2. 2014 ENVIRONMENT

POLAND

Macroeconomic Environment

In 2014, Gross Domestic Product (GDP) grew by 3.3% according to the Polish Statistical Office GUS. Despite a continued improvement, the Polish GDP per capita still remains one of the lowest in the European Union, remaining well below the average for other countries.

Reversing the trend of previous years, in 2014 the unemployment rate in Poland decreased, with a significant 1.2 p.p. reduction from 2013, now standing at 12.3%.

In the foreign exchange market, the average exchange rate of the zloty against the euro was broadly stable at 4.1845 in 2014, compared to 4.1971 in 2013. However, end of year positions show a 2.9% devaluation against the euro, with a rate of 4.2732 and 4.1543 at the end of 2014 and 2013 respectively.

The inflation rate of the Polish economy reached historically low levels in 2014. The variation of prices in the economy was nil compared to an increase of 0.9% in 2013. Inflation in food products turned negative at -0.9%, compared to a +2.0% in 2013. This low price level, well below that desired by the Polish Monetary Council, together with the risk of a deterioration of economic growth, led to a reduction of the reference rate from 2.5% to the lowest level ever of 2.0% in October 2014.

Modern Food Retail

According to PMR Research estimates, in 2014 the food retail market grew by 2.3% to 239.1 billion zlotys. This development was significantly influenced by the deflation of food products that began in the second quarter and that deteriorated throughout the second half of 2014. Some signs of gradual economic recovery and rising private consumption became visible in terms of increased traded volumes, but due to price deflation they were not visible in net sales.

Consumers remained very price sensitive and rational in their purchasing behaviour. The proximity factor gained an even greater importance in 2014, with consumers giving increasing preference to the stores located near their place of residence or work.

There was also an increase in the relevance of the averaged price products. Consumers were more likely to buy better quality products at the expense of a higher level of savings.

The marginal consumption of Private Brand grew at rate ten times higher than the other products, compared to the previous year, a development driven by the economic environment and households rationalising their spending. This trend was also boosted by the fact that Polish consumers actively sought Private Brand products, recognising and appreciating their benefits. The increase of variety and the continuous adaptation of the Private Brand assortments to consumer needs also contributed to this growth.

2014 was marked by changes to the discount format with operators evolving closer to the supermarket concept, improving the store environment, the product quality and the range of fresh products. Competition in the market has intensified due to price deflation, leading to a reduction in price differences between the various store formats. This effect combined with the growing popularity of smaller stores resulted in many food retail operators having difficulty in increasing their income.

The food retail market continued to show further consolidation, with an increasing number of independent stores closing or integrating into franchise chains due to the inability to compete with organised retail chains.

2. 2014 ENVIRONMENT

Health & Beauty Retail

According to projections by PMR, in 2014 the Polish Health & Beauty market grew by 3.6%, to 20.7 billion zlotys. The market of pharmaceutical products grew by just 0.5%. 40% of Health & Beauty total sales are carried out in specialised chains of these products. Health & Beauty stores maintained a steady growth of about 10%. Cosmetics are the category with the fastest sales growth in the market, reaching an increase of 22.1% over the previous year.

Regarding the dynamics of the Health & Beauty market, Rossmann remained the main operator, with continued focus on expansion. By the end of 2014, Rossmann had reached 996 stores, representing an increase of 18% compared to 2013. At the end of 2014, Kontigo, a new player held by the Eurocash Group, entered the market. They opened three stores with a strong focus on exclusive brands.

The number of Private Brand beauty products continued to grow and is estimated to currently represent more than one fifth of all products on the market. Consumers are increasingly careful and more aware of the available offer, a trend being noticed in the consumption at specialty stores that offer a wider range of products combined with quality and attractive prices.

Cosmetics are purchased at the same time as regular purchases in discount stores. Over the past few years the growing importance of online distribution channels has also been visible. The convenience, the easy access to low prices and the possibility of saving time are factors that determine the choice of such operators.

PORTUGAL

Macroeconomic Environment

2014 was marked by the confirmation of the gradual recovery of the economy registered since the fourth quarter of 2013, and by Portugal leaving the economic and financial adjustment programme in May, despite the need to maintain the adjustment process of imbalances of the Portuguese economy.

According to the most recent Bulletin of Banco de Portugal (the Portuguese Central Bank), the economic growth must have reached 0.9% in 2014, compared to a contraction of 1.4% in 2013. This growth was accompanied by a significant decrease in unemployment, which according to the Portuguese National Statistics Institute (INE) reached 13.9% and reflected a year-on-year decrease of 2.3 p.p., and by a general increase in consumer confidence.

Contrary to the negative trend since 2008, the moderate 2014 recovery in domestic demand (+2.3%) was supported by increased private consumption (+2.2%) and by an increase in investment (+2.2%). This recovery is still conditioned by the need for budgetary consolidation and the high level of indebtedness. On the other hand, public consumption continued to contribute negatively (-0.5%).

