

2. 2015 ENVIRONMENT

Prices in Poland reached historically low levels whilst, in Portugal, 2015 was marked by the gradual recovery of the economy. The Colombian economy continued to grow above the average for the Latin America countries.

2.1. POLAND

MACROECONOMIC ENVIRONMENT

In 2015, the Gross Domestic Product (GDP) grew 3.6%, according to the Polish Statistical Office (GUS). Domestic demand continued to be the GDP's main growth driver, supported by the increases in employment and household income. Further business investments and investments in family housing were other factors that also contributed towards the country's economic growth. According to that same institute, the average wage increased by 3.5% in 2015.

In 2015, the number of unemployed decreased, following the same trend seen the previous year, and the unemployment rate registered a reduction of 1.8 p.p. compared to 2014, now standing at 10.5%.

In the forex market, the average exchange rate of the zloty against the euro was 4.1819 in 2015, almost in line with the 4.1850 recorded in 2014. When comparing the foreign exchange rate position at the end of the year (4.2639) with the one at the end of 2014 (4.2732), we can see a slight appreciation of the zloty against the euro of 0.2%.

Inflation in Poland reached historically low levels in 2015: -0.9% compared to an evolution of zero in 2014. The variation in the price of food products was negative at -1.7%, compared to -0.9% in 2014. As a consequence of this level of prices in the economy, well below that desired by the Polish Monetary Council, it was decided in March 2015 to reduce the reference rate of 2.0% to 1.5%, the lowest level ever.

MODERN FOOD RETAIL

According to PMR Research, the Modern Food Retail market in Poland should have grown by 2.1% in 2015, exceeding 242 billion zlotys. This evolution was significantly influenced by the gradual recovery of the economy and the stimulation of consumption by food price deflation.

Consumers remained price-sensitive and very rational in their purchasing behaviour. With price continuing to be the key criterion, consumers sought intelligent purchases and as such, chose stores with the best cost-benefit ratio. The importance of the convenience factor continued to increase, with consumers preferring stores close to their place of residence or work.



In 2015, mid-range products gained importance, following the improvement in the Polish economy. The operators' strategy included extending the offer of these products as well as of the high-range products, making them available at affordable prices.

Sales of Private Brand products in Polish Food Retail grew by 6.6% compared to the previous year, continuing to show signs of growth potential, albeit at a slower pace. Current market penetration was driven by the increase in confidence in these products, which in turn, is a reflection of a constant improvement in its quality.

The year 2015 was marked by the increase in popularity of the smaller size store formats, as a consequence of the increasing competition and reflecting new consumer habits. The number of operators that use a single store format has decreased and we can see an increase in the variety of formats operated by the retail chains. Also noteworthy was the heightened expansion of the convenience format and the increase in cooperation between retailers and petrol stations.

The Food Retail market continued to show signs of consolidation, with increased closures of independent stores or their integration into franchise networks. In 2015, the integration of the Real hypermarkets into the Auchan chain was completed.

In 2015, there was a further increase in the offer of organic products. This growth was mainly driven by the demands of consumers who are increasingly favouring food quality and food origin. Although this trend is essentially present in the big cities, it is also becoming increasingly visible outside urban areas.

HEALTH AND BEAUTY RETAIL

According to the projections by PMR Research, in 2015 the Polish Health and Beauty market should have grown 4.4% compared to 2014, to 21.5 billion zlotys and the non-prescription pharmaceuticals market increased by 4.9%.

The year 2015 was marked by a broader offer of Health and Beauty products in the discount stores and the resulting

pressure on the main Beauty categories of the major players (hypermarkets and specialised stores). This trend was felt mainly in the second half of the year, making the market even more competitive. The main operators maintained their growth in the drugstore channel, whilst the small and medium-sized operators felt a strong squeeze on their profit margins, which in the last quarter of 2015 resulted in the insolvency of 180 stores of the Dayli chain.

Benefiting from the changes in consumers' pace of life, as well as the increasing number of Internet users, the online distribution channel remained dynamic, promoting the concept of convenience combined with time savings and easy access to low prices.

According to PMR Research, the trend covered the purchase of low-priced products, but with a commitment to quality. On the other hand, the consumer remained attentive to novelties in the cosmetics market and, despite the lack of an environment of high economic confidence, the offer of premium products at more accessible prices became more relevant.

2.2. PORTUGAL

MACROECONOMIC ENVIRONMENT

The year 2015 was marked by the continuing gradual recovery of the economic activity, at a relatively moderate pace, reflecting the need for the various public and private economic agents to make additional adjustments to their balance sheets, following the preceding international financial crisis.

The economic bulletin published in December 2015 by Banco de Portugal (the Portuguese Central Bank), predicted an economic expansion of 1.6% compared to a growth of 0.9% in 2014. The acceleration in economic activity in the first half of 2015 was noted for being more dynamic, both with regard to domestic demand and exports. As far as the labour market is concerned, there was a decrease in the unemployment rate during the same period. The second half of the year was essentially characterised by the stabilisation in economic activity together with a somewhat stagnant employment environment. On the other hand, the consumer confidence indicator remained at historically high levels (albeit negative) and relatively stable since the beginning of the year.

The moderate recovery of domestic demand (+2.4%) was supported by an increase in private consumption (+2.7%), arising from a favourable evolution of the average disposable household income in real terms and by investments (+4.8%). This evolution reflects the improvement in the level of business investments (+4.6%) and in everyday consumption of goods and services to levels close to those seen before the international financial crisis. On the other hand, despite some recovery in 2015, public investment continued to be constrained by the need for budgetary consolidation.

