# VI.

## Individual Financial Statements

**Jerónimo Martins, SGPS, S.A.**
**Public Company**
Registered at the Commercial Registry Office
and Tax Number: 500 100 144
Share Capital EUR 629,293,220
Rua Actor António Silva, N.º 7
1649 - 033 LISBOA

JERÓNIMO MARTINS

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

Euro thousand

| | Notes | 2016 | 2015 |
|---|---|---|---|
| Services rendered | 28 | 20,797 | 19,619 |
| Cost of the services rendered | 3 | (13,719) | (12,942) |
| **Gross profit** | | **7,078** | **6,677** |
| Other operating revenues | 3 | 102 | 769 |
| Administrative costs | 3 | (10,737) | (6,102) |
| Other operating costs | 3 | (7,250) | (6,485) |
| Exceptional operating profits (losses) | 3 | (261) | 150 |
| **Operating profit** | | **(11,068)** | **(4,991)** |
| Net financial costs | 5 | (105) | 120 |
| Gains (losses) in subsidiaries | 8 | 360,002 | 266,231 |
| Gains (losses) in other investments | 9 | (295) | 194 |
| **Profit (loss) before taxes** | | **348.534** | **261,554** |
| Income taxes | 7.1 | 2,111 | (1,066) |
| **Net profit (loss)** | | **350,645** | **260,488** |
| Basic and diluted earnings per share – euros | 20 | 0.558 | 0.415 |

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

Euro thousand

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **Net profit (loss)** | | **350,645** | **260,488** |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurements of post-employment benefit obligations | 4.2 | (641) | (770) |
| Related tax | 7.3 | 144 | 173 |
| | | **(497)** | **(597)** |
| **Items that may be reclassified to profit or loss** | | | |
| Change in fair value of available-for-sale financial assets | 15 | 297 | (94) |
| Related tax | 7.3 | (67) | 21 |
| | | **230** | **(73)** |
| **Other comprehensive income, net of taxes** | | **(267)** | **(670)** |
| **Total comprehensive income for the year** | | **350,378** | **259,818** |

To be read with the attached notes to the Individual Financial Statements

## BALANCE SHEET AS AT 31 DECEMBER 2016 AND 2015

Euro thousand

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Tangible assets | 10 | 725 | 601 |
| Intangible assets | 11 | 1,221 | 431 |
| Investment property | 12 | 2,470 | 2,470 |
| Investments in subsidiaries | 13 | 665,016 | 667,946 |
| Loans to subsidiaries | 14 | 500,840 | 664,050 |
| Available-for-sale financial assets | 15 | 80 | 274 |
| Deferred tax assets | 7.3 | 5,600 | 5,496 |
| Other debtors | 16 | 19,367 | 19,367 |
| **Total non-current assets** | | **1,195,319** | **1,360,635** |
| Income tax receivable | 7.4 | 73 | 166 |
| Loans to subsidiaries | 14 | 93,445 | 27,300 |
| Trade debtors, accrued income and deferred costs | 16 | 15,288 | 13,212 |
| Cash and cash equivalents | 17 | 120,910 | 122 |
| **Total current assets** | | **229,716** | **40,800** |
| **Total assets** | | **1,425,035** | **1,401,435** |
| **Shareholders' equity and liabilities** | | | |
| Share capital | 19.1 | 629,293 | 629,293 |
| Share premium | 19.1 | 22,452 | 22,452 |
| Own shares | 19.2 | (6,060) | (6,060) |
| Other reserves | 19.3 | - | (230) |
| Retained earnings | 19.4 | 745,814 | 562,201 |
| **Total shareholders' equity** | | **1.391.499** | **1,207,656** |
| Borrowings | 21 | - | 100,000 |
| Employee benefits | 4.2 | 18,745 | 18,923 |
| Provisions for risks and contingencies | 22 | 5,464 | 5,016 |
| Deferred tax liabilities | 7.3 | 584 | 1,300 |
| **Total non-current liabilities** | | **24,793** | **125,239** |
| Trade creditors, accrued costs and deferred income | 23 | 8,743 | 6,688 |
| Borrowings | 21 | - | 61,852 |
| **Total current liabilities** | | **8,743** | **68,540** |
| **Total shareholders’ equity and liabilities** | | **1,425,035** | **1,401,435** |

To be read with the attached notes to the Individual Financial Statements

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

Euro thousand

| | Notes | Share capital | Share premium | Own shares | Other reserves | Retained earnings | Shareholders' equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1st January 2015** | | **629,293** | **22,452** | **(6,060)** | **(157)** | **691,939** | **1,337,467** |
| Change in fair value of available-for-sale financial assets | | | | | | | |
| - Gross amount | 15 | | | | (94) | | (94) |
| - Deferred tax | 7.3 | | | | 21 | | 21 |
| Remeasurements of post-employment benefit obligations | | | | | | | |
| - Gross amount | 4.2 | | | | | (770) | (770) |
| - Deferred tax | 7.3 | | | | | 173 | 173 |
| **Other comprehensive income** | | **-** | **-** | **-** | **(73)** | **(597)** | **(670)** |
| Net Profit in 2015 | | | | | | 260,488 | 260,488 |
| **Total comprehensive income** | | **-** | **-** | **-** | **(73)** | **259,891** | **259,818** |
| Dividend payment | 19.5 | | | | | (389,629) | (389,629) |
| **Balance as at 31st December 2015** | | **629,293** | **22,452** | **(6,060)** | **(230)** | **562,201** | **1,207,656** |
| Change in fair value of available-for-sale financial assets | | | | | | | |
| - Gross amount | 15 | | | | 297 | | 297 |
| - Deferred tax | 7.3 | | | | (67) | | (67) |
| Remeasurements of post-employment benefit obligations | | | | | | | |
| - Gross amount | 4.2 | | | | | (641) | (641) |
| - Deferred tax | 7.3 | | | | | 144 | 144 |
| **Other comprehensive income** | | **-** | **-** | **-** | **230** | **(497)** | **(267)** |
| Net profit in 2016 | | | | | | 350,645 | 350,645 |
| **Total comprehensive income** | | **-** | **-** | **-** | **230** | **350,148** | **350,378** |
| Dividend payment | 19.5 | | | | | (166,535) | (166,535) |
| **Balance as at 31st December 2016** | | **629,293** | **22,452** | **(6,060)** | **-** | **745,814** | **1,391,499** |

To be read with the attached notes to the Individual Financial Statements

## CASH FLOW STATEMENT

## FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

Euro thousand

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash received from customers and other debtors | | 23,696 | 24,475 |
| Cash paid to suppliers | | (21,848) | (18,561) |
| Cash paid to employees | | (12,796) | (10,023) |
| Cash generated from operations | 18 | (10,948) | (4,109) |
| Interest and other similar costs paid | 5 | (212) | (133) |
| Income taxes | | 753 | 2,404 |
| **Cash flow from operating activities** | | **(10,407)** | **(1,838)** |
| **Investment activities** | | | |
| Disposal of investments in subsidiaries | 13 | 306,460 | - |
| Repayment of loans and capital contributions from subsidiaries | 14 | 53,595 | 25,550 |
| Disposals of tangible assets | 10 | 2 | 9 |
| Interest received | 8 | 4,636 | 6,410 |
| Dividends received | 8 | 280,000 | 259,900 |
| Loans and capital contributions given to subsidiaries | 14 | (184,530) | (111,400) |
| Acquisition of tangible assets | 10 | (302) | (218) |
| Acquisition of intangible assets | 11 | (632) | (265) |
| **Cash flow from investment activities** | | **459,229** | **179,986** |
| **Financing activities** | | | |
| Received from loans | 21 | - | 161,852 |
| Interest and similar income received | 5 | 353 | 338 |
| Repayment of loans | 21 | (161,852) | - |
| Dividends paid | 19.5 | (166,535) | (389,629) |
| **Cash flow from financing activities** | | **(328,034)** | **(227,439)** |
| **Net changes in cash and cash equivalents** | | **120,788** | **(49,291)** |
| **Cash and cash equivalents changes** | | | |
| Cash and cash equivalents at the beginning of the year | | 122 | 49,413 |
| Net changes in cash and cash equivalents | | 120,788 | (49,291) |
| **Cash and cash equivalents at the end of the year** | **17** | **120,910** | **122** |

To be read with the attached notes to the Individual Financial Statements

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## 1. Activity

Jerónimo Martins, SGPS, S.A. (JMH) is the parent Company of Jerónimo Martins Group (Group). Its activity consists mostly of managing its investment portfolio. 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 Individual Financial Statements on 21 February 2017.

