III.

Consolidated Financial Statements

JERÓNIMO MARTINS

CONSOLIDATED INCOME STATEMENT BY FUNCTIONS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

Euro thousand

	Notes	December 2016	December 2015	4th Quarter 2016	4th Quarter 2015
Sales and services rendered	3	14,621,738	13,727,960	3,883,514	3,553,372
Cost of sales	4	(11,508,992)	(10,790,486)	(3,045,356)	(2,784,611)
Gross profit		**3,112,746**	**2,937,474**	**838,158**	**768,761**
Distribution costs	4	(2,307,621)	(2,209,519)	(614,834)	(572,892)
Administrative costs	4	(237,555)	(222,795)	(63,105)	(57,529)
Exceptional operating profits/losses	4	(31,994)	(19,053)	(12,102)	(11,605)
Operating profit		**535,576**	**486,107**	**148,117**	**126,735**
Net financial costs	6	(17,356)	(26,497)	(4,964)	(6,790)
Gains in joint ventures and associates	13	10,271	16,608	(1)	1,998
Gains on disposal of business	7	220,678	-	(3,318)	-
Gains/ losses in other investments		(4,974)	(1,423)	(1,392)	(1,423)
Profit before taxes		**744,195**	**474,795**	**138,442**	**120,520**
Income tax	8	(129,969)	(116,587)	(44,392)	(34,064)
Profit before non-controlling interests		**614,226**	**358,208**	**94,050**	**86,456**
Attributable to:					
Non-controlling interests		21,008	24,866	2,414	5,338
Jerónimo Martins Shareholders		**593,218**	**333,342**	**91,636**	**81,118**
Basic and diluted earnings per share - Euros	19	0.9440	0.5304	0.1458	0.1291

To be read with the attached notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

Euro thousand

	Notes	December 2016	December 2015	4th Quarter 2016	4th Quarter 2015
Net profit		**614,226**	**358,208**	**94,050**	**86,456**
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Remeasurements of post-employment benefit obligations	5.2	(643)	(817)	(643)	(817)
Related tax	8.3	145	184	145	184
		(498)	**(633)**	**(498)**	**(633)**
Items that may be reclassified to profit or loss					
Currency translation differences		(32,267)	15,234	(20,591)	(4,154)
Change in fair value of cash flow hedges	12	(411)	4,101	(186)	1,568
Change in fair value of hedging instruments on foreign operations	12	(390)	(14,645)	942	(30)
Change in fair value of available-for-sale financial assets	12	297	(94)	-	30
Changes in investments in joint ventures and associates		-	(96)	-	(96)
Related tax	8.3	298	(1,106)	133	(314)
		(32,473)	**3,394**	**(19,702)**	**(2,996)**
Other comprehensive income, net of income tax		**(32,971)**	**2,761**	**(20,200)**	**(3,629)**
Total comprehensive income		**581,255**	**360,969**	**73,850**	**82,827**
Attributable to:					
Non-controlling interests		21,007	25,463	2,413	5,467
Accionistas de Jerónimo Martins		560,248	335,506	71,437	77,360
Total comprehensive income		**581,255**	**360,969**	**73,850**	**82,827**

To be read with the attached notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016 AND 31 DECEMBER 2015

Euro thousand

	Notes	2016	2015
Assets			
Tangible assets	9	3,023,360	2,890,113
Intangible assets	10	786,983	809,796
Investment property	11	13,952	20,387
Investments in joint ventures and associates	13	-	76,478
Available-for-sale financial assets		1,000	1,758
Trade debtors, accrued income and deferred costs	15	112,836	118,604
Derivative financial instruments	12	-	122
Deferred tax assets	8.3	69,756	56,245
Total non-current assets		**4,007,887**	**3,973,503**
Inventories	14	718,618	638,339
Biological assets		1,181	409
Income tax receivable		2,037	1,373
Trade debtors, accrued income and deferred costs	15	311,130	277,275
Derivative financial instruments	12	1,277	128
Cash and cash equivalents	16	643,512	441,688
Total current assets		**1,677,755**	**1,359,212**
Total assets		**5,685,642**	**5,332,715**
Shareholders' equity and liabilities			
Share capital		629,293	629,293
Share premium		22,452	22,452
Own shares		(6,060)	(6,060)
Other reserves		(96,865)	(64,392)
Retained earnings	18	1,189,191	760,400
		1,738,011	**1,341,693**
Non-controlling interests		**252,500**	**251,526**
Total Shareholders' equity		**1,990,511**	**1,593,219**
Borrowings	20	114,829	534,422
Trade creditors, accrued costs and deferred income	22	793	813
Derivative financial instruments	12	293	-
Employee benefits	5.2	61,823	42,908
Provisions for risks and contingencies	21	21,582	83,947
Deferred tax liabilities	8.3	59,742	54,527
Total non-current liabilities		**259,062**	**716,617**
Borrowings	20	224,581	123,510
Trade creditors, accrued costs and deferred income	22	3,166,527	2,871,717
Derivative financial instruments	12	317	93
Income tax payable		44,644	27,559
Total current liabilities		**3,436,069**	**3,022,879**
Total Shareholders' equity and liabilities		**5,685,642**	**5,332,715**

To be read with the attached notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

Euro thousand

	Shareholders' equity attributable to Shareholders of Jerónimo Martins, SGPS, S.A.								Non-controlling interests	Shareholders' equity
				Other reserves						
	Share capital	Share premium	Own shares	Cash flow hedge	Available-for-sale financial assets	Currency translation reserves	Retained earnings	Total		
Balance Sheet as at 1 January 2015	**629,293**	**22,452**	**(6,060)**	**(2,548)**	**(157)**	**(64,562)**	**817,398**	**1,395,816**	**242,875**	**1,638,691**
Equity changes in 2015										
Currency translation differences				(3)		14,946		14,943		14,943
Changes in investments in joint ventures and associates							(96)	(96)		(96)
Change in fair value of cash flow hedging				2,650				2,650	615	3,265
Change in fair value of hedging instruments on foreign operations						(14,645)		(14,645)		(14,645)
Change in fair value of available-for-sale financial investments					(73)			(73)		(73)
Remeasurements of post-employment benefit obligations							(615)	(615)	(18)	(633)
Other comprehensive income	-	-	-	2,647	(73)	301	(711)	2,164	597	2,761
Net profit							333,342	333,342	24,866	358,208
Total comprehensive income	**-**	**-**	**-**	**2,647**	**(73)**	**301**	**332,631**	**335,506**	**25,463**	**360,969**
Dividends							(389,629)	(389,629)	(16,812)	(406,441)
Balance Sheet as at 31 December 2015	**629,293**	**22,452**	**(6,060)**	**99**	**(230)**	**(64,261)**	**760,400**	**1,341,693**	**251,526**	**1,593,219**
Equity changes in 2016										
Currency translation differences				(3)		(31,977)		(31,980)		(31,980)
Change in fair value of cash flow hedging				(333)				(333)		(333)
Change in fair value of hedging instruments on foreign operations						(390)		(390)		(390)
Change in fair value of available-for-sale financial investments					230			230		230
Remeasurements of post-employment benefit obligations							(497)	(497)	(1)	(498)
Other comprehensive income	-	-	-	(336)	230	(32,367)	(497)	(32,970)	(1)	(32,971)
Net profit							593,218	593,218	21,008	614,226
Total comprehensive income	-	-	-	(336)	230	(32,367)	592,721	560,248	21,007	581,255
Dividends (note 18.3)							(166,535)	(166,535)	(17,428)	(183,963)
Acquisitions/Disposal of non-controlling interests							2,605	2,605	(2,605)	-
Balance Sheet as at 31 December 2016	**629,293**	**22,452**	**(6,060)**	**(237)**	**-**	**(96,628)**	**1,189,191**	**1,738,011**	**252,500**	**1,990,511**

To be read with the attached notes to the consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

Euro thousand

	Notes	2016	2015
Operating Activities			
Cash received from customers		16,487,933	15,476,390
Cash paid to suppliers		(14,351,132)	(13,437,431)
Cash paid to employees		(1,100,375)	(1,039,174)
Cash generated from operations	17	**1,036,426**	**999,785**
Interest paid		(15,756)	(31,043)
Income taxes paid		(177,388)	(108,356)
Cash flow from operating activities		**843,282**	**860,386**
Investment activities			
Disposals of tangible fixed assets		2,704	2,889
Disposals of intangible assets		1	1
Disposals of available-for-sale financial assets and investment property		2,887	-
Disposals of businesses, net of cash sold	7	302,135	-
Interest received		1,915	2,240
Dividends received		2,774	14,375
Acquisition of tangible fixed assets		(432,319)	(379,061)
Acquisition of intangible assets		(5,825)	(17,447)
Acquisition of financial investments and investment property		(358)	(602)
Collateral deposits associated to financial debt		-	(15,000)
Cash flow from investment activities		**(126,086)**	**(392,605)**
Financing activities			
Net change in loans	20	(320,078)	(46,175)
Dividends paid	18.3	(183,963)	(406,441)
Cash flow from financing activities		**(504,041)**	**(452,616)**
Net changes in cash and cash equivalents		**213,155**	**15,165**
Cash and cash equivalents changes			
Cash and cash equivalents at the beginning of the year		441,688	430,660
Net changes in cash and cash equivalents		213,155	15,165
Effect of currency translation differences		(11,331)	(4,137)
Cash and cash equivalents at the end of December	16	**643,512**	**441,688**

To be read with the attached notes to the consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT FOR THE INTERIM PERIOD

Euro thousand

	December 2016	December 2015	4th Quarter 2016	4th Quarter 2015
Cash Flow from operating activities	843,282	860,386	306,888	332,368
Cash Flow from investment activities	(126,086)	(392,605)	(143,967)	(107,628)
Cash Flow from financing activities	(504,041)	(452,616)	10,099	(268,696)
Cash and cash equivalents changes	213,155	15,165	173,020	(43,956)

Index to the Notes to the Consolidated Financial Statements

1 Activity

Jerónimo Martins, SGPS, S.A. (JMH), is the parent Company of Jerónimo Martins (Group), which includes the Companies detailed in notes 28 and 30. The activities of the Group and its performance during the year 2016 are detailed in Chapter II of this Annual Report.

Head Office: Rua Actor António Silva, n.º 7, 1649-033 Lisboa

Share Capital: 629,293,220 euros

Registered at the Commercial Registry Office and Tax Number: 500100144

JMH has been listed on the Euronext Lisbon since 1989.

The Board of Directors approved these Consolidated Financial Statements on 21 February 2017.

2 Accounting policies

The most significant accounting policies are described in the notes to these Consolidated Financial Statements. The accounting policies identified in this note are applied across the preparation of the financial statements. These policies were consistently applied in comparative periods, except where otherwise stated.

2.1 Basis for preparation

All amounts are shown in thousand euros (EUR thousand) unless otherwise stated.

The amounts presented for quarters, and the corresponding changes are not audited.

The Consolidated Financial Statements of JMH were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as at 31 December 2016.

The JMH Consolidated Financial Statements were prepared in accordance with the historical cost principle, except for investment property, derivative financial instruments, biological assets, financial assets at fair value through profit or loss and available-for-sale financial assets, which were measured at fair value (market value).

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. It is, however, firmly believed by The Management that the estimates and assumptions adopted do not involve significant risks that may, over the course of the coming financial year, cause material adjustments in the value of the assets and liabilities (note 2.6).

Change in accounting policies and basis for presentation:

2.1.1 New and amended standards adopted by the Group

In 2015 and 2016, the EU issued the following Regulations, which were adopted by the Group from 1 January 2016:

EU Regulation	IASB Standard or IFRIC Interpretation endorsed by EU	Issued in	Mandatory for financial years beginning on or after
Regulation no. 28/2015	Annual Improvements to IFRS's 2010–2012 Cycle: IFRS 2 Share-Based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets (amendment)	December 2013	1 February 2015
Regulation no. 29/2015	IAS 19 Employee Benefits: Defined Benefit Plans - Employee Contributions (amendment)	November 2013	1 February 2015
Regulation no. 2113/2015	IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants (amendment)	June 2014	1 January 2016
Regulation no. 2173/2015	IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations (amendment)	May 2014	1 January 2016
Regulation no. 2231/2015	IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation (amendment)	May 2014	1 January 2016
Regulation no. 2343/2015	Annual Improvements to IFRS's 2012–2014 Cycle: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting (amendment)	September 2014	1 January 2016

EU Regulation	IASB Standard or IFRIC Interpretation endorsed by EU	Issued in	Mandatory for financial years beginning on or after
Regulation no. 2406/2015	IAS 1 Presentation of Financial Statements: Disclosure Initiative (amendment)	December 2014	1 January 2016
Regulation no. 2441/2015	IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements (amendment)	August 2014	1 January 2016
Regulation no. 1703/2016	IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities - Applying the Consolidation exemption (amendment)	December 2014	1 January 2016

The Group adopted the new amendments, with no significant impact on its Consolidated Financial Statements.

2.1.2 New standards, amendments and interpretations endorsed by EU but not effective for the financial year beginning 1 January 2016 and not early adopted

The EU adopted in 2016 several new standards, issued by the International Accounting Standards Board (IASB), to be applied in subsequent periods:

EU Regulation	IASB Standard or IFRIC Interpretation endorsed by EU	Issued in	Mandatory for financial years beginning on or after
Regulation no. 1905/2016	IFRS 15 Revenue from Contracts with Customers (new)	May 2014	1 January 2018
Regulation no. 2067/2016	IFRS 9 Financial Instruments (new)	July 2014	1 January 2018

These new standards are effective for annual periods beginning on or after January 1, 2018, and have not been applied in preparing these Consolidated Financial Statements. None of these standards is expected to have a significant impact on the Group's Consolidated Financial Statements.

2.1.3 New standards, amendments and interpretations issued by IASB and IFRIC, but not yet endorsed by EU

IASB issued in 2014 and 2016 the following standards, amendments and interpretations that are still pending endorsement by the EU:

IASB Standard or IFRIC Interpretation	Issued in	Expected application for financial years beginning on or after
IFRS 14 Regulatory Deferral Accounts (New)	January 2014	To be decided[1]
IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendment)	September 2014	To be decided[2]
IFRS 16 Leases (new)	January 2016	1 January 2019
IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (amendment)	January 2016	1 January 2017
IAS 7 Statement of Cash Flows: Disclosure Initiative (amendment)	January 2016	1 January 2017
IFRS 15 Revenue from Contracts with Customers: Clarifications (amendment)	April 2016	1 January 2018
IFRS 2 Share-based Payment: Classification and Measurement of Transactions (amendment)	June 2016	1 January 2018
IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (amendment)	September 2016	1 January 2018
Annual Improvements to IFRS's 2014–2016 Cycle: IFRS 12 Disclosure of Interests in Other Entities (amendment)	December 2016	1 January 2017
Annual Improvements to IFRS's 2014–2016 Cycle: IFRS 1 First-Time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures (amendment)	December 2016	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration (new)	December 2016	1 January 2018
IAS 40 Investment Property: Transfers (amendment)	December 2016	1 January 2018

[1] The EU has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
[2] The EU, as well as IASB, decided to defer indefinitely the endorsement of these changes.

The Management is currently evaluating the impact of adopting these new standards, amendments and interpretations to standards already in place, not being expected so far a significant impact on the Group's Consolidated Financial Statements, except on the new standard IFRS 16 Leases.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for lessees, as is required by IAS 17 and, instead, introduces a single accounting model, very similar to the current treatment that is given to finance leases in lessee accounts.

This single accounting model provides for the lessee the recognition of: i. assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, regardless of the lease term; and ii. depreciation of lease assets separately from interest on lease liabilities in the income statement.

The management is assessing the impacts that will result from adopting this new standard, being already expected that its adoption will have a significant impact on the Group's Consolidated Financial Statements, as result of the incorporation of the assets which are currently under operating leases and their respective responsibilities.

Despite not responding to the criteria established for the capitalization of operating leases as foreseen in the new IFRS 16, the information in note 24, enables the possibility to realize the impacts of its application.

2.1.4 Change of accounting policies

In addition to the above, the Group has not changed its accounting policies during 2016, nor were identified errors regarding previous years, which compel the restatement of financial statements.

2.2. Basis for consolidation

Reference dates

The Consolidated Financial Statements include, as at 31 December 2016, assets, liabilities and profit or loss of Group Companies, i.e. the ensemble consisting of JMH and its subsidiaries, joint ventures and associates, which are presented in notes 28 and 30, respectively.

Business combinations

For business combinations involving entities under common control, assets and liabilities are valued at book value and there are no impacts recognised in profit and loss.