Exports may have accelerated, with the prospect of a 5.3% growth (+3.9% in 2014). This evolution reflects, on the one hand, additional gains in market share arising from the positive impact of the devaluation of the euro on the growth of the economic activity, and on the other hand, temporary factors linked to the export of fuel. In contrast, the growth in imports (+7.3%) partly reflects the increase in domestic demand for goods with a high imported content, such as cars, machinery and equipment and energy.

With regard to inflation, following the decrease of 0.3% in 2014, this indicator stood at 0.5%, mainly reflecting the increase in the price of non-processed food and services, as the price of energy fell, although less than that suggested by the drop in the price of oil. It should be noted that the low level of inflation had a positive effect on real disposable household income and consequently on private consumption.

In 2015, the deficit is estimated at 3.2% of GDP (+4.5% in 2014). Nevertheless, despite this reduction Portugal still seems to be facing high risks of budgetary sustainability, in the mid-term.

MODERN FOOD RETAIL

With regard to macroeconomics, 2015 was noted for the consolidation of the growth that began in 2014.

From a consumer point of view, the most recent available data indicate a growth in both durable and non-durable private consumption in 2015, in line with 2014.

According to Banco de Portugal (the Portuguese Central Bank), this positive evolution must have benefited from a favourable evolution in actual disposable household income and from continuous recovery in consumer confidence.

Despite this more favourable environment, 2015 remained tough, with consumers consolidating the behaviour they adopted in the recent past, remaining focused on shopping more rationally and taking strong advantage of the food retailers' promotions. Aspects such as proximity and price continued to be critical in the choice of shopping location.

The year continued to be noted for strong promotional dynamics, in line with 2014, but more recent indicators suggest a slight recovery in Food Retail turnover in 2015, contrary to the previous year.

The Distribution business was marked by the dynamic activity of the new Food Retail formats, mainly arising from partnerships between the major chains and small traditional grocers, whilst there was also a faster pace of openings in Modern Retail than in 2014.

WHOLESALE MARKET

In 2015, the turnover of the Cash & Carry operators registered a slight growth, resulting from the recovery of the Traditional Retail and HoReCa channel segments. The network of Cash & Carry stores remained stable.

In Traditional Retail, of note were the opening of more than 100 new Amanhecer stores and 70 new 'Meu Super' stores, reinforcing the positioning of the proximity retail chains with a high geographical expression.

2.3 COLOMBIA

MACROECONOMIC ENVIRONMENT

The prospects for economic growth in Colombia were successively revised downwards throughout 2015, conditioned by the end of the rising cycle of the price of commodities, particularly the price of oil and of some food. This drop in price strongly conditioned the

Colombian trade balance, as a result of the importance of this type of goods in the country's foreign trade. Consequently, and in order to control the country's deficit, it was necessary to make a sharp reduction in the State expenditure.

According to the country's National Administrative Statistics Department, the Colombian economy grew 3.0% in the first nine months of the year, which represented a year-on-year decline of 1.9 p.p. However, the Colombian economy continued to grow above the average for the Latin American countries, outperforming countries such as Brazil, Chile and Mexico.

With regard to the main GDP components, there was a significant slowdown in investments (+2.8% in the first nine months of 2015 compared to 12.8% in the same period in 2014). Equally of note is the Government's decline in consumption, which grew less than the average for the economy (+2.2% in the first nine months of the year compared to +7.1% in the same period in 2014).



As far as foreign trade is concerned, imports posted a growth of 2.9% and exports showed a decrease of 0.3% in the first nine months of the year.

Private consumption was the economic growth driver, with an increase of 3.7% in the first nine months of the year.

Average inflation in 2015 was 5.0% compared to 2.9% in 2014, remaining well above the objective of the Colombian Central Bank (3.0% \pm 1.0 p.p.). The main inflationary pressures were registered in food, goods and services categories, resulting from the El Niño weather phenomenon and the strong devaluation of the Colombian peso.

On the other hand, the accelerated inflation led the Central Bank to increase its reference interest rate by 125 base points during 2015 (from 4.50% to 5.75%).

Consequently, the consumer confidence index clearly fell in the first half of the year, and deteriorated further in July and August, with a slight recovery after September but in the balance for the year, it remained considerably below the previous year.

During 2015, there was a reduction in the unemployment rate, but nevertheless, not as much as initially forecast. The average unemployment rate was 8.9% in 2015, lower 0.2 p.p. than in 2014.

The Colombian peso suffered a strong decline during 2015. In average terms it devalued 14.5% against the euro.

The Colombian stock market had a negative performance in 2015, recording a fall of 22.5% compared to 2014.

MODERN FOOD RETAIL

Food retail in Colombia represents a market estimated at 61 billion dollars, with organised retail representing a market share of approximately 20%.

According to data from Nielsen, Food Retail sales increased by 2.9% in 2015. Traditional Retail grew 1.4%, well below the strong evolution of Modern Retail with a 5.1% growth. In the Supermarkets segment, the region with the highest growth was the Atlantic with an increase of 13%, followed by the Coffee Growing Region, with a 6% growth.

During 2015, there were fewer store openings in Modern Retail, with a total of 197 new stores opened in 2015 compared to 318 openings in 2014. The Discount format had the highest number of openings in organised retail, with 179 new stores, which represents 91% of the total number of stores opened, followed by the supermarkets with 18 new stores. Also of note was the fact that no hypermarkets were opened in 2015.

The rapid expansion of the Hard Discount format in new regions of Colombia brought additional dynamics to the Retail Market and increased consumers' choices.

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.