## 2. Accounting policies

The most significant accounting policies are described in the notes to these 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 Individual 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 Financial Statements were prepared in accordance with the historical cost principle, except for investment property, financial assets at fair value through profit or loss, and available-for-sale financial assets, which were measured at fair 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 the Management’s best knowledge of current events and actions, actual results may ultimately differ from those estimates. However, Management firmly believes 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 2.8).

**Change in accounting policy and basis for presentation**

### 2.1.1 New and amended standards adopted by JMH

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

JMH adopted the new amendments, with no significant impact on its Individual 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 Individual Financial Statements. None of these standards is expected to have a significant impact on JMH Individual 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 JMH Individual Financial Statements.

### 2.1.4 Change of accounting policies

In addition to the above, JMH has not changed its accounting policies during 2016, nor were any errors identified regarding previous years, which would require the restatement of Financial Statements.

## 2.2 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, except when qualifying as cash flow hedges, for which the exchange differences are deferred in equity or when classified as available-for-sale financial assets, which are equity instruments.

## 2.3 Investments and loans to subsidiaries

Subsidiaries are all entities over which JMH has control. JMH controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and when it has the ability to affect those returns through its power over the entity.

Investments and loans to subsidiaries are stated at cost. When so justified, adjustments for impairment losses are set up, namely when the financial shareholdings register significant deterioration in their financial position and the impairment tests performed by JMH conclude that it is necessary to recognise impairment losses in respect of investments and other net assets (note 2.5).

## 2.4 Financial assets

Financial assets are recognised in the JMH balance sheet on their trade or contracting date, which is the date on which JMH 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. JMH contractual rights to receive their cash flows expire; ii. JMH has substantially transferred all the risks and rewards of ownership; or iii. although JMH has transferred control over the assets, it retains a portion but not substantially all the risks and rewards of ownership.

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

JMH 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 as net financial costs in the results of the year in which they occur, 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 JMH, in the supply of services, and that JMH 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. JMH 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 recognised at fair value increased by transaction costs. Subsequent fair value changes are recognised directly in other reserves until the financial asset is sold, received or in some way 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 12) and deferred tax assets (note 7.3), all other JMH assets, essentially investments in subsidiaries, 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.

In the impairment tests for investments in subsidiaries, the inputs of these valuations for calculation of the value in use are determined by past performance and the expectation of market development for each business area. Based on future cash flow projections, for a five year period, and on medium and long term plans approved by the Board of Directors.

The recoverable amount of assets with indicators of potential impairment loss is determined annually. Whenever the carrying value of an asset exceeds its recoverable amount, its value is reduced to the recoverable amount and the impairment is recognised in the income statement.

**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**

Impairment losses 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, which would have been determined for the asset if no impairment loss was recognised.

### 2.5.2 Impairment of financial assets

At each reporting date JMH 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.

**Loans to subsidiaries**

The impairment test for loans to subsidiaries is held simultaneously with the impairment test to investments in subsidiaries. The investment considered for comparison with the calculated value in use considers the historical cost of the subsidiary and the loans. An impairment loss on loans to subsidiaries will only be recognised after the total investment in the subsidiary is fully covered by an impairment loss.

**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 JMH 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 Revenue recognition

**Services rendered**

Revenues from services rendered are recognised as income in accordance with their stage of completion as at the balance sheet date.

## 2.7 Segment information

Given that JMH's main activity consists of the management of equity holdings, it does not make sense to report the operating segments related information in these Individual Financial Statements. Detailed information is presented in the Group Consolidated Financial Statements.

## 2.8 Critical accounting estimates and judgments made in preparation of Financial Statements

**Tangible and intangible assets and investment property**

Determining the fair value of investment properties, as well as the useful life of assets, is based on Management estimates. Determining impairment losses of tangible or intangible assets also involves the use of estimates. The value in use or the fair value of these assets is 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.

**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 using assumptions, with some assumptions requiring the use of estimates. Therefore, changes in those assumptions could result in a change in the fair value reported.

**Impairment in investments and loans to subsidiaries**

As a rule, according to IFRS an investment is recorded as impaired when the carrying amount of the investment exceeds the present value of future cash flows. Calculating the present value of estimated cash flows and the decision to consider an asset as impaired involves judgment and substantially relies on Management analysis of the future development of its subsidiaries. When measuring impairment, market prices are used if they are available, or other valuation parameters are used, based on the information available from the subsidiaries. JMH considers the capacity and intention to retain the investment for a reasonable period of time that is sufficient to predict recovery of the fair value up to (or above) the carrying amount, including an analysis of factors such as the expected results of the subsidiary, the economic environment, and the status of the sector.

**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 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 JMH accounts would be the following:

| | **Impact on JMH accounts** | |
|---|---|---|
| | **Income statement** | **Other comprehensive income** |
| Rate increase of 1 p.p. | 191 | 50 |

A positive amount means a gain in JMH accounts.

**Impairment losses of clients and debtors**

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 reasonability 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 responsibilities for pension payments and other long-term benefits requires the use of assumptions and estimates, including actuarial projections and other factors that may impact the costs and responsibilities of 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 outlier data to exclude.

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

- Narrow range [1.2% - 1.6%]
- Extended range [1.0% - 1.8%]

Based on these results, JMH has decided to reduce its discount rate from 1.75% to 1.4%.

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

| | | Impact on defined benefit obligations | | |
|---|---|---|---|---|
| | Assumption used | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | 1.40% | 0.50% | (726) | 777 |
| Salary growth rate | 2.50% | 0.50% | 31 | (30) |
| Pension growth rate | 2.50% | 0.50% | 745 | (696) |
| Life expectancy | TV 88/90 | 1 year | 1,119 | (1,070) |

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

**Provisions**

JMH 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 JMH 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, real 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. Revisions to estimates of potential losses on proceedings under way may affect future results.

## 2.9 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. 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.

JMH applies valuation techniques for unlisted financial instruments, such as derivatives and fair value financial instruments 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. For derivatives valuation JMH also uses the valuations provided by the counterparties.

In the case of more complex derivatives, advanced valuation models are used. These models include assumptions and data that are not directly observable in the market and for which JMH uses estimates and internal assumptions.

**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 its fair value.

**Available-for-sale financial assets**

Listed financial assets are recognised in the balance sheet at their fair value.

**Borrowings**

The fair value of borrowings is achieved from the discounted cash flow of all expected payments. The expected cash flows are discounted using actual market interest rates. At the reporting date the accounting 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.

## 2.10 Fair value hierarchy

The following table shows JMH's financial assets and liabilities that are measured at fair value as 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, involving 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 the over-the-counter derivatives entered into by JMH, 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 and main inputs are not based on observable market data. This level includes investment property, which are evaluated by external independent experts, using in their valuations inputs that are not directly observable in the market.

| 2016 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Available-for-sale financial assets | | | | |
| Equity investments | 80 | 80 | - | - |
| Investment property | 2,470 | - | - | 2,470 |
| **Total assets** | **2,550** | **80** | **-** | **2,470** |
| **Liabilities measured at fair value** | | | | |
| **Total liabilities** | **-** | **-** | **-** | **-** |

| 2015 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Available-for-sale financial assets | | | | |
| Equity investments | 274 | 274 | - | - |
| Investment property | 2,470 | - | - | 2,470 |
| **Total assets** | **2,744** | **274** | **-** | **2,470** |
| **Liabilities measured at fair value** | | | | |
| **Total liabilities** | **-** | **-** | **-** | **-** |

## 2.11 Financial instruments by category

| 2016 | Borrowings and accounts receivable | Available-for-sale financial assets | Other financial liabilities | Total financial assets and liabilities | Non financial assets or liabilities | Total assets and liabilities |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 120,910 | - | - | **120,910** | - | **120,910** |
| Available-for-sale financial assets | - | 80 | - | **80** | - | **80** |
| Loans to subsidiaries | 594,285 | - | - | **594,285** | - | **594,285** |
| Trade debtors, accrued income and deferred costs | 32,735 | - | - | **32,735** | 1,920 | **34,655** |
| Other non-financial assets | - | - | - | **-** | 675,105 | **675,105** |
| **Total assets** | **747,930** | **80** | **-** | **748,010** | **677,025** | **1,425,035** |
| **Liabilities** | | | | | | |
| Borrowings | - | - | - | **-** | - | **-** |
| Trade creditors, accrued costs and deferred income | - | - | 3,514 | **3,514** | 5,229 | **8,743** |
| Other non-financial liabilities | - | - | - | **-** | 24,793 | **24,793** |
| **Total liabilities** | **-** | **-** | **3,514** | **3,514** | **30,022** | **33,536** |

| 2015 | Borrowings and accounts receivable | Available-for-sale financial assets | Other financial liabilities | Total financial assets and liabilities | Non financial assets or liabilities | Total assets and liabilities |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 122 | - | - | **122** | - | **122** |
| Available-for-sale financial assets | - | 274 | - | **274** | - | **274** |
| Loans to subsidiaries | 691,350 | - | - | **691,350** | - | **691,350** |
| Trade debtors, accrued income and deferred costs | 31,034 | - | - | **31,034** | 1,545 | **32,579** |
| Other non-financial assets | - | - | - | **-** | 677,110 | **677,110** |
| **Total assets** | **722,506** | **274** | **-** | **722,780** | **678,655** | **1,401,435** |
| **Liabilities** | | | | | | |
| Borrowings | - | - | 161,852 | **161,852** | - | **161,852** |
| Trade creditors, accrued costs and deferred income | - | - | 2,213 | **2,213** | 4,475 | **6,688** |
| Other non-financial liabilities | - | - | - | **-** | 25,239 | **25,239** |
| **Total liabilities** | **-** | **-** | **164,065** | **164,065** | **29,714** | **193,779** |

# 3. Operating costs

### Costs of services rendered

The costs of services rendered correspond to the costs incurred by JMH in rendering technical and specialised services to its subsidiaries. In this sense, the costs incurred in each one of JMH departments are charged to the Companies in the percentage that each one has in the referred services rendering.