Investments in subsidiaries

Subsidiaries are all entities over which JMH has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

In cases where the share capital of subsidiaries is not held at 100%, a non-controlling interest is recognised relative to the portion of results and net value of assets attributable to third parties.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the entity is measured at fair value when control is lost.

The accounting policies used by the subsidiaries to comply with legal requirements, whenever necessary have been changed to ensure consistency with the policies adopted by the Group.

Investments in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the associate after the date of acquisition. The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The Group's investment in associates includes Goodwill identified on acquisition.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in joint arrangements

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements (see note 2.6) and, for those determined as joint ventures, they are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint ventures.

Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Goodwill

Goodwill represents the surplus of acquisition cost over the fair value of identifiable assets and liabilities attributable to the Group at the date of acquisition or first consolidation. If the cost of acquisition is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised directly in the income statement.

Goodwill impairment reviews are undertaken by the Group, annually or more frequently, if events or changes in circumstances indicate a potential impairment. The carrying value of Goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Whenever the carrying value of Goodwill exceeds its recoverable amount, an impairment is recognised immediately as an expense and is not subsequently reversed (note 2.5.1).

The gain or loss on the disposal of an entity includes the carrying amount of Goodwill related to the entity sold, unless the business to which that Goodwill is related is maintained and generates benefits to the Group.

Non-controlling interests

Non-controlling interests are the proportion of the fair value of assets, liabilities and contingent liabilities of acquired subsidiaries that are not directly or indirectly attributable to JMH.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Loss of control or significant influence

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the measurement of the retained interest as a financial asset.

Foreign currency translation

The Financial Statements of foreign entities are translated into euros based on the closing exchange rate for assets and liabilities and historical exchange rates for equity. Income and expenses are translated at the average monthly exchange rate, which is approximately the exchange rate on the date of the respective transactions.

Exchange differences arising in the translation are entered directly in equity net of the effect generated by the respective hedging instrument (see accounting policy described in note 12).

Whenever a foreign entity is sold, accumulated exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Balances and transactions between Group Companies

Inter-company transactions, balances and unrealised gains between subsidiaries and between these and the Parent Company are eliminated in the consolidation process. Unrealised losses are also eliminated unless the cost cannot be recovered.

Unrealised gains arising from transactions with associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated except when providing proof of impairment of the asset transferred.

2.3 Transactions in foreign currencies

Transactions in foreign currencies are translated into euros at the exchange rate prevailing on the transaction date.

At the balance sheet date, monetary assets and liabilities expressed in foreign currencies are translated at the exchange rate prevailing on that date and exchange differences arising from this conversion are recognised in the income statement. When qualifying as cash flow hedges or hedges on investments in foreign subsidiaries, the exchange differences are deferred in equity or when classified as available-for-sale financial assets, which are equity instruments.

The main exchange rates applied on the balance sheet date are those listed below:

Euro foreign exchange reference rates (x foreign exchange units per 1 euro)	**Rate on 31 December 2016**	**Average rate for the year**
Polish zloty (PLN)	4.4103	4.3627
Swiss franc (CHF)	1.0739	-
Colombian peso (COP)	3,128.3800	3,355.5700

2.4 Financial assets

Financial assets are recognised in the Group's balance sheet on their trade or contracting date, which is the date on which the Group commits to acquire an asset. Financial assets are initially recognised at their fair value plus directly attributable transaction costs, except for financial assets carried at fair value through profit and loss in which the transaction costs are immediately recognised in the results. These assets are derecognised when: i. the Group's contractual rights to receive their cash flows expire; ii. the Group has substantially transferred all the risks and rewards of ownership; or iii. although it retains a portion but not substantially all the risks and rewards of ownership, the Group has transferred control over the assets.

Financial assets and liabilities are offset and presented by their net value only when the Group has the right to offset the amounts recognised and has the intention to settle on a net basis.

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which they were acquired.

Financial assets at fair value through profit or loss

A financial asset is recognised in this category if it was classified as held for trading or is designated as such on initial recognition. Financial assets are held for trading if acquired with the principal intention of being sold in the short term. This category also includes those derivatives that do not qualify for hedge accounting. The gains and losses of changes in the fair value of financial assets measured at fair value through profit and loss are recognised in the results of the year in which they occur in net financial costs, where interest received and dividends are also included.

Loans and receivables

These correspond to non-derivative financial assets, with fixed or determined payments, that are not quoted in an active market. The assets are those that result from the normal operational activities of the Group, in the supply of goods or services, and that the Group has no intention of selling. Subsequently loans and receivables are measured at amortised cost in accordance with the effective interest rate method.

They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Available-for-sale financial assets

The available-for-sale financial assets are non-derivative financial assets that: i. the Group intends to maintain for an indeterminate period of time; ii. are designated as available for sale when they are first recognised; or iii. they do not fit into the above mentioned categories. They are recognised as non-current assets, unless there is the intention to sell them within 12 months of the balance sheet date.

Equity holdings other than in subsidiaries, joint ventures or associates, are classified as available-for-sale financial assets and included within non-current assets.

These financial assets are initially recognized at fair value increased by transaction costs. Subsequent fair value changes are recognised directly in other reserves, until the financial asset is derecognised, at which time the accumulated gain or loss previously recognised in equity is included in income for the period. The dividends of equity holdings classified as available-for-sale are recognised in gains in other investments, when the right to receive the payment is established.

Available-for-sale financial assets related to equity holdings are recognised at cost when the fair value cannot be reliably determined.

2.5 Impairment

2.5.1 Impairment of non-financial assets

Except for investment property (note 11), inventories (note 14) and deferred tax assets (note 8), all Group assets are considered at each balance sheet date in order to assess for indicators of possible impairment losses. If such indicators exist, the asset's recoverable amount is estimated.

Irrespective of whether there is any indication of impairment, for Goodwill, intangible assets not yet available for use and other intangible assets with indefinite useful life, the recoverable amount is determined annually at the balance sheet date.

The recoverable amount of the Group's assets with indicators of potential impairment loss is determined annually. Whenever the carrying value of an asset, or the cash-generating unit to which the same belongs, exceeds its recoverable amount, its value is reduced to the recoverable amount and the impairment loss recognised in the income statement.

Regarding cash-generating units in operation for less than two to three years (depending on the business segment), the Group monitors its performance. However since the respective businesses have not yet reached sufficient maturity, impairment losses are recognised when there are unequivocal indicators that its recoverability is considered remote.

The total assets in the above-mentioned situation corresponds to a current investment amounting to EUR 434,697 thousand (2015: EUR 541,873 thousand), which includes mostly real estate, equipment related to the operational activity of stores and improvements made in leasehold properties.

Determining the recoverable amount of assets
The recoverable amount of non-financial assets corresponds to the higher amount of fair value less costs of disposal and value in use.

The value in use of an asset is calculated as the present value of estimated future cash flows. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the asset in question.

The recoverable amount of assets that do not generate independent cash flow is determined together with the cash-generating unit to which these assets belong.

Reversal of impairment losses
An impairment loss recognised as related to Goodwill is not reversed.

Impairment losses for other assets are reversed whenever there are changes in the estimates used to determine the respective recoverable amount. Impairment losses are reversed to the extent of the amount, net of amortisation or depreciation, that would have been determined for the asset if no impairment loss were recognised.

2.5.2 Impairment of financial assets

At each reporting date the Group analyses if there is objective evidence that a financial asset or group of financial assets is impaired.

The recoverable amount of receivables corresponds to the present value of estimated future cash inflows, using as a discount rate the actual interest rate implicit in the original operation.

An impairment loss recognised in a medium and long-term receivable is only reversed if justification for the increase in the respective recoverable amount is based on an event taking place after the date the impairment loss was recognised.

Available-for-sale financial assets
In the case of equity investments classified as available-for-sale, a prolonged or significant decline in the fair value of the instrument below its cost is considered to be an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss. Impairment losses on equity instruments recognised in profit or loss are not reversed through the income statement.

Clients, debtors and other financial assets
Impairment losses are recognised when there are objective indicators that the Group will not receive the entire amounts it is due according to the original terms of established contracts. When identifying situations of impairment, various indicators are used, such as:

I. Analysis of breach;
II. Breach for more than three months;
III. Financial difficulties of the debtor;
IV. Probability of the debtor's bankruptcy.

Impairment losses are determined by the difference between the recoverable amount and the carrying amount of the financial assets and are recognised in the profit and loss. The carrying amount of these assets is reduced to the recoverable amount by using an impairment account. When an amount receivable from customers and debtors is considered to be unrecoverable, it is written-off using the impairment account. Subsequent recovery of amounts that had been written-off is recognised as a gain.

Whenever overdue receivable amounts from clients and other debtors are subject to renegotiation of its terms, they are no longer considered as overdue and are considered as new credits.

2.6 Critical accounting estimates and judgments on the preparation of the Financial Statements

Tangible and intangible assets, and investment property

Determining the fair value of investment property, as well as the useful life of assets, is based on Management estimates. Determining impairment losses of these tangible and intangible assets also involves the use of estimates. The value in use or the fair value of these assets (including Goodwill) are normally determined using the discounted cash flow method, which incorporates market assumptions. Identifying indicators of impairment, as well as estimating future cash flows and determining the fair value of assets, requires significant judgment by Management in validating indicators of impairment, expected cash flows, applicable discount rates, estimated useful life and residual values.

If the cash flow assumptions were reduced by 10% compared to the estimates, or if the discount rate was higher by 100 bps, according to current projections of the business areas the Goodwill would still be recoverable and there would be no risk of impairment (see note 10.4).

Fair value of financial instruments

The fair value of financial instruments not quoted on an active market is determined based on valuation methods. The use of valuation methodologies requires the use of assumptions, with some assumptions requiring the use of estimates. Therefore, changes in those assumptions could result in a change in the fair value reported (see note 12).

Deferred taxes

Recognising deferred taxes assumes the existence of results and future taxable income. Deferred tax assets and liabilities were determined based on tax legislation currently effective for the Group Companies, or on legislation already published for future application. Changes in the tax legislation may influence the value of deferred taxes.

If the rates used to recognise deferred taxes increase by 1 p.p., the impact in Group accounts would be the following:

	Impact on Group accounts	
	Income statement	**Other comprehensive income**
Portugal	563	54
Poland	(254)	3

A positive amount means a gain in Group accounts.

Impairment losses of clients and debtors

The Management maintains impairment losses for clients and debtors, in order to reflect the estimated losses resulting from clients' inability to make payments on the required dates and for the contracted amounts. When evaluating the reasonableness of the adjustment for the impairment losses, Management bases its estimates on an analysis of the ageing of the accounts receivable from its clients, its historical experience of write-offs, the client's credit history, and changes in the client's payment terms. If the client's financial conditions deteriorate, impairment losses and actual write-offs may be higher than expected.

Pensions and other long-term benefits granted to employees

Determining obligations for pension and other long-term benefits requires the use of assumptions and estimates, including actuarial projections and other factors that may impact the costs and obligations for the benefit plans.

In determining the appropriate discount rate, Management considers the interest rates of corporate bonds with an 'AA' rating or above, as set by an internationally acknowledged rating agency. These rates are extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

The definition of the criteria to select the corporate bonds to include in the population from which the yield curve is derived requires significant judgement, the most significant being the selection of the size of the population, the bond issue size, the quality of the bonds, and identification of outliers data to exclude.

Considering the information available from Bloomberg and some necessary estimation to derive the yield curve, the Group defined the following ranges:

- Narrow range [1.20% - 1.60%]
- Extended range [1.00% - 1.80%]

Based on these results the Group has decided to reduce its discount rate from 1.75 to 1.40%.

The table below shows the impacts on the obligations with defined benefit plans of the Group, resulting from changes in the following assumptions:

			Impact on defined benefit obligations		
	Assumption used		Change in assumption	Increase in assumption	Decrease in assumption
	PT	PL			
Discount rate	1.40%	2.90%	0.50%	(2,313)	2,467
Salary growth rate	2.50%	4% - 6%	0.50%	1,597	(1,517)
Pension growth rate	2.50%		0.50%	836	(780)
Life expectancy	TV 88/90	GUS 2013	1 year	1,266	(1,214)

A positive amount means an increase in liabilities. A negative amount means a decrease in liabilities.

Provisions

The Group exercises considerable judgment in measuring and recognising provisions and its exposure to contingent liabilities related to legal proceedings. This judgment is necessary to determine the probability that a lawsuit may be successful, or to record a liability. Provisions are recognised when the Group expects that proceedings under way will result in cash outflows, the loss is considered probable and may be reasonably estimated. Due to the uncertainties inherent in the evaluation process, actual losses may be different from those originally estimated. These estimates are subject to changes as new information becomes available, mainly with the support of internal specialists, if available, or through the support of external consultants, such as actuaries or legal advisers. Changes to estimates of potential losses on proceedings under way may significantly affect future results.

Investment in associates

Management has assessed the level of influence that the Group had on Perfumes e Cosméticos Puig Portugal Distribuidora, S.A., and determined that it had significant influence, even though the shareholding was 27.55%, due to the Board of Directors representation and contractual terms. Consequently, this investment was classified as an associate until the date it was sold, on 30 September 2016 (note 30).

The Management also assessed the level of influence that the Group has on Novo Verde – Sociedade Gestora de Resíduos de Embalagens, S.A., with a percentage of control of 30% and a percentage of interest of 15.3%. Given the legal regime applicable to waste management companies, which prevent this type of company from distributing reserves and retained earnings to its shareholders, this investment cannot be classified in the Group's accounts as an associate and has therefore been classified as available-for-sale financial asset.

Investment in joint arrangements

The Group holds 51% of the voting rights of its joint arrangement in JMR – Gestão de Empresas de Retalho, SGPS, S.A. (JMR). Based on the contractual arrangements with the other Investor, the Group has the power to appoint and remove the majority of members of the Board of Directors. In addition, all key management personnel with the powers to conduct the relevant activities of JMR are employees of another company 100% owned by Jerónimo Martins. For these reasons, the Management concluded that the Group has the practical ability to direct the relevant activities of JMR and hence has the control over the Company. Therefore JMR is classified as a subsidiary, as well as all entities directly controlled by JMR.

The Group held 45% of the voting rights of its joint arrangement in Unilever Jerónimo Martins, Lda. and Gallo Worldwide, Lda.. The Group had joint control over this arrangement as under the contractual agreements unanimous consent is required from all parties to the agreements for all relevant decisions and activities. The joint arrangements were structured as limited companies and provided the Group and the parties to the agreements with rights to the net assets of the limited company under the arrangements. Therefore, these arrangements were classified as joint ventures until the date they were sold on 30 September 2016 (note 30).

2.7 Fair value of financial instruments

To determine the fair value of a financial asset or liability, the market price is applied, if such a market exists. A market is regarded as active if quoted prices are readily and regularly available from an exchange, broker or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis (level 1). Otherwise, which is the case of some financial assets and liabilities, valuation techniques that are generally accepted in the market are used based on market assumptions.

The Group applies valuation techniques for unlisted financial instruments, such as derivatives, fair value financial instruments held for sale and biological assets through profit and loss. The evaluation models most frequently used are discounted cash flow and options models which incorporate, for example, interest rate curves and market volatility (level 2). For derivatives valuation, the Group also uses the valuations provided by the counterparties.

Cash and cash equivalents, debtors and accruals

These financial instruments include mainly short-term financial assets and for that reason their accounting value at the reporting date is considered approximately their fair value.

Available-for-sale financial assets

Listed financial instruments are recognised in the balance sheet at their fair value. The other available-for-sale financial assets are stated at cost, reduced by any impairment loss, since its fair value cannot be reliably measured.

Borrowings

The fair value of borrowings is obtained from the discount cash flow of all expected payments. The expected cash flows are discounted using actual market interest rates. At the reporting date the carrying value is approximately its fair value.

Creditors and accruals

These financial instruments include mainly short-term financial liabilities, and for that reason their accounting value at the reporting date is considered approximately their fair value.

2.8 Fair value hierarchy

The following table shows the Group's assets and liabilities that are measured at fair value at 31 December according to the following hierarchy levels:

- Level 1: The fair value of financial instruments is based on quoted prices obtained in active and liquid markets at balance sheet date. This level includes equity investments quoted on Euronext Lisbon;
- Level 2: The fair value is not based on quoted prices obtained in active markets included in level 1, but using valuation models, which may involve other comparable quoted prices obtained in active markets or adjusted quotes. Thus, main inputs used on these valuation models are based on observable market data. This level includes biological assets, available for sale financial assets and the over-the-counter derivatives entered into by the Group, whose valuations are provided by the respective counterparties;
- Level 3: The fair value is not based on quoted prices obtained in active markets, but determined by using valuation models whose main inputs are not based on observable market data. This level includes investment property, which are evaluated by external independent experts.

