

ANNUAL REPORT 2017

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A CONSCIOUS COMMITMENT TO COOPERATE
AND PROGRESS TOGETHER. PEOPLE WHO
COLLABORATE AND JOIN EFFORTS AND
DEDICATION. PEOPLE UNITED TO DO GREAT
THINGS. TO BE MORE COMPETITIVE.
TO GO FURTHER.

THAT IS MONDRAGON. JOINT WORK TO
OVERCOME EXTRAORDINARY CHALLENGES....

HUMANITY AT WORK.

BASIC DATA

In € million

BUSINESS DEVELOPMENT

	2016	2017	Variation [%]
Total Income	12,033	11,936	-0.8
Total sales (Industry and Distribution)	11,399	11,280	-1.0
Net investments	457	451	-1.4
EBITDA	1,031	1,021	-1.0
LABORAL Kutxa Intermediate Resources	20,042	21,014	4.8
LagunAro equity fund	6,325	6,477	2.4

EMPLOYMENT

	2016	2017	Variation [%]
Average No. of jobs	80,217	80,818	0.7
% of shareholders in Industrial Area cooperative workforce	77.8	73.8	-5.1
% of female shareholders in the cooperative workforce	42.9	42.9	0.0
Rate of Industrial Area incidents or accidents	35.3	34.4	-2.6

PARTICIPATION

	2016	2017	Variation (%)
Working shareholders, share capital	1,681	1,733	3.1
Number of workers in governing bodies	810	825	1.9

SOLIDARITY

	2016	2017	Variation (%)
Funds for activities with a social content	22.6	25.1	11.1
No. of students in educational centres	10,358	11,010	6.3

ENVIRONMENTAL MANAGEMENT

	2016	2017	Variation (%)
No. of ISO 14000 certifications in force	73	73	0.0
Number of eco-design certifications	4	4	0.0

INVESTMENT IN THE FUTURE

	2016	2017	Variation (%)
% funds allocated to R&D from the added value of the Industrial Area	9.0	8.6	-4.4
No. of Technology Centres and R&D units	15	15	0.0
Total No. of researchers	1,921	1,928	0.4

CERTIFICACIONES MODEL

QUALITY

Over 90% of MONDRAGON sales with a certified quality management system.

INDUSTRIAL AREA

- 128** ISO 9001 certifications
- 33** IATF certification (automotive industry)
- 3** UNE-EN 9100 certifications (aerospace)

ENVIRONMENT:

65% sales with an environmental management system.

INDUSTRIAL AREA

- 73** ISO 14001 certifications
- 4** ISO 14006 certifications
- 2** ISO 50001 certifications

SAFETY AND HEALTH.

45% of workers with a certified occupational health and safety management system. INDUSTRIAL AREA

- 43** OHSAS 18001 certifications
- 2** Healthy Company certifications
- 1** EFR certification

BASQUE.

- 30** Bikain Basque certifications



“THE FUTURE WILL BE FULL OF CHALLENGES THAT WILL TEST OUR CAPABILITIES; WE WILL FACE THEM WITH THE CONFIDENCE THAT OUR MODEL AND VALUES ARE MORE VALID THAN EVER. THANKS TO THE CONTRIBUTION OF OUR PEOPLE, WE WILL CONTINUE TO CONTRIBUTE TO THE CREATION OF A BETTER, FAIRER SOCIETY.”

A MESSAGE FROM
THE PRESIDENT

TOWARDS A RENEWED PROJECT

2017 has been a good year for MONDRAGON. It was the first full year after the approval in the 2016 Congress of the new roadmap for the group, which revolves around the "MONDRAGON of the future" and the Social and Corporate Policy 2017/2020, which proposed the challenge to allow "businesses to develop from sustainable competitive positions". The balance of this first year is very positive. That is due to many reasons.

First, a look at the basic figures of the group indicates that the evolution of the group of cooperatives has been positive. In a favourable economic context, the efforts made in all the cooperatives have allowed the bulk of the business to evolve efficiently.

On the other hand, *as regards employment, one of the main contributions of the Cooperative Experience to society, 2017 has been a really positive year, particular in the industrial area as a whole, with the generation of over 2,600 new jobs*, 50% of which belong to the local area, while the rest are related to the employment generated in the external implementations. Two more data related to employment should be taken into account: one, in the last five years, the industrial cooperatives have generated over 7,000 new jobs; and two, the entire industrial area already employs over 37,000 people. Therefore, I would like to underline the capacity for generating employment in our cooperatives and what this figure represents in terms of contribution to the country and offering new opportunities for people who join our projects.

The financial area, in turn, despite the situation derived from the low interest rates, is also evolving very well,

maintaining outstanding solvency and delinquency ratios in the sector.

Another aspect to which I would like to draw attention is the evolution of the Distribution area and, particularly, the Eroski Group, which took this year an important step in its transformation process and managed to attain profits, which confirms the satisfaction for the confirmation of its project and why it was worth the effort made by all its partners.

Similarly, we should not neglect the permanent efforts made by our Knowledge area to adapt to the latest technological trends, training people in the new demands of companies.

In sum, MONDRAGON, that is, the group of cooperatives that make up this exciting project that began over 60 years ago, continues to contribute to the society that witnessed its creation. We are also aware that *the future will be full of challenges that will test our capabilities, but with the confidence that our model and values are more valid than ever and that, thanks to the contribution of our people, we will continue to contribute to the creation of a better, fairer society.*

IÑIGO UCIN
PRESIDENT





GENERAL COUNCIL

PRESIDENT:

Iñigo Ucin

VICE PRESIDENTS:

Txomin García. *Finance Division*

Agustín Markaide. *Distribution Division*

Iñaki Gabilondo. *ULMA Group*

Xabier Mutuberria. *Lifts Division*

Javier Oleaga. *Components Division*

Juan M^a Palencia. *CHP Automotive Division*

Pello Rodríguez. *Machine Tool Division*

Belen Kortabarria. *Financial Management Director*

Zigor Ezpeleta. *Social Management Director*

Amets Ugalde. *Secretary*

PERMANENT COMMISSION

PRESIDENT:

Javier Goienetxea. *Distribution*

VICE PRESIDENT:

Lorea Barrutia. *Components*

SECRETARY:

Amets Ugalde. *Corporate Centre*

MEMBERS:

Aitor Aspe. *CHP Automotive*

Aitor Irure. *Industrial Automation*

Aitor Lejarzegi. *Engineering and Services*

Ander Bilbao. *Tools and Systems*

César Arriola. *Machine Tools*

Gotzon Juaristi. *CM Automotive*

Iker Estensoro. *Components*

Javier Amezaga. *DISTRIBUTION*

José Antonio Alustiza. *Finance*

Juantxo Martínez. *CHP Automotive*

Julio Gallastegi. *Finance*

Lander Diaz de Gereñu. *ULMA Group*

Leire Mugerza. *DISTRIBUTION*

Mariasun Sarrionandia. *Knowledge*

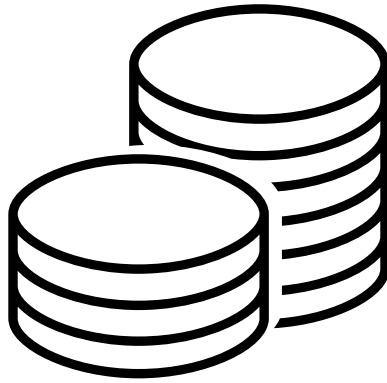
Mikel Del Rio. *Construction*

Mikel Larrea *Distribution*

Oier Lizarazu. *Lifts*

Raúl García. *ULMA Group*

Ruben Gabilondo. *Equipment*



FINANCE

FINANCE

WITHIN A CONTEXT WHERE THE FINANCIAL BUSINESS MARGINS ARE DECREASING, LABORAL KUTXA OBTAINED **121.4 MILLION IN PROFITS**, 9.1% OVER THE PREVIOUS YEAR.

