



III. Consolidated Financial Statements

**CONSOLIDATED INCOME STATEMENT BY FUNCTIONS
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**

Euro thousand

| | Notes | December 2015 | December 2014 | 4 th Quarter 2015 | 4 th Quarter 2014 |
|--|-------|------------------|------------------|---------------------------------|---------------------------------|
| Sales and services rendered | 3 | 13,727,960 | 12,680,215 | 3,553,372 | 3,347,642 |
| Cost of sales | 4 | (10,790,486) | (9,988,523) | (2,784,611) | (2,635,777) |
| Gross profit | | 2,937,474 | 2,691,692 | 768,761 | 711,865 |
| Distribution costs | 4 | (2,209,519) | (2,021,090) | (572,892) | (541,969) |
| Administrative costs | 4 | (222,795) | (214,102) | (57,529) | (55,839) |
| Exceptional operating profits/losses | 4 | (19,053) | (7,425) | (11,605) | (6,255) |
| Operating profit | | 486,107 | 449,075 | 126,735 | 107,802 |
| Net financial costs | 6 | (26,497) | (34,327) | (6,790) | (8,156) |
| Gains in joint ventures and associates | 12 | 16,608 | 15,181 | 1,998 | 505 |
| Gains/ losses in other investments | | (1,423) | (1,122) | (1,423) | (1,122) |
| Profit before taxes | | 474,795 | 428,807 | 120,520 | 99,029 |
| Income tax | 7 | (116,587) | (103,729) | (34,064) | (29,735) |
| Profit before non-controlling interests | | 358,208 | 325,078 | 86,456 | 69,294 |
| Attributable to: | | | | | |
| Non-controlling interests | | 24,866 | 23,367 | 5,338 | 4,649 |
| Jerónimo Martins shareholders | | 333,342 | 301,711 | 81,118 | 64,645 |
| Basic and diluted earnings per share - euros | 18 | 0.5304 | 0.4801 | 0.1291 | 0.1029 |

To be read with the attached Notes to the Consolidated Financial Statements

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**

Euro thousand

| | Notes | December 2015 | December 2014 | 4 th Quarter 2015 | 4 th Quarter 2014 |
|---|-------|------------------|------------------|---------------------------------|---------------------------------|
| Net profit | | 358,208 | 325,078 | 86,456 | 69,294 |
| Other comprehensive income: | | | | | |
| Items that will not be reclassified to profit or loss | | | | | |
| Remeasurements of post-employment benefit obligations | 5.2 | (817) | (2,599) | (817) | (2,599) |
| Related tax | 7.3 | 184 | 549 | 184 | 549 |
| | | (633) | (2,050) | (633) | (2,050) |
| Items that may be reclassified to profit or loss | | | | | |
| Currency translation differences | | 15,234 | (20,705) | (4,154) | (13,169) |
| Change in fair value of cash flow hedges | 11 | 4,101 | 675 | 1,568 | 537 |
| Change in fair value of hedging instruments on foreign operations | 11 | (14,645) | 3,663 | (30) | 2,908 |
| Change in fair value of available-for-sale financial assets | | (94) | (202) | 30 | (212) |
| Changes in investments in joint ventures and associates | 12 | (96) | 84 | (96) | 84 |
| Related tax | 7.3 | (1,106) | 1,210 | (314) | 1,220 |
| | | 3,394 | (15,275) | (2,996) | (8,632) |
| Other comprehensive income, net of income taxes | | 2,761 | (17,325) | (3,629) | (10,682) |
| Total comprehensive income | | 360,969 | 307,753 | 82,827 | 58,612 |
| Attributable to: | | | | | |
| Non-controlling interests | | 25,463 | 23,796 | 5,467 | 4,669 |
| Jerónimo Martins shareholders | | 335,506 | 283,957 | 77,360 | 53,943 |
| Total comprehensive income | | 360,969 | 307,753 | 82,827 | 58,612 |

To be read with the attached Notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2015 AND 31 DECEMBER 2014

Euro thousand

| | Notes | 2015 | 2014 |
|--|-------|------------------|------------------|
| Assets | | | |
| Tangible assets | 8 | 2,890,113 | 2,773,324 |
| Investment property | 10 | 20,387 | 42,947 |
| Intangible assets | 9 | 809,796 | 806,194 |
| Investments in joint ventures and associates | 12 | 76,478 | 74,272 |
| Available-for-sale financial assets | | 1,758 | 1,252 |
| Trade debtors, accrued income and deferred costs | 14 | 118,604 | 102,112 |
| Derivative financial instruments | 7.3 | 122 | - |
| Deferred tax assets | 7.3 | 56,245 | 51,349 |
| Total non-current assets | | 3,973,503 | 3,851,450 |
| Inventories | 13 | 638,339 | 572,004 |
| Biological assets | | 409 | - |
| Income tax receivable | | 1,373 | 2,217 |
| Trade debtors, accrued income and deferred costs | 14 | 277,275 | 313,463 |
| Derivative financial instruments | 11 | 128 | 2,627 |
| Cash and cash equivalents | 15 | 441,688 | 430,660 |
| Total current assets | | 1,359,212 | 1,320,971 |
| Total assets | | 5,332,715 | 5,172,421 |
| Shareholders' equity and liabilities | | | |
| Share capital | 17 | 629,293 | 629,293 |
| Share premium | 17 | 22,452 | 22,452 |
| Own shares | 17 | (6,060) | (6,060) |
| Other reserves | 17 | (64,392) | (67,267) |
| Retained earnings | 17 | 760,400 | 817,398 |
| | | 1,341,693 | 1,395,816 |
| Non-controlling interests | 28 | 251,526 | 242,875 |
| Total shareholders' equity | | 1,593,219 | 1,638,691 |
| Borrowings | 19 | 534,422 | 373,877 |
| Trade creditors, accrued costs and deferred income | 21 | 813 | 836 |
| Derivative financial instruments | 11 | - | 2,681 |
| Employee benefits | 5 | 42,908 | 42,460 |
| Provisions for risks and contingencies | 20 | 83,947 | 81,828 |
| Deferred tax liabilities | 7.3 | 54,527 | 58,890 |
| Total non-current liabilities | | 716,617 | 560,572 |
| Borrowings | 19 | 123,510 | 340,925 |
| Trade creditors, accrued costs and deferred income | 21 | 2,871,717 | 2,616,004 |
| Derivative financial instruments | 11 | 93 | 1,715 |
| Income taxes payable | | 27,559 | 14,514 |
| Total current liabilities | | 3,022,879 | 2,973,158 |
| Total shareholders' equity and liabilities | | 5,332,715 | 5,172,421 |

To be read with the attached Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Euro thousand

| | N o t e s | Shareholders' equity attributable to shareholders of Jerónimo Martins, SGPS, S.A. | | | | | | | Non- controlling interests | Shareholders' equity | |
|---|-----------------------|---|------------------|----------------|--------------------|--|-------------------------------------|----------------------|----------------------------------|-------------------------|------------------|
| | | Share capital | Share premium | Own shares | Other reserves | | | Retained earnings | | | Total |
| | | | | | Cash flow hedge | Available-for- sale financial assets | Currency translation reserves | | | | |
| Balance sheet as at 1 January 2014 | | 629,293 | 22,452 | (6,060) | (2,453) | (1,251) | (48,111) | 709,661 | 1,303,531 | 235,835 | 1,539,366 |
| Equity changes in 2014 | | | | | | | | | | | |
| Currency translation differences | | | | | 22 | | (20,114) | | (20,092) | | (20,092) |
| Changes in investments in joint ventures and associates | | | | | | | | 84 | 84 | | 84 |
| Change in fair value of cash flow hedging | | | | | (117) | | | | (117) | 519 | 402 |
| Change in fair value of hedging instruments on foreign operations | | | | | | | 3,663 | | 3,663 | | 3,663 |
| Change in fair value of available-for-sale financial investments | | | | | | 1,094 | | (426) | 668 | | 668 |
| Remeasurements of post-employment benefit obligations | | | | | | | | (1,960) | (1,960) | (90) | (2,050) |
| Other comprehensive income | | - | - | - | (95) | 1,094 | (16,451) | (2,302) | (17,754) | 429 | (17,325) |
| Net profit in 2014 | | | | | | | | 301,711 | 301,711 | 23,367 | 325,078 |
| Total comprehensive income | | - | - | - | (95) | 1,094 | (16,451) | 299,409 | 283,957 | 23,796 | 307,753 |
| Dividends | | | | | | | | (191,672) | (191,672) | (16,756) | (208,428) |
| Balance sheet as at 31 December 2014 | | 629,293 | 22,452 | (6,060) | (2,548) | (157) | (64,562) | 817,398 | 1,395,816 | 242,875 | 1,638,691 |
| Equity changes in 2015 | | | | | | | | | | | |
| Currency translation differences | | | | | (3) | | 14,946 | | 14,943 | | 14,943 |
| Changes in investments in joint ventures and associates | | | | | | | | (96) | (96) | | (96) |
| Change in fair value of cash flow hedging | | | | | 2,650 | | | | 2,650 | 615 | 3,265 |
| Change in fair value of hedging instruments on foreign operations | | | | | | | (14,645) | | (14,645) | | (14,645) |
| Change in fair value of available-for-sale financial investments | | | | | | (73) | | | (73) | | (73) |
| Remeasurements of post-employment benefit obligations | | | | | | | | (615) | (615) | (18) | (633) |
| Other comprehensive income | | - | - | - | 2,647 | (73) | 301 | (711) | 2,164 | 597 | 2,761 |
| Net profit in 2015 | | | | | | | | 333,342 | 333,342 | 24,866 | 358,208 |
| Total comprehensive income for the year | | - | - | - | 2,647 | (73) | 301 | 332,631 | 335,506 | 25,463 | 360,969 |
| Dividends | 17 | | | | | | | (389,629) | (389,629) | (16,812) | (406,441) |
| Balance Sheet as at 31 December 2015 | | 629,293 | 22,452 | (6,060) | 99 | (230) | (64,261) | 760,400 | 1,341,693 | 251,526 | 1,593,219 |

To be read with the attached Notes to the Consolidated Financial Statements

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**

Euro thousand

| | Notes | 2015 | 2014 |
|---|-------|------------------|------------------|
| Operating activities | | | |
| Cash received from customers | | 15,476,390 | 14,297,584 |
| Cash paid to suppliers | | (13,437,431) | (12,486,749) |
| Cash paid to employees | | (1,039,174) | (936,655) |
| Cash generated from operations | 16 | 999,785 | 874,180 |
| Interest paid | | (31,043) | (34,326) |
| Income taxes paid | | (108,356) | (108,501) |
| Cash flow from operating activities | | 860,386 | 731,353 |
| Investment activities | | | |
| Disposals of tangible assets | | 2,889 | 6,657 |
| Disposals of intangible assets | | 1 | 538 |
| Disposals of financial assets and investment property | | - | 3,382 |
| Interest received | | 2,240 | 2,441 |
| Dividends received | | 14,375 | 19,557 |
| Acquisition of tangible assets | | (379,061) | (470,561) |
| Acquisition of financial assets and investment property | | (15,602) | (19,627) |
| Acquisition of intangible assets | | (17,447) | (25,606) |
| Cash flow from investment activities | | (392,605) | (483,219) |
| Financing activities | | | |
| Received from other loans | | 421,921 | 280,348 |
| Loans paid | | (468,096) | (251,426) |
| Dividends paid | 17 | (406,441) | (208,428) |
| Cash flow from financing activities | | (452,616) | (179,506) |
| Net changes in cash and cash equivalents | | 15,165 | 68,628 |
| Cash and cash equivalents changes | | | |
| Cash and cash equivalents at the beginning of the year | | 430,660 | 371,671 |
| Net changes in cash and cash equivalents | | 15,165 | 68,628 |
| Effect of currency translation differences | | (4,137) | (9,639) |
| Cash and cash equivalents at the end of the year | 15 | 441,688 | 430,660 |

To be read with the attached Notes to the Consolidated Financial Statements

CONSOLIDATED CASH FLOW STATEMENT FOR THE INTERIM PERIOD

Euro thousand

| | December 2015 | December 2014 | 4 th Quarter 2015 | 4 th Quarter 2014 |
|--------------------------------------|------------------|------------------|---------------------------------|---------------------------------|
| Cash flow from operating activities | 860,386 | 731,353 | 332,368 | 293,343 |
| Cash flow from investment activities | (392,605) | (483,219) | (107,628) | (153,622) |
| Cash flow from financing activities | (452,616) | (179,506) | (268,696) | (13,140) |
| Cash and cash equivalents changes | 15,165 | 68,628 | (43,956) | 126,581 |

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1 Activity

Jerónimo Martins, SGPS, S.A. (JM), is the parent Company of Jerónimo Martins (Group), which includes the Companies detailed in notes 27 and 29. The activities of the Group and its performance during the year 2015 are detailed in Chapter II of this Annual Report.

