Message from the Chairman

2017 was a remarkable year in various aspects, during which we saw an increasing unpredictability worldwide.

In the European Union, and from a political standpoint, it was a year of strong emotions. In Germany, Angela Merkel was re-elected for a fourth term but her party (CDU) lost considerable support, recording its worst result since 1949.

The most structural change, however, began with the far-right party entering the German Bundestag, which won 94 seats for the AfD party, thus becoming Germany's third-strongest political force. This is the first time in the history of post-war Germany that a clearly far-right party has a seat in Parliament. And it happened in what was the first federal election held since the Government led by Angela Merkel opened its doors to migrants and refugees in 2015, allowing over one million people to enter the country.

Confirming the resurgence of nationalism and of the far-right in Europe, in the Netherlands, the anti-Islam, anti-immigration and anti-EU party led by Geert Wilders (PVV) won 20 seats in Parliament, eight more than it previously had. Today, it is the second-largest party, even though it failed to reach its goal of becoming the largest Dutch parliamentary force.

In 2017, the opposite note came from France, with Emmanuel Macron's overwhelming victory in the second round of the presidential election, against Marine Le Pen – 66.1% against 33.9%. A victory that was immediately repeated in the parliamentary elections, with Macron's newly-formed party winning a majority from voters clearly supporting the new French President's reforming, pro-European and inclusive vision.

In Portugal, the crisis in neighbouring Catalonia, which today is politically fractured, was followed closely. A slowdown in the Spanish economy is expected which will, should it occur, affect Portugal given the country's weight as an important destination for Portuguese exports (approximately 25% of total exports).

For the Portuguese, 2017 will, above all, be remembered for its inseparable link to the tragic forest fires. The fires claimed at least 112 human lives and, according to an estimate from the European Forest Fire Information System, approximately 500 thousand hectares were burned, including the irreplaceable *Pinhal de Leiria* (Leiria Pine Forest) with its 700 years of history. The devastation caused by this violent destruction, which saw the Government fail in its duty to protect people and property, overshadowed positive economic news. In fact, exiting the excessive deficit procedure and an increase in the Portuguese Republic's rating are good indicators of recovery, albeit with an unstable balance, specifically taking into account opposition in the social sectors of the State, which is expected to increase, as well as the structural reforms that are yet to be implemented.

At the Jerónimo Martins Group, in a year in which we celebrated our 225th anniversary, we broke the 100,000-employee barrier and gave our corporate visual identity a new look in a rebranding campaign that sought to find a balance between legacy and modernity. In 2017, we beat all sales records, successively bolstered our market position across all banners and continued to be amongst the biggest names in the retail world, more specifically ranked 56th, our best ever performance in the "Global Power of Retailing 2018" ranking, a study conducted by consulting firm Deloitte in collaboration with North-American magazine "Stores".

These 12 months were challenging, with strong investments in the expansion of international business, and maximum demand in our three markets: Portugal, Poland and Colombia. Focus on sales, by investing in reinforcing price positioning and in the shopping experience, proved to be effective: the

Group's turnover reached 16.3 billion euros in 2017, up 11.3% Year-on-Year, driven by 6.6% like-for-like growth.

Net income attributable to Jerónimo Martins amounted to 385 million euros, which represents a comparative increase of 6.7% (i.e. excluding the one-off contribution from Monterroio in 2016).

The Group continued to be an important and determined investor in the markets in which it operates, having increased capex to 724 million euros, of which half was allocated to expansion (new stores and Distribution Centres) and more than one third to major refurbishment of the store networks in Portugal and Poland.

Biedronka used an investment of 354 million euros (49% of total investment) to open 121 stores, inaugurate a new Distribution Centre and refurbished 226 stores during the year.

From a consumption perspective, Poland has a favourable environment, stimulated by the drop in unemployment, the acceleration of wage increases and the overall improvement of the living conditions of families, also as a result of the *Family 500 plus* Programme. Leveraging the opportunity created by the tendency to increase differentiation and the value of the shopping basket, Biedronka multiplied actions to improve the quality of its offer, bolstering innovation and the attractiveness of its assortment. Concurrently, it also knew when to seize opportunities and was quick to read the market and respond with specific product promotions and strong temporary actions, reinforcing the competitiveness of its positioning and price leadership.

Establishing like-for-like performance as its main priority, the Company recorded 8.6% growth in the year. Total sales increased 13.2% (+10.4% in local currency) to 11.1 billion euros, with Biedronka closing the year with 2,823 locations.

Managing a tough balance between extending the borders of its model and maintaining the efficiency of its cost structure, in a context in which it is under added pressure related mainly to investments in the continuous improvement of wages, benefits and support programmes for employees, Biedronka recorded an EBITDA of 805 million euros (+11%, at a constant foreign exchange rate) whilst maintaining the respective margin almost in line with the previous year (7.3%).