LABORAL KUTXA HAS ALREADY REACHED NEARLY **370,000 ACTIVE USERS** IN ONLINE BANKING, 74% OF WHOM ACCESS THE ENTITY VIA MOBILE PHONE.

EXCELLENT PROGRESS IN 2017 OF THE INSURANCE BUSINESS, WHICH HAS SET A NEW RESULTS RECORD.

IN THE 50TH YEAR SINCE ITS FOUNDATION, LAGUNARO, ESPV TOTALLED **AN EQUITY FUND OF 6,477 MILLION EURO**.

FINANCE AREA

The main indicators of global economy have changed swiftly in 2017. Despite the good progress of the economy, the financial business continues showing a steep fall in margins caused by the low profitability of assets and the slow-down of the average cost of liabilities.

LABORAL KUTXA

In this context, LABORAL Kutxa has increased its profits by 9.1% from the previous year, reaching 121.4 million Euro.

Despite the significant decrease in profit caused by the low profitability of assets, the organisation has improved the profitability of its own resources by 7.53% (ROE).

One of the key factors for these good results has been the higher vitality of commercial activity, increasing the pace of new contracts in different business sectors without increasing operation expenses, which have decreased by 2.5%. It must also be noted that the increase in business volume has taken place alongside good risk management, which translates into a low default rate (5.09%). Moreover, the Basque credit cooperative has maintained its usual liquidity (LTD 78.1%) and a very significant level of solvency (CET1 18.14%).



Laboral Kutxa

€121.4 M

NET RESULTS

RESULTS ACCOUNT

Market interest rates remain at zero, or even negative. This atypical and persistent situation continues to reduce the profit margin, as the asset margin is kept down due to competition between entities. The banking business has evolved and entities are no longer focused only on growing and expanding their balance. The inclusion of results generated mainly due to the commercialisation of investment funds, benefit plans, insurance and means of payment has become particularly relevant for the results of the cooperative, along with the positive evolution of financial transactions.

One more year, the entity has managed to reduce its expenses. This moderation of operation costs has entailed savings of 2.5% compared to 2016. After deducting the amortisations and coverage for deterioration and lack of solvency, the consolidated gross results before taxes have reached 134.2 million Euro, which, after taxes, improves the net result of LABORAL Kutxa by 9.1%, with a value of 121.4 million Euro.

SAVINGS

The total amount of resources managed by LABORAL Kutxa at the end of 2017 reached 21,014 million Euro, a 5% increase over the twelve months of the year. This positive development has been mainly based on off-balance brokering, which increased by over 10% as a whole. This is a consequence of the progressive diversification of savings by customers, whose investment decisions have been supported by specialised counselling from the entity.

The value provided by counselling is one of the pillars of LABORAL Kutxa's commercial management, as shown by its highly demanding degree of compliance with the requirements derived from the MiFID II directive. Currently, over 1,550 professionals of the entity have the corresponding certification to inform or advise about different investment products.

LOW DEFAULT

In an environment with impediments to generate growth in credit portfolios and reduced profit margins, generating results through an increase in formalisation of assets requires strict risk management.

The performance of LABORAL Kutxa in this regard has been excellent. During 2017, the entity has managed to improve the quality of its credit portfolio, with a 13.83% reduction of doubtful assets. As a result, the relation between operations classified as dubious and outstanding balance from credit investment has continued its downward trend, reaching 5.09%, which compares very favourably against the average of 7.86% in the industry.

HIGH SOLVENCY AND HIGH LIQUIDITY

The relation between the funds owned by LABORAL Kutxa, as regulated in the current regulations and its risk-weighted assets strengthen strength the position of the credit cooperative, measured in terms of solvency, placing it ahead of its competitors. The Common Equity Tier1-CET1 phased in- capital ratio has increased to 18.14%. Additionally, the total solvency of the entity, also in its phased in version, stands out at 18.50%. In this regard, last December the Bank of Spain communicated the solvency requirements for 2018 to LABORAL Kutxa. The current levels of the entity provide a positive gap of over 10% in CET1 and 7% in total solvency.

The significant liquidity of LABORAL Kutxa to execute its business plan with full guarantees must also be highlighted. Thus, the relationship between loans and deposits, expressed by the LTD ratio (Loans to Deposits), has reached 78.1%.

INVESTMENT OF FAMILIES AND COMPANIES

Despite the increase in formalisations observed during the year, the financial deleveraging of customers continues, although it is very minor. The rate of amortisations is slightly higher than the volume of new concessions and credit investment of LABORAL Kutxa stood at 13,312 million Euro on 31 December, barely 1% lower than the balance recorded in December 2016. The change of trend is evident and the formalisation of new loans has significantly increased during the year, both for families and businesses.

Hybrid model for an omni-channel business. LABORAL Kutxa faces the challenge of tackling a very significant transformation to respond to new demands in a much more competitive environment, where technology not only defines the relationship with the customer, but transforms the business model itself. The response of the organisation is "the omni-channel approach through a hybrid model that adapts the physical office and the roles of people to a multi-channel strategy". In 2017, there were 369,434 active users of the Online Banking service of LABORAL Kutxa, 74% of whom accessed the organisation through a mobile phone. LagunAro Insurance

The insurance business in 2017 brought in ordinary global pre-tax results of €37.5 million, which accounts for an increase of 17.8% over the previous year. The increase in the total premiums managed by the organisation (+14.4%) is due to the increase in sales in the home, life, risk and savings branches. LABORAL Kutxa also focuses on service quality in the insurance business. According to the results from the last satisfaction study conducted in 11,000 customers after closing their automotive, home and commerce accidents, satisfaction with management is higher than 8 (out of 10). Thus, 63.4% of customers value the service received as excellent (with 9 and 10 scores), and 25.8% deemed the service satisfactory (7 and 8 out of 10).