### Administrative costs

The administrative costs shown in the income statement include, among others, the percentage of the costs incurred by each of the departments which is not charged to the Companies, as well as the non-deductible VAT arising from the application of the effective allocation method.

### Other operational costs and losses

Other operational costs and losses include, among others, the costs incurred by studies of other markets, as well as donations and sponsorships granted according with the Group's Social Responsibility policies.

### Exceptional operating profits or losses

The exceptional operating profits or losses (non-recurrent items) that by their nature or materiality distort JMH financial performance, as well as its 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 the Management.

### 3.1 Operational costs by nature

| | 2016 | 2015 |
|---|---|---|
| Supplies and services | 14,659 | 12,465 |
| Rents | 1,133 | 1,065 |
| Staff costs | 12,219 | 10,390 |
| Depreciations and amortizations | 416 | 378 |
| Other operational (profit) loss | 3,438 | 312 |
| | **31,865** | **24,610** |

### 3.2 Exceptional operating profits (losses)

| | 2016 | 2015 |
|---|---|---|
| Impact of actuarial assumptions changes | (261) | 150 |
| | **(261)** | **150** |

## 4. Employees

### 4.1 Staff costs

| | 2016 | 2015 |
|---|---|---|
| Wages and salaries | 8,201 | 7,515 |
| Social security | 1,551 | 1,380 |
| Employee benefits (see note 4.2) | 968 | 544 |
| Other staff costs | 1,499 | 951 |
| | **12,219** | **10,390** |

Other staff costs include labour accident insurance, social responsibility costs, training costs, and indemnities, among others. The number of employees at the end of 2016 was 122 (2015 was 114). The average number of employees during the year was 116 (105 in 2015).

### 4.1 Employees benefit

**Post-employment benefits (retirement)**

Defined contribution plans

Defined contribution plans are pension plans for which JMH 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.

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

JMH 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 JMH guarantees a certain benefit to the employees included in the plan at the time such employees retire, with the respective responsibilities assured directly by JMH.

The liability recognised in the balance sheet with respect to 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 include only 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 plan amendments in 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 existing in JMH comprises 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 costs of current services, net interest as well remeasurements (actuarial gains or losses) are recognised as costs of the year.

Amounts of employee benefits in the balance sheet:

| | 2016 | 2015 |
|---|---|---|
| Retirement benefits - Defined contribution plan | - | - |
| Retirement benefits - Defined benefit plan paid for by the Group | 17,894 | 18,385 |
| Seniority awards | 851 | 538 |
| **Total** | **18,745** | **18,923** |

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 | 323 | 265 | - | - |
| Retirement benefits - Defined benefit plan paid for by the Group | 309 | 360 | 641 | 770 |
| Seniority awards | 336 | (81) | - | - |
| **Total** | **968** | **544** | **641** | **770** |

A brief description of the changes in each plan is 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 as at 1 January** | **-** | **-** | **18,385** | **18,691** | **538** | **634** |
| Interest costs | - | - | 309 | 360 | 10 | 13 |
| Current service cost | 323 | 265 | - | - | 65 | 56 |
| Actuarial (gains)/losses | | | | | | |
| Changes in demographic assumptions | - | - | - | - | - | - |
| Changes in financial assumptions | - | - | 492 | 373 | 18 | 9 |
| Changes in experience | - | - | 149 | 397 | 243 | (159) |
| Contributions or retirement pensions paid | (323) | (265) | (1,441) | (1,436) | (23) | (15) |
| **Balance as at 31 December** | **-** | **-** | **17,894** | **18,385** | **851** | **538** |

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

| | 2016 | 2015 |
|---|---|---|
| Mortality table | TV 88/90 | TV 88/90 |
| Discount rate | 1.40% | 1.75% |
| Pension and salaries growth rate | 2.5% | 2.5% |

The mortality assumptions used are those most commonly adopted in Portugal, and are based on actuarial advice in accordance with published statistics. The sensitivity analyses made to the assumptions is stated in note 2.8.

### Expected future payments

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

| | 1 year | 1 to 5 years | 5 to 10 years |
|---|---|---|---|
| Retirement benefits - Defined benefit plan paid for by the Group | 1,366 | 4,788 | 4,346 |
| Seniority awards | 81 | 273 | 484 |
| **Total** | **1,447** | **5,061** | **4,830** |

## 5. Net financial costs

Net financial costs represent the interest on borrowings, the interest on investments made, 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.

| | 2016 | 2015 |
|---|---|---|
| Interest expense | (133) | (35) |
| Interest received | 154 | 196 |
| Other financial costs and gains | (126) | (41) |
| **Net financial costs** | **(105)** | **120** |

Interest expenses includes the interest related with loans measured at amortised cost. Other financial costs include, namely, stamp tax and issuance costs related to non-current debt recognised in the income statement for the loan's term.

## 6. Operating leases

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 costs recognised in the income statement as operating leases are as follows:

| | 2016 | 2015 |
|---|---|---|
| Buildings – third parties | 19 | 6 |
| Buildings – group | 517 | 510 |
| Vehicles – third parties | 536 | 511 |
| IT equipment – third parties | 39 | 30 |
| | **1,111** | **1,057** |

Apart from the costs above, there were occasional rentals throughout the year that amounted EUR 22 thousand (2015: EUR 8 thousand).

Vehicle and IT equipment lease contracts entered into by JMH are treated as operating leases. These contracts do not include renewal or purchase option at termination date, or any amount relating to contingent rents. All contracts may be cancelled by means of prior notice and do not provide any type of restrictions concerning dividends or debt.

The minimum lease payments related with vehicles and IT equipment lease are as follows:

| | 2016 | 2015 |
|---|---|---|
| Payments in less than 1 year | 354 | 343 |
| Payments between 1 and 5 years | 419 | 367 |
| **Total future payments** | **773** | **710** |

All the contracts may be cancelled upon the payment of a penalty. At the end of 2016, the liabilities arising from penalty clauses were EUR 74 thousand (2015: EUR 78 thousand).

## 7. 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.

The measurement of deferred tax assets and liabilities should reflect the tax consequences that would follow from the manner in which the Company 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.

### 7.1 Income tax

| | 2016 | 2015 |
|---|---|---|
| **Current tax** | | |
| Current tax of the year | 1,370 | (348) |
| Adjustment to prior year estimation | (2) | (2) |
| | **1,368** | **(350)** |
| **Deferred tax** | | |
| Temporary differences originated or reversed in the year | 743 | (716) |
| Change in income tax rate | - | - |
| | **743** | **(716)** |
| **Total income tax** | **2,111** | **(1,066)** |

### 7.2 Reconciliation of effective tax rate

| | 2016 | 2015 |
|---|---|---|
| Profit/loss before taxes | 348,534 | 261,554 |
| Income tax 22.5% rate | (78,420) | (58,850) |
| Tax effect from: | | |
| Non-taxable or non-recoverable results | 81,260 | 58,336 |
| Non-deductible expenses | (339) | (320) |
| Change in income tax rate | (117) | - |
| Adjustment to prior year estimation | (2) | (2) |
| Results subject to special taxation | (271) | (230) |
| **Income tax for the year** | **2,111** | **(1,066)** |
| **Effective tax rate** | **(0.61%)** | **0.41%** |

In 2016, the Corporate Income Tax rate (CIT) applied to companies operating in Portugal was 21% (in 2015 it 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.

JMH's effective tax rate is significantly influenced by the fiscal effect of the dividend income received from subsidiaries. This income is not subject to taxation according with the current tax legislation, as they have already been considered for Income Tax purposes in the companies which generated them.

