# Jerónimo Martins, SGPS, S.A.

## Public Company

## Individual Financial Statements

## At 31 December, years 2003 and 2002

**Index** **pages**




Registered with the Lisbon registrar of Companies under 8.122
Share Capital: 479.293.220 Euros - Corporate Tax No. 500 100 144
Rua Tierno Galvan, Torre 3, 9º , Letra J - 1099-008 Lisboa

# JERÓNIMO MARTINS, SGPS, S.A.

## PUBLIC COMPANY

## MANAGEMENT REPORT

## Financial year 2003

As a manager of equity holdings, Jerónimo Martins has a portfolio of investments characterized by a strong presence in food distribution in Portugal (Pingo Doce, Feira Nova and Recheio) and in Poland (Biedronka), in the industrial sector, where it maintains a long-standing partnership with Unilever (Fima, Lever and Iglo), and also in specialized retail (Hussel) and in marketing and distribution services (JMD).

As the Group holding company, Jerónimo Martins co-ordinates and provides consultancy services to its subsidiaries. The functional areas of support to the Group range from administration to institutional relations, development and strategy, planning and control, legal and fiscal affairs, risk control, internal audit, human resources, financial operations, consolidation and accounting, security and communication. Turnover from the provision of these services totalled 13,7 million euros.

**Portugal**

Economic activities are expected to have retracted in 2003 by roughly 1%, reflecting the continued shrinking of internal demand and in particular of investment (as a result of the expected fall in public investment) as well as the weakness of external markets. Unemployment soared, while corporate and family indebtedness remained high. Inflation retreated to close to 3%, but still remained far from our European partners 2% Average. In 2003 the Government again resorted to one-off revenues – which, according to the European Commission accounted for more than 2% of GDP - in order to post a deficit only marginally under 3%. On the positive side, exports performed well.

**The Group's operating performance in Portugal**

In 2003, Pingo Doce forged ahead along the strategic guidelines defined in 2002: "to be the best supermarket chain operating fresh products in Portugal, increasing the market share in non-perishable products by transforming peripheral regular customers into nuclear customers, and reducing obstacles to the expansion of the purchase basket". Using the consumer's expression, these guidelines were announced in outdoors: "no distress, no doubts, no stress and prices that make it worth".

Pingo Doce, thanks to an excellent combination of prices and communication, increased sales by 2% versus 2002, reaching 798 million euros.

In Feira Nova, 2003 was characterised by the pursuance of the strategy initiated in 2002, enhancing the chain's focus on the final consumer and concentrating efforts on the simplification of procedures for increasingly efficient management.

Despite a very demanding last quarter in commercial terms and a particularly difficult Christmas season, Feira Nova reached 660 million euros, remaining practically at the level of the previous years. Although having one more unit in the Lisbon region (Odivelas), the performance of the Group's hypermarket chain in Portugal was considerably affected by the temporary closing down of four of its stores, for remodelling.

In Madeira, the year was marked by Pingo Doce's price repositioning, following the same move initiated in mainland Portugal in 2002.

The year closed with a small increase in sales, 0.7% on a like for like basis and 3% for the overall park. Recheio Madeira increased sales by 0.2%.

Concerns with efficiency, in anticipation of new regulation on commercial licensing, and with the ever-greater need to step up competition, are already mirrored in the 2003 performance, with JMR and Madeira showing the impact of the emphasis throughout the entire organisation on the simplification of processes.

The operating margins of these two businesses areas are affected by changes in commercial, financial and human resources policies, namely by the initial impact, at cost level, of 1) closing for refurbishing, for significant periods of time, of several Pingo Doce and Feira Nova stores, 2) a change in the accounting of some financial leasings and 3) the introduction of variable remuneration policies.

In the year when it reached 30 years of existence – Recheio is the oldest Wholesale Distribution chain operating in Portugal –was able to post its best results ever, at a particularly difficult time deeply marked by the contraction of private consumption.

In 2003 Recheio reached sales volume of 595 million euros, an increase of 4.7% over 2002, confirming the success of its bet on innovation and quality as a response to customer demands.

The performance of Cash & Carry, definitely bears out the segmentation strategy of Recheio with a strong commitment to the HoReCa channel.

In 2003, operating cash flow (EBITDA) reached 45 million euros, corresponding to 7.5% of sales and to an increase of 21.4% when compared to the previous year.

2003 was one of the best years ever in the history of Jerónimo Martins Distribuição de Produtos de Consumo (JMD).

Although the economic environment was not favourable, JMD increased sales by 4.7%, which may be regarded as frankly positive. The 2003 results were chiefly achieved through the excellent performance of the company in the reduction of operating costs, which translated into an 87% increase in EBITDA, to 5.2% of sales.

The companies included in the Food Industry, held by Jerónimo Martins through the joint venture with Unilever, had a frankly positive year in 2003, experiencing a rebound following a difficult 2002. The net sales of Fima/VG, LeverElida and IgloOlá reached a total of 591 million euros, up by 6.6% year-on-year (excluding businesses sold).

Continuous and persistent commitment to innovation and the rationalisation of the portfolio of higher added-value products, supported by the constant optimisation of operating costs, made for an increase in the operating cash flow (EBITDA) of roughly 1,1 million euros.

**Poland**

The strong depreciation of the Zloty against the Euro, around 14.5%, fuelled the competitiveness of the Polish export sector and contributed to an increase of more than 3% in Poland’s GDP. Internal demand also made good progress, all the more significant when the labour market continued to register unemployment rates above 17%. The local economy continued to benefit from successive cuts of key rates. With annual inflation close to 1%, however, real interest rates remain quite high. Polish public accounts continued to deteriorate, exercising strong pressure on the sovereign debt, diverging from the criteria for accession to the EU and hampering a more expansionist monetary policy.

**The Group’s operating performance in Poland**

In Poland, in depth knowledge of how to operate in the market allowed Biedronka to carry out assortment consolidation, through the permanent optimisation of private label versus industry brands, coordinated with a mix of prices adequate to the behaviour of consumption.

The success of this strategy is shown by a 14% increase in sales in local currency, or 12% on a like-for-like basis.

Despite the reduced impact of the Polish chain’s performance on the consolidated accounts due to the devaluation of the Zloty, at the end of 2003 Biedronka had already accounted for 27% of the Group sales.

Leadership of the Polish food retail market was consolidated not only through the like-for-like rise in sales, but also through the expansion in the park of stores, which was increased by 34 units versus 2002.

The hallmark in this expansion, we note the reinforcement of the chain’s position in Warsaw, a city where population density and potential consumption are higher than the country’s average.

In Poland, Biedronka achieved an increase of 0,8 percentage points in its operating cash flow margin, to 4.4% of sales. This rise in the profitability of operations combined with the growth of sales is the result of a strong market position founded on in-depth knowledge of the market.

**The Group’s business activities are analyzed in more detail in the Management Report that accompanies the 2003 Consolidated Financial Statements.**

**Company's performance as a Holding of investments**

The company's individual operating results for 2003 were EUR 3,4 million. This represents a 79% decrease when compared to the previous year and is due to a reduction in services provided to the operational companies.
As result of the restructuring process that commenced in 2002, independent studies and the pursuit for simplification of administrative procedures, all existing services agreements with operational companies were revised and amended in 2003.

From a financial point of view, the net financial costs (interests & related expenses) amounted to 18,3 million euros. Allowing for the effect of positive exchange and interest rate differences - underlying & swaps - in 2002, net financial costs dropped by 18% in 2003.

The Jerónimo Martins Group continued its planned net debt reduction in 2003. Jerónimo Martins Holding alone reached a net debt position of EUR 249,6 million by the end of 2003 which represents a 19% reduction of EUR 56,8 million compared with the previous year. The company redeemed its 1996 bond-with-warrants issue (JMARTINS/96) of EUR 93,3 million and meanwhile issued a new bond loan (JMH/03) of EUR 40 million and borrowed EUR 25 million commercial paper in 2003.

The non-recurrent non-usual items amounted to 23,7 million euros and correspond mainly to a reduction of provisions accounted for in previous years on financial investments. The reduction is due to a revision of the net realizable value of said financial investments.

**Events after Balance Sheet Date**

By the closing of this report, there are no relevant events that should be mentioned.

**Outlook for 2004**

2004 will bring new challenges to the Jerónimo Martins Group, now concentrated on consolidating and increasing businesses included in its current portfolio to guarantee sustained creation of value in the coming years.

