


25 Anos
MARCA PRÓPRIA
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O MEU
FAVORITO
SÃO OS CHOCOLOCOS
E O SEU?


What we did in 2016

2.

Key Facts of the Year

Clear objectives were established for 2016, focused in consolidating the competitive advantages in Poland and Portugal and on the ambition for growth in Colombia.

1.

Biedronka

- Opening of 83 stores, ending the year with 2,722 locations
- Revamping of 221 stores
- Launch of the *Moja Biedronka* loyalty card, reinforced through various campaigns
- Start-up of a soup factory, producing nine varieties and distributing to all the stores

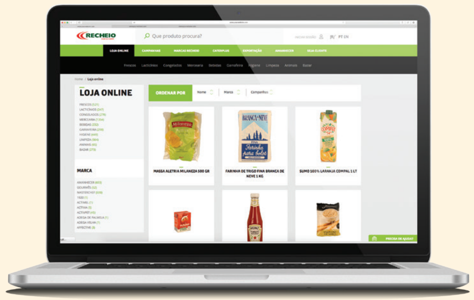
In 2016, Biedronka accelerated the number of refurbished stores to 221 (from 155 in 2015), giving the programme a more normalised pace, as in 2015 the focus on updating the assortment led to a slower pace.

Pingo Doce

- Opening of 14 stores, five of which under third-party management agreements, and two Pingo Doce & Go convenience stores, closing the year with 413 locations
- Celebration the Private Brand's 25^{th} anniversary, with over 1,800 product references in the portfolio in 2016

Recheio

- Opening of a store in Sines, to join the 37 already in existence and four platforms, three of them related to Food Service
- Inclusion of 36 stores in the Amanhecer concept, ending 2016 with a total of 285 stores in the network
- Renewal of the institutional website, which allowed the opening of the online store, being the first Cash & Carry in Portugal to provide this service



Ara

- Start of operations in the Bogota region
- Opening of 79 stores, ending the year with 221 locations operating in three regions of Colombia

Hebe

- Opening of 26 stores, ending the year with a total of 153 locations
- Implementation of the new store concept, with five completely refurbished stores

Jerónimo Martins Agro-Alimentar (JMA)

- Start of the construction of a new Dairy factory in Portalegre
- Start-up of the first Aquaculture facility in Sines for sea bass production
- Partnership with a local operator in Madeira, in order to produce sea bream

2016 was the second year of activity of JMA, whose main purpose is to ensure the protection of sources of supply for the Group in Portugal, thus contributing towards a differentiated offering in categories considered crucial to the Food Distribution chains.

Jeronymo and Hussel

- Opening of two Jeronymo stores in Oporto
- Revamping of two Hussel stores to adapt to a new, more modern concept

Corporate

- Sale to Sociedade Francisco Manuel dos Santos B.V. of 100% of the subsidiary Monterroio – Industry & Investments B.V., which includes shareholdings in the Manufacturing area (Unilever JM and Gallo) and Services (JMD)

2016 Environment

In the Food Retail sector there was still a move towards consolidation, with the number of independent stores being reduced, in line with the trend of previous years.

2.

2.1. Poland

Macroeconomic Environment

In 2016, the Polish economy maintained a positive performance, but the growth in GDP slowed down compared to the previous year, standing at 2.8% according to the Polish Statistical Office (GUS) (+3.9% in 2015). Domestic demand remained the main GDP growth driver, supported by the gradual improvement in the job market, confidence of households and the distribution of subsidies under the "Family 500 plus" programme. On the other hand, and mainly due to the reduction in European Union flows, the growth in GDP was conditioned by the fall in investment.

Employment continued to grow, with the number of the working population remaining stable, resulting in further declines in the unemployment rate which decreased by 1.5 p.p. compared to 2015, standing at 9%, the lowest level in the last 25 years. The decrease in unemployment, in turn, supported the growth in wages (the average wage rose by 4.1% in 2016).

In 2016, the zloty recorded against the euro a devaluation of 4.1%. The year-end foreign exchange position also showed a deterioration against the euro (-3.3%), with a 4.4103 and 4.2639 rate for 2016 and 2015, respectively.

The evolution of prices in the economy stood at -0.6%, slightly up from -0.9% in 2015 and the food inflation was 0.8% (-1.7% in 2015).

Although it has given clear signs of increase in recent months, inflation remained low throughout the year, in a context of lower economic growth and a drop in the prices of commodities, particularly in energy.

Modern Food Retail

According to PMR Research, the Modern Food Retail market grew by 4.2% in 2016 (+2.6% in 2015), exceeding 254 billion zlotys, having benefited from a set of economic measures to boost consumption, in particular the "Family 500 plus" programme, which gives families an amount of 500 zlotys per month for each child (excluding the first child).

Another topic that deserved attention during the year was the retail tax that eventually earned the opposition of the EU, and its entry into force was delayed. It should also be noted that, in 2016, reference was often made to the creation of a law to prohibit the opening of Modern Retail stores on Sundays, although this had not been made public/concluded during the period.

As was the case in 2015, disposable household income continued to show a solid growth. Nevertheless, the Polish consumer has remained very sensitive to the price factor and with a very rational behaviour when purchasing. Price, along with the increased importance of convenience, were the key elements in the purchasing decision process.

In this context, in 2016, there was an increase in the importance of promotional activity, which was intensified, more focused on increasing the volumes sold rather than on specific products, with the main market players launching various campaigns, offering consumers better benefits to those who made higher value purchases, in order to increase the average basket with discounts and special prizes. Promotional activity was also undertaken as a real marketing tool, with the media giving wide coverage to the promotional actions.

Disposable household income continued to show a solid growth. Nevertheless, the Polish consumer has remained very sensitive to the price factor and with a very rational behaviour when purchasing.

In the Food Retail sector there was still a move towards consolidation, with the number of independent stores being reduced, in line with the trend of previous years. The market remained highly competitive, with the major organised retail chains leading the growth, but also with chains of small local stores and supermarkets having quite substantial representation.

For 2017, it is expected that the increase in income will continue to benefit the Food Retail sector, although penalised by some shift of consumption to the HoReCa channel. On the other hand, there will be a larger number of consumers placing value on convenience. E-commerce should also post growths, with many of the leading operators considering launching online stores. Overall, the outlook for the market is positive, which is directly related to the projections for the economy as a whole, although still with some uncertainty about the introduction of the retail tax and the prohibition of opening on Sundays.

Health and Beauty Retail

According to the projections of PMR Research, the Polish Health and Beauty market grew by 4.2% in 2016, to 22.1 billion zlotys, reflecting the significant growth in consumption seen during the year, particularly in the second half, which was decisively helped by the "Family 500 plus" programme which generated an additional consumption stimulus, also having a positive impact on this market segment.

The biggest sales stimulus was the promotions, with retailers intensifying promotional activities to attract consumers.

On the other hand, consumers are increasingly demanding regarding the offer available in the stores, looking for products with effective results, such as professional range products that can be used at home.

Natural cosmetic products represent an increasingly strong trend and there was also an increase in the popularity of local and craft brands. Convenience when purchasing is also increasingly valued, such as the ability to shop in stores with beauty products and cosmetics, which have also pharmaceutical products.

Loyalty programmes continued to be key in the Health and Beauty retail business: about 41% of the Polish population are members of a loyalty programme, despite the 6 p.p. decrease compared to 2015.

There was a significant increase in the opening of new stores, particularly relevant in the larger chains. Shopping centres and arcades continue to be the most attractive places, although we are starting to see an increase in openings in smaller cities.

Discount stores, which in recent years have expanded the offer of both manufacturer brand and Private Brand cosmetics, rose one place to third among the

most popular locations to buy these products, the leader being the drugstores followed by the hypermarkets.

In the cosmetics market, the market share of the Discount stores rose significantly in the last years, driven mainly by Biedronka's growth, followed by Lidl.

For the future, the Health and Beauty market should continue to record significant growth, benefiting from the Polish consumers' better economic situation and the organic growth of the large retailers.

Consumers' attention to the price of products will continue to be a critical aspect when purchasing. However, a greater appreciation of the quality and effectiveness of the product is also predicted.

2.2. Portugal

Macroeconomic Environment

In 2016, Portugal maintained the path to moderate recovery of its economic activity, recorded in the last two years.

The economic growth was 1.4%, below the previous year's growth (+1.6%), reflecting the irregular performance registered throughout the year. The moderate growth seen in the first half of 2016 reflected the slowdown that began in the second half of 2015 as a result of a lower contribution from domestic demand and exports.

The second half was characterised by an acceleration of the economic activity, supported by an increase in exports and a growth, although slight, in domestic demand, which led to acceleration in private consumption and a lower drop in investment.

According to the European Commission's Winter Report (February 2017) 2016 closed with a slowdown in the domestic demand growth of 1.3% (+2.5% in 2015), reflecting the lower contribution from investments, conditioned by the sharp drop in public investment. The main contribution to the positive evolution of domestic demand came from private consumption growth of 2.1% (+2.6% in 2015), the consumption of durable goods being particularly relevant, due to the increase in disposable income, the decreased unemployment rate and maintenance of consumer confidence.

Exports posted a more moderate growth of 3.9% (+6.1% in 2015). This reflects the negative contribution from the exports of fuels, whose imported content is quite significant and also, but to a lesser extent, the reduction in the exports of services, excluding tourism. In contrast, it was recorded a slowdown in the growth of imports of 3.9%, after a very significant growth in 2015 (+8.2%).

With regard to the job market there was a reduction in the unemployment rate (+11.1%, well below the +12.6% recorded in 2015) and an increase in total employment.

With regard to inflation, it stood at 0.6%, slightly above the 0.5% in 2015, reflecting a smaller decline in the prices of energy and non-energy industrial products and a slight acceleration in the prices of services, particularly in more dynamic sectors such as tourism. Food prices grew by only 0.5%, while in 2015 the increase was 1%; this slowdown is mainly due to the prices of manufactured goods.

In 2016, the deficit stood at around 2% of GDP (4.4% in 2015), meeting the target set by the European Commission. Nevertheless, despite this reduction Portugal will still be facing risks of budgetary sustainability, in the mid-term.

Modern Food Retail

In 2016, the Portuguese economy underwent a positive evolution, particularly with regard to private consumption, reflecting a set of favourable factors.

Along with the increase in actual disposable income, there was a decrease in the unemployment rate, which helps to explain the increase in consumer confidence, maintaining the recovery trend seen in 2015, recording higher values when compared to the last few years. These factors have of course contributed to an increase in the consumption of Portuguese households, which was extended to the food area.