2016	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Investment property	13,952	-	-	13,952
Available-for-sale financial assets				
Equity investments	80	80	-	-
Biological assets				
Consumable biological assets	1,181	-	1,181	-
Derivative financial instruments				
Derivatives used for hedging	1,277	-	1,277	-
Total assets	**16,490**	**80**	**2,458**	**13,952**
Liabilities measured at fair value				
Derivative financial instruments				
Derivatives used for hedging	610	-	610	-
Total liabilities	**610**	**-**	**610**	**-**

2015	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Investment property	20,387	-	-	20,387
Available-for-sale financial assets				
Equity investments	274	274	-	-
Biological assets				
Consumable biological assets	409	-	409	-
Derivative financial instruments				
Derivatives used for hedging	250	-	250	-
Total assets	**21,320**	**274**	**659**	**20,387**
Liabilities measured at fair value				
Derivative financial instruments				
Derivatives used for hedging	93	-	93	-
Total liabilities	**93**	**-**	**93**	**-**

2.9 Financial instruments by category

	Derivatives defined as hedging instruments	Borrowings and accounts receivable	Available-for-sale financial assets	Other financial liabilities	Total financial assets and liabilities	Non-financial assets and liabilities	Total assets and liabilities
2016							
Assets							
Cash and cash equivalents	-	643,512	-	-	**643,512**	-	**643,512**
Available-for-sale financial assets	-	-	1,000	-	**1,000**	-	**1,000**
Debtors, accruals and deferrals	-	322,025	-	-	**322,025**	101,941	**423,966**
Derivative financial instruments	1,277	-	-	-	**1,277**	-	**1,277**
Other non-financial assets	-	-	-	-	**-**	4,615,887	**4,615,887**
Total assets	**1,277**	**965,537**	**1,000**	**-**	**967,814**	**4,717,828**	**5,685,642**
Liabilities							
Borrowings	-	-	-	339,410	**339,410**	-	**339,410**
Derivative financial instruments	610	-	-	-	**610**	-	**610**
Creditors, accruals and deferrals	-	-	-	2,945,327	**2,945,327**	221,993	**3,167,320**
Other non-financial liabilities	-	-	-	-	**-**	187,791	**187,791**
Total liabilities	**610**	**-**	**-**	**3,284,737**	**3,285,347**	**409,784**	**3,695,131**
2015							
Assets							
Cash and cash equivalents	-	441,688	-	-	**441,688**	-	**441,688**
Available-for-sale financial assets	-	-	1,758	-	**1,758**	-	**1,758**
Debtors, accruals and deferrals	-	288,212	-	-	**288,212**	107,667	**395,879**
Derivative financial instruments	250	-	-	-	**250**	-	**250**
Other non-financial assets	-	-	-	-	**-**	4,493,140	**4,493,140**
Total assets	**250**	**729,900**	**1,758**	**-**	**731,908**	**4,600,807**	**5,332,715**
Liabilities							
Borrowings	-	-	-	657,932	**657,932**	-	**657,932**
Derivative financial instruments	93	-	-	-	**93**	-	**93**
Creditors, accruals and deferrals	-	-	-	2,682,665	**2,682,665**	189,865	**2,872,530**
Other non-financial liabilities	-	-	-	-	**-**	208,941	**208,941**
Total liabilities	**93**	**-**	**-**	**3,340,597**	**3,340,690**	**398,806**	**3,739,496**

3 Segments reporting

Operating segments are reported consistently with the internal reporting that is provided to the Governing Bodies, including the Managing Committee and the Board of Directors. Based on this report, the Governing Bodies evaluate the performance of each segment and allocate the available resources.

Management monitors the performance of the business based on a geographical and business perspective. In accordance with this, the segments are defined as Portugal Retail, Portugal Cash & Carry and Poland Retail. Apart from these there are also other businesses but due to their low materiality they are not reported separately

Management evaluates the performance of segments based on Earnings Before Interest and Taxes (EBIT). This indicator excludes the effects of exceptional operating profits/losses

Revenue recognition

Revenues from sales are recognised in the income statement when significant risks and rewards of ownership are transferred to the buyer.

In the Retail segment, sales are recognised when delivered directly to the client in store, against cash collected. The costs to be incurred related to returns of products for lack of quality, are estimated at the date of the sale based on historical data.

Revenues from services rendered are recognised as income in accordance with their stage of completion as at the balance sheet date. Gains related to commercial discounts obtained in the purchase of goods for resale are recognised when these are sold, as a deduction to the cost of goods sold.

The identified operating segments are:

- Portugal Retail: comprises the business unit of JMR (Pingo Doce supermarkets);
- Portugal Cash & Carry: includes the wholesale business unit Recheio;
- Poland Retail: the business unit with the brand Biedronka;
- Others, eliminations and adjustments: includes i. business units with reduced materiality (Marketing Services and Representations – until July -, Restaurants, Agro business in Portugal, Health and

Beauty Retail in Poland, Retail business in Colombia; ii. the Holding Companies; and iii. Group's consolidation adjustments.

Detailed information by operating segments as at December 2016 and 2015

	Portugal Retail		Portugal Cash & Carry		Poland Retail		Others, eliminations and adjustments		Total JM Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net sales and services	3,914,632	3,729,140	880,826	832,208	9,781,348	9,205,708	44,932	(39,096)	14,621,738	13,727,960
Inter-segments	351,085	315,834	3,906	4,007	1,487	1,617	(356,478)	(321,458)	-	-
External customers	3,563,547	3,413,306	876,920	828,201	9,779,861	9,204,091	401,410	282,362	14,621,738	13,727,960
Operational cash flow (EBITDA)	191,626	187,880	47,140	43,908	707,421	641,143	(84,368)	(73,287)	861,819	799,644
Depreciations and amortisations	(95,095)	(95,299)	(12,908)	(12,090)	(169,922)	(172,990)	(16,324)	(14,105)	(294,249)	(294,484)
Operational result (EBIT)	96,531	92,581	34,232	31,818	537,499	468,153	(100,692)	(87,392)	567,570	505,160
Exceptional operating profits/losses									(31,994)	(19,053)
Financial results and gains in investments									208,619	(11,312)
Income tax									(129,969)	(116,587)
Net result attributable to JM									593,218	333,342
Total assets	1,733,533	1,699,610	351,026	335,979	3,063,023	2,920,437	538,060	376,689	5,685,642	5,332,715
Total liabilities	1,226,101	1,186,485	305,006	284,181	2,210,170	2,126,974	(46,146)	141,856	3,695,131	3,739,496
Investments in fixed assets	136,839	133,152	30,420	18,332	232,895	204,132	82,292	56,678	482,446	412,294

Reconciliation between EBIT and operating profit

	2016	2015
EBIT	567,570	505,160
Non recurrent results	(31,994)	(19,053)
Operational result	**535,576**	**486,107**

Financial assets with credit risk per segment

The table below shows the Group's exposure according to the accounting value of the financial assets, set out by operating segments.

	Portugal Retail		Portugal Cash & Carry		Poland Retail		Others, eliminations and adjustments		Total JM Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Cash and cash equivalents	43,950	51,264	16,449	9,386	268,119	211,084	314,994	169,954	643,512	441,688
Available-for-sale financial assets	219	183	696	1,296	-	-	85	279	1,000	1,758
Debtors, accruals and deferrals	90,943	85,690	43,428	39,287	215,376	169,040	(27,722)	(5,805)	322,025	288,212
Derivative financial instruments	-	-	-	-	-	122	1,277	128	1,277	250
Total	135,112	137,137	60,573	49,969	483,495	380,246	288,634	164,556	967,814	731,908

4 Operating costs by nature

Operating costs by nature

Operating costs by nature include:

- costs of goods sold less vendor allowances based on volume purchased and promotional allowances for commercial activity and in store advertisement. Includes also materials consumed in the production of goods by the companies;
- distribution costs, related with retail main activity in store, logistics and warehousing; and
- administrative costs, corresponding to supporting central offices activities.

Exceptional operating profits/losses

The exceptional operating profits/losses (non-recurrent), that due to their nature or to their materiality, might distort the financial performance of the Group as well as their comparability, are presented in a separate line of the consolidated income statement by function. These results are excluded from the operational performance indicators adopted by Management.

	2016	2015
Cost of goods sold and materials consumed	11,491,109	10,748,646
Changes in inventories of finished goods and work in progress	(930)	(478)
Net cash discount and interest paid to suppliers	(24,240)	2,542
Electronic payment commissions	24,543	20,413
Other supplementary costs	5,274	8,492
Supplies and services	546,416	516,433
Advertising costs	88,300	76,237
Rents	331,922	330,767
Staff costs	1,153,063	1,073,053
Depreciations and amortisations	294,327	294,599
Profit/loss with tangible and intangible assets	15,133	6,636
Transportation costs	150,824	147,558
Other operational profit/loss	10,421	16,955
Total	**14,086,162**	**13,241,853**

4.1 Exceptional operating profits/losses

Operating costs by nature include the following exceptional operating profits/losses:

	2016	2015
Legal contingencies	(77)	(291)
Losses from organizational restructuring programmes	(5,763)	(11,515)
Assets write-offs and gains/losses in sale of tangible assets	(9,041)	(2,910)
Changes to benefit plans and actuarial assumptions	(15,362)	(4,545)
Others	(1,751)	208
Exceptional operating profits/losses	**(31,994)**	**(19,053)**

5 Employees

5.1 Staff costs

	2016	2015
Wages and salaries	893,853	839,004
Social security	172,576	162,966
Employee benefits (note 5.2)	23,289	3,046
Other staff costs	63,345	68,037
	1,153,063	**1,073,053**

Other staff costs include labour accident insurance, social responsibility costs, training costs, and indemnities.

The average number of Group employees during the year was 91,943 (2015: 87,494).

The number of employees at the end of the year was 96,233 (2015: 89,027).

5.2 Employees benefits

Post-employment benefits (retirement)

Defined contribution plans

Defined contribution plans are pension plans for which the Group makes defined contributions to independent entities (funds), and for which it has no legal or constructive obligation to pay any additional contribution at the time when the employees come into use of those benefits.

The contributions are based on a percentage of the fixed and variable remuneration of the employees included in the plan, which is defined in the respective Regulation and only changes according to the seniority of the beneficiaries.

The Group encourages the employees to participate in their own pension scheme. Therefore, the funds are open to employee private contributions, with no guaranties given by the Group over those contributions.

Group contributions to defined contribution plans are recognised as expenses at the time they are due.

Defined benefit plans

Defined benefit plans are pension plans where the Group guarantees a certain benefit to the employees included in the plan at the time such employees retire, with the respective responsibilities assured directly by the Group.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using life annuity method, taking into account that the plans only include retired employees. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

No service costs are recognised since the current defined benefit plans only include retired employees. The net interest is recognised in the income statement on a yearly basis.

Remeasurements (actuarial gains and losses) arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

At the time of amendments to the defined benefit plans, past-service costs are immediately considered due and are recognised immediately in the income statement.

Other benefits

Seniority awards

The programme of seniority awards which exists in some of the Group's Companies includes a component of defined contribution and a defined benefit.

The defined contribution component consists in a life insurance granted to the employees covered by this programme, starting from a specific number of years of service. This benefit is awarded only when employees reach the age defined in the programme and the costs related to this component are recognised in the year to which they relate.

The component of defined benefit consists of an award in the year that employees complete a number of years of service. Accordingly, the liabilities for this component are determined annually based on actuarial valuations, carried out by a specialised independent entity.

The cost of current services, net interest as well remeasurements (actuarial gains or losses) are recognised as costs of the year.

In 2016 the defined benefit component of the seniority awards program was extended to Polish subsidiaries, and the amount of provisions for employee benefits - Seniority Awards was increased, as a result of the recognition of past services.

Amounts of employee benefits in the balance sheet:

	2016	2015
Retirement benefits - defined benefit plan paid by the Group	19,636	21,843
Seniority awards	42,187	21,065
Total	**61,823**	**42,908**

Amounts recognised in the income statement in staff costs and remeasurements reflected in other comprehensive income:

	Income statement		Other comprehensive income	
	2016	2015	2016	2015
Retirement benefits - defined contribution plan	585	489	-	-
Retirement benefits - defined benefit plan paid for by the Group	359	429	643	817
Seniority awards	22,345	2,128	-	-
	23,289	**3,046**	**643**	**817**

A brief description of the changes in each plan are detailed below:

	Defined contribution plans for active employees		Defined benefit plans for former employees		Other long term benefits granted to employees	
	2016	2015	2016	2015	2016	2015
Balance on 1 January	**-**	**-**	**21,843**	**22,307**	**21,065**	**20,153**
Acquisitions/Disposals of business	-	-	(1,585)	-	(155)	-
Interest costs	-	-	359	429	393	429
Past service cost	-	-	-	-	19,679	-
Current service cost	585	489	-	-	1,999	1,936
Actuarial (gains)/losses	-	-	-	-	-	-
Changes in demographic assumptions	-	-	-	-	-	-
Changes in financial assumptions	-	-	552	458	570	421
Changes in experience	-	-	91	359	(296)	(658)
Contributions or retirement pensions paid	(585)	(489)	(1,624)	(1,710)	(857)	(1,216)
Currency translation differences	-	-	-	-	(211)	-
Balance on 31 December	**-**	**-**	**19,636**	**21,843**	**42,187**	**21,065**

Actuarial assumptions used in the calculation of the responsibilities for defined benefit plans and other long term benefits:

	Portugal		Poland	
	2016	2015	2016	2015
Mortality table	TV 88/90	TV 88/90	GUS 2013	-
Discount rate	1.40%	1.75%	2.90%	-
Pension and salaries growth rate	2.50%	2.50%	4% - 6%	-

The mortality assumptions used are those most commonly adopted in Portugal and Poland, and are based on actuarial advice in accordance with published statistics and experience in each country. The assumption's sensitivity analysis is described in note 2.6.

Expected future payments

The expected maturity for the next 10 years for the liabilities associated with defined benefit plans is as follows:

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years
Retirement benefits - defined benefit plan paid for by the Group	1,477	5,222	4,835
Seniority awards	2,274	16,154	36,786
Total	**3,751**	**21,376**	**41,621**

6 Net financial costs

Net financial costs represent interest on borrowings, interest on investments made, dividends, foreign exchange gains and losses in financial operations, gains and losses resulting from changes in the fair value of financial assets measured at fair value through profit and loss, and costs and income with financing operations. Net financial costs are accrued in the income statement in the period in which they are incurred.

Receivable dividends
Receivable dividends are recognised as revenues when the right to receive payment is established.

	2016	2015
Interest expense	(12,833)	(24,727)
Interest received	1,909	2,277
Dividends	63	68
Net foreign exchange	(3,090)	(125)
Other financial costs and gains	(3,405)	(3,990)
	(17,356)	**(26,497)**

Interest expense includes the interest on loans measured at amortised cost and interest on derivatives of fair-value hedge and cash flow hedge (note 12).

Other financial costs and gains include costs with debt issued by the Group, recognised in results through effective interest method.

7 Gains in disposal of business

As described in note 28, on 30 September 2016, the Group sold its subsidiary Monterroio - Industry & Services Investments B.V., and subsequently repurchased its interest in two subsidiaries of the latter: Jerónimo Martins - Restauração e Serviços, S.A. (100%) and Hussel Ibéria – Chocolates e Confeitaria, S.A. (51%).

The Group recognised a gain with these transactions of EUR 220,678 thousand, as presented below:

	2016
Proceeds net of cost to sell	303,464
Net assets divested	(81,457)
Cash and cash equivalents of divested business	(1,329)
Gains in disposal of business	**220,678**

From the total of net assets divested, EUR 83,367 thousand are related to joint ventures Unilever Jerónimo Martins and Gallo Worldwide (note 13).

8 Taxes

Income tax includes current and deferred taxes. Income tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in the same heading.

Tax on current income is calculated in accordance with tax criteria prevailing as of the balance sheet date.

Deferred tax is calculated in accordance with the balance sheet liability method on temporary differences between the carrying amount of assets and liabilities and the respective tax base. No deferred tax is calculated on Goodwill and initial recognition differences of an asset and liability if it does not affect statutory or tax results.

The measurement of deferred tax assets and liabilities should reflect the tax consequences that would follow from the manner in which the Group estimates, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

The rate used to determine deferred tax is that in force during the period when temporary differences are reversed.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be used. Deferred tax assets are revised on an annual basis and derecognised when it is no longer probable that they may be used.