The Jerónimo Martins Group is essentially committed to the growth of the distribution business in Portugal and most particularly in Poland, and to making its operations more competitive and innovative so as to better serve a consumer who is increasingly demanding in terms of quality and more sensitive to price.

A new law on commercial licensing is expected to come into force in 2004, after a three-year freeze on the award of new licenses to open food retail stores in Portugal. Depending on the final text that will be approved, this new law may come as an opportunity for the Group to expand its businesses in national territory, following a phase of restructuring that imposed some restrictions on investment. Despite the threats that a liberalisation process can also bring, the Group believes it can take advantage of the resilience and profitability of the different formats under which it operates, by reinvesting in price the amount of savings it will obtain in terms of operating costs. However, although several projects are under consideration, given the gaps that still exist in the approval process, the Group does not expect to be granted a significant number of licenses before the end of 2004.

In order to increase the efficiency of its operations, the Group will continue to implement cost-cutting measures, having set up several working groups to study and put into practice solutions for simplifying processes.

Once the period of restructuring is concluded, to enable the acceleration of expansion and remodelling plans, particularly in Portugal, and also to reinforce the structure of the consolidated balance sheet, the Board of Directors expects the approval, at the next General Shareholders' Meeting, of its proposal for a share capital increase of 150 million euro.

Although 2004 is still expected to be a difficult year, the Group will continue to consolidate its strategy, with a view to creating value for its shareholders, better serving customers and consumers, motivating employees and guaranteeing the best possible relations with all its stakeholders.

**Information on environmental matters**

There are no environmental matters likely to affect the company's financial performance and situation.

**Proposed Application of Results**

In 2003, Jerónimo Martins, SGPS, S.A. posted a profit of euro 111,664,801.93. The Board of Directors proposes that the net profit for the year to be transferred to:

| | |
|---|---|
| Legal Reserve .......................... | 5,583,240.10 EUR |
| Retained Earnings ................... | 106,081,561.83 EUR |

**Statements for legal purposes**

Under the Law, the Board of Directors is required to provide the following information:

a) In addition to the facts referred above, and those that, in greater detail, are given in the Report that accompanies the Group's Consolidated Financial Statements for 2003, no other situation has come to the Board of Director's knowledge after the end of the year that warrants special mention;

b) Under the terms of Article 21 of Decree-Law nº 411/97, from 17 October, there are no moratory debts in payment to the Social Security;

c) Under the terms of the paragraph 2, article 324 of the Portuguese Commercial Companies Code, there were no purchases or sales of Own Shares, and therefore the number of Own Shares held at the end of 2003 was the same as on 31 December 2002: 171,800.

Lisbon, 9 March 2004

The board of Directors

# INFORMATION CONCERNING THE STAKES HELD IN THE COMPANY BY MEMBERS OF THE BOARD OF DIRECTORS AND STATUTORY AUDITOR AS AT 31 DECEMBER 2003

*(As provided in article 447 of the Portuguese Commercial Companies Code and under the terms of sub-paragraph b), paragraph 1 of article 7 of the Portuguese Securities Market Commission (CMVM) Regulation nº 24/2000)*

## BOARD OF DIRECTORS

| Members of the Board of Directors | Held on 31.12.02 | | | Increasings during the year | | | Decreases during the year | | | Held on 31.12.03 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Bonds | Warrants | Shares | Bonds | Warrants | Shares | Bonds | Warrants | Shares | Bonds | Warrants |
| Elisio Alexandre Soares dos Santos | 27.281 | - | 773 | | 2.500.000 | | 12.000 | | 773 | 15.281 | 2.500.000 | - |
| Hans Eggerstedt | 3.000 | - | - | | | | | | | 3.000 | - | - |
| José Luís Nogueira de Brito | 16.133 | | - | | | | | | | 16.133 | - | - |
| Pedro Manuel de Castro Soares dos Santos[1] | 23.014 | 704.901 | - | | | | 5.000 | 269.949 | | 18.014 | 434.952 | - |
| Luís Maria Viana Palha da Silva | - | - | - | | | | | | | - | - | - |
| António Mendo Castel-Branco Borges | - | - | - | | | | | | | - | - | - |
| Rui Manuel de Medeiros d`Espiney Patrício | - | - | - | | | | | | | - | - | - |
| Álvaro Carlos Gonzalez Troncoso | - | - | - | | | | | | | - | - | - |

Notes:

[1] – In 2001, JMARTINS bond issues were converted into euros. The 938 bonds held, resulted in 704.901 bonds with nominal value of 0,01 euros. That information was not referred in previous statements.

**Detail of the year movements**:

<u>Elísio Alexandre Soares dos Santos</u>:
**Sold**: in 13 November 5.000 shares at price 9,00 euros, in 14 November 2.000 shares at price 9,10 euros, in 18 November 1.000 shares at price 9,49 euros, in 19 November 1.000 shares at price 9,75 euros, in 21 November 1.000 shares at price 9,80 euros, in 24 November 1.000 shares at price 9,80 euros and in 28 November 1.000 shares at price 9,13 euros.
**Bought**: in 12 August 2.500.000 bonds JM/97 Coupon zero, at the price 0,01 euros.

JMARTINS/96 bonds were redeemed in September 2003 and the outstanding *warrants* extinguished.

<u>Pedro Manuel de Castro Soares dos Santos</u>:
**Sold**: in 30 October 2.500 shares at price 7,33 euros and 2.500 shares at price 7,35 euros.

JMARTINS/96 bonds were redeemed in September 2003, at the nominal value 0,01 euros.

## <u>STATUTORY AUDITOR</u>

As at 31 December 2003, the Statutory Auditor Bernardes Sismeiro & Associados, SROC, Lda., did not hold any shares, bonds or warrants of Jerónimo Martins, SGPS, S.A. and had not made any transactions with Jerónimo Martins, SGPS, S.A. securities.

## LIST OF SHAREHOLDERS WITH QUALIFYING STAKES AS AT 31 DECEMBER 2003

*(Under the terms of articles 447 and 448 of the Portuguese Commercial Companies Code and for the purposes of section e), paragraph 1 of article 6 of the Portuguese Securities Market Commission (CMVM) Regulation nº 11/2000 and in the terms of the Portuguese Securities Code)*

| Shareholder | Nº of shares held | % Capital | % of Voting Rights* |
|---|---|---|---|
| **Sociedade Francisco Manuel dos Santos, SGPS, SA** | | | |
| Directly | 55.541.472 | 57,941% | 58,045% |
| **Strand Ventures Inc.**** | | | |
| Directly | 7.946.239 | 8,290% | 8,304% |
| Through Fitron Management Ltd. (Held at 100% by Strand Ventures, Inc.) | 3.177.836 | 3,315% | 3,321% |
| Through Multiplus Investments Ltd. (Held at 100% by Strand Ventures, Inc.) | 3.963.583 | 4,135% | 4,142% |
| Total Attributable | 15.087.658 | 15,739% | 15,768% |

* (% Voting rights = Nº shares held / (Total Nº JM shares – Own shares))

** Under the terms and for the purposes of paragraph 3, article 16 of Portuguese Securities Code (CVM), the stakes held directly and indirectly by Strand Ventures Inc must be imputed, according to paragraph 1, article 20 of the CVM to the following companies:
- Banco Privado Português (Cayman) Ltd., under a portfolio management contract for the entire stake in Jerónimo Martins, SGPS, SA;
- Banco Privado Português, SA, under an agreement with several shareholders of Strand Ventures allowing it to elect the majority of the members of the board of directors.

Note: JMARTINS/96 bonds were redeemed in September 2003 and the outstanding *warrants* (1.403.869) held by Sociedade Francisco Manuel dos Santos, SGPS, S.A. have been extinguished.

