

Message from the Chairman

2015 was a year of dual celebration at the Jerónimo Martins Group, with Biedronka and Pingo Doce marking important milestones in their history: their 20th and 35th anniversaries, respectively.

Throughout the decades of activity of each of these banners, they have been increasing their weight within the Group's business, representing more than 90% of Jerónimo Martins' consolidated sales at the end of 2015.

After 2014 being a year that put European food deflation and intense promotions at the centre of our challenges, we began 2015 better prepared, with sales performance and increased market shares as the main priorities for all the banners.

At the start of the year, it was clear to us that we would have to be capable of doing more and better, especially at Biedronka, where the key challenge is to continuously reinforce the Company's focus on the customer, particularly in urban areas. During the year, the teams worked on reviewing the assortment and reinforcing innovation in categories identified as being increasingly important, whilst simultaneously making a stronger integrated approach to address the challenges and opportunities.

With the economy growing, the unemployment rate dropping, salaries increasing and very strong competitive dynamics in the food retail sector, Polish households saw an improvement in their disposable income, which was confirmed by the increase in private consumption.

We have always stated that we keep identifying growth potential in the Polish market, mainly through an increase in the value of the shopping basket, and so Biedronka will continue to be our main investment priority.

Overall, the work carried out regarding an overall improvement to the offer and the selective opening of new locations (80 new stores, 48 of which in cities with over 100 thousand inhabitants), meant that the heightened deflation in Poland, which almost doubled from -0.9% to -1.7% in 2015, did not prevent Biedronka from performing above the market. Total sales increased by 9.2% and on a like-for-like store network basis, the increase was 3.2%.

In Portugal, food inflation stood at 1%, reflecting the increase in the price of non-processed food. The environment in 2015 remained tough, with consumers continuing to be very rational in their purchasing and strongly taking advantage of the best savings opportunities presented by food retailers.

In line with previous years, Pingo Doce continued to invest in intense promotional activity, whilst at the same time reinforcing its investment in improving its customers' shopping experience through an ambitious store refurbishing programme and an improvement in service levels. On this particular, the re-opening of the Telheiras store in Lisbon was an important and inspirational milestone for Pingo Doce and the Group.

Consumers reacted positively to the Company's efforts and there was an accelerated like-for-like sales growth in 2015, reaching 4.6% (excluding fuel) which, combined with the 19 store openings in the chain, led total sales to increase by 5.4%.

I believe this to be a notable performance at all levels, especially taking into account the fact that there has not yet been a consistent improvement in the financial situation of Portuguese households.

The improvement seen in the HoReCa channel, linked to Recheio's strong position and leading role, led to a solid 4.1% increase in the Company's sales in absolute terms and 3.5% when considering the like-for-like. It is hoped that the food service business will continue to be a source of growth for Recheio, which is also continuing to invest in protecting its traditional retail customer base through the Amanhecer chain.

With regard to the new businesses, Hebe inaugurated 15 stores during the year and had sales in excess of 100 million euros. In 2015, the Company's priority was to better adapt its overall offer and to reinforce its differentiating features.

In Colombia, in line with the defined strategy, Ara opened its second Distribution Centre to support the operation in a new region - the Caribbean Coast - where, at the end of the year, we already had 41 stores. In total, Ara ended the year with 122.5 million euros of sales and 142 stores.

The business in Colombia has been a very stimulating learning experience, as the diversity that exists between the various regions of the country is reflected in quite different consumption patterns, which means that we have to be capable of making our model flexible and streamlined in order to ensure that we are of increasing relevance to the consumers we want to serve, regardless of the part of the country in which they live.

As a Group, we increasingly view Colombia as a base that will support the future growth we want to build in the region and so as we further our knowledge of its people, its potential and opportunities, we reinforce our commitment to the country, as well as of our confidence in its institutions.

In the first nine months of the year, the development of our businesses and the strengthening of our competitive positions in all the markets in which we operate enabled us to recognise that the objectives set for the year would be achieved. At the same time, we had excess cash compared to our forecast.

As such, and as that capital was not required to carry out the defined investment plan, at its meeting on 4th November the Board of Directors decided to propose a Shareholders' Meeting be held to vote on the distribution of free reserves in the amount of around 235 million euros, which was approved by 99.9% of the Shareholders, with the payment being made at the end of the year.

In a year in which we clearly set a growth in sales and in market shares as our common priorities, total sales rose 8.3% to 13,728 million euros, supported by a like-for-like growth in all the banners and also by the selective expansion efforts (which absorbed around 224 million euros of investment, i.e. a little more the half of the total for the year).

2015 was also the year in which all the teams worked on defining the mid to long-term strategic and operating plans, setting clear goals until 2020.

On the closure of the 2015 accounts Jerónimo Martins posted an increase in EBITDA of 9% compared to 2014, to approximately 800 million euros, which reflects the solid combination of the good consolidated sales performance and the discipline and rigour applied to cost management in Portugal and in Poland.

The EBITDA margin was 5.8%, in line with the previous year, after considering the deflation which deteriorated in Poland and the investments carried out by the Companies to reinforce their competitiveness and to create promotional opportunities that are material to the consumers.

Consequently, net profit attributable to Jerónimo Martins increased by 10.5% to 333.3 million euros.

The cash flow generated at a Group level increased from 267 million euros in 2014 to 482 million euros in 2015, whilst the solidity of the balance sheet led to a reduction in gearing from 16.7% to 11.7%, even after the payment of free reserves.

In view of these results, which demonstrate the healthy combination of operational excellence and the solidity of the Group's balance sheet, and as we do not foresee any short-term extraordinary business investment needs, the Board of Directors will once again propose to the Shareholders an additional payment of 166.5 million euros by means of dividends, which is the equivalent of a gross remuneration of 0.265 euros per share. This proposal will not in any way affect the robustness of Jerónimo Martins' capitalisation, whose free reserves will be 83 million euros after paying the proposed dividend.

We believe that as the strength of the balance sheet and the ability to carry through the defined investment plans and seize any non-organic growth opportunities are safeguarded, it is good management practice to return to the Shareholders the money that the company does not need to ensure its profitable and sustainable growth, so that they may invest it as they deem fit.

In these first three months of 2016, in which Biedronka and Pingo Doce welcomed their new General Managers and Ara is celebrating its third anniversary, I should like to personally and on behalf of the management team, thank the investors for the trust we have felt throughout the demanding times in 2015. I should also like to leave a word of our determination and commitment to making 2016 another valuable and significant story.

Pedro Soares dos Santos
1st March, 2016