After a recent past showing a decrease or moderate growth in sales, Food Retail performed more dynamically, with a more favourable sales growth than that recorded in 2015, having increased by 4.2% in 2016, according to the National Statistics Institute.

However, the competitive environment remained very intense throughout the year. In addition to the strong promotional aspect, there was also an accelerated pace of opening new food retail stores, as well as remodelling existing stores.

Regarding purchases in the food, hygiene and cleaning categories, there was simultaneously an increase in the purchasing frequency and in the average basket.

Factors such as proximity, price and promotion continued to be critical for consumers to choose their shopping location throughout the year. As was already the case in 2016, it is expected that in 2017 these aspects will continue to be relevant, combined with an increased consumer awareness about the importance of healthy eating and the growing importance of convenience in the purchasing decisions.

Wholesale Market

In 2016, the turnover of the Cash & Carry operators recorded a positive trend (3.7%, according to TSR Nielsen – Cash & Carry Market), mainly as a result of the dynamics seen in the HoReCa channel.

In terms of the opening of Cash & Carry stores, of particular note are the opening of the Recheio store in Sines and the "Poupança" store in Setúbal.

In Traditional Retail, it should be noted the openings of 54 new Amanhecer stores and around 80 from other market players (mainly "Meu Super" stores), reinforcing the positioning of the proximity retail chains scattered over a wide area of the country.

For 2017, a continued good performance in the tourism, hospitality and restaurants sectors is predicted, as well as the revival of Traditional Retail.

2.3. Colombia

Macroeconomic Environment

In 2016, the growth of the Colombian economy slowed down more than estimated as a result of an unfavourable external environment and some internal constraints having a significant effect on the economic activity, especially the lower global growth, the reduction in the production and price of oil and a slower implementation of the country's road infrastructure plan. In addition, there was an increased uncertainty in the economic agents caused by issues concerning the tax reform, the peace process and the elections in the United States.

The more modest GDP growth (2%) was also a reflection of the low dynamics in farming and mining, and also of the significant impact of the strikes that took place in the transport sector.

This GDP growth was the lowest level since 2009, when the economy registered an annual growth of 1.7%, with both private consumption and public and private investments decreasing significantly. The slowdown in domestic demand was also reflected in the reduction of imports.

The reduction in oil and coal prices worsened the trade balance, significantly impacting the public deficit, which exceeded international economic standards (about 5% in 2016).

Average inflation in 2016 was 7.5% compared to 5% in 2015, remaining well above the objective of the Colombian Central Bank (+3% with a variation of ±1 p.p.). The main inflationary pressures were recorded in the tradeable food, goods and services categories, resulting from the *El Niño* weather phenomenon, the strikes in the transport sector and the strong devaluation of the Colombian peso.

The accelerated inflation led the Central Bank to increase the reference interest rate by 175 basis points during the year (from 5.75% to 7.5%).

On the other hand, the Colombian peso registered a significant devaluation during the year, which averaged 11.2% against the euro.

The unemployment rate also reflected the modest economic growth, contrary to the downward trend of the last six years and averaged 9.2% in 2016, 0.3 p.p. more than in 2015.

In this context, the consumer confidence index deteriorated significantly, having remained negative throughout the year, and considerably lower than in previous years, although it started a recovery trend as from April 2016.

Modern Food Retail

It is estimated that Food Retail in Colombia has a value of 65.5 billion dollars, with organised retail holding a market share of approximately 20%. According to data from Nielsen, Food Retail sales increased by 7.4% in 2016. Traditional Retail grew by 7.3%, Modern Retail by 7.1% and independent supermarkets grew 10.9%. During the year, there was more store openings in Modern Retail, with a total of 547 new stores opened compared to 233 openings in 2015. The Discount format had the highest number of openings in organised retail, with 337 new stores, which represents 62% of the total number of stores opened.

The rapid expansion of the Discount format in Colombia led to additional dynamics in the Modern Retail market, increasing its penetration in 2016.

The economic environment in the country presented in this chapter led to Colombian consumers changing their consumption habits, as they moved their purchases to cheaper brands.

Regarding products, it is worth highlighting the need to align developments that are in line with new consumer habits, more focused on low prices and convenience.

With regard to the categories, of particular note is that the sales of alcoholic drinks and beauty products did not undergo any sales losses resulting from lower economic growth. However food and non-alcoholic beverages were the most affected categories.

The latest trends and which should continue to be seen in the retail market are related to the increasing importance attributed to price and product innovation as a stimulus to sales growth. Regarding products, it is worth highlighting the need to align developments that are in line with new consumer habits, more focused on low prices and convenience.

In terms of format, it is expected that the Cash & Carry, Discount and Convenience Stores will continue to increase its penetration.

Sources:
Eurostat; Bank of Portugal Economic Bulletins; Portuguese Ministry of Finance; Portuguese National Statistics Institute (INE); National Bank of Poland Economic Bulletins; Central Statistical Office (GUS); Banco de la República (Colombian Central Bank); Colombia National Administrative Department of Statistics (DANE); Business Monitor International (BMI); BBVA; Planet Retail; Deloitte; TNS; Nielsen and PMR Research.

Group Performance

All the defined strategies and objectives were implemented and achieved by the Management Teams.

3.

3.1. Main Projects of 2016

The main banners of the Group – Biedronka, Pingo Doce and Recheio – began the year of 2016 with an enhanced focus on competitiveness and like-for-like growth. This determination led to a strong performance throughout the year with growth of like-for-like sales, total sales and market shares.

In general, all the defined strategies and objectives were implemented and achieved by the Management Teams while being duly monitored by the Board of Directors, which oversaw the business activities without any constraints.

Clear objectives were established for 2016, focused in consolidating the competitive advantages in Poland and Portugal and on the ambition for growth in Colombia. As a result:

i. in Poland, Biedronka has **consolidated the revision of the offer** initiated in 2015, promoting a more integrated approach and, therefore, more responsive to the needs and aspirations of the consumer;
ii. in Portugal, both Pingo Doce and Recheio have maintained an intense promotional activity, while guaranteeing **quality and innovation in its overall value proposition**;
iii. in Colombia, **Ara entered the great region of Bogota**, continuing to invest in the ongoing improvement of the value proposition.

3.1.1. Biedronka – consolidation of the review of the offer

In 2015, Biedronka began a full revision of its assortment, which led to its increase but it mainly led to a renewed design of the different categories and their composition. This strategic project came about following a scenario of more dynamic consumption, with new aspirations on food level, very much driven by the increase in disposable income in Poland.

Reinforcing the assortment was the starting point for a renewed way of approaching the value proposition, which is now more than ever focused on the consumer and is aware of how quick the latter has been proven to be in their aspirations and the effective evolution of their food basket.

In 2016, Biedronka's new management team focused on consolidating the organisational changes needed in order to be more focused on the like-for-like sales performance, through a basket that aims to be more dynamic, both in its basic assortment, in the promotional and the in & out campaigns.

Towards a consumption environment more positive than anticipated for 2016, the Company created, right from the start, an array of more assertive initiatives that surprised the consumers with products and campaigns throughout the year, enabling them to complement their food basket.

3.1.2. Pingo Doce and Recheio – quality and innovation in their overall value proposition

As Portuguese consumers remained very much geared to promotional opportunities, Pingo Doce and Recheio persisted with their commercial strategy based on competitive prices combined with intense promotions.

Simultaneously, the banners invested in consolidating their competitive advantages in the market.

Pingo Doce maintained an ambitious revamping plan which covered 21 stores, and that is essential for maintaining its differentiated shopping experience.

The Private Brand was also a priority in the year with 221 launches and a campaign to celebrate its 25th anniversary.

Recheio remained highly focused on customer proximity, for which the store managers played an essential role, and invested in a new store and the total revamping of another, giving greater importance to the Perishables area, as this is recognised as one of the banner's competitive advantages.

3.1.3. Ara - entrance in the great region of Bogota

Operating in Colombia for just three years, Ara validated its value proposition in the two initial regions (Coffee Growing Region and Caribbean Coast) and began 2016 with the ambition of inaugurating operations in the capital of Colombia.

Ara is permanently improving its offer and adapting it to the reality of each region, and its priority for the year was to prepare and carry out its entry into the Bogota region.

This project involved all areas of the Company, namely regarding: i. the expansion area, in searching for and negotiating locations, ii. the commercial and marketing area regarding the development of the regional part of the assortment, and iii. the human resources area, in creating and training the teams for this new region which opens the door to one of the biggest markets in Colombia.

3.2. Execution of the Investment Programme

The Group's investment plan in 2016 stood at 482 million euros, of which 44% was invested in expansion (new stores and Distribution Centres).

Investment in expansion still plays an important part in the Group's growth strategy.

(million euros)

Business Area	2016			2015		
	Expansion [1]	Others [2]	Total	Expansion [1]	Others [2]	Total
Biedronka	**53**	**180**	**233**	**90**	**114**	**204**
Stores	51	170	221	84	110	193
Logistics & Head Office	2	10	12	6	5	11
Pingo Doce	**75**	**62**	**137**	**75**	**59**	**133**
Stores	33	59	92	54	57	111
Logistics & Head Office	42	3	45	21	2	23
Recheio	**8**	**13**	**21**	**5**	**14**	**18**
Ara	**64**	**0**	**64**	**49**	**0**	**49**
Stores	59	0	59	31	0	31
Logistics & Head Office	5	0	5	17	0	17
Total Food Distribution	**199**	**255**	**455**	**218**	**187**	**404**
Hebe	**5**	**2**	**6**	**3**	**1**	**4**
Services & Others	**10**	**11**	**21**	**3**	**1**	**4**
Total JM	**214**	**268**	**482**	**224**	**189**	**412**
% of EBITDA	**24.9%**	**31.1%**	**56.0%**	**28.0%**	**23.6%**	**51.6%**

[1] New Stores and Distribution Centres.
[2] Revampings, Maintenance and Others.

Biedronka invested a total of 233 million euros (48% of the Group's total capex), opened a total of 83 new locations.

Also in Poland, Hebe added 26 new locations to its store network.

At Pingo Doce, the investment plan reached a total of 137 million euros, including the investment in 14 new locations, five of which are managed through an agency contract and two under the innovative Pingo Doce & Go convenience concept.

Recheio opened a store in Sines, ensuring its presence in a market where there is a significant sales opportunity and where the banner was not yet present.

