CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements

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CONSOLIDATED INCOME STATEMENT BY FUNCTIONS
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

Euro thousand

		2017	2016	4th Quarter 2017	4th Quarter 2016
Sales and services rendered	3	16,276,150	14,621,738	4,350,003	3,883,514
Cost of sales	4	(12,817,884)	(11,508,992)	(3,418,896)	(3,045,356)
Gross profit		**3,458,266**	**3,112,746**	**931,107**	**838,158**
Distribution costs	4	(2,605,993)	(2,307,621)	(694,678)	(614,834)
Administrative costs	4	(261,139)	(237,555)	(72,989)	(63,105)
Other operating profits/losses	4	(13,940)	(31,994)	(2,654)	(12,102)
Operating profit		**577,194**	**535,576**	**160,786**	**148,117**
Net financial costs	6	(12,166)	(17,356)	(3,221)	(4,964)
Gains in joint ventures and associates	7	(13)	10,271	(10)	(1)
Gains on disposal of business		-	220,678	-	(3,318)
Gains/ losses in other investments		(198)	(4,974)	(200)	(1,392)
Profit before taxes		**564,817**	**744,195**	**157,355**	**138,442**
Income tax	8	(152,236)	(129,969)	(51,008)	(44,392)
Profit before non-controlling interests		**412,581**	**614,226**	**106,347**	**94,050**
Attributable to:					
Non-controlling interests		27,225	21,008	6,250	2,414
Jerónimo Martins Shareholders		**385,356**	**593,218**	**100,097**	**91,636**
Basic and diluted earnings per share - Euros	19	0.6132	0.9440	0.1593	0.1458

To be read with the attached notes to the consolidated financial statements. The amounts presented for quarters are not audited.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

Euro thousand

		2017	2016	4th Quarter 2017	4th Quarter 2016
Net profit		**412,581**	**614,226**	**106,347**	**94,050**
Other comprehensive income:					
Remeasurements of post-employment benefit obligations	5.2	(1,385)	(643)	(1,385)	(643)
Related tax	8.3	312	145	312	145
Items that will not be reclassified to profit or loss		**(1,073)**	**(498)**	**(1,073)**	**(498)**
Currency translation differences		62,154	(32,267)	28,218	(20,591)
Change in fair value of cash flow hedges		527	(411)	26	(186)
Change in fair value of hedging instruments on foreign operations		(16,550)	(390)	(2,602)	942
Change in fair value of available-for-sale financial assets		-	297	-	-
Related tax		(375)	298	(128)	133
Items that may be reclassified to profit or loss		**45,756**	**(32,473)**	**25,514**	**(19,702)**
Other comprehensive income, net of income tax		**44,683**	**(32,971)**	**24,441**	**(20,200)**
Total comprehensive income		**457,264**	**581,255**	**130,788**	**73,850**
Attributable to:					
Non-controlling interests		27,177	21,007	6,202	2,413
Jerónimo Martins Shareholders		430,087	560,248	124,586	71,437
Total comprehensive income		**457,264**	**581,255**	**130,788**	**73,850**

To be read with the attached notes to the consolidated financial statements. The amounts presented for quarters are not audited.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017 AND 31 DECEMBER 2016

Euro thousand

	Notes	2017	2016
Assets			
Tangible assets	9	3,474,835	3,023,360
Intangible assets	10	811,040	786,983
Investment property	11	13,714	13,952
Investments in joint ventures and associates	13	1,557	-
Available-for-sale financial assets		1,417	1,000
Trade debtors, accrued income and deferred costs	15	111,383	112,836
Derivative financial instruments	12	227	-
Deferred tax assets	8.3	106,025	69,756
Total non-current assets		**4,520,198**	**4,007,887**
Inventories	14	841,565	718,618
Biological assets		5,498	1,181
Income tax receivable		5,094	2,037
Trade debtors, accrued income and deferred costs	15	387,833	311,130
Derivative financial instruments	12	294	1,277
Cash and cash equivalents	16	681,333	643,512
Total current assets		**1,921,617**	**1,677,755**
Total assets		**6,441,815**	**5,685,642**
Shareholders' equity and liabilities			
Share capital		629,293	629,293
Share premium		22,452	22,452
Own shares		(6,060)	(6,060)
Other reserves		(51,109)	(96,865)
Retained earnings	18	1,193,319	1,189,191
		1,787,895	**1,738,011**
Non-controlling interests		**225,298**	**252,500**
Total Shareholders' equity		**2,013,193**	**1,990,511**
Borrowings	20	237,762	114,829
Trade creditors, accrued costs and deferred income	22	779	793
Derivative financial instruments	12	-	293
Employee benefits	5.2	66,482	61,823
Provisions for risks and contingencies	21	29,308	21,582
Deferred tax liabilities	8.3	71,579	59,742
Total non-current liabilities		**405,910**	**259,062**
Borrowings	20	299,505	224,581
Trade creditors, accrued costs and deferred income	22	3,662,293	3,166,527
Derivative financial instruments	12	2,805	317
Income tax payable		58,109	44,644
Total current liabilities		**4,022,712**	**3,436,069**
Total Shareholders' equity and liabilities		**6,441,815**	**5,685,642**

To be read with the attached notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

Euro thousand

	Shareholders' equity attributable to Shareholders of Jerónimo Martins, SGPS, S.A.								Non-controlling interests	Shareholders' equity
				Other reserves						
	Share capital	Share premium	Own shares	Cash flow hedge	Available-for-sale financial assets	Currency translation reserves	Retained earnings	Total		
Balance Sheet as at 1 January 2016	629,293	22,452	(6,060)	99	(230)	(64,261)	760,400	1,341,693	251,526	1,593,219
Equity changes in 2016										
Currency translation differences				(3)		(31,977)		(31,980)		(31,980)
Change in fair value of cash flow hedging				(333)				(333)		(333)
Change in fair value of hedging instruments on foreign operations						(390)		(390)		(390)
Change in fair value of available-for-sale financial investments					230			230		230
Remeasurements of post-employment benefit obligations							(497)	(497)	(1)	(498)
Other comprehensive income	-	-	-	(336)	230	(32,367)	(497)	(32,970)	(1)	(32,971)
Net profit							593,218	593,218	21,008	614,226
Total comprehensive income	-	-	-	(336)	230	(32,367)	592,721	560,248	21,007	581,255
Dividends							(166,535)	(166,535)	(17,428)	(183,963)
Acquisitions/Disposal of non-controlling interests							2,605	2,605	(2,605)	-
Balance Sheet as at 31 December 2016	629,293	22,452	(6,060)	(237)	-	(96,628)	1,189,191	1,738,011	252,500	1,990,511
Equity changes in 2017										
Currency translation differences				(6)		61,885		61,879		61,879
Change in fair value of cash flow hedging				427				427		427
Change in fair value of hedging instruments on foreign operations						(16,550)		(16,550)		(16,550)
Remeasurements of post-employment benefit obligations							(1,025)	(1,025)	(48)	(1,073)
Other comprehensive income	-	-	-	421	-	45,335	(1,025)	44,731	(48)	44,683
Net profit							385,356	385,356	27,225	412,581
Total comprehensive income	-	-	-	421	-	45,335	384,331	430,087	27,177	457,264
Dividends (note 18.3)							(380,203)	(380,203)	(54,379)	(434,582)
Balance Sheet as at 31 December 2017	629,293	22,452	(6,060)	184	-	(51,293)	1,193,319	1,787,895	225,298	2,013,193

To be read with the attached notes to the consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

Euro thousand

	Notes	2017	2016
Operating Activities			
Cash received from customers		18,346,499	16,487,933
Cash paid to suppliers		(15,980,545)	(14,351,132)
Cash paid to employees		(1,277,994)	(1,100,375)
Cash generated from operations	17	**1,087,960**	**1,036,426**
Interest paid		(18,456)	(15,756)
Income taxes paid		(160,050)	(177,388)
Cash flow from operating activities		**909,454**	**843,282**
Investment activities			
Disposals of tangible fixed assets		1,723	2,704
Disposals of intangible assets		-	1
Disposals of available-for-sale financial assets and investment property		187	2,887
Disposals of businesses, net of cash sold	7	-	302,135
Interest received		3,488	1,915
Dividends received		79	2,774
Acquisition of tangible fixed assets		(648,619)	(432,319)
Acquisition of intangible assets		(13,067)	(5,825)
Acquisition of financial investments and investment property		(602)	(358)
Acquisition of joint ventures and associates		(1,570)	-
Cash flow from investment activities		**(658,381)**	**(126,086)**
Financing activities			
Net change in loans	20	205,908	(320,078)
Dividends paid	18.3	(434,582)	(183,963)
Cash flow from financing activities		**(228,674)**	**(504,041)**
Net changes in cash and cash equivalents		**22,399**	**213,155**
Cash and cash equivalents changes			
Cash and cash equivalents at the beginning of the year		643,512	441,688
Net changes in cash and cash equivalents		22,399	213,155
Effect of currency translation differences		15,422	(11,331)
Cash and cash equivalents at the end of December	16	**681,333**	**643,512**

To be read with the attached notes to the consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT FOR THE INTERIM PERIOD

Euro thousand

	2017	2016	4th Quarter 2017	4th Quarter 2016
Cash Flow from operating activities	909,454	843,282	360,223	306,888
Cash Flow from investment activities	(658,381)	(126,086)	(192,876)	(143,967)
Cash Flow from financing activities	(228,674)	(504,041)	(4,274)	10,099
Cash and cash equivalents changes	22,399	213,155	163,073	173,020

The amounts presented for quarters are not audited.

1 Activity

Jerónimo Martins, SGPS, S.A. (JMH), is the parent Company of Jerónimo Martins (Group), which includes the Companies detailed in notes 28 and 30. The activities of the Group and its performance during the year 2017 are detailed in Chapter II of this Annual Report.

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

Share Capital: 629,293,220 euros

Registered at the Commercial Registry Office and Tax Number: 500100144

JMH has been listed on the Euronext Lisbon since 1989.

The Board of Directors approved these Consolidated Financial Statements on 27 February 2018.

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 JMH were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as at 31 December 2017.

The JMH 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 (market 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 The 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 2017 and 2018, the EU issued the following Regulations, which were adopted by the Group from 1 January 2017:

EU Regulation	IASB Standard or IFRIC Interpretation endorsed by EU	Issued in	Mandatory for financial years beginning on or after
Regulation no. 1989/2017	IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (amendment)	January 2016	1 January 2017
Regulation no. 1990/2017	IAS 7 Statement of Cash Flows: Disclosure Initiative (amendment)	January 2016	1 January 2017
Regulation no. 182/2018	Annual Improvements to IFRS's 2014–2016 Cycle: IFRS 12 Disclosure of Interests in Other Entities (amendment)	December 2016	1 January 2017

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 1 January 2017 and not early adopted

The EU endorsed, between January 2016 and February 2018, several new standards and amendments, issued by the International Accounting Standards Board (IASB), to be applied in subsequent periods:

EU Regulation	IASB Standard or IFRIC Interpretation endorsed by EU	Issued in	Mandatory for financial years beginning on or after
Regulation no. 1905/2016	IFRS 15 Revenue from Contracts with Customers (new)	May 2014	1 January 2018
Regulation no. 2067/2016	IFRS 9 Financial Instruments (new)	July 2014	1 January 2018
Regulation no. 1986/2017	IFRS 16 Leases (new)	January 2016	1 January 2019
Regulation no. 1987/2017	IFRS 15 Revenue from Contracts with Customers: Clarifications (amendment)	April 2016	1 January 2018
Regulation no. 1988/2017	IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (amendment)	September 2016	1 January 2018
Regulation no. 182/2018	Annual Improvements to IFRS's 2014–2016 Cycle: IFRS 1 First-Time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures (amendment)	December 2016	1 January 2018

These new standards and amendments are effective for annual periods beginning on or after January 1, 2018, and have not been applied in preparing these Consolidated Financial Statements. None of these standards are expected to have a significant impact on the Group's Consolidated Financial Statements, except on the new standard IFRS 16 Leases, as detailed below.