LagunAro, EPSV

50th Anniversary. The history of LagunAro, EPSV (LagunAro) started many years ago. In fact, 2017 was the 50th anniversary of its transformation to the current model in 1967. The idea or embryo of

NUMBER OF
CUSTOMERS



1,170,178

SEGUROS LAGUN-ARO

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LAGUNARO, EPSV

50th Anniversary. The history of LagunAro, EPSV (LagunAro) started many years ago. In fact, 2017 was the 50th anniversary of its transformation to the current model in 1967. The idea or embryo of LagunAro was born in 1959 when, thanks to the vision of Mr. José María Arizmendiarieta, what appeared to be a social tragedy, consisting in the exclusion of cooperative partners from Social Security, became an opportunity to create an Organisation based on cooperative values and principles.

Since its conception, LagunAro has always had two goals that are the pillars of its existence. First, its role as a supporting and protective element for social welfare needs of cooperative partners (illness, unemployment, retirement, etc.) is essential. Second, effective, responsible and professional economic-financial management of results is necessary to provide adequate social protection to its members.

This economic-financial perspective is particularly important regarding long-term retirement plans, funded through the capitalisation system, as correct management of resources is key to obtaining financial-asset balance. Today, LagunAro plays a very important role in our environment due to the number of people covered by the Entity and the Assets Fund it maintains for retirement plans (6,477 million Euro), requiring very strict management requirements.

Most of the beneficiaries covered by LagunAro are partners of the cooperatives that make up MONDRAGON. LagunAro focuses on the social welfare of this group and their family beneficiaries, with a similar scope to that of the Public Social Security System.

In general terms, LagunAro management during 2017 can be considered positive.

The year 2017 ended with a total of 27,986 active members, distributed among 127 Cooperatives, for a net increase of 162 compared to the end of 2016.



It should be noted that after eight consecutive years of gradual decrease in members, there was an increase in 2017, thanks in part to new recruits in certain major cooperatives.

The group of Pensioners and Beneficiaries, in their different modalities (Retirement, Widowhood, and Permanent Incapacity), amounted to 13,506, with a net increase of 456 people in the year.

Regarding investment management, which is essential to guarantee payment of retirement plans, it must be noted that in 2017 the macroeconomic context was generally favourable, which has improved the behaviour of risk assets and has reached a profitability of 3.69% during the year.

The **Security or Solvency Margin**, which measures the level of uncommitted assets available to absorb deviations from Technical Provisions, reached 15.2% (14.3% in 2016) of Technical Provisions at risk at the end of 2017.

On the other hand, **distribution benefits**, accessed by active members and their beneficiaries paid in 2017 was 71 million Euro, a decrease of 2.2% from the previous year.

In recent few years, the **Employment Aid** benefit has entailed a significant amount of expense and has been the benefit with the highest expense for several years. Nevertheless, in 2017, although the level of expenditure of this provision is still high (23.15 million euro), it has decreased considerably compared to the previous year (-9.80%).

As regards **Temporary Disability**, the expenditure amounted to 31.96 million Euro, an increase of 4.16% over the previous year. Despite all the effort, the rate

of absenteeism in 2017 stood at 4.96%, which represented a 1.1% increase of the rate in the previous year (4.91%).

The cost of providing mutual insurance **Healthcare**, in its various forms, amounted to 11.62 million Euro for the year, a reduction of 1.6% compared to the previous year.

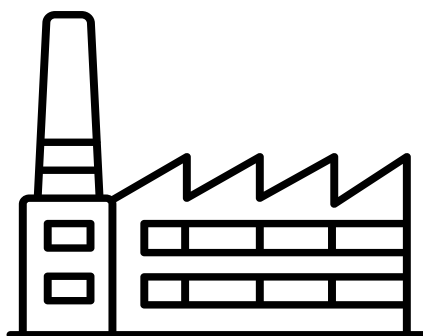
Expenditure for **Family Benefits** (Maternity, Paternity, Risk during pregnancy, Risk during breastfeeding and Care of children affected by cancer or other serious illness) decreased slightly (-5.50%) as a whole, although there are differences between benefits. Therefore, for instance the expenditure on Maternity benefits decreased from the previous year by -21.47% while Paternity benefits increased significantly (69.00%), due to extended duration (14 to 28 days), starting on 1 January 2017.

EQUITY FUND

€6,477 M

ACTIVE POLICYHOLDERS

27,986



INDUSTRY

INDUSTRY

RECORD SALES: THE INDUSTRIAL AREA OF MONDRAGON ACHIEVED TOTAL SALES OF €5,547 M IN 2017, AN 8.1% INCREASE OVER THE PREVIOUS YEAR. INTERNATIONAL SALES INCREASED TO €3,854 M, 69% OF ALL THE SALES.

SALES**€5,547 M**

TOTAL SALES

JOB CREATION: ANOTHER NOTABLE FIGURE WAS THE GENERATION OF 2,691 NEW JOBS, BRINGING THE TOTAL WORKFORCE TO 37,020 PEOPLE.

EMPLOYMENT**2,691**

NEW JOBS

INVESTMENT INVESTMENTS TO START UP NEW PRODUCTION PLANTS AND IMPROVE PROCESS EFFICIENCY TOTALLED 334 MILLION.

THE AGGREGATE R&D EXPENDITURE AMOUNTED TO 169 MILLION EURO, WITH NEW PRODUCT SALES ACCOUNTING FOR 9% OF THE INDUSTRIAL AREA SALES.

INVESTMENT**€334 M**NEW PRODUCTION PLANTS
EFFICIENCY IMPROVEMENT

INDUSTRIAL AREA

Global economic growth in 2017 was 3.8%, that is, 0.6% higher than the previous year. The year 2017 was characterised by the recovery of both developed and developing economies, although dissimilar.

DEVELOPED ECONOMIES

*For developed economies, the growth was 2.3%
0.6% over the previous year.*

UNITED STATES

The U.S. economy grew 2.3%, an increase of 0.7% over 2016, despite the difficulties in carrying out economic reforms due to the political setting.



+ 2.3%

EUROPE

There was an increase of 2.3% in the Eurozone, the highest growth registered in the last ten years.



+ 2.3%

SPAIN

As for Spain, it surpassed the initial expectations and grew by 3.1% (slightly less than the previous year).



+ 3.1%

DEVELOPING ECONOMIES

As for developing economies, the growth rate was 4.8%, 0.4% over the previous year.

CHINA

China also surpassed expectations, not showing any weakness (6.9%).



+ 6.9%

INDIA

India registered a 6.7% increase (0.4% less than the previous year).



+ 6.7%

RUSSIA

The Russian economy grew once more, benefited by the increase in oil prices (1.5%).



+ 1.5%

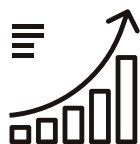
BRAZIL

Brazil also abandoned its negative trend, growing by 1.0%, thanks to the recovery of raw material prices.