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

Share Capital: 629,293,220 euros

Registered at the Commercial Registry Office and Tax Number: 500 100 144

JM has been listed on the Euronext Lisbon since 1989.

The Board of Directors approved these Consolidated Financial Statements on 1 March 2016.

2 Accounting policies

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

2.1 Basis for preparation

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

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

The Consolidated Financial Statements of JM were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as at 31 December 2015.

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

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

Change in accounting policies and basis for presentation:

2.1.1 New and amended standards adopted by the Group

In 2014, the EU issued the following Regulation, which was adopted by the Group from beginning of 2015:

| EU Regulation | IASB Standard or IFRIC Interpretation endorsed by EU | Issued in | Mandatory for financial years beginning on or after |
|--------------------------|--|---------------|---|
| Regulation no. 1361/2014 | Annual Improvements to IFRS's 2011-2013 Cycle: IFRS 1 First-time Adoption of IFRS, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property (amendment) | December 2013 | 1 January 2015 |

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

2.1.2 New standards, amendments and interpretations endorsed by EU but not effective for the financial year beginning on 1 January 2015 and not early adopted

The EU adopted several improvements to IFRS, issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC):

| EU Regulation | IASB Standard or IFRIC Interpretation endorsed by EU | Issued in | Mandatory for financial years beginning on or after |
|--------------------------|---|----------------|---|
| Regulation no. 28/2015 | Annual Improvements to IFRS's 2010–2012 Cycle: IFRS 2 Share-Based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets (amendment) | December 2013 | 1 February 2015 |
| Regulation no. 29/2015 | IAS 19 Employee Benefits: Defined Benefit Plans - Employee Contributions (amendment) | November 2013 | 1 February 2015 |
| Regulation no. 2113/2015 | IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants (amendment) | June 2014 | 1 January 2016 |
| Regulation no. 2173/2015 | IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations (amendment) | May 2014 | 1 January 2016 |
| Regulation no. 2231/2015 | IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation (amendment) | May 2014 | 1 January 2016 |
| Regulation no. 2343/2015 | Annual Improvements to IFRS's 2012–2014 Cycle: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting (amendment) | September 2014 | 1 January 2016 |
| Regulation no. 2406/2015 | IAS 1 Presentation of Financial Statements: Disclosure Initiative (amendment) | December 2014 | 1 January 2016 |
| Regulation no. 2441/2015 | IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements (amendment) | August 2014 | 1 January 2016 |

These amendments to the standards are effective for annual periods beginning on or after 1 February 2015, and have not been applied in preparing these Consolidated Financial Statements. None of these amendments is expected to have a significant impact on the Group's Consolidated Financial Statements.

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

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

| IASB Standard or IFRIC Interpretation | Issued in | Expected application for financial years beginning on or after |
|--|----------------|--|
| IFRS 14 Regulatory Deferral Accounts (new) | January 2014 | To be decided ¹ |
| IFRS 15 Revenue from Contracts with Customers (new) | May 2014 | 1 January 2018 |
| IFRS 9 Financial Instruments (new) | July 2014 | 1 January 2018 |
| IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendment) | September 2014 | To be decided ² |
| IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities - Applying the Consolidation exemption (amendment) | December 2014 | 1 January 2016 |

¹ The EU has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

² The EU decided to defer indefinitely the endorsement of these changes.

Management is currently evaluating the impact of adopting these new standards and amendments to standards already in place, and do not expect any significant impact on the Group's Consolidated Financial Statements.

In 2016 IASB issued the standard identified below aimed to replace the IAS 17 Leases:

| IASB Standard or IFRIC Interpretation | Issued in | Expected application for financial years beginning on or after |
|--|------------------|---|
| IFRS 16 Leases (new) | January 2016 | 1 January 2019 |

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

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

This standard has yet to be endorsed by the EU. However the Management will assess the impacts that will result from adopting this new standard, and expects that its adoption will have a significant impact on the Group's Consolidated Financial Statements, as result of the capitalisation of the assets which are currently under operating leases and recording their respective liabilities.

2.1.4 Change of accounting policies

In addition to the above, the Group has not changed its accounting policies during 2015, nor were any errors identified regarding previous years, which would require the restatement of Financial Statements.

2.2. Basis for consolidation

Reference dates

The Consolidated Financial Statements include, as at 31 December 2015, assets, liabilities and profit or loss of Group Companies, i.e. the ensemble consisting of JMH and its subsidiaries, joint ventures and associates, which are presented in notes 27 and 29, respectively.

Business combinations

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

Investments in subsidiaries

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

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

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

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

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

Investments in associates

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

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

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

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

Investments in joint arrangements

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

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

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

Goodwill

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

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

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

Non-controlling interests

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

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

Loss of control or significant influence

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

Foreign currency translation

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

Exchange differences arising in the translation are entered directly in equity net of the effect generated by the respective hedging instrument (see accounting policy described in note 11).

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

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

Balances and transactions between Group Companies

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



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

2.3 Transactions in foreign currencies

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

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

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

| Euro foreign exchange reference rates (x foreign exchange units per 1 euro) | Rate on 31 December 2015 | Average rate for the year |
|--|-----------------------------|------------------------------|
|  Polish zloty (PLN) | 4.2639 | 4.1819 |
|  Swiss franc (CHF) | 1.0835 | - |
|  Colombian peso (COP) | 3,447.3900 | 3,072.5200 |

2.4 Financial assets

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

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

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

2.5 Impairment

2.5.1 Impairment of non-financial assets

Except for investment property (note 10), inventories (note 13) and deferred tax assets (note 7), all Group assets are considered at each balance sheet date in order to assess for indicators of possible impairment losses. If such indicators exist, the asset's recoverable amount is estimated.

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

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

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

The total assets in the above-mentioned situation corresponds to a current investment amounting to EUR 541,873 thousand (2014: EUR 640,215 thousand), which includes mostly real estate, equipment related to the operational activity of stores and improvements made in leasehold properties.

Determining the recoverable amount of assets

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

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

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

Reversal of impairment losses

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

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

2.5.2 Impairment of financial assets

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

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

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

Available-for-sale financial assets

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

Clients, debtors and other financial assets

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

- (i) Analysis of breach;
- (ii) Breach for more than three months;
- (iii) Financial difficulties of the debtor;
- (iv) Probability of the debtor's bankruptcy.

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

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

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

Tangible and intangible assets, and investment property

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

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

Fair value of financial instruments

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

Impairment of investments in joint ventures and associates

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

Deferred taxes

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

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

| | Impact on Group accounts | |
|----------|--------------------------|----------------------------|
| | Income statement | Other comprehensive income |
| Portugal | 615 | 56 |
| Poland | (562) | (1) |

A positive amount means a gain in Group accounts.

Impairment losses of clients and debtors

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

Pensions and other long-term benefits granted to employees

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

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

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

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

- Narrow range [1.70% - 2.10%]
- Extended range [1.50% - 2.30%]

Based on these results the Group has decided to reduce its discount rate from 2.0% to 1.75%.

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

| | Assumption used | Impact on defined benefit obligations | | |
|---------------------|-----------------|---------------------------------------|------------------------|------------------------|
| | | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | 1.75% | 0.50% | (1,728) | 1,851 |
| Salary growth rate | 2.50% | 0.50% | 873 | (827) |
| Pension growth rate | 2.50% | 0.50% | 967 | (900) |
| Life expectancy | TV 88/90 | 1 year | 1,315 | (1,266) |

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

Provisions

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

Investment in associates

Management has assessed the level of influence that the Group has on Perfumes e Cosméticos Puig Portugal Distribuidora, S.A., and determined that it has significant influence, even though the shareholding is 27.55%, due to the Board of Directors representation and contractual terms. Consequently, this investment has been classified as an associate.

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

Investment in joint arrangements

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

The Group holds 45% of the voting rights of its joint arrangement in Unilever Jerónimo Martins, Lda. and Gallo Worldwide, Lda.. The Group has joint control over this arrangement as under the contractual agreements unanimous consent is required from all parties to the agreements for all relevant activities. The joint arrangements are structured as limited companies and provide the Group and the parties to the

agreements with rights to the net assets of the limited company under the arrangements. Therefore, these arrangements are classified as joint ventures.

2.7 Fair value of financial instruments

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

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

Cash and cash equivalents, debtors and accruals

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

Available-for-sale financial assets

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

Borrowings

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

Creditors and accruals

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

2.8 Fair value hierarchy

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

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

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

| 2014 | Total | Level 1 | Level 2 | Level 3 |
|---|---------------|------------|--------------|---------------|
| Assets measured at fair value | | | | |
| Investment property | 42,947 | - | - | 42,947 |
| Available-for-sale financial assets | | | | |
| Equity investments | 368 | 368 | - | - |
| Derivative financial instruments | | | | |
| Derivatives used for hedging | 2,627 | - | 2,627 | - |
| Total assets | 45,942 | 368 | 2,627 | 42,947 |
| Liabilities measured at fair value | | | | |
| Derivative financial instruments | | | | |
| Derivatives used for hedging | 4,396 | - | 4,396 | - |
| Total liabilities | 4,396 | - | 4,396 | - |