IFRS 15 Revenue from Contracts with Customers

The new standard IFRS 15 Revenue from Contracts with Customers (IFRS15) establishes a five-step model for the recognition of revenue resulting from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The adoption of the standard is mandatory for years beginning on or after 1 January 2018 and its adoption should follow the full retrospective method or modified retrospective method.

The Group adopted this new standard on 1 January 2018, using the modified retrospective method, with the cumulative effect of the adoption of this standard recognized in the Group's Retained earnings at that date.

During 2017, the Group analyzed the impacts of its adoption, expecting no significant impact in the Consolidated Financial Statements, but instead an increase in disclosures associated with "Sales and services rendered".

In preparing to adopt IFRS 15, the Group considered the following relevant aspects:

i) Sale of goods

In most of Groups' sales of goods, there is only one performance obligation, resulting in the immediate recognition of revenue with the delivery of the goods to the customer.

When there are promotional campaigns that offers, to the customers, performance obligations to be satisfied in future moment, the Group defer the portion of revenue related to the future obligation, and revenue is recognized in profit or loss only when that future obligation is satisfied or expires.

The Group also implemented loyalty programs using customer cards. According to IFRIC 13 Customer Loyalty Programmes, the Group estimates, for sales made using the customer card, the fair value of the benefits attributed to customers, and the revenue is deferred until the moment the benefit is satisfied or expires.

Some sales to customers include commercial discounts based on quantity purchased. Currently, the Group recognizes the revenue from the sale of goods net of the estimated commercial discount expected to be achieved by the customer for the entire year.

The application of IFRS 15 will not have a significant impact on how the Group currently recognizes the revenue from sales of goods to customers.

ii) Rights of return

With the application of IFRS 15, in the sales to customers should be estimated the goods that could be returned by customers, being recognized: a) a responsibility of return, represented by the obligation to deliver to the customer the amount related to the goods returned; and b) a return asset - with adjustment of cost of sales - for the right to receive the goods returned by the customer.

The returns of assets whose responsibility is assumed directly by the Group, does not have the materiality that can impact significantly the Consolidated Financial Statements of the Group.

iii) Warranty obligations

In the sale of goods, the Group provides the warranties arising from the Law, together with the suppliers, and do not sells extensions of warranties that should be recognized as a separate performance obligation.

Also regarding this aspect, the adoption of IFRS 15 will not have any significant impact on the Group's Consolidated Financial Statements.

iv) The Group as principal or agent

The Group operates in some stores outside the major urban areas through Commercial Mandate contracts celebrated with third parties, with the Group acting as principal, recognizing to that extent the full revenue from sales of these stores.

The application of IFRS 15 will not change the Group's designation as principal, so it will continue to recognize the sales revenue from this group of stores.

IFRS 9 Financial Instruments

The new standard IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement, is mainly focused on the following aspects: i) Classification and measurement; ii) Impairment; and iii) Hedge accounting.

The Group adopted this new standard on 1 January 2018, date when its adoption became mandatory, without restatement of comparative information being required.

During 2017, the Group analyzed the impact of adopting this new standard, and anticipates no significant impact on the Group's Consolidated Financial Statements.

i) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity as result of applying the classification and measurement requirements of IFRS 9.

ii) Impairment

IFRS 9 requires the Group to record expected credit losses on trade receivables, based on an expected losses model (either on a 12-month expected losses or lifetime basis expected losses), replacing the incurred losses model under IAS 39. The Group will apply the simplified approach to trade receivables, recognizing the estimated losses for the entire life of the receivables.

Group's current accounting policy already provides for the recognition of a general impairment charge on trade receivables, considering the uncollectable history of each business.

In addition, considering that most of the Group's sales are made on a cash basis, the Group does not anticipate any material impact on its Consolidated Financial Statements by applying this new impairment recognition model.

iii) Hedge accounting

The Group determined that all hedging relationships that are currently designated will continue to qualify as hedge accounting with the adoption of IFRS 9.

As the standard does not change the general principles of recognition of effective hedges, the application of the hedging requirements of IFRS 9 will not have any significant impact on the Group's Consolidated Financial Statements.

IFRS 16 Leases

The new standard 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.

The Management is assessing 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 incorporation of the assets which are currently under operating leases and their respective responsibilities.

Despite not responding to the criteria established for the capitalization of operating leases as foreseen in the new IFRS 16, the information in note 24, enables the possibility to realize the impacts of its application.

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

IASB issued in 2014, 2016 and 2017 the following standards, amendments and interpretations 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 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 2 Share-based Payment: Classification and Measurement of Transactions (amendment)	June 2016	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration (new)	December 2016	1 January 2018
IAS 40 Investment Property: Transfers (amendment)	December 2016	1 January 2018
IFRS 17 Insurance Contracts (new)	May 2017	1 January 2021
IFRIC 23 Uncertainty over Income Tax Treatments (new)	June 2017	1 January 2019
IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (amendment)	October 2017	1 January 2019
IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures (amendment)	October 2017	1 January 2019
Annual Improvements to IFRS's 2015–2017 Cycle: IFRS 3 Business Combinations; IFRS 11 Joint Arrangements; IAS 12 Income Taxes and IAS 23 Borrowing Costs (amendment)	December 2017	1 January 2019

[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, as well as IASB, decided to defer indefinitely the endorsement of these changes.

The Management is currently evaluating the impact of adopting these new standards, amendments and interpretations to standards already in place, and so far does not expect a significant impact on the Group's Consolidated Financial Statements.

2.1.4 Change of accounting policies

In addition to the above, the Group has not changed its accounting policies during 2017, nor were identified errors regarding previous years, which compel the restatement of Financial Statements.

2.2. Basis for consolidation

Reference dates

The Consolidated Financial Statements include, as at 31 December 2017, 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 28 and 30, 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 instruments 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 12).

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 the functional currency (euro) 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)	Polish Zloty (PLN)	Swiss Franc (CHF)	Colombian Peso (COP)
Rate at 31 December 2017	4.1770	1.1702	3,546.3400
Average rate for the year	4.2539	-	3,352.1100
Rate at 31 December 2016	4.4103	1.0739	3,128.3800
Average rate for the year	4.3627	-	3,355.5700

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: i. financial assets at fair value through profit or loss; ii. loans and receivables; iii. 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 11), inventories (note 14) and deferred tax assets (note 8.3), 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.

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, until they are sold.

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. Financial difficulties of the debtor;
III. 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 bps, according to current projections of the business areas the Goodwill would still be recoverable and there would be no risk of impairment (see note 10.4).

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 (see note 12).

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 p.p., the impact in Group accounts would be the following:

	Impact on Group accounts	
	Income statement	Other comprehensive income
Portugal	1,651	138
Poland	(551)	235

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:

Portugal

- Narrow range [1.10% - 1.50%]
- Extended range [0.90% - 1.70%]

Based on these results and following the recommendation of the external actuaries, the Group has decided to reduce its discount rate from 1.40% to 1.30%.

Poland

- Narrow range [3.00% - 3.30%]
- Extended range [2.80% - 3.50%]

Based on these results and following the recommendation of the external actuaries, the Group has decided to increase its discount rate from 2.90% to 3.10%.

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

			Impact on defined benefit obligations		
	Assumption used		Change in assumption	Increase in assumption	Decrease in assumption
	PT	PL			
Discount rate	1.30%	3.10%	0.50%	(2,454)	2,617
Salary growth rate	3.00%	6% / 4%	0.50%	1,748	(1,661)
Pension growth rate	3.00%		0.50%	827	(773)
Life expectancy	TV 88/90	GUS 2015	1 ano	1,350	(1,291)

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 had on Perfumes e Cosméticos Puig Portugal Distribuidora, S.A., and determined that it had significant influence, even though the shareholding was 27.55%, due to the Board of Directors representation and contractual terms. Consequently, this investment was classified as an associate until the date it was sold, on 30 September 2016.

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 employees of another company 100% owned by 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 held 45% of the voting rights of its joint arrangement in Unilever Jerónimo Martins, Lda. and Gallo Worldwide, Lda.. The Group had joint control over this arrangement as under the contractual agreements unanimous consent is required from all parties to the agreements for all relevant decisions and activities. The joint arrangements were structured as limited companies and provided the Group and the parties to the agreements with rights to the net assets of the limited company under the arrangements. Therefore, these arrangements were classified as joint ventures until the date they were sold on 30 September 2016.

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 (level 1). 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, fair value financial instruments held for sale and biological assets 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 (level 2). 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 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, available-for-sale financial 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.

2017	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Investment property	13,714	-	-	13,714
Biological assets				
Consumable biological assets	3,738	-	3,738	-
Bearer biological assets	1,760	-	1,760	-
Derivative financial instruments				
Derivatives held for trading	294	-	294	-
Derivatives used for hedging	227	-	227	-
Total assets	**19,733**	**-**	**6,019**	**13,714**
Liabilities measured at fair value				
Derivative financial instruments				
Derivatives held for trading	269	-	269	-
Derivatives used for hedging	2,536	-	2,536	-
Total liabilities	**2,805**	**-**	**2,805**	**-**

2016	Total	Level 1	Level 2	Level 3
Assets measured at fair value				
Investment property	13,952	-	-	13,952
Available-for-sale financial assets				
Equity investments	80	80	-	-
Biological assets				
Consumable biological assets	1,181	-	1,181	-
Derivative financial instruments				
Derivatives used for hedging	1,277	-	1,277	-
Total assets	**16,490**	**80**	**2,458**	**13,952**
Liabilities measured at fair value				
Derivative financial instruments				
Derivatives used for hedging	610	-	610	-
Total liabilities	**610**	**-**	**610**	**-**

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
2017								
Assets								
Cash and cash equivalents	-	-	681,333	-	-	**681,333**	-	**681,333**
Available-for-sale financial assets	-	-	-	1,417	-	**1,417**	-	**1,417**
Debtors, accruals and deferrals	-	-	395,744	-	-	**395,744**	103,472	**499,216**
Derivative financial instruments	294	227	-	-	-	**521**	-	**521**
Other non-financial assets	-	-	-	-	-	**-**	5,259,328	**5,259,328**
Total assets	**294**	**227**	**1,077,077**	**1,417**	**-**	**1,079,015**	**5,362,800**	**6,441,815**
Liabilities								
Borrowings	-	-	-	-	537,267	**537,267**	-	**537,267**
Derivative financial instruments	269	2,536	-	-	-	**2,805**	-	**2,805**
Creditors, accruals and deferrals	-	-	-	-	3,409,641	**3,409,641**	253,431	**3,663,072**
Other non-financial liabilities	-	-	-	-	-	**-**	225,478	**225,478**
Total liabilities	**269**	**2,536**	**-**	**-**	**3,946,908**	**3,949,713**	**478,909**	**4,428,622**
2016								
Assets								
Cash and cash equivalents	-	-	643,512	-	-	643,512	-	643,512
Available-for-sale financial assets	-	-	-	1,000	-	1,000	-	1,000
Debtors, accruals and deferrals	-	-	322,025	-	-	322,025	101,941	423,966
Derivative financial instruments	-	1,277	-	-	-	1,277	-	1,277
Other non-financial assets	-	-	-	-	-	-	4,615,887	4,615,887
Total assets	-	1,277	965,537	1,000	-	967,814	4,717,828	5,685,642
Liabilities								
Borrowings	-	-	-	-	339,410	339,410	-	339,410
Derivative financial instruments	-	610	-	-	-	610	-	610
Creditors, accruals and deferrals	-	-	-	-	2,945,327	2,945,327	221,993	3,167,320
Other non-financial liabilities	-	-	-	-	-	-	187,791	187,791
Total liabilities	-	610	-	-	3,284,737	3,285,347	409,784	3,695,131

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 other operating profits/losses (see note 4.1).