## 7.3 Deferred tax assets and liabilities

Deferred taxes are presented in the balance sheet as follows:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets | 5,600 | 5,496 |
| Deferred tax liabilities | (584) | (1,300) |
| | **5,016** | **4,196** |

| | 01/01/2016 | Impact on results | Impact on equity | 31/12/2016 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Revaluation of available for sale financial assets | 824 | 110 | (67) | 867 |
| Employee benefits | 4,258 | (184) | 144 | 4,218 |
| Provisions and adjustments above tax limits | 414 | 101 | - | 515 |
| | **5,496** | **27** | **77** | **5,600** |
| **Deferred tax liabilities** | | | | |
| Revaluation of assets | (178) | - | - | (178) |
| Other temporary differences | (1,122) | 716 | - | (406) |
| | **(1,300)** | **716** | **-** | **(584)** |
| **Net change in deferred tax** | **4,196** | **743** | **77** | **5,016** |

| | 01/01/2015 | Impact on results | Impact on equity | 31/12/2015 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Revaluation of available for sale financial assets | 803 | - | 21 | 824 |
| Employee benefits | 4,348 | (263) | 173 | 4,258 |
| Provisions and adjustments above tax limits | 644 | (230) | - | 414 |
| | **5,795** | **(493)** | **194** | **5,496** |
| **Deferred tax liabilities** | | | | |
| Revaluation of assets | (178) | - | - | (178) |
| Other temporary differences | (899) | (223) | - | (1,122) |
| | **(1,077)** | **(223)** | **-** | **(1,300)** |
| **Net change in deferred tax** | **4,718** | **(716)** | **194** | **4,196** |

## 7.4 Receivable or payable income tax

Income tax reflected on the balance sheet is as follows:

| | 2016 | 2015 |
|---|---|---|
| Income tax receivable | 73 | 166 |
| Income tax payable | - | - |
| | **73** | **166** |

Since 1st January 2014, JMH has integrated a group of companies taxed according with the Special Group Taxation Regime (RETGS), as the dominant Company of the group. In addition to JMH, the taxation group is currently composed of the following companies:

- Recheio, SGPS, S.A.
- Recheio Cash & Carry S.A.
- Imocash – Imobiliário de Distribuição, S.A.
- Larantigo – Sociedade de Construções, S.A.
- Masterchef, S.A.
- Caterplus – Comercialização e Distribuição de Produtos de Consumo, Lda.
- Jerónimo Martins – Serviços, S.A.
- Desimo – Desenvolvimento e Gestão Imobiliária, Lda.
- Jerónimo Martins – Agro-Alimentar, S.A.
- Jerónimo Martins – Lacticínios de Portugal, S.A.
- Best-Farmer - Actividades Agro-pecuárias, S.A.

Due to a subsidiary disposal, as referred in note 13, the following companies left the taxation group:

- Jerónimo Martins – Distribuição de Produtos de Consumo, Lda.
- Jerónimo Martins – Restauração e Serviços, S.A.

## 8. Gains (losses) in subsidiaries

| | 2016 | 2015 |
|---|---|---|
| Dividends received | 280,000 | 259,900 |
| Interest from loans granted | 4,472 | 6,331 |
| Disposal of subsidiaries | 75,530 | - |
| | **360,002** | **266,231** |

## 9. Gains (losses) in other investments

Rents received for the lease of investment property are recognised as gains (losses) in other investments in the income statement in the period to which they relate.

| | 2016 | 2015 |
|---|---|---|
| Rents from investment property | 196 | 194 |
| Fair value adjustment in available-for-sale financial assets | (491) | - |
| | **(295)** | **194** |

## 10. 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.

**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:

| | % |
|---|---|
| Buildings and other constructions | 10 |
| Tools | 25 |
| Transport equipment | 25 |
| Office equipment | 10-25 |
| Other tangible assets | 10 |

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 JMH intention to use the assets until the end of their economic life.

### 10.1 Changes occurred during the year

**Gross assets**

| | 01/01/2016 Opening balance | Increases | Disposals | Transfers and write-offs | 31/12/2016 Closing balance |
|---|---|---|---|---|---|
| Buildings and other constructions | 256 | 88 | - | - | 344 |
| Transport equipment | 142 | - | - | (54) | 88 |
| Tools and utensils | 2 | - | - | - | 2 |
| Office equipment | 2,232 | 214 | (2) | 143 | 2,587 |
| Other tangible assets | 389 | - | - | - | 389 |
| Tangible assets in progress | 143 | - | - | (143) | - |
| | **3,164** | **302** | **(2)** | **(54)** | **3,410** |

**Accumulated depreciation and impairment**

| | 01/01/2016 Opening balance | Increases | Disposals | Transfers and write-offs | 31/12/2016 Closing balance |
|---|---|---|---|---|---|
| Buildings and other constructions | 88 | 33 | - | - | 121 |
| Transport equipment | 90 | 22 | - | (54) | 58 |
| Tools and utensils | 2 | - | - | - | 2 |
| Office equipment | 2,057 | 121 | - | - | 2,178 |
| Other tangible assets | 326 | - | - | - | 326 |
| | **2,563** | **176** | **-** | **(54)** | **2,685** |
| **Net book value** | **601** | | | | **725** |

## 10.2 Changes occurred in the previous year

**Gross assets**

| | 01/01/2015 Opening balance | Increases | Disposals | Transfers and write-offs | 31/12/2015 Closing balance |
|---|---|---|---|---|---|
| Buildings and other constructions | 215 | 41 | - | - | 256 |
| Transport equipment | 142 | - | - | - | 142 |
| Tools and utensils | 2 | - | - | - | 2 |
| Office equipment | 2,165 | 79 | (12) | - | 2,232 |
| Other tangible assets | 389 | - | - | - | 389 |
| Tangible assets in progress | - | 143 | - | - | 143 |
| | **2,913** | **263** | **(12)** | **-** | **3,164** |

**Accumulated depreciation and impairment**

| | 01/01/2015 Opening balance | Increases | Disposals | Transfers and write-offs | 31/12/2015 Closing balance |
|---|---|---|---|---|---|
| Buildings and other constructions | 65 | 23 | - | - | 88 |
| Transport equipment | 68 | 22 | - | - | 90 |
| Tools and utensils | 2 | - | - | - | 2 |
| Office equipment | 1,976 | 84 | (3) | - | 2,057 |
| Other tangible assets | 326 | - | - | - | 326 |
| | **2,437** | **129** | **(3)** | **-** | **2,563** |
| **Net book value** | **476** | | | | **601** |

## 10.3 Equipment under financial lease

At the end of 2016 and 2015, there was no equipment under financial lease.

## 10.4 Guarantees

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

# 11. Intangible assets

Intangible assets are stated at acquisition cost net of accumulated amortisation and impairment losses.

**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 JMH has the intention and capacity to complete its development and start trading or using it.

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.

**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 |

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

Intangible assets are made up of development expenses and include expenses incurred with the implementation of information system platforms.

## 11.1 Changes occurred during the year

**Gross assets**

| | 01/01/2016 Opening balance | Increases | Disposals | Transfers and write-offs | 31/12/2016 Closing balance |
|---|---|---|---|---|---|
| Development expenses | 1,387 | 515 | - | 122 | 2,024 |
| Intangible assets in progress | 122 | 515 | - | (122) | 515 |
| | **1,509** | **1,030** | **-** | **-** | **2,539** |

**Accumulated amortisation and impairment**

| | 01/01/2016 Opening balance | Increases | Disposals | Transfers and write-offs | 31/12/2016 Closing balance |
|---|---|---|---|---|---|
| Development expenses | 1,078 | 240 | - | - | 1,318 |
| | **1,078** | **240** | **-** | **-** | **1,318** |
| **Net book value** | **431** | | | | **1,221** |

## 11.2 Changes occurred in the previous year

**Gross assets**

| | 01/01/2015 Opening balance | Increases | Disposals | Transfers and write-offs | 31/12/2015 Closing balance |
|---|---|---|---|---|---|
| Development expenses | 1,195 | 143 | - | 49 | 1,387 |
| Intangible assets in progress | 49 | 122 | - | (49) | 122 |
| | **1,244** | **265** | **-** | **-** | **1,509** |

**Accumulated amortisation and impairment**

| | 01/01/2015 Opening balance | Increases | Disposals | Transfers and write-offs | 31/12/2015 Closing balance |
|---|---|---|---|---|---|
| Development expenses | 829 | 249 | - | - | 1,078 |
| | **829** | **249** | **-** | **-** | **1,078** |
| **Net book value** | **415** | | | | **431** |

## 12. 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 and other variables that may be relevant in some way are considered.

In addition, and particularly in cases in which comparison with transactions that have occurred is difficult, 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.

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

JMH owns a property, which was partially rented to a Group Company generating profits in the amount of EUR 196 thousand (2015: EUR 194 thousand). This property is valued at its market value, according to an independent valuation, and is recorded at EUR 2,470 thousand (2015: EUR 2,470 thousand).