2.9 Financial instruments by category

| | Assets and financial liabilities at fair-value through results | Derivatives defined as hedging instruments | Borrowings and accounts receivable | Available-for-sale financial assets | Other financial liabilities | Total financial assets and liabilities | Non-financial assets and liabilities | Total assets and liabilities |
|-------------------------------------|--|--|------------------------------------|-------------------------------------|-----------------------------|--|--------------------------------------|------------------------------|
| 2015 | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | - | - | 441,688 | - | - | 441,688 | - | 441,688 |
| Available-for-sale financial assets | - | - | - | 1,758 | - | 1,758 | - | 1,758 |
| Debtors, accruals and deferrals | - | - | 288,212 | - | - | 288,212 | 107,667 | 395,879 |
| Derivative financial instruments | - | 250 | - | - | - | 250 | - | 250 |
| Other non-financial assets | - | - | - | - | - | - | 4,493,140 | 4,493,140 |
| Total assets | - | 250 | 729,900 | 1,758 | - | 731,908 | 4,600,807 | 5,332,715 |
| Liabilities | | | | | | | | |
| Borrowings | - | - | - | - | 657,932 | 657,932 | - | 657,932 |
| Derivative financial instruments | - | 93 | - | - | - | 93 | - | 93 |
| Creditors, accruals and deferrals | - | - | - | - | 2,682,665 | 2,682,665 | 189,865 | 2,872,530 |
| Other non-financial liabilities | - | - | - | - | - | - | 208,941 | 208,941 |
| Total liabilities | - | 93 | - | - | 3,340,597 | 3,340,690 | 398,806 | 3,739,496 |
| 2014 | | | | | | | | |
| Assets | | | | | | | | |
| Cash and cash equivalents | - | - | 430,660 | - | - | 430,660 | - | 430,660 |
| Available-for-sale financial assets | - | - | - | 1,252 | - | 1,252 | - | 1,252 |
| Debtors, accruals and deferrals | - | - | 303,723 | - | - | 303,723 | 111,852 | 415,575 |
| Derivative financial instruments | - | 2,627 | - | - | - | 2,627 | - | 2,627 |
| Other non-financial assets | - | - | - | - | - | - | 4,322,307 | 4,322,307 |
| Total assets | - | 2,627 | 734,383 | 1,252 | - | 738,262 | 4,434,159 | 5,172,421 |
| Liabilities | | | | | | | | |
| Borrowings | - | - | - | - | 714,802 | 714,802 | - | 714,802 |
| Derivative financial instruments | - | 4,396 | - | - | - | 4,396 | - | 4,396 |
| Creditors, accruals and deferrals | - | - | - | - | 2,461,507 | 2,461,507 | 155,333 | 2,616,840 |
| Other non-financial liabilities | - | - | - | - | - | - | 197,692 | 197,692 |
| Total liabilities | - | 4,396 | - | - | 3,176,309 | 3,180,705 | 353,025 | 3,533,730 |

3 Segments reporting

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

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

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

The identified business segments are:

- Portugal Retail: comprises the business unit of JMR (Pingo Doce supermarkets);
- Portugal Cash & Carry: includes the wholesale business unit Recheio;
- Poland Retail: the business unit with the brand Biedronka;
- Others, eliminations and adjustments: includes i) business units with reduced materiality (Marketing Services and Representations, Restaurants, Agro Business in Portugal, Health and Beauty Retail in Poland, Retail business in Colombia; ii) the Holding Companies; and iii) Group's consolidation adjustments.

Detailed information by business segments as at December 2015 and 2014

| | Portugal Retail | | Portugal Cash & Carry | | Poland Retail | | Others, eliminations and adjustments | | Total JM Consolidated | |
|---------------------------------------|------------------|------------------|-----------------------|----------------|------------------|------------------|--------------------------------------|------------------|-----------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Net sales and services | 3,729,140 | 3,552,073 | 832,208 | 799,362 | 9,205,708 | 8,431,731 | (39,096) | (102,951) | 13,727,960 | 12,680,215 |
| Inter-segments | 315,834 | 310,920 | 4,007 | 1,594 | 1,617 | 1,556 | (321,458) | (314,070) | - | - |
| External customers | 3,413,306 | 3,241,153 | 828,201 | 797,768 | 9,204,091 | 8,430,175 | 282,362 | 211,119 | 13,727,960 | 12,680,215 |
| Operational cash flow (EBITDA) | 187,880 | 187,385 | 43,908 | 41,555 | 641,143 | 573,133 | (73,287) | (68,827) | 799,644 | 733,246 |
| Depreciations and amortisations | (95,299) | (97,020) | (12,090) | (11,772) | (172,990) | (156,211) | (14,105) | (11,743) | (294,484) | (276,746) |
| EBIT | 92,581 | 90,365 | 31,818 | 29,783 | 468,153 | 416,922 | (87,392) | (80,570) | 505,160 | 456,500 |
| Exceptional operating profits/losses | | | | | | | | | (19,053) | (7,425) |
| Financial results | | | | | | | | | (11,312) | (20,268) |
| Income Tax | | | | | | | | | (116,587) | (103,729) |
| Net result attributable to JM | | | | | | | | | 333,342 | 301,711 |
| Total assets | 1,699,610 | 1,656,090 | 335,979 | 330,131 | 2,920,437 | 2,826,930 | 376,689 | 359,270 | 5,332,715 | 5,172,421 |
| Total liabilities | 1,186,485 | 1,158,612 | 284,181 | 281,931 | 2,126,974 | 2,100,836 | 141,856 | (7,649) | 3,739,496 | 3,533,730 |
| Investments in fixed assets | 133,152 | 55,310 | 18,332 | 9,249 | 204,132 | 360,575 | 56,678 | 44,851 | 412,294 | 469,985 |

Reconciliation between EBIT and operating profit

| | December 2015 | December 2014 |
|-------------------------------------|----------------|----------------|
| EBIT | 505,160 | 456,500 |
| Exceptional operating profit/losses | (19,053) | (7,425) |
| Operating profit | 486,107 | 449,075 |

Financial assets with credit risk per segment

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

| | Portugal Retail | | Portugal Cash & Carry | | Poland Retail | | Others, eliminations and adjustments | | Total JM Consolidated | |
|-------------------------------------|-----------------|----------------|-----------------------|---------------|----------------|----------------|--------------------------------------|----------------|-----------------------|----------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Cash and cash equivalents | 51,264 | 73,277 | 9,386 | 12,979 | 211,084 | 147,393 | 169,954 | 197,011 | 441,688 | 430,660 |
| Available-for-sale financial assets | 183 | 183 | 1,296 | 696 | - | - | 279 | 373 | 1,758 | 1,252 |
| Debtors, accruals and deferrals | 85,690 | 78,624 | 39,287 | 40,953 | 169,040 | 204,453 | (5,805) | (20,307) | 288,212 | 303,723 |
| Derivative financial instruments | - | - | - | - | 122 | - | 128 | 2,627 | 250 | 2,627 |
| Total | 137,137 | 152,084 | 49,969 | 54,628 | 380,246 | 351,846 | 164,556 | 179,704 | 731,908 | 738,262 |

4 Gross profit and operating costs

Revenue recognition

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

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

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

Distribution and administrative costs

Distribution and administrative costs include all operating costs of the Group (excluding cost of sales) related with Retail main activity, Logistics and Warehousing, and also the supporting Central Offices.

Exceptional operating profits/losses

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

| | 2015 | 2014 |
|---|---------------------|--------------------|
| Net sales and services | 13,727,960 | 12,680,215 |
| Net cost of products sold | (10,759,039) | (9,956,079) |
| Net cash discount and interest paid to suppliers | (2,542) | (5,636) |
| Electronic payment commissions | (20,413) | (19,188) |
| Other supplementary costs | (8,492) | (7,620) |
| Cost of sales | (10,790,486) | (9,988,523) |
| Gross profit | 2,937,474 | 2,691,692 |
| Supplies and services | (512,326) | (477,013) |
| Advertising costs | (76,237) | (75,036) |
| Rents | (329,961) | (305,477) |
| Staff costs (note 5.1) | (1,061,302) | (943,171) |
| Depreciation and amortization | (292,203) | (274,495) |
| Profit/loss with tangible and intangible assets | (3,863) | (3,487) |
| Transportation costs | (147,557) | (148,646) |
| Other operational profit/loss | (8,865) | (7,867) |
| Distribution and administrative costs | (2,432,314) | (2,235,192) |
| Legal contingencies | (291) | (1,175) |
| Losses from organizational restructuring programmes | (11,515) | (2,723) |
| Assets write-offs | (2,910) | (1,231) |
| Changes to benefit plans and actuarial assumptions | (4,545) | (2,066) |
| Others | 208 | (230) |
| Exceptional operating profits/losses | (19,053) | (7,425) |
| Operating profit | 486,107 | 449,075 |

5 Employees

5.1 Staff costs

| | 2015 | 2014 |
|------------------------------|------------------|----------------|
| Wages and salaries | 839,004 | 742,737 |
| Social security | 162,966 | 145,812 |
| Employee benefits (note 5.2) | 3,046 | 5,479 |
| Other staff costs | 68,037 | 55,736 |
| | 1,073,053 | 949,764 |

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

The difference to staff costs stated in note 4 of EUR 11,751 thousand (EUR 6,593 thousand in 2014) relates to the production activities that were attributable to the cost of the goods sold in the amount of EUR 4,337 thousand (EUR 4,002 thousand in 2014) and to exceptional losses in the amount of EUR 7,414 thousand (EUR 2,591 thousand in 2014).

The average number of Group employees during the year was 87,494 (2014: 80,797).

The number of employees at the end of the year was 89,027 (2014: 86,563).

5.2 Employees benefits

Post-employment benefits (retirement)

Defined contribution plans

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

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

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

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

Defined benefit plans

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

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

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

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

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

Other benefits

Seniority awards

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

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

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

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

Amounts of employee benefits in the balance sheet:

| | 2015 | 2014 |
|--|---------------|---------------|
| Retirement benefits - defined benefit plan paid by the Group | 21,843 | 22,307 |
| Seniority awards | 21,065 | 20,153 |
| Total | 42,908 | 42,460 |

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

| | Income statement | | Other comprehensive income | |
|--|------------------|--------------|----------------------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Retirement benefits - defined contribution plan | 489 | 478 | - | - |
| Retirement benefits - defined benefit plan paid for by the Group | 429 | 695 | 817 | 2,599 |
| Seniority awards | 2,128 | 4,306 | - | - |
| Total | 3,046 | 5,479 | 817 | 2,599 |

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

| | Defined contribution plans for active employees | | Defined benefit plans for former employees | | Other long term benefits granted to employees | |
|---|--|-------|---|---------------|--|---------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Balance on 1 January | - | - | 22,307 | 20,729 | 20,153 | 16,735 |
| Interest costs | - | - | 429 | 695 | 429 | 625 |
| Current service cost | 489 | 478 | - | - | 1,936 | 1,615 |
| Actuarial (gains)/losses | | | | | | |
| Changes in demographic assumptions | - | - | - | - | - | - |
| Changes in financial assumptions | - | - | 458 | 2,648 | 421 | 2,472 |
| Changes in experience | - | - | 359 | (49) | (658) | (406) |
| Contributions or retirement pensions paid | (489) | (478) | (1,710) | (1,716) | (1,216) | (888) |
| Balance on 31 December | - | - | 21,843 | 22,307 | 21,065 | 20,153 |

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

| | 2015 | 2014 |
|----------------------------------|----------|----------|
| Mortality table | TV 88/90 | TV 88/90 |
| Discount rate | 1.75% | 2.00% |
| Pension and salaries growth rate | 2.50% | 2.50% |

The mortality assumptions used are those most commonly adopted in Portugal, and are based on actuarial advice in accordance with published statistics and experience in each country.

Expected future payments

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

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|--------------|--------------|--------------|--------------|--------------|
| Retirement benefits - defined benefit plan paid for by the Group | 1,629 | 1,560 | 1,491 | 1,422 | 1,349 |
| Seniority awards | 940 | 934 | 2,367 | 1,289 | 1,698 |
| Total | 2,569 | 2,494 | 3,858 | 2,711 | 3,047 |

6 Net financial costs

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

Receivable dividends

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

| | 2015 | 2014 |
|---------------------------------|-----------------|-----------------|
| Interest expense | (24,727) | (31,894) |
| Interest received | 2,277 | 2,130 |
| Dividends | 68 | 30 |
| Net foreign exchange | (125) | (1,171) |
| Other financial costs and gains | (3,990) | (3,422) |
| | (26,497) | (34,327) |

Interest expense includes the interest on loans measured at amortised cost and interest on derivatives of fair-value hedge and cash flow hedge (note 11).