Transactions between segments are performed under normal market conditions, as described in note 27.1, following the same accounting policies adopted by the Group when dealing with transactions with unrelated parties.

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.

The identified operating 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 which operates under Biedronka banner;
- Others, eliminations and adjustments: includes i. business units with reduced materiality (Coffee Shops Chocolate Stores and Agribusiness 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 operating segments as at December 2017 and 2016

	Portugal Retail		Portugal Cash & Carry		Poland Retail		Others, eliminations and adjustments		Total JM Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales and services	4,060,684	3,914,632	945,166	880,826	11,074,700	9,781,348	195,600	44,932	16,276,150	14,621,738
Inter-segments	385,852	351,085	4,853	3,906	1,449	1,487	(392,154)	(356,478)	-	-
External customers	3,674,832	3,563,547	940,313	876,920	11,073,251	9,779,861	587,754	401,410	16,276,150	14,621,738
Operational cash flow (EBITDA)	188,465	191,626	50,309	47,140	804,961	707,421	(121,735)	(84,368)	922,000	861,819
Depreciations and amortisations	(97,530)	(95,095)	(13,695)	(12,908)	(194,100)	(169,922)	(25,541)	(16,324)	(330,866)	(294,249)
Operational result (EBIT)	90,935	96,531	36,614	34,232	610,861	537,499	(147,276)	(100,692)	591,134	567,570
Other operating profits/losses									(13,940)	(31,994)
Financial results and gains in investments									(12,377)	208,619
Income tax									(152,236)	(129,969)
Net result attributable to JM									385,356	593,218
Total assets	1,789,365	1,733,533	399,904	351,026	3,743,785	3,063,023	508,761	538,060	6,441,815	5,685,642
Total liabilities	1,335,184	1,226,101	389,210	305,006	2,762,900	2,210,170	(58,672)	(46,146)	4,428,622	3,695,131
Investments in fixed assets	101,780	136,839	28,453	30,420	353,850	232,895	238,199	82,292	722,282	482,446

Reconciliation between EBIT and operating profit

	2017	2016
EBIT	591,134	567,570
Other operating profits/losses	(13,940)	(31,994)
Operational result	**577,194**	**535,576**

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 operating segments.

	Portugal Retail		Portugal Cash & Carry		Poland Retail		Others, eliminations and adjustments		Total JM Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Cash and cash equivalents	71,587	43,950	23,096	16,449	460,053	268,119	126,597	314,994	681,333	643,512
Available-for-sale financial assets	279	219	1,133	696	-	-	5	85	1,417	1,000
Debtors, accruals and deferrals	89,927	90,943	47,429	43,428	283,718	215,376	(25,330)	(27,722)	395,744	322,025
Derivative financial instruments	-	-	-	-	227	-	294	1,277	521	1,277
Total	**161,793**	135,112	**71,658**	60,573	**743,998**	483,495	**101,566**	288,634	**1,079,015**	967,814

Information by geography

In the table below are presented sales and services rendered and non-current assets by geography:

	Sales and services		Non-current assets (1)	
	2017	2016	**2017**	2016
Portugal	4,629,877	4,482,173	1,609,587	1,536,124
Poland	11,240,890	9,903,843	2,410,932	2,137,212
Colombia	405,383	235,722	279,070	150,959
Total	**16,276,150**	**14,621,738**	**4,299,589**	**3,824,295**

(1) Includes Tangible assets, Intangible assets and Investment property

4 Operating costs by nature

Operating costs by nature

Operating costs by nature include:

- costs of goods sold less vendor allowances based on volume purchased and promotional allowances obtained for commercial activity and in store advertisement. Includes also materials consumed in the production of goods by the companies;
- distribution costs, related with retail main activity in store, logistics and warehousing;
- administrative costs, corresponding to supporting central offices activities;
- other operating losses and gains.

Other operating profits/losses

Other operating profits/losses, that due to their nature or 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 losses and gains are excluded from the operational performance indicators adopted by Management.

	2017	**2016**
Cost of goods sold and materials consumed	12,798,905	11,491,109
Changes in inventories of finished goods and work in progress	(4,430)	(930)
Net cash discount and interest paid to suppliers	(23,621)	(24,240)
Electronic payment commissions	28,962	24,543
Other supplementary costs	3,078	5,274
Supplies and services	594,822	546,416
Advertising costs	114,748	88,300
Rents	359,515	331,922
Staff costs	1,306,131	1,153,063
Depreciations and amortisations	330,910	294,327
Profit/loss with tangible and intangible assets	10,028	15,133
Transportation costs	169,046	150,824
Other natures of profit/loss	10,862	10,421
Total	**15,698,956**	**14,086,162**

4.1 Other operating profits/losses

Operating costs by nature include the following other operating losses and gains considered material, which are excluded from the Group's performance indicators, to assure a better comparability between financial periods:

	2017	2016
Legal contingencies	-	(77)
Losses from organizational restructuring programmes	(7,442)	(5,763)
Assets write-offs and gains/losses in sale of tangible assets	(3,836)	(9,041)
Changes to benefit plans and actuarial assumptions	338	(15,362)
Donations of educational sponsorship	(3,000)	(1,000)
Others	-	(751)
Total	**(13,940)**	**(31,994)**

5 Employees

5.1 Staff costs

	2017	2016
Wages and salaries	1,002,167	893,853
Social security	208,443	172,576
Employee benefits (note 5.2)	7,998	23,289
Other staff costs	87,523	63,345
Total	**1,306,131**	**1,153,063**

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

The average number of Group employees during the year was 98,729 (2016: 91,943).

The number of employees at the end of the year was 104,203 (2016: 96,233).

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 guaranties 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.

In 2016 the defined benefit component of the seniority awards program was extended to Polish subsidiaries, and the amount of provisions for employee benefits - seniority awards was increased, as a result of the recognition of past services.

Amounts of employee benefits in the balance sheet:

	2017	2016
Retirement benefits - defined benefit plan paid by the Group	19,707	19,636
Seniority awards	46,775	42,187
Total	**66,482**	**61,823**

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

	Income statement		**Other comprehensive income**	
	2017	2016	**2017**	2016
Retirement benefits - defined contribution plan	697	585	-	-
Retirement benefits - defined benefit plan paid for by the Group	264	359	1,385	643
Seniority awards	7,037	22,345	-	-
Total	**7,998**	**23,289**	**1,385**	**643**

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**	
	2017	2016	**2017**	2016	**2017**	2016
Balance at 1 January	**-**	-	**19,636**	21,843	**42,187**	21,065
Acquisitions/Disposals of business	-	-	-	(1,585)	-	(155)
Interest costs	-	-	264	359	1,030	393
Past service cost	-	-	-	-	-	19,679
Current service cost	697	585	-	-	6,414	1,999
Actuarial (gains)/losses						
Changes in demographic assumptions	-	-	-	-	12	-
Changes in financial assumptions	-	-	922	552	1,011	570
Changes in experience	-	-	463	91	(1,430)	(296)
Contributions or retirement pensions paid	(697)	(585)	(1,578)	(1,624)	(3,550)	(857)
Currency translation differences	-	-	-	-	1,101	(211)
Balance at 31 December	**-**	-	**19,707**	19,636	**46,775**	42,187

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

	Portugal		Poland	
	2017	2016	2017	2016
Mortality table	TV 88/90	TV 88/90	GUS 2015	GUS 2013
Discount rate	1.30%	1.40%	3.10%	2.90%
Pension and salaries growth rate	3.00%	2.50%	4% - 6%	4% - 6%

The mortality assumptions used are those most commonly adopted in Portugal and Poland, and are based on actuarial advice in accordance with published statistics and experience in each country. The assumption's sensitivity analysis is described in note 2.6.

Expected future payments

The expected maturity for the next 10 years for the liabilities associated with defined benefit plans is as follows:

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years
Retirement benefits - defined benefit plan paid for by the Group	1,501	5,267	4,778
Seniority awards	4,293	16,577	42,694
Total	**5,794**	**21,844**	**47,472**

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.

	2017	2016
Interest expense	(15,157)	(12,833)
Interest received	3,512	1,909
Dividends	79	63
Net foreign exchange	3,923	(3,090)
Other financial costs and gains	(4,078)	(3,405)
Fair value of financial investments held for trade:		
Derivative instruments (note 12)	(445)	-
Total	**(12,166)**	**(17,356)**

Interest expense includes the interest on loans measured at amortised cost and interest on derivatives of fair-value hedge and cash flow hedge (note 12).

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

7 Gains in disposal of business

	2017	2016
Proceeds net of cost to sell	-	303,464
Investments in joint ventures divested	-	(84,038)
Net assets from other businesses divested	-	2,581
Cash and cash equivalents of divested business	-	(1,329)
Total	**-**	**220,678**

In 2016, the Group sold its subsidiary Monterroio - Industry & Services Investments B.V., and subsequently repurchased its interest in two subsidiaries of the latter: Jerónimo Martins - Restauração e Serviços, S.A. (100%) and Hussel Ibéria – Chocolates e Confeitaria, S.A. (51%).

The Group recognised a gain with these transactions of EUR 220,678 thousand, as presented above.

From the total of net assets divested, EUR 83,367 thousand are related to joint ventures Unilever Jerónimo Martins and Gallo Worldwide (note 13).

8 Income tax recognised in the income statement

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 profit and loss or tax results.

The measurement of deferred tax assets and liabilities should reflect the tax consequences from the way the Group estimates, 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.

For all transactions that incorporate uncertainty regarding their tax treatment and for all tax litigation, an assessment is made on the probability of outcome, setting up provisions for the amounts estimated to represent future disbursements (whenever the probability of outcome is above 50%), or, proceeding with the payment, whenever it is considered to be the best way to protect the Group's interest

8.1 Income tax

	2017	2016
Current income tax		
Current tax of the year	(165,818)	(129,693)
Adjustment to prior year estimation	762	1,879
	(165,056)	**(127,814)**
Deferred tax		
Temporary differences created and reversed	24,989	9,195
Change to the recoverable amount of tax losses and temp. differ. from prev. years	(494)	(625)
	24,495	**8,570**
Other gains/losses related to tax		
Impact of changes in estimates for tax litigations	(11,675)	(10,725)
	(11,675)	**(10,725)**
Total income tax	**(152,236)**	**(129,969)**

8.2 Reconciliation of effective tax rate

	2017		2016	
Profit before tax		**564,817**		**744,195**
Income tax using the Portuguese corporation tax rate	**22.5%**	**(127,084)**	**22.5%**	**(167,444)**
Fiscal effect due to:				
Different tax rates in foreign jurisdictions	(6.1%)	34,452	(3.7%)	27,173
Non-taxable or non-recoverable results	7.2%	(40,769)	(3.1%)	22,787
Changes in estimates for tax litigations	2.1%	(11,675)	1.4%	(10,725)
Non-deductible expenses and fiscal benefits	0.3%	(1,526)	0.2%	(1,526)
Adjustment to prior years estimation	(0.1%)	762	(0.3%)	1,879
Equity method	-	-	(0.2%)	1,600
Change to the recoverable amount of tax losses and temporary differences of prior years	(0.0%)	58	(0.0%)	198
Results subject to special taxation	1.1%	(6,454)	0.5%	(3,911)
Income tax	**27.0%**	**(152,236)**	**17.5%**	**(129,969)**

In 2016 the effective tax rate is significantly influenced by the gain as a result of the divestment in Monterroio - Industry & Services Investments B.V. (note 7). Excluding the effect of this gain the effective tax rate in 2016 would be of 24.8%.