In Colombia, Ara opened a total of 79 stores, accelerating from the 56 openings carried out in 2015, and continued to invest in preparing its expansion, aiming to increase the pace of new stores in the future. Of the total openings, 22 were in the new region – Bogota.

	New Stores		Revampings [1]		Closed Stores	
	2016	2015	2016	2015	2016	2015
Biedronka	83	102	221	155	28	22
Pingo Doce	14	21	21	29	0	2
Recheio	1	0	1	2	0	0
Ara	79	56	0	0	0	0
Hebe	26	15	5	10	7	0
Other Businesses [2]	5	13	2	1	4	11

[1] Only includes the revampings that implied the closing of the food selling area, with exception for Recheio.
[2] Including the stores NewCode, Spot, "Bem-Estar", "Refeições no Sítio do Costume", Fuel Stations, Jeronymo, Kropka Relaks, "Olá", Hussel and Jeronymo Food with Friends.

Logistics remains an important area within the investment plan, reflecting the strategic importance of this area for each of the Group's business models.

Going ahead with its logistics restructuring plan in order to better address the needs of the store network, Pingo Doce invested in setting up a new Distribution Centre, which is in the final construction phase and should be inaugurated in the first half of 2017.

Revamping has been gaining more weight in the capex plan, being this investment essential for ensuring the quality of the store experience, the efficiency of the operation and the innovation of the value propositions, and as such, it has an important role in each banner's potential like-for-like sales growth.

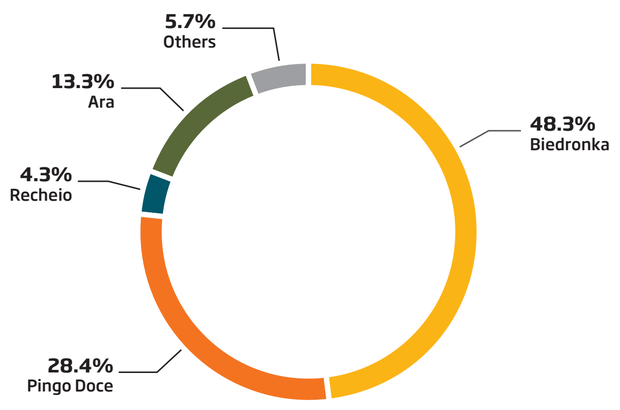
In 2016, Biedronka accelerated the number of refurbished stores to 221 (from 155 in 2015), giving the programme a more normalised pace, as in 2015 the focus on updating the assortment led to a slower pace.

Pingo Doce maintained the revamping plan as an important pillar for reinforcing its competitive position, having refurbished 21 stores in 2016.

Recheio completely refurbished the Torres Vedras store, preparing it to better operate Perishables.

Besides the major investment areas presented above, innovation for differentiation, outside the revamping programme, was also given the Group's attention, namely through the opening of Biedronka's soup factory and, within the Agro Business area in Portugal, by starting the construction of a new milk factory and the start-up of the first Aquaculture facility. At the end of the year *Santa Maria Manuela*, an emblematic vessel that was part of the old *white fleet* of Portuguese cod fishing, was also acquired.

Investment by Business Area



3.3. Consolidated Activity in 2016

3.3.1. Consolidated Sales

In 2016, the Group reached sales of 14,622 million euros, 6.5% ahead of the previous year (+9.8% at a constant exchange rate).

(million euros)

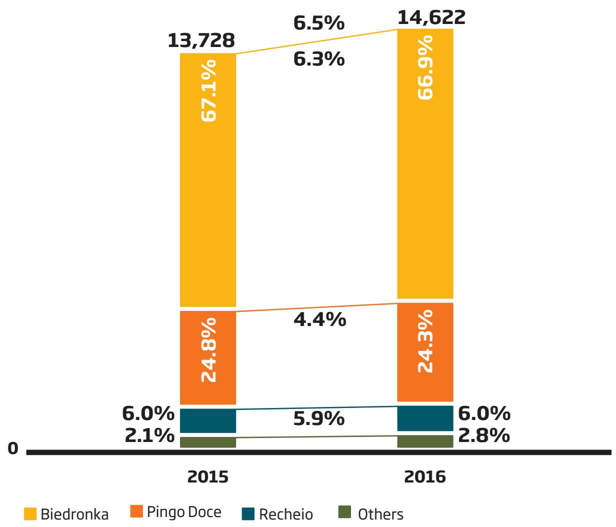
	2016		2015		Δ %		LFL
		% total		% total	w/o F/X	Euro	
Sales & Services							
Biedronka	9,781	66.9%	9,206	67.1%	10.8%	6.3%	9.5%
Pingo Doce	3,558	24.3%	3,407	24.8%		4.4%	1.0%
Recheio	878	6.0%	829*	6.0%		5.9%	5.0%
Ara	236	1.6%	122	0.9%	110.2%	92.5%	n.a.
Hebe	122	0.8%	100	0.7%	27.5%	22.2%	n.a.
Others & Cons. Adjustments	46	0.3%	63	0.5%		n.a.	n.a.
Total JM	**14,622**	**100%**	**13,728**	**100%**	**9.8%**	**6.5%**	**7.2%**

* Restated figure from 832 published in 2015

2016 was a year of solid sales growth, which was helped by the extraordinary increase in Biedronka's turnover, which led to the Group achieving an increase in like-for-like sales of 7.2%.

The growth posted by all the banners confirms that our strategy to focus on consumer through competitive prices and reinforced attractiveness of our basket and of our shopping experience. This strategic positioning proved it can maximise the capture of the growth opportunities we see in each market where we operate.

Consolidated Sales
(million euros)



In Poland, the competitive environment remained highly promotional, with the consumption scenario proving to be more positive than anticipated due to the increase in the minimum wage in the country and a distribution of a subsidy to families with more than one child.

This increase in disposable income, combined with the fact that Polish consumers have an innovative approach to food consumption, generated interesting opportunities to develop the food basket in the market.

With a reinforced offer and a more intense and innovative approach to commercial campaigns, Biedronka fully benefited from this favourable environment and posted a growth of 9.5% of its like-for-like sales, despite maintaining a slightly negative inflation in the basket.

The banner reached a net increase of 55 locations, having ended 2016 with a total of 2,722 stores.

Biedronka's sales increased by 6.3% in the year (+10.8% in local currency) to 9,781 million euros, leading to an increase in its market share.

Hebe, with a value proposition that is more focused on the areas of the assortment, where it wishes to differentiate, and with a communication plan in line with that positioning the banner, presented a good sales evolution throughout the year, reaching 122 million euros, 22.2% above 2015. The complete store network totalled 153 locations, 19 more than in 2015.

In Portugal, where food inflation was 0.5%, the food retail sector remained extremely competitive, with promotions playing a determining role.

Pingo Doce maintained strong promotional dynamics, simultaneously guaranteeing quality and innovation in its Private Brand offer. The Company continued to execute its store revamping plan, with a view to a continuous improvement in the overall shopping experience.

Over the challenging comparison base from 2015, like-for-like sales (excluding fuel) increased 1.2% in 2016 and total sales grew 4.4%, to reach 3,558 million euros.

Recheio's sales rose 5.9% to 878 million euros. Supported by its solid competitive position, the Company benefited from the improvement that took place in the HoReCa segment as a result of the strong tourism in Portugal. Like-for-like growth in the year was 5%.

Ara closed the year with 221 stores in three regions of Colombia. The sales performance continued to confirm that the value proposition has been well accepted by Colombian consumers in all the regions. The banner achieved sales of 236 million euros in 2016, having more than doubled its sales in local currency compared to 2015.

Contribution to Consolidated Sales Growth
(million euros)

3.3.2. Consolidated Operating Results

(million euros)

	2016		2015		Δ %
		%		%	
Net Sales & Services	**14,622**		**13,728**		**6.5%**
Gross Margin	3,113	21.3%	2,937	21.4%	6.0%
Operating Costs	-2,251	-15.4%	-2,138	-15.6%	5.3%
EBITDA	**862**	**5.9%**	**800**	**5.8%**	**7.8%**
Depreciation	-294	-2.0%	-294	-2.1%	-0.1%
EBIT	**568**	**3.9%**	**505**	**3.7%**	**12.4%**

The priority focus on like-for-like sales growth, maintaining strict cost management, led to the main business areas posting growths in the EBITDA generated in the year.

Consolidated EBITDA reached 862 million euros, a growth of 7.8% compared to 2015 (+11% at a constant exchange rate).

(million euros)

	2016		2015		Δ %
		% total		% total	
Biedronka	707	82.1%	641	80.2%	10.3%
Pingo Doce	192	22.2%	188	23.5%	2.0%
Recheio	47	5.5%	44	5.5%	7.4%
Others & Cons. Adjustments	-84	-9.8%	-73	-9.2%	15.1%
Consolidated EBITDA	**862**	**100%**	**800**	**100%**	**7.8%**

Although inflation in the basket remained slightly negative both at Biedronka and Pingo Doce, both banners recorded a solid like-for-like sales growth, enabling them to mitigate the evolution in operating costs, especially regarding personnel expenses which increased significantly in Poland and in Portugal. As such, the Group's EBITDA margin increased to 5.9%, from 5.8% in 2015.

Biedronka posted an EBITDA of 707 million euros, an increase of 10.3% compared to 2015 (+15.1% at a constant exchange rate). This performance was the result of the strong like-for-like growth and the very strict cost management, and achieved despite the intense promotional activity carried out by the banner in 2016.

Biedronka's EBITDA margin was 7.2% (*vs.* +7% in 2015).

Pingo Doce generated an EBITDA of 192 million euros, 2.0% above the previous year. The EBITDA margin was 5.4%, a reduction from the 5.5% recorded in 2015 as a result of maintaining the intense promotional activity and of the investment in the shopping experience, namely store revamping.

In Recheio, EBITDA reached 47 million euros, a growth of 7.4% compared to 2015, the respective margin standing at 5.4%, up from the 5.3% recorded in 2015, driven by the solid like-for-like growth.

Together, Ara and Hebe posted EBITDA losses of 62 million euros, Ara having been responsible for around 76% of the total losses.

