Message from the Chairman

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2016 was a year of transformations and change at a global level, marked by growing uncertainty and conflict as well as major upheaval in the European Union, where our Group has its two main ventures.

The refugee crisis, which already casts a shadow over 2015, continued during 2016, with the European Union and Turkey agreeing in March on a policy to discourage migrants and refugees from travelling to Europe, that reinforced the protection of its external borders.

In a referendum in April, the Netherlands rejected the Ukraine-European Union association agreement, failing the unanimity required for it to be applied. In May, Norbert Hofer's FPÖ right-wing Austrian party lost the presidential elections by a small margin, and in June, there was a surprising movement marking a decisive turning point, when, in a referendum, the United Kingdom decided to leave the European Union.

In the middle of the year, Martin Schulz, President of the European Parliament classified the Union's situation as "regrettable", and spoke of extremist and centrifugal forces that are winning elections and referendums.

2016 was also a year in which terrorist attacks in the heart of Europe created heightened tension and a feeling of uncertainty: in March, at the airport in Brussels and at a metro station; in July, in Nice, in the South of France, where the National Front has a stronghold of supporters requiring more security; and, before the end of the year, in Berlin, symbolically destroying a Christmas market. These factors,

in addition to the conflicts spread across the world, which are particularly out of control in Syria, where the European Union recognises its impotence, generate a complex and unstable political and socio-economic scenario, where it is paramount to know how to read the signs at an early stage and make the necessary adjustments.

Uncertainty may also be reinforced by the outcome of the election moments in 2017 in Germany, the Netherlands and in France, as well as by possible consequences of the adoption of new policies – both at the national and international levels – in the USA, following the election of their new President in November 2016.

At the Jerónimo Martins Group, 2016 was also a year of changes, starting with the executive teams of Biedronka, Pingo Doce and Ara, and of strong investment in the businesses, which amounted to 482 million euros.

In very intensely competitive contexts, all the Companies maintained their sales growth - supported by strong promotional dynamics - as a strategic priority and reinforced their focus on the consumer in the decision-making processes. As a result of that focus, the Group's like-for-like increased by 7.2% and all our banners gained market share during the year.

At constant exchange rates, consolidated sales in 2016 would have exceeded, for the first time, the 15 billion euros threshold, meaning a growth of 9.8%.

The Group Companies' capacity to generate cash flow remained strong, reaching 718 million euros in the year. This sum also encompasses the proceeds from the sale of the sub-holding Monterroio to Sociedade Francisco Manuel dos Santos B.V, executed at the end of September, which entailed the receipt of 310 million euros.

On a comparable basis, the net results attributable to Jerónimo Martins stood at 361 million euros, meaning a growth of 14.5% compared to 2015 and confirming the Group's solidity and profitability.

In Poland, where we have our main business, as the first full year of the PiS (Law and Justice party) government, 2016 was above all marked by a certain slowdown in economic growth and a reformist stance, which consisted of a wide variety of measures, such as the 500+ Programme (monthly allowance per child, as from the second child), an increase in the minimum national wage and minimum pensions, and a decrease in the retirement age, among others.

Remaining cautious and very disciplined with regard to additional pressure on labour costs, Biedronka was able to take advantage of the more favourable consumption environment and increased its total sales by 10.8% in local currency.

The Company's determination to create opportunities to differentiate its offer paved the way for a like-for-like growth of 9.5%, a remarkable performance in a year marked by extensive organisational changes in order to leverage the desired evolution in the average basket. This momentum, along with strict cost management, enabled Biedronka to post an EBITDA of 707 million euros, 10.3% more than in 2015 (+15.1% at a constant exchange rate).

Having added 55 new locations to its network and remodelled 221, Biedronka ended the year with 2,722 stores, in its preparation to continue strengthening its proximity to the Polish consumer with the addition of at least 90 new stores in 2017.