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

7 Taxes

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

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

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

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

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

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

7.1 Income tax

| | 2015 | 2014 |
|--|------------------|------------------|
| Current income tax | | |
| Current tax of the year | (123,787) | (97,718) |
| Adjustment to prior years estimation | 1,218 | 1,261 |
| | (122,569) | (96,457) |
| Deferred tax (note 7.3) | | |
| Temporary differences created or reversed in the year | 10,937 | (3,542) |
| Tax rate reduction | - | (1,285) |
| Change to the recoverable amount of tax losses and temporary differences from previous years | (756) | (629) |
| | 10,181 | (5,456) |
| Other gains/losses related to taxes | | |
| Impact of changes in estimates for tax litigations | (4,199) | (1,816) |
| | (4,199) | (1,816) |
| Total income tax | (116,587) | (103,729) |

7.2 Reconciliation of effective tax rate

| | 2015 | | 2014 | |
|---|--------------|------------------|--------------|------------------|
| Profit before tax | | 474,795 | | 428,807 |
| Income tax using the Portuguese corporation tax rate | 22.5% | (106,829) | 24.5% | (105,058) |
| Fiscal effect due to: | | | | |
| Different tax rates in foreign jurisdictions | (4.8%) | 22,812 | (6.5%) | 27,887 |
| Non-taxable or non-recoverable results | 5.9% | (27,902) | 6.1% | (26,292) |
| Non-deductible expenses and fiscal benefits | 0.6% | (2,836) | 0.6% | (2,430) |
| Impact of tax rate reduction on deferred taxes | 0.0% | - | 0.3% | (1,285) |
| Adjustment to prior years estimation | (0.3%) | 1,218 | (0.8%) | 3,426 |
| Equity method | (0.5%) | 2,483 | (0.5%) | 2,301 |
| Change to the recoverable amount of tax losses and temporary differences of prior years | (0.1%) | 245 | (0.2%) | 710 |
| Results subject to special taxation | 1.2% | (5,778) | 0.7% | (2,988) |
| Income tax | 24.6% | (116,587) | 24.2% | (103,729) |

In 2015, the Corporate Income Tax rate (CIT) applied to companies operating in Portugal was 21% (in 2014 was 23%). For companies with a positive tax result, there is a surcharge of 1.5% regarding municipal tax, and an additional state tax that varies between 3%, 5% and 7%, for taxable profits higher than EUR 1,500 thousand, EUR 7,500 thousand and EUR 35,000 thousand respectively, as applied in 2014.

In Poland, for 2014 and 2015, the income tax rate applied to taxable income was 19%.

In Colombia, the income tax rate was 34% in 2014 and 2015. If a taxable loss is determined, a tax rate of 3% is levied on the net asset value.

7.3 Deferred tax assets and liabilities

| | 2015 | 2014 |
|---------------------------------|----------------|----------------|
| Opening balance | (7,541) | (3,844) |
| Currency translation difference | (291) | 607 |
| Revaluation and reserves | (631) | 1,152 |
| Result of the year (note 7.1) | 10,181 | (5,456) |
| Closing balance | 1,718 | (7,541) |

Deferred taxes are presented in the balance sheet as follows:

| | 2015 | 2014 |
|--------------------------|--------------|----------------|
| Deferred tax assets | 56,245 | 51,349 |
| Deferred tax liabilities | (54,527) | (58,890) |
| | 1,718 | (7,541) |

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

| 2014 | Opening balance | Impact on results | Impact on equity | Currency translation differences | Closing balance |
|---|-----------------|-------------------|------------------|----------------------------------|-----------------|
| Deferred tax liabilities | | | | | |
| Revaluation of assets | 1,282 | (208) | - | - | 1,074 |
| Deferred income for tax purposes | 37,727 | 6,074 | - | (1,055) | 42,746 |
| Differences on accounting policies in other countries | 12,699 | 49 | - | (354) | 12,394 |
| Other temporary differences | 3,149 | (473) | - | - | 2,676 |
| | 54,857 | 5,442 | - | (1,409) | 58,890 |
| Deferred tax assets | | | | | |
| Excess over legal provisions | 18,246 | 9,498 | - | (587) | 27,157 |
| Revaluation of assets | 4,133 | (312) | - | - | 3,821 |
| Employee benefits | 9,082 | (529) | 549 | - | 9,102 |
| Derivative instruments | 1,105 | (15) | (267) | (11) | 812 |
| Recoverable losses | 576 | (576) | - | - | - |
| Other temporary differences | 17,871 | (8,080) | 870 | (204) | 10,457 |
| | 51,013 | (14) | 1,152 | (802) | 51,349 |
| Net change in deferred tax | (3,844) | (5,456) | 1,152 | 607 | (7,541) |

7.4 Unrecognised deferred taxes on tax losses

The Group did not recognise deferred tax assets related to tax losses in respect of which, with reasonable accuracy, no sufficient taxable profits are expected to guarantee the recovery of deferred tax assets. Total unrecognised tax assets amount to EUR 53,987 thousand (2014: EUR 38,085 thousand), as presented below:

| Expiring date | Tax |
|-----------------|---------------|
| 2016 | 844 |
| 2017 | 2,898 |
| 2018 | 6,003 |
| 2019 | 4,793 |
| 2020 or further | 40,001 |
| Total | 54,538 |

8 Tangible assets

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

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

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

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

Depreciation

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

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

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

8.1 Changes occurred during the year

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

| 2014 | Land and natural resources | Buildings and other constructions | Plants, machinery and tools | Transport equipment and others | Work in progress and advances | Total |
|---|----------------------------|-----------------------------------|-----------------------------|--------------------------------|-------------------------------|------------------|
| Cost | | | | | | |
| Opening balance | 368,831 | 2,258,266 | 1,312,076 | 199,106 | 254,152 | 4,392,431 |
| Foreign exchange differences | (5,618) | (39,343) | (17,768) | (3,276) | (5,794) | (71,799) |
| Increases | 16,809 | 177,207 | 136,832 | 8,922 | 104,609 | 444,379 |
| Disposals and write offs | (486) | (6,396) | (22,467) | (5,165) | (1,734) | (36,248) |
| Transfers and reclassifications | 28,471 | 88,246 | 18,462 | 9,973 | (147,462) | (2,310) |
| Transfers from/to investment property | (29) | - | - | - | - | (29) |
| Closing balance | 407,978 | 2,477,980 | 1,427,135 | 209,560 | 203,771 | 4,726,424 |
| Depreciation and impairment losses | | | | | | |
| Opening balance | - | 754,021 | 823,401 | 162,080 | - | 1,739,502 |
| Foreign exchange differences | - | (11,017) | (7,482) | (2,221) | - | (20,720) |
| Increases | - | 126,793 | 122,199 | 13,725 | - | 262,717 |
| Disposals and write offs | - | (4,625) | (18,729) | (5,069) | - | (28,423) |
| Transfers and reclassifications | - | 34 | 26 | (36) | - | 24 |
| Closing balance | - | 865,206 | 919,415 | 168,479 | - | 1,953,100 |
| Net value | | | | | | |
| As at 1 January 2014 | 368,831 | 1,504,245 | 488,675 | 37,026 | 254,152 | 2,652,929 |
| As at 31 December 2014 | 407,978 | 1,612,774 | 507,720 | 41,081 | 203,771 | 2,773,324 |

There are no financial charges capitalised in tangible fixed assets.

8.2 Guarantees

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

8.3 Tangible assets in progress

Amounts in work in progress are mostly related to the implementation and refurbishment of Stores and Distribution Centres.

9 Intangible assets

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

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

Research and development expenditure

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

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

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

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

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

Other intangible assets

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

Intangible assets with indefinite useful life

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

Amortisations

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

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

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

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

9.1 Changes occurred during the year

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

| 2014 | Goodwill | Develop. expenses | Software, ind. property and other rights | Key money | Work in progress | Total |
|---|----------------|-------------------|--|----------------|------------------|----------------|
| Cost | | | | | | |
| Opening balance | 648,361 | 29,340 | 93,701 | 125,523 | 6,587 | 903,512 |
| Foreign exchange differences | (8,849) | (631) | (2,442) | (2,663) | (148) | (14,733) |
| Increases | - | 1,401 | 14,459 | 6,695 | 3,051 | 25,606 |
| Disposals and write offs | - | (210) | (1,787) | (85) | (12) | (2,094) |
| Transfers and reclassifications | - | 72 | 5,999 | 133 | (3,874) | 2,330 |
| Closing balance | 639,512 | 29,972 | 109,930 | 129,603 | 5,604 | 914,621 |
| Amortisation and impairment losses | | | | | | |
| Opening balance | - | 25,875 | 10,408 | 61,380 | - | 97,663 |
| Foreign exchange differences | - | (591) | (137) | (1,094) | - | (1,822) |
| Increases | - | 1,875 | 2,665 | 9,544 | - | 14,084 |
| Disposals and write offs | - | (210) | (1,221) | (63) | - | (1,494) |
| Transfers and reclassifications | - | - | - | (4) | - | (4) |
| Closing balance | - | 26,949 | 11,715 | 69,763 | - | 108,427 |
| Net value | | | | | | |
| As at 1 January 2014 | 648,361 | 3,465 | 83,293 | 64,143 | 6,587 | 805,849 |
| As at 31 December 2014 | 639,512 | 3,023 | 98,215 | 59,840 | 5,604 | 806,194 |

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

Development expenses mainly relate to IT implementations.

9.2 Guarantees

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

9.3 Intangible assets in progress

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

9.4 Impairment tests for Goodwill and other intangible assets

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

| Business areas | 2015 | 2014 |
|---------------------------------|----------------|----------------|
| Portugal Retail | 246,519 | 246,519 |
| Portugal Cash & Carry | 83,836 | 83,836 |
| Poland Health and Beauty Retail | 9,099 | 9,079 |
| Poland Retail | 300,733 | 300,078 |
| | 640,187 | 639,512 |

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

- the Goodwill related to the business in Poland (Biedronka), totalling PLN 1,282,278 thousand, was updated positively by EUR 655 thousand; and
- the Goodwill related to the Health and Beauty Retail business in Poland (Hebe), totalling PLN 38,796 thousand, was updated positively by EUR 20 thousand.

In 2015, evaluations were made based on the value in use according to Discounted Cash Flows (DCF) evaluation models, thereby sustaining the recoverability of Goodwill value.

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

These estimates were made considering a discount rate between 7% and 8.3% for Portugal (2014: 8% and 9.3%) and between 8.5% and 10.1% for Poland (2014: 10.1% and 10.5%), and a perpetual growth rate between 0% and 1.5% for the various businesses (2014: 0% and 1.5%).

Goodwill associated with the Manufacturing and Services businesses, integrated in the Financial Statements using the equity method, is presented under the heading investments in joint ventures and associates (note 12).

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

10 Investment property

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

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

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

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

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

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

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

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

| | 2015 | 2014 |
|-------------------------------|---------------|---------------|
| Opening balance | 42,947 | 47,471 |
| Increases due to acquisitions | 2 | 14 |
| Transfers | (21,075) | 29 |
| Changes in fair value | (1,487) | (1,185) |
| Disposals | - | (3,382) |
| Closing balance | 20,387 | 42,947 |

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

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

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

In 2015 the amount of income from investment property amounted to EUR 103 thousand (EUR 120 thousand in 2014), and costs were recognised in the amount of EUR 57 thousand (EUR 126 thousand in 2014).

11 Derivative financial instruments

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

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

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

Derivatives held for trading

Although derivatives entered by the Group correspond to effective economic hedges against risks to be hedged, not all of them qualify as hedge instruments for accounting purposes, according to IAS 39 rules. Those that do not qualify as hedge instruments are booked on the balance sheet at fair value and changes to that amount are recognised in the profit and loss.