In 2016, JMH incurred in expenses regarding this property in the amount of EUR 4 thousand (2015: EUR 4 thousand), recognised in results in other operating costs.

## 13. Investments

### 13.1 Investments in subsidiaries

The equity holdings in subsidiaries correspondes to investments in the acquisition of shareholdings in the companies listed in note 26.

| | 2016 | 2015 |
|---|---|---|
| **Net value at 1 January** | **667,946** | **667,946** |
| Increases | - | - |
| Decreases | (123,956) | - |
| Provisions reduction | 121,026 | - |
| **Net value at 31 December** | **665,016** | **667,946** |

In September 2016, JMH sold 100% of the share capital of its subsidiary Monterroio – Industry & Investments B.V. ("Monterroio") to Sociedade Francisco Manuel dos Santos B.V. (SFMS). This transaction included the shareholding (EUR 2,930 net of imparment losses adjustment), supplementary capital contributions (EUR 138,000 thousand) and shareholders loans that existed at date (EUR 90,000 thousand) - see note 14.1. - , representing a net cash flow received of EUR 306.460 thousand, and an income of EUR 75.530 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 Confeitarias, S.A. (51%) and Perfumes e Cosméticos Puig Portugal – Distribuidora, S.A. (27.545%).

In December 2016, JMH reaquires indirect control of Jerónimo Martins – Restauração e Serviços (100%) and Hussel Ibéria – Chocolates e Confeitarias, S.A. (51%), as result of the share buy back of said investments by the subsidiary Tagus – Retail & Services Investments B.V..

In 2015, the net amount in investments in subsidiaries reflects the deduction of EUR 121,026 thousand regarding impairment losses (note 22).

## 14. Loans

### 14.1 Loans to subsidiaries

| Non-current loans | 2016 | 2015 |
|---|---|---|
| **Net value as at 1 January** | **664,050** | **562,400** |
| Increases | 112,060 | 104,445 |
| Decreases | (47,270) | (2,795) |
| Disposal of business units (shareholders loans) | (90,000) | - |
| Disposal of business units (supplementary capital contributions) | (138,000) | - |
| **Net value as at 31 December** | **500,840** | **664,050** |

Non-current loans are granted as supplementary capital contributions (which do not bear interest), and as medium and long-term shareholders loans (remunerated at normal market rates).

| Current loans | 2016 | 2015 |
|---|---|---|
| **Net value as at 1 January** | **27,300** | **43,100** |
| Increases | 72,470 | 6,955 |
| Decreases | (6,325) | (22,755) |
| **Net value as at 31 December** | **93,445** | **27,300** |

Current loans are liable to interest rates at normal market levels.

## 15. Available-for-sale financial assets

| | 2016 | 2015 |
|---|---|---|
| BCP shares | 3,936 | 3,936 |
| Fair value adjustment (note 22) | (3,856) | (3,662) |
| | **80** | **274** |

As at 31 December 2016, all BCP shares in the Company's portfolio were 74.643 (2015: 5.598 million shares), and were marked to market (level 1 of fair value hierarchy) according to the price on Euronext Lisbon as at 31 December 2016 of Euro 1,071 per share (2015: Euro 0.0489 per share). The change in the number of stocks was merely due to a share regrouping operation lead by this institution in October 2016.

The changes in the fair value of these assets of negative EUR 194 thousand were recognised in profit and loss accounts (2015: EUR 94 thousand were recognised directly in equity). In 2016, this profit and loss heading includes also EUR 297 thousand, transferred from Other reserves, which referes to fair value adjustments registered in previous years.

## 16. Trade debtors, accrued income and deferred costs

Customers and debtor balances are amounts to be received regarding services rendered by JMH 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.

| | 2016 | 2015 |
|---|---|---|
| **Non current** | | |
| Other debtors (collateral deposits) | 19,367 | 19,367 |
| | **19,367** | **19,367** |
| **Current** | | |
| Subsidiaries and joint-ventures | 9,060 | 7,621 |
| Receivables from suppliers | 91 | 52 |
| Staff | 3 | - |
| Other debtors | 76 | 92 |
| Other taxes receivable: | | |
| Corporate income tax from previous years | 1,094 | 1,228 |
| VAT receivable | 25 | 19 |
| Accrued income | 4,131 | 3,832 |
| Deferred costs | 808 | 368 |
| | **15,288** | **13,212** |

JMH has EUR 19,367 thousand of remunerated deposits in financial institutions, with limited availability according to specific conditions. These deposits are being used as a collateral guarantee for Group Companies financial loans.

Amounts recognised in subsidiaries and joint ventures refers mainly to invoices issued to Group Companies relating to various services provided, in the amount of EUR 2,489 thousand (2015: EUR 2,006 thousand), as well as the allocation of Corporate Income Tax (CIT) between JMH Group Companies, which is taxed by the Special Group Taxation Regime (RETGS), in the amount of EUR 6,505 thousand (2015: 5,546 thousand).

Accrued income refers mainly to EUR 3,997 thousand (2015: EUR 3,472 thousand) regarding the rendering of technical and administrative services to subsidiaries and EUR 70 thousand (2015: EUR 230 thousand) of interest receivable.

Deferred costs includes EUR 7 thousand (2015: EUR 70 thousand) of issuance costs of bonds and commercial paper, and EUR 801 thousand (2015: EUR 298 thousand) of other costs relating to future periods, paid in 2016 or when not paid, already charged by the competent entities.

## 17. Cash and cash equivalents

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

| | 2016 | 2015 |
|---|---|---|
| Bank deposits | 120,901 | 108 |
| Short-term investments | - | - |
| Cash and cash equivalents | 9 | 14 |
| | **120,910** | **122** |

## 18. Cash generated from operations

| | 2016 | 2015 |
|---|---|---|
| **Net results** | **350,645** | **260,488** |
| | | |
| **Adjustments for:** | | |
| Income tax | (2,111) | 1,066 |
| Depreciation and amortization | 416 | 378 |
| Net financial costs | 105 | (120) |
| (Gains) losses on subsidiaries | (360,002) | (266,231) |
| (Gains) losses on other investments | 295 | (194) |
| (Gains) losses on disposal of tangible assets | - | - |
| | **(10,652)** | **(4,613)** |
| **Changes in working capital:** | | |
| Trade debtors, accrued income and deferred costs | (1,470) | 1,126 |
| Trade creditors, accrued costs and deferred income | 1,544 | 1,572 |
| Provisions and employee benefits | (370) | (2,194) |
| **Cash generated from operations** | **(10,948)** | **(4,109)** |

## 19. 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 and receivable dividends**

Payable dividends are recognised as a liability in JMH financial statements in the period in which they are approved by the shareholders for distribution.

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

### 19.1 Share capital and share premium account

The authorised share capital is represented by 629,293,220 ordinary shares (2015: 629,293,220), each with a nominal value of one euro.

The owners of ordinary shares have the right to receive dividends in accordance with the deliberations of the General Shareholder's Meeting, and have the right to one vote for each share owned. There are no preferential shares. Rights relating to own shares are suspended until they are placed on the market.

During the year 2016, no changes occurred in the amount of EUR 22,452 thousand showed in share premium in 2015.

### 19.2 Own shares

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

### 19.3 Other reserves

| | Available-for-sale financial assets | Total |
|---|---|---|
| **Balance as at 1 January 2015** | **(157)** | **(157)** |
| Change in fair value of available-for-sale financial assets | | |
| - Gross value | (94) | (94) |
| - Deferred tax | 21 | 21 |
| **Balance as at 1 January 2016** | **(230)** | **(230)** |
| Change in fair value of available-for-sale financial assets | | |
| - Gross value | 297 | 297 |
| - Deferred tax | (67) | (67) |
| **Balance as at 31 December 2016** | **-** | **-** |

These reserves cannot be distributed to the shareholders.

### 19.4 Retained earnings

As at 31 December 2016 the total amount of retained earnings was EUR 745,814 thousand (2015: EUR 562,201 thousand), resulting from profit generated in the financial year and previous years.

Of this amount, EUR 316,721 thousand (2015: EUR 312,380 thousand) are not able to be distributed, as provided in articles 32, 218, 295, 296 and 324 of the Commercial Companies Code.

### 19.5 Dividends

According with the decision made at the April 14th 2016 General Shareholders Meeting, the amount of EUR 166.535 thousand was distributed to JMH shareholders in May 2016.

In accordance with the dividend distribution policy described in point 7 included in the Management Report chapter, which is integrated in the consolidated annual report, the Board of Directors proposes to the shareholders the distribution of the amount 380,202,703.10 euros, which corresponds to a dividend per share of EUR 0.605 (excluding own shares in the portfolio).