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R. Tierno Galvan, Torre 3, 9º, Letra J
**1099 - 008 LISBOA**

## BALANCE SHEET AS AT 31 DECEMBER 2003 AND 2002

(amounts in euro thousand)

| | 2003 | | | 2002 |
|---|---|---|---|---|
| **Assets** | **Gross assets** | **Depreciations and provisions** | **Net assets** | **Net assets** |
| **Fixed assets** | | | | |
| **Intangible assets** | | | | |
| Research and development expenses | 247 | 221 | 26 | 75 |
| | 247 | 221 | 26 | 75 |
| **Tangible assets** | | | | |
| Land and natural resources | | | | 176 |
| Buildings and other constructions | 130 | 20 | 110 | 755 |
| Transport equipment | 121 | 121 | - | 16 |
| Tools and utensils | 2 | 2 | - | 1 |
| Office equipment | 1,622 | 1,381 | 241 | 309 |
| Other tangible assets | 389 | 227 | 162 | 261 |
| | 2,264 | 1,751 | 513 | 1,518 |
| **Financial investments** | | | | |
| Investments in group companies | 506,184 | 272,279 | 233,905 | 211,935 |
| Loans to group companies | 817,616 | 23,806 | 793,810 | 749,426 |
| Investments in associated companies | - | - | - | 5,199 |
| Investments in property and securities | 20,561 | 3,205 | 17,356 | 25 |
| | 1,344,361 | 299,290 | 1,045,071 | 966,585 |
| **Current assets** | | | | |
| **Accounts receivable - short term** | | | | |
| Trade debtors | 373 | - | 373 | 9,430 |
| Subsidiaries and associated companies | 1,010 | - | 1,010 | 33,591 |
| State and other public entities | 220 | - | 220 | 664 |
| Other debtors | 2,867 | 187 | 2,680 | 445 |
| | 4,470 | 187 | 4,283 | 44,130 |
| **Cash and cash equivalents** | | | | |
| Bank deposits | 6,354 | | 6,354 | 6,347 |
| Cash | 10 | | 10 | 12 |
| | 6,364 | | 6,364 | 6,359 |
| **Accruals and deferrals** | | | | |
| Accrued income | 2,228 | | 2,228 | 1,425 |
| Deferred costs | 926 | | 926 | 536 |
| | 3,154 | | 3,154 | 1,961 |
| **Total depreciations** | | **1,972** | | |
| **Total provisions** | | **299,477** | | |
| **Total assets** | **1,360,860** | **301,449** | **1,059,411** | **1,020,628** |

To be read together with the attached notes to the Individual Financial Statements

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## BALANCE SHEET AS AT 31 DECEMBER 2003 AND 2002

(amounts in euro thousand)

| Shareholders' equity and liabilities | 2003 | 2002 |
|---|---|---|
| **Shareholders' equity** | | |
| Share capital | 479,293 | 479,293 |
| Own shares - nominal value | (859) | (859) |
| Own shares - discounts and premiums | (5,201) | (5,201) |
| Share premium | 22,452 | 22,452 |
| Adjustments on investments in subsidiaries and associates | 1 | 1 |
| Reserves: | | |
| Legal Reserves | 22,054 | 22,054 |
| Reserves for incorporation into share capital | - | 12,424 |
| Reserves for own shares | 6,060 | 6,060 |
| Other reserves | 366,429 | 354,005 |
| Retained earnings/losses | (215,716) | (9,489) |
| | 674,513 | 880,740 |
| Net profit/loss for the year | 111,665 | (206,227) |
| **Total shareholders's equity** | 786,178 | 674,513 |
| **Liabilities** | | |
| **Provisions for risks and contingencies** | | |
| Pension provisions | 17,055 | 15,077 |
| Other provisions | 4,205 | 19,943 |
| | 21,260 | 35,020 |
| **Accounts payable - medium and long term** | | |
| Bank debt | 25,000 | - |
| Bond loans: | | |
| Bond loans with share redemption option | - | 169,919 |
| Non convertible bond loans | 40,000 | - |
| Suppliers of fixed assets | 56 | - |
| | 65,056 | 169,919 |
| **Accounts payable - short term** | | |
| Bond loans: | | |
| Bond loans with share redemption option | 180,760 | - |
| Non convertible bond loans | - | 93,327 |
| Bank debt | 3,472 | 22,966 |
| Suppliers - trade creditors | 385 | 230 |
| Subsidiaries and associated companies | 371 | 20,327 |
| Shareholders | 7 | 7 |
| Suppliers of fixed assets | 59 | 55 |
| State and other public entities | 327 | 1,606 |
| Other creditors | 6 | 223 |
| | 185,387 | 138,741 |
| **Accruals and deferrals** | | |
| Accrued costs | 1,530 | 2,435 |
| | 1,530 | 2,435 |
| **Total liabilities** | 273,233 | 346,115 |
| **Total shareholders' equity and liabilities** | **1,059,411** | **1,020,628** |

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## PROFIT AND LOSS ACCOUNT FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

(amounts in euro thousand)

| Costs and losses | 2003 | 2002 |
|---|---|---|
| Cost of goods sold and materials consumed | | |
| Goods | - | - |
| Materials | - | - |
| Supplies and external services | 4,166 | 6,227 |
| Staff Costs: | | |
| Salaries and wages | 2,094 | 2,356 |
| Social security charges: | | |
| Pensions | 2,652 | 352 |
| Others | 484 | 456 |
| Depreciation and amortisation | 243 | 383 |
| Provisions | 275 | |
| Taxes | 130 | 190 |
| Other operating costs and losses | 52 | 98 |
| **(A)** | 10,096 | 10,062 |
| Losses in group and associated companies | - | - |
| Amortisation and provisions for financial investments | 11 | 4,326 |
| Interest and similar costs: | | |
| Related to group and associated companies | 319 | 819 |
| Others | 18,406 | 32,778 |
| **(C)** | 28,832 | 47,985 |
| Extraordinary costs and losses | 10,650 | 364,535 |
| **(E)** | 39,482 | 412,520 |
| Income tax | 47 | 53 |
| Deferred taxes | - | 27,761 |
| **(G)** | 39,529 | 440,334 |
| Profit/loss for the year | **111,665** | (206,227) |
| | 151,194 | 234,107 |

| Income and gains | 2003 | 2002 |
|---|---|---|
| Sales: | | |
| Goods | - | - |
| Products | - | - |
| Services rendered | 12,507 | 23,921 |
| Production variation | - | - |
| Own work capitalised | - | - |
| Supplementary income | 77 | 81 |
| Subsidies to the operation | - | - |
| Other operating income and gains | - | - |
| **(B)** | 12,584 | 24,002 |
| Income from financial investments | 98,137 | 90,089 |
| Income from trading securities and other financial investments: | | |
| Related to group and associated companies | - | - |
| Others | 192 | 7 |
| Other interest and similar income: | | |
| Related to group and associated companies | 2,483 | 17,495 |
| Others | 2,298 | 29,157 |
| **(D)** | 115,694 | 160,750 |
| Extraordinary income and gains | 35,500 | 73,357 |
| **(F) Total income** | 151,194 | 234,107 |

| | 2003 | 2002 |
|---|---|---|
| **Operating profit (B) - (A) =** | **2,488** | **13,940** |
| **Financial earnings/losses (D-B) - (C-A) =** | **84,374** | **98,825** |
| **Current profit/loss (D) - (C) =** | **86,862** | **112,765** |
| **Profit/loss before taxes (F) - (E) =** | **111,712** | **(178,413)** |
| **Profit/loss for the year (F) - (G) =** | **111,665** | **(206,227)** |

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## INCOME STATEMENT BY FUNCTIONS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

(amounts in euro thousand)

| | Notes | 2003 | 2002* | 2002 |
|---|---|---|---|---|
| Services rendered | | 13,758 | 25,267 | 23,921 |
| Cost of services rendered | | (8,016) | (9,747) | (9,806) |
| Gross profit | | 5,742 | 15,520 | 14,115 |
| Other operating revenues and gains | | 296 | 948 | 934 |
| Administrative costs | | (938) | (235) | (235) |
| Other operating costs and losses | | (1,732) | (457) | (271) |
| Operating profit | | 3,368 | 15,776 | 14,543 |
| Net financial costs | 6 | (18,344) | 8,932 | 10,369 |
| Gain/losses in subsidiaries and associated companies | | 98,359 | 105,745 | 90,001 |
| Gain/losses in other investments | | 4,662 | (3,787) | 88 |
| Non-recurrents profits/losses | 9 | 23,667 | (305,079) | (293,414) |
| Current profit/loss | | 111,712 | (178,413) | (178,413) |
| Income taxes | 8 | (47) | (27,814) | (53) |
| Profit/loss after income taxes | | 111,665 | (206,227) | (178,466) |
| Extraordinary results | | - | - | (27,761) |
| | | 111,665 | (206,227) | (206,227) |
| Change in accounting policies | | | | |
| Net profit/loss | | **111,665** | **(206,227)** | **(206,227)** |
| Basic earnings per share - Euros | 20 | 1.167 | (2.155) | (2.155) |
| Diluted earnings per share - Euros | 20 | 1.145 | (2.046) | (2.046) |

