnerships for fighting food waste

Fighting food waste is a challenge Jerónimo Martins tackles on various fronts, and consequently, in several of its corporate responsibility pillars. Regarding supplier engagement, the Group encourages the purchase of non-graded food, which previously had little or no economic value. As such, it is contributing towards reducing the upstream waste in its operations, while at the same time ensuring that these products, whose nutritional profile is the same as the graded products, are part of the value chain, reaching its consumers' tables.

The Group does so both by incorporating them in its soups in Portugal and in Poland or in 4th range products (washed and pre-cut vegetables ready to use), or by selling them at a reduced price in its Recheio stores.

In total, in 2017, the Group made sure that over 13,600 tonnes of these products, also known as “ugly” fruit and vegetables, was placed on the market, an increase of 2% compared to 2016.

Reduction in the distances that products travel

Jerónimo Martins developed partnerships with its Fruit and Vegetables suppliers, seeking to reduce the environmental impacts associated with the sale of such products. An example is the case of mango production in Spain or Senegal. These partnerships have production characteristics similar to those of the mangoes produced in Brazil, but has allowed the distance travelled to be reduced by more than 5,000 km and to substitute air by sea or road transport, leading to a significant reduction in CO₂ emissions. This partnership also ensures, in stores, a product of higher quality, since the reduction in distance makes it possible to harvest the mango when it is more mature. In 2017 it sold over 47 thousand kilograms of mangoes sourced from these countries.

The Group's strategy for supplying certain strategic products, through its own production at its company Jerónimo Martins Agro-Alimentar, also means it has greater operational control over the process, in the reduction of the distances travelled by the products, and subsequent carbon emissions, and in the delivery lead time to the store, thereby contributing towards greater product quality. Such is the case of Angus beef and the production of sea-bass and gilt-head bream through aquaculture, which are varieties traditionally produced outside Portugal. In 2017, the Group secured the supply of over 350 tonnes of Angus beef and 1,330 kg of sea-bass. It aims to progressively increase these quantities.

²⁴ Based on the classification of the International Union for Conservation of Nature and Natural Resources (IUCN) and the Convention on International Trade and Endangered Species of Wild Fauna and Flora (CITES).

Certified Products

The Group seeks to progressively incorporate sustainability-certified Private Brand products and Perishables into its assortment. In 2017, it launched:

- 15 new references with the Marine Stewardship Council (MSC) certification;
- 13 references with organic certification in Poland, 11 in the Fruit & Vegetables category and 2 Private Brand references;
- 13 references with Forest Stewardship Council (FSC) certification regarding primary product packaging;
- 13 references with UTZ certified cocoa as an ingredient;
- 3 Dolphin Safe references;
- 2 beverage references containing coffee or tea with “Rainforest Alliance” certification;
- 1 PEFC certified reference for the paper fibres present in the product.

The table below shows the total quantity of Private Brand products and Perishables with sustainability certification in 2017 and 2016. In total, there was an increase of 30% in the number of SKUs with sustainability certification.

Certification	#SKU		Δ 2017/2016
	2017	2016	
Organic*	64	49	+31%
FSC**	43	30	+42%
UTZ	22	14	+57%
MSC	16	10	+60%
Dolphin Safe	15	12	+25%
PEFC**	14	13	+8%
SFI**	13	13	0%
EU Ecolabel	7	8	-13%
Rainforest Alliance	6	4	+50%
Fairtrade	1	1	0%
Total	202	155	+30%

* These products are developed according to the rules of organic production, are certified by an independent external body and bear the European Union logo which ensures compliance with the Community Regulation for Organic Agriculture.

** Figure includes products with this certification and/or packaging material with this certification.

Biedronka continued to be part of the “Charter for Sustainable Cleaning” initiative, promoted by the International Association for Soaps, Detergents and Maintenance Products, which encourages the improvement to product performance in the Hygiene and Cleaning category regarding a series of criteria: toxicity, eco-efficiency and consumption of raw materials, among others.