8.1 Income tax

	2016	2015
Current income tax		
Current tax of the year	(129,693)	(123,787)
Adjustment to prior year estimation	1,879	1,218
	(127,814)	**(122,569)**
Deferred tax		
Temporary differences created and reversed	9,195	10,937
Change to the recoverable amount of tax losses and temporary differences from previous years	(625)	(756)
	8,570	**10,181**
Other gains/losses related to tax		
Impact of changes in estimates for tax litigations	(10,725)	(4,199)
	(10,725)	**(4,199)**
Total income tax	**(129,969)**	**(116,587)**

8.2 Reconciliation of effective tax rate

	2016		2015	
Profit before tax		**744,195**		**474,795**
Income tax using the Portuguese corporation tax rate	**22,5%**	**(167,444)**	**22.5%**	**(106,829)**
Fiscal effect due to:				
Different tax rates in foreign jurisdictions	(3.7%)	27,173	(4.8%)	22,812
Non-taxable or non-recoverable results	(1.6%)	12,062	5.9%	(27,902)
Non-deductible expenses and fiscal benefits	0.2%	(1,526)	0.6%	(2,836)
Adjustment to prior years estimation	(0.3%)	1,879	(0.3%)	1,218
Equity method	(0.2%)	1,600	(0.5%)	2,483
Change to the recoverable amount of tax losses and temporary differences of prior years	(0.0%)	198	(0.1%)	245
Results subject to special taxation	0.5%	(3,911)	1.2%	(5,778)
Income tax	**17,5%**	**(129,969)**	**24.6%**	**(116,587)**

In 2016 the effective tax rate is significantly influenced by the gain as a result of the divestment in Monterroio - Industry & Services Investments B.V. (note 7). Excluding the effect of this gain the effective tax rate in 2016 would be of 24,8%.

In 2016 and 2015, the Corporate Income Tax rate (CIT) applied to companies operating in Portugal was 21%. For companies with a positive tax result, there is a surcharge of 1.5% regarding municipal tax, and an additional state tax that varies between 3%, 5% and 7%, for taxable profits higher than EUR 1,500 thousand, EUR 7,500 thousand and EUR 35,000 thousand respectively, as applied in 2015.

In Poland, for 2016 and 2015, the income tax rate applied to taxable income was 19%.

In Colombia, the income tax rate was 34% in 2016 and 2015. If a taxable loss is determined, a tax rate of 3% is levied on the net asset value.

8.3 Deferred tax assets and liabilities

	2016	2015
Opening balance	**1,718**	**(7,541)**
Currency translation difference	287	(291)
Revaluation and reserves	156	(631)
Acquisition/disposal of business	(717)	-
Result of the year (note 7.1)	8,570	10,181
Closing balance	**10,014**	**1,718**

Deferred taxes are presented in the balance sheet as follows:

	2016	2015
Deferred tax assets	69,756	56,245
Deferred tax liabilities	(59,742)	(54,527)
	10,014	**1,718**

2016	Opening balance	Impact on results	Impact on equity	Acquisition/ disposal of business	Currency translation differences	Closing balance
Deferred tax liabilities						
Revaluation of assets	665	(2)	-	-	-	663
Deferred income for tax purposes	38,315	7,394	-	-	(1,191)	44,518
Differences on accounting policies in other cou	12,423	-	-	-	(412)	12,011
Derivative instruments	23	-	(78)	-	(1)	(56)
Other temporary differences	3,101	(494)	-	-	(1)	2,606
	54,527	**6,898**	**(78)**	**-**	**(1,605)**	**59,742**
Deferred tax assets						
Excess over legal provisions	34,251	15,119	-	(132)	(1,155)	48,083
Revaluation of assets	2,936	1,998	-	-	-	4,934
Employee benefits	9,234	516	145	(391)	-	9,504
Other temporary differences	9,824	(2,165)	(67)	(194)	(163)	7,235
	56,245	**15,468**	**78**	**(717)**	**(1,318)**	**69,756**
Net change in deferred tax	**1,718**	**8,570**	**156**	**(717)**	**287**	**10,014**

2015	Opening balance	Impact on results	Impact on equity	Currency translation differences	Closing balance
Deferred tax liabilities					
Revaluation of assets	1,074	(409)	-	-	665
Deferred income for tax purposes	42,746	(4,610)	-	179	38,315
Differences on accounting policies in other cou	12,394	2	-	27	12,423
Derivative instruments	-	-	23	-	23
Other temporary differences	2,676	425	-	-	3,101
	58,890	**(4,592)**	**23**	**206**	**54,527**
Deferred tax assets					
Excess over legal provisions	27,157	7,186	-	(92)	34,251
Revaluation of assets	3,821	(885)	-	-	2,936
Employee benefits	9,102	(52)	184	-	9,234
Derivative instruments	812	-	(813)	1	-
Other temporary differences	10,457	(660)	21	6	9,824
	51,349	**5,589**	**(608)**	**(85)**	**56,245**
Net change in deferred tax	**(7,541)**	**10,181**	**(631)**	**(291)**	**1,718**

8.4 Unrecognised deferred taxes on tax losses

The Group did not recognise deferred tax assets related to tax losses in respect of which, with reasonable accuracy, no sufficient future taxable profits are expected to guarantee the recovery of deferred tax assets in the short and/or medium-term. Total unrecognised tax assets is presented below:

Expiring date	Tax	
	2016	**2015**
2017	748	844
2018	3,387	2,898
2019	4,742	6,003
2020	6,618	4,793
2021 or further	61,814	40,001
	77,308	**54,538**

9 Tangible assets

Tangible assets are recognised at historical cost net of accumulated depreciation and impairment losses.

Historical cost includes the purchase price and any other expenditure that is directly attributable to the acquisition of the assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the operating profit.

Repairs and maintenance costs that do not extend the useful life of these assets are charged directly to the income statement during the financial period in which they are incurred. The cost of major store remodellings is included in the carrying amount of the asset when it is probable that additional economic benefits will flow to the Group. Whenever it is capitalised, the useful life of the asset is reviewed according with the characteristics of the remodelling. If the store is leased, the useful life does not exceed the period of the lease.

Depreciation

Depreciation is calculated by the straight-line method, on a monthly basis on acquisition cost according to the useful life estimated for each class of asset. The most important annual depreciation rates, in percentage, are as follows:

	%
Land	Not depreciated
Buildings and other constructions	2-4
Plants and machinery	10-20
Transport equipment	12.5-25
Office equipment	10-25

The estimated useful life of assets are reviewed and adjusted when necessary, at the balance sheet date. Residual values are not taken in consideration, as it is the Group’s intention to use the assets until the end of their economic life.

9.1 Changes occurred during the year

2016	Land and natural resources	Buildings and other constructions	Plants, machinery and tools	Transport equipment and others	Work in progress and advances	Total
Cost						
Opening balance	**447,317**	**2,649,510**	**1,524,879**	**219,960**	**224,452**	**5,066,118**
Foreign exchange differences	(7,296)	(41,799)	(20,758)	(2,729)	(981)	(73,563)
Increases	3,220	175,799	111,621	23,603	162,338	476,581
Disposals and write offs	(101)	(11,661)	(58,403)	(13,293)	(1,981)	(85,439)
Transfers and reclassifications	11,629	62,219	14,464	5,527	(94,675)	(836)
Acquisitions/Disposals of business	-	(715)	(5)	(397)	-	(1,117)
Closing balance	**454,769**	**2,833,353**	**1,571,798**	**232,671**	**289,153**	**5,381,744**
Depreciation and impairment losses						
Opening balance	**-**	**980,185**	**1,018,510**	**177,310**	**-**	**2,176,005**
Foreign exchange differences	-	(14,852)	(11,648)	(2,344)	-	(28,844)
Increases	-	136,482	128,400	15,534	-	280,416
Disposals and write offs	-	(8,908)	(53,499)	(13,184)	-	(75,591)
Transfers and reclassifications	-	(371)	(293)	(2)	-	(666)
Acquisitions/Disposals of business	-	(602)	(5)	(344)	-	(951)
Impairment losses	8,015	-	-	-	-	8,015
Closing balance	**8,015**	**1,091,934**	**1,081,465**	**176,970**	**-**	**2,358,384**
Net value						
As at 1 January 2016	**447,317**	**1,669,325**	**506,369**	**42,650**	**224,452**	**2,890,113**
As at 31 December 2016	**446,754**	**1,741,419**	**490,333**	**55,701**	**289,153**	**3,023,360**

2015	Land and natural resources	Buildings and other constructions	Plants, machinery and tools	Transport equipment and others	Work in progress and advances	Total
Cost						
Opening balance	**407,978**	**2,477,980**	**1,427,135**	**209,560**	**203,771**	**4,726,424**
Foreign exchange differences	(19)	(6,664)	(2,246)	(960)	(2,736)	(12,625)
Increases	8,165	152,554	122,542	11,967	99,618	394,846
Disposals and write offs	(370)	(24,234)	(32,045)	(5,740)	(1,396)	(63,785)
Transfers and reclassifications	12,363	47,316	9,493	5,133	(74,805)	(500)
Transfers from/to investment property	19,200	2,558	-	-	-	21,758
Closing balance	**447,317**	**2,649,510**	**1,524,879**	**219,960**	**224,452**	**5,066,118**
Depreciation and impairment losses						
Opening balance	**-**	**865,206**	**919,415**	**168,479**	**-**	**1,953,100**
Foreign exchange differences	-	(1,391)	(1,215)	(254)	-	(2,860)
Increases	-	133,237	131,689	14,788	-	279,714
Disposals and write offs	-	(17,522)	(31,317)	(5,640)	-	(54,479)
Transfers and reclassifications	-	(27)	(62)	(63)	-	(152)
Transfers from/to investment property	-	682	-	-	-	682
Closing balance	**-**	**980,185**	**1,018,510**	**177,310**	**-**	**2,176,005**
Net value						
As at 1 January 2015	**407,978**	**1,612,774**	**507,720**	**41,081**	**203,771**	**2,773,324**
As at 31 December 2015	**447,317**	**1,669,325**	**506,369**	**42,650**	**224,452**	**2,890,113**

There are no financial charges capitalised in tangible fixed assets.

9.2 Guarantees

No tangible assets have been pledged as security for the fulfilment of bank or other obligations.

9.3 Tangible assets in progress

Amounts in work in progress are mostly related to the implementation and refurbishment of stores and distribution centres.

10 Intangible assets

Intangible assets are stated at acquisition cost net of accumulated amortisation and impairment losses (note 2.5).

Costs associated with internally generated Goodwill and Private Brands are taken to the income statement as they are incurred.

Research and development expenditure

Research expenditure incurred in the search for new technical or scientific knowledge or alternative solutions are recognised in the income statement as incurred.

Development expenditure is recognised as an intangible asset when the technical feasibility of the product or process being developed can be demonstrated and the Group has the intention and capacity to complete their development and start trading or using them.

Capitalised development expenditure includes the cost of materials used and direct labour costs.

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, being amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software are recognised as an expense as incurred, except if those costs are directly associated with development projects that will probably generate future economic benefits (reliably measured), they are recognised as development expenditure in intangible assets.

Other intangible assets

Expenses to acquire key money, trademarks, patents and licences are capitalised when they are expected to generate future economic benefits and are expected to be used by the Group.

Intangible assets with indefinite useful life

The trademark Pingo Doce is, besides Goodwill, the only intangible asset with indefinite useful life, since there is no foreseeable limit for the period over which this asset is expected to generate economic benefits to the Group. Goodwill and the intangible assets with indefinite useful life are tested for impairment at the balance sheet date, and whenever there is an indication that the carrying amount may not be recoverable.

Amortisations

Amortisations are recognised in the income statement on a linear basis over the estimated useful life of the intangible assets, except if that life is considered indefinite.

Amortisation of the intangible assets is calculated by the straight-line method, on a duodecimal basis on acquisition cost. The most important annual amortisation rates, in percentage, are as follows:

	%
Development expenditure	20-33.33
Computer software	33.33
Key money	5-6.66

The estimated useful life of assets is reviewed and adjusted when necessary, at the balance sheet date.

10.1 Changes occurred during the year

2016	Goodwill	Develop. Expenses	Software, ind. property and other rights	Key money	Work in progress	Total
Cost						
Opening balance	**640,187**	**31,229**	**114,644**	**136,326**	**9,571**	**931,957**
Foreign exchange differences	(10,285)	(759)	(3,162)	(3,048)	(256)	(17,510)
Increases	-	1,586	2,278	357	1,644	5,865
Disposals and write offs	-	(128)	(133)	(1,228)	(5)	(1,494)
Transfers and reclassifications	-	488	5,551	382	(6,270)	151
Acquisitions and bussiness restructuring	-	-	(76)	-	-	(76)
Closing balance	**629,902**	**32,416**	**119,102**	**132,789**	**4,684**	**918,893**
Amortisation and impairment losses						
Opening balance	**-**	**28,545**	**14,692**	**78,924**	**-**	**122,161**
Foreign exchange differences	-	(716)	(210)	(1,666)	-	(2,592)
Increases	-	1,570	3,217	9,124	-	13,911
Disposals and write offs	-	(114)	(133)	(1,228)	-	(1,475)
Transfers and reclassifications	-	-	(2)	(17)	-	(19)
Acquisitions/Disposals of business	-	-	(76)	-	-	(76)
Closing balance	**-**	**29,285**	**17,488**	**85,137**	**-**	**131,910**
Net value						
As at 1 January 2016	**640,187**	**2,684**	**99,952**	**57,402**	**9,571**	**809,796**
As at 31 December 2016	**629,902**	**3,131**	**101,614**	**47,652**	**4,684**	**786,983**

2015	Goodwill	Develop. Expenses	Software, ind. property and other rights	Key money	Work in progress	Total
Cost						
Opening balance	**639,512**	**29,972**	**109,930**	**129,603**	**5,604**	**914,621**
Foreign exchange differences	675	39	35	128	(72)	805
Increases	-	771	2,385	7,164	7,128	17,448
Disposals and write offs	-	(80)	(256)	(857)	(91)	(1,284)
Transfers and reclassifications	-	527	2,550	288	(2,998)	367
Closing balance	**640,187**	**31,229**	**114,644**	**136,326**	**9,571**	**931,957**
Amortisation and impairment losses						
Opening balance	**-**	**26,949**	**11,715**	**69,763**	**-**	**108,427**
Foreign exchange differences	-	36	(66)	(77)	-	(107)
Increases	-	1,630	3,289	9,964	-	14,883
Disposals and write offs	-	(80)	(255)	(726)	-	(1,061)
Transfers and reclassifications	-	10	9	-	-	19
Closing balance	**-**	**28,545**	**14,692**	**78,924**	**-**	**122,161**
Net value						
As at 1 January 2015	**639,512**	**3,023**	**98,215**	**59,840**	**5,604**	**806,194**
As at 31 December 2015	**640,187**	**2,684**	**99,952**	**57,402**	**9,571**	**809,796**

The Group identified as intangible assets of indefinite useful life, besides Goodwill, the trademark Pingo Doce, with net value of EUR 9,228 thousand.

Development expenses mainly relate to IT implementations.

10.2 Guarantees

No intangible assets have been pledged as security for the fulfilment of bank or other obligations.

10.3 Intangible assets in progress

Intangible assets in progress the implementation of projects for processes simplification, usage rights and key money.

10.4 Impairment tests for Goodwill and other intangible assets

Goodwill is allocated to the Groups' business areas as presented below:

Business areas	**2016**	**2015**
Portugal Retail	246,519	246,519
Portugal Cash & Carry	83,836	83,836
Poland Health and Beauty Retail	8,797	9,099
Poland Retail	290,750	300,733
	629,902	**640,187**

As a consequence of the currency translation adjustment of the assets in the Group's businesses in Poland:

- the Goodwill related to the business in Poland (Biedronka), totalling PLN 1,282,278 thousand, was updated negatively by EUR 9,983 thousand;
- the Goodwill related to the Health and Beauty Retail business in Poland (Hebe), totalling PLN 38,796 thousand, was updated negatively by EUR 302 thousand.

In 2016, evaluations were made based on the value in use according to Discounted Cash Flows (DCF) evaluation models, thereby sustaining the recoverability of Goodwill value.

The values of these evaluations are determined by past performance and the expectation of market development, with future cash-flow projections, for a five year period, being drawn up for each of the businesses, based on medium/long term plans approved by the Board of Directors.

These estimates were made considering a discount rate between 7% and 8.3% for Portugal (2015: 7% and 8.3%) and between 8.5% and 10.1% for Poland (2015: 8.5% and 10.1%), and a perpetual growth rate between 0% and 1.5% for the various businesses (2015: 0% and 1.5%).

Pingo Doce brand is not being amortised but subject to impairment tests annually, with the same assumptions that are used for Goodwill. The same applies to intangible assets in progress.

11 Investment property

Investment property are land and buildings that are accounted at fair value, determined by specialised independent entities, with appropriate recognised professional qualifications and experience in valuing assets of this nature.