** restated, by aplication of IAS 1 - see note 4*

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## BALANCE SHEET AS AT 31 DECEMBER 2003 AND 2002

(amounts in euro thousand)

| | Notes | 2003 | 2002 |
|---|---|---|---|
| **Assets** | | | |
| Tangible assets | 10 | 513 | 1,518 |
| Intangible assets | 11 | 26 | 75 |
| Investments in subsidiaries | 13.1 | 227,620 | 205,651 |
| Investments in joint-ventures | 13.2 | 6,285 | 6,285 |
| Loans to subsidiaires | 14 | 793,815 | 749,479 |
| Available for sale investments | 15 | 14,897 | 5,224 |
| **Total non-current assets** | | 1,043,156 | 968,232 |
| Fixed assets held for sale | 12 | 2,459 | - |
| Taxes receivable | 16.3 | 220 | 664 |
| Loans to subsidiaires | 14 | 1,005 | 33,445 |
| Trade dedtors, accrued income and deferred costs | 17 | 6,207 | 11,928 |
| Cash and cash equivalents | 18 | 6,364 | 6,359 |
| **Total current assets** | | 16,255 | 52,396 |
| **Total assets** | | **1,059,411** | **1,020,628** |
| **Shareholders' equity and liabilities** | | | |
| Share capital | 19 | 479,293 | 479,293 |
| Share premium | | 22,452 | 22,452 |
| Own shares | | (6,060) | (6,060) |
| Reserves | 19 | 394,543 | 394,543 |
| Retained earnings | | (104,050) | (215,715) |
| **Total shareholders' equity** | | 786,178 | 674,513 |
| Borrowings | 21 | 65,056 | 169,940 |
| Employee benefits | 25 | 17,055 | 15,077 |
| Provisions | 22 | 4,205 | 19,943 |
| **Total non-current liabilities** | | 86,316 | 204,960 |
| Trade creditors and accrued costs | 23 | 2,035 | 3,092 |
| Borrowings | 21 | 184,555 | 136,457 |
| Taxes payable | 16.3 | 327 | 1,606 |
| **Total current liabilities** | | 186,917 | 141,155 |
| **Total shareholders' equity and liabilities** | | **1,059,411** | **1,020,628** |

To be read together with the attached notes to the Individual Financial Statements

**Jerónimo Martins, SGPS, S.A.**
**Public Company**
Registered with the Lisbon registrar of Companies under no. 8 122
Share capital € 479 293 220 Corporate tax no. 500 100 144
R. Tierno Galvan, Torre 3, 9º, Letra J
1099 - 008 LISBOA

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(amounts in euro thousand)

| | Notes | Share Capital | Share Premium | Own shares | Reserves | Retained earnings | Shareholders' equity |
|---|---|---|---|---|---|---|---|
| Balance sheet at 1 January 2002 | | 479,293 | 22,452 | (6,060) | 394,543 | (9,487) | 880,741 |
| Reclassification of IT leases: IAS 17 | | | | | | (1) | (1) |
| Net losses in 2002 | | | | | | (206,227) | (206,227) |
| Balance sheet at 31 December 2002 | | 479,293 | 22,452 | (6,060) | 394,543 | (215,715) | 674,513 |
| Net profits in 2003 | | | | | | 111,665 | 111,665 |
| Balance sheet at 31 December 2003 | | 479,293 | 22,452 | (6,060) | 394,543 | (104,050) | 786,178 |

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**1099 - 008 LISBOA**

## CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

(amounts in euro thousand)

| | Notes | 2003 | 2002 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash received from customers | | 20,637 | 27,505 |
| Cash paid to suppliers | | (8,281) | (8,958) |
| Cash paid to staff | | (3,248) | (3,312) |
| Cash generated from operations | | **9,108** | **15,235** |
| Interest and similar costs paid | | (8,991) | (23,895) |
| Income taxes paid | | 397 | 897 |
| Other payments/receivings related to the operating activities | | 700 | (3,590) |
| **Cash flow from operating activities (1)** | | **1,214** | **(11,352)** |
| **Investment activities** | | | |
| Disposals of subsidiaries | 31.4 | 2,346 | 21,232 |
| Disposals of available for sale investments | 15 | 2,695 | 6,959 |
| Reimbursement of loans and capital contributions from subsidiaries | 14 | 71,432 | 844,211 |
| Disposals of tangible assets | 10 | 58 | 27 |
| Interest received | | 1,755 | 18,886 |
| Dividends received | | 98,229 | 89,998 |
| Acquisition and capital increase of subsidiaries | 13.1 | (37,106) | (151,090) |
| Acquisition of available for sale investments | 15 | (10,343) | (7,164) |
| Loans and capital contributions given to subsidiaries | 14 | (62,832) | (728,465) |
| Acquisition of tangible assets | 10 | (128) | (84) |
| **Cash flow from investment activities (2)** | | **66,106** | **94,510** |
| **Financing activities** | | | |
| Received from loans | 21 | 65,000 | 16,260 |
| Interest and similar income received | | 372 | 549 |
| Reimbursement of loans | 21 | (132,688) | (100,017) |
| **Cash flow from financing activities (3)** | | **(67,316)** | **(83,208)** |
| **Net increase in cash and cash equivalents (4)** | | **5** | **(50)** |
| Cash and cash equivalents at the beginning of period | | 6,359 | 6,409 |
| Cash and cash equivalents at the end of period | 18 | **6,364** | **6,359** |

To be read together with the attached notes to the Individual Financial Statements

Note: The year 2002 was restated by the introduction of IAS 1. The profit related to financial services rendered was reclassificated from the financing activity to operating activity (in the amount of 1.751 euro thousand)

## Index to Notes to Individual Financial Statements

## 1. Activity

Jerónimo Martins, SGPS, S.A. (JMH) is the parent company of Group Jerónimo Martins (the Group) and has its head office in Lisbon. The activity of JMH results mostly from management of investments in Group companies. JMH employs 47 people (64 in 2002).

Group Jerónimo Martins is essentially devoted to the production, distribution and sale of foodstuffs and other fast moving consumer goods products. The Group operates in Portugal and Poland, and employs 27,868 people (30,722 in 2002, including businesses disposed during the year).

JMH is listed on Euronext Lisbon (ex-Lisbon and Oporto Stock Exchange) since 1989.

## 2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are as follows:

### 2.1 Basis of preparation

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

Jerónimo Martins presents consolidated financial statements, since the financial year of 2000, in accordance with generally accepted accounting principles in Portugal, with the derogation required to make them conform to the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and with the interpretations of the IASB Standings Interpretation Committee (SIC).

In 2003, Jerónimo Martins decided also to apply the principles referred above in the preparation of its individual financial statements.

No adjustment to previous years occurred with this change, as a result of an effort made since 2000 to match the two bases for the preparation of the financial statements. As a result, a few reclassifications were made in the items presented in the financial statements by functions (see note 4).

The JMH individual financial statements were prepared in accordance with the historical cost principle, except for fixed assets held for sale and available for sale investments referred to in note 2.9, which were stated at their market value.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

### 2.2 Recognition of revenue

**Services rendered**

Revenues from the services rendered are recognised as income in accordance with their stage of completion as of the balance sheet date.

**Rents**

Rents received for the lease of fixed assets held for sale are recognised as financial revenues in the income statement in the period to which they relate.

**Net financial costs**

Net financial costs represent the interest on borrowings, the interest on investments made, dividends, foreign exchange gains and losses, gains and losses in financial instruments that do not qualify for hedge accounting, gains and losses in the valuation of fixed assets held for sale, costs and income with financing operations.

Net financial costs are accrued in the income statement in the period in which they are incurred. Dividends are recognised as revenues at the time they are declared.

### 2.3 Foreign currency transactions

Foreign currency transactions are recorded, on initial recognition in euros, by applying to the foreign currency amount the exchange rate between euro and the foreign currency at the date of the transaction.

At the balance sheet date, foreign currency cash assets and liabilities are reported using the closing exchange rate and the exchange differences arising are recognised in the income statement.

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

| | **Rate on 31 December 2003** |
|---|---|
| Sterling Pound | € 1.4188 |

### 2.4 Derivatives

The company uses derivatives with the sole intention of managing financial risks its subject to. In accordance to its financial policies, the company does not enter into speculative positions.

Although the derivatives carried currently in its books correspond to effective economic hedges against the risks to be hedged, not all of them qualify as hedge instruments for accounting purposes, according to IAS39 rules. Those that do not qualify as hedge instruments are booked on the Balance sheet at fair value and changes to that amount are recognized in the Profit and Loss statements.