Sustainable cocoa, tea and coffee in Private Brand products

In 2017, 13 references were launched with UTZ certification, totalling 22 references in Portugal and Poland. An UTZ product seeks to demonstrate, through a certification programme, that the raw material was obtained using a sustainable agricultural model.

In the same period, Biedronka launched two references, one containing tea and the other coffee with "Rainforest Alliance" certification, ensuring that these ingredients originate from sustainable agriculture and that they meet the environmental and social criteria defined by that entity.

The Group maintained its first coffee product reference with 100% Fairtrade certification. The certification ensures compliance with social, environmental and economic criteria, supporting small suppliers through payment of a guaranteed minimum value for production.

These certifications promote good agricultural practices while guaranteeing farmers an improvement to their working conditions and quality of life, as well as protecting the natural resources on which they depend.

Animal welfare

Animal testing

The Jerónimo Martins Group complies with the provision of European Directive 201/63/EU in all the countries where it operates and does not permit any animal testing in its Private Brand and Perishables. The exception resides in animal food products where sensory tests are performed in order to assess the degree of the specific target population's satisfaction, and also in products which aim to control or eliminate parasites and/or super-populations that might be sources of contamination or disease (e.g. insects).

Practices adopted

Within the scope of promoting animal welfare, the Group complies with the indications of European Directive 98/58/EC in its areas of operation, as well as with the legislation in force. Whenever possible, it promotes practices above the benchmark.

Jerónimo Martins highlights the production of Private Brand free-range chickens at Biedronka, which are available in all its stores, whose sales doubled compared to 2016. The chickens are produced without using antibiotics and without feed containing genetically modified organisms. This project started in 2015 in conjunction with Polish suppliers and, to date, is unique in Poland.

Furthermore, the lamb sold by Pingo Doce comes from animals grazing on natural pastures, in accordance with the assumptions of High Natural Value agriculture and livestock. This concept assumes that low intensity production systems with reduced inputs can contribute towards protecting the biodiversity of the regions where they are implemented.

In addition, the Group has undertaken the commitment to eradicate, by 2025, the sale of eggs from caged chickens in the Jerónimo Martins Group's Private Brands.

Within the scope of the Group's agribusiness activities, the following actions are highlighted:

Angus beef:

- availability of an area per animal above the recommended 3 m², in over 60%;
- daily renewal of fresh hay in the bedding;
- animals driven in appropriate channels, the use of electric shocks and similar practices being banned.

Aquaculture:

- production in open sea and not in tanks, enabling the fish to develop in their natural habitat;
- handling is reduced to a minimum until capture, in order to avoid stress to the fish.

6.5. Supplier Audits

Quality and Food Safety

Jerónimo Martins regularly audits its Perishables and Private Brand suppliers as a means of assessment and follow-up in terms of management and control processes, the implemented quality system, product formulation and labour and environmental aspects. The audits are mandatory for suppliers conducting their business in countries where the Group operates.

The supplier evaluations cover a set of environmental requirements, which have a 5% weight in the assessment. These requirements include criteria associated with the management of water, effluents, waste, atmospheric emissions, noise and hazardous substances. Each supplier is reassessed at predefined intervals based on the score they obtained.

The Group also assesses the health and safety in the workplace and training conditions, which have a 10% weight in the assessment. These requirements include criteria such as the existence and use of appropriate clothing, equipment for washing hands, rules of conduct and personal hygiene, the existence and condition of social areas, changing rooms and bathrooms for employees, and ensuring the provision of appropriate training for carrying out their roles.

Audits on Perishables and Private Brand Suppliers*

	2017	2016	Δ 2017/2016
Portugal			
Perishables	921	847	+9%
Private Brand – Food and Non-Food	259	244	+6%
Poland			
Perishables	357**	376***	-5%
Private Brand – Food and Non-Food****	446	451	-1%
Colombia			
Perishables	57	56	+2%
Private Brand – Food and Non-Food	150	165	-9%

*The audits include the following topics: selection, control and follow-up.