In 2017 and 2016, the Corporate Income Tax rate (CIT) applied to companies operating in Portugal was 21%. 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 2015.

In Poland, for 2017 and 2016, the income tax rate applied to taxable income was 19%.

In Colombia, the income tax rate was 34% in 2017 and 2016. If a taxable loss is determined, a tax rate of 3% is levied on the net asset value, in accordance with the fiscal stability agreement obtained.

8.3 Deferred tax assets and liabilities

	2017	2016
Opening balance	**10,014**	**1,718**
Currency translation difference	(275)	287
Revaluation and reserves	212	156
Acquisition/disposal of business	-	(717)
Result of the year (note 8.1)	24,495	8,570
Closing balance	**34,446**	**10,014**

Deferred taxes are presented in the balance sheet as follows:

	2017	2016
Deferred tax assets	106,025	69,756
Deferred tax liabilities	(71,579)	(59,742)
	34,446	**10,014**

2017	Opening balance	Impact on results	Impact on equity	Acquisition/ disposal of business	Currency translation differences	Closing balance
Deferred tax assets						
Excess over legal provisions	48,083	8,558	-	-	2,568	59,209
Update of assets to fair value	4,934	45	-	-	-	4,979
Employee benefits	9,504	307	312	-	-	10,123
Other temporary differences	7,235	24,296	-	-	183	31,714
	69,756	**33,206**	**312**	**-**	**2,751**	**106,025**
Deferred tax liabilities						
Update of assets to fair value	663	(10)	-	-	-	653
Deferred income for tax purposes	44,518	8,715	-	-	2,358	55,591
Differences on valuation criteria in other countries	12,011	-	-	-	671	12,682
Derivative instruments	(56)	-	100	-	(1)	43
Other temporary differences	2,606	6	-	-	(2)	2,610
	59,742	**8,711**	**100**	**-**	**3,026**	**71,579**
Net change in deferred tax	**10,014**	**24,495**	**212**	**-**	**(275)**	**34,446**

2016	Opening balance	Impact on results	Impact on equity	Acquisition/ disposal of business	Currency translation differences	Closing balance
Deferred tax assets						
Update of assets to fair value	34,251	15,119	-	(132)	(1,155)	48,083
Revaluation of assets	2,936	1,998	-	-	-	4,934
Employee benefits	9,234	516	145	(391)	-	9,504
Other temporary differences	9,824	(2,165)	(67)	(194)	(163)	7,235
	56,245	**15,468**	**78**	**(717)**	**(1,318)**	**69,756**
Deferred tax liabilities						
Update of assets to fair value	665	(2)	-	-	-	663
Deferred income for tax purposes	38,315	7,394	-	-	(1,191)	44,518
Differences on valuation criteria in other countries	12,423	-	-	-	(412)	12,011
Derivative instruments	23	-	(78)	-	(1)	(56)
Other temporary differences	3,101	(494)	-	-	(1)	2,606
	54,527	**6,898**	**(78)**	**-**	**(1,605)**	**59,742**
Net change in deferred tax	**1,718**	**8,570**	**156**	**(717)**	**287**	**10,014**

8.4 Unrecognised deferred taxes on tax losses

The Group does not recognise deferred tax assets related to tax losses in respect of which, with reasonable accuracy, no sufficient future taxable profits are expected to guarantee the recovery of deferred tax assets in the short and/or medium-term. Total unrecognised tax assets is presented below:

Expiring date	**Tax**	
	2017	**2016**
2017	-	748
2018	3,231	3,387
2019	5,006	4,742
2020	7,050	6,618
2021	6,905	5,783
2022 or further	87,315	56,031
Total	**109,507**	**77,308**

9 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

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

9.1 Changes occurred during the year

2017	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	**446,754**	**2,833,353**	**1,571,798**	**232,671**	**289,153**	**5,373,729**
Foreign exchange differences	12,325	73,243	35,753	4,794	54	126,169
Increases	29,510	248,090	161,449	16,815	253,351	709,215
Disposals and write offs	(44)	(24,287)	(71,699)	(6,914)	(1,991)	(104,935)
Transfers and reclassifications	6,472	97,386	18,486	6,731	(130,261)	(1,186)
Closing balance	**495,017**	**3,227,785**	**1,715,787**	**254,097**	**410,306**	**6,102,992**
Depreciation and impairment losses						
Opening balance	**-**	**1,091,934**	**1,081,465**	**176,970**	**-**	**2,350,369**
Foreign exchange differences	-	27,953	22,354	3,895	-	54,202
Increases	-	149,476	146,473	21,621	-	317,570
Disposals and write offs	-	(19,758)	(66,731)	(6,826)	-	(93,315)
Transfers and reclassifications	-	(323)	232	(578)	-	(669)
Closing balance	**-**	**1,249,282**	**1,183,793**	**195,082**	**-**	**2,628,157**
Net value						
As at 1 January 2017	**446,754**	**1,741,419**	**490,333**	**55,701**	**289,153**	**3,023,360**
As at 31 December 2017	**495,017**	**1,978,503**	**531,994**	**59,015**	**410,306**	**3,474,835**

* Opening balance of land and natural resources is net of impairment losses

2016	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	447,317	2,649,510	1,524,879	219,960	224,452	5,066,118
Foreign exchange differences	(7,296)	(41,799)	(20,758)	(2,729)	(981)	(73,563)
Increases	3,220	175,799	111,621	23,603	162,338	476,581
Disposals and write offs	(101)	(11,661)	(58,403)	(13,293)	(1,981)	(85,439)
Transfers and reclassifications	11,629	62,219	14,464	5,527	(94,675)	(836)
Acquisitions/Disposals of business	-	(715)	(5)	(397)	-	(1,117)
Closing balance	454,769	2,833,353	1,571,798	232,671	289,153	5,381,744
Depreciation and impairment losses						
Opening balance	-	980,185	1,018,510	177,310	-	2,176,005
Foreign exchange differences	-	(14,852)	(11,648)	(2,344)	-	(28,844)
Increases	-	136,482	128,400	15,534	-	280,416
Disposals and write offs	-	(8,908)	(53,499)	(13,184)	-	(75,591)
Transfers and reclassifications	-	(371)	(293)	(2)	-	(666)
Acquisitions/Disposals of business	-	(602)	(5)	(344)	-	(951)
Impairment losses	8,015	-	-	-	-	8,015
Closing balance	8,015	1,091,934	1,081,465	176,970	-	2,358,384
Net value						
As at 1 January 2016	447,317	1,669,325	506,369	42,650	224,452	2,890,113
As at 31 December 2016	446,754	1,741,419	490,333	55,701	289,153	3,023,360

* Opening balance of land and natural resources is net of impairment losses

The increase in tangible assets correspond to the Group's investments in new stores and distribution centers (51%), and remodelling of the existing stores. The investment programme is detailed in the Consolidated Management Report.

Impairment losses on land in 2016 (EUR 8,015 thousand) are reflected in the Income statement in "Other operating profits/losses". In Note 4.1 is included in the line " Profit/loss with tangible and intangible assets ".

There are no financial charges capitalised in tangible fixed assets.

9.2 Guarantees

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

9.3 Tangible assets in progress

Amounts in work in progress are mostly related to the implementation and refurbishment of stores and distribution centres.

9.4 Impairment tests

As mentioned in Note 2.5.1, the Group analyses at the date of each balance sheet whether there are indicators of possible impairment losses on tangible assets.

If there are indicators of possible impairment losses on an asset or cash-generating unit, the Group calculates its value-in-use using the Discounted Cash Flow (DCF) method.

Value in use is supported by past performance and market development expectations, with five-year projections of future cash flows for each of the assets or cash-generating units, based on medium/long-term plans approved by the Board of Directors.

These estimates are made considering the following assumptions

Business area	Discount rates	Growth rates in perpetuity
Retail in Portugal	8.3% (2016: 8.3%)	1% (2016: 1%)
Cash & Carry in Portugal	8.3% (2016: 8.3%)	1% (2016: 1%)
Retail in Poland	8.5% (2016: 8.5%)	1.5% (2016: 1.5%)
Health and Beauty Retail in Poland	10.1% (2016: 10.1%)	1.5% (2016: 1.5%)
Specialized Retail in Portugal	8.3% to 10.5% (2016: 8.3% to 10.5%)	1% (2016: 1%)
Retail in Colombia	11.7% (2016: 11.7%)	1.5% (2016: 1.5%)

The discount rates adopted corresponds to the weighted average cost of capital (WACC) estimated for each of the business areas on the different geographies.

Growth rates in perpetuity considered was 1% for mature markets as Portugal and 1.5% for the Polish and Colombian market, where growth potential is still considered to exist.

Cash flows also include the expected annual growth in sales, margins and operating costs of each of the business areas.

10 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

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

10.1 Changes occurred during the year

2017	Goodwill	Develop. Expenses	Software, ind. property and other rights	Key money	Work in progress	Total
Cost						
Opening balance	**629,902**	**32,416**	**119,102**	**132,789**	**4,684**	**918,893**
Foreign exchange differences	16,730	1,293	5,483	4,956	227	28,689
Increases	-	2,414	1,634	2,323	6,696	13,067
Disposals and write offs	-	-	-	(981)	(103)	(1,084)
Transfers and reclassifications	-	891	588	(32)	(955)	492
Closing balance	**646,632**	**37,014**	**126,807**	**139,055**	**10,549**	**960,057**
Amortisation and impairment losses						
Opening balance	**-**	**29,285**	**17,488**	**85,137**	**-**	**131,910**
Foreign exchange differences	-	1,196	465	3,084	-	4,745
Increases	-	1,816	2,953	8,571	-	13,340
Disposals and write offs	-	-	-	(953)	-	(953)
Transfers and reclassifications	-	-	-	(25)	-	(25)
Closing balance	**-**	**32,297**	**20,906**	**95,814**	**-**	**149,017**
Net value						
As at 1 January 2017	**629,902**	**3,131**	**101,614**	**47,652**	**4,684**	**786,983**
As at 31 December 2017	**646,632**	**4,717**	**105,901**	**43,241**	**10,549**	**811,040**

2016	Goodwill	Develop. Expenses	Software, ind. property and other rights	Key money	Work in progress	Total
Cost						
Opening balance	640,187	31,229	114,644	136,326	9,571	931,957
Foreign exchange differences	(10,285)	(759)	(3,162)	(3,048)	(256)	(17,510)
Increases	-	1,586	2,278	357	1,644	5,865
Disposals and write offs	-	(128)	(133)	(1,228)	(5)	(1,494)
Transfers and reclassifications	-	488	5,551	382	(6,270)	151
Acquisitions/Disposals of business	-	-	(76)	-	-	(76)
Closing balance	629,902	32,416	119,102	132,789	4,684	918,893
Amortisation and impairment losses						
Opening balance	-	28,545	14,692	78,924	-	122,161
Foreign exchange differences	-	(716)	(210)	(1,666)	-	(2,592)
Increases	-	1,570	3,217	9,124	-	13,911
Disposals and write offs	-	(114)	(133)	(1,228)	-	(1,475)
Transfers and reclassifications	-	-	(2)	(17)	-	(19)
Acquisitions/Disposals of business	-	-	(76)	-	-	(76)
Closing balance	-	29,285	17,488	85,137	-	131,910
Net value						
As at 1 January 2016	640,187	2,684	99,952	57,402	9,571	809,796
As at 31 December 2016	629,902	3,131	101,614	47,652	4,684	786,983

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.