Hedge accounting

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

- (i) At the starting date of the transaction, the hedge relationship is identified and formally documented, including identification of the item hedged, the hedge instrument, and evaluation of the effectiveness of the hedge;
- (ii) There is the expectation that the hedge relationship will be highly effective on the initial transaction date and throughout the life of the operation;
- (iii) The effectiveness of the hedge may be reliably measured on the initial transaction date and throughout the life of the operation;
- (iv) For cash flow hedge operations, those cash flows must have a high probability of occurring.

Interest rate risk (cash flow hedge)

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

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

recognition of a non-financial asset (for example: inventory), the gains or losses previously deferred in equity are transferred and included in the initial measurement of the asset.

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

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

Interest rate risk (fair value hedge)

For financing operations in foreign currency or fixed interest rate that are not natural hedging of investments in foreign operations, whenever justified, Jerónimo Martins uses fair value hedging operations as instruments to reduce the volatility of those financing operations in the Group Financial Statements.

Hedging instruments that are designated and qualify as fair value hedging are recognised in the balance sheet at their fair value, with changes recognised in the profit and loss. At the same time, changes to the fair value of the hedged instrument, in the component that is being hedged, are recognised in profit and loss. Any ineffectiveness of the hedging operations is recognised in the results.

If the hedge ceases to comply with the criteria required for hedge accounting, the derivative financial instrument is transferred to the negotiation portfolio, and the hedge accounting is prospectively discontinued. If the hedged asset or liability corresponds to a fixed-income instrument, the revaluation adjustment is amortised until maturity using the effective interest rate method.

Foreign exchange risk (net investments in foreign entities hedge)

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

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

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

| | Notional | 2015 | | | | Notional | 2014 | | | |
|--|-----------------|------------|-------------|-------------|-----------------|--------------|---------|--------------|--------------|-------------|
| | | Assets | | Liabilities | | | Assets | | Liabilities | |
| | | Current | Non-current | Current | Non-current | | Current | Non-current | Current | Non-current |
| Cash flow hedging derivatives | | | | | | | | | | |
| Interest rate swap (EUR) | | - | - | - | 225 million EUR | - | - | 1,715 | - | |
| Interest rate swap (PLN) | 212 million PLN | - | 122 | - | 500 million PLN | - | - | - | 2,681 | |
| Foreign operation investments hedging derivatives | | | | | | | | | | |
| Currency forwards (PLN) | 338 million PLN | 128 | - | 93 | 600 million PLN | 2,627 | - | - | - | |
| Total derivatives held for trading | | - | - | - | | - | - | - | - | |
| Total hedging derivatives | | 128 | 122 | 93 | | 2,627 | - | 1,715 | 2,681 | |
| Total assets/liabilities derivatives | | 128 | 122 | 93 | | 2,627 | - | 1,715 | 2,681 | |

At 31 December 2015, the values shown include interest receivable or payable related to these financial instruments that are due. The net payable amount is EUR 1 thousand (2014: EUR 423 thousand).

Financial instruments that matured during the period

In the year 2015 the following interest rate swaps matured:

| | Currency | Loan amount | Hedged amount | Index hedged | Rate review date | Loan and hedge maturity |
|----------|----------|-------------|---------------|------------------|------------------|-------------------------|
| JMR/2015 | EUR | 225,000 | 225,000 | 6-months Euribor | June | December 2015 |
| JMP/2016 | PLN | 500,000 | 500,000 | 3-months Wibor | January | April 2016 |

Cash flow hedge

Interest rate swap

The Group fixes a portion of future interest payments on loans, through entering into interest rate swaps. The hedged risk is the variable interest rate index associated with the loans. The purpose of the hedge is to convert the loans with variable interest rate into fixed interest rate. The credit risk of the borrowing is not hedged. Nevertheless, the evaluation of JMH own credit risk and its incorporation in the fair value of derivative financial instruments recognised on the balance sheet would result in an immaterial impact as of 31 December 2015 and 2014. The Group had interest rate swaps in zlotys.

In summary:

| | Currency | Loan amount | Hedged amount | Index hedged | Rate review date | Loan and hedge maturity |
|-----------|----------|-------------|---------------|----------------|------------------|-------------------------|
| JMNK/2020 | PLN | 423,553 | 211,766 | 3-months Wibor | March | June 2020 |

Hedging of investments in foreign entities

Currency forwards

The Group hedges the economic risk of its exposure to the exchange rate of zloty. To do so the Group entered into currency forwards, with maturities in February 2016.

Impacts on the Financial Statements

| | 2015 | 2014 |
|--|----------------|-----------------|
| Fair value of financial instruments as at 1 January | (1,769) | (18,552) |
| (Receipts) / payments made | 16,755 | 7,347 |
| Change in the fair value of cash flow hedge derivatives (others reserves) | 4,101 | 675 |
| Change in the fair value of cash flow hedge derivatives (foreign exchange differences) | (6) | 28 |
| Change in the fair value of fair value hedge derivatives (loans) | - | 9,104 |
| Change in the fair value of net investment hedging derivatives (currency translation reserves) | (14,645) | 3,663 |
| Interest expenses from financial instruments that qualify as hedge accounting (income statement) | (4,279) | (4,034) |
| Fair value of financial instruments as at 31 December | 157 | (1,769) |

12 Investments in joint ventures and associates

The joint ventures and associates are listed in note 29, and changes in these investments were as follows:

| | Joint ventures | | Associates | | Total | |
|-------------------------------------|----------------|---------------|------------|------------|---------------|---------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Opening balance | 73,537 | 77,639 | 735 | 895 | 74,272 | 78,534 |
| Equity method: | | | | | | |
| Net result | 16,450 | 14,973 | 158 | 208 | 16,608 | 15,181 |
| Dividends and other income received | (14,102) | (19,159) | (204) | (368) | (14,306) | (19,527) |
| Other comprehensive income | (96) | 84 | - | - | (96) | 84 |
| Closing balance | 75,789 | 73,537 | 689 | 735 | 76,478 | 74,272 |

13 Inventories

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

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

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

| | 2015 | 2014 |
|--|----------------|----------------|
| Raw and subsidiary materials and consumables | 3,657 | 2,892 |
| Goods available for sale | 663,095 | 589,948 |
| Work in progress and finished goods | 987 | - |
| | 667,739 | 592,840 |
| Net realisable adjustment | (29,400) | (20,836) |
| Net inventories | 638,339 | 572,004 |

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

14 Trade debtors, accrued income and deferred costs

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

| | 2015 | 2014 |
|--|----------------|----------------|
| Non-current | | |
| Other debtors | 80,849 | 79,131 |
| Collateral deposits associated to financial debt | 34,367 | 19,367 |
| Deferred costs | 3,388 | 3,614 |
| | 118,604 | 102,112 |
| Current | | |
| Commercial customers | 53,501 | 50,868 |
| Other debtors | 87,770 | 97,649 |
| Other taxes receivable | 11,754 | 16,011 |
| Accrued income and deferred costs | 124,250 | 148,935 |
| | 277,275 | 313,463 |

Non-current debtors include EUR 80,473 thousand relating to additional tax liquidation as well as pre-paid tax. The Group has already contested the amounts paid and made a legal claim for reimbursement (note 25).

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

Accrued income includes basically supplementary gains contracted with suppliers, in the amount of EUR 111,581 thousand (2014: EUR 134,790 thousand).

The deferred costs include EUR 7,195 thousand of pre-paid rents, EUR 2,322 thousand of insurance costs and EUR 5,547 thousand of other costs attributable to future years and paid in 2015, or, if not yet paid, already charged by the entities.

Other debtors include an amount of EUR 18,186 thousand (2014: EUR 18,052 thousand), of guarantees mostly to landlords of stores.

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

| | 2015 | 2014 |
|---|---------------|---------------|
| Debtors balances not considered impaired | | |
| Less than 3 months past due | 28,411 | 28,084 |
| More than 3 months past due | 17,258 | 15,399 |
| | 45,669 | 43,483 |
| Debtors balances considered impaired | | |
| Less than 3 months past due | 549 | 19 |
| More than 3 months past due | 17,035 | 16,356 |
| | 17,584 | 16,375 |

Of the debtors balances not considered impaired, EUR 6,595 thousand (2014: EUR 6,496 thousand) are covered by credit guarantees and credit insurance.

Movements on the Group provision for impairment of trade receivables are as follows:

| | 2015 | 2014 |
|----------------------------------|---------------|---------------|
| Balance as at 1 January | 24,122 | 20,982 |
| Set up, reinforced and transfers | 5,143 | 5,311 |
| Unused and reversed | (4,506) | (1,470) |
| Foreign exchange difference | 31 | (202) |
| Used | (927) | (499) |
| Balance as at 31 December | 23,863 | 24,122 |

15 Cash and cash equivalents

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

| | 2015 | 2014 |
|---------------------------|----------------|----------------|
| Bank deposits | 129,946 | 171,790 |
| Short-term investments | 306,932 | 255,043 |
| Cash and cash equivalents | 4,810 | 3,827 |
| | 441,688 | 430,660 |

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

Short-term investments correspond to time deposits in financial institutions that, as at December 31, 2015 had a rating between BBB- and A+.

16 Cash generated from operations

| | 2015 | 2014 |
|---|----------------|----------------|
| Net results | 333,342 | 301,711 |
| Adjustments for: | | |
| Non-controlling interests | 24,866 | 23,367 |
| Income tax | 116,587 | 103,729 |
| Depreciations and amortisations | 294,484 | 276,746 |
| Provisions and other operational gains and losses | 10,882 | 12,314 |
| Net financial costs | 26,497 | 34,327 |
| Profit in joint ventures and associates | (16,608) | (15,181) |
| Profit/losses on other investments | 1,423 | 1,122 |
| Profit/losses on tangible and intangible assets | 6,636 | 2,653 |
| | 798,109 | 740,788 |
| Changes in working capital: | | |
| Inventories | (77,220) | (10,170) |
| Debtors, accruals and deferrals | (3,936) | (1,365) |
| Creditors, accruals and deferrals | 282,832 | 144,927 |
| | 999,785 | 874,180 |

17 Capital and reserves

Share capital

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

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

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

Payable dividends

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

17.1 Share capital and share premium

Authorised share capital is represented by 629,293,220 ordinary shares (2014: 629,293,220).

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

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

17.2 Own shares

At 31 December 2015, the Group held 859,000 own shares, acquired in 1999 at an average price of 7.06 euros per share. There were no transactions in 2015.

17.3 Dividends

Dividends distributed in 2015 totalling EUR 406,441 thousand, were paid to JMH shareholders in the amount of EUR 389,629 thousand, and to non-controlling interests in the Group Companies in the amount of EUR 16,812 thousand.

17.4 Other reserves and retained earnings

The individual annual report of Jerónimo Martins, SGPS, S.A. duly states all conditions related to the use of reserves to be distributed comprised in Company equity. We therefore recommend reading this information.

18 Earnings per share

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

18.1 Basic and diluted earnings per share

| | 2015 | 2014 |
|---|--------------------|--------------------|
| Ordinary shares issued at the beginning of the year | 629,293,220 | 629,293,220 |
| Own shares at the beginning of the year | (859,000) | (859,000) |
| Shares issued during the year | - | - |
| Weighted average number of ordinary shares | 628,434,220 | 628,434,220 |
| | 2015 | 2014 |
| Diluted net results of the year attributable to shareholders that own ordinary shares | 333,342 | 301,711 |
| Diluted weighted average ordinary shares | 628,434,220 | 628,434,220 |
| Basic and diluted earnings per share - euros | 0.5304 | 0.4801 |

19 Borrowings

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

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

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

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

In 2015 several commercial paper programmes held by JMH and JMR-Gestão de Empresas de Retalho, SGPS, S.A. (JMR SGPS) have been renegotiated with improvement of the financial conditions. Also renewed was a commercial paper programme held by JMH and Recheio, SGPS, S.A. (Recheio SGPS) until August 2020.