The fair value is based on market values, being the amount at which two independent willing parties would be interested in making a transaction of the asset.

The methodology adopted in the valuation and determination of fair value consists of applying the market's comparative method, in which the asset under valuation is compared with other similar assets that perform the same function, negotiated recently in the same location or in comparable zones. The known transaction values are adjusted to make a proper comparison, and the variables of size, location, existing infrastructure, state of conservation, as well as other variables that may be relevant in some way are considered.

In addition, and particularly in cases in which it is difficult to make a comparison with transactions that have occurred, an income approach is used. It is assumed that the value of the asset corresponds to the present value of all the future benefits and rights arising from its ownership.

For this purpose, an estimation of the market rent is used, considering all the endogenous and exogenous variables of the asset under valuation, and a yield that reflects the risk of the market of which that asset is a part, as well as the characteristics of the asset itself. Thus, the assumptions used in the evaluation of each asset vary according to its location and technical characteristics, using an average yield between 8% and 9%.

Changes to fair value of investment property are recognised in the income statement, in gains/losses in other investments, since it is related with assets owned for appreciation.

Whenever, as a result of changes in their expected use, tangible assets are transferred to investment property, the assets are measured at their fair value and any difference to their carrying amount is recognised in the income statement as revaluation surplus. Gains and losses in subsequent revaluations (fair value) are recognised in the income statement, in accordance with IAS 40.

If an investment property starts to be used by the business operations of the Group, it is transferred to tangible assets and its fair value at the date of transfer becomes its acquisition cost for accounting purposes.

	2016	2015
Opening balance	**20,387**	**42,947**
Increases due to acquisitions	-	2
Transfers	-	(21,075)
Changes in fair value	(3,562)	(1,487)
Disposals	(2,873)	-
Closing balance	**13,952**	**20,387**

The investment property relates to plots of land and buildings initially acquired for use in Group operations, and others actually used for that purpose for a period of time but which became redundant, either because they could not be used to build cash-generating units or because they are no longer in use as a result of the restructuring of operations carried out in them.

This category also includes recently acquired land, whose use has still not been determined, but whose market value is expected to increase.

Non-current assets are all the investment property that are not expected to be sold within a period of less than 12 months.

In 2016 the amount of income from investment property amounted to EUR 73 thousand (EUR 103 thousand in 2015), and costs were recognised in the amount of EUR 33 thousand (EUR 57 thousand in 2015).

12 Derivative financial instruments

The Group uses derivatives with the sole intention of managing any financial risks to which it is exposed. In accordance with its financial policies, the Group does not enter into speculative positions.

Whenever available, fair values are estimated based on quoted instruments. In the absence of market prices, fair values are estimated through discounted cash flow methods and option valuation models, in accordance with generally accepted assumptions.

Derivative financial instruments are recognised on the date they are negotiated (trade date), at their fair value. Subsequently, the fair value of derivative financial instruments is valuated on a regular basis, and the gains or losses resulting from this valuation are recorded directly in the income statement, except in relation to cash flow hedge derivatives, whose changes in fair value are recorded in equity, in the cash flow hedge reserve. Recognition of changes in the fair value of hedge instruments depends on the nature of the hedged risk and the type of hedge used.

Derivatives held for trading

Although derivatives entered by the Group correspond to effective economic hedges against risks to be hedged, not all of them qualify as hedge instruments for accounting purposes, according to IAS 39 rules.

Those that do not qualify as hedge instruments are booked on the balance sheet at fair value and changes to that amount are recognised in the profit and loss.

Hedge accounting

Derivative financial instruments used for hedging may be classified, from an accounting point of view, as hedge instruments, as long as they comply with all of the following conditions:

(i) At the starting date of the transaction, the hedge relationship is identified and formally documented, including identification of the item hedged, the hedge instrument, and evaluation of the effectiveness of the hedge;

(ii) There is the expectation that the hedge relationship will be highly effective on the initial transaction date and throughout the life of the operation;

(iii) The effectiveness of the hedge may be reliably measured on the initial transaction date and throughout the life of the operation;

(iv) For cash flow hedge operations, those cash flows must have a high probability of occurring.

Interest rate risk (cash flow hedge)

Whenever expectations surrounding movements in interest rates so justify, the Group tries to anticipate any adverse impact through the use of derivatives. The selection process that each instrument is subject to, favours economic contribution more than anything else. The implications of adding any new instrument to a portfolio of derivatives are also taken into account, namely, in terms of volatility impact on earnings.

The instruments that qualify as cash flow hedging instruments are booked at fair value on the balance sheet, and to the degree that they are considered effective, changes to their fair value are recognised in other comprehensive income. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast transaction or event that is hedged takes place). However, in the case of a hedge of a forecast transaction that results in the recognition of a non-financial asset (for example: inventory), the gains or losses previously deferred in equity are transferred and included in the initial measurement of the asset.

The gain or loss relating to the ineffective portion is recognised immediately in the income statement. This way, in net terms, all costs associated to the underlying exposure are carried at the interest rate of the hedging instruments.

When a hedge instrument expires or is sold, or when the hedge ceases to meet the criteria required for hedge accounting, the changes in the fair value of the derivative, that are accumulated in other comprehensive income, are recognised in the results when the hedged operation also affects the results.

Foreign exchange risk (net investments in foreign entities hedge)

With respect to foreign exchange risks, the Group follows a natural hedge policy, raising debt in local currency whenever market conditions are judged to be convenient (namely, taking into consideration the level of interest rates).

Exchange rate fluctuations in loans contracted in foreign currencies for the purpose of funding investments in foreign operations are taken directly to the currency translation reserve in other comprehensive income (note 2.2).

Cross currency swaps that are entered into with the purpose of hedging investments in foreign entities that qualify as hedging instruments are booked at fair value on the balance sheet. To the degree that they are considered effective, changes to their fair value are recognised directly in the currency translation reserve (note 2.2). The cumulative gains and losses recognised in other comprehensive income are transferred to results of the year when foreign entities are disposed.

		2016					Dec 2015			
	Notional	Assets		Liabilities		Notional	Assets		Liabilities	
		Current	Non-current	Current	Non-current		Current	Non-current	Current	Non-current
Cash flow hedging derivatives										
Interest rate swap (PLN)	200 million PLN	-	-	-	293	212 million PLN	-	122	-	-
Foreign operation investments hedging derivatives										
Currency forwards (PLN)	538 million PLN	1,277	-	317	-	338 million PLN	128	-	93	-
Total hedging derivatives		**1,277**	**-**	**317**	**293**		**128**	**122**	**93**	**-**
Total assets/liabilities derivatives		**1,277**	**-**	**317**	**293**		**128**	**122**	**93**	**-**

At 31 December 2016, the values shown include interest receivable or payable related to these financial instruments that are due. The net payable amount is EUR 1 thousand (2015: EUR 1 thousand).

Cash flow hedge

Interest rate swap

The Group fixes a portion of future interest payments on loans, through entering into interest rate swaps. The hedged risk is the variable interest rate index associated with the loans. The purpose of the hedge is to convert the loans with variable interest rate into fixed interest rate. The credit risk of the borrowing is not hedged. Nevertheless, the evaluation of JMH own credit risk and its incorporation in the fair value of derivative financial instruments recognised on the balance sheet would result in an immaterial impact as of 31 December 2016 and 2015. The Group had interest rate swaps in zlotys.

In summary:

	Currency	Loan amount	Hedged amount	Index hedged	Rate review date	Loan and hedge maturity
JMNK/2020	PLN	400,658	200,329	Wibor 3 months	March	June 2020

Hedging of investments in foreign entities

Currency forwards

The Group hedges the economic risk of its exposure to the exchange rate of zloty. To do so the Group entered into currency forwards, with maturities in April 2017.

Impacts on the Financial Statements

	2016	2015
Fair value of financial instruments as at 1 January	**157**	**(1,769)**
(Receipts) / payments made	1,377	16,755
Change in the fair value of cash flow hedge derivatives (others reserves)	(411)	4,101
Change in the fair value of cash flow hedge derivatives (foreign exchange differences)	(4)	(6)
Change in the fair value of net investment hedging derivatives (currency translation reserves)	(390)	(14,645)
Interest expenses from financial instruments that qualify as hedge accounting (income statement)	(62)	(4,279)
Fair value of financial instruments as at 31 December	**667**	**157**

13 Investments in joint ventures and associates

The joint ventures and associates are listed in note 30, and changes in these investments were as follows:

	Joint ventures		Associates		Total	
	2016	2015	2016	2015	2016	2015
Opening balance	**75,789**	**73,537**	**689**	**735**	**76,478**	**74,272**
Equity method:						
Net result	10,288	16,450	(17)	158	10,271	16,608
Dividends and other income received	(2,711)	(14,102)	-	(204)	(2,711)	(14,306)
Other comprehensive income	-	(96)	-	-	-	(96)
Disposals of business (nota 30)	(83,367)	-	(672)	-	(84,039)	-
Acquisitions of business	1	-	-	-	1	-
Closing balance	**-**	**75,789**	**-**	**689**	**-**	**76,478**

14 Inventories

Inventories are valued at the lower of cost or net realisable value. The net realisable value corresponds to the selling price in the ordinary course of business, less the estimated selling expenses.

Inventories are normally valued at the last acquisition cost, which considering the high rotation of inventories corresponds approximately to the actual cost that would be determined based on the FIFO method.

The cost of finished goods and work in progress comprises raw materials, direct labour, and other direct costs.

	2016	2015
Raw and subsidiary materials and consumables	3,928	3,657
Goods available for sale	749,951	663,095
Work in progress and finished goods	906	987
	754,785	**667,739**
Net realisable adjustment	(36,167)	(29,400)
Net inventories	**718,618**	**638,339**

No inventories have been pledged as guarantee for the fulfilment of contractual obligations.

15 Trade debtors, accrued income and deferred costs

Customers and debtor balances are amounts to be received regarding goods sold or services rendered in the ordinary course of the business. They are initially recognised at fair value, being subsequently measured at amortised cost in accordance with the effective interest rate method, net of any impairment losses (note 2.5).

	2016	2015
Non-current		
Other debtors	75,987	80,849
Collateral deposits associated to financial debt	34,367	34,367
Deferred costs	2,482	3,388
	112,836	**118,604**
Current		
Commercial customers	45,928	53,501
Other debtors	93,117	87,770
Other taxes receivable	11,364	11,754
Accrued income and deferred costs	160,721	124,250
	311,130	**277,275**

Non-current debtors include EUR 75,282 thousand relating to additional tax liquidation as well as pre-paid tax. The Group has already contested the amounts paid and made a legal claim for reimbursement (note 26).

The Group has EUR 34,367 thousand of remunerated deposits in financial institutions, with limited availability according to specific conditions, which is being used as a collateral guarantee for financial loans.

Accrued income includes basically supplementary gains contracted with suppliers, in the amount of EUR 148,502 thousand (2015: EUR 111,581 thousand).

The deferred costs include EUR 6,434 thousand of pre-paid rents, EUR 2,329 thousand of insurance costs and EUR 5,827 thousand of other costs attributable to future years and paid in 2016, or, if not yet paid, already charged by the entities.

Other debtors include an amount of EUR 17,713 thousand (2015: EUR 18,186 thousand), of guarantees mostly to landlords of stores.

Current debtors that are less than three months past their due date are not considered impaired. The ageing analysis of debtors that are past their due date is as follows:

	2016	2015
Debtors balances not considered impaired		
Less than 3 months past due	23,516	28,411
More than 3 months past due	21,912	17,258
	45,428	**45,669**
Debtors balances considered impaired		
Less than 3 months past due	284	549
More than 3 months past due	8,513	17,035
	8,797	**17,584**

Of the debtors balances not considered impaired, EUR 18,919 thousand (2015: EUR 6,595 thousand) are covered by credit guarantees and credit insurance.

Movements on impairment of trade receivables are as follows:

	2016	2015
Balance as at 1 January	**23,863**	**24,122**
Set up, reinforced and transfers	2,562	5,143
Unused and reversed	(1,189)	(4,506)
Foreign exchange difference	(232)	31
Used	(1,111)	(927)
Acquisitions and bussiness restructuring	(179)	-
Balance as at 31 December	**23,714**	**23,863**

16 Cash and cash equivalents

Cash and cash equivalents includes cash, deposits on hand and other short-term highly liquid investments with initial maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

	2016	2015
Bank deposits	524,941	129,946
Short-term investments	114,974	306,932
Cash and cash equivalents	3,597	4,810
	643,512	**441,688**

Bank deposits correspond to values in banks to meet current cash requirements as well as receipts from customers in transit.

Short-term investments correspond to time deposits in financial institutions.

Ratings of bank deposits and short-term investments are detailed in note 31.2.1.

17 Cash generated from operations

	2016	2015
Net results	**593,218**	**333,342**
Adjustments for:		
Non-controlling interests	21,008	24,866
Income tax	129,969	116,587
Depreciations and amortisations	294,327	294,599
Provisions and other operational gains and losses	31,619	10,767
Net financial costs	17,356	26,497
Gains/Losses on disposal of business	(220,678)	-
Gains/Losses in associated companies	(10,271)	(16,608)
Gains/Losses in other investments	4,974	1,423
Profit/ Losses in tangible and intangible assets	15,133	6,636
	876,655	**798,109**
Changes in working capital:		
Inventories	(99,646)	(77,220)
Trade debtors, accrued income and deferred costs	(2,160)	(3,936)
Trade creditors, accrued costs and deferred income	261,577	282,832
	1,036,426	**999,785**

18 Capital and reserves

Share capital

Share capital corresponds to the nominal value of the ordinary shares issued.

Share premium is recognised when the issued share price exceeds its nominal value. Costs incurred with the issuance of new shares are recognised directly in this heading, net of respective taxes.

Own shares purchased are shown at cost as a deduction in equity. When they are disposed, the amount received, net of costs related with the transaction and taxes, is recognised directly in equity.

Payable dividends

Payable dividends are recognised as a liability in the Group's Financial Statements in the period in which they are approved for distribution by the shareholders.

18.1 Share capital and share premium

Authorised share capital is represented by 629,293,220 ordinary shares (2015: 629,293,220).

The holders of ordinary shares have the right to receive dividends as established at the General Shareholder's Meeting and have the right to one vote for each share held. There are no preferential shares and the own shares rights are suspended until these shares are sold in the market.

During the year no changes occurred in the amount of EUR 22,452 thousand showed in share premium.

18.2 Own shares

At 31 December 2016, the Group held 859,000 own shares, acquired in 1999 at an average price of 7.06 euros per share. There were no transactions in 2016.

18.3 Dividends

Dividends distributed in 2016 totalling EUR 183,963 thousand, were paid to JMH shareholders in the amount of EUR 166,535 thousand, and to non-controlling interests in the Group Companies in the amount of EUR 17,428 thousand.

18.4 Other reserves and retained earnings

In the individual accounts of JMH duly states all conditions related to the use of reserves to be distributed comprised in Company equity. We therefore recommend reading this information.

19 Earnings per share

Basic and diluted earnings per share are calculated based on the net profit attributable to shareholders divided by the weighted average of outstanding ordinary shares.

19.1 Basic and diluted earnings per share

	2016	2015
Ordinary shares issued at the beginning of the year	629,293,220	629,293,220
Own shares at the beginning of the year	(859,000)	(859,000)
Shares issued during the year	-	-
Weighted average number of ordinary shares	**628,434,220**	**628,434,220**
Diluted net results of the year attributable to ordinary shares	593,218	333,342
Basic and diluted earnings per share – Euros	**0.9440**	**0.5304**

20 Borrowings

Borrowings are initially recognised at fair value less the transaction costs that were incurred and are subsequently measured at the amortised cost. Any difference between the issued value (net of transaction costs incurred) and the nominal value is recognised in the results during the period of the borrowings, in accordance with the effective interest rate method.

Borrowings are classified as current liabilities, unless the Group has the unconditional right to defer settlement of the liability for more than 12 months after the reporting date.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

In the first nine months of the year the Group financing needs for the Portuguese companies were supported by short-term instruments, mainly of commercial paper issues that were fully reimbursed by the end of September with the receipt from the sale of the subsidiary Monterroio.

For the Portuguese Companies, the Group uses grouped credit lines, which means that the maximum amount approved by a financial entity can be used simultaneously by more than one company. The amount of credit lines which are not being used, amount to EUR 137,000 thousand (2015: EUR 147,000 thousand).

In Poland, Jeronimo Martins Polska early repaid three loans in a total amount of PLN 700,000 thousand, which had initial maturity in 2017. The financing needs of the company were supported by loans from other Group companies and by short term bank credit lines which were increased in more than PLN 500,000 thousand.