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

### 2.5 Hedging operations

**Interest rate risk (cash flow hedge)**

Whenever the expectations surrounding movements in interest rates justify it, the company tries to anticipate its adverse impacts through the use of derivatives, such as interest rates swaps, caps and floors, forward rates agreements, etc. The selection process that each instrument is subject to, praises the economic contribution more than anything else. The implications of adding any new instrument to the portfolio of derivatives are also taken under account, namely, in terms of volatility reduction it brings to the earnings.

The instruments that qualify as cash flow hedging instruments, in accordance with IAS regulation, are booked at fair value on the Balance sheet. To the degree that they are considered effective, changes to their fair value are initially booked against equity and afterwards reclassified as financial expenses. This way, in net terms, all costs associated to the underlying exposure are carried at the interest rate fixed through the derivative instruments.

The profits or losses incurred with the unwinding of any of these interest rate swaps are recognised, through the income statement, on the unwinding date.

### 2.6 Operational leases

Lease payments under an operating lease are recognised as an expense in the income statement on a straight-line basis over the lease term.

### 2.7 Tangible assets

Assets are recorded at acquisition cost net of accumulated depreciation and impairment losses.

Gains and losses arising from disposals are determined as the difference between disposal proceeds and the carrying amount of the asset and are included in the operating profit (extraordinary results in statutory income statement).

Repairs and maintenance costs that do not extend the useful life of these assets are recognised as an expense in the income statement, when incurred.

**Accounting for leases**

Assets used under financial lease contracts in which the company substantially assumes all the risks and rewards of ownership of the leased asset are classified as tangible assets.

Financial lease contracts are recorded at inception as assets and liabilities for the lower of fair value of leased assets or present value of minimum lease payments.

The depreciation of leased assets is calculated based on the policy established by the company for tangible assets.

Rental payments are split into a financial charge and a reduction of the outstanding liability. Financial charges are recognised as costs over the lease period, so as to produce a constant periodic rate of return on the lessor's remaining net investment.

**Depreciation**

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

| | % |
|---|---|
| Buildings and other constructions | 2-10 |
| Tools and Utensils | 25 |
| Transport equipment | 25 |
| Office equipment | 10-25 |
| Other tangible assets | 10 |

## 2.8 Intangible assets

Intangible assets are stated at acquisition cost net of accumulated depreciation and impairment losses.

**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 expenditures are recognised as intangible assets when the technical feasibility of the product or process being developed can be demonstrated and the company has the intention and the capacity to complete their development and start trading or using them.

Capitalised development expenditure includes the cost of materials used, direct labour costs and a share of general expenditure.

**Computer software**

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

**Depreciation**

Depreciation is calculated by the straight-line method, on a duodecimal basis on acquisition cost. The most important annual depreciation rates are as follows (in %):

| | % |
|---|---|
| Development expenditure | 20-33.33 |

## 2.9 Financial investments

**Investments in subsidiaries, associates and joint ventures**

Investments in subsidiaries, associates and joint ventures are stated at cost. When so justified, provisions are set up for loss of value.

Investments other than subsidiaries, joint ventures or associated companies are classified as financial investments available for sale, and recognised in the balance sheet as non current assets.

These financial investments are marked to market, i.e., they are stated at the respective listed value as at balance sheet date. When there is medium term expectation of significant decrease of the value below the listed value, provisions are set up to reflect permanent losses.

If the investments are unlisted, they are stated at cost. When so justified, provisions are set up for loss of value.

Unrealised capital gains and losses are recognised directly in equity, until the financial asset is de-recognised, at which time the accumulated gain or loss previously recognised in equity is included in net gains or losses for the period.

Whenever potential losses represent more than 20% of the acquisition cost of available for sale investments, those losses are transferred from reserves to the income statement.

Loans to subsidiaries are stated at cost. When so justified, provisions are set up for loss of value.

**Fixed assets held for sale**

Fixed assets held for sale are recorded at market value as determined by specialised independent agents.

Changes in fair value of fixed assets held for sale are recognised in the income statement, in net financial costs, in accordance with IAS 40.

Whenever, as a result of changes in their expected use, tangible assets are transferred to the heading of fixed assets held for sale, the transfer value corresponds to their carrying amount, which should correspond to the respective market value on the date of transfer.

### 2.10 Customers and debtors

Customers and debtors' balances are recorded at nominal value net of the provision required to restate their expected recoverable amount.

### 2.11 Cash and cash equivalents

The heading of cash and cash equivalents includes cash, deposits on hand and short-term investments.

### 2.12 Impairment

Except for fixed assets held for sale (Note 2.9), all other company assets are considered at each balance sheet date in order to assess indications of possible impairment losses.

The recoverable amount of an asset is estimated when there is any indication of potential impairment loss. 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 medium and long-term receivables corresponds to the present value of estimated future receipts, using as discount rate the actual interest rate implicit in the original operation. For all other assets, the recoverable amount is the higher of net selling price 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.

**Reversal of impairment losses**

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.

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 was recognised.

### 2.13 Own shares (treasury shares)

Purchased own shares are shown at cost as a deduction in equity.

## 2.14 Dividends

Dividends are recognised as liabilities when they are declared.

## 2.15 Bond loans

**Zero-coupon bonds with share redemption option**

Zero-coupon bonds with share redemption option issued by the company are stated as liabilities at the respective value at issue and accrued every year of interest on outstanding principal. Issuance costs are recognised in the income statement during the loan's life.

**Other bond loans**

Bond loans are booked as liabilities at par. Issuance costs are recognised in the income statement during the loan's life.

## 2.16 Employee benefits

### 2.16.1 Post-employment benefits (retirement)

**Defined contribution plans**

Defined contribution plans are pension plans for which the company pays fixed contributions to an independent entity (a fund) and will have no legal or constructive obligation to pay any additional contribution if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The JMH's contributions to defined contribution plans are recognised as expenses at the time they are incurred.

**Defined benefit plans**

Defined benefit plans are pension plans where the company guarantees the attribution of a certain benefit to the employees included in the plan at the time such employees retire.

JMH's obligation for defined benefit plans is estimated every semester at the accounts closing date, for each plan separately, by a specialised independent agent. The actuarial valuation is made using the projected unit credit method. The discount rate is the interest rate on medium and long-term risk-free bonds. The obligation thus determined is shown in the balance sheet net of plan assets.

The year's current service costs, interest, return on plan assets and actuarial gains or losses are recognised as costs or income for the year.

The effect on defined benefit liability arising from improvements on the plan, related to past services costs, are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

## 2.17 Provisions

Provisions are booked in the balance sheet whenever the company has a present obligation (legal or constructive) 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.

## 2.18 Suppliers and other creditors

Suppliers and other creditors' balances are stated at their nominal value.

## 2.19 Income tax

Income tax includes current and deferred taxes. Income tax is recognised in the income statement except when relating to gains or losses directly recognised in equity, in which case it is also stated directly in equity.

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 book value of assets and liabilities and the respective tax base.

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

The rate used to determine deferred tax is that which should be in force in the period when temporary differences will be 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 utilised. Deferred tax assets are revised on an annual basis and reduced when it is no longer probable that they may be used.

### 2.20 Segment information

No segment information has been provided in these individual financial statements. Detailed information is presented in the consolidated financial statements.

## 3. Reconciliation between statutory operating profit and operating statement by functions

| | | |
|---|---|---|
| **Operating profit in the income statement by functions (ISF)** | 3,368 | 15,776 |
| Net financial costs (Statutory operating results) | (52) | (135) |
| Gain/losses in other investments (Statutory operating results) | 420 | 405 |
| Non recurrent profits/losses (Statutory operating results) | | (860) |
| Other operating costs and losses (Statutory financial results) | 26 | 23 |
| Other operating revenues and gains (Statutory financial results) | (15) | (14) |
| Sales and services rendered (Statutory financial results) | (1,671) | (1,751) |
| Other operating costs and losses (Statutory extraordinary results) | 691 | 895 |
| Other operating revenues and gains (Statutory extraordinary results) | (279) | (399) |
| **Statutory Operating Profit** | 2,488 | 13,940 |

Differences between statutory operating profit and operating profit in the ISF are: financial services rendered, stated as services rendered in ISF; lease of premises, considered as gains/losses in other investments.