Exports must have increased 2.6%, with growth in tourism, clothing & footwear, cars and food & beverage products largely offsetting the negative impact of energy goods. In this context, exports are likely to experience a lower growth than the one in external demand, interrupting the upward trend of market share. The growth in imports (+6.3%) reflects the increase in domestic demand, particularly for goods with a higher imported content.

Prices declined by -0.3% compared to 2013, mainly due to the fall in food prices (-1.3%) and the decrease in energy prices. The reduction in prices of imported goods, in a low inflation scenario in the Eurozone, also had a downward impact on the indicator.

Low levels of inflation and interest rates at a historic minimum led to an increase in disposable household income, thereby encouraging consumption. However, if inflation remains at a low level in the medium and long term, it is expected to negatively impact the country's public debt.

According to the Government projections, the general government deficit in 2014 should be in line with the objective for the year and reach 4.8% of GDP, compared to 4.9% in 2013. As such, public debt currently represents 127.2% of GDP, compared to 128.0% of GDP in 2013.

It should be mentioned that the current macroeconomic environment, in conjunction with the political stability, had a positive effect on the evolution of interest rates on the Portuguese debt, which registered a significant decrease, to values that wouldn't have been likely a year ago.

Modern Food Retail

Private consumption grew for the first time in three years, mainly due to the growth in consumption of durable goods. Consumer confidence also showed a continued recovery throughout 2014, registering the highest level since May 2002.

Despite the recovery, 2014 was another difficult year for the Portuguese families in a context where the unemployment rate, the levels of inequality and the general poverty remained high. Throughout 2014 the Portuguese households maintained a very rational buying behaviour, focusing on price and promotions and becoming increasingly aware of the promotional dynamics of the various retailers. In addition to proximity, price has remained as one of the key shopping factors of Portuguese households.

For food retailing, 2014 presented particular challenges. The strong pressure on prices resulted in deflation of food products in a context where the main market operators focused on their promotional activities. The food retail market in 2014 registered a downward trend, in part explained by the price reductions, with the openings of new stores being also limited during the year, highlighting, however, the new traditional retail formats which throughout the year showed greater dynamism.

Wholesale Food Market

In 2014, the turnover of Cash & Carry operators in Portugal decreased slightly due to the retraction of Traditional Retail, the closure of caterers and the sharp deflation. This greatly impacted the food distribution businesses and results in sales value.

The wholesale store network remained stable, only registering the opening of a new Cash & Carry in Algarve of a player specialised in Drinks and Wine Cellar. In Traditional Retail, it is worth mentioning the opening of 101 new 'Amanhecer' stores and 70 new 'Meu Super' stores, positioning themselves as retail chains with a proximity format with high geographical expression.

COLOMBIA

Macroeconomic Environment

According to the Colombian National Statistics Institute, a GDP growth of 4.3% is expected for the country in 2014. In the first nine months of the year, the Colombian economy grew by 5.0%, reflecting a positive and sustained development of all business sectors, with the Colombian GDP registering one of the highest growth levels globally and delivering the highest growth amongst the main Latin America countries.

According to the same institute, the average inflation rate in 2014 was 2.9%, above the Colombian Central Bank estimate of 3.0%. Food products (+3.2%) and childhood education (+4.1%) exceeded the national inflation average.

The average unemployment rate was 9.1% in the year, a historical low for the last 14 years. In the Coffee Growing region where Jerónimo Martins is present, the unemployment rate is higher than the national average, despite the positive developments in 2014: Armenia (15.0%), Pereira (13.7%) and Manizales (10.5%).

The lower oil price is having significant impact on the Colombian economy and on the exchange rates. Consequently, the Colombian peso depreciated, on average, by 23.0% against the US dollar, the largest currency devaluation in Latin America in 2014.

Modern Food Retail

Retail sales in Colombia increased by 8.6%, with the best performances registered in the supermarket segment, especially in the convenience store and discount formats.

During 2014, 307 modern retail stores (+6.1% compared to 2013) were inaugurated. The number of discount and convenience stores grew by 266 stores, supermarkets increased by 37 stores and hypermarkets by four stores.

Also of particular note is the investment that has been made in recent years in the hard discount format where the penetration of large distribution chains has been lower.

Sources:
IMF World Economic Outlook; Eurostat; Bank of Portugal Economic Bulletins; Portuguese Ministry of Finance; Portuguese National Statistics Institute (INE); National Bank of Poland Economic Bulletins; Central Statistical Office (GUS); Banco de la República (Colombian Central Bank); Colombia National Administrative Department of Statistics (DANE); Business Monitor International (BMI); BBVA; Planet Retail; Deloitte; TNS; Nielsen and PMR Research.