JMR SGPS reimbursed the bond JMR'12 in the amount of EUR 225.000 thousand in December and issued a new bond of EUR 150.000 thousand maturing in December 2017.

Jeronimo Martins Polska (JM DP) negotiated a new credit facility in a total amount of PLN 300.000 thousand for one year, renewable until 2020.

Jeronimo Martins Polska early redeemed four loans that would end in 2016 and 2017, in a total amount of PLN 650.000 thousand.

JM Nieruchomosci - Sp. Komandytowo-akcyjna contracted a loan on a total amount of PLN 435.000 thousand with maturity in 2020.

Jeronimo Martins Colombia renewed its credit lines with extension of the maturity and negotiation of the financial conditions. Two short term loans were contracted in the amount of COP 55,300,000 thousand, with variable interest rate.

For the Portuguese Companies, the Group uses grouped credit lines, which means that the maximum amount approved by a financial entity can be used simultaneously by more than one company. The amount of credit lines which are not being used, amount to EUR 140,000 thousand (2014: EUR 172,000 thousand).

19.1 Current and non-current loans

| | 2015 | 2014 |
|-----------------------------|----------------|----------------|
| Non-current loans | | |
| Bank loans | 384,291 | 373,651 |
| Bond loans | 150,000 | - |
| Financial lease liabilities | 131 | 226 |
| | 534,422 | 373,877 |
| Current loans | | |
| Bank overdrafts | 8,831 | 58,327 |
| Bank loans | 114,491 | 56,544 |
| Bond loans | - | 225,000 |
| Financial lease liabilities | 188 | 1,054 |
| | 123,510 | 340,925 |

19.2 Loan terms and maturities

| 2015 | Average rate | Total | Less than 1 year | Between 1 and 5 years | More than 5 years |
|-----------------------------|--------------|----------------|------------------|-----------------------|-------------------|
| Bank loans | | | | | |
| Commercial paper in EUR | 2.31% | 155,000 | 55,000 | 100,000 | - |
| Loans in PLN | 2.75% | 263,503 | 5,369 | 258,134 | - |
| Loans in COP | 6.68% | 80,279 | 54,122 | 15,250 | 10,907 |
| Bond Loans | | | | | |
| Loans | 3.45% | 150,000 | - | 150,000 | - |
| Bank overdrafts | 3.02% | 8,831 | 8,831 | - | - |
| Financial lease liabilities | 3.23% | 319 | 188 | 131 | - |
| | | 657,932 | 123,510 | 523,515 | 10,907 |
| 2014 | Average rate | Total | Less than 1 year | Between 1 and 5 years | More than 5 years |
| Bank loans | | | | | |
| Loans in PLN | 3.36% | 351,025 | - | 351,025 | - |
| Loans in COP | 6.55% | 79,170 | 56,544 | 22,626 | - |
| Bond Loans | | | | | |
| Loans | 3.57% | 225,000 | 225,000 | - | - |
| Bank overdrafts | 3.00% | 58,327 | 58,327 | - | - |
| Financial lease liabilities | 2.62% | 1,280 | 1,054 | 226 | - |
| | | 714,802 | 340,925 | 373,877 | - |

19.3 Bond loans

| | 2015 | 2014 |
|-----------------------|---------|---------|
| Non-convertible bonds | 150,000 | 225,000 |

In December 2012, JMR issued a bond loan in the amount of EUR 225,000 thousand. It was redeemed on 11 December 2015.

A new bond was issued, amounting to EUR 150,000 thousand, to be redeemed in December 2017. The interest rate is variable, and is indexed to the 6-month Euribor, being reviewed when the interest payment occurs, every six months, in December and June.

19.4 Financial debt

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

| | 2015 | 2014 |
|--|----------------|----------------|
| Non-current loans (note 19.1) | 534,422 | 373,877 |
| Current loans (note 19.1) | 123,510 | 340,925 |
| Derivative financial instruments (note 11) | (157) | 1,769 |
| Interest accruals and deferrals | 473 | 2,622 |
| Bank deposits (note 15) | (129,946) | (171,790) |
| Short-term investments (note 15) | (306,932) | (255,043) |
| Collateral deposits (note 14) | (34,367) | (19,367) |
| | 187,003 | 272,993 |

20 Provisions

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

Restructuring provision

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

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

Legal claims provision

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

| | 2015 | 2014 |
|----------------------------------|---------------|---------------|
| Balance as at 1 January | 81,828 | 77,949 |
| Set up, reinforced and transfers | 8,872 | 11,088 |
| Unused and reversed | (3,495) | (6,368) |
| Foreign exchange difference | (14) | (44) |
| Used | (3,244) | (797) |
| Balance as at 31 December | 83,947 | 81,828 |

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

21 Trade creditors, accrued costs and deferred income

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

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

| | 2015 | 2014 |
|-----------------------------------|------------------|------------------|
| Non-current | | |
| Other commercial creditors | 1 | - |
| Accrued costs and deferred income | 812 | 836 |
| | 813 | 836 |
| Current | | |
| Other commercial creditors | 2,359,812 | 2,182,406 |
| Other non-commercial creditors | 182,184 | 175,726 |
| Other taxes payables | 76,024 | 79,456 |
| Accrued costs and deferred income | 253,697 | 178,416 |
| | 2,871,717 | 2,616,004 |

The accrued costs include salaries and wages to be paid to the employees, in the amount of EUR 109,677 thousand, interest payable in the amount of EUR 30,139 thousand and supplementary costs with the distribution and promotion of goods in the amount of EUR 17,545 thousand. The remaining EUR 87,184 thousand relates to sundry costs (utilities, insurance, consultants, rents, among others) for 2015, which had not been invoiced by the respective entities prior to the end of the year.

Deferred income comprises basically supplementary gains in the amount of EUR 5,869 thousand, which are attributable to future years and received in 2015.

22 Guarantees

The bank guarantees are as follows:

| | 2015 | 2014 |
|---|----------------|----------------|
| Guarantees provided to suppliers | 17,900 | 2,749 |
| Guarantees for Portuguese tax authorities | 138,467 | 138,411 |
| Financing bank guarantees | 31,873 | 16,473 |
| Other State guarantees | 6,487 | 7,086 |
| Other guarantees provided | 3,551 | 20,220 |
| Total of guarantees | 198,278 | 184,939 |

23 Operational lease

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

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

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

| | 2015 | 2014 |
|--------------------------------|------------------|------------------|
| Payments in less than 1 year | 321,101 | 295,059 |
| Payments between 1 and 5 years | 1,161,894 | 1,078,234 |
| Payments in more than 5 years | 1,879,775 | 1,550,304 |
| | 3,362,770 | 2,923,597 |

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

As mentioned all these contracts are breakable, the majority of them with the payment of penalties. The liabilities relating to these penalties correspond mainly to the remaining rents until the end of the contract, which at the end of 2015, were of EUR 2,884,724 thousand (2014: EUR 2,291,866 thousand).

The operational lease contracts recognised as costs amounting to EUR 330,516 thousand (2014: EUR 305,623 thousand), are analysed as follows:

| | 2015 | 2014 |
|---------------------|----------------|----------------|
| Buildings | 299,639 | 276,877 |
| Plants & machinery | 10,599 | 9,650 |
| Transport equipment | 15,596 | 14,771 |
| IT equipment | 626 | 720 |
| Others | 4,056 | 3,605 |
| | 330,516 | 305,623 |

The difference to the rents stated in note 4 are costs with occasional renting in the amount of EUR 140 thousand (2014: EUR 327 thousand) deducted from rents that were allocated to the cost of goods sold in the amount of EUR 695 thousand (2014: EUR 473 thousand).

24 Capital commitments

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

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

25 Contingencies

- Under non-current debtors (note 14), an amount of EUR 79,722 thousand relates to tax liquidations claimed by the Tax Administration.

The Board of Directors, supported by its tax and legal advisers, believes the Company has acted entirely within the law and maintains the administrative and judicial claims filed against such settlements, without waiving its legitimate right to appeal against them and expect their full recovery.

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

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

- There are several disputes arising out of the ordinary course of the Group's businesses, and the most significant issues mentioned below are also pending resolution. With respect to these issues the Board of

Directors, supported by the opinion of its tax and legal advisors, assesses the outcome of each proceedings, and for those where the Board estimates that a future cash outflow may occur a provision has been made in the respective amount:

- a) The Portuguese Tax Authorities claim from Recheio, SGPS, S.A. (Recheio SGPS) the amount of EUR 2,503 thousand concerning an additional assessment of Value Added Tax (VAT). The Tax Authorities challenged the VAT deduction method adopted by Recheio SGPS. Meanwhile, the Lisbon Tax Court ruled in favour of Recheio SGPS, amounting to EUR 1,753 thousand. Consequently the amount in dispute is now EUR 750 thousand, which reinforces the Board of Directors judgment that they are entirely right on this matter;
- b) The Portuguese Tax Authorities have informed Recheio SGPS that it should restate the dividends received, amounting to EUR 81,952 thousand, from its subsidiary in the Madeira Free Zone in the years 2000 to 2003, considering them as interest for tax purposes. According to the Portuguese Tax Authorities the said income should be subject to Corporate Income Tax (CIT) as opposed to dividends received that are exempt. The Portuguese Tax Authorities have issued additional assessments, amounting to EUR 20,888 thousand, of which EUR 19,581 thousand is still in dispute. In spite of a judicial claim that was ruled in favour of the Portuguese tax authorities, the Board of Directors maintains its convictions and claimed against them judicially;
- c) The Portuguese Tax Authorities carried out some corrections to the CIT amount from Companies included in the perimeter of the Tax group headed by JMR – Gestão de Empresas de Retalho, SGPS, S.A. (JMR SGPS), which led to additional assessments concerning 2002 to 2012, amounting to EUR 64,074 thousand. In the meantime, the Lisbon Tax Court has ruled partially in favour of JMR regarding the 2002 and 2005 assessments. The Board of Directors firmly believes in its arguments;
- d) The Portuguese Tax Authorities assessed Feira Nova – Hipermecados, S.A. (Feira Nova) and Pingo Doce – Distribuição Alimentar, S.A. (Pingo Doce) with regard 2002 to 2004, the amount of EUR 4,845 thousand. These additional assessments relate to the amount booked by these Companies as shrinkage (loss of inventory through crime or wastage) which was not accepted as a tax deductible cost for CIT purposes, and also the associated VAT since there was no evidence that the goods were not sold. Meanwhile, the Lisbon Tax Court ruled in favour of Feira Nova regarding all VAT assessments, amounting to about EUR 2,813 thousand. The remaining judicial claims are still under discussion in Court. The Board of Directors believes that their outcome should be the same;
- e) The Portuguese Tax Authorities have informed Jerónimo Martins, SGPS, S.A. (Jerónimo Martins), to restate the dividends received, amounting to EUR 10,568 thousand, from its subsidiary in the Madeira Free Zone in 2004 and 2005, considering them as interest for tax purposes. According to the Portuguese Tax Authorities the said income should be subject to CIT as opposed to the dividends received that are exempt. Regarding this correction the tax amount in dispute is EUR 3,065 thousand. The Board of Directors consider that the report issued by the Tax Authorities does not have any legal basis or validity, and will challenge it;
- f) The Portuguese Tax Authorities carried out some corrections of VAT rates applied to certain goods sold by some Group Companies. With these corrections the total amount of assessments for the years 2005 to 2012 in Pingo Doce, Feira Nova and Recheio amounted to EUR 1,814 thousand, EUR 1,300 thousand and EUR 551 thousand, respectively. The Board of Directors believes that the Tax Authorities have no grounds to request this payment and these assessments have been challenged;
- g) The Portuguese Tax Authorities carried out some corrections to the CIT from Companies included in the perimeter of the Tax Group headed by Recheio SGPS. With these corrections the total assessments concerning 2007 to 2012, amount to EUR 12,544 thousand. We believe that the Tax Authorities have no grounds to request this payment and these assessments have been challenged. The Lisbon Tax Court has already ruled in favour of Recheio SGPS regarding the 2008 assessment. However Tax Authorities have appealed the said decision;
- h) The Portuguese Tax Authorities have informed Jerónimo Martins that they do not accept losses on capital gains associated with a liquidation of one Company and the sale of another, amounting to EUR 24,660 thousand, which generated a correction on the Company's tax losses regarding 2007. Considering that the Tax Authorities have no grounds to request this payment, these assessments have been challenged;
- i) Sociedade Ponto Verde (SPV) claimed through a judicial proceeding against Pingo Doce, in September 2014, an amount of EUR 3,397 thousand (including outstanding interest), related to the Management of the secondary and tertiary packaging waste system. Pingo Doce contested considering that SPV does not manage that kind of waste and therefore no amount is due. The procedure stands by in the Civil Court;
- j) The Food and Veterinary Department (Direcção-Geral de Alimentação e Veterinária) claimed from Pingo Doce, Recheio and Hussen an amount of EUR 8,654 thousand, EUR 568 thousand and EUR 19 thousand, respectively, in respect of the Food Safety Tax (Taxa de Segurança Alimentar Mais – TSAM) assessed for the years 2012 to 2015. The values at stake have been challenged in Court, since it understands that this tax is not due, namely on the grounds of the unconstitutional nature of the Statute that approved the TSAM.