10.2 Guarantees

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

10.3 Intangible assets in progress

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

10.4 Impairment tests for Goodwill and other intangible assets

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

Business areas	2017	2016
Portugal Retail	246,519	246,519
Portugal Cash & Carry	83,836	83,836
Poland Retail	306,989	290,750
Poland Health and Beauty Retail	9,288	8,797
Total	**646,632**	**629,902**

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 16,239 thousand;

- the Goodwill related to the Health and Beauty Retail business in Poland (Hebe), totalling PLN 38,796 thousand, was updated positively by EUR 491 thousand.

The cash-generating units used to perform Goodwill impairment tests correspond to the business segments, which is the lowest level for which Goodwill is monitored by Management.

In 2017, evaluations were made based on the value in use according to 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, supported on historical performance of each business unit, incorporating the expected impacts of its investment plans, weighted by the risks each business is exposed.

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.

These estimates are made considering the following assumptions:

Business area	Discount rates	Growth rates in perpetuity
Retail in Portugal	8.3% (2016: 8.3%)	1% (2016: 1%)
Cash & Carry in Portugal	8.3% (2016: 8.3%)	1% (2016: 1%)
Retail in Poland	8.5% (2016: 8.5%)	1.5% (2016: 1.5%)
Health and Beauty Retail in Poland	10.1% (2016: 10.1%)	1.5% (2016: 1.5%)

The discount rates adopted corresponds to the WACC estimated for each of the business areas on the different geographies.

Growth rates in perpetuity considered was 1% for mature markets as Portugal and 1.5% for the Polish market, where growth potential is still considered to exist.

Cash flows also include the expected annual growth in sales, margins and operating costs of each of the business areas.

Note 2.6 presents the information related to sensibility analysis to the Goodwill impairment tests.

11 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.

	2017	2016
Opening balance	**13,952**	20,387
Changes in fair value	(238)	(3,562)
Disposals	-	(2,873)
Closing balance	**13,714**	13,952

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 2017 the amount of income from investment property amounted to EUR 74 thousand (EUR 73 thousand in 2016), and costs were recognised in the amount of EUR 29 thousand (EUR 33 thousand in 2016).

12 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.

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.

	2017					2016				
	Notional	Assets		Liabilities		Notional	Assets		Liabilities	
		Current	Non-current	Current	Non-current		Current	Non-current	Current	Non-current
Derivatives held for trading										
Currency forwards - stock purchase (PLN)	118 million PLN	-	-	269	-	-	-	-	-	-
Currency forwards - intercompany loans (PLN)	315 million PLN	294	-	-	-	-	-	-	-	-
Cash flow hedging derivatives										
Interest rate swap (PLN)	189 million PLN	-	227	-	-	200 million PLN	-	-	-	293
Foreign operation investments hedging derivatives										
Currency forwards (PLN)	600 million PLN	-	-	2,536	-	538 million PLN	1,277	-	317	-
Total derivatives held for trading		**294**	**-**	**269**	**-**		-	-	-	-
Total hedging derivatives		**-**	**227**	**2,536**	**-**		1,277	-	317	293
Total assets/liabilities derivatives		**294**	**227**	**2,805**	**-**		1,277	-	317	293

At 31 December 2017, the values shown include interest receivable or payable related to these financial instruments that are due. The net payable amount is EUR 0 thousand (2016: EUR 1 thousand).

Derivatives held for trading

Currency forwards

The Group hedges its exposure to foreign exchange risk inherent to the purchase of stocks in foreign currency. For this purpose, in 2017, the Group contracted currency forwards, with maturity in the first quarter of 2018, with a notional amount of PLN 118,030 thousand.

The Group also hedges the foreign exchange risk of loans granted to subsidiaries in foreign currency. For this purpose, in 2017, the Group contracted currency forwards, with maturity in the first quarter of 2018, with a notional amount of PLN 315,496 thousand.

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 2017 and 2016. 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	377,763	188,882	Wibor 3 months	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 March 2018.

Impacts on the Financial Statements

	2017	2016
Fair value of financial instruments as at 1 January	**667**	**157**
(Receipts) / payments made	13,575	1,377
Change in the fair value of held for trading derivatives (results)	(445)	-
Change in the fair value of cash flow hedge derivatives (others reserves)	527	(411)
Change in the fair value of cash flow hedge derivatives (foreign exchange differences)	(7)	(4)
Change in the fair value of net investment hedging derivatives (currency translation reserves)	(16,550)	(390)
Interest expenses from financial instruments that qualify as hedge accounting (income statement)	(51)	(62)
Fair value of financial instruments as at 31 December	**(2,284)**	**667**

13 Investments in joint ventures and associates

The joint ventures and associates are listed in note 30, and changes in these investments were as follows:

	Joint ventures		Associates		Total	
	2017	2016	**2017**	2016	**2017**	2016
Opening balance	**-**	75,789	**-**	689	**-**	76,478
Equity method:						
Net result	(13)	10,288	-	(17)	(13)	10,271
Dividends and other income received	-	(2,711)	-	-	-	(2,711)
Other increases/(reductions)	1,570	-	-	-	1,570	-
Disposals of business (note 7)	-	(83,367)	-	(672)	-	(84,039)
Acquisitions of business	-	1	-	-	-	1
Closing balance	**1,557**	-	**-**	-	**1,557**	-

14 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.

Its valuation generally follows the last acquisition price, being FIFO (First In, First Out) the cost method used in the recording of the inventory sold.

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

	2017	2016
Raw and subsidiary materials and consumables	5,847	3,928
Goods available for sale	883,667	749,951
Work in progress and finished goods	435	906
	889,949	**754,785**
Net realisable adjustment	(48,384)	(36,167)
Net inventories	**841,565**	**718,618**

Adjustments in inventories to net realisable value:

	2017	2016
Balance as at 1 January	**(36,167)**	**(29,400)**
Set up, reinforced and transfers	(10,994)	(8,205)
Unused and reversed	2	579
Foreign exchange difference	(1,225)	597
Acquisitions and business restructuring	-	262
Balance as at 31 December	**(48,384)**	**(36,167)**

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

15 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).

	2017	2016
Non-current		
Other debtors	74,664	75,987
Collateral deposits associated to financial debt	34,367	34,367
Deferred costs	2,352	2,482
Total	**111,383**	**112,836**
Current		
Commercial customers	56,424	45,928
Other debtors	122,316	93,117
Other taxes receivable	16,019	11,364
Accrued income and deferred costs	193,074	160,721
Total	**387,833**	**311,130**

Non-current debtors include EUR 73,544 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 26).

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 to its subsidiary Jeronimo Martins Colombia, SAS. This deposits will be released on loans repayment date.

Accrued income includes basically supplementary gains contracted with suppliers, in the amount of EUR 182,494 thousand (2016: EUR 148,502 thousand).

The deferred costs include EUR 6,058 thousand of pre-paid rents, EUR 1,372 thousand of insurance costs and EUR 5,358 thousand of other costs attributable to future years and paid in 2017, or, if not yet paid, already charged by the entities.

Current debtors with overdue amounts are subject to an analysis of the probability of future losses, based on historical information, taking into account the nature of the commercial relationship established, as well as to existing collateral and credit insurance, with reinforcements / reversals of adjustments for impairment losses recognized when justified (see note 31.2.1).

The ageing analysis of debtors that are past their due date is as follows:

	2017	2016
Debtors balances not considered impaired		
Less than 3 months past due	26,789	23,516
More than 3 months past due	17,622	21,912
Total	**44,411**	**45,428**
Debtors balances considered impaired		
Less than 3 months past due	1,100	284
More than 3 months past due	17,670	8,513
Total	**18,770**	**8,797**

Of the debtors balances not considered impaired, EUR 1,368 thousand (2016: EUR 3,853 thousand) are covered by credit guarantees and credit insurance.

Movements on impairment of trade receivables are as follows:

	2017	2016
Balance as at 1 January	**23,714**	**23,863**
Set up, reinforced and transfers	2,286	2,562
Unused and reversed	(1,968)	(1,189)
Foreign exchange difference	471	(232)
Used	(308)	(1,111)
Acquisitions and business restructuring	-	(179)
Balance as at 31 December	**24,195**	**23,714**

Impairment losses and reversals related to other debtors are included in note 4 - Operating costs by nature, under "Cost of goods sold and materials consumed" when related to commercial disputes with suppliers, amounted EUR (1,517) thousand (2016: EUR (1,585) thousand), and in the caption "Other natures of profit/loss" when related to customers and other debtors, amounted EUR 1,199 thousand (2016: EUR 212 thousand).

16 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. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

	2017	2016
Bank deposits	460,235	524,941
Short-term investments	217,199	114,974
Cash and cash equivalents	3,899	3,597
Total	**681,333**	**643,512**

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.

Ratings of bank deposits and short-term investments are detailed in note 31.2.1.

17 Cash generated from operations

	2017	2016
Net results	**385,356**	**593,218**
Adjustments for:		
Non-controlling interests	27,225	21,008
Income tax	152,236	129,969
Depreciations and amortisations	330,910	294,327
Provisions and other operational gains and losses	13,003	31,619
Net financial costs	12,166	17,356
Gains/Losses on disposal of business	-	(220,678)
Gains/Losses in associated companies	13	(10,271)
Gains/Losses in other investments	198	4,974
Profit/ Losses in tangible and intangible assets	10,039	15,133
	931,146	**876,655**
Changes in working capital:		
Inventories	(117,051)	(99,646)
Trade debtors, accrued income and deferred costs	(9,593)	(2,160)
Trade creditors, accrued costs and deferred income	283,458	261,577
Total	**1,087,960**	**1,036,426**

18 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

18.1 Share capital and share premium

Authorised share capital is represented by 629,293,220 ordinary shares (2016: 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.

18.2 Own shares

At 31 December 2017, 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 2017.

18.3 Dividends

Dividends distributed in 2017 totalling EUR 434,582 thousand, were paid to JMH shareholders in the amount of EUR 380,203 thousand, and to non-controlling interests in the Group Companies in the amount of EUR 54,379 thousand.

18.4 Other reserves and retained earnings

In the individual accounts of JMH duly states all conditions related to the use of reserves to be distributed comprised in Company equity. We therefore recommend reading this information.

19 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.

19.1 Basic and diluted earnings per share

	2017	2016
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)
Weighted average number of ordinary shares	**628,434,220**	**628,434,220**
Diluted net results of the year attributable to ordinary shares	385,356	593,218
Basic and diluted earnings per share – Euros	**0.6132**	**0.9440**

20 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.

The Group has negotiated several commercial paper programmes in the total amount of m EUR 365,000, of which EUR 165,000 are committed. The utilizations under these programmes are remunerated at the Euribor rate for the respective issue period, plus variable spreads. During the year, some emissions were carried out for short periods to meet specific cash requirements and the utilization on December 31, 2017 was EUR 30,000.

In the sub-holding, JMR, SGPS, S.A., and its subsidiaries was reimbursed the bond loan JMR'15 in the amount of EUR 150.000 thousand that matured in December and was contracted a new bank loan of EUR 100.000 thousand, for a tenure of 6 months.

The short-term lines that Jerónimo Martins Colombia, SAS holds with local banks were increased for an amount above COP 300.000.000 thousand, around EUR 85.000 thousand, with one year maturity.

Polish company Jerónimo Martins Nieruchomosci SKA has negotiated new credit facilities for the total amount of PLN 669.000 thousand, around EUR 160.000 thousand, with 1 year maturity.

As mentioned in note 15, some of the loans contracted by Jerónimo Martins Colombia are secured by bank deposits of other companies of the Group.