## 20. 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.

### 20.1 Basic and diluted earnings per share

| | 2016 | 2015 |
|---|---|---|
| Ordinary shares issued at the beginning of year | 629,293,220 | 629,293,220 |
| Own shares at the beginning of year | (859,000) | (859,000) |
| Own shares acquired during the year | - | - |
| Ordinary shares issued during the year | - | - |
| **Weighted average outstanding shares (equal to diluted)** | **628,434,220** | **628,434,220** |
| Net results of the year attributable to ordinary shares (equal to diluted) | **350,645** | **260,488** |
| **Basic and diluted earnings per share – euros** | **0.558** | **0.415** |

## 21. 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 JMH has the unconditional right to defer settlement of the liability for more than 12 months after the reporting date.

This note provides information on the terms of loan contracts and other forms of financing. For further details regarding the Company's exposure to interest rates see note 29.

### 21.1 Current and non-current loans

| | 2016 | 2015 |
|---|---|---|
| **Non-current loans** | | |
| Bank loans – commercial paper | - | 100,000 |
| | **-** | **100,000** |
| **Current loans** | | |
| Bank loans – commercial paper | - | 55,000 |
| Bank overdrafts | - | 6,852 |
| | **-** | **61,852** |

### 21.2 Loan terms and maturities

| | Average rate | 2015 | Payable in less than 1 year | Payable between 1 and 5 years |
|---|---|---|---|---|
| Bank loans – commercial paper | 2.31% | 155,000 | 55,000 | 100,000 |
| Bank overdrafts | 5.26% | 6,852 | 6,852 | - |
| | | **161,852** | **61,852** | **100,000** |

JMH uses, with other Group Companies, 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 granted to JMH which are not being used amount to EUR 116,000 thousand (2015: EUR 24,378 thousand).

### 21.3 Bank loans: commercial paper

There are several issued bank loans in the form of a commercial paper programme, in the global amount of EUR 155,000 thousand (2015: EUR 155,000 thousand), with variable interest rate. At the end of 2016, no amount of these credit lines was being used (2015: EUR 155,000 thousand was being used).

### 21.4 Financial debt

| | 2016 | 2015 |
|---|---|---|
| Non-current loans | - | 100,000 |
| Current loans | - | 61,852 |
| Interest accruals and deferrals | (77) | (129) |
| Bank deposits | (120,901) | (108) |
| Short-term investments | - | - |
| | **(120,978)** | **161,615** |

## 22. Provisions and adjustments to the net realisable value

Provisions are recognised in the balance sheet whenever JMH 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 JMH 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.

**Provision for other risks and contingencies (Legal claims)**

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

| 2016 | Opening balance | Set up and reinforced | Used and reversed | Closing balance |
|---|---|---|---|---|
| Investments in subsidiaries | 121,026 | - | (121,026) | - |
| Available-for-sale financial assets | 3,662 | 194 | - | 3,856 |
| **Total adjustments to the net realisable value** | **124,688** | **194** | **(121,026)** | **3,856** |
| | | | | |
| Other risks and contingencies | 5,016 | 448 | - | 5,464 |
| **Total provisions** | **5,016** | **448** | **-** | **5,464** |

| 2015 | Opening balance | Set up and reinforced | Used and reversed | Closing balance |
|---|---|---|---|---|
| Investments in subsidiaries | 121,026 | - | - | 121,026 |
| Available-for-sale financial assets | 3,568 | 94 | - | 3,662 |
| **Total adjustments to the net realisable value** | **124,594** | **94** | **-** | **124,688** |
| | | | | |
| Other risks and contingencies | 6,038 | 450 | (1,472) | 5,016 |
| **Total provisions** | **6,038** | **450** | **(1,472)** | **5,016** |

The adjustment in investment in subsidiaries was reduced in 2016, due to the disposal of the investment in its subsidiary Monterroio (as referred in note 13.1.).

The adjustment for available-for-sale financial assets reflects the update to fair value, as described in note 15.

The heading other risks and contingencies consists of provisions for possible compensation to be paid by JMH regarding guarantees provided in business sales agreements entered into over the last few years and provisions for litigation processes where there are no prospects for resolution in less than one year.

## 23. Trade creditors, accrued costs and deferred income

Suppliers and other creditors' balances are obligations to pay 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 |
|---|---|---|
| Payables to subsidiaries and joint-ventures | 1,254 | 1,084 |
| Other trade creditors | 1,604 | 658 |
| Other non-trade creditors | 14 | 8 |
| Taxes payable: | | |
| VAT payable | - | 189 |
| Income tax withheld | 214 | 197 |
| Social security | 175 | 150 |
| Other taxes | 24 | 35 |
| Accrued costs | 5,442 | 4,351 |
| Deferred income | 16 | 16 |
| | **8,743** | **6,688** |

Accrued costs includes salaries and wages payable in the amount of EUR 4,800 thousand (2015: EUR 3,888 thousand), and EUR 642 thousand (2015: EUR 463 thousand) regarding various costs (utilities, insurance, consultants, rents, among others), relating to 2016 and not invoiced by the respective entities prior to the end of the year.

## 24. Guarantees

The bank guarantees are as follows:

| | 2016 | 2015 |
|---|---|---|
| Guarantees for the Tax Authority | 14,623 | 12,328 |
| Financing bank guarantees | 18,974 | 18,371 |
| Other guarantees provided | 1,426 | 1,420 |
| | **35,023** | **32,119** |

## 25. Contingencies

There are several relevant disputes 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 is taken (note 22):

- 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;
- The Portuguese Tax Authorities have claimed EUR 989 thousand from JMH in relation to the CIT for an indemnity paid by the Company due to an agreement reached in arbitration court, and which the Tax Authorities considered as dealing with a payment to an entity subject to a more favourable tax regime, and therefore not accepted for tax purposes. The Board of Directors, does not consider the report of the Tax Authorities to have legal basis or validity, and has challenged it;
- 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.

## 26. Subsidiaries and available-for-sale financial assets

The direct investments owned by JMH, as at 31 December 2016, are as follows:

| Company | Notes | Head office | % Owned | Stake held directly | Total assets | Shareholder's equity | Net profit /loss |
|---|---|---|---|---|---|---|---|
| **Investments in subsidiaries** | | | | | | | |
| Desimo – Desenvolvimento e Gestão Imobiliária, Lda. | a) | Lisbon | 100.00% | 50 | 106 | 94 | 21 |
| Jerónimo Martins Serviços, S.A. | a) | Lisbon | 100.00% | 50 | 6,088 | 520 | 46 |
| Eva – Soc. Invest. Mobiliários e Imobiliários, Lda. | a) | Funchal | 5.60% | 28 | 72,231 | 72,211 | 1,119 |
| Friedman – Soc. Invest. Mobiliários e Imobiliários, Lda. | a) | Funchal | 100.00% | 5 | 173 | 156 | 1 |
| Warta – Retail & Services Investments B.V. | a) | Amsterdam | 100.00% | 18 | 514,526 | 514,160 | 271,513 |
| Tagus – Retail & Services Investments B.V. | a) | Amsterdam | 100.00% | 18 | 1,538,399 | 1,538,346 | 74,651 |
| New World Investments B.V. | a) | Amsterdam | 100.00% | 18 | 218,904 | 218,790 | 14,527 |
| Origins – Agro Business Investments B.V. | a) | Amsterdam | 100.00% | 18 | 11,540 | 11,531 | (23) |
| **Available-for-sale financial assets** | | | | | | | |
| BCP - Banco Comercial Português, S.A. | b) c) | Oporto | 0.008% | 75 | 74,884,879 | 5,680,571 | 235,344 |

a) For the purposes of the article 486, paragraph 3, of the Portuguese Commercial Companies Code, we declare that we hold the control of the companies indicated.
b) A fair value adjustment provision has been set up.
c) The balance sheet amounts shown refer to 2015.

## 27. Subsidiaries, joint ventures and associates – interests held directly and indirectly

The Companies held directly and indirectly by Jerónimo Martins, SGPS, S.A., as at 31 December, 2016 are those mentioned in notes 28 and 30 of Chapter III of the Group Consolidated Annual Report.

## 28. Related parties

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

Transactions with related parties are always carried out at market prices.

### 28.1 Transactions with related parties (shareholders)

JMH is owned 56.136% by Sociedade Francisco Manuel dos Santos B.V.. Besides the transaction identified in note 13, there were no direct transactions between this Company and JMH in 2016, nor are there any open amounts between them as at 31 December 2016.