In Portugal, in a mature and highly competitive market, our Companies once again showed resilience, strength and solidity.

Pingo Doce closed 2017 with total sales of 3.7 billion euros, an increase of 3.1% compared to the previous year, an additional 1% when taking into account the same store network. In addition to intense promotions and investment in innovation, namely by rolling-out 175 new Private Brand products, total sales also benefited from investment in selective expansion and permanent improvement of logistical services for the stores and the consumer's shopping experience. This investment was reflected in the nine net additions to the store network implemented throughout the year, 44 refurbishments and in the inauguration, in the North of Portugal, of the most modern Distribution Centre in our entire network which amounted to an investment of 102 million euros.

Recognising the decisive contribution made by the teams to operational performance and in relation to services and the overall quality of the experience offered to customers, the Company carried out in 2017 a review remuneration packages. This had an expected impact on EBITDA which, at 188 million euros, fell by 1.6% compared to 2016.

Recheio leveraged the very positive dynamic of the tourism sector in Portugal, whilst simultaneously bolstering its international operations, ending the year with exports to 25 countries, across four continents. When taking into account the same store network, its sales increased by a significant 6.2% in the year, with an overall turnover growth of 7.2%, to 942 million euros, also benefiting from a new store opened in Vila Nova de Gaia (the 39th store in the chain) and the relocation of the Food-Service platform to Porto.

With EBITDA at 50 million euros (+6.7% Year-on-Year), and despite the investment made to drive sales, Recheio's EBITDA margin held steady at 5.3%, in line with the previous year, in a clear demonstration of its ability to maintain its cost discipline and efficiency levels.

With regard to our not-as-yet profitable business, Hebe consistently improved the differentiation and competitiveness of its value proposition and proved that it has a concept and business model with interesting development potential. Total sales increased 35.7% in relation to 2016, to 166 million euros, in a year in which the banner opened 30 stores and closed the year with a total network of 182 locations.

In Colombia, where the peace process today is considered irreversible, we continued to focus on paving the way for Ara's future growth. Present in three regions, our Colombian chain achieved sales of 405 million euros, up 72% from the previous year, despite some irregularities recorded in customer trust levels. This performance reflects the continued effort to adjust the value proposition to regional specificities of consumer behaviour and also our own learning curve as regards the needs and preferences of Colombian consumers.

The Company was able to deliver on its main priority for 2017: accelerate and expand the network to bolster presence and capillarity. By executing an investment programme of 169 million euros, Ara opened 169 stores – that is, one new store every two days – of which 77 in the last quarter of the year. This means that the Company more than doubled its number of store openings compared to 2016, whilst simultaneously continuing to invest in its logistics infrastructure.

In 2017, Ara accounted for 88% of the 85 million euro loss recorded in EBITDA, with Hebe accounting for the rest, which continues its upward trend towards profitability. Excluding the dilution caused by the losses recorded in these new businesses, consolidated EBITDA would have grown 9.0% with a 6.4% margin on sales.

All investments considered, consolidated EBITDA amounted to 922 million euros (+4,7%, at a constant foreign exchange rate, compared to 2016), with a margin of 5.7%, which clearly demonstrates the strength of the sales performance of our Companies. Moreover, the robustness of our balance sheet remained unshaken, ending the year with a net cash flow position of 170 million euros.

In light of the Group's sound financial position and given that the flexibility to finance current and future growth opportunities will not be compromised, Jerónimo Martins' Board of Directors will propose a dividend distribution at the Shareholders' General Meeting of approximately 385 million euros relating to profits from the 2017 financial year. This proposal corresponds to a payout of 100% which, for the second consecutive year and exceptionally, amounts to approximately double what would normaly be distributed under the prevailing dividends policy.

We, therefore, have begun 2018 strong and well-prepared; another year in which growth will be our top strategic priority and the force that drives us.

We will continue to invest heavily in our businesses, committed to the continuous improvement of the balance between profitability and sustainability. It is this management that ensures us both a place among the top retailers of the world and the inclusion in important international sustainability indices which recognise the best companies that make a long-term investment in the development of their business by also achieving strong social, environmental and governance performance.

These results and the long-term consideration in conducting the businesses would not be possible without the support of Jerónimo Martins' investors, and in particular of its majority shareholder, and their solidarity with the mission and strategy we pursue. I extend my gratitude to all of you and renew my commitment to continue leading the Group towards profitable and sustainable growth.

I also would like to express my gratitude and appreciation for my colleagues on the Board of Directors for their invaluable contribution to the vision that guides us and in the trust they have always had in our ability to execute and deliver. To my teams, I thank you for the passion, commitment and competence that make us who we are and that lead us, day after day, to wherever our ambition takes us.

Pedro Soares dos Santos
Chairman and Chief Executive Officer