## 4. Changes in accounting policies

As referred in Note 2.1, in the preparation of the financial statements for 2003, JMH applied, for the first time, the derogations required to comply with the International Accounting Standards (IAS) issued by the *International Accounting Standards Board* (IASB) and SIC interpretations (*Standings Interpretation Committee) of the* IASB.

### 4.1 Effects in the financial year of 2002

The income statement by functions for 2002 presented for comparative purposes was re-expressed in accordance with IAS 1. Only some items were reclassified, as follows:

| | **Restated** | **Reclassifications** | **Official** |
|---|---|---|---|
| Services rendered | 25,267 | 1,346 | 23,921 |
| Cost of services rendered | (9,747) | 59 | (9,806) |
| Gross profit | 15,520 | 1,405 | 14,115 |
| Other operating revenues and gains | 948 | 14 | 934 |
| Administrative costs | (235) | - | (235) |
| Other operating costs and losses | (457) | (186) | (271) |
| Operating profit | 15,776 | 1,233 | 14,543 |
| Net financial costs | 8,932 | (1,437) | 10,369 |
| Gains/losses in subsidiaries and associated companies | 105,745 | 15,744 | 90,001 |
| Gains/losses in other investments | (3,787) | (3,875) | 88 |
| Non recurrent profits/losses | (305,079) | (11,665) | (293,414) |
| Current profit/loss | (178,413) | - | (178,413) |
| Income taxes | (27,814) | (27,761) | (53) |
| Profit/loss after income taxes | (206,227) | (27,761) | (178,466) |
| Extraordinary results | - | 27,761 | (27,761) |
| Net profit/loss | **(206,227)** | **-** | **(206,227)** |

The reclassifications in current results concern differences in the presentation of: financial services rendered, lease of fixed assets held for sale, administrative bank expenses, foreign exchange differences in current payments/receipts, swaps and loans in foreign currencies, interest on loans to group companies and losses/profits with available for sale investments.

The amount of EUR 27,761 thousand, related with annulment of deferred tax assets in 2002, was reclassified to income taxes.

## 5. Staff costs

| | **2003** | **2002** |
|---|---|---|
| Wages and salaries | 2,094 | 2,356 |
| Social security | 329 | 379 |
| Pension costs | 2,652 | 352 |
| Other staff costs | 155 | 77 |
| | 5,230 | 3,164 |

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

The number of employees at the end of 2003 was 47 (2002 was 64).

The company's average number of employees during the year was 58 (89 in 2002)

## 6. Net financial costs

| | 2003 | 2002 |
|---|---|---|
| **Financial costs** | | |
| Interest expense | (14,965) | (16,983) |
| Changes to fair value in financial instruments that do not qualify for hedge accounting | (179) | - |
| Other financial costs | (3,570) | (5,668) |
| | (18,714) | (22,651) |
| **Financial income** | | |
| Interest income | 370 | 3,187 |
| | 370 | 3,187 |
| Foreign exchange profit | - | 28,396 |
| **Net financial costs** | (18,344) | 8,932 |

Other financial costs includes, among others, stamp tax and issuance costs related to medium/long term debt recognised in the income statement for the loan's term.

Changes to fair value in financial instruments that do not qualify for hedge accounting are referred in note 24.2.

## 7. Operational leases

Vehicle lease contracts entered by JMH are treated as operational leases. Those contracts do not include the renewal or purchase option at termination date, nor any amount relating to contingent rents. All contracts may be cancelled by means of prior notice and do not provide any type of restrictions concerning dividends or debt.

Future liabilities with operational leases are limited to penalties associated with the cancellation of contracts with one of our suppliers. These are as follows:

**Liabilities with operational leases**

| | 2003 |
|---|---|
| Payments in less that 1 year | 92 |
| Payments between 1 and 5 years | - |
| Payment in more that 5 years | - |
| **Total future payments** | 92 |

New contracts entered in 2003 include a clause-providing penalty for early cancellation. Contracts entered up to the end of 2002 did not provide any penalty.

Costs for the year relating to operational leases are as follows:

**Costs with leases reflected in the Net profit/loss of the year**

| | 2003 | 2002 |
|---|---|---|
| Transport equipment | 198 | 208 |
| **Total costs** | 198 | 208 |

## 8. Income tax recognised in the income statement

### 8.1 Current tax

Current tax is related to autonomous taxation, in the amount of EUR 47 thousand.

| | 2003 | 2002 |
|---|---|---|
| Current tax of the year | 47 | 53 |
| Deferred tax of the year | - | 27,761 |
| | 47 | 27,814 |

### 8.2 Reconciliation of the effective tax rate

| | 2003 | 2002 |
|---|---|---|
| Profit/loss before taxes | 111,712 | (178,413) |
| Income tax using the Portuguese corporation tax rate - 33% | (36,865) | 58,876 |
| Results not subject to taxation or not recoverable | 36,865 | (58,876) |
| Annulment of deferred taxes from previous years | - | 27,761 |
| Autonomous taxation | 47 | 53 |
| Income tax of the year | 47 | 27,814 |
| Effective tax rate | (0.04%) | 15.59% |

## 9. Non-recurrent profits/losses

| | 2003 | 2002 |
|---|---|---|
| Loss on the disposal of Lillywhites | (50) | (1,455) |
| Loss on the disposal of Sonsorol | - | (3,354) |
| Loss on the disposal of JMD Brasil | - | (447) |
| Increase/decrease of financial investments provisions | 5,677 | (278,881) |
| Increase/decrease of provisions for other risks or contingencies | 16,013 | (19,943) |
| Gains on the disposal of Oniway | - | 95 |
| Gains on the disposal of Water Business | - | 12,428 |
| Gains on the disposal of Hussel | 2,027 | - |
| Swap exchange differences | - | (13,534) |
| Other non-recurrent profit/loss | - | 12 |
| | 23,667 | (305,079) |

Unusual results for 2002 were mostly influenced by the selling of financial investments and potential losses also associated to financial investments.

Unusual results for 2003 were significantly influenced by a decrease in the provision for risks and contingencies (see note 22).

## 10. Tangible assets

The company owns a property in Vila Franca de Xira (land and building), which was leased to a group company until 2003. At the end of this year, the property was considered held for sale, being transferred from tangible assets to fixed assets held for sale (investments in property and securities in the statutory accounts) in the net amount of EUR 844 thousand – see note 12.

The company started in 2002 an operational streamlining process involving the centralisation of its administrative services, which resulted in a decrease in the premises needed to develop its activity. Therefore, following the release of some premises during 2003, the company made some write-offs of improvements in buildings (the net amount of these write-offs totalled EUR 139 thousand).

**10.1 Changes occurred during the year**

Gross assets

| Tangible assets | Opening balance | Increases | Disposals | Transfers and write-offs | Closing balance |
|---|---|---|---|---|---|
| Land and natural resources | 176 | - | - | (176) | - |
| Buildings and other constructions | 1,226 | 87 | - | (1,183) | 130 |
| Transport equipment | 414 | - | (269) | (24) | 121 |
| Tools and utensils | 2 | - | - | - | 2 |
| Office equipment | 1,870 | 102 | - | (350) | 1,622 |
| Other tangible assets | 866 | - | - | (477) | 389 |
| | 4,554 | 189 | (269) | (2,210) | 2,264 |

Depreciation and impairment losses

| Tangible assets | Opening balance | Increases | Disposals | Transfers and write-offs | Closing balance |
|---|---|---|---|---|---|
| Buildings and other constructions | 471 | 24 | - | (475) | 20 |
| Transport equipment | 398 | - | (269) | (8) | 121 |
| Tools and utensils | 1 | 1 | - | - | 2 |
| Office equipment | 1,561 | 131 | - | (311) | 1,381 |
| Other tangible assets | 605 | 39 | - | (417) | 227 |
| | 3,036 | 195 | (269) | (1,211) | 1,751 |
| Net value | 1,518 | | | | 513 |

**10.2 Equipment under financial lease**

JMH has IT equipment under financial leases. These leases include a purchase option at the end of the contract and do not include any amount relating to contingent rents or any restriction of any nature concerning dividends or debt.

Unsettled liabilities on financial lease contracts are referred in note 21.6. The value of assets under financial lease are shown below:

| | Opening balance | Increases | Decreases | Closing balance |
|---|---|---|---|---|
| **IT Equipment** | | | | |
| Tangible assets | 171 | 96 | - | 267 |
| Accumulated depreciation | (107) | (47) | - | (154) |
| Total | 64 | 49 | - | 113 |
| Depreciation for the period | | | | 47 |

### 10.3 Guarantees

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

## 11. Intangible assets

Intangible fixed assets are made up of research and development expenses and include expenses borne with the implementation of the SAP information system, which became operational in 1999, in the amount of EUR 247 thousand.

