



***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.

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*PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.  
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal  
Tel +351 213 599 000, Fax +351 213 599 999, [www.pwc.pt](http://www.pwc.pt)  
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**Key audit matters****Summary of audit approach**

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**Investments in subsidiaries**

Disclosures related to financial investments presented in note 13 to the financial statements.

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.

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.

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.

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.

Independent analysis of events indicating potential impairment.

Obtaining impairment tests performed by management to the investment in subsidiaries, evaluating if the recoverable amount is higher than the carrying amount.

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.

Verifying the adequacy of the disclosures presented in the financial statements.

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**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.