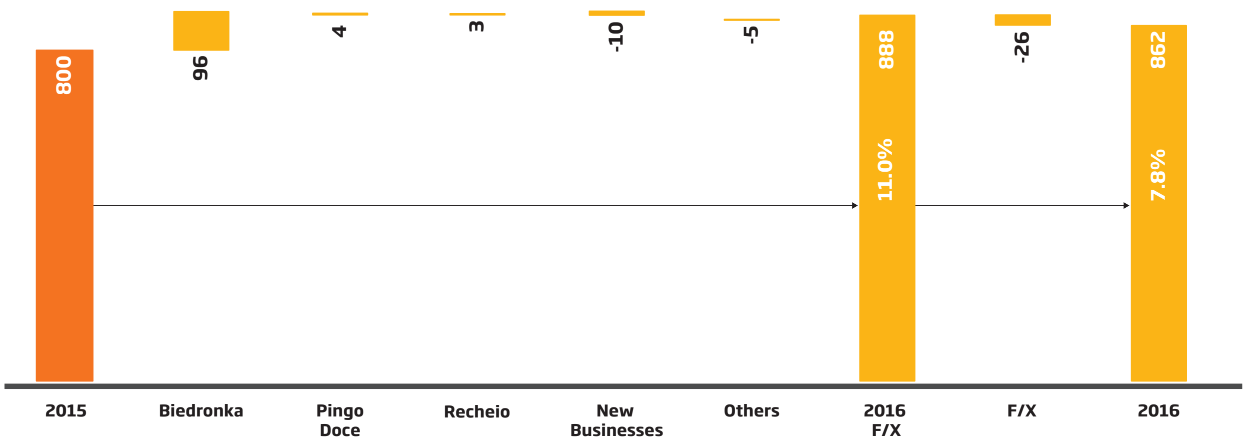
The increase of losses generated in Colombia compared with the previous year was, essentially, consequence of the decision taken by Ara's management team in the third quarter to strengthen its structure in the various teams, as a way to prepare its future growth capacity, in a sustainable manner.

With regards to Hebe, the losses generated continued to diminish, as expected.

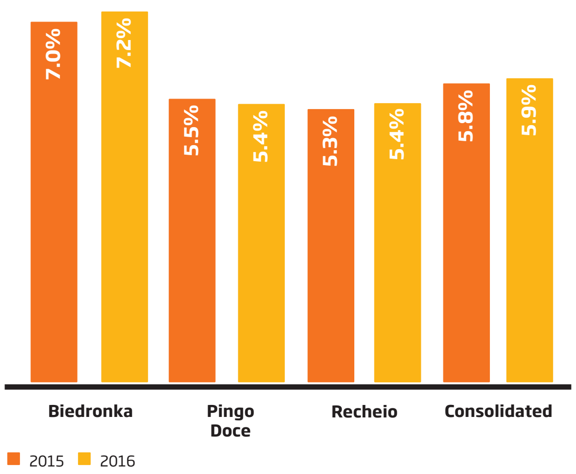
The sustained investment in sales growth led to a solid generation of EBITDA, while simultaneously reinforcing the competitive positions in all markets.

The priority focus on like-for--like sales growth, maintaining strict cost management, led to the main business areas posting growths in the EBITDA generated in the year.

Contribution to Consolidated EBITDA Growth
(million euros)



EBITDA Margin



3.3.3. Net Consolidated Result

(million euros)

	2016		2015		Δ %
		%		%	
EBIT	**568**	**3.9%**	**505**	**3.7%**	**12.4%**
Net Financial Results	-17	-0.1%	-26	-0.2%	-34.5%
Profit in Associated Companies	10	0.1%	17	0.1%	-38.2%
Non Recurrent Items	184	1.3%	-20	-0.1%	n.a.
EBT	**744**	**5.1%**	**475**	**3.5%**	**56.7%**
Taxes	-130	-0.9%	-117	-0.8%	11.5%
Net Profit	**614**	**4.2%**	**358**	**2.6%**	**71.5%**
Non Controlling Interest	-21	-0.1%	-25	-0.2%	-15.5%
Net Profit attr. to JM	**593**	**4.1%**	**333**	**2.4%**	**78.0%**
EPS (€)	0.94		0.53		78.0%
EPS without non-recurrent (€)	0.62		0.55		12.8%

The Group's net result reached 593 million euros.

Excluding the contribution from Monterroio, on a comparable basis[1], the net results were 361 million euros, representing a year-on-year growth of 14.5%.

Besides the 221 million euros capital gains on the sale of Monterroio, non-recurring items incorporate the costs of restructuring in Portugal and Poland, impairment of assets in Portugal and the extension of the Group's seniority bonus plan to Poland.

Net financial costs were 17 million euros, 9 million euros lower than in the previous year due to the reduction of the average level of net debt throughout the year, as well as the decrease in average cost of debt.

The solid growth in the net result was the consequence of the sales growth, cost control and robustness of the balance sheet.

3.3.4. Cash Flow

(million euros)

	2016	2015
EBITDA	862	800
Interest Payment	-14	-29
Other Financial Items	3	14
Income Tax	-177	-108
Funds From Operations	**673**	**677**
Capex Payment	-433	-394
Δ Working Capital	193	212
Others	285	-12
Free Cash Flow	**718**	**482**

Cash flow generated during the year reached 718 million euros, 236 million euros more than the previous year.

The good cash flow performance was essentially due to: i. the growth in the EBITDA generated, as a result of the combination of the strong sales performance and maintenance of operational efficiency; ii strict management of working capital; and iii. the sale of Monterroio.

[1] Excluding in both years the impact of Monterroio.

3.3.5. Consolidated Balance Sheet

(million euros)

	2016	2015
Net Goodwill	630	640
Net Fixed Assets	3,180	3,060
Total Working Capital	-2,201	-2,001
Others	46	82
Invested Capital	**1,656**	**1,780**
Total Borrowings	335	658
Leasings	4	0
Marketable Sec. & Bank Deposits	-674	-471
Net Debt	**-335**	**187**
Non Controlling Interests	253	252
Share Capital	629	629
Retained Earnings	1,109	712
Shareholders Funds	**1,991**	**1,593**
Gearing	-16.8%	11.7%

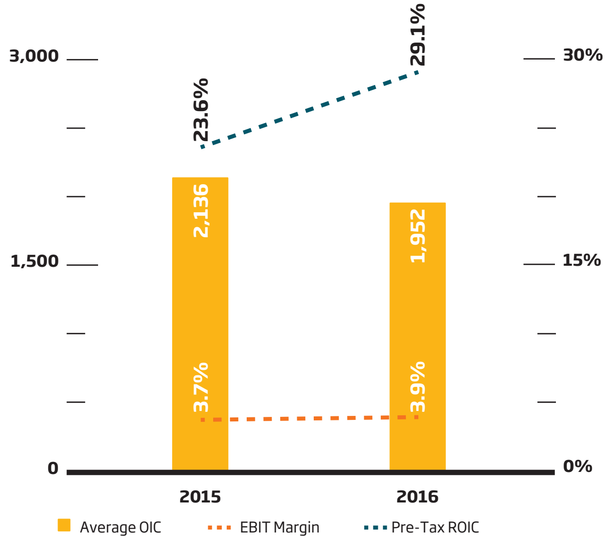
At the end of the year, the Group's net excess cash position was 335 million euros benefiting from the Monterroio sale, but also due to maintaining strict management of working capital.

The robustness of the balance sheet has been reinforced in the year in which dividends payment to Group's shareholders was 167 million euros and investments of 482 million euros were made.

3.3.6. Return on Invested Capital

Return on invested capital, calculated on a Pre-Tax ROIC basis, stood at 29.1%, an increase compared to the 23.6% recorded in 2015.

Pre-tax ROIC
(million euros)



The Group's like-for-like growth in sales (+7.2%) and the disciplined management of investments and working capital were the reason for the improvement in capital turnover and enabled a positive return on invested capital to be achieved.

The increase in the turnover of invested capital in the three main business areas – Biedronka, Pingo Doce and Recheio – combined with the increase in Biedronka's EBIT margin, were the drivers of this performance, which reflects the improvement in the Pre-Tax ROIC of the above three business areas.

3.3.7. Debt Breakdown

At the end of the year, the Company had an excess liquidity resulting in a negative net debt of 335 million euros compared to a net debt of 187 million euros in 2015.

The new debt issued during 2016 was related with Colombia, in order to cover investment needs in that country, thereby mitigating the investment's exposure in terms of foreign exchange.

(million euros)

	2016	2015
Long Term Debt	**112**	**534**
as % of Total Borrowings	*33.3%*	*81.2%*
Average Maturity (years)	*3.5*	*2.4*
Bond Loans	0	150
Commercial Paper	0	100
Other LT Debt	112	284
Short Term Debt	**224**	**123**
as % of Total Borrowings	*66.7%*	*18.8%*
Total Borrowings	**335**	**658**
Average Maturity (years)	*1.6*	*1.9*
Leasings	4	0
Marketable Securities & Bank Deposits	-674	-471
Net Debt	**-335**	**187**
% Debt in Euros (Financial Debt + Leasings)	44.2%	47.4%
% Debt in Zlotys (Financial Debt + Leasings)	27.8%	40.4%
% Debt in Pesos (Financial Debt + Leasings)	27.9%	12.2%

3.3.8. Jerónimo Martins in the Capital Markets

Shares Description

Listed Stock Exchange		Euronext Lisbon
IPO		November 1989
Share Capital (€)		629,293,220
Nominal Value		1.00 €
Number of Shares Issued		629,293,220
Symbol		JMT
Codes	**ISIN**	PTJMT0AE0001
	Reuters	JMT.LS
	Bloomberg	JMT PL
	Sedol	B1Y1SQ7
	WKN	878605

Jerónimo Martins' shares are part of 66 indices, the most relevant being the PSI 20 (the reference index of the Euronext Lisbon), the Euronext100 and the EuroStoxx index, among others, and are traded on 37 different platforms, mostly in the main European markets.

Capital Structure

For information on the capital structure of Jerónimo Martins, please see point 9. Management Report Annex, in this chapter.

PSI 20 Performance

After increasing in value by 10.7% in 2015, the PSI 20, the reference index in the Portuguese market, closed 2016 devaluing 11.9% to 4,679.20 points, having recorded the most significant drop among the European indices.

The index started the year with 17 securities, having 18 once again at the annual review in March 2016. Teixeira Duarte and Impresa were excluded from the index and Montepio, Sonae Capital and Corticeira Amorim were included.

The PSI 20 was noted for the losses at the beginning of the year, with investors showing fears about the weak economic growth, which mostly penalised the euro periphery, about the banking problems and the possible withdrawal of incentives as from 2017, with a negative impact on national debt. Of the 18 companies listed on the PSI 20, 12 posted a negative performance. Positive performances were seen by Sonae Capital (+46.7%), Corticeira Amorim (+42.9%), Galp Energia (+32.4%), Jerónimo Martins (+22.9%), Semapa (+5.6%) and Banco BPI (+3.7%).