+ 1.0%

WITHIN THIS GLOBAL CONTEXT, TOTAL SALES FOR THE INDUSTRIAL AREA OF MONDRAGON REACHED 5,547 MILLION EURO, AND INCREASE OF 8.1% OVER THE PREVIOUS YEAR.



€5,547 M
TOTAL SALES

The positive behaviour of the national economy is still reflected in national sales, which have increased by 8.6% over the previous year, reaching 1,693 million Euro.

Regarding international sales

it must be noted that they reflect the strategic commitment of the Corporation's industrial companies to international expansion. Significant investments in foreign subsidiary production companies in recent years have started yielding results, reaching €3,854 M in international sales, a 7.9% increase over 2016 and representing 69% of total sales.

Regarding **profitability**, the net result of the previous year was €233 M, 9% less than the year before, mainly due to the increase in raw material prices, the appreciation of the Euro and the opening of new factories in other countries.

Regarding **employment**, the industrial area has once more confirmed its capacity to create jobs in 2017, when the total average of the Industrial Divisions reached 37,020 jobs, of which 13,525 correspond to production locations of the cooperatives in other countries. All of this has entailed generating 2,691 jobs, 1,338 corresponding to the local environment and the rest, 1,353, to employment generated in foreign locations.

Industrial **investments** made in 2017, aimed mainly at the start-up of new production plants and improving the process efficiency to gain competitiveness, totalled 334 million Euro, exceeding by 2.2% those made in the previous year.

Another notable aspect is related to the commitment to **innovation** of the industrial companies of MONDRAGON. The Corporation has 1,928 people dedicated exclusively to R&D in all fifteen centres specialising in various technologies, as well as Mondragon University and the industrial cooperatives. It must be noted that the R&D expenditure has increased to 169 million Euro, with

new product sales of 522 million (9.4% of the total sales of the area).

On the subject of training, 9 million Euro have been allocated over the past year for this purpose, divided into various technical and social-business programmes. It is worth noting the Cooperative Training received by 1,409 people, and the Leadership and Teamwork Training received by 188 managers.

In **occupational health and safety**, reducing the accident rate remains a fundamental objective; the accident rate indicator now stands at 27.15 accidents per 1,000 workers, slightly lower than the previous year. The incident rate in industrial division companies also decreased to 34.38 in 2017, significantly lower than the figure from the industrial businesses of the CAPV (65.29). In this field, it is also worth mentioning that 43 industrial cooperatives hold the certificate for Occupational Hazard Prevention Systems in accordance with the OSHAS benchmark.

Lastly, it should be noted that in relation to the **social responsibility** of the cooperatives and the concern for the correct conservation of our environment, there are already 73 cooperatives which are ISO-14000 certified for environmental quality. In addition, several cooperatives are already certified in standards related to social responsibility, such as SR10 or SA8000.



DISTRIBUTION

DISTRIBUTION

THE DISTRIBUTION AREA ENDED 2017 WITH A POSITIVE RESULT OF 39.6 MILLION EURO AND A TOTAL WORKFORCE OF 40,368 PEOPLE.

THE FINAL RESULT OF GRUPO EROSKI WAS 33.2 MILLION EURO, CONSOLIDATING ITS TRANSFORMATION WITH AN INCREASE IN BENEFITS.

POSITIVE EVOLUTION OF THE ERKOP GROPU;
ALL ITS COOPERATIVES HAVE ACHIEVED POSITIVE RESULTS IN 2017.

1,651

COMMERCIAL ESTABLISHMENTS



DISTRIBUTION AREA

This area consists of the Eroski Group, the core business of which is retail, with the main company being Eroski, S. Coop. and with Erkop, a second-degree cooperative integrated with five cooperatives in the food industry, together with their investee companies.



EROSKI GROUP

During 2017, the good evolution of the main economic variables has favoured increased consumption, while growth in the food industry was slightly lower at constant conditions.

To compensate the apathy of the market, the chosen approach is to develop programmes to improve relationships with customers; in 2017, two important milestones were the release of the EROSKI Club ORO credit card and the EROSKI MASTERCARD payment card.

RENEWAL OF THE NETWORK

In 2017, transformation of the stores continued through an extension of the Superstore and Supermarket models tested in previous years. In 2017, 64 stores adopted the new model, with remarkable results in improvement of activities and commercial appeal. In this sense, the transformation performed within the Balearic islands must be highlighted, as its results have been highly satisfactory. Moreover, Caprabo stores have started their transformation too, with positive results.

HEALTHCARE AND WELLNESS

The health and wellness of the consumers have become the main focus of EROSKI's new strategic plan. Therefore, during the last year, along with focusing on its proposal of healthier products, it has bolstered its participation in the various modules of the Healthy Food and Habits Education Plan (PEAHS). This initiative, launched in 2013, aims to offer specific contents on balanced nutrition and active leisure in the school curriculum of primary school students who choose to join the initiative. The plan witnessed its target audience (the field of education) continue to welcome it with extraordinary receptivity, exceeding the already excellent figures of the previous school year. In this school year 2017-2018, more than 413,000 students and around 2,800 schools were enrolled, 20% of all primary schools in Spain.

SOLIDARITY AND SOCIAL ACTION

Throughout 2017, the Eroski Group also continued its social involvement work from the perspective of the Social Responsibility of the Company, which is divided among several concepts.

The initiative has continued to promote solidarity with social projects of different entities through the sale of the Solidarity Bag, a reusable shopping bag that is sold at a symbolic price (one euro) the profit from which is fully channelled to various projects. So far, the Red Cross, Action Against Hunger, Oxfam-Intermón, Unicef

and Food Bank projects have been strengthened thanks to the solidarity sponsored by Eroski. Bag sales have totalled over 900,000 units since its launch.

Regarding solidarity, it has continued its support for the Despilfarro Cero (Zero Squandering) Project, a sustainable and fair development project that guarantees that all products suitable for human consumption that are not sold due to commercial reasons (dent in the package, the freshness commitment, etc.) are delivered for free and safely to people in need and at risk of social exclusion. This programme has been extended to the entire sales network. During the fiscal year, the programme resulted in the charitable delivery of roughly €5 million in products to several dozen social institutions.

SALES

Grupo EROSKI sales totalled 5,505 million Euro, 9% less than the previous year due to the decrease in its perimeter. Activity at constant surface has performed well at nearly 2016 figures (99.8%), thanks to the improvement in average purchases.

PROFITABILITY

Grupo EROSKI closed the year with an operating profit of 137.4 million Euro, a 0.3% improvement over the results of the previous year. This result was achieved after meeting all the commitments acquired with banks, which increased the total amount of amortised debt during the last three years to 646 million Euro. The final result of its distribution activity totalled 33.2 million Euro, an improvement of 56 million Euro over the results of the previous year, consolidating its transformation with an increase in profit.



All Erkop cooperatives have obtained positive results before the restructuring of results in 2017, with acceptable cash-flow levels. Its sales were 228.4 million Euro and its workforce now totals 8,462 people.