26 Related parties

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

26.1 Balances and transactions with related parties

56.14% of the Group is owned by Sociedade Francisco Manuel dos Santos, B.V. and no direct transactions occurred between the Company and any other Company of the Group in 2015, neither were there any amounts payable or receivable between them on December 31st 2015.

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

| | Sales and services rendered | | Stocks purchased and services supplied | |
|--------------------------|-----------------------------|------|--|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Joint ventures (note 29) | 47 | 645 | 97,907 | 89,360 |
| Associates (note 29) | - | - | - | 9 |
| Other related parties(*) | 89 | 97 | 257 | 216 |

| | Trade debtors, accrued income and deferred costs | | Trade creditors, accrued costs and deferred income | |
|--------------------------|--|------|--|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Joint ventures (note 29) | 232 | 640 | 5,556 | 5,774 |
| Associates (note 29) | - | - | - | - |
| Other related parties(*) | 54 | 17 | 9 | - |

(*) – Entities controlled by the major Shareholder of Jerónimo Martins and entities owned or controlled by members of the Board of Directors.

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

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

The amounts receivable are not covered by insurance and no guarantees are given or received, as the Group holds a relevant influence over these Companies.

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

26.2 Remuneration paid to Directors and Senior Managers

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

| | 2015 | 2014 |
|---|---------------|---------------|
| Salaries and other short-term employee benefits | 16,647 | 13,997 |
| Termination benefits | - | 313 |
| Post-employment benefits | 379 | 353 |
| Other benefits | 1,391 | 1,006 |
| Total | 18,417 | 15,669 |

The Board of Directors of the Company consisted of 11 Members at the end of 2015. The average number of Senior Managers of the Group was 76 (2014: 73).

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

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

The amounts presented reflect 100% of costs with salaries and wages of the Directors and the Senior Managers.

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

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

27 Group subsidiaries

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

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

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

In June 2015 the Companies Supertur - Imobiliária, Comércio e Turismo, S.A., Casal de São Pedro - Administração de Bens, S.A., Comespa - Gestão de Espaços Comerciais, S.A. and Cunha & Branco - Distribuição Alimentar, S.A. were merged in Imoretalho - Gestão de Imóveis, S.A..

In August 2015 the Company Servicompra, SGPS, Lda. was merged in Tagus - Retail & Services Investments B.V..

These mergers have not produced any impacts on the Group Financial Statements.

28 Financial information on subsidiaries with material non-controlling interests

The non-controlling interests as at 31 December 2015 were EUR 251,526 thousand (2014: EUR 242,875 thousand), of which EUR 250,833 thousand (2014: EUR 242,165 thousand) related to JMR Group (Portugal Retail), where Royal Ahold Group holds a stake c. 49%.

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

| | 2015 | 2014 |
|-----------------------------------|----------------|----------------|
| Non-current assets | 1,371,117 | 1,337,014 |
| Current assets | 328,493 | 319,076 |
| Non-current liabilities | (241,853) | (89,332) |
| Current liabilities | (944,632) | (1,069,280) |
| Net assets | 513,125 | 497,478 |
| Revenue | 3,729,140 | 3,552,073 |
| Net profit | 48,369 | 45,325 |
| Other comprehensive income | 1,216 | 875 |
| Total comprehensive income | 49,585 | 46,200 |

29 Interests in joint ventures and associates

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

| Company | Business area | Head Office | % Owned |
|---|---|-------------|---------|
| Unilever Jerónimo Martins, Lda. | Wholesale of consumer goods | Lisbon | 45.00 |
| Fima Olá - Produtos Alimentares, S.A. | Production of margarines and similar products | Lisbon | 45.00 |
| Victor Guedes - Indústria e Comércio, S.A. | Production of olive oil | Lisbon | 45.00 |
| Gallo Worldwide, Lda. | Wholesale of olive oil and similar products | Lisbon | 45.00 |
| Perfumes e Cosméticos Puig Portugal Distribuidora, S.A. | Retail sale of perfumes and cosmetics | Lisbon | 27.55 |

In January 2015 the Company Olá - Produção de Gelados e Outros Produtos Alimentares, S.A. was merged in Fima - Produtos Alimentares, S.A., changing its designation to Fima Olá - Produtos Alimentares, S.A., without any impacts on the Group Financial Statements.

The Group owns (directly and indirectly) interests in the following joint ventures:

- 45% shareholding in Unilever Jerónimo Martins, which controls a Group of Companies dedicated to manufacturing and selling products in the area of edible fats and ice-creams and to distributing and selling drinks, Personal Care and Home Care products, using owned Private Brands and brands owned by the Unilever Group;
- 45% shareholding in Gallo Worldwide, which is dedicated to distributing olive oil and cooking oils, using owned Private Brands and brands of the Unilever Group.

The Group holds a direct interest in the following associated Company:

- A shareholding of 27.545% in Perfumes e Cosméticos Puig Portugal - Distribuidora, S.A.. Its business area is the retail sale of perfumes and cosmetic products.

Despite the low materiality of the Financial Statements of joint ventures and associates for the Group's Accounts, we present summarized financial information relating to them:

| | Joint ventures | | Associates | |
|-----------------------------------|----------------|----------------|--------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Non-current assets | 279,408 | 283,265 | 324 | 309 |
| Current assets | 168,845 | 162,933 | 5,887 | 5,733 |
| Non-current liabilities | (11,440) | (10,040) | - | - |
| Current liabilities | (268,394) | (272,743) | (3,709) | (3,372) |
| Net assets | 168,419 | 163,415 | 2,502 | 2,670 |
| Revenue | 548,178 | 527,640 | 12,065 | 12,032 |
| Net result | 36,556 | 33,273 | 574 | 756 |
| Other comprehensive income | (213) | 186 | - | - |
| Total comprehensive income | 36,343 | 33,459 | 574 | 756 |

The information above reflects the amounts presented in the Financial Statements of the joint ventures and associates adjusted to the accounting policies adopted by the Group, and consolidation adjustments.

The table below presents a reconciliation of the financial position of joint ventures and associates with the value presented in the Financial Statements of the Group:

| | Joint ventures | | Associates | |
|--|----------------|----------------|--------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net assets as at 1 January | 163,415 | 172,531 | 2,670 | 3,250 |
| Profit/(loss) for the period | 36,556 | 33,273 | 574 | 756 |
| Dividends and other income distributed in the year | (31,339) | (42,575) | (742) | (1,336) |
| Other comprehensive income | (213) | 186 | - | - |
| Net assets as at 31 December | 168,419 | 163,415 | 2,502 | 2,670 |
| Interest in joint-ventures/associates(%) | 45% | 45% | 27.5% | 27.5% |
| Carrying value (Note 12) | 75,789 | 73,537 | 689 | 735 |

30 Financial risks

Jerónimo Martins is exposed to several financial risks, namely: market risk (which includes exchange rate risk, interest rate risk and price risk), liquidity risk and credit risk. The management of these risks is focused on the unpredictable nature of the financial markets and aims to minimise their adverse effects on the Group's financial performance.

Certain types of exposure are managed using financial derivative instruments.

The activity in this area is carried out by the Financial Operations Department, under the supervision of the Chief Financial Officer, and is responsible for identifying, assessing and hedging financial risks by following the guidelines set out in the Financial Risk Management Policy that was approved by the Board of Directors in 2012.

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

30.1 Market risk

30.1.1 Foreign exchange risk

The main source of exposure to foreign exchange risk comes from Jerónimo Martins' operations in Poland. Although not significant today, there is also a currency risk that comes from the investment in Colombia.

At 31 December 2015, a depreciation of the zloty against the euro of around 10% would have a negative impact on the net investment of EUR 86.989 thousand (2014: EUR 75,208 thousand). Jerónimo Martins vulnerability to this risk did not increase during 2015 given the natural hedge of the exposure, through financing in zloty, resulting from the increase of the net investment in Poland.

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

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

The Group's exposure to foreign exchange risk in financial instruments recognised on and off balance sheet as at 31 December 2015 was as follows:

| As at 31 December 2015 | Euro | Zloty | Dollar | Colombian peso | Total |
|--|--------------------|--------------------|---------------|-----------------------|--------------------|
| Assets | | | | | |
| Cash and cash equivalents | 119,507 | 316,547 | - | 5,634 | 441,688 |
| Available-for-sale financial investments | 1,758 | - | - | - | 1,758 |
| Trade debtors and deferred costs | 117,807 | 170,366 | - | 39 | 288,212 |
| Derivative financial instruments | 122 | 128 | - | - | 250 |
| Total financial assets | 239,194 | 487,041 | - | 5,673 | 731,908 |
| Liabilities | | | | | |
| Borrowings | 312,038 | 265,616 | - | 80,278 | 657,932 |
| Derivative financial instruments | - | 93 | - | - | 93 |
| Trade creditors, accrued costs and deferred income | 933,836 | 1,708,551 | - | 40,278 | 2,682,665 |
| Total financial liabilities | 1,245,874 | 1,974,260 | - | 120,556 | 3,340,690 |
| Net financial position in the balance sheet | (1,006,680) | (1,487,219) | - | (114,883) | (2,608,782) |
| As at 31 December 2014 | | | | | |
| Total financial assets | 309,149 | 425,171 | - | 3,942 | 738,262 |
| Total financial liabilities | 1,048,806 | 2,023,052 | - | 108,847 | 3,180,705 |
| Net financial position in the balance sheet | (739,657) | (1,597,881) | - | (104,905) | (2,442,443) |

30.1.2 Price risk

With the investment in Banco Comercial Português (BCP), the Group is exposed to the risk of share price fluctuation. At 31 December 2015, a negative 10% variation in the trading price of BCP shares would have a negative effect of EUR 27 thousand (2014: EUR 37 thousand) in the Net Results.