June was the month with the biggest drop of the year (-10.2%) for the PSI 20. On June 23rd the United Kingdom voted in favour of leaving the European Union (Brexit). The stock exchanges had a negative reaction, however July brought a recovery and the PSI 20 followed the positive trend of the other stock markets, increasing in value by +6.6%, in what was the index's best month. Stoxx600, the reference index that encompasses the 600 biggest listed European companies, ended the year with the first overall negative balance in five years, posting a cumulative loss of 1.2%. The sectors that most contributed towards the index's performance were mining (+62%) and oil and gas (+22.9%). Preventing the Stoxx600 from a greater increase in value was the telecommunications sector (-15.9%).

The Portuguese stock market index was below the main European indices, whilst the FTSE100, the DAX30 and the AEX were the indices with a better performance during the year, having increased in value 14.4%, 11.6% and 9.4% respectively.

Jerónimo Martins Share Price Performance

After increasing in value by 43.9% in 2015, Jerónimo Martins shares posted a 22.9% increase in value in 2016.

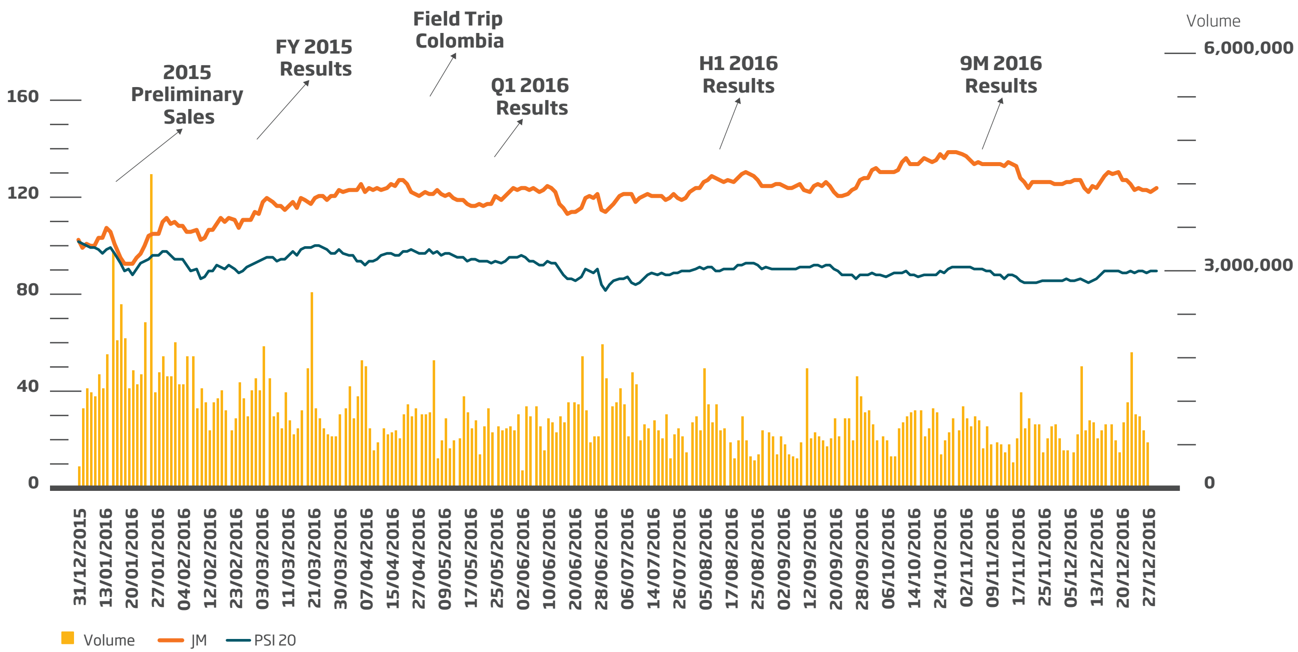
According to the Euronext Lisbon, in 2016 Jerónimo Martins was the Portuguese company with the third highest market capitalisation, having closed the year with a relative weight of 13.7% in the PSI 20. The Group closed 2016 with a market capitalisation of 9.3 billion euros *versus* 7.5 billion euros at the end of 2015. Jerónimo Martins is one of the three Portuguese companies to be part of the Euronext100 index, with a weight of 0.4% (0.3% in 2015).

Jerónimo Martins' shares were among the most traded on the Euronext Lisbon, with around 250 million shares traded, meaning a daily average of one million shares, at an average price of 14.239 euros (20.3% higher than that recorded in 2015). In terms of turnover, these shares represented the equivalent of 16% (3.5 billion euros) of the overall volume of shares traded on the PSI 20 index in 2016 (21.7 billion euros).

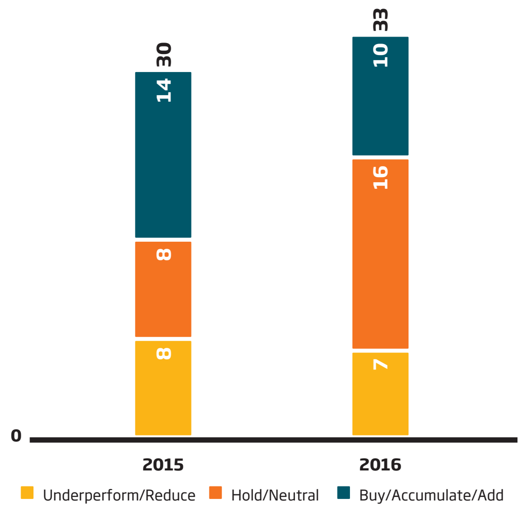
Jerónimo Martins' shares showed a positive trend during the most part of the year, having recorded a minimum price of 10.92 euros on January 18th and a maximum price of 16.35 euros on October 19th. Throughout the year, except in January, the performance of Jerónimo Martins' shares remained above the PSI 20, ending 2016 with a price of 14.74 euros, which represents a 22.9% increase in value compared to the end of 2015.

Jerónimo Martins' shares were among the most traded on the Euronext Lisbon, with around 250 million shares traded, meaning a daily average of one million shares.

Performance of Jerónimo Martins' shares



Analysts recommendation



Analysts

In 2016, five investment companies began covering Jerónimo Martins (BiG, Deutsche Bank, Intermoney Valores, Invest Securities and Millennium Dom Maklerski) and another four stopped covering this stock (Macquarie, MainFirst Bank, Natixis and Nomura). At the end of the year, 33 analysts were covering Jerónimo Martins: 10 analysts issued a positive recommendation on the security, 16 issued a neutral recommendation and seven issued a negative recommendation. At the end of 2016, the average target price of the analysts was 15.41 euros, which corresponded to a potential rise compared to the closing price on December 31st of 4.5%.

Jerónimo Martins Financial Performance 2012-2016

(million euros)

Balance Sheet	2016	2015	2014	2013	2012
Net Goodwill	630	640	640	648	655
Net Fixed Assets	3,180	3,060	2,940	2,810	2,557
Total Working Capital	-2,201	-2,001	-1,778	-1,686	-1,615
Others	46	82	111	112	99
Invested Capital	**1,656**	**1,780**	**1,912**	**1,885**	**1,695**
Net Debt	-335	187	273	346	321
Total Borrowings	335	658	714	688	660
Leasings	4	0	1	6	18
Accrued Interest	0	0	4	20	15
Marketable Securities and Bank Deposits	-674	-471	-446	-368	-372
Non-Controlling Interests	-335	187	243	236	251
Equity	1,738	1,342	1,396	1,304	1,122

(million euros)

Income Statement	2016	2015	2014	2013	2012
Net Sales & Services	**14,622**	**13,728**	**12,680**	**11,829**	**10,683**
EBITDA	**862**	**800**	**733**	**777**	**740**
EBITDA margin	5.9%	5.8%	5.8%	6.6%	6.9%
Depreciation	-294	-294	-277	-249	-221
EBIT	**568**	**505**	**457**	**528**	**518**
EBIT margin	3.9%	3.7%	3.6%	4.5%	4.9%
Financial Results	-17	-26	-34	-39	-30
Profit in Associated Companies	10	17	15	19	13
Non Recurrent Items [1]	184	-20	-9	-4	-19
EBT	**744**	**475**	**429**	**503**	**483**
Taxes	-130	-117	-104	-111	-116
Net Income	**614**	**358**	**325**	**393**	**366**
Non Controlling Interests	-21	-25	-23	-10	-6
Net Income attributable to JM	**593**	**333**	**302**	**382**	**360**

[1] Non-Recurrent Items include the Exceptional Operating Losses and Gains in Others Investments.

(million euros)

Market Ratios	2016	2015	2014	2013	2012
Share Capital (€)	629,293,220	629,293,220	629,293,220	629,293,220	629,293,220
Total Number of Shares	629,293,220	629,293,220	629,293,220	629,293,220	629,293,220
Own Shares	859,000	859,000	859,000	859,000	859,000
Free Float	29.7%	31.7%	26.9%	32.0%	27.2%
EPS (€)	0.94	0.53	0.48	0.61	0.57
Dividend per share (€)	0.27	0.62 *	0.31	0.30	0.51 **
Stock Market Performance					
High (€)	16.35	13.81	14.25	18.47	15.62
Low (€)	10.92	7.70	6.98	13.61	11.87
Average(€)	14.24	11.84	10.94	15.51	13.71
Closing (End of year) (€)	14.74	12.00	8.34	14.22	14.60
Market Capitalisation (31 Dec) (€ 000.000)	9,276	7,548	5,245	8,945	9,188
Transactions (volume) (1,000 shares)	251,292	344,797	274,146	202,709	157,916
Annual Growth	22.9%	43.9%	-41.4%	-2.6%	14.2%
Annual Growth – PSI 20	-11.9%	10.7%	-26.8%	16.0%	2.9%

*The value refers to the payment of a gross dividend of 0.245 euros per share, on May 07, 2015, regarding the distribution of 2014 results and to the distribution of free reserves corresponding to a gross dividend of 0.375 euros per share, paid on December 22, 2015.
**The value refers to the payment of a gross dividend of 0.275 euros per share, on April 30, 2012, regarding the distribution of 2011 results and to the distribution of free reserves corresponding to a gross dividend of 0.239 euros per share, paid on December 31, 2012.

Performance of the Business Areas

Biedronka opened 83 stores during 2016, resulting in a net increase of 55 locations, ending the year with 2,722 stores.