The Jeronimo Martins Colombia renegotiated the terms and conditions of the credit lines which already held and increased the limits of its short term credit lines in COP 117,500,000 thousand.

20.1 Current and non-current loans

	2016	2015
Non-current loans		
Bank loans	111,823	384,291
Bond loans	-	150,000
Financial lease liabilities	3,006	131
	114,829	**534,422**
Current loans		
Bank overdrafts	-	8,831
Bank loans	73,622	114,491
Bond loans	150,000	-
Financial lease liabilities	959	188
	224,581	**123,510**

20.2 Loan terms and maturities

2016	Average rate	Total	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank loans					
Loans in PLN	2.35%	90,846	5,191	85,655	-
Loans in COP	8.60%	94,599	68,431	25,166	1,002
Bond Loans					
Loans	0.56%	150,000	150,000	-	-
Financial lease liabilities	2.70%	3,965	959	2,360	646
	-	**339,410**	**224,581**	**113,181**	**1,648**

2015	Average rate	Total	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank loans					
Commercial paper in EUR	2.31%	155,000	55,000	100,000	-
Loans in EUR	-	-	-	-	-
Loans in PLN	2.75%	263,503	5,369	258,134	-
Loans in COP	6.68%	80,279	54,122	15,250	10,907
Bond Loans					
Loans	3.45%	150,000	-	150,000	-
Bank overdrafts	3.02%	8,831	8,831	-	-
Financial lease liabilities	3.23%	319	188	131	-
	-	**657,932**	**123,510**	**523,515**	**10,907**

As a result of JMR bond loan refinancing, in December, and re-negotiation of Commercial Paper conditions, the average rates of these loans reduced significantly in 2016, from 3.45% to 0.56% and from 2.22% to 0.60%, respectively.

20.3 Bond loans

	2016	2015
Non-convertible bonds	150,000	150,000

In December 2015, JMR issued a bond loan in the amount of EUR 150,000 thousand, to be redeemed in December 2017. The interest rate is variable, and is indexed to the 6-month Euribor, being reviewed when the interest payment occurs, every six months, in December and June.

20.4 Financial debt

As the Group contracted several foreign exchange rate risk and interest risk hedging operations, as well as short-term investments, the net consolidated financial debt as at 31 December is:

	2016	2015
Non-current loans (note 20.1)	114,829	534,422
Current loans (note 20.1)	224,581	123,510
Derivative financial instruments (note 12)	(667)	(157)
Interest on accruals and deferrals	1,035	473
Bank deposits (note 16)	(524,941)	(129,946)
Short-term investments (note 16)	(114,974)	(306,932)
Collateral deposits associated to financial debt (note 15)	(34,367)	(34,367)
	(334,504)	**187,003**

21 Provisions

Provisions are recognised in the balance sheet whenever the Group has a present obligation (legal or implicit) as a result of a past event and it is probable that a rationally estimated outflow of resources embodying economic benefits will be required to settle the obligation.

Restructuring provision

Provisions for restructuring costs are set up whenever a formal restructuring plan has been approved by the Group and the restructuring has started to be implemented or has been announced publicly.

Provisions for restructuring include all liabilities to be paid with the implementation of the plan, including employee termination payments. These provisions do not include any estimated future operating losses or estimated profits from the disposal of assets.

Legal claims provision

Provisions related with litigation against Group Companies are set up in accordance with risk assessments carried out by the Group, with the support and advice of its legal advisers.

	2016	2015
Balance as at 1 January	**83,947**	**81,828**
Set up, reinforced and transfers	14,805	8,872
Unused and reversed	(9,410)	(3,495)
Foreign exchange difference	(77)	(14)
Used	(67,474)	(3,244)
Acquisitions/Disposals of business	(209)	-
Balance at 31 December	**21,582**	**83,947**

The provisions for risks and contingencies consists of provisions for possible compensation to be paid by the Group regarding guarantees provided in business sales agreements contracted over the last few years, provisions for restructuring plans, and provisions for litigation processes where there is no prospect of resolution in less than one year.

In 2016, the Group decided to replace part of the bank guarantees issued in favour of the Portuguese Tax Authority by the Special Programme for Reducing the Indebtedness to the State (PERES Plan) launched by the Portuguese Government. This replacement, definitively, delimits the value of the contingencies associated with the cases in question, as well as, it reduces the amount of interest and fines if the disputes in court do not have a favourable outcome.

As a result, the provisions related to the matters covered by this payment were used. The Board of Directors firmly believes in its arguments, and the processes follow their course in court.

22 Trade creditors, accrued costs and deferred income

Suppliers and other creditor’s balances are obligations to pay goods or services that have been acquired in the ordinary course of the business. They are initially recognised at the fair value and subsequently at the amortised cost, in accordance with the effective interest rate method.

Suppliers and other creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

	2016	2015
Non-current		
Other commercial creditors	5	1
Accrued costs and deferred income	788	812
	793	**813**
Current		
Other commercial creditors	2,560,840	2,359,812
Other non-commercial creditors	228,713	182,184
Other taxes payables	79,272	76,024
Accrued costs and deferred income	297,702	253,697
	3,166,527	**2,871,717**

The accrued costs, totalling EUR 284,049 thousand include salaries and wages to be paid to the employees, in the amount of EUR 132,961 thousand, interest payable in the amount of EUR 34,891 thousand and supplementary costs with the distribution and promotion of goods in the amount of EUR 12,441 thousand. The remaining EUR 103,757 thousand relates to sundry costs (utilities, insurance, consultants, rents, among others) for 2016, which had not been invoiced by the respective entities prior to the end of the year.

Deferred income totalling EUR 14,441 thousand comprises basically supplementary gains received in the amount of EUR 8,876 thousand, which are attributable to future years.

23 Guarantees

The bank guarantees are as follows:

	2016	2015
Guarantees provided to suppliers	18,779	17,900
Guarantees for Portuguese tax authorities	156,422	138,467
Financing bank guarantees	32,919	31,873
Other State guarantees	12,277	6,487
Other guarantees provided	4,599	3,551
Total of guarantees	**224,996**	**198,278**

Following the adhesion to PERES plan (note 21), the Group initiated the administrative procedures with the Portuguese Tax Authority to cancel the corresponding bank guarantees, which amount to EUR 85,242 thousand.

24 Operational lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operational leases. Payments made for these contracts are recognised in the income statement on a straight-line basis over the period of the leases.

The Group has liabilities relating to medium and long-term contracts which have penalty clauses if broken.

The future payments associated to the total of such contracts, are as follows:

	2016	2015
Payments in less than 1 year	97,007	85,228
Payments between 1 and 5 years	501,934	410,864
Payments in more than 5 years	2,029,321	1,895,389
	2,628,262	**2,391,481**

These amounts relate to store and warehouse rent contracts, with initial terms between five and 20 years, with an option to renegotiate after that period. The payments are updated annually reflecting inflation and/or market valuation.

As mentioned all these contracts are breakable, the majority of them with the payment of penalties. The liabilities relating to these penalties correspond mainly to the remaining rents until the end of the contract, which at the end of 2016, were of EUR 1,885,549 thousand (2015: EUR 1,913,435 thousand).

The operational lease contracts recognised as costs are analysed as follows:

	2016	**2015**
Buildings	301,326	299,639
Plants & machinery	10,823	10,599
Transport equipment	15,833	15,596
IT equipment	664	626
Others	3,149	4,056
	331,795	**330,516**

The difference to the rents stated in note 4 are costs with occasional renting in the amount of EUR 127 thousand (2015: EUR 140 thousand) deducted from rents related to exceptional operating gains/losses in the amount of EUR 0 thousand (2015: EUR 111 thousand).

25 Capital commitments

Capital expenditure contracted for at the balance sheet date amounted to EUR 60,103 thousand and refers, essentially, to work in progress, preliminary agreement for the acquisition of land, buildings and equipment whose public deeds will occur in due time.

There are no capital commitments assumed by the Group in relation to joint ventures and associates.

26 Contingencies

- Under non-current debtors (note 15), an amount of EUR 74,343 thousand relates to tax liquidations claimed by the Tax Administration.

The Board of Directors, supported by its tax and legal advisers, believes the Company has acted within the law and maintains the administrative and judicial claims filed against such settlements expecting their full recovery.

In this context, the Group immediately demanded total reimbursement of the amounts paid, as well as indemnity interest at the legal rate for the period between the payment date and its effective restitution date.

In 2012 one of the judicial proceedings was held to be well-grounded by the Court of Appeal (Tribunal Central Administrativo Sul), which ruled the cancellation of the referred liquidations and the payment of compensatory interests and of a compensation for the guarantees granted within the proceedings. The Group recognised the amount of compensatory interest due on this credit.

- The 2016 Portuguese State Budget law includes a transitory rule that could have a material impact for our Group and, in particular, for the JMR and Recheio subsidiaries.

According to this law 1/4 (one quarter) of all the book gains derived from internal transactions (i.e. transactions between affiliated companies within the same fiscal group) - that under the previous legal framework were not taxable unless i. a transaction with third parties took place or ii. the tax group was dissolved – are to be added to the 2016 collectable income and subject to Corporate Income Tax, with an advanced payment in July 2016.

In the late nineties, JMR and Recheio and its respective subsidiaries went through a significant restructuring process following several acquisitions and the decision to reorganise the Group's assets. The transactions between the several companies within the JMR and Recheio Groups were made according to the existing legal framework and in line with best practices (arm's length at market value) having generated suspended internal book gains.

Considering that the transactions were all internal, these book gains are obviously eliminated in the consolidation process while still being reflected in the individual accounts.

Based on the assessment of our legal and fiscal advisors, we firmly believe that there is sufficient ground to oppose the said rule. Therefore, we are not incorporating the considered amount that results from the application of this 2016 transitory rule - c. EUR 50,000 thousand in taxes – in Jerónimo Martins' results.

The 2017 Portuguese State Budget law included, once again, an identical rule, which may generate a similar impact for the Group. Likewise, we firmly believe that there are sufficient grounds to oppose to that rule.

- There are several disputes arising out of the ordinary course of the Group's businesses, and the most significant issues mentioned below are also pending resolution. With respect to these issues the Board of Directors, supported by the opinion of its tax and legal advisors, considers that there is enough ground for its appeal in court assesses the outcome of each proceedings, and for those where the Board estimates that a future cash outflow may occur a provision has been made in the respective amount, or, proceeding to its payment (see note 21), when it considers that is the best way to protect the Group's interests:

a) The Portuguese Tax Authorities claim from Recheio, SGPS, S.A. (Recheio SGPS) the amount of EUR 2,503 thousand concerning an additional assessment of Value Added Tax (VAT). The Tax Authorities challenged the VAT deduction method adopted by Recheio SGPS. Meanwhile, the Lisbon Tax Court ruled in favour of Recheio SGPS, amounting to EUR 1,753 thousand. Consequently the amount in dispute is now EUR 750 thousand;

b) The Portuguese Tax Authorities have informed Recheio SGPS that it should restate the dividends received, amounting to EUR 81,952 thousand, from its subsidiary in the Madeira Free Zone in the years 2000 to 2003, considering them as interest for tax purposes. According to the Portuguese Tax Authorities the said income should be subject to Corporate Income Tax (CIT) as opposed to dividends received that are exempt. The Portuguese Tax Authorities have issued additional assessments, amounting to EUR 20,888 thousand, of which EUR 19,581 thousand is still in dispute. In spite of a judicial claim that was ruled in favour of the Portuguese tax authorities, the Board of Directors maintains its convictions and claimed against them judicially;

c) The Portuguese Tax Authorities carried out some corrections to the CIT amount from Companies included in the perimeter of the Tax group headed by JMR – Gestão de Empresas de Retalho, SGPS, S.A. (JMR SGPS), which led to additional assessments concerning 2002 to 2013, amounting to EUR 71,957 thousand, of which is still in dispute an amount of EUR 65,163 thousand. In the meantime, the Lisbon Tax Court has ruled partially in favour of JMR regarding the 2002, 2004, 2005 and 2007 assessments;

d) The Portuguese Tax Authorities assessed Feira Nova – Hipermercados, S.A. (Feira Nova) and Pingo Doce – Distribuição Alimentar, S.A. (Pingo Doce) regarding 2002 to 2004, the amount of EUR 4,845 thousand. These additional assessments relate to the amount booked by these Companies as shrinkage (loss of inventory through crime or wastage) which was not accepted as a tax deductible cost for CIT purposes, and also the associated VAT since there was no evidence that the goods were not sold. Meanwhile, the Lisbon Tax Court ruled in favour of Feira Nova regarding all VAT assessments, amounting to about EUR 2,813 thousand. The remaining judicial claims are still under discussion in Court;

e) The Portuguese Tax Authorities have informed Jerónimo Martins, SGPS, S.A. (Jerónimo Martins), to restate the dividends received, amounting to EUR 10,568 thousand, from its subsidiary in the Madeira Free Zone in 2004 and 2005, considering them as interest for tax purposes. According to the Portuguese Tax Authorities the said income should be subject to CIT as opposed to the dividends received that are exempt. Regarding this correction the tax amount in dispute is EUR 3,065 thousand;

f) The Portuguese Tax Authorities carried out some corrections of VAT rates applied to certain goods sold by some Group Companies. With these corrections the total amount of assessments for the years 2005 to 2013 in Pingo Doce, Feira Nova and Recheio amounted to EUR 1,820 thousand, EUR 1,300 thousand and EUR 551 thousand, respectively;

g) The Portuguese Tax Authorities carried out some corrections to the CIT from Companies included in the perimeter of the Tax Group headed by Recheio SGPS. With these corrections the total assessments concerning 2007 to 2013, amount to EUR 14,936 thousand, of which is still in dispute an amount of EUR 14,186 thousand. The Lisbon Tax Court has already ruled in favour of Recheio SGPS regarding the 2008 assessment. However Tax Authorities have appealed the said decision;

h) The Portuguese Tax Authorities have informed Jerónimo Martins that they do not accept losses on capital gains associated with a liquidation of one Company and the sale of another, amounting to EUR 24,660 thousand, which generated a correction on the Company's tax losses regarding 2007, and an amount of tax estimated of EUR 6,800 thousand;

i) Sociedade Ponto Verde (SPV) claimed through a judicial proceeding against Pingo Doce, in September 2014, an amount of EUR 3,397 thousand (including outstanding interest), related to the Management of the secondary and tertiary packaging waste system. Pingo Doce contested considering that SPV does not manage that kind of waste and therefore no amount is due. The Court decided in favour of Pingo Doce, however SPV filed an appeal;

j) The Food and Veterinary Department (Direcção-Geral de Alimentação e Veterinária) claimed from Pingo Doce, Recheio and Hussel an amount of EUR 11,207 thousand, EUR 868 thousand and EUR 25 thousand, respectively, in respect of the Food Safety Tax (Taxa de Segurança Alimentar Mais – TSAM) assessed for the years 2012 to 2016. The values at stake have been challenged in Court, since it is understood that this tax is not due, namely on the grounds of the unconstitutional nature of the Statute that approved the TSAM. The disputes are still running its course. Despite, in two cases, the court having decided that the Food Safety Tax is not unconstitutional, the Companies maintain their understanding and have presented the respective appeal to higher courts.

27 Related parties

A related party is a person or entity that is related to the Group, including those that have or are subject to the influence or control of the Group.

27.1 Balances and transactions with related parties

56.136% of the Group is owned by the Sociedade Francisco Manuel dos Santos, B.V., with which the Group carried out the transactions described in note 28. Besides this, no other transactions occurred between this Company and any other company of the Group in 2016, neither were there any amounts payable or receivable between them on 31 December 2016.

Balances and transactions of Group Companies with related parties are as follows:

	Joint ventures (note 30)		Other related parties (*)	
	2016	**2015**	**2016**	**2015**
Sales and services rendered	7	47	167	89
Stocks purchased and services supplied	58,673	97,907	49,028	257

	Joint ventures (note 30)		Other related parties (*)	
	2016	**2015**	**2016**	**2015**
Trade debtors, accrued income and deferred costs	-	232	456	54
Trade creditors, accrued costs and deferred income	-	5,556	8,329	9

(*) Entities controlled by the major Shareholder of Jerónimo Martins and entities owned or controlled by members of the Board of Directors. Includes balances and transactions with Monterroio and its subsidiaries, starting on 1 August 2016.

All the transactions with related parties were made under normal market conditions, meaning, the transaction value corresponds to prices that would be applicable between non-related parties.

Outstanding balances between Group Companies and related parties, as a result of trade agreements, are settled in cash, and are subject to the same payment terms as those applicable to other agreements contracted between Group Companies and their suppliers.

There are no provisions for doubtful debts and no costs were recognised during the year related with bad debts or doubtful debts with these related parties.