20.1 Current and non-current loans

2017	Opening balance	Cash flows	Transfers	Foreign exchange difference	Closing balance
Non-current loans					
Bank loans	111,823	132,822	(18,254)	5,117	231,508
Financial lease liabilities	3,006	5,464	(2,440)	224	6,254
Total	**114,829**	**138,286**	**(20,694)**	**5,341**	**237,762**
Current loans					
Bank overdrafts	-	6	-	-	6
Bank loans	73,622	219,098	18,254	(13,448)	297,526
Bond loans	150,000	(150,000)	-	-	-
Financial lease liabilities	959	(1,482)	2,440	56	1,973
Total	**224,581**	**67,622**	**20,694**	**(13,392)**	**299,505**

2016	Opening balance	Cash flows	Transfers	Foreign exchange difference	Closing balance
Non-current loans					
Bank loans	384,291	(102,475)	(165,699)	(4,294)	111,823
Bond loans	150,000	-	(150,000)	-	-
Financial lease liabilities	131	2,933	(25)	(33)	3,006
Total	**534,422**	**(99,542)**	**(315,724)**	**(4,327)**	**114,829**
Current loans					
Bank overdrafts	8,831	(8,786)	-	(45)	-
Bank loans	114,491	(212,504)	165,699	5,936	73,622
Bond loans	-	-	150,000	-	150,000
Financial lease liabilities	188	754	25	(8)	959
Total	**123,510**	**(220,536)**	**315,724**	**5,883**	**224,581**

20.2 Loan terms and maturities

2017	Average rate	Total	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank loans					
Commercial paper in EUR		30,000	30,000	-	-
Loans in EUR		100,002	100,002	-	-
Loans in PLN		233,678	8,354	225,324	-
Loans in COP		165,354	159,170	6,184	-
Bank overdrafts		6	6	-	-
Financial lease liabilities		8,227	1,973	6,019	235
	3.06%	**537,267**	**299,505**	**237,527**	**235**

2016	Average rate	Total	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank loans					
Loans in PLN		90,846	5,191	85,655	-
Loans in COP		94,599	68,431	25,166	1,002
Bond Loans					
Loans		150,000	150,000	-	-
Financial lease liabilities		3,965	959	2,360	646
	2.74%	**339,410**	**224,581**	**113,181**	**1,648**

The increase in loans is mainly due to the level of investments in 2017, namely the retail business in Poland (Biedronka) and the retail business in Colombia (Ara), whose financing in local currency (zloty and Colombian peso, respectively) explains the increase in the average financing rate.

20.3 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:

	2017	2016
Non-current loans (note 20.1)	237,762	114,829
Current loans (note 20.1)	299,505	224,581
Derivative financial instruments (note 12)	2,284	(667)
Interest on accruals and deferrals	2,019	1,035
Bank deposits (note 16)	(460,235)	(524,941)
Short-term investments (note 16)	(217,199)	(114,974)
Collateral deposits associated to financial debt (note 15)	(34,367)	(34,367)
Total	**(170,231)**	**(334,504)**

21 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.

2017	Opening balance	Set up, reinforced and transfers	Unused and reversed	Foreign exchange difference	Used	Acquisitions/ Disposals of business	Closing balance
Taxes	11,076	7,493	(550)	-	-	-	18,019
Legal claims	3,566	1,690	(791)	119	(256)	-	4,328
Others	6,940	837	(809)	-	(7)	-	6,961
	21,582	**10,020**	**(2,150)**	**119**	**(263)**	**-**	**29,308**

2016	Opening balance	Set up, reinforced and transfers	Unused and reversed	Foreign exchange difference	Used	Acquisitions/ Disposals of business	Closing balance
Taxes	72,576	12,496	(6,687)	-	(67,309)	-	11,076
Legal claims	4,918	584	(1,725)	(77)	(133)	(1)	3,566
Others	6,453	1,725	(998)	-	(32)	(208)	6,940
	83,947	**14,805**	**(9,410)**	**(77)**	**(67,474)**	**(209)**	**21,582**

Provisions for “taxes" is aimed to cover possible future disbursements resulting from the tax litigation described in note 26. These are all cases in dispute in several courts, for which there is no date to be concluded.

In 2016, the Group decided to replace part of the bank guarantees issued in favour of the Portuguese Tax Authority by the Special Programme for Reducing the Indebtedness to the State (PERES Plan) launched by the Portuguese Government. This replacement definitively delimits the value of the contingencies associated with the cases in question, as well as it reduces the amount of interest and fines if the disputes in court do not have a favourable outcome for the Group.

As a result, the provisions related to the matters covered by this payment were used. The Board of Directors firmly believes in its arguments, and the processes follow their course in court.

The ongoing lawsuits for which the Group constitutes provisions essentially relate to commercial, labour and regulatory disputes, for which it is estimated may result in future disbursements. Since these are many and relatively small claims related to different periods, their payment should be phased over time upon completion of the respective court proceedings.

The provision for other litigation is intended to cover the estimated future disbursements related to liabilities assumed by the Group as a result of past transactions, such as guarantees provided by the sale of business. Because they are events that are not always in dispute with the counterparty, the probability of short-term disbursement is considered remote.

22 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.

	2017	2016
Non-current		
Other commercial creditors	17	5
Accrued costs and deferred income	762	788
Total	**779**	**793**
Current		
Other commercial creditors	2,913,196	2,560,840
Other non-commercial creditors	302,020	228,713
Other taxes payables	92,920	79,272
Accrued costs and deferred income	354,157	297,702
Total	**3,662,293**	**3,166,527**

The accrued costs, totalling EUR 341,547 thousand include salaries and wages to be paid to the employees, in the amount of EUR 157,306 thousand, interest payable in the amount of EUR 47,115 thousand and supplementary costs with the distribution and promotion of goods in the amount of EUR 14,370 thousand. The remaining EUR 123,071 thousand relates to sundry costs (utilities, insurance, consultants, rents, among others) for 2017, which had not been invoiced by the respective entities prior to the end of the year.

Deferred income totalling EUR 13,372 thousand comprises mostly supplementary gains received in the amount of EUR 7,188 thousand, which are attributable to future years.

23 Guarantees

The bank guarantees are as follows:

	2017	2016
Guarantees provided to suppliers	23,450	18,779
Guarantees for Tax Authorities	93,236	156,422
Financing bank guarantees	28,933	32,919
Other State guarantees	5,254	12,277
Other guarantees provided	5,259	4,599
Total	**156,132**	**224,996**

Following the adhesion to PERES plan (note 21), the respective bank guarantees were cancelled.

24 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 future payments associated to the total of such contracts, are as follows:

	2017	2016*
Payments in less than 1 year	345,208	318,169
Payments between 1 and 5 years	1,154,998	1,109,391
Payments in more than 5 years	1,328,053	1,200,702
Total	**2,828,259**	**2,628,262**

* partial amounts were restated

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 2017 were EUR 1,896,388 thousand (2016: EUR 1,885,549 thousand).

The operational lease contracts recognised as costs are analysed as follows:

	2017	2016
Buildings	327,588	301,326
Plants & machinery	12,000	10,823
Transport equipment	15,952	15,833
IT equipment	641	664
Others	3,147	3,149
Total	**359,328**	**331,795**

The difference to the rents stated in note 4 are costs with occasional renting in the amount of EUR 187 thousand (2016: EUR 127 thousand).

25 Capital commitments

Capital expenditure contracted for at the balance sheet date amounted to EUR 83,776 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.

26 Contingencies, contingent assets and contingent liabilities

Contingent assets are potential Group assets that result from past events, but whose recognition depends on the occurrence or not of one or more future events that are not under its control.

Disclosure is made in the notes when it becomes probable that future economic benefits will be received by the Group. It is recognized in the Consolidated Financial Statements when it becomes virtually certain to be received.

Contingent liabilities corresponds to potential obligations as result of past events and whose recognition depends on the occurrence or not of one or more uncertain future events not wholly within the control of the Group. They may also represent present obligations as result of past events, which are not recognized in the Financial Statements because its payment is not probable or it is not possible to obtain a reliable value estimation.

The Group discloses in the notes whenever the probability of future disbursement is not considered remote. It is recognized or a provision is setup when it becomes probable that economic benefits will be paid and its value can be estimated with some degree of reliability.

Assets recognised in the Consolidated Financial Statements

- Under non-current debtors (note 15), an amount of EUR 72,689 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 within the law and maintains the administrative and judicial claims filed against such settlements expecting 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.

Contingent liabilities

- The 2016 Portuguese State Budget law included a transitory rule that could have a material impact for the Group and, in particular, for the JMR-Gestão de Empresas de Retalho, SGPS, S.A. (JMR SGPS) and Recheio, SGPS, S.A. (Recheio SGPS) subsidiaries.

According to this law 1/4 (one quarter) of all the book gains derived from internal transactions (i.e. transactions between affiliated companies within the same fiscal group) - that under the previous legal framework were not taxable unless i. a transaction with third parties took place or ii. the tax group was dissolved – are to be added to the 2016 collectable income and subject to Corporate Income Tax.

In the late nineties, JMR and Recheio and its respective subsidiaries went through a significant restructuring process following several acquisitions and the decision to reorganise the Group's assets. The transactions between the several companies within the JMR and Recheio Groups were made according to the existing legal framework and in line with best practices (at market value) having generated suspended internal book gains.

Considering that the transactions were all internal, these book gains were obviously eliminated in the consolidation process while still being reflected in the individual accounts.

The 2017 and 2018 Portuguese State Budgets law included an identical rule, which may generate a similar impact for the Group. No notifications have been received so far.

Based on the assessment of our legal and fiscal advisors, we firmly believe that there are sufficient grounds to oppose the said rules. Therefore, we are not incorporating the considered amount that results from the application of the 2016, 2017 and 2018 transitory rules - c. EUR 150,000 thousand in taxes – in Jerónimo Martins' results.

- 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, considers that there is enough ground for its appeal in court and, in that sense, it 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 for the amounts it expects to pay in the future, or proceeding with its payment (see note 21), when it considers that it is the best way to protect the Group's interests:

a) 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;

b) 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 SGPS, which led to additional assessments concerning 2002 to 2014, amounting to EUR 81,304 thousand, of which an amount of EUR 73,444 thousand is still in dispute. In the meantime, the Lisbon Tax Court has ruled partially in favour of the Group regarding the 2002, 2004, 2005 and 2007 assessments;

c) The Portuguese Tax Authorities assessed Feira Nova – Hipermercados, S.A. (Feira Nova) and Pingo Doce – Distribuição Alimentar, S.A. (Pingo Doce) regarding 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;

d) The Portuguese Tax Authorities have informed Jerónimo Martins, SGPS, S.A. (JMH), to restate the dividends received, amounting to EUR 10,568 thousand, from one 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;

e) 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 2014 in Pingo Doce, Feira Nova and Recheio amounted to EUR 1,820 thousand, EUR 1,300 thousand and EUR 551 thousand, respectively;

f) 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 2014, amount to EUR 16,580 thousand, of which an amount of EUR 15,829 thousand is still in dispute. The Lisbon Tax Court has already ruled in favour of Recheio SGPS regarding the 2008 assessment. However the Tax Authorities have appealed the said decision;

g) 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, and an amount of tax estimated of EUR 6,800 thousand;

h) 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 Court decided in favour of Pingo Doce, however SPV filed an appeal and won the appeal. Pingo Doce lodged an appeal of this decision at the Supreme Court of Justice;

i) The Food and Veterinary Department (Direcção-Geral de Alimentação e Veterinária) claimed from Pingo Doce, Recheio and Hussel an amount of EUR 13,732 thousand, EUR 1,207 thousand and EUR 30 thousand, respectively, in respect of the Food Safety Tax (Taxa de Segurança Alimentar Mais – TSAM) assessed for the years 2012 to 2017. The values at stake have been challenged in Court, since it is understood that this tax is not due, namely on the grounds of the unconstitutional nature of the Statute that approved the TSAM. The disputes are still running their course. Despite in four cases the court having decided that the Food Safety

Tax is not unconstitutional, the Companies maintain their understanding and have presented the respective appeal to higher courts.