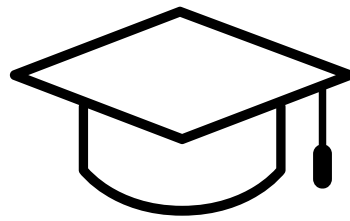
Ausolan must also be mentioned, as its sales and results have surpassed both expectations and the results of the previous year. This year has been important due to:

- The launch of the catering activity for events (**Sharma**).
- The purchase of one of the major Spanish Event Planning companies (**Staff Eventos**).
- The purchase of one of the major companies from Madrid for group dedicated to group catering (**Cocinas Centrales**), with a turnover of 12 million Euro, over 14,000 menus served daily and 759 workers.
- The creation of a catering company in Iparralde (**Bertakoa**), to access the market in the south west of France.
- The transformation of the Navarran subsidiary company (**Jangarria**) into a cooperative, which has increased the number of partners by 20%

Additionally, **Barrenetxe** has continued diversification with new local products. And **Behi Alde** has continued boosting fodder production to decrease the dependence on purchased fodder.

At **Miba**, the conversion of Uneke has been performed successfully, switching from rabbit production to bird production for genetic purposes





KNOWLEDGE

KNOWLEDGE

NEW BOOST TO INNOVATION TO IMPROVE THE COMPETITIVENESS AND TRANSFORMATION OF THE BUSINESS FABRIC. FIVE PRIORITY VECTORS: ADVANCED MANUFACTURING, SMART CITIES, BIG DATA, AND RAW MATERIALS.

THE YEAR 2017 SAW THE OFFICIAL RELEASE OF SMART, THE NEW EUREKA CLUSTER FOR ADVANCED MANUFACTURE, MANAGED BY MONDRAGON AND AFM, WITH THE PRIMARY GOAL OF PROMOTING COLLABORATIVE, INTERNATIONAL R&D PROJECTS CLOSELY RELATED TO THE MARKET.

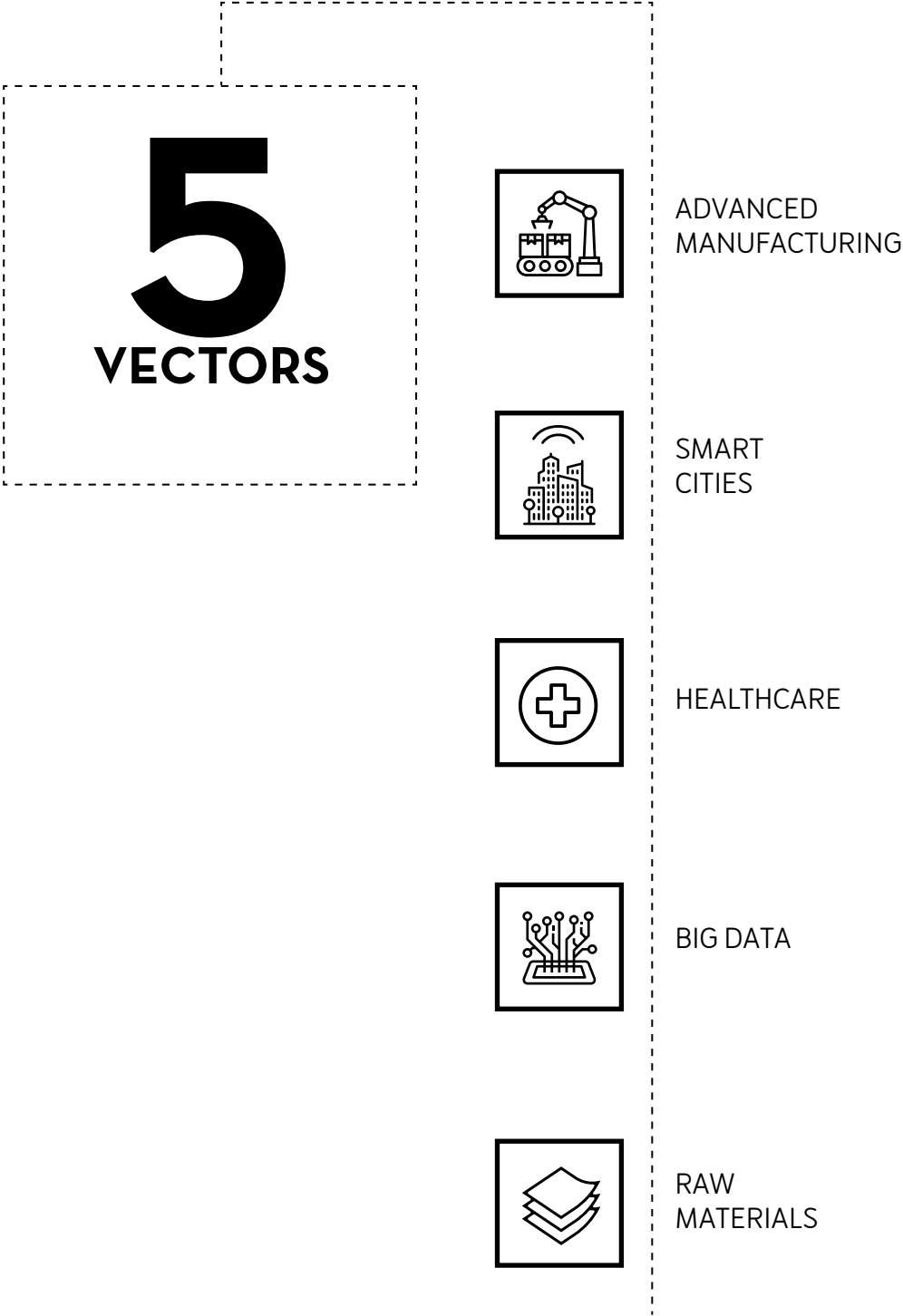
THE COOPERATIVES INTEGRATED IN THE CORPORATION HAVE 489 PATENT LINES IN FORCE, WITH 522 MILLION INVOICED LAST YEAR IN NEW PRODUCTS AND SERVICES.

THE MONDRAGON EDUCATIONAL CENTRES RECEIVE **MORE THAN 8,000 STUDENTS.**

KNOWLEDGE AREA

INNOVATION, PROMOTION AND KNOWLEDGE

Active development of innovation, both technological and otherwise, has continued to increase competitiveness and transformation of the business fabric of the MONDRAGON Corporation. The priority areas have been: Advanced manufacturing, smart cities, Big Data, and raw materials.



INDUSTRY 4.0 OBSERVATORY

The corporate observatory on the digital transformation of business has been applied in 12 cooperatives. The process, carried out by 5 experts, is comprised of

4 STAGES:

- 1/ Visiting and interviewing the company to analyse the degree of implementation of 4.0 technology.
- 2/ Diagnosis and detection of areas for improvement.
- 3/ Round table with the companies.
- 4/ Definition and development of high-priority projects.