27.2 Remuneration paid to Directors and Senior Managers

The costs incurred with fixed and variable remuneration and contributions to the pension plans attributed to the Directors and Senior Managers were as follows:

	2016	**2015**
Salaries and other short-term employee benefits	20,069	16,647
Post-employment benefits	447	379
Other benefits	1,559	1,391
Total	**22,075**	**18,417**

The Board of Directors of the Company consisted of 9 Members at the end of 2016. The average number of Senior Managers of the Group was 78 (2015: 76).

Senior Managers are considered to be the Members of the Managing Committee and leading teams of the Group's business units and the Directors of the Corporate Centre.

The remuneration policy of the Board of Directors and of the Supervisory Board are stated in this Annual Report in the Corporate Governance Chapter.

The post-employment benefits granted to the Directors and the Senior Managers are part of the defined contribution plan described in note 5.2.

The cost incurred with other benefits refer to long-term benefits and are described in note 5.2.

28 Group subsidiaries

Group control is ensured by the parent Company, Jerónimo Martins, SGPS, S.A..

The tables below list the subsidiaries of Jerónimo Martins Group, fully consolidated.

Company	Business area	Head office	% Owned
Jerónimo Martins, SGPS, S.A.	Business portfolio management	Lisbon	-
Jerónimo Martins - Serviços, S.A.	Human resources top management	Lisbon	100.00
Beleggingsmaatschappij Tand B.V.	Business portfolio management and financial services	Amsterdam (Holland)	100.00
New World Investments B.V.	Business portfolio management and financial services	Amsterdam (Holland)	100.00
Origins - Agro Business Investments B.V.	Business portfolio management and financial services	Amsterdam (Holland)	100.00
Tagus - Retail & Services Investments B.V.	Business portfolio management and financial services	Amsterdam (Holland)	100.00
Warta - Retail & Services Investments B.V.	Business portfolio management and financial services	Amsterdam (Holland)	100.00
Desimo - Desenvolvimento e Gestão Imobiliária, Lda.	Real estate management and administration and trade marks	Lisbon	100.00
Friedman - Sociedade Investimentos Mobiliários e Imobiliários, Lda.	Provision of services in the economic and accounting area	Funchal	100.00
Funchalgest - Sociedade Gestora de Participações Sociais, S.A.	Business portfolio management	Funchal	75.50
Jerónimo Martins - Restauração e Serviços, S.A.	Food retail stores	Lisbon	100.00
Hussel Ibéria - Chocolates e Confeitaria, S.A.	Retail sale of chocolates, confectionery and similar products	Lisbon	51.00
Jeronimo Martins Colombia S.A.S.	Trading and distribution of consumer goods	Bogotá (Colombia)	100.00
Jerónimo Martins – Agro-Alimentar, S.A.	Other business support service activities, non-specific	Lisbon	100.00
Best-Farmer – Actividades Agro-Pecuárias, S.A.	Growing of crops combined with farming of animals (mixed farming)	Lisbon	100.00
Jerónimo Martins - Lacticínios de Portugal, S.A.	Manufacture of milk and dairy products	Portalegre	100.00
Seaculture - Aquicultura, S.A.	Saline brackish waters aquaculture	Lisbon	100.00
JMR - Gestão de Empresas de Retalho, SGPS, S.A.	Business portfolio management in the area of retail distribution	Lisbon	51.00
JMR - Prestação de Serviços para a Distribuição, S.A.	Retail management, consultancy and logistics	Lisbon	51.00
Pingo Doce - Distribuição Alimentar, S.A.	Retail sales in supermarkets	Lisbon	51.00
Imoretalho - Gestão de Imóveis, S.A.	Real estate management and administration	Lisbon	51.00
Escola de Formação Jerónimo Martins, S.A.	Training	Lisbon	51.00
EVA - Sociedade de Investimentos Mobiliários e Imobiliários, Lda.	Provision of services in the economic and financial areas and investment management	Funchal	51.00
Lidosol II - Distribuição de Produtos Alimentares, S.A.	Retail sales in supermarkets	Funchal	51.00
Lidinvest - Gestão de Imóveis, S.A.	Real estate management and administration	Funchal	51.00
Jerónimo Martins Retail Services, S.A.	Trademarks management	Klosters (Switzerland)	51.00
Jerónimo Martins Finance Company (2), Designated Activity Company	Financial services	Dublin (Ireland)	51.00
Recheio, SGPS, S.A.	Business portfolio management in wholesale and retail distribution	Lisbon	100.00
Recheio - Cash & Carry, S.A.	Wholesale of food and consumer goods. Including maritime-tourist activities	Lisbon	100.00
Imocash - Imobiliário de Distribuição, S.A.	Real estate management and administration	Lisbon	100.00
Larantigo - Sociedade de Construções, S.A.	Real estate purchase and sale	Lisbon	100.00
Masterchef, S.A.	Retail sales and/or wholesale of food or non-food products	Lisbon	100.00
Caterplus - Comercialização e Distribuição de Produtos de Consumo, Lda.	Wholesale of other food products	Lisbon	100.00
João Gomes Camacho, S.A.	Wholesale of food and consumer goods	Funchal	100.00
Jeronimo Martins Polska S.A.	Retail and wholesale of food and consumer goods	Kostrzyn (Poland)	100.00
Optimum Mark Sp. z o.o.	Trademarks management	Warsaw (Poland)	100.00
JM Nieruchomosci - Sp. z o.o.	Provision of services in the area of wholesale and retail distribution	Kostrzyn (Poland)	100.00
JM Nieruchomosci - Sp. Komandytowo-akcyjna	Real estate management and administration	Kostrzyn (Poland)	100.00
Jeronimo Martins Drogerie i Farmacja Sp. z o.o.	Provision of services in the area of wholesale and retail distribution	Kostrzyn (Poland)	100.00
Bliska Sp. z o.o.	Retail sale of pharmaceutical, orthopaedic and health products	Warsaw (Poland)	100.00

On 30 September 2016, the Group sold 100% of the share capital of its subsidiary Monterroio – Industry & Investments B.V. (´Monterroio´) to Sociedade Francisco Manuel dos Santos B.V., which represented a cash inflow of EUR 310,000 thousand.

Monterroio was the sub-holding for manufacturing and services businesses comprising its subsidiaries Jerónimo Martins – Distribuição de Produtos de Consumo, Lda. and Jerónimo Martins – Restauração e Serviços, S.A., fully owned (100%), as well as the shareholdings in Unilever Jerónimo Martins, Lda. (45%), Gallo Worldwide, Lda. (45%), Hussel Ibéria – Chocolates e Confeitaria, S.A. (51%) and Perfumes e Cosméticos Puig Portugal – Distribuidora, S.A. (27.545%).

Considering the strategic fit of these businesses within Jerónimo Martins' portfolio, the above-mentioned parties, agreed on the buy back, as from 31 December 2016, of 100% of the share capital in Jerónimo Martins Restauração e Serviços, S.A. and of 51% of the share capital in Hussel Ibéria – Chocolates e Confeitaria, S.A.

The impact of this transaction in Jerónimo Martins is detailed in note 7 of this Chapter.

In December 2016, the Group reorganized the corporate structure of the companies based in the Madeira archipelago. With this reorganization, the Group now holds 100% of the company João Gomes Camacho, SA, which operates stores included in the wholesale business unit Recheio, and reduced its shareholding in Lidosol II - Distribuição de Produtos Alimentares, SA and Lidinvest - Gestão de Imóveis, SA, included in the business unit of JMR (Pingo Doce supermarkets), from 75.5% to 51%.

These operations led to an increase in retained earnings amounted EUR 2,605 thousand and an equal reduction in non-controlling interests.

29 Financial information on subsidiaries with material non-controlling interests

The non-controlling interests as at 31 December 2016 were EUR 252,500 thousand (2015: EUR 251,526 thousand), of which EUR 251,842 thousand (2015: EUR 250,833 thousand) related to JMR Group (Portugal Retail), where Ahold Delhaize Group holds a stake c. 49%.

The Financial Statements of this business unit, fully consolidated, include the following amounts related to assets, liabilities and earnings:

	2016	2015
Non-current assets	1,394,194	1,371,117
Current assets	339,339	328,493
Non-current liabilities	(35,157)	(241,853)
Current liabilities	(1,190,944)	(944,632)
Net assets	**507,432**	**513,125**
Revenue	3,914,632	3,729,140
Net profit	40,691	48,369
Other comprehensive income	(2)	1,216
Total comprehensive income	**40,689**	**49,585**

30 Interests in joint ventures and associates

Set out below are the joint ventures and associates of the Group, consolidated by the equity method:

Company	Business area	Head office	% Owned
Marismar - Aquicultura Marinha, Lda.	Saline brackish waters aquaculture	Funchal	50.00

As described in note 28, the Group sold 100% of the share in the subsidiary Monterroio, the sub-holding for manufacturing and services businesses, which included the shareholdings in the joint ventures Unilever Jerónimo Martins, Lda. (45%) and Gallo Worldwide, Lda. (45%), and also the associated company Perfumes e Cosméticos Puig Portugal – Distribuidora, S.A. (27.545%).

The impacts of the referred transaction are detailed in note 7.

31 Financial risks

Jerónimo Martins is exposed to several financial risks, namely: pricing risk, which includes exchange rate risk, interest rate risk and price risk, transactional risk, which includes liquidity risk and credit risk, and the risk arising from the Group's portfolio of investments, covering various risks such as interest rate, credit, foreign exchange, inflation, political and fiscal.

The management of these risks is focused on the unpredictable nature of the financial markets and aims to minimise their adverse effects on the Group's financial performance.

Certain types of exposure are managed using financial derivative instruments.

The activity in this area is carried out by the Financial Operations Department, under the supervision of the Chief Financial Officer, and is responsible, with the cooperation of the financial teams of the companies, for identifying, assessing and hedging financial risks by following the guidelines set out in the Financial Risk Management Policy that was approved by the Board of Directors in 2016.

Every quarter, reports on compliance with the Financial Risk Management Policy are presented to and discussed with the Audit Committee.

31.1 Pricing risk

31.1.1 Foreign exchange risk

The main source of exposure to foreign exchange risk comes from Jerónimo Martins' operations in Poland. There is also a currency risk that comes from the investment in Colombia.

At 31 December 2016, a depreciation of the zloty against the euro of around 10% would have a negative impact on the net investment of EUR 98,267 thousand (2015: EUR 86,989 thousand). Jerónimo Martins vulnerability to this risk did not increase, given the natural hedge of the exposure, through financing in zlotys.

In addition to this exposure, within the scope of the commercial activities of its subsidiaries, the Group acquires merchandise denominated in foreign currency, mainly zloty and US dollars for the Portuguese companies, and euros and US dollars for the Polish Companies and for the Colombian company. As a general rule, these transactions involve low amounts and are very short dated. Notwithstanding, when the cash flow exceeds EUR 1,000 thousand the Group's policy is to cover 100% of its value.

The Management of the operational Companies' exchange rate risk is centralised in the Group's Financial Operations Department. Whenever possible, exposure is managed through natural hedges, namely through loans denominated in local currency. When this is not possible, hedging structures are contracted using instruments such as swaps, forwards or options.

The Group's exposure to foreign exchange risk in financial instruments recognised on and off balance sheet as at 31 December 2016 was as follows:

As at 31 December 2016	Euro	Zloty	Colombian peso	Total
Assets				
Cash and cash equivalents	200,908	432,641	9,963	643,512
Available-for-sale financial investments	1,000	-	-	1,000
Trade debtors and deferred costs	102,496	218,026	1,503	322,025
Derivative financial instruments	-	1,277	-	1,277
Total financial assets	**304,404**	**651,944**	**11,466**	**967,814**
Liabilities				
Borrowings	150,392	94,418	94,600	339,410
Derivative financial instruments	-	610	-	610
Trade creditors, accrued costs and deferred income	970,696	1,897,734	76,897	2,945,327
Total financial liabilities	**1,121,088**	**1,992,762**	**171,497**	**3,285,347**
	-	-	-	-
Net financial position in the balance sheet	**(816,684)**	**(1,340,818)**	**(160,031)**	**(2,317,533)**
As at 31 December 2015				
Total financial assets	239,194	487,041	5,673	731,908
Total financial liabilities	1,245,874	1,974,260	120,556	3,340,690
Net financial position in the balance sheet	**(1,006,680)**	**(1,487,219)**	**(114,883)**	**(2,608,782)**

31.1.2 Interest rate risk (cash flow and fair value)

All financial liabilities are directly or indirectly indexed to a reference interest rate, which exposes Jerónimo Martins to cash flow risk. A given portion of this risk is hedged through interest rate swaps, thus the Group is also exposed to fair value risk.

Exposure to interest rate risk is monitored continuously. In addition to evaluating future interest costs based on forward rates, sensitivity tests to variations in interest rate levels are performed. The Group is essentially exposed to the euro and the zloty interest rate curves, and starting now to have some exposure to the colombian peso interest rates.

The sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect interest gains and losses on financial instruments, traded at variable interest rates;
- Changes in market interest rates only affect gains and losses in interest on financial instruments with fixed interest rates if these are recognised at fair value;
- Changes in market interest rates affect the fair value of derivative financial instruments and other financial assets and liabilities;
- Changes in the fair value of derivative financial instruments and other financial assets and liabilities are estimated by discounting future cash flows from current net values, using the market rates at the valuation date.

For each analysis, whatever the currency, the same changes to the yield curves are used. The analyses are carried out for the net debt, meaning deposits and short-term investments with financial institutions and derivative financial instruments are deducted. Simulations are performed based on net debt values and the fair value of derivative financial instruments as of the reference dates and the respective change in the interest rate curves.

Based on the simulations performed on 31 December 2016, and ignoring the effect of interest rate derivatives, and considering that the Group is in a cash surplus position, a rise of 50 basis points in interest rates, with everything else remaining constant, would have a positive impact of EUR 1,669 thousand (2015: negative in EUR 936 thousand). These simulations are carried out at least once a quarter, but are reviewed whenever there are relevant changes, such as debt issuance, debt repayment or restructuring, significant variations in reference rates and in the slope of the interest rate curve.

Interest rate risk is managed through operations involving financial derivatives contracted at zero cost at the initial moment.

31.2 Transactional risk

31.2.1 Credit risk

The Group manages centrally its exposure to credit risk on bank deposits, short-term investments and derivatives contracted with financial institutions. The Financial Departments of the business units are responsible for the management of credit risk on its customers and other debtors.

The financial institutions that Jerónimo Martins chooses to do business with are selected based on the ratings they receive from one of the independent benchmark rating agencies. Apart from the existence of a minimum accepted rating there is also a maximum exposure to each of these financial institutions.

However, in each Company the bank that collects the deposits from stores may have a lower rating than the one defined in the general policy, although the maximum exposure cannot exceed two days of sales of the operating Company.

The following table shows a summary of the credit quality on bank deposits and short-term investments and derivative financial instruments with positive fair value, as at 31 December 2016 and 2015:

Financial institutions	Rating	Balance 2016	2015
Standard & Poor's	[A+ : AA]	-	224
Standard & Poor's	[BBB+ : A]	174,582	121,914
Standard & Poor's	[BB+ : BBB]	186,859	149,305
Standard & Poor's	[B+ : BB]	72,328	35,454
Standard & Poor's	[B]	-	-
Moody's	Caa1	752	1,251
Moody's	P -1	70,802	-
Fitch's	[A- : A+]	70,050	59,375
Fitch's	[BBB- : BBB+]	64,616	69,251
Fitch's	[B- : B+]	597	117
	Not available	313	237
Total		**640,899**	**437,128**

The ratings shown correspond to the notations given by Standard & Poor's. When these are not available Moody's or Fitch's notations are used instead.

With regard to customers, the risk is mainly limited to Cash & Carry and to the Services businesses (until July 2016), since the other businesses operate based on sales paid with cash or bank cards (debit and credit). This risk is managed based on experience and individual customer knowledge, as well as through credit insurance and by imposing credit limits which are monitored on a monthly basis and reviewed annually by Internal Audit.

The following table shows an analysis of the credit quality of the amounts receivable from customers and other debtors without non-payment or impairment:

Credit quality of the financial assets	2016	2015
New customer balances (less than six months)	170	1,262
Balances of customers without a history of non-payment	49,708	50,357
Balances of customers with a history of non-payment	6,071	14,262
Balances of other debtors with the provision of guarantees	5,502	3,921
Balances of other debtors without the provision of guarantees	98,025	91,650
	159,476	**161,452**

The following table shows an analysis of the concentration of credit risk from amounts receivable from customers and other debtors, taking into account its exposure for the Group:

Concentration of the credit risk from the financial assets	2016		2015	
	No.	Balance	No.	Balance
Customers with a balance above 1,000,000 euros	4	8,886	7	16,252
Customers with a balance between 250,000 and 1,000,000 euros	19	7,191	22	8,611
Customers with a balance below 250,000 euros	7,617	39,481	8,678	40,797
Other debtors with a balance above 250,000 euros	46	49,968	45	50,184
Other debtors with a balance below 250,000 euros	4,439	53,950	4,056	45,608
	12,125	**159,476**	**12,808**	**161,452**

The maximum exposure to credit risk as at 31 December 2016 and 2015 is the financial assets carrying value.