** In 2017 a further 1,189 inspections were carried out.

*** Corrected figure compared to 2016 in order to exclude the number of inspections (1,078.).

**** In 2017 a further 3,429 inspections on non-food Private Brand products were also carried out and, in 2016 a further 3,074 were executed.

In Colombia, the reduction in the number of Private Brand audits is due to the high performance result obtained in 2016 by 30 of the suppliers evaluated. In these cases, the frequency of these audits is set to biennial.

Certifications

As regards to certifications, in the case of foreign suppliers not covered by its internal audit system, the Group demands Food Safety certification recognized by the Global Food Safety Initiative, namely British Retail Consortium (BRC), Global Good Agricultural Practices (Global G.A.P.), HACCP/Codex Alimentarius or ISO.

All potential new Private Brand product and Perishables suppliers must be audited in accordance with the Group's internal criteria (common to the three countries where it does business). In the case of suppliers who are not located in these countries, they must be certified according to the food standards of the BRC, the International Featured Standards (IFS) or the Food Safety System Certification (FSSC) 22000.

Awarded Private Brand non-food products

In 2017, Biedronka's non-food products were once again awarded for their quality and/or innovation. This was the case of the Dada Private Brand nappies, to which the Instytut Matki i Dziecka (Institute of Mother and Child) awarded the Golden Logo, the only product of its kind with this distinction. Skincare products for children from the Dada Private Brand, such as the cleaning wipes, also obtained a positive assessment from the same Institute.

The "Eden Sensitive" fabric softener was recommended by the Polish Allergology Association (Polskie Towarzystwo Alergologiczne) for not containing allergens and is therefore recognized as a hypoallergenic product.

Environment

The Group also carried out exclusively environmental audits on both service providers and goods suppliers, aimed at ensuring compliance with the minimum environmental performance requirements, assessing the performance level and defining an action plan to correct non-conformities. Suppliers are selected based on criteria involving materiality for the Group (business volume and product criticality and/or production location).

In 2017, Jerónimo Martins conducted 35 environmental audits on service providers in Portugal and 8 in Poland. The level of environmental performance (for all service providers in Portugal audited since 2009) was as follows: 12% achieved an "Excellent" performance, 8% "High", 75% "Basic" and 5% "Below basic".

The environmental audits on suppliers of Perishables and Private Brands are conducted by an external entity. In 2017, 60 suppliers in Portugal were audited. The level of environmental performance (for all suppliers audited since 2016) was as follows: 8% achieved an "Excellent" performance, 5% "High", 60% "Basic" and 27% "Below Basic".

All the suppliers audited and classified with a "Below basic" level (lower than 70%) and/or those who do not fully comply with the defined critical requirements, have received a corrective action plan which the supplier must address within a maximum of six months. The Group reserves the right to suspend cooperation with business partners who do not comply with the defined corrective action plan, whose effectiveness is gauged in a second audit, which is always performed in the year immediately following the first audit.

6.6. Supplier Training

In Portugal and Poland, over 20 training sessions and meetings took place, involving suppliers. These were focused on issues of Quality and Food Safety, furthering the co-operation with business partners, especially with regard to discussing areas for improvement and development of innovative products.

Regarding the Environment, in 2017, four training sessions on electronic delivery notes for transporting waste took place in Portugal, attended by 41 participants representing waste management operators, and two workshops on the Sustainable Agriculture Manual, involving 30 participants, representing suppliers of Fruit and Vegetables.

In the same year, the Group organized its 6th Sustainability Conference "The Power of Collective Action" dedicated to the United Nations' Sustainable Development Goals and how partnerships can contribute to its achievement. The one-day event was attended by more than 20 Polish and Portuguese suppliers and service providers of the Group.