4.

4.1. Food Distribution

4.1.1. Biedronka

Message from the Managing Director

2016 was a year of important achievements. With regard to the team, we worked on alignment and trust and developed a strong group spirit, which enabled us to transform the organisation, particularly with regard to operations, with a view to preparing Biedronka for new challenges.

We established new, more competitive commercial dynamics, with all the teams demonstrating a high level of flexibility, ambition and creativity. The goals were clearly defined and we managed to serve our increasingly discerning consumers even better, and gain market share.

We developed our assortment and brought innovation to the market and, above all, we surprised our consumers with new promotional activities and with a major loyalty initiative, which enabled systematic communication between the Company and the consumers.

Biedronka proved that it is capable of quickly adapting and continuing on the success path it has been creating. We are proud of our employees who have proven to be capable of adapting and facing new challenges, through methodical organisation and great resilience, in order to continue to be the consumer's first choice in the Polish Food Retail market.

2016 Performance

In Poland, the increase of the minimum wage and the allocation of subsidies to families with more than one child provided a favourable consumer environment, which was also reflected in terms of Food Retail's positive performance, while there is still fierce competition focused on promotions.

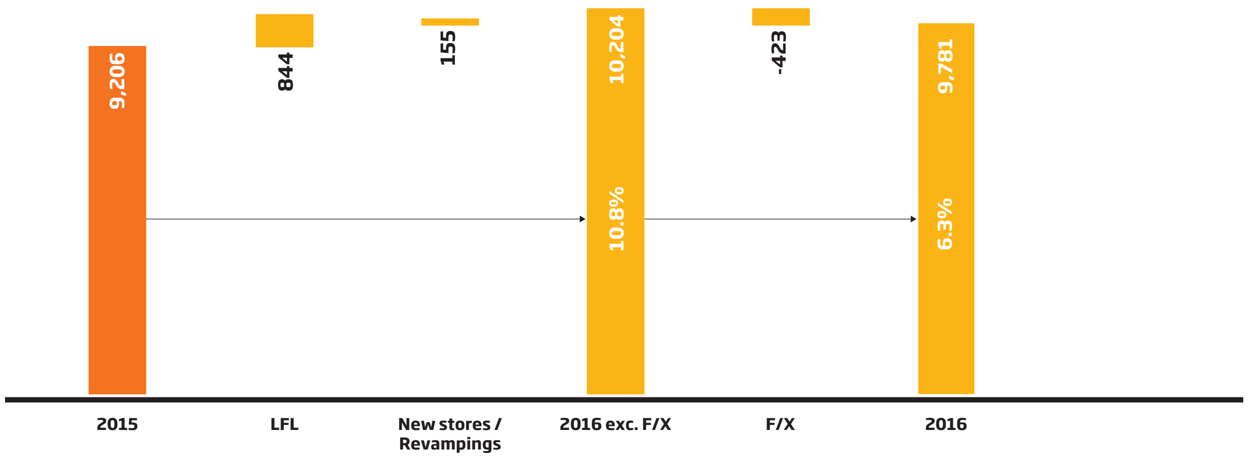
At Biedronka, 2016 began under a new leadership in order to consolidate the changes initiated in 2015, maintaining additional focus on the consumer. With sales as the main priority, the Company aimed to capture the potential that it identifies in the value of the shopping basket in order to achieve an increase in like-for-like and strengthen its position in the Polish market.

Taking into account these objectives, the first measure implemented consisted of reorganising the operations, enabling the respective structure to be simplified and efficiency to be increased, namely regarding the Supply Chain or the Technical and Expansion areas.

Biedronka continued to consolidate the review of the assortment, which began in 2015, promoting a more integrated approach and, therefore being more streamlined in adapting to the needs and aspirations of an increasingly discerning consumer.

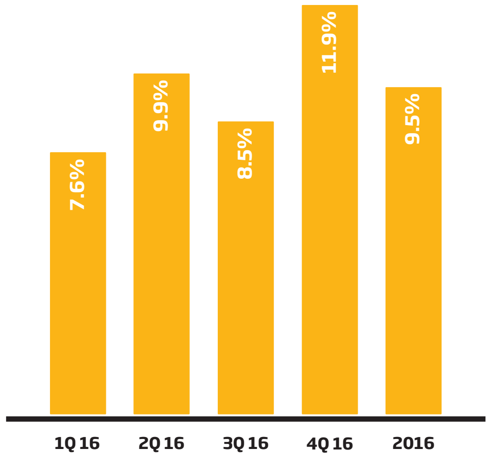
In 2016, sales increased by 6.3% to 9,781 million euros (+10.8% in local currency), with a 9.5% like-for-like during the year, mainly driven by the evolution of the average basket and greater relevance in the categories of Specialised Perishables, given the strong investment that the Company has been making and also as a result of the strong commercial dynamics implemented throughout the year.

Biedronka - Net Sales
(million euros)

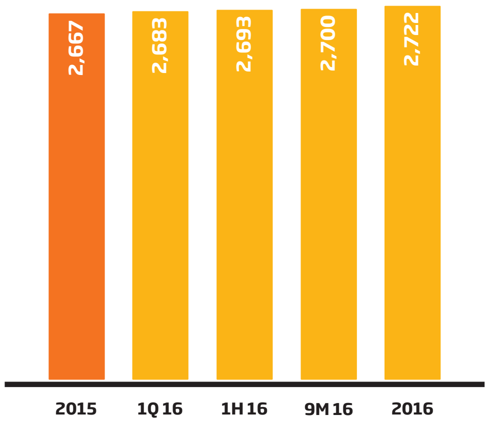


Biedronka opened 83 stores during 2016, resulting in a net increase of 55 locations, ending the year with 2,722 stores. Among the 28 stores closed, 15 were to replace old stores or smaller ones, in order to better serve the target public.

Biedronka
Like-for-like Sales Growth



Biedronka
Number of Stores



In order to improve the customer shopping experience and to maintain the standards of quality in the stores, throughout the year the Company refurbished 221 stores, and, whenever possible, increased the sales area to give greater visibility to some key categories, namely Fruit and Vegetables, Wine and Cosmetics.

The food in & outs campaigns played an important role in enhancing the value proposition offered to consumers, contributing towards the positive evolution of the basket and towards strengthening the relevance of Biedronka in the market.

Also worth highlighting in 2016 is the launch of the "Moja Biedronka" loyalty card in September. This will enable the Company to have a closer communication with the consumers and at the same time direct promotions to increase customer loyalty to the banner. In the last quarter of the year, strong commercial activity linked to the use of the card enabled it to significantly increase its penetration.

Within a strategy geared towards serving the consumer with innovation and efficiency, the opening of the Fresh soup factory should be mentioned, which enabled the launch of nine varieties of high quality soup, sold exclusively in Biedronka stores at very competitive prices.

Biedronka remained strongly focused on cost control and the permanent search for efficiencies gains at an operational level, in order to counter the pressure regarding the increase in staff costs, the Company's EBITDA margin having reached 7.2% a rise over the 7% registered in 2015.

4.1.2. Pingo Doce

Message from the Managing Director

In 2016, even though price continued to be the main factor to be taken into account by Portuguese households when choosing the store to do their shopping, Pingo Doce grew above the average market for the fifth consecutive year, increasing its market share and its leading position in consumers' preference.

This is the result of an intense promotional dynamic, improving the shopping experience – with the revamping of 21 stores – and an investment in strengthening Pingo Doce's strategic pillars.

Celebrating its 25th anniversary, the Private Brand maintained its momentum of innovation, with the launch of 221 new references, and is the banner that consumers consider to have the best quality products.

In the Meal Solutions area, Pingo Doce posted a remarkable growth as a partner of Portuguese households for convenient food solutions, especially during the Christmas season, when it more than doubled its orders.

In 2016, Pingo Doce consolidated its position as a specialist in Fresh Produce, with Perishables gaining weight in the total sales.

As such, Pingo Doce has proven to be well prepared to continue to address the needs of Portuguese consumers, in a competitive and increasingly demanding market.

2016 Performance
In 2016, Pingo Doce successfully coped with the challenge of increasing its sales, even compared with the excellent performance recorded in 2015.

On the other hand, throughout the year, there was a strong increase in the installed capacity in proximity modern retail, with several players concentrating their efforts on opening stores.

The Company itself opened 14 stores during the year, five of which with a third-party management system and two stores in the new Pingo Doce & Go concept, set up in BP petrol stations.

Sales increased by 4.4%, (1% including fuel) in the same store network, which enabled Pingo Doce to strengthen its market share, despite the deflation registered in the basket.

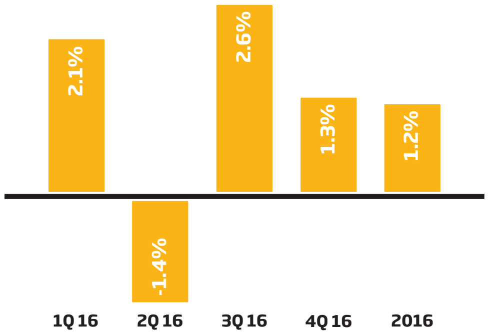
2016 marked the 25th anniversary of the Pingo Doce Private Brand. This was celebrated with a television campaign and exclusive promotions to leverage the reputation of its products and associate its quality to low prices. During the year, 221 Private Brand products were launched.

In terms of communication, the Company simultaneously invested in weekly leaflets and leaflets dedicated exclusively to Fresh products. The weekly leaflets were one of the most prevalent communication tools, with increasing importance for consumers in recent years – whether in hard or digital format. Its active role in the consumer's journey, influencing both the shopping location and the choice of what to buy, imposes the need for renewal and continuous improvement.

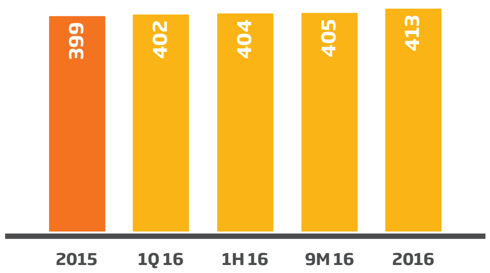
Remaining focused on Perishables, various actions were carried out, with particular emphasis on the differentiating offer, at more affordable prices, of Angus beef and on the development of new pastries, recovering traditional Portuguese recipes.

Pingo Doce's EBITDA margin stood at 5.4%, compared to 5.5% registered in 2015, in a year marked by a social and economic environment that brought greater pressure in terms of costs and which forced the Company to strengthen its efficiency, in order to minimise that pressure, as well as the impact of the continuous investment in price.