30.1.3 Interest rate risk (cash flow and fair value)

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

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

The sensitivity analysis is based on the following assumptions:

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

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

Based on the simulations performed on 31 December 2015, and ignoring the effect of interest rate derivatives, a rise of 50 basis points in interest rates, with everything else remaining constant, would have a negative impact of EUR 936 thousand (2014: EUR 1,400 thousand). These simulations are carried out at least once a quarter, but are reviewed whenever there are relevant changes, such as debt issuance, debt repayment or restructuring, significant variations in reference rates and in the slope of the interest rate curve.

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

30.2 Credit risk

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

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

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

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

The following table shows a summary of the credit quality on bank deposits and short-term investments and derivative financial instruments with positive fair value, as at 31 December 2015 and 2014:

| Financial institutions | | 2015 | 2014 |
|------------------------|---------------|----------------|----------------|
| Rating company | Rating | Balance | Balance |
| Standard & Poor's | [A+ : AA] | 224 | 3,812 |
| Standard & Poor's | [BBB+ : A] | 121,914 | 115,493 |
| Standard & Poor's | [BB+ : BBB] | 149,305 | 143,391 |
| Standard & Poor's | [B+ : BB] | 35,454 | 89,680 |
| Moody's | Caa1 | 1,251 | - |
| Fitch's | [A- : A+] | 59,375 | 62,796 |
| Fitch's | [BBB- : BBB+] | 69,251 | 406 |
| Fitch's | [BB- : BB+] | - | 11,508 |
| Fitch's | [B- : B+] | 117 | - |
| | Not Available | 237 | 2,374 |
| Total | | 437,128 | 429,460 |

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

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

| Credit quality of the financial assets | | |
|---|----------------|----------------|
| | 2015 | 2014 |
| New customer balances (less than six months) | 1,262 | 1,753 |
| Balances of customers without a history of non-payment | 50,357 | 46,216 |
| Balances of customers with a history of non-payment | 14,262 | 14,404 |
| Balances of other debtors with the provision of guarantees | 3,921 | 2,905 |
| Balances of other debtors without the provision of guarantees | 91,650 | 103,874 |
| | 161,452 | 169,152 |

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

| Concentration of the credit risk from the financial assets | | | | |
|---|---------------|----------------|---------------|----------------|
| | 2015 | | 2014 | |
| | No. | Balance | No. | Balance |
| Customers with a balance above 1,000,000 euros | 7 | 16,252 | 6 | 15,191 |
| Customers with a balance between 250,000 and 1,000,000 euros | 22 | 8,611 | 20 | 8,156 |
| Customers with a balance below 250,000 euros | 8,678 | 40,797 | 7,830 | 36,355 |
| Other debtors with a balance above 250,000 euros | 45 | 50,184 | 46 | 64,117 |
| Other debtors with a balance below 250,000 euros | 4,056 | 45,608 | 2,766 | 45,333 |
| | 12,808 | 161,452 | 10,668 | 169,152 |

The maximum exposure to credit risk as at 31 December 2015 and 2014 is the financial assets carrying value.

30.3 Liquidity risk

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

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

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

| Exposure to liquidity risk | | | |
|-----------------------------------|-------------------------|---------------------|------------------|
| 2015 | Less than 1 year | 1 to 5 years | + 5 years |
| Borrowings | | | |
| Financial leasing | 193 | 137 | - |
| Bond loans | 650 | 155,644 | - |
| Commercial paper | 55,658 | 100,000 | - |
| Other loans | 81,130 | 292,734 | - |
| Creditors | 2,541,996 | - | - |
| Operational lease liabilities | 321,101 | 1,161,894 | 1,879,775 |
| Total | 3,000,728 | 1,710,409 | 1,879,775 |
| 2014 | | | |
| Borrowings | | | |
| Financial leasing | 1,077 | 238 | - |
| Bond loans | 230,993 | - | - |
| Commercial paper | 157 | - | - |
| Other loans | 128,747 | 387,609 | - |
| Derivative financial instruments | 3,618 | 1,145 | - |
| Creditors | 2,358,132 | - | - |
| Operational lease liabilities | 295,059 | 1,078,234 | 1,550,304 |
| Total | 3,017,783 | 1,467,226 | 1,550,304 |

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

These covenants include:

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

In some cases, the breach of these covenants may trigger the early redemption of the associated debt. At the end of December 2015 the Group was in full compliance with the covenants assumed on the debt loans in place.

30.4 Capital risk management

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

Balance of the capital structure is monitored based on the financial leverage ratio (Gearing), calculated according to the following formula: Net Debt / Shareholder Funds. The Board established a target for the Gearing ratio below 70%, consistent with an investment grade rating.

The Gearing ratios as at 31 December 2015 and 2014 were as follows:

| | 2015 | 2014 |
|----------------------|--------------|--------------|
| Capital invested | 1,780,222 | 1,911,684 |
| Net debt | 187,003 | 272,993 |
| Shareholder 's funds | 1,593,219 | 1,638,691 |
| Gearing | 11.7% | 16.7% |

31 Additional information required by law

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

- a) In addition to all operations described in the notes above, as well as in the Management's Report, there are no other operations considered relevant that are not already contained either in the balance sheet or its annex;
- b) The total remuneration paid to the External Auditor and Statutory Auditor in 2015 was EUR 875 thousand, of which EUR 831 thousand correspond to statutory audit of the accounts, while the remaining EUR 44 thousand, thousands, reference is made to those concerning access to a tax database, audit reliability services under applicable laws in the countries where the Group operates, support services in the field of human resources and certification of the carbon footprint calculation;
- c) Note 26 of the Notes to the Consolidated Financial Statements includes all the related parties disclosures, in accordance with the International Accounting Standards.

32 Events after the balance sheet date

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

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

Lisbon, 1 March 2016

The Certified Accountant

The Board of Directors

Statement of the Board of Directors

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

- i) the information contained in the management report, the annual accounts, the Auditors' Report and all other accounting documentation required by law or regulation, was produced in compliance with the applicable accounting standards and gives a true and fair view of the assets and liabilities, the financial position and the results of Jerónimo Martins, SGPS, S.A. and the companies included in the consolidation perimeter.
- ii) the Management report is a faithful statement of the evolution of the businesses, of the performance and of the position of Jerónimo Martins, SGPS, S.A. and the companies included within the consolidation perimeter, and contains a description of the main risks and uncertainties which they face.

Lisbon, 1 March 2016

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

Alan Johnson
(Member of the Board of Directors)

Andrzej Szlezak
(Member of the Board of Directors)

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

Artur Stefan Kirsten
(Member of the Board of Directors)

Clara Christina Streit
(Member of the Board of Directors)

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

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

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

Nicolaas Pronk
(Member of the Board of Directors)

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



Audit Report for Statutory and Stock Exchange Regulatory Purposes on the Consolidated Financial Information

(Free translation from the original in Portuguese)

Introduction

1 As required by law, we present the Audit Report for Statutory and Stock Exchange Regulatory Purposes on the financial information included in the consolidated Directors' Report and in the attached consolidated financial statements of Jerónimo Martins, SGPS, S.A., comprising the consolidated balance sheet as at December 31, 2015 (which shows total assets of Euro 5,332,715 thousand and total shareholder's equity of Euro 1,593,219 thousand including non-controlling interests of Euro 251,526 thousand and a net profit of Euro 333,342 thousand), the consolidated income statement by functions, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated cash flows statement for the year then ended, and the corresponding notes to the accounts.

Responsibilities

2 It is the responsibility of the Company's Board of Directors (i) to prepare the consolidated Directors' Report and the consolidated financial statements which present fairly, in all material respects, the financial position of the Company and its subsidiaries, the consolidated results and the consolidated comprehensive income of their operations, the changes in consolidated equity and the consolidated cash flows; (ii) to prepare historic financial information in accordance with International Financial Reporting Standards as adopted by the European Union and which is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain appropriate systems of internal control; and (v) to disclose any significant matters which have influenced the activity, financial position or results of the Company and its subsidiaries.

3 Our responsibility is to verify the financial information included in the financial statements referred to above, namely as to whether it is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of issuing an independent and professional report based on our audit.

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Accordingly, our audit included: (i) verification that the Company and its subsidiaries' financial statements have been appropriately examined and, for the cases where such an audit was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the reasonableness of the estimates,

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Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

based on the judgements and criteria of the Board of Directors used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations and the utilization of the equity method; (iii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) assessing the overall presentation of the consolidated financial statements; and (vi) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the consolidated financial information.

5 Our audit also covered the verification that the information included in the consolidated Directors' Report is consistent with the financial statements as well as the verification set forth in paragraphs 4 and 5 of Article 451^o of the Companies Code.

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of Jerónimo Martins, SGPS, S.A. as at December 31, 2015, the consolidated results and the consolidated comprehensive income of its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and the information included is complete, true, up-to-date, clear, objective and lawful.

Report on other legal requirements

8 It is also our opinion that the information included in the consolidated Directors' Report is consistent with the consolidated financial statements for the year and that the Corporate Governance Report includes the information required under Article 245^o-A of the Portuguese Securities Market Code.

March 4, 2016

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda
Registered in the Comissão do Mercado de Valores Mobiliários with no. 20161485
represented by:

José Pereira Alves, R.O.C.

(This is a translation, not to be signed)

Report and Opinion of the Audit Committee

Dear Shareholders,

In accordance with sub-paragraph g) of paragraph 1 of article 423-F of the Commercial Companies Code, we herewith present our report on our supervisory activity and our opinion on the Jerónimo Martins, SGPS, S.A. report and consolidated accounts for the year ending December 31st, 2015, as well as on the proposals presented by the Board of Directors.

Supervisory activity

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

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

The Committee also monitored the compliance with the Financial Risk Management Policy, and the revision of the Group's Global Risk Management Policy, with the co-operation of the Managing Committee, the Financial Operations Department, the Group Risk Management Department and the External Auditor, and verified that the actions taken by the Company were adequate to comply with the policies issued by the Board of Directors.

It closely monitored the work carried out by the Internal Audit Department, by following its annual activity plan, the conclusions of the reports on the work carried out, as well as the actions that the Company implemented as a result of the recommendations issued by this department and also those contained in the reports issued by the External Auditor. The Committee reviewed and approved the internal audit plan for 2016 as well as the necessary resources allocation.

The suitability and effectiveness of the internal control systems were verified, with the co-operation and work of the Internal Control Committee, the Internal Audit Department and the External Auditor.

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

It met regularly with the External Auditor and those responsible for preparing the Report and Consolidated Accounts and the accounts of the Group's main companies from whom it obtained sufficient and necessary information to gauge the accuracy of

the accounting documents, accounting policies and valuation criteria adopted by the Company, thereby ensuring that these are a correct representation of the results and the equity of the Company.

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

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

The Audit Committee also verified that all non-audit services provided, during the year 2015, by the firm of External Auditors to the Group's subsidiaries, were carried out by their employees who took no part in the audits, and that these services, due to their type and the amounts involved, in no way jeopardise the independence of the work carried out by the External Auditor nor do they affect the opinion of the Statutory Auditor.

With the publication on September 7th, 2015, of the Law no. 140/2015, which approved the new Legal Regimen of Portuguese Statutory Auditors, it was performed an analysis namely on the mandatory rotation of the Statutory Auditor and on the extension of forbidden services.

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

Opinion

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

- i) The Consolidated Management Report should be approved;
- ii) The Consolidated Financial Statements should be approved; and
- iii) The Board of Directors' results appropriation proposal should be approved.

Statement of Responsibility

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

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

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

Lisbon, 4 March 2016

Hans Eggerstedt
(Chairman of the Audit Committee)

António Pedro Viana-Baptista
(Member)

Sérgio Tavares Rebelo
(Member)