In Portugal, 2016 was also the first full year of a new Government, in this case a left-wing one, which has led to the introduction of anti-austerity measures, that for the time being have had a mild effect on economic growth, in general, and on private consumption, in particular.

In a year in which food inflation in Portugal was 0.5%, the competitive environment continued to be very strong and involved very assertive promotions in the race for the consumer's preference.

In line with previous years, Pingo Doce did not reduce its commitment to the competitiveness of its prices and the attractiveness of the offer and the shopping experience, total sales having increased by 4.4% to 3,558 million euros, with a like-for-like growth of 1.2% (excluding fuel), 2015 providing a tough basis for comparison.

The Company invested on all fronts in order to stimulate the basket, reinforcing the efficiency of its operations and logistics and carrying out 21 comprehensive revampings and an ambitious product launch plan in the various ranges of the Private Brand, which celebrated its 25th anniversary with many initiatives.

Even with the additional pressure resulting from the increase in personnel costs, together with the demands imposed by the promotional intensity dominating the market and the strong investment in the continuous improvement to the shopping experience, the EBITDA generated by Pingo Doce had a 2% increase against 2015, standing at 192 million euros.

As a total for the year, the Company invested 137 million euros and added 14 new locations to its chain.

Also in Portugal, Recheio strengthened its presence nationwide as well as its market share with the inauguration of a store in the South of the country, in Sines, bringing the number of units in its network up to 42. For our wholesale Company it was a year of major investment in consolidating the relationship with customers, namely in the Food Service area, which continues to gain relevance and now has around 3,000 delivery points.

Sales increased by 5.9% to 878 million euros, with a like-for-like of 5%, reflecting the improvement to the environment in the HoReCa segment. The solid sales growth and the strength of Recheio's market position made it possible to improve the EBITDA margin to 5.4% (from 5.3% in 2015). The EBITDA generated was 47 million euros, 7.4% above the previous year.

With regard to our newer businesses, Ara and Hebe posted combined losses of 62 million euros with regard to the Group's EBITDA – which was 862 million euros for the year – Ara answering to 76% of the total.

As expected, Hebe has been reducing the losses generated and in 2016 added 19 new stores to its network.

The year was particularly important for our operation in Colombia and also for the country, which made decisive breakthroughs in its peace process. Ara achieved market leadership in its first region – the Coffee Growing Region – after three years of doing business in the country, and entered the third operating region, in Bogota, the country's capital, where it opened 22 of the 79 stores inaugurated during the year.

Our confidence in the Colombian market – and in the South-American region in the area of influence of the Pacific Alliance – led us to decide to strengthen the organisational structure and the network's infrastructure in order to prepare for speeding up growth, which will already start in 2017.

The Group ended 2016 with a net excess cash position of 335 million euros. In a year in which dividends payment to Group's Shareholders was 167 million euros and investments amounted to 482 million euros, the robustness of the balance sheet remained unscathed, financial charges having decreased to 17 million euros.

For a Group such as ours, which is geared towards growth, this liquidity represents freedom of choice and action, which is something we highly value, especially in an increasingly uncertain and insecure world, where we directly employ over 90 thousand people.

We remain committed to being a positive force for transforming the environments where we are present, through the responsible way in which we conduct our businesses and make them grow.

In 2016, our work was acknowledged by being included, for the first time, in the FTSE4Good Global Index and FTSE4Good Europe Index sustainability indices, as well as in the Ethibel Excellence Investment Registers, the Ethibel Sustainability Index Excellence Europe and the Euronext Vigeo Index: Eurozone 120.

We see these as valuable signs that our focus on profitable and sustainable growth is worthy of credit from those following our activity and who distinguish us with their investment.

I want to express my thanks for that trust, for the renewed support from Jerónimo Martins' major shareholder and also from my fellow colleagues on the Board of Directors, on behalf of the teams I am proud to lead and that are the ones who deserve the merit for the results we are presenting in this report.

Pedro Soares dos Santos
Chairman and Chief Executive Officer
1st March, 2017