Contingent assets

There are decisions taken by the competent courts, partially favorable to the Group's interests, on some of the cases that were paid in 2016, and despite the fact that the Tax Authority has appealed to higher courts, the Board of Directors believes that the Group will obtain future repayments. However, according to our policy described above, the disclosure of any amounts related to contingent assets will be made when their receipt becomes quantifiable.

27 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.

27.1 Balances and transactions with related parties

56.136% of the Group is owned by the Sociedade Francisco Manuel dos Santos, B.V. (SFMS), there were no direct transactions between this and any other company of the Group in 2017. In 2016 the Group sold to SFMS 100% of the capital share of the subsidiary Monterroio – Industry & Services Investments B.V., whose impacts are reflected in note 7. The details of these operation are further explained in the 2016 Annual Report.

There no amounts payable or receivable between them on 31 December 2017.

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

	Joint ventures (note 30)		Other related parties (*)	
	2017	2016	**2017**	2016
Sales and services rendered	-	7	184	167
Stocks purchased and services supplied	-	58,673	119,186	49,028

	Joint ventures (note 30)		Other related parties (*)	
	2017	2016	**2017**	2016
Trade debtors, accrued income and deferred costs	-	-	237	456
Trade creditors, accrued costs and deferred income	-	-	3,735	8,329

(*) 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.

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.

27.2 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:

	2017	**2016**
Salaries and other short-term employee benefits	20,963	20,069
Termination benefits	413	-
Post-employment benefits	551	447
Other benefits	1,488	1,559
Total	**23,415**	**22,075**

The Board of Directors of the Company consisted of 9 Members at the end of 2017. The average number of Senior Managers of the Group was 78 (2016: 78).

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 Chapter V - Corporate Governance.

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.

28 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
Belegginsmaatschappij Tand 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
Origins - Agro Business 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
Desimo - Desenvolvimento e Gestão Imobiliária, Lda.	Real estate management and administration and trade marks	Lisbon	100.00
Friedman - Sociedade Investimentos Mobiliários e Imobiliários, Lda.	Provision of services in the economic and accounting area	Funchal	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
Jeronimo Martins Colombia S.A.S.	Trading and distribution of consumer goods	Bogotá (Colombia)	100.00
Jerónimo Martins – Agro-Alimentar, S.A.	Other business support service activities	Lisbon	100.00
Best-Farmer – Actividades Agro-Pecuárias, S.A.	Growing of crops and animal farming	Lisbon	100.00
Jerónimo Martins - Lacticínios de Portugal, S.A.	Manufacture of milk and dairy products	Portalegre	100.00
Seaculture - Aquicultura, S.A.	Saline brackish waters aquaculture	Lisbon	100.00
JMR - Gestão de Empresas de Retalho, SGPS, S.A.	Business portfolio management in the area of retail distribution	Lisbon	51.00
JMR - Prestação de Serviços para a Distribuição, S.A.	Retail management, consultancy and logistics	Lisbon	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
Escola de Formação Jerónimo Martins, S.A.	Training	Lisbon	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
Lidosol II - Distribuição de Produtos Alimentares, S.A.	Retail sales in supermarkets	Funchal	51.00
Lidinvest - Gestão de Imóveis, S.A.	Real estate management and administration	Funchal	51.00
Jerónimo Martins Retail Services, S.A.	Trademarks management	Klosters (Switzerland)	51.00
Jerónimo Martins Finance Company (2), Designated Activity Company	Financial services	Dublin (Ireland)	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
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
Masterchef, S.A.	Retail sales and/or wholesale of food or non-food products	Lisbon	100.00
Caterplus - Comercialização e Distribuição de Produtos de Consumo, Lda.	Wholesale of other food products	Lisbon	100.00
João Gomes Camacho, S.A.	Wholesale of food and consumer goods	Funchal	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.	Retail sale of health and beauty products	Kostrzyn (Poland)	100.00
Bliska Sp. z o.o.	Retail sale of pharmaceutical, orthopaedic and health products	Warsaw (Poland)	100.00

29 Financial information on subsidiaries with material non-controlling interests

The non-controlling interests as at 31 December 2017 were EUR 225,298 thousand (2016: EUR 252,500 thousand), of which EUR 224,733 thousand (2016: EUR 251,842 thousand) related to JMR Group (Portugal Retail segment – see note 3), where AholdDelhaize 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:

	2017	2016
Non-current assets	1,407,578	1,394,194
Current assets	381,787	339,339
Non-current liabilities	(42,274)	(35,157)
Current liabilities	(1,292,910)	(1,190,944)
Net assets	**454,181**	**507,432**
Revenue	4,060,684	3,914,632
Net profit	57,559	40,691
Other comprehensive income	(99)	(2)
Total comprehensive income	**57,460**	**40,689**

30 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
Marismar - Aquicultura Marinha, Lda.	Saline brackish waters aquaculture	Funchal	50.00

31 Financial risks

The Group is exposed to several financial risks, namely: i. price risk; which includes interest and exchange rate risks; ii. transactional risk, which includes credit and liquidity risk; and iii. the risk arising from the Group's investments portfolio, including various risks such as interest rate, credit, foreign exchange, inflation, political and fiscal.

The management of these risks is focused on the unpredictable nature of the financial markets and aims to minimize its 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. It is responsible, with the cooperation of the financial areas of the Group´s companies, for identifying and assessing risks and for executing the hedging of financial risks, following the guidelines set out in the Financial Risk Management Policy.

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

31.1 Pricing risk

31.1.1 Foreign exchange risk

The main source of exposure to foreign exchange risk comes from Jerónimo Martins' operations in Poland and in Colombia.

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 operations, and euros and US dollars for the Polish operations and for the Colombian operations. As a general rule, these transactions involve low amounts and are very short dated. Exchange-rate risks associated with imports are covered by forward purchases of the currency of payment.

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 2017 was as follows:

As at 31 December 2017	Euro	Zloty	Colombian peso	Total
Assets				
Cash and cash equivalents	137,318	512,202	31,813	681,333
Available-for-sale financial investments	1,417	-	-	1,417
Trade debtors and deferred costs	104,827	287,644	3,273	395,744
Derivative financial instruments	-	521	-	521
Total financial assets	**243,562**	**800,367**	**35,086**	**1,079,015**
Liabilities				
Borrowings	130,008	241,904	165,355	537,267
Derivative financial instruments	-	2,805	-	2,805
Trade creditors, accrued costs and deferred income	1,012,438	2,264,876	132,327	3,409,641
Total financial liabilities	**1,142,446**	**2,509,585**	**297,682**	**3,949,713**
Net financial position in the balance sheet	**(898,884)**	**(1,709,218)**	**(262,596)**	**(2,870,698)**
As at 31 December 2016				
Total financial assets	304,404	651,944	11,466	967,814
Total financial liabilities	1,121,088	1,992,762	171,497	3,285,347
Net financial position in the balance sheet	**(816,684)**	**(1,340,818)**	**(160,031)**	**(2,317,533)**

Considering the position of the financial assets and liabilities on the balance sheet at 31 December 2017, a depreciation of the zloty against the euro of around 10% would have a positive impact on the results of EUR 670 thousand and a positive impact of EUR 162,018 thousand on equity (2016: a positive impact of EUR 134,165 thousand on equity). Regarding the Colombian peso, a depreciation against the euro of 10% would have a positive impact on equity of EUR 23,872 thousand (2016: a positive impact of EUR 14,548 thousand on equity).

31.1.2 Interest rate risk (cash flow and fair value)

All financial liabilities are directly or indirectly indexed to a reference interest rate, which exposes the Group 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, the zloty interest rate curves, and 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 at 31 December 2017, and excluding the effect of interest rate derivatives, and considering that the Group is in a cash surplus position, a rise of 50 basis points in interest rates, with everything else remaining constant, would have a positive impact of EUR 863 thousand (2016: positive in EUR 1.669 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.

31.2 Transactional risk

31.2.1 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 the Group 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.

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 2017 and 2016:

Financial institutions	Rating	Balance	
		2017	2016
Standard & Poor's	[A+ : AA]	48,382	-
Standard & Poor's	[BBB+ : A]	176,595	174,582
Standard & Poor's	[BB+ : BBB]	85,821	186,859
Standard & Poor's	[B+ : BB]	266	72,328
Standard & Poor's	[B]	76	-
Moody's	[Caa2 : Caa1]	869	752
Moody's	P -1	71,987	70,802
Fitch's	[A- : A+]	215,642	70,050
Fitch's	[BBB- : BBB+]	76,632	64,616
Fitch's	[B- : BB-]	683	597
	Not available	1,002	313
Total		**677,955**	**640,899**

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.

With regard to customers, the risk is mainly limited to Cash & Carry business, 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 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		
	2017	2016
New customer balances (less than six months)	958	170
Balances of customers without a history of non-payment	47,386	49,708
Balances of customers with a history of non-payment	11,019	6,071
Balances of other debtors with the provision of guarantees	3,270	5,502
Balances of other debtors without the provision of guarantees	136,270	98,025
Total	**198,903**	**159,476**

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				
	2017		2016	
	No.	Balance	No.	Balance
Customers with a balance above 1,000,000 euros	5	9,190	4	8,886
Customers with a balance between 250,000 and 1,000,000 euros	18	8,338	19	7,191
Customers with a balance below 250,000 euros	8,241	41,344	7,617	39,481
Other debtors with a balance above 250,000 euros	44	70,937	46	49,968
Other debtors with a balance below 250,000 euros	4,438	69,094	4,439	53,950
	12,746	**198,903**	**12,125**	**159,476**

The maximum exposure to credit risk as at 31 December 2017 and 2016 is the financial assets carrying value.

31.2.2 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 the Group' 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 the Group' 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

2017	Less than 1 year	Between 1 and 5 years	More than 5 years
Borrowings			
Financial leasing	1,973	6,019	235
Commercial paper	30,124	259	-
Other loans	283,334	239,045	-
Derivative financial instruments	223	306	-
Creditors	3,215,216	-	-
Operational lease liabilities	345,208	1,154,998	1,328,053
Total	**3,876,078**	**1,400,627**	**1,328,288**

2016	Less than 1 year	Between 1 and 5 years	More than 5 years
Borrowings			
Financial leasing	959	2,360	646
Bond loans	150,670	-	-
Other loans	80,807	119,572	1,041
Derivative financial instruments	205	376	-
Creditors	2,789,553	-	-
Operational lease liabilities	318,169	1,109,391	1,200,702
Total	3,340,363	1,231,699	1,202,389

The Group 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 2017 the Group was in full compliance with the covenants assumed on the debt loans in place.

31.3 Capital risk management

The Group 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 and by the ratio Net Debt/EBITDA. The Board established a target for the Gearing ratio below 100%, consistent with an investment grade rating, the ratio Net Debt/EBITDA below 3.

The Gearing ratios as at 31 December 2017 and 2016 were as follows:

	2017	2016
Capital invested	1,842,961	1,656,008
Net debt	(170,231)	(334,504)
Shareholder´s funds	2,013,193	1,990,511
Gearing	**(8.5%)**	**(16.8%)**
EBITDA	922,000	861,819
Net debt / EBITDA	(0.2)	(0.4)

32 Additional information required by law

In accordance with article 508-F of the Portuguese Commercial Companies Code, we hereby inform 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 2017 was EUR 793 thousand, of which EUR 746 thousand correspond to statutory audit of the accounts, while the remaining EUR 39 thousand, are related to reliability services under applicable legislation in the countries where the Group operates, human resources support services and training services provided to employees in programmes not specifically prepared for the Group. In addition, EUR 8 thousand was paid to the former External Auditor (PricewaterhouseCoopers & Associados, SROC, Lda.) for certification services of carbon footprint calculation and access to a tax database;

c) Note 27 of the Notes to the Consolidated Financial Statements includes all the related parties disclosures, in accordance with the International Accounting Standards.