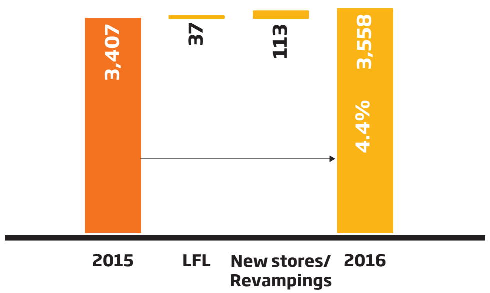
Pingo Doce
Like-for-like Sales Growth
(excl. fuel)



Pingo Doce
Number of Stores



Pingo Doce
Net Sales
(million euros)



4.1.3. Recheio

Message from the Managing Director

2016 was a historic year for Recheio. Continuing the work of previous years, it has hit sales records, while maintaining a sustained and above-market growth with progress in all its strategic areas. The continuous focus on process improvement and customer service has led to the development of a logistic operation in the region of Leiria. The commitment with renovation made Recheio become the first Cash & Carry with an online store in Portugal. It has opened a new store in Sines, which reinforced the presence of Recheio in terms of presence in the country. The Exports and Food Service businesses have grown significantly and the Amanhecer project totalled 285 stores at the end of the year, being a certainty in the Retail scenario in Portugal.

2016 Performance

Recheio sales increased by 5.9% in 2016, driven by growth in all segments in which it operates: HoReCa, Traditional Retail and Exports channels.

The HoReCa channel was the one registering higher growth, driven mainly by the increase of tourism in Portugal. Also regarding Traditional Retail, Recheio managed to increase its sales, although this segment registered a decrease in the country. With regard to Exports, Recheio managed to increase sales, either by enlarging the number of countries to which it exports, or by the growing number of customers.

In 2016, Recheio opened a new store in Sines, introducing a more efficient and innovative concept regarding the use of energy resources. It has further strengthened its focus on the HoReCa channel with the remodelling of one store, to which the Meat and Fish areas were added, in order to reinforce the Recheio position as a specialist in Perishables category.

Regarding the Amanhecer project, 36 stores were added to the network, ending the financial year with 285 partner stores.

In order to respond to the increased customer demand for distribution services, a logistic operation was developed in Leiria and a *Transport Management System* was implemented in 11 Recheio stores. These developments have allowed the increase of the efficiency of operations and the improvement of the customer service level.

In 2016, progress was also made with the online presence, through an innovative proposal in the Cash & Carry area in Portugal, since there was no operator working in this channel. First months of operation have proved to be interesting, attracting new customers, increasing brand awareness, developing new means to target clients and streamlining communication with international clients.

Throughout the year, Recheio maintained the focus on Private Brand and launched 160 products, increasing its sales by 6.1%.

In order to continue its growth, also through the development and valorisation of employees, Recheio launched the 2nd edition of General Store Management Programme, as well as the 1st edition of the Executive Management Programme for Managers and Sales Academy.

Recheio managed to increase its EBITDA margin by 10 basis points to 5.4% in 2016, despite strong investment in price and promotional initiatives that were carried out.

4.1.4. Ara

Message from the Managing Director

2016 left a positive mark on our operation in Colombia, which achieved two important objectives:

1. market leadership in the Coffee Growing Region – after three years of operation, we are market leaders in this region, reaching a market share in excess of 22%. This is without a doubt a strong sign that the Colombian consumer values our proximity business model, based on competitive prices, with an offer of quality and variety in the Private Brand and a warm customer service.

2. start of operations in Bogota – following the Coffee Growing Region and the Caribbean Coast, in September, we entered in the third region – Bogota. This region has a population of more than 14 million inhabitants, representing around 40% of the country's GDP. As in the first two regions, here we also have an assortment adapted to the characteristics and preferences of the local consumer, namely a wider offer.

All this was only possible both because we are able to listen to and understand the consumer in each region and therefore carry out the necessary adjustments to our project and assortment, and because we have a very determined and dedicated

team, that gives its very best every day to serve and satisfy our customers.

We believe we are building a solid project, which in the near future will be relevant for the Jerónimo Martins Group and recognised and appreciated by the Colombian people.

2016 Performance

After three years of operation, Ara has reached a leading position in the Coffee Growing Region, and is one of the main modern retailers in that region, thus confirming the Colombian consumers' recognition and awareness of the Ara brand.

2016 was once again a historic milestone for the operation in Colombia, with the entry into Bogota, the Company's third operating region. Expansion continues to be a priority and Ara network ended the year with 221 stores.

By the end of December, Ara had 102 stores in the Coffee Growing Region, 97 stores in the Caribbean Coast and 22 stores in the Bogota region.

The Private Brand assortment, which already has more than 500 references, is an important feature of differentiation and growth pillar, achieving over 37% of sales. In order to guarantee service levels, as well as sustainability in the supply chain, Ara extended its range of Private Brand suppliers, which increased more than 50% in the last year, thereby managing to improve the quality of its products and strengthen the ability to supply its stores more efficiently.

Ara remained focused on operational efficiency, placing a priority on developing operational and logistics projects, where of particular note is the implementation of the Transport Management System. This tool will allow optimizing the entire transport operation and management system, reducing costs and enabling processes at a logistics level to be better planned. Cost efficiency continues to be crucial for the Company's profitability evolution, as well for its price leadership.

During the year, Ara launched weekly themed campaigns – "El Rebajón" – and improved communication in the stores, through leaflets and in-store prizes dynamics, maintaining continuous dialogue with the consumers.

In the second half of the year, the Company started reinforcing its teams, in order to achieve stronger presence in the market, with a greater ability to rise to the challenge of growth that the banner has set itself for the next years.

4.2. Agro Business

4.2.1. Jerónimo Martins Agro-Alimentar (JMA)

Message from the Managing Director

2016 was the second year of activity of JMA, the main purpose of which is to ensure the protection of sources of supply for the Group, thus ensuring a differentiated offering in categories considered crucial to the food distribution chains. JMA extended its activity to Aquaculture with the setting up of Sociedade Seaculture, dedicated to the production of sea Bass in Sines, and the setting up of Sociedade Marismar, for the production of sea Bream in Madeira, in partnership with a local operator. In June 2016, we started the construction of a new Dairy Product factory in Portalegre, after a long process of obtaining the necessary licenses. In the current factory, we optimized efficiency by more than 20% in order to meet the needs of our Private Brand of UHT Milk for Pingo Doce.
The Angus operation in the North of the country has already ensured 20% of the sales of Pingo Doce for this product, and JMA is preparing to extend this production to other locations.

2016 Performance

JMA ended the year 2016 with a strong presence in three areas of operation: Dairy Products, production of Angus beef cattle and Aquaculture.

In the area of Dairy Products, 2016 was a year dedicated to operational improvements, optimization of the existing factory, reorganization of teams, training of employees and adapting information systems. The current Dairy Products factory significantly improved its efficiency and its processed milk production, with a significant increase in its production volume.

2016 also saw the start of the construction of the new Dairy Products factory, which will substitute the present one and enable production capacity to triple.

In the area of Angus production, various measures were implemented to maximize the production capacity of the unit at Manhente (Barcelos). The introduction of new technologies has enabled significant improvements in environmental conditions and animal welfare, as well as increasing overall levels of efficiency.

JMA also established an agreement with local producers, to supply food for the animals, thereby ensuring the desired standards of quality, and strengthening the relationship with local communities.

Given that the main objective of protecting the supply sources for differentiated products, in order to guarantee the internal needs of the Group in terms of competitive cost, efficiency and quality, in July, JMA started its Aquaculture project, thus fulfilling one of the major objectives set for 2016. The project consists of a partnership on the Madeira Island, for the production of sea Bream, and the concession in the Port of Sines, where, with the setting up of the Sociedade Seaculture, began the production of sea Bass.

4.3. Specialised Retail

4.3.1. Hebe

Message from the Managing Director

For Hebe, 2016 was a year of strong performance through the consolidation of our business model, marked by openings and revamping. Hebe ended the year with 153 locations throughout Poland.

Over the course of the year, we concentrated on implementing the main strategic lines: i. to guarantee an assortment with relevance for the consumer strongly focused on brands sold exclusively at Hebe, in order to reinforce differentiation; ii. to maintain price competitiveness in a highly competitive market environment for the discerning Polish consumer; iii. to increase the focus on digital through strong campaigns on social networks and the loyalty card; iv. to expand internal capacity in order to accelerate and gain scale in the coming years.

2016 Performance
Hebe's main performance indicators continue to record a positive evolution, with the team focused on the set objectives. In 2016, Hebe opened 26 new stores and posted a sales volume of 534 million zlotys, mostly as a result of the increase in the number of customers.

This sales momentum was reflected in the market share evolution, Hebe being the chain with the highest growth in the Polish Health and Beauty and Personal Care markets.

With the objective of enhancing sales performance and brand awareness, seasonal campaigns took place throughout the year related to Valentine's Day, Women's Day, Easter, Christmas and New Year.

A new category management approach was developed as a way of leveraging consumption opportunities, optimising sales and margins.

In order to increase the efficiency of the operation and service levels to the stores, measures were introduced in the stores and warehouses, with new solutions being implemented for goods-in and replenishment. The launch of an e-learning platform also helped to strengthen the quality of service provided to customers.

Hebe's loyalty programme has nearly reached two million members, 90% of whom are women. Close to 60% of the Company's total sales are made to customers who are holders of the loyalty card, showing the relevance of this programme, which still has room for development.

The new store concept has been very well accepted by the consumer and that was reflected in the financial indicators, as for the second year running the Company managed to reduce its operating losses.

4.3.2. Jeronymo and Hussel

Message from the Managing Director

In 2016, despite the macroeconomic situation in the country, JMRS' performance once again exceeded our expectations, namely in terms of results.

Jeronymo proved the resilience of its value proposition, having achieved double digit like-for-like growth in the second half.

Hussel launched its 5th generation store concept, which was very warmly welcomed by its customers.

2016 Performance

In 2016, the Company's sales increased compared to the previous year, with a like-for-like growth in both the Hussel (1.2%) and Jeronymo (8.7%) banners.

Jeronymo inaugurated two new stores in the centre of Oporto, in the S. Bento Railway Station, classified as a national monument, and in the recently renovated Rua das Flores, thereby strengthening its presence in highly renowned locations.