31.2.2 Liquidity risk

Liquidity risk is managed by maintaining an adequate level of cash or cash equivalents, as well as by negotiating credit limits that not only ensure the regular development of Jerónimo Martins' activities, but that also ensure some flexibility to be able to absorb shocks unrelated to Company activities.

Treasury needs are managed based on short-term planning, executed on a daily basis, which derives from the annual plans that are reviewed regularly during the year.

The following table shows Jerónimo Martins' liabilities by intervals of contractual residual maturity. The amounts shown in the table are the non-discounted contractual cash flow. In addition, it should be noted that all the derivative financial instruments that the Group contracts are settled at net value.

Exposure to liquidity risk

2016	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**
Borrowings			
Financial leasing	959	2,360	646
Bond loans	150,670	-	-
Other loans	80,807	119,572	1,041
Derivative financial instruments	205	376	-
Creditors	2,789,553	-	-
Operational lease liabilities	97,093	506,387	2,009,126
Total	**3,119,287**	**628,695**	**2,010,813**

2015	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**
Borrowings			
Financial leasing	193	137	-
Bond loans	650	155,644	-
Commercial paper	55,658	100,000	-
Other loans	81,130	292,734	-
Creditors	2,541,996	-	-
Operational lease liabilities	321,101	1,161,894	1,879,775
Total	**3,000,728**	**1,710,409**	**1,879,775**

Jerónimo Martins has entered into some covenants in its loan agreements for the medium and long term debt in place.
These covenants include:

- Limitation on sales and pledge of assets above a certain amount;
- Limitation on mergers and/or demergers when these imply the reduction of assets in the consolidation perimeter;
- Limitation in the dividend payment of the subsidiary that issued the debt;
- Change of control clause;
- A limit on the ratios of Net Debt/EBITDA and EBITDA/Financial Results.

In some cases, the breach of these covenants may trigger the early redemption of the associated debt. At the end of December 2016 the Group was in full compliance with the covenants assumed on the debt loans in place.

31.3 Capital risk management

Jerónimo Martins seeks to keep its capital structure at appropriate levels so that it not only ensures the continuity and development of its activity, but also to provide adequate returns to its shareholders and to optimise the cost of capital.

Balance of the capital structure is monitored based on the financial leverage ratio (Gearing), calculated according to the following formula: Net Debt / Shareholder Funds and by the ratio Net Debt/EBITDA. The Board established a target for the Gearing ratio below 100%, consistent with an investment grade rating, the ratio Net Debt/EBITDA below 3.

The Gearing ratios as at 31 December 2016 and 2015 were as follows:

	2016	**2015**
Capital invested	1,656,008	1,780,222
Net debt	(334,504)	187,003
Shareholder´s funds	1,990,511	1,593,219
Gearing	**(16.8%)**	**11.7%**

32 Additional information required by law

In accordance with article 508-F of the Portuguese Commercial Companies Code, we hereby inform of the following:

a) In addition to all operations described in the notes above, as well as in the Management's Report, there are no other operations considered relevant that are not already contained either in the balance sheet or its annex;

b) The total remuneration paid to the External Auditor and Statutory Auditor in 2016 was EUR 847 thousand, of which EUR 756 thousand correspond to statutory audit of the accounts, while the remaining EUR 91 thousand, thousands, reference is made to those concerning access to a tax database, audit reliability services under applicable laws in the countries where the Group operates, support services in the field of human resources and certification of the carbon footprint calculation;

c) Note 27 of the Notes to the Consolidated Financial Statements includes all the related parties disclosures, in accordance with the International Accounting Standards.

33 Events after the balance sheet date

Where events occur after the balance sheet date that provide evidence of conditions that existed at the end of the reporting period, the impact of these events is adjusted within the Financial Statements. Otherwise, events after the balance sheet date of a material size or nature are disclosed below.

At the conclusion of this Report there were no relevant events to highlight that are not disclosed in the Financial Statements.

Lisbon, 21 February 2017

The Certified Accountant **The Board of Directors**

Statement of the Board of Directors

Within the terms of paragraph c), number 1 of article 245 of the Portuguese Securities Code, the members of the Board of Directors, identified below, declare that to the best of their knowledge:

i) the information contained in the management report, the annual accounts, the Auditors' Report and all other accounting documentation required by law or regulation, was produced in compliance with the applicable accounting standards and gives a true and fair view of the assets and liabilities, the financial position and the results of Jerónimo Martins, SGPS, S.A. and the companies included in the consolidation perimeter; and

ii) the Management report is a faithful statement of the evolution of the businesses, of the performance and of the position of Jerónimo Martins, SGPS, S.A. and the companies included within the consolidation perimeter, and contains a description of the main risks and uncertainties which they face.

Lisbon, 21 February 2017

Pedro Manuel de Castro Soares dos Santos
(Chairman of the Board of Directors and Chief Executive Officer)

Andrzej Szlezak
(Member of the Board of Directors)

António Pedro de Carvalho Viana-Baptista
(Member of the Board of Directors)

Arthur Stefan Kirsten
(Member of the Board of Directors)

Clara Christina Streit
(Member of the Board of Directors and Member of the Audit Committee)

Francisco Seixas da Costa
(Member of the Board of Directors)

Hans Eggerstedt
(Member of the Board of Directors and Member of the Audit Committee)

Henrique Soares dos Santos
(Member of the Board of Directors)

Sérgio Tavares Rebelo
(Member of the Board of Directors and Chairman of the Audit Committee)

Statutory Audit Report and Auditors' Report issued in accordance with paragraph 1 b) of article No. 245 of the Portuguese Securities Market Code

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Jerónimo Martins, SGPS, S.A. (the Group), which comprise the consolidated balance sheet as at December 31, 2016 (which shows total assets of Euro 5,685,642 thousand and total shareholders' equity of Euro 1,990,511 thousand including a net profit of Euro 593,218 thousand), the consolidated statement of income by functions, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Jerónimo Martins, SGPS, S.A. as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Summary of audit approach*
Vendor allowances/ Supplementary gains	
Disclosures related to vendor allowances/ supplementary gains, associated with supply contracts, included in cost of sales, are presented in notes 4, 14 and 15 to the consolidated financial statements. The allowances associated with contracts with suppliers present various forms of credits and discounts. According to IAS 2 - Inventories, the discounts obtained in the contracts with vendors (vendor allowance/ supplementary gains) are a component of the cost of the inventory and are recognized in the income statement when the products are sold. As at December 31, 2016, cost of sales amounts to Euro 11,509 million, net of these allowances. The calculation of the amount of discounts to be deducted from the cost of sales depends partially on the determination of the purchases of the products to which they relate and on the quantities which at the date of the balance sheet are still in the inventory and those which have already been sold. In addition, the process of calculating and accounting for vendor allowances/ supplementary gains, which assume material amounts, involves manual processes that are more susceptible to the occurrence of errors in the consolidated financial statements, for which we consider a relevant audit matter.	Understanding, evaluating and testing controls over the Supplementary gains processes. Understanding and performing test on interfaces between the systems used to manage supplementary gains and the accounting. Testing the accuracy of key inputs to individual supplier's agreements, for a sample of inputs and re-performing amounts accounted for. Obtaining confirmations from suppliers for a sample of allowances. Identification of any significant transactions recorded as manual adjustments and obtain evidence to support the amount and its accounting in the correct period. Performing analytical procedures namely, monthly supplementary gains vs prior years, ratio analysis to sales vs prior years and ratio analysis vs purchases as well as comparing to prior year and other relevant variables. Performing year-end cut-off procedures to determine whether amounts were recorded in the correct period. Verifying the adequacy of the disclosures presented in the consolidated financial statements.
Tax litigations	
Disclosures related to provisions and contingencies, namely tax litigations, are presented in notes 21 and 26 to the consolidated financial statements. Management constantly monitors the inherent risk of tax matters and current disputes with the	Understanding and evaluating the monitoring processes over tax litigation and claims. Reviewing minutes of meetings and performing inquires to management, to the legal department and to the fiscal department.

Key Audit Matters	*Summary of audit approach*
tax authorities. Based on the opinion expressed by the Group legal and tax advisors and the judgment made by Management, disagreements with the tax authorities, are recognized as liabilities or disclosed as a contingent liability in the consolidated financial statements, in accordance with IAS 37 – Provisions, contingent liabilities and contingent assets. As at December 31, 2016, the Group presents an open amount of approximately Euro 20 million of tax contingencies, net of provisions and payments under special tax regimes. Additionally, there is a litigation, coming from the State Budget for 2016 and 2017, regarding the taxation of gains from previous years that resulted from intercompany transactions, amounting to Euro 50 million in each year. The complexity and the degree of judgment inherent to these tax matters, as well as the level of uncertain associated with the respective outcome, makes it to be a key audit matter for the purposes of our audit.	Confirming with lawyers representing the Group on the development of said disputes. Independent analysis of the ongoing tax disputes. Verifying the adequacy of the disclosures presented in the consolidated financial statements.
Fixed Assets – Stores	
Disclosures related to fixed assets are presented in note 9 to the consolidated financial statements. According to IAS 16 – Property, plant and equipment, fixed assets used by the business are accounted for at acquisition cost less depreciation and possible impairment losses. The Group operates a significant number of retail stores in three different countries: Portugal, Poland and Colombia. The associated store assets are important to our audit, due to the size of the store asset carrying value of above Euro 2,000 million as well as the judgment involved in the assessment of the recoverability of the invested amounts. Management annually assesses the existence signs of impairment.	Understanding, evaluating and testing controls over the fixed assets processes. Independent analysis about events indicating potential impairment. Obtaining the impairment tests performed by management to the stores, evaluating if the recoverable amount is higher than the carrying amount. Reviewing the assumptions and methodology followed by management for assessing their stores, namely the projection of cash-flows, discount rates and discount rates for perpetuity for a sample of stores.

Key Audit Matters	*Summary of audit approach*
In accordance with IAS 36 - Impairment of assets, the impairment of those investments are analysed at each balance sheet date in order to detect indicators of possible impairment losses. If there are indicators, the recoverable amount is evaluated. Impairment tests focus predominantly on the store's future performance.	Verifying the adequacy of the disclosures presented in the consolidated financial statements.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the preparation and disclosure process of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which were the most important in the audit of the consolidated financial statements of the current year, which are the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure;

i) state to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our audit also included the verification that the information included in the Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Director's report has been prepared in accordance with applicable requirements of the law and regulation and that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our opinion that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, no material misstatements were identified in the information disclosed in this report and comply with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We have been appointed auditors of Jerónimo Martins, SGPS, S.A. for the first time in the Shareholders' General Meeting of April 15, 2004 for the period from 2005 to 2006. We remain as statutory auditors since this first appointment. Our last appointment was in the Shareholders' General Meeting of April 14, 2016 for the year 2016.

b) The management has disclosed to us no knowledge of any allegations of fraud or suspicions of fraud with material effect in the financial statements. In planning the execution of our audit in accordance with ISAs, we have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of March 6, 2017;

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

March 6, 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

João Rui Fernandes Ramos, R.O.C.

Report and Opinion of the Audit Committee

Dear Shareholders,

In accordance with sub-paragraph g) of paragraph 1 of article 423-F of the Commercial Companies Code, we herewith present our report on our supervisory activity and our opinion on the Jerónimo Martins, SGPS, S.A. management report, consolidated and individual accounts for the year ending December 31st, 2016, as well as on the proposals presented by the Board of Directors.

Supervisory activity

Throughout the year, this Committee monitored the management and evolution of the Company's businesses by holding regular meetings with the Directors and Heads of the functional areas of the corporate centre, with the members of the Managing Committee, the Company Secretary and the Statutory Auditor, and in all cases received their full co-operation.

This Committee was given access to all the corporate documentation that it considered relevant, namely the minutes of the meetings of the Managing Committee and the Internal Control Committee, as well as all the related documentation it deemed relevant, in order to assess compliance with its regulations and with the applicable laws.

It met regularly with the External Auditor and those responsible for preparing the Companys' individual and consolidated financial information, from whom it obtained sufficient and necessary information to gauge the accuracy of the accounting documents, accounting policies and valuation criteria adopted by the Company, thereby ensuring that these correctly represent the results and the equity of the Company.

The Committee monitored, in particular, the development of tax proceedings and litigation involving group companies, having obtained all clarifications necessary from the Company personnel, to assess the adequacy of the Group's provisions and contingencies to which is exposed.

Obtained from several departments of the Company, namely those responsible for the financial area, the risk management, the information security, the internal audit and from the representatives of the External Auditor, all information and clarifications requested, which allowed to verify the adequacy and effectiveness of the internal control and risk management systems.

It closely monitored the work carried out by the Internal Audit Department, by following its annual activity plan, the conclusions of the reports on the work carried out, as well as the actions that the Company implemented as a result of the recommendations issued by this department and also those contained in the reports issued by the External Auditor. The Committee reviewed and approved the internal audit plan for 2017 as well as the necessary resources allocation.

Throughout the year, it monitored the work methodology adopted by the External Auditor, the evolution of issues raised by the latter, as well as the conclusions of the audit work carried out by the Statutory Auditor, which gave rise to the Auditor's Report being issued without any reservations.

Within the scope of its responsibilities, the Audit Committee verified the independence and competence of the Company's External Auditors and Statutory Auditor in carrying out their functions.

It verified and approved all non-audit services provided by the firm of External Auditors to the Group's subsidiaries, ensuring that were carried out by their employees who took no part in the audits, and that these services are not forbidden under applicable law, as well as the amounts involved, in no way jeopardise the independence of the work carried out by the External Auditor nor do they affect the opinion of the Statutory Auditor.

Also in the year of 2016, the Audit Committee has assessed all material transactions between related parties, issuing a favourable prior opinion, within the terms of paragraph 2 of article 397 of the Portuguese Commercial Companies Code, concerning the sale of the Company's subsidiary, Monterroio – Industry & Investments B.V., to Sociedade Francisco Manuel dos Santos B.V., as well as the buyback by the Group of Jerónimo Martins Restauração e Serviços, S.A. and of 51% of the share capital of Hussel Ibérica – Chocolates e Confeitarias, S.A., considering that such transactions would be carried out under normal market conditions and would be in the best interest of the Company.

In view of the rotation of the Statutory Auditor, following the understanding of the Portuguese Securities Market Commission that the current one cannot be maintained beyond 2016, the Audit Committee has conducted, during the year, a selection procedure, under the terms established in article 16 of the Regulation (EU) no. 537/2014, of the European Parliament and of the Council of 16 April 2014, which will give rise to the proposal for the election of a new Statutory Auditor which the Audit Committee will present to the Shareholders in the Annual General Meeting of 2017.

It also verified that, under the terms of paragraph 5 of article 420.º of the Commercial Companies Code, the Corporate Governance Report includes all the elements mentioned in article 245.º - A of the Portuguese Securities Code.

Opinion

Taking into account the information received from the Board of Directors, the Company's personnel and the conclusions outlined in the Report of the Auditors for Statutory and Stock Exchange Regulatory Purposes in Respect of the Individual and Consolidated Financial Information, we are of the opinion that:

i) The Management Report should be approved;

ii) The Individual and Consolidated Financial Statements should be approved; and

iii) The Board of Directors' results appropriation proposal should be approved.

Statement of Responsibility

In accordance with sub-paragraph c) of paragraph 1 of article 245.º of the Portuguese Securities Code, the members of the Audit Committee, identified below, declare that to the best of their knowledge:

i) the information contained in the Management Report, the Annual Accounts, the Auditors' Report and all other accounting documentation required by law or regulation, was produced in compliance with the applicable accounting standards and gives a true and fair view of the assets and liabilities, the financial position and the results of Jerónimo Martins, SGPS, S.A. and the companies included in the consolidation perimeter.

ii) The Management Report is a faithful statement of the evolution of the businesses, the performance and position of Jerónimo Martins, SGPS, S.A. and of the companies included within the consolidation perimeter, and contains a description of the main risks and uncertainties which they face.

Lisbon, March 6th, 2017

Sérgio Tavares Rebelo
(Chairman of the Audit Committee)

Clara Christina Streit
(Member)

Hans Eggerstedt
(Member)