### 28.2 Transactions with other related parties

#### 28.2.1 Technical and administrative services provided

As the Group's Holding Company and Corporate Center, JMH co-ordinates and provides consultancy services to its subsidiaries. The functional areas of support to the Group range from Administration, Environment and Food Safety, Legal Affairs, Internal Audit, Corporate Communications and Responsibility, Financial Control, International Expansion and Strategy, Fiscal Affairs, Risk Management, Marketing and Consumer, Financial Operations, Quality and Private Brand Development, Human Resources, Investor Relations, Security, Information Security and Information Technology. The turnover from these services, as well as management services for negotiations on behalf of the Group Companies, rose in 2016 to EUR 18,740 thousand (2015: EUR 17,784 thousand).

#### 28.2.2 Financial services

The Financial Operations Department of the holding centralises part of the Jerónimo Martins Group Companies' financial management.

This management includes acting on behalf of the Companies in the negotiation and contracting of debt conditions and application of funds with banks and other financial institutions. The purpose of this centralised management is to obtain more favourable conditions for funding and applications than would be obtained if negotiated on an individual basis. This centralised management is remunerated for this service, which amounted to EUR 1,535 thousand in 2016 (2015: EUR 1,344 thousand).

This management includes also the centralised treasury operations, responsible for payments to suppliers, employees and other entities, as well as daily cash flow management. This management is also remunerated for this service, which amounted to EUR 522 thousand in 2016 (2015: EUR 491 thousand).

#### 28.2.3 Lease of property

JMH develops its activity in premises rented from subsidiaries, which represented costs of EUR 517 thousand (2015: EUR 510 thousand).

As mentioned in note 12, JMH owns a property which is partially rented out to a Group Company, and generated profits in 2016 in the amount of EUR 196 thousand (2015: EUR 194 thousand).

#### 28.2.4 Supplementary income

Until 2015, JMH charged annually a joint venture Company a sales commission. In 2016 no commission was charged (2015: EUR 150 thousand).

#### 28.2.5 Loans (current and non-current loans)

JMH granted loans to subsidiaries, which generated interest in the amount of EUR 4,472 thousand (2015: EUR 6,331 thousand).

### 28.2.6 Staff related costs

As a Group JMH takes advantage of the synergies existing between various Companies, and frequently transfers staff from one Company to another according to the needs of the various businesses. In 2016, total costs incurred with personnel from other companies amounted to EUR 7,202 thousand (2015: EUR 6,072 thousand).

### 28.2.7 Open balances as at 31 December 2016

| Company | Current Loans | Non-current loans | Accounts receivable | Accrued income | Deferred income | Accounts payable | Accrued costs |
|---|---|---|---|---|---|---|---|
| **Subsidiary Companies** | | | | | | | |
| Best-Farmer - Actividades Agro-Pecuárias, S.A. | 855 | - | 1 | 2 | - | 113 | - |
| Caterplus – Com. Dist. Produtos de Consumo, Lda. | - | - | - | 1 | - | 56 | - |
| Desimo – Desenv. Gestão Imobiliária, Lda. | - | - | 6 | - | - | - | - |
| Friedman - Soc. Inv. Mobiliários e Imobiliários, Lda. | - | 170 | - | - | - | - | - |
| Imocash – Imobiliário de Distribuição, S.A. | - | - | 764 | 14 | - | - | - |
| Imoretalho – Gestão de Imóveis, S.A. | - | - | 3 | 49 | - | 43 | - |
| João Gomes Camacho, S.A. | - | - | 38 | 8 | - | - | - |
| Jerónimo Martins - Agro-Alimentar, S.A. | 2,160 | - | 56 | 3 | - | 124 | - |
| Jeronimo Martins Colombia, S.A.S. | - | - | 6 | - | - | - | - |
| Jerónimo Martins - Lacticínios de Portugal, S.A. | 8,065 | - | 10 | 9 | - | 653 | - |
| Jeronimo Martins Polska S.A. | - | - | 500 | 1,574 | - | 21 | - |
| Jerónimo Martins – Restauração e Serviços, S.A. | 1,420 | - | - | - | - | - | - |
| Jerónimo Martins Retail Services, S.A. | - | - | 250 | - | - | - | - |
| Jerónimo Martins Serviços, S.A. | - | 500 | - | - | - | 131 | 2,486 |
| JMR – Gestão Empresas Retalho, SGPS, S.A. | 59,405 | - | 32 | 213 | - | - | - |
| JMR - Prestação de Serviços para a Distribuição, S.A. | - | - | 24 | 56 | - | 63 | - |
| Larantigo - Sociedade de Construções, S.A. | - | - | 2 | - | - | - | - |
| Lidinvest - Gestão de Imóveis, S.A. | - | - | - | 3 | - | - | - |
| Lidosol II – Distrib. Produtos Alimentares, S.A. | - | - | 63 | 1 | - | - | - |
| Masterchef, S.A. | - | - | - | - | - | 13 | - |
| New World Investments B.V. | - | 221,450 | - | - | - | - | - |
| Origins - Agro Business Investments B.V. | - | 11,570 | - | - | - | - | - |
| Pingo Doce – Distribuição Alimentar, S.A. | - | - | 790 | 1,665 | - | 32 | - |
| Recheio - Cash & Carry, S.A. | - | - | 6,315 | 386 | 16 | 5 | - |
| Recheio, SGPS, S.A. | 21,270 | - | 176 | 12 | - | - | - |
| Seaculture - Aquicultura, S.A. | 270 | - | - | 1 | - | - | - |
| Tagus - Retail & Services Investments B.V. | - | 65,250 | - | - | - | - | - |
| Warta - Retail & Services Investments B.V. | - | 201,900 | - | - | - | - | - |
| **Subtotal** | 93,445 | 500,840 | 9,036 | 3,997 | 16 | 1,254 | 2,486 |
| **Other related parties** | | | | | | | |
| Jerónimo Martins - Dist. Prod. Consumo, Lda. | - | - | 24 | - | - | - | - |
| Fima - Produtos Alimentares, S.A. | - | - | - | - | - | 4 | - |
| **Subtotal** | - | - | 24 | - | - | 4 | - |
| **Total** | **93,445** | **500,840** | **9,060** | **3,997** | **16** | **1,258** | **2,486** |

### 28.2.8 Open balances as at 31 December 2015

| Company | Current Loans | Non-current loans | Accounts receivable | Accrued income | Deferred income | Accounts payable | Accrued costs |
|---|---|---|---|---|---|---|---|
| **Subsidiary Companies** | | | | | | | |
| Best-Farmer - Actividades Agro-Pecuárias, S.A. | 110 | - | - | - | - | - | - |
| Caterplus – Com. Dist. Produtos de Consumo, Lda. | - | - | - | - | - | 213 | - |
| Desimo – Desenv. Gestão Imobiliária, Lda. | - | 20 | - | - | - | 2 | - |
| Friedman - Soc. Inv. Mobiliários e Imobiliários, Lda. | - | 170 | - | - | - | - | - |
| Hussel Ibéria – Chocolates e Confeitaria, S.A. | - | - | - | 1 | - | - | - |
| Imocash – Imobiliário de Distribuição, S.A. | - | - | 254 | 11 | - | - | - |
| Imoretalho – Gestão de Imóveis, S.A. | - | - | 1 | 39 | - | 38 | - |
| João Gomes Camacho, S.A. | - | - | 11 | 8 | - | - | - |
| Jerónimo Martins - Agro-Alimentar, S.A. | 3,750 | - | 50 | 1 | - | 224 | - |
| Jeronimo Martins Colombia, S.A.S. | - | - | 2 | - | - | - | - |
| Jerónimo Martins – Dist. Prod. Consumo, Lda. | 4,735 | - | 160 | 22 | - | - | - |
| Jerónimo Martins - Lacticínios de Portugal, S.A. | 3,095 | - | 10 | 11 | - | 368 | - |
| Jeronimo Martins Polska S.A. | - | - | 131 | 1,185 | - | 143 | - |
| Jerónimo Martins – Restauração e Serviços, S.A. | - | - | - | - | - | 15 | - |
| Jerónimo Martins Serviços, S.A. | - | 500 | 138 | - | - | - | 1,988 |
| JMR – Gestão Empresas Retalho, SGPS, S.A. | - | - | 4 | 180 | - | - | - |
| JMR - Prestação de Serviços para a Distribuição, S.A. | - | - | 21 | 43 | - | 28 | - |
| Larantigo - Sociedade de Construções, S.A. | - | - | 1 | - | - | - | - |
| Lidinvest - Gestão de Imóveis, S.A. | - | - | - | 3 | - | - | - |
| Lidosol II – Distrib. Produtos Alimentares, S.A. | - | - | 97 | 15 | - | - | - |
| Masterchef, S.A. | - | - | - | - | - | 20 | - |
| Monterroio - Industry & Services Investments B.V. | - | 228,000 | - | 160 | - | - | - |
| New World Investments B.V. | - | 118,600 | - | - | - | - | - |
| Origins - Agro Business Investments B.V. | - | 2,360 | - | - | - | - | - |
| Pingo Doce – Distribuição Alimentar, S.A. | - | - | 700 | 1,568 | - | 26 | - |
| Recheio - Cash & Carry, S.A. | - | - | 5,439 | 366 | 16 | 3 | - |
| Recheio, SGPS, S.A. | 15,610 | - | 418 | 19 | - | - | - |
| Tagus - Retail & Services Investments B.V. | - | 112,500 | - | - | - | - | - |
| Warta - Retail & Services Investments B.V. | - | 201,900 | - | - | - | - | - |
| **Subtotal** | 27,300 | 664,050 | 7,437 | 3,632 | 16 | 1,080 | 1,988 |
| **Joint ventures** | | | | | | | |
| Fima - Produtos Alimentares, S.A. | - | - | - | - | - | 4 | - |
| Unilever Jerónimo Martins, Lda. | - | - | 184 | - | - | - | - |
| **Subtotal** | **-** | **-** | **184** | **-** | **-** | **4** | **-** |
| **Total** | **27,300** | **664,050** | **7,621** | **3,632** | **16** | **1,084** | **1,988** |