The Company carried out various promotional initiatives, notably a pop-up store in Lisbon, in the Museu da Cidade, as well as the World Children's Day initiative in partnership with Museu da Misericórdia do Porto.

In 2016, the Jeronymo coffee shops consolidated its offer with an assortment of exclusive recipes and products better adapted to Portuguese taste. During the year, various themed campaigns took place, with communication at the point of sale and on Facebook, among which the initiative on Valentine's Day and the Christmas campaign are highlighted.

In 2016, Hussel presented the market with its 5th generation store in the Amoreiras and Alegro Shopping Centres. It developed a more modern concept in its business sector, proving its ability to reinvent itself.

In marketing terms, Hussel continued to invest in the innovation of its portfolio with regard to regular campaigns (Valentine's Day, Easter and Christmas) and also created new campaigns, such as Back to School and Autumn, as a way of boosting the softer sales seasons.

An institutional line of new packaging was also launched and in-store decoration and communication were improved, focusing on information about allergens.

Outlook for 2017

The Group believes that its businesses have the adequate value propositions, and that they are in a good position to continue performing ahead of their respective markets.

5.

Outlook for the Jerónimo Martins Businesses

Jerónimo Martins will keep adopting a prudent financial stance in order to maintain a solid balance sheet and to maximise the return on its assets. The Group believes that its businesses have the adequate value propositions, focused on price, quality and consumer service and on operational cost-efficiency, and that they are in a good position to continue performing ahead of their respective markets.

Biedronka

In 2017, Biedronka will keep sales growth in the same store network as a top priority, while at the same time it will continue to invest in opening stores in locations it considers to be important, in order to strengthen its position in the Polish market. The Company also intends to open a new Distribution Centre and will maintain its revamping plan in order to modernise and adapt the stores to the highest operating standards.

Simultaneously, the Company intends to continue expanding its base of loyalty card holders and will continue to invest in strengthening the presence of the Private Brand as a differentiating factor, by reviewing the assortment and packaging.

The Company intends to adopt technologic solutions that enable it to achieve greater levels of efficiency and provide support to product management in the stores.

Although it is anticipated that, in the current social and economic environment the pressure will remain on the sector's cost structure, Biedronka will stay focused on obtaining gains in efficiency, enabling it to have a balanced management of its operating profitability.

Hebe

In 2017, Hebe wants to consolidate the investments into a single value proposition, through a differentiating assortment with very competitive prices, while always remaining focused on service and on the shopping experience, being present in locations with greater consumer traffic.

The Company will be focused on consolidating its margin mix, on increasing productivity and on cost efficiency. The expansion plan will continue to be an important driver to gain scale and also to increase awareness of the brand.

Pingo Doce

In 2017, Pingo Doce will remain focused on continuing its expansion, investing in proximity locations and in revamping stores in order to ensure the quality of the shopping experience and the store environment.

During the first half of the year, it will open the new Distribution Centre in the North of the country, which will enable the restructuring of Pingo Doce logistics to be continued and, in the mid-term, to boost gains in efficiency.

Given that it is anticipated that promotions will remain very important to consumers, right from the start of the year, Pingo Doce will invest in a new line of communication, that will link television and leaflets. Putting the emphasis on the employees in the different sections, who, with their competence and dedication, make a difference in the daily life of the stores. The new leaflets will be designed to meet the preferences and needs of our customers, also enhancing the quality of our products.

Recheio

In 2017, Recheio plans to open a new store in the North of the country, investing in the proximity with its customers. It will also remodel another store, in order to improve the shopping experience and its customer service and to develop the Perishable category, an area where the Company aims to be an expert. Focus will also be on the expansion of the partnership with Traditional Retail and continue to contribute to the development of the Amanhecer chain.

Identified as the main drivers of Recheio's sales growth, Food Service and Exports areas will continue to evolve and consolidate in 2017.

At the same time, Recheio will continue to develop its information systems to simplify processes and strengthen relations with its customers.

Ara

In 2017, Ara plans to accelerate its expansion. Within this context of rapid growth, the recruitment, selection and training of future employees will be a priority, in order to reinforce the structure to address the business needs.

As far as expansion is concerned, the Bogota region will be the main priority for 2017, planning the opening of new sub-regions within this region. From a logistics point of view, this expansion will mean implementing new Distribution Centres.

With regard to the Private Brand, Ara aims to continue investing in launching new, innovative, differentiating products, attracting more suppliers to keep up with its pace of growth, and boosting the increase of its weight in the Company's sales.

Jeronymo & Hussel

In 2017, both banners will continue to be focused on the store operation and commercial dynamics as means of ensuring effective, permanent dialogue with their consumers.

Jeronymo will go ahead with identifying potential locations of interest for the opening of new stores and Hussel will invest in revamping some of its stores, adapting them to the new concept.

Agro Business

In 2017, it is envisaged that all of JMA's areas of operation will expand: i. building of the new Dairy Products factory, reinforcing efficiency and innovation in this area; ii. expansion of production of Aquaculture, on the Madeira Island and in other locations, for the production of sea Bream and sea Bass, and potentially other key species for the Group; and iii. increase the production of national Angus in new operations.

As far as expansion is concerned, the Bogota region will be the main priority for 2017.

Dividend Distribution Policy

In 2016, the gross dividend allocated to shareholders was 0.265 euros per share.

6.

The Company's Board of Directors maintained a policy of dividend distribution based on the following rules:

- the value of the dividend distributed must be between 40% and 50% of ordinary consolidated net earnings;
- if, as a result of applying the criteria mentioned above, there is a drop in the dividend in a certain year compared to that of the previous year, and the Board of Directors considers that this decrease is a result of abnormal and merely circumstantial situations, it may propose that the value from the previous year should be maintained. It may even resort to free existing reserves, providing that the use of these reserves does not jeopardise the principles adopted for balance sheet management.

In accordance with the above-mentioned directives, in relation to the 2015 fiscal year, the gross dividend allocated to shareholders was 0.265 euros per share, paid in May 2016.

Results Appropriation Proposal

7.

In the financial year 2016, Jerónimo Martins, SGPS, S.A. declared consolidated profits of 593,218,203.38 euros and a profit in individual accounts of 350,645,129.42 euros.

The Board of Directors proposes to Shareholders that the net profits for the year be applied in the following manner:

- Legal Reserve .... 4,837,263.38 euros
- Free Reserves .... 169,045.04 euros
- Dividends .... 345,638,821.00 euros

The Board of Directors also proposes to shareholders the distribution of free reserves in the amount of 34,563,882.10 euros, in addition to the referred distribution of profits for the year.

The proposed distribution of profits for the year and free reserves represents a **gross dividend payment of 0.605 euros** per share, excluding own shares in the portfolio, corresponding to a dividend yield of 4.1% on the close share price in 2016, which was 14.74 euros.

Lisbon, 21st February 2017

The Board of Directors

Management Report Annex

8.

Information Concerning Stakes Held in the Company by Members of the Board of Directors and Statutory Auditor

(Under the terms of paragraph 5 of article 447 of the Portuguese Commercial Companies Code)

The Board of Directors

Members of the Board of Directors	Held on 31.12.15		Increases during the year		Decreases during the year		Held on 31.12.16	
	Shares	Bonds	Shares	Bonds	Shares	Bonds	Shares	Bonds
Pedro Manuel de Castro Soares dos Santos	274,805	-	-	-	-	-	274,805	-
Alan Johnson [1]	30,075	-	-	-	-	-	n.a.	-
Andrzej Szlezak	-	-	-	-	-	-	-	-
António Pedro de Carvalho Viana-Baptista	-	-	-	-	-	-	-	-
Artur Stefan Kirsten	-	-	-	-	-	-	-	-
Belonging to company in which is a Director (sec. d), § 2 of Article 447 Commercial Companies Code) [2]	353,260,814	-	-	-	-	-	353,260,814	-
Clara Christina Streit	800	-	-	-	-	-	800	-
Francisco Manuel Seixas da Costa	-	-	-	-	-	-	-	-
Hans Eggerstedt	19,700	-	-	-	-	-	19,700	-
Henrique Manuel da Silveira e Castro Soares dos Santos	26,455 [3]	-	-	-	-	-	26,455 [3]	-
Nicolaas Pronk [1]	-	-	-	-	-	-	-	-
Belonging to company in which is a Director (sec. d), § 2 of Article 447 Commercial Companies Code) [4]	31,464,750	-	-	-	-	-	n.a.	-
Sérgio Tavares Rebelo	-	-	-	-	-	-	-	-

[1] Ceased duties as Director on 14 April, 2016.
[2] Sociedade Francisco Manuel dos Santos, B.V.
[3] Of which 1,500 shares held by spouse.
[4] Asteck, S.A.

Statutory Auditor

As at 31st December 2016, the Statutory Auditor PricewaterhouseCoopers & Associados, SROC, Lda., did not hold any shares or bonds of Jerónimo Martins, SGPS, S.A. and had not made any transactions, this year, with Jerónimo Martins, SGPS, S.A. securities.

List of Transactions made by Persons with Managerial Responsibilities and People Closely Connected with Them

Under the terms of paragraph 7 of Article 14 of CMVM Regulation 5/2008, Jerónimo Martins, SGPS, S.A. hereby informs that no transactions were made by persons with managerial responsibilities in the Company during the course of 2016.

List of Qualifying Holdings as at 31st December 2016

(Pursuant to paragraph 4 of Article 448 of the Commercial Companies Code and in sub-paragraph b) of paragraph 1 of Article 8 of the Portuguese Securities Code Regulations no. 5/2008).

Shareholder	No. of Shares Held	% Capital	No. of Voting Rights	% of Voting Rights*
Sociedade Francisco Manuel dos Santos, SGPS, S.A. Through Sociedade Francisco Manuel dos Santos, B.V.	353,260,814	56.136%	353,260,814	56.136%
Aberdeen Asset Managers Limited Directly	31,482,477	5.003%	31,482,477	5.003%
Heerema Holding Company Inc. Through Asteck, S.A.	31,464,750	5.000%	31,464,750	5.000%
BNP Paribas Investment Partners, Limited Company Through Investment Funds Managed by BNP Paribas	13,536,757	2.151%	12,604,860	2.006%
Genesis Asset Managers, LLP Directly	12,659,067	2.012%	12,659,067	2.012%

Source: Last communications made by the shareholders with qualifying holdings to Jerónimo Martins, SGPS, S.A.
* Based on the total number of shares under the terms of section b), paragraph 3 of article 16 of the Portuguese Securities