Very positive results have been achieved regarding the start-up of strategic projects and collaboration with key partners.

OPEN INNOVATION AROUND ADVANCED MANUFACTURING

The new Eureka cluster **for advanced manufacturing known as SMART has been officially released**. This cluster is lead by Corporación MONDRAGON with support from the Spanish Association of Machine Tool Manufacturers AFM. This initiative aims to promote R&D projects that are collaborative, international and near the market. Its implementation has counted on support from the CDTI, the Regional Government of Gipuzkoa and the SPRI. The first tender took place in December. Lastly, MONDRAGON continues to **lead the Spanish**

Technological Platform for Advanced Manufacturing MANU-KET whose mission is to respond to the technological needs generated by future products and services, in which the incorporation of advanced materials, micro-electronics, photonics and nano-technologies require new process, equipment and manufacturing system developments.

COMMITMENT TO STANDARDISATION

Standardisation is a key element for the differentiation and competitiveness of companies. MONDRAGON participates in the **International Standardisation Strategic Group IEC SEG7 Smart Manufacturing**, and the work groups IEC-TC 65/JWG 21 Smart Manufacturing Reference Model(s) and ISA/IEC-62443 Industrial Cybersecurity, among others. Moreover, it coordinates

the Spanish Standardisation Work Group 4.0 along with UNE, created as part of the Connected Industry Initiative 4.0 framework of the Ministry of Economy, Industry and Competitiveness. Lastly, it has an active role in the **UNE Standardisation Technical Committee on Smart Cities (CTN 178)**.

INTERNATIONALISATION OF R&D

MONDRAGON has continued to promote the internationalisation of R&D through its Corporate Office in Brussels and active participation in strategic international forums.

Moreover, support for and participation in European collaborative projects has continued, **with over 100**

proposals presented to the various European programs (ECSEL, KIC Raw Materials, H2020, etc.). Right now, MONDRAGON Corporation has **more than 50 projects underway** approved and funded by the European Commission.

THE FIGURES OF KNOWLEDGE

BUSINESS

169
M€

Total expenditure
in R&D.

2.8
%

% total R&D
expenses over
total sales

8.6
%

% total R&D
expenses over
added value

489

Total families of
patents in force
at year-end

522
M€

Sales in
products/
new services
(non-existent 5
years ago)

RESEARCH AND TECHNOLOGY

3

Technological
centres

12

R&D units

1,928

Full-time resear-
chers

HIGHER EDUCATION

4

Mondragon Uni-
versity Schools

15

Degrees

14

Master's
degrees

4,639

Students
enrolled

430

Research projects
and transfer
activities

TECHNOLOGY CENTRES AND R&D UNITS

15 R&D CEN- TRES

The R&D corporate offer, mainly expressed in its 15 technology centres and R&D units, has a budget of over 70 million Euros and over 1,000 employees.

CIKATEK is an R&D business unit specialising in research, development and innovation of materials, technologies and polymer products (rubber, thermoplastics and TPEs) for anti-vibration, sealing and fluid conduction purposes.

CS CENTRO STIRLING is the R&D unit of the Components Division, specialising in the design, simulation, manufacture and testing of various components and systems for the generation and efficient use of energy in the home environment.

EDERTEK is a technology centre aimed at sharing resources and solutions with its end customers of products, processes and materials for the automotive industry, seeking opportunities to constantly improve their products

ETIC is an innovation centre specialising in ITC technologies in the fields of Smart Cities and Industry 4.0.

FAGOR AOTEK, devoted to Automation and Optics, has the goal of reaching excellence in integrated technologies in the products developed and manufactured by Fagor Automation: digital controls, regulators, engines and display and position systems.

IK4-IDEKO is a technology centre specialising in manufacturing technologies and industrial production.

IK4-IKERLAN is a research centre specialised in electronic, information and communication technology, power energy and electronics and advanced manufacturing.

IK4-LORTEK is a technology centre specialised in "Advanced Manufacturing" techniques, in particular Materials and Processes applied to Joining Technologies, Additive Manufacturing of Metals and Industry 4.0 Technology.

ISEA is a Technology and Entrepreneurship Development Centre specialising in the Business Services Sector and promoted by the Engineering and Business Services Division of MONDRAGON Corporation.

KONIKER is an enterprise R&D unit dedicated to research, development and innovation in the field of forming and assembly.

LEARTIKER is a technology centre specialising in Polymer Technology and Food Technology.

MTC is a centre specialising in the research and development of thermoplastic parts and assemblies, as well as the development and new products associated with the functions they perform, for the automotive sector.

MIK (Mondragon Innovation & Knowledge) is a Centre for Research in Advanced Management and Entrepreneurship. Its objective is to generate applied knowledge in the field of innovation in management, emphasising its dedication to transference in subjects such as talent management, entrepreneurship, and market development.

ORONA EIC (Elevation Innovation Center). It creates advanced solutions for the lift industry and its main goal is the research and development of smart and safe transportation system, with greater energy and social efficiency and better integration in buildings.

UPTC is a centre specialising in research projects and development of technologies for the packaging sector.

MONDRAGON PROMOTION CENTRE

This platform is aimed at promoting entrepreneurship and generating new business activities. Led by a group of developers that manages the start-up of new business projects and provides support to the cooperatives. Moreover, it compares technology and market, conducts prospective studies, creates the value proposal model and adds funding and company structure proposals, always focused on combining the existing capabilities and supporting inter-cooperation among cooperatives and with third parties.

Its vision is channelled towards areas of industrial and strategic interest.

In 2017, it has carried out activities focused on teams and their dynamics (structuring of the Promotion Model, information flows, participation in events, etc.); external lines of action (presentation of the Promotion Model in 40 cooperatives and 65 ecosystems and forums) and projects (submission of 20 projects to the Promotion Committee).

GARAIA INNOVATION PARK

In its tenth anniversary, GARAIA has reinvented its image and identity. The new GARAIA Technology Park deals with the territory, companies installed and associated with the territory and global connections. This new image is the symbol of a new era, focused on a strong corporate identity through which GARAIA wants to solidify its presence as one of the four Technology Parks in the Basque Country, consolidating its potential and leading position in activities related to knowledge, innovation, entrepreneurship and development.

GARAIA is still **a knowledge and innovation community**, a meeting point between several companies, technology centres, universities and other agents, in an optimal and different space to generate and exchange knowledge and transform it into new products and/or businesses, with the ultimate purpose of creating wealth and qualified employment. It pursues specialisation, building on the areas of knowledge that are mastered today (mechatronics, power electronics, processes, manufacturing, and embedded systems) and evolving into new applications (energy efficiency, electricity

storage, health, environment, mobility, etc.). Among its main activities, it acts as an observatory in the identification and definition of projects, in the search for partners and allies, managing infrastructures and offering support services for innovation, channelling entrepreneurial projects and offering differential spaces to potential technology-based companies interested in locating in GARAIA.