**Changes occurred during the year**

Gross assets

| | Opening balance | Increases | Disposals | Transfers and write-offs | Closing balance |
|---|---|---|---|---|---|
| **Intangible assets** | | | | | |
| Research and development expenses | 247 | - | - | - | 247 |
| | 247 | - | - | - | 247 |

Amortisation and impairment losses

| | Opening balance | Increases | Disposals | Transfers and write-offs | Closing balance |
|---|---|---|---|---|---|
| **Intangible assets** | | | | | |
| Research and development expenses | 172 | 49 | - | - | 221 |
| | 172 | 49 | - | - | 221 |
| Net value | 75 | | | | 26 |

## 12. Fixed assets held for sale

As described in Note 10, in 2003 the property of Vila Franca de Xira (land and building) was considered for sale, being transferred from tangible assets to fixed assets held for sale.

| | **2003** |
|---|---|
| **Opening balance** | - |
| Transfer from tangible assets (net) | 844 |
| Revaluation of the asset | 1,626 |
| Depreciation | (11) |
| **Closing balance** | 2,459 |

In June 2003, based on independent evaluations, the property was revaluated in the amount of EUR 1,626 thousand, reflected in financial results.

## 13. Investments in subsidiaries and joint ventures

### 13.1 In subsidiaries

| | **2003** | **2002** |
|---|---|---|
| Net value at 1 January | 205,651 | 344,653 |
| Increases | 37,106 | 151,090 |
| Decreases | (319) | (111,000) |
| Increase in provisions | (14,818) | (234,582) |
| Decrease in provisions | - | 55,490 |
| Net value at 31 December | 227,620 | 205,651 |

During the year, JMH carried out a capital increase in its subsidiary Hermes in the amount of EUR 37,076 thousand and purchased a direct stake in Imocash for EUR 30 thousand (see note 31.3). It sold the stake of EUR 319 thousand held in Hussel, SA (see note 31.4).

### 13.2 In joint-ventures

The investments in joint ventures were EUR 6,285 thousand (2002: EUR 6,285 thousand). See note 32.

## 14. Loans to group companies

| **Non-current borrowings** | **2003** | **2002** |
|---|---|---|
| Net value at 1 January | 749,479 | 649,065 |
| Increases | 118,211 | 728,212 |
| Decreases | (94,371) | (583,498) |
| Increase in provision | (9,871) | (44,300) |
| Decrease in provisions | 30,367 | - |
| Net value at 31 December | 793,815 | 749,479 |

| **Current borrowings** | **2003** | **2002** |
|---|---|---|
| Net value at 1 January | 33,445 | 292,708 |
| Increases | 710 | 132,431 |
| Decreases | (33,150) | (391,694) |
| Net value at 31 December | 1,005 | 33,445 |

Current loans bear interest at normal market rates. Non-current loans are entered as supplementary capital, and as such they do not bear interest.

## 15. Available for sale investments

| | 2003 | 2002 |
|---|---|---|
| BCP shares | 17,602 | 9,525 |
| Other investments | 25 | 25 |
| | 17,627 | 9,550 |
| Provision to the realisable amount (see note 22) | (2,730) | (4,326) |
| | 14,897 | 5,224 |

In 2003, the company purchased 6,676,266 shares of BCP – 688,065 of which were purchased in the capital increase of March 2003. During the year, the company sold 1,523,132 shares of BCP.

As of 31 December 2003, all BCP shares in the company's portfolio were marked to market – price as of 31 December 2003 of Euro 1.77 – Euronext Lisboa.

## 16. Taxes

### 16.1 Deferred tax assets and liabilities

JMH financial statements do not reflect any amount concerning deferred taxes on tax losses. This situation stems from the fact that medium and long term projections made by the Company do not foresee any tax profit in the next 6 years.

### 16.2 Unrecognised deferred taxes on tax losses

Unrecognised deferred taxes on tax losses are as follow:

| | 2003 | 2002 |
|---|---|---|
| Tax losses | 48,662 | 40,183 |
| Tax rate | 27.5% | 33.0% |
| Deferred tax assets (unrecognised) | 13,382 | 13,260 |

### 16.3 Taxes receivable and payable

| **Taxes receivable** | 2003 | 2002 |
|---|---|---|
| Income tax receivable | 220 | 664 |
| | 220 | 664 |
| **Taxes payable** | | |
| VAT payable | 183 | 1,422 |
| Income tax withheld | 70 | 95 |
| Social security | 36 | 51 |
| Municipal real estate tax | 38 | 38 |
| | 327 | 1,606 |

## 17. Trade debtors, accrued income and deferred costs

| | 2003 | 2002 |
|---|---|---|
| Subsidiaries and associated companies | 3,011 | 9,522 |
| Suppliers debt balances | 1 | 412 |
| Staff | 23 | 12 |
| Other debtors | 18 | 21 |
| Accrued income | 2,228 | 1,425 |
| Deferred costs | 926 | 536 |
| | 6,207 | 11,928 |

Amounts entered in subsidiaries and associated companies concern mainly invoices issued to group companies relating to services provided of various natures.

Accrued income corresponds to EUR 17 thousand of interest receivable, EUR 90 thousand of volume rebates on communications and EUR 2,121 thousand relating to the rendering of technical and administrative services to subsidiaries and joint-ventures.

The deferred costs heading includes EUR 15 thousand of pre-paid rents, EUR 768 thousand of expenses with bond and commercial paper issues, EUR 17 thousand of insurance premiums and EUR 11 thousand of other costs relating to future years but paid in 2003 or when not paid, already invoiced by the relevant entities.

## 18. Cash and cash equivalents

| | 2003 | 2002 |
|---|---|---|
| Bank deposits | 14 | 7 |
| Short-term investments | 6,340 | 6,340 |
| Cash and cash equivalents | 10 | 12 |
| | 6,364 | 6,359 |

## 19. Capital and reserves

### 19.1 Share capital and share premium account

Authorised share capital is represented by 95,858,644 ordinary shares (2002: 95,858,644), at par value EUR 5 (five Euros) each.

Holders of ordinary shares are entitled to receive dividends, as decided by the General Meeting, and have one vote per each 100 shares held. There are no preference shares. The rights inherent in the shares held by the company in portfolio are suspended until such shares are again placed in the market.

During the year 2003, no changes occurred in the amount of EUR 22,452 thousand showed in share premium account.

### 19.2 Own shares

The reserve for own shares reflects the cost of shares held by the company in portfolio. As of 31 December 2003, the company held 171,800 own shares (2002: 171,800).

### 19.3 Reserves

The amount EUR 394,453 thousand shown in reserves is due to previous years profits.

**Restriction on distribution of reserves**

- EUR 6,060 thousand: correspond to the acquisition costs of the own shares (article 324 of Portuguese Commercial Companies Code);

- EUR 22,054 thousand: correspond to legal reserves (articles 218, 295 and 296 of Portuguese Commercial Companies Code);

- EUR 104,050 thousand: correspond to losses recorded in retained earnings.

### 19.4 Dividends

Considering the company's results in 2003, and with a view to reinforcing equity, the Board of Directors of Jerónimo Martins SGPS, S.A. will propose to the General Meeting that no dividends be distributed this year, as was the case in preceding years.

## 20. Earnings per share

### 20.1 Basic earnings per share

Basic earnings per share are calculated based on the net profit of EUR 111,665 thousand (2002: loss of EUR 206,227 thousand) attributable to ordinary shareholders and on weighted average outstanding ordinary shares, numbering 95,686,844 (2002: 95,686,844).

### 20.2 Weighted average outstanding shares

| | 2003 | 2002 |
|---|---|---|
| Ordinary shares issued at beginning of year | 95,858,644 | 95,858,644 |
| Own shares at beginning of year | 171,800 | 171,800 |
| | 95,686,844 | 95,686,844 |

### 20.3 Diluted earnings per share

Diluted earnings per share are calculated based on the net profit of EUR 112,954 thousand (2002: loss of EUR 204,284 thousand) attributable to ordinary shareholders and on diluted average ordinary shares, numbering 98,614,158 (2002: 99,828,200).