33 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, 27 February 2018

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; and

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, 27 February 2018

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

Andrzej Szlezak
(Member of the Board of Directors)

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

Artur Stefan Kirsten
(Member of the Board of Directors)

Clara Christina Streit
(Member of the Board of Directors and Member of the Audit Committee)

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

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

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

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

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(Translation from the original Portuguese language. In case of doubt, the Portuguese version prevails.)

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Jerónimo Martins, S.G.P.S., S.A. (the Group), which comprise the Consolidated Balance Sheet as at 31 December 2017 (showing a total of 6.441.815 thousand euros and a total equity of 2.013.193 thousand euros, including a net profit attributable to the equity holders of the company, as mother of the group of 385.356 thousand euros), the Consolidated Income Statement by Functions, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Jerónimo Martins, S.G.P.S., S.A. as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. **First year audit**

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
We were appointed as auditors for Jerónimo Martins Group during 2017. As this is a first year audit, additional considerations are required for performing initial audit engagements which are not applied to recurring audits. Additional planning activities and considerations become necessary in order to establish a suitable audit strategy and audit plan, including:	Our audit procedures included: - Developing a comprehensive transition plan, which included specific planning activities, to ensure an effective transition from the predecessor auditor. The specific planning activities included, but were not limited to, obtaining an initial understanding of the Group and its business, including background information, strategy, business risks, IT landscape and its financial reporting and internal controls

Description of the most significant assessed risks of material misstatement

- Obtaining sufficient knowledge of the Group and its business including their control environment in order to make a risk assessment and develop an audit strategy and audit plan;
- Obtaining audit evidence regarding the opening balances, including application of accounting principles;
- Communication with the predecessor auditors;
- Review and discussion with the Group of the Key Audit Matters disclosed by the predecessor auditor;

For some specific areas, for which we have identified as presenting higher risk, we have performed extended audit procedures regarding the prior year balances, namely:

- Review of the impairment tests of stores prepared by Management;
- Cut-off procedures and review of manual provisions related to supplementary gains;
- Discussions with Management regarding the most significant tax issues, including the review of the assessments and support documentation prepared by the Group; and
- For the major IT applications supporting the operations, performed understanding and walkthrough processes.

Summary of our response to the most significant assessed risks of material misstatement

framework, to assist us in performing our risk assessment procedures;

- Assessing the opening balances and the selection and consistent application of accounting policies by discussing and reviewing key elements of the predecessor auditor's 2016 audit files, both at the Group level and for key operating units in-scope for the group audit;

- Discussion and approval of the Group audit plan with the Audit Committee and executive team of Jerónimo Martins Group, followed bystatus updates, progress reports and key audit matters discussions based on our audit process on a regular basis;

- Holding a global audit planning meeting in April 2017 at which members of Jerónimo Martins management briefed senior members of our Group audit and key location teams on the Group's organization and processes;

- Meeting Management, at a group and local level, to obtain a detailed understanding of the Jerónimo Martins Group, including its processes and internal controls. This exercise included more than 80 meetings and covered all geographies;

- Reading of the correspondence between the Group and the Regulator, regarding 2016 financial statements, and analysis of the changes performed by the Group;

- Obtaining evidence, for the most significant manual adjustments made in Supplementary Gains, to support the amounts recorded and the correctness of the period in which these were booked;

- Understanding accounting policies and historic accounting judgements by reviewing the Group accounting policy manuals and technical documentation on specific accounting topics;

- Review of the ongoing tax disputes, including the Group's assessment for the provisions and contingent liabilities disclosed in the 2016 financial statements and the performance of an independent calculation of the required tax provision; and

- Understanding and walkthrough of IT applications supporting the business and the performance of extended procedures to obtain reliance on the Manage Access and Manage Change process.

We considered the results of our audit, as it progressed, to provide further evidence in respect of the opening balances.

2. Impairment assessment of stores assets

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The Group operates a significant amount of stores in three different countries: Portugal, Poland and Colombia. The carrying value of stores, including related assets, are important to our audit due to the material amount of those assets (more than 2.500 million euros as at 31 December 2017), as well as the judgment involved in the identification of any impairment triggers and subsequent assessments of the recoverability of the invested amounts. Management assesses annually whether there are triggering events indicating potential impairment focusing on future store performance, which is dependent of external factors, namely store traffic, basket size and the competitive landscape.	Our audit procedures included: ▸ Evaluating the Group's policies and procedures to identify triggering events for potential impairment of assets related to underperforming stores by assessing Management's review of the financial performance on a Cash Generating Unit (CGU) basis; ▸ Obtaining Management´s assumptions for impairment analysis and validating them by comparison to internal forecasts and long term strategic plans that were approved by Management, as well as historic trend analyses to determine Management's ability to reliably estimate such assumptions, including the discount rate calculated by the Group; ▸ Performing, for a sampling of CGUs, the re-execution of the calculation of impairment testing and comparing the value in use to the carrying amount; and ▸ Understanding, evaluating and testing controls over the fixed assets processes. We have also verified the adequacy of the disclosures presented in the consolidated financial statements.

3. Recognition of Supplementary Gains / Vendor Allowance

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The Group receives various types of vendor allowances (or "supplementary gains"), which are included in cost of sales as disclosed in notes 4, 14 and 15 to the consolidated financial statements. These allowances are associated with supply contracts with vendors and take various forms of credits and discounts. Such discounts obtained from contracts with suppliers should be considered as a component of the cost of the inventory and should be recognized in the income statement when the products are sold (according to IAS 2 - Inventories). The amounts to be deducted from the cost of sales depends on the quantities of products included in the vendor agreement which, at the date of the balance sheet, have already been sold. As the process of calculation and accounting for some material discounts	Our audit procedures included: ▸ Understanding, evaluating and performing control testing over the vendor allowances process; ▸ Understanding and performing tests on the system interface between the accounting system and the commercial system used to control the supplementary gains; ▸ Testing, for a sample of supplementary gains contracts, the accuracy of the key inputs in the system for the contracts and re-performing the amounts recorded; ▸ Performing analysis of the suppliers debtor balances, namely through the validation of credit noted issued subsequently and assessment of impairment indicators; ▸ Obtaining external confirmations from suppliers for a sample of allowances (transaction confirmations);

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
involves manual processes which are more susceptible to the occurrence of errors in the consolidated financial statements, we consider this as a key audit matter.	▸ Obtaining evidence, for the most significant manual adjustments, to support the amount accounted for and the correctness of the period in which these were recorded; ▸ Performing detailed analytical procedures, namely monthly review, prior year review, ratio analysis to sales and ratios analysis to purchases of the vendor allowances; and ▸ Performing year-end cut-off procedures to determine whether amounts were recorded in the correct accounting period. We have also verified the adequacy of the disclosures presented in the consolidated financial statements.

4. Tax litigations and contingencies

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The risk of tax matters and current disputes with the tax authorities are monitored constantly by both Group's Management and Audit Committee. Based on the opinion expressed by the Group's legal and tax advisors, on the opinion from external lawyers on specific tax issues, and according to Management's judgment, all disagreements with tax authorities are recognized as liabilities or disclosed as a contingent liability in accordance with IAS 37 (Provisions, contingent liabilities and contingent assets) in the consolidated financial statements. The total amount of tax contingencies, net of provisions and payments under special tax regimes amount to approximately Euro 26 million at 31 December 2017. The Group disclosed a risk that arose from the State Budget for 2016, 2017 and 2018, related to the taxation of gains from previous years that derived from internal transactions, which amounts Euro 50 million in taxes in each year. This topic is a key audit matter for our audit considering the complexity and the degree of judgment inherent to these tax matters, as well as the level of uncertain associated with the final outcome.	Our audit procedures included: ▸ Understanding and evaluating the monitoring processes over tax litigations and claims; ▸ Performing confirmation procedures with lawyers representing the Group on the tax matters; ▸ Reviewing the minutes of meetings and performing inquiries of management, legal department and tax department for the most significant claims and litigations; and ▸ Performing analyses of the ongoing tax disputes with the support of internal tax specialists. We have also verified the adequacy of the disclosures presented in the consolidated financial statements.

Responsibilities of management and the Audit Committee for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, including the Corporate Governance Report in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion; and

- communicate with those charged with governance, including the Audit Committee, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the consolidated financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code and the verification that the Non-Financial information was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

On the Non-Financial information set out in article 66-B of the Commercial Companies Code

Pursuant to article 451, nr. 6 of the Commercial Companies Code, we inform that the Group included in the Management Report the Non-Financial information of the set out in article 66-B of the Commercial Companies Code.

On the Corporate Governance Report

Pursuant to article 451, nr. 4 of the Commercial Companies Code, in our opinion, the Corporate Governance Report includes the information required to the Group to provide as per article 245-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of the said article.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of the Jerónimo Martins, S.G.P.S., S.A. (Group´s Parent Entity) for the first time in the shareholders' general meeting held on 06 April 2017 for the ongoing mandate from 2017 to 2018;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;

- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the Audit Committee of the Group on February 26, 2018; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Group in conducting the audit.

Lisbon, 05 March 2018

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

João Carlos Miguel Alves (ROC nº 896)
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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. management report, consolidated and individual accounts for the year ending December 31st, 2017, 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 (who also performs the duties as External Auditor), and in all cases received their full co-operation.

This Committee was given access to all 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.

From the External Auditor and those responsible for preparing the Company's individual and consolidated financial information, with whom it met regularly, 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 correctly represent the results and the equity of the Company.

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

In compliance with the Financial Risk Management Policy, it monitored, in particular, the financing and equity reinforcement proposals for the Colombian subsidiary, with the co-operation of the Financial Operations Department, and verified that the actions taken by the Company were adequate to comply with the policies issued by the Board of Directors.

Obtained from several departments of the Company, namely those responsible for the financial area, the risk management, the internal audit, and from the representatives of the External Auditor, all information and clarifications requested, which allowed to verify the adequacy and effectiveness of the internal control and risk management systems.

It met with the Chairman of the Ethics Committee, having obtained all clarification deemed necessary regarding the organisation and the activities developed by this committee.

In view of the International occurrences related to cyber-attacks at several organisations, it met with the Information Security Officer, having obtained the necessary clarifications regarding the impacts of such occurrences on the Company and its subsidiaries. It was also informed of the measures implemented to mitigate future events and of the contingency plans in place.

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 2018 as well as the necessary resources allocation.

Following the election of the new Statutory Auditor on April 6, 2017,(also appointed as External Auditor), it monitored the adopted work methodology , in particular the transitional process, which was accomplished as planned, without any relevant differences being reported in view of the opinion of the previous Statutory Auditor.

It monitored the evolution of issues raised, as well as the conclusions of the audit 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 Statutory Auditor in carrying out their functions.

It verified and approved all non-audit services provided by the firm of External Auditors to the Group's companies, ensuring that were carried out by their employees who took no part in the audits, and that these services are not forbidden under applicable law. It also guaranteed that the amounts paid for the services rendered 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.

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.º - 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 Individual and Consolidated Financial Information, we are of the opinion that:

i) The Management Report should be approved;

ii) The Individual and 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, March 5, 2018

Sérgio Tavares Rebelo
(Chairman of the Audit Committee)

Clara Christina Streit
(Member)

Hans Eggerstedt
(Member)