In 2017 it already had 40 technology companies with a combined turnover of 167.82 million Euro and 1,357 employees, of which 616 work on R&D. On the other hand, 333 events were held in 2017 with the participation of 10,000 people in the different types of events (Technology Breakfasts, Garaia Digital Company, Training pills, Business events, Open Doors Day, etc.) using the different spaces and infrastructures provided by GARAIA.

SAIOLAN

This centre specialises in the “promotion and development of business activities”, a member of the Basque Science, Technology and Innovation Network (RVCTI), whose head office is located in Arrasate, Mondragon, at the GARAI Technology Park.

In addition, SAIOLAN is one of the head offices of BIC Gipuzkoa and acts as a facilitator in the process of creating new innovative companies, as well as an active agent in the process of supporting and promoting the entrepreneurial culture in Gipuzkoa.

Since its foundation in 1985, the challenge addressed by Saiolan is that of contributing to the development of new business activities, profitable and sustainable over time, in order to create jobs with a high added value.

As for the most notable aspects of its management in 2017, we must mention the actions to **raise awareness and train entrepreneurs** (12 courses were given to 309 participants). Also, 7 market research studies, 10 technological development projects and 31 feasibility studies were conducted (of which 18 were new projects funded by the Ekintzaile-Txekintek Programme).

Regarding **new activities**, 10 new companies were created and 6 diversification projects started.

Similarly, in 2017, it remained as the industrial arm of the Development Agency of Debagoiena, promoting the creation of spaces for collaboration between industrial companies and favouring their diversification with the dual objective of working towards the transformation of the region and the improvement of its competitive position.

On the other hand, it has supported the creation and revitalisation of the "Aurrera Debagoiena" initiative, which has consolidated itself as a managing body for initiatives related to youth, entrepreneurship, and industry.

Another element of their commitment to the promotion of new businesses is the use of its “**international antenna**” tool, aimed at transferring already consolidated business from foreign countries to our business environment.

Lastly, it must be highlighted that 10 companies and 27 entrepreneurs became part of the Saiolan centre in 2017.

POLITEKNIKA IKASTEGIA TXORIERRI

During the 2016-2017 academic year, 424 Professional Training students and 363 Employment Training students, including both active workers and unemployed people, attended Politeknika Ikastegia Txorierri. Along with the collaboration of the Department of Education of the Basque Government and the Basque Employment Service (Lanbide), 363 people have attended 29 courses, with a total of 3,982 hours of training in different courses (Design and Manufacture of dies, Adjuster-Die Operator, etc.) for several companies such as Gestamp, Matrici, Batz, among others.

As for **international activities**, we must mention the participation of 16 students in the Erasmus+ (Mobility) European programme, who received practical training for 10 weeks in companies in the Netherlands, Italy, the UK, Ireland, the Czech Republic and Denmark.

Another highlight is its involvement in the GLOBAL TRAINING Scholarship Programme, sponsored by the Department of Economic Development and Competitiveness of the Basque Government, managing 44 scholarships aimed at young people who have completed their higher education studies.

The **Innovation** and **Technological Development** was carried out in collaboration with the Basque Institute for Professional Training (Tknika).

In the area for encouraging self-employment, and as promoting partners, it continued its collaboration with the WORK-LAN Bizkaia Association, the purpose of which is based on the promotion of social economy enterprises. Additionally, four business projects were started on the initiative of Txorierriin to promote Entrepreneur Culture, and the company participated in the Urrats-bat network of centres and the Ikasapresa Project (Basque Government).

Lastly, the Advanced Manufacturing Node promoted by the Vice-council of FP, with the participation of Txorierri Politeknika, has generated 3 of the 5 Innovation Projects that will be developed next year, all of them aimed at strategies derived from the "Basque Industry 4.0" plan, lead by the Vice-council of Technology and Innovation of the Basque Government.

ARIZMENDI IKASTOLA

In compliance with the forecasts from 2013 regarding the 2013-2021, known as IPARRA: ARIZMENDI 2020 set up a strategy for all high schools (ikastola) aimed at starting a new cooperative education model; the General Assembly of 8 February 2017 analysed the management of four years (2013-2017) and laid out an action plan for the four following years (2017-2021).

Regarding the 2013-2017 period, it was confirmed that the necessary fundamentals and resources to implement the educational transformation proposed in IPARRA: ARIZMENDI 2020 have been established. Specifically:

- The identity of Arizmendi **has been decided** and expressed in several platforms.
- The purpose of Arizmendi **has been linked** to the profile of the students.
- The educational framework **has been created** and communicated: Trust-based Education.
- **A name has been given** to each stage: Erdu, Gura, Izen and Pro.
- Actions regarding education, advise and mentorship actions **have been extended** to the entire ikastola.
- The common point between formal and non-formal education **has been established**.
- The architectural transformation of the spaces for Pre-school Education **has been completed** and the one for Primary Education and High School has been started.
- A guide aimed at covering the curriculum map **has been created**.
- An advanced level **has been achieved** in technological maturity and academic results.
- Research **has been started** on the new HEZIBOOK cooperative education model .
- A new occupational framework of cooperative professionals **has been approved**.
- The education programme **has been infused** with social interaction and inter-cooperation.
- The regional, territorial, national and international visibility of Arizmendi **has increased**.

Regarding the action plan approved for the 2017-2021 period, the goal is to achieve implementation of the educational transformation programme IPARRA: ARIZMENDI 2020 in all its stages, summarised in the following indicators:

- **Improved** self-management, respectful communication and Basque proficiency.
- **Reaching** all the stages of complete education Projects (PBL).
- **Training** all members of Arizmendi in PBL and self-management.
- **Interaction** and inter-cooperation associated with social transformation.
- **Implementation** of the approved occupational approach.
- **A new operational structure** aimed at achieving the goals of the 2017-2021 period.

Moreover, the General Assembly studied the economic framework resulting from the previous four years in which Arizmendi consolidated its trajectory and from which it will start an annual investment and exploitation plan adjusted to IPARRA: ARIZMENDI 2020.

LEA ARTIBAI IKASTETXEA

During the 2016-2017 period, Lea Artibai Ikastetxea had 20 groups in high school and vocational training. Fifteen of the Vocational Training students chose the dual mode and 95% of them were employed at the end of their studies. In the training area, the main challenge was training the teachers in collaborative methodologies and practical application of knowledge based on challenges through several training cycles.

Additionally, Lea Artibai Ikastetxea took part in three educational innovation projects in Plastic Injection and 3D Printing with Politeknika Ikastegia Txorierrri and Mondragon Goi Eskola Politeknikoa; as well as in mechanical design, through a tool design project in collaboration with Politeknika Ikastegia Txorierrri.