### 28.2.9 Remuneration paid to Directors

| | **2016** | **2015** |
|---|---|---|
| Salaries and cash awards | 1,239 | 1,542 |
| Retirement benefits | 213 | 188 |
| | **1,452** | **1,730** |

The Board of Directors of the Company consists of 9 Members. The remuneration shown includes the amounts paid to the members of the Board of Directors that work on the Audit comitee, which annual amount was of EUR 48 thousand (2015: EUR 48 thousand).

The remuneration of the Members of the Board of Directors and of the Supervisory Board is stated in the Consolidated Annual Report, under the Corporate Governance Chapter.

The retirement benefits granted to the Directors correspond to post-employment benefits and are part of the plans described in note 4.2.

## 29. Information on financial risks

JMH, and in particular its Board of Directors, dedicates a great deal of attention to the risks affecting the businesses. Success in this area depends on the ability to identify, understand and handle exposure to events which, whether or not under the direct control of the Management Team, may materially affect the physical, financial and/or organisational assets of the Company. The Group's Risk Management Policy, which aims to stimulate and reinforce the type of behaviour necessary for success, provides the necessary guidance to the Management of the Group to manage risks and opportunities.

JMH is exposed to various financial risks, namely market risk (which includes exchange rate risk, interest rate risk and price risk), liquidity risk and credit risk.

The management of these risks is focused on the unpredictable nature of the financial markets and aims to minimize its adverse effects on the Company's financial performance. To achieve this, certain types of exposure are managed using derivative financial 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 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.

### 29.1 Market risk (price risk)

As a result of its investment in Banco Comercial Português (BCP), Jerónimo Martins is exposed to equity price risk. At 31 December 2016, a negative 10% variation in the trading price of BCP shares would have a negative effect of EUR 8 thousand in Profit and loss accounts (at 31 December 2015 would have a negative effect of EUR 27 thousand).

### 29.2 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 fixed interest rate swaps, thus Jerónimo Martins is also exposed to fair value risk.

Exposure to interest rate risk is monitored continuously. In addition to evaluating future cash flows based on forward rates, sensitivity tests to variations in interest rate levels are performed.

### 29.3 Credit risk

Credit risk is managed centrally. The main sources of credit risk are bank deposits, short-term investments and derivatives contracted with financial institutions.

The financial institutions that JMH 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.

The following table shows a summary of credit quality of bank deposits and short-term investments, as at 31 December 2016 and 2015:

| | | 2016 | 2015 |
|---|---|---|---|
| **Rating company** | **Rating** | **Balance** | **Balance** |
| Standard & Poor's | [A+ : AA] | - | 12 |
| Standard & Poor's | [BBB+ : A] | 13,030 | 39 |
| Standard & Poor's | [BB+ : BBB] | 107,058 | 7 |
| Standard & Poor's | [B+ : BB] | 778 | 35 |
| Moody's | Caa1 | 24 | 12 |
| | Not Available | 11 | 3 |
| | **Total** | **120,901** | **108** |

The ratings shown correspond to those given by Standard and Poor's and Moody's. The maximum exposure to credit risk at 31 December 2016 and 2015 is the financial assets carrying value.

### 29.4 Liquidity risk

Liquidity risk is managed by maintaining an adequate level of cash or equivalents, as well as by negotiating credit facilities that not only allow the regular development of JMH activities, but also ensuring some flexibility to be able to absorb shocks unrelated to its activities.

To manage this risk, JMH uses, for example, credit derivatives in order to mitigate the impact of credit spreads increase that are the result of impacts beyond the control of JMH. Treasury needs are managed based on short-term planning (executed on a daily basis) which it derives from the annual financial plans which are reviewed at least twice a year.

The following table shows JMH's liabilities by ranges of contractual residual maturity. The amounts shown in the table are the non-discounted contractual cash flow.

| Exposure to Liquidity Risk | | | |
|---|---|---|---|
| **2016** | Less than 1 year | 1 to 5 years | More than 5 years |
| Borrowings | | | |
| Bank overdrafts | - | - | - |
| Commercial paper | - | - | - |
| Creditors | 2,872 | - | - |
| Operational lease liabilities | 354 | 419 | - |
| **Total** | **3,226** | **419** | **-** |
| **2015** | Less than 1 year | 1 to 5 years | More than 5 years |
| Borrowings | | | |
| Bank overdrafts | 6,853 | - | - |
| Commercial paper | 55,658 | 100,000 | - |
| Creditors | 1,750 | - | - |
| Operational lease liabilities | 343 | 367 | - |
| **Total** | **64,604** | **100,367** | **-** |

## 30. Additional information requested by law

In accordance with article 66-A 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 which are not already contained either in the balance sheet or in these notes;

b) The total remuneration paid in 2016 to the External Auditor and Statutory Auditor was EUR 129 thousand, of which EUR 95 thousand correspond to legal accounts audit services, while the remaining EUR 34 thousand relate to access to a tax legislation database and support on human resources issues;

c) Note 28 of the Notes to the Financial Statements include all the related parties’ disclosures, in accordance with the International Accounting Standards.

## 31. 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**

pwc

# *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 financial statements*

### *Opinion*

We have audited the financial statements of Jerónimo Martins, SGPS, S.A. (the Entity), which comprise the balance sheet as at December 31, 2016 (which shows total assets of Euro 1,425,035 thousand and total shareholders' equity of Euro 1,391,499 thousand including a net profit of Euro 350,645 thousand), the statement of income by functions, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Jerónimo Martins, SGPS, S.A. as at December 31, 2016, and its financial performance and its 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 financial statements" section below. In accordance with the law we are independent of the Entity 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 financial statements of the current year. These matters were addressed in the context of our audit of the 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* |
|---|---|
| **Investments in subsidiaries** | |
| Disclosures related to financial investments presented in note 13 to the financial statements.<br><br>Jerónimo Martins, SGPS, S.A. shows under the Investments in subsidiaries heading the amount of Euro 665 million. Subsidiaries are all entities over which Jerónimo Martins, SGPS, S.A. has control. The Company is deemed to control 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.<br><br>Investments in subsidiaries are stated at cost. In accordance with IAS 36 - Impairment of assets, the investments in subsidiaries are analysed at each balance sheet date in order to detect indicators of possible impairment losses.<br><br>When indicators are identified, the recoverable amount of the asset is tested. In impairment tests over the investments in subsidiaries, valuation data for the calculation of the value in use are supported by the past performance and expectations of market developments for each of the business areas, in accordance with the discounted cash flow method, based on assumption of cash flows projections, discount rates and perpetuity growth rates.<br><br>Due to the complexity and level of judgment inherent in the model adopted for the calculation of impairment, this issue was a relevant matter for the purposes of our audit. | Understanding, evaluating and testing controls over the Investment on subsidiaries.<br><br>Independent analysis of events indicating potential impairment.<br><br>Obtaining impairment tests performed by management to the investment in subsidiaries, evaluating if the recoverable amount is higher than the carrying amount.<br><br>Reviewing the assumptions and methodology followed by the management, when evaluating its investments in subsidiaries, namely the cash-flow projections, discount rates and perpetuity growth rates.<br><br>Verifying the adequacy of the disclosures presented in the financial statements. |

### *Responsibilities of management and supervisory board for the financial statements*

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Entity 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 Entity's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

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

### *Auditor's responsibilities for the audit of the financial statements*

Our responsibility is to obtain reasonable assurance about whether the 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 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 Entity'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 Entity'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 Entity to cease to continue as a going concern;

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

f) 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;

g) 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 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;

h) 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 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 financial statements and, taking into account the knowledge and assessment about the Entity, 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 the Entity 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. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the 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 Entity'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 Entity 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.