As regards "Training for Employment", 14,300 hours of training were conducted, of which nearly 2,600 were low demand courses. Regarding "Training for unemployed people", 21 courses on various specialities were conducted, which included 249 company internships and resulted in the employment of 99 people hired at the end, along with 143 more people through the guidance department, managed as a collaborating centre of Lanbide. All these activities are part of the strategic

challenge of reaching 80% qualitative employment (in relation to the training received) in 2020; that value is currently 75%.

Moreover, Lea Artibai Ikastetxea continues its collaboration with the Chilean government in the programme known as Technicians for Chile, aimed at Chilean professionals. This course contained four specialised areas for a total of 49 Chilean beneficiaries: "Supply chain management", "Lean manufacturing", "Science and biotechnology of food" and "Electricity technician". On the other hand, the second edition of the TEP project (Technology Entrepreneurship Program) has been completed in conjunction with Leartiker S. Coop., aimed at training engineers in polymer technology and entrepreneurship. At the same time, the "Lehen Job La" programme, co-funded by the European Social Fund, aimed at improving the employability of youth aged 16 to 29 has continued.



MONDRAGON UNIVERSITY

The year 2016-2017 has been characterised by the start of the goals and actions set forth in the 2017/202 Strategy Plan, approved at the end of the 2015/2016 period.

In the **official training field**, Mondragon University has offered 15 degrees along with the double degree in Computer Engineering and Telecommunication Engineering.

In post-graduate education, 14 Master's degrees were offered, one of them a new Master's Degree in Gastronomic Science; the University also started 3 doctorate programmes with 155 students.

In total, 4,639 students enrolled in the aforementioned official studies, 3,396 of them in bachelor's degrees and 753 in post-graduate programmes. Moreover, 316 students were enrolled in post-graduate programmes established by the University.

During the previous academic year, 1,020 students presented their final projects and 1,557 worked as interns in companies and centres.

At the international **level**, more and more students are going abroad. Last year, they were 776 – a 12% increase over the previous year. On the other hand, 382 foreign students came to Mondragon University.

In the 2016-2016 academic year, Mondragon University trained 8.000 professionals with its offer of graduate courses, proprietary degrees, and other continuing education courses. Moreover, a new Master's Degree was offered, in Business Innovation and Project Management.

The effort made in the field **of research and transfer** also yielded results. This can be seen in the results obtained in the U-Multirank Ranking, which deemed Mondragon University excellent in several parameters in 2017. Moreover, the Ranking by CyD classifies Mondragon University as one of the top 15 Universities of the State, fourth in Knowledge Transfer and seventh in Teaching and Learning.

Research projects and transfer activities carried out in the 2016-2017 academic year totalled 430. In addition, 78 articles were published in domestic and international specialised publications, while 136 presentations and 54 seminars and conferences were organised on various fields of knowledge.

In the Higher Polytechnic Institute, the total income from IT activities has increased by 7%. Research projects are started within the framework of these programmes, resulting in innovative products, processes and services. Training of young talent that ends up belonging to the company is also a part of these collaborative research programmes. Moreover, the income from European projects has increased by 21%. These types of projects, pertaining to fields such as Transport, Advanced Manufacturing and Industry 4.0, key aspects in the Smart Specialisation Strategy of Euskadi, RIS3, will allow the University to continue generating knowledge in scientific and technological areas aligned with the needs of the company.

In the **education field**, there is still work being done in projects related to innovative learning methodologies, cooperative educational models, etc. Projects associated with cooperativism have also been started, such as the "Kooperatiba Fabrika" project, and others in the audiovisual field. In the field of business management, the concession of the European project AS FABRIK has been particularly important, in close cooperation with the City Hall of Bilbao.

Another important project was the launch of Compyte, an initiative with the collaboration of Laboral Kutxa which has served to develop a quantitative and digital instrument to measure the competitiveness of a company.

Important initiatives have also been developed with MONDRAGON Corporation to promote the development of comprehensive projects regarding international expansion and Talent Management.

The BCC INNOVATION Technology Center has also de-

veloped a series of projects related to healthy habits, sensory experiences, design and technology in the food and catering industry.

Moreover, it has launched the BCulinary Lab, aimed at identifying and generating knowledge in the food industry.

Additionally, the University has continued its Mendeberry 2020 educational innovation process by designing and developing the framework of the educational model envisioned for the future. Along with that, the dual training model has received considerable effort, taking the University's 50-plus years of experience as the point of departure and analysing advanced dual experiences and models of countries such as Germany and France.

Regarding the **entrepreneurship area** and specifically within the context of LEINN, aside from the companies created by first-year students as part of their teaching-learning process, 6 more companies have been created in the 2016-2017 period by alumni from past years.

Moreover, the Business Management school keeps expanding its entrepreneurship laboratories in both Spain and other countries. Currently, it has 9 laboratories, three in the Basque Country -Irun, Oñati and Bilbao-, and the rest in Madrid, Barcelona, Valencia, Pune, Shanghai and Mexico. In the 2016-2017 academic year, the LEINN Degree was also implemented in Shanghai. This extensive network of laboratories allowed 625

students to participate in the LEINN degree in the 2016-2017 period.

As for the area of **digital transformation**, there has been an important boost to the digital ecosystem project, aimed at providing the University community with an application to access several digital services. The application, known as KoNet, was released this year for all students and we will keep expanding, both in users and services.

Lastly, the projects to highlight in the field of social responsibility are the European project PLOTINA, aimed at boosting equality in education, research and innovation in higher education, and the "Education for peace and coexistence in the Basque Universities" project, developed in collaboration with the Basque Government, Deusto and UPV.

OTALORA

Throughout 2017, Otalora, MONDRAGON's management and cooperative development centre, continued the activities implemented in previous years.

In the field of **Cooperative Education**, Governing Council programmes were given to 16 groups, Social Council programmes to 9 groups, and partner programmes to 68 groups.

In the area of **Executive Learning**, a total of 13 groups developed the "Conversational and Teamwork Competences" programme, 3 groups carried out programmes to improve "Cooperative Leadership" skills, 3 groups worked on the "Constructive Communication" programme, and 15 groups conducted custom-made programmes for different management profiles.

On the other hand, in the **Cultural Development** area, an organisational culture survey was conducted in 15 cooperatives and the evaluation of leaders' profiles in 13 cases.

In the field of **Cooperative Dissemination**, 130 groups were welcomed for a one-day visit to MONDRAGON, a total of 17 seminars about MONDRAGON were delivered with a duration of between 2 and 5 days and 7 conferences were held at various international events.

The activities of the two practical Communities aimed at Social/People management in the fields of "Talent Management" and "Culture and Values" have continued in 2017 along with the fields of "Governance" and "Social Transformation".

Finally, it is worth mentioning the new **edition of the People Management Forum**, directed at People Directors of the Corporation's cooperatives, with the participation of 130 attendees



LET US FORM A COMMUNITY
WITH A STRONG IDENTITY
AND ITS STRENGTH WILL BE IMMENSE.

LET'S WORK WITH **EVERYONE**
WITHOUT DISCRIMINATION.

Arizmendiarrieta