### 20.4 Diluted net results attributable to ordinary shareholders

| | 2003 | 2002 |
|---|---|---|
| Net profit/(loss) of the year attributable to ordinary shareholders | 111,665 | (206,227) |
| Effect (net of tax) of interest on warrants (until September 15) | 1,289 | 1,983 |
| Diluted net profit/(loss) of the year attributable to ordinary shareholders | 112,954 | (204,244) |

### 20.5 Diluted weighted average ordinary shares

| | 2003 | 2002 |
|---|---|---|
| Weighted average ordinary shares | 95,686,844 | 95,686,844 |
| Warrants conversion effect (until September 15) | 2,927,314 | 4,141,356 |
| Diluted weighted average ordinary shares | 98,614,158 | 99,828,200 |
| Results per share – Euros | 1.167 | (2.155) |
| Diluted results per share – Euros | 1.145 | (2.046) |

## 21. Borrowings

This note provides information on the terms of the loan contracts and other forms of financing. For further details regarding the company's exposure to interest rates see note 24.

**Current and non-current loans**

| | 2003 | 2002 |
|---|---|---|
| **Non-current loans** | | |
| Bank loans | 25,000 | - |
| Bond loans | 40,000 | 169,919 |
| Financial lease liabilities | 56 | 21 |
| | 65,056 | 169,940 |
| **Current loans** | | |
| Bond loans | 180,760 | 93,327 |
| Bank overdrafts | 3,472 | 22,966 |
| Loans from subsidiaries | 266 | 20,133 |
| Financial lease liabilities | 57 | 31 |
| | 184,555 | 136,457 |

### 21.1 Loan terms and maturities

| | Average rate | Total | Payable in less than 1 year | Payable between 1 and 5 years |
|---|---|---|---|---|
| Bank loans: commercial paper | 3.72% | 25,000 | - | 25,000 |
| Bond loan: JMH/97 | 6.38% | 180,760 | 180,760 | - |
| Bond loan: JMH/03 | 4.13% | 40,000 | - | 40,000 |
| Bank overdrafts | 3.60% | 3,472 | 3,472 | - |
| Financial lease liabilities | 6.07% | 113 | 57 | 56 |
| Loans from subsidiaries | 3.90% | 266 | 266 | - |
| | | 249,611 | 184,555 | 65,056 |

### 21.2 Bond loans

| | 2003 | 2002 |
|---|---|---|
| Zero-coupon bonds with share redemption option | 180,760 | 169,919 |
| Bonds with warrants | - | 93,327 |
| Non-convertible bonds | 40,000 | - |
| | 220,760 | 263,246 |

**Zero-coupon bonds**

In December 1997 the Company issued 25 million JMH zero-coupon bonds, which, when translated into euros were transformed into 12,469,947,419 bonds, par value EUR 0.01 each. As the call option was not exercised in December 2002, these bonds may be redeemed at maturity, in December 2004, either in cash or against the issue of JM shares. The cash or shares payment option lies solely with the issuer. The interest rate is fixed at 6.38%.

**Bonds with warrants**

In September, reached to maturity JMH/96 loan of 2,281,761 bonds with Jerónimo Martins warrants, par value PTE 8,200, which, when translated into euros, were transformed into 9,332,728,225 bonds, par value EUR 0,01.

**Non-convertible bonds**

In October 2003, the company issued 8 million non-convertible bonds, par value EUR 5. These bonds mature in October 2008 and the interest rate is variable.

As of 31 December 2003, the redemption dates of bond loans were as follows:

| Year | Amount |
|---|---|
| 2004 | 180,760 |
| 2008 | 40,000 |
| | 220,760 |

### 21.3 Bank loans: Commercial paper

In September 2003, the company borrowed EUR 25 million, under a Commercial Paper programme, with maturity in September 2008. The interest rate is variable and JMH can reimburse the loan at any time.

### 21.4 Warrants

The 1.656.542 outstanding warrants (at issue they were 2.281.761), related with bond loan JMH/96 have been extinguished with the maturity of the bond loan, in September.

### 21.5 Financial lease liabilities

The responsibilities with financial leases are as follow:

| | 2003 | 2002 |
|---|---|---|
| Payments in less than 1 year | 61 | 33 |
| Payments between 1 and 5 years | 60 | 22 |
| | 121 | 55 |
| Payment of future interest | (8) | (3) |
| Present value of liabilities | 113 | 52 |

### 22. Provisions

| Items | Opening balance | Provisions set up | Provisions used | Closing balance |
|---|---|---|---|---|
| Doubtful debtors | 187 | - | - | 187 |
| Investments in subsidiaries | 257,461 | 14,818 | - | 272,279 |
| Loans to subsidiaries | 44,300 | 9,872 | 30,367 | 23,805 |
| Available for sale investments | 4,326 | - | 1,596 | 2,730 |
| Employee benefits | 15,077 | 2,608 | 630 | 17,055 |
| Other risks and contingencies | 19,943 | 275 | 16,013 | 4,205 |
| | 341,294 | 27,573 | 48,606 | 320,261 |

The provision for other risks and contingencies includes the amount of EUR 3,930 thousand related to the potential liabilities associated with negative shareholders' equity of one subsidiary and the amount of EUR 275 thousand for staff costs payable in 2004.

## 23. Trade creditors and accrued costs

| | 2003 | 2002 |
|---|---|---|
| Payables to subsidiaries | 105 | 194 |
| Other commercial creditors | 391 | 239 |
| Other non-commercial creditors | 9 | 224 |
| Accrued costs | 1,530 | 2,435 |
| | 2,035 | 3,092 |

The heading accrued costs is made up of salaries and wages payable in the amount of EUR 590 thousand, interest payable in the amount of EUR 592 thousand, retirement benefits payable in the amount of EUR 78 thousand and valuation of financial instruments in the amount of EUR 179 thousand (see note 24.2). The remaining EUR 91 thousand corresponds to various costs (utilities, insurance, consultants, rents, etc.), relating to 2003 and not invoiced by the respective entities prior to the end of the year.

## 24. Financial instruments

### 24.1 Interest rate risk

**Portfolio of Interest Rate Derivates (IRD)**

The company uses derivatives, such as swaps and options, to manage its exposures to interest rate risks. Derivatives are efficient, low cost tools to hedge against adverse effects on cash flows associated with debt service payments, namely interests due.

At the end of 2003, the company had the following positions open in IRD:

| *Designation* | *Trade date* | *Notional* | *Mark-to-Market* |
|---|---|---|---|
| KO Cap | 14-Nov-03 | €10,000,000 | (€36,525) |
| Maxi Cap Floored | 10-Dec-03 | €10,000,000 | (€142,924) |
| **Total** | **-** | **€20,000,000** | **(€179,449)** |

Description of the operations:

1. KO Cap

| | |
|---|---|
| Start: | 12-Mar-04 |
| End: | 12-Sep-08 |
| Exposure: | Commercial Paper issued in Sep/03 (5 years loan) |
| JMH pays: | a) if Index < 3.345%, JMH pays Index;<br>b) if 3.345% < Index < Barrier, JMH pays 3.345%,<br>c) if Index > Barrier, JMH pays Index.<br>All payments are made in a base Act/360, semi-annually (March and September). |
| JMH receives: | Euribor 3m, "set in advance", in a base Act/360, quarterly (March, June, September e December) |
| Index: | Euribor 12m, "set in arrears" |
| Barriers: | The level of the barrier floats according to the coupon |

| Coupon | Barriers |
|---|---|
| 2 | 3.75% |
| 3 | 4.25% |
| 4 | 4.50% |
| 5 | 4.65% |
| 6 | 5.00% |
| 7 | 5.10% |
| 8 | 5.30% |
| 9 | 5.50% |
| 10 | 5.50% |
| | |

2. Maxi Cap Floored

| | |
|---|---|
| Start: | 05-Apr-04 |
| End: | 03-Oct-08 |
| Exposure: | Bond loan issued in Oct/03 (5 years loan) |
| JMH pays: | a) if Index < 2.20%, JMH pays 2.20%;<br>b) if 2.20% < Index < 2.45%, JMH pays Index;<br>c) if 2.45% < Index < Barrier, JMH pays 2.45%;<br>d) if Index > Barrier, JMH pays Index.<br>All payments are made in a base Act/360, semi-annually (April e October), |
| JMH receive: | Euribor 6m, "set in advance", in a base Act/360, semi-annually (April e October) |
| Index: | Max {US Libor 12m "set in advance", Euribor 12m "set in advance"} |
| Barriers: | The level of the barrier floats according to the coupon |

| Coupon | Barriers |
|---|---|
| 2 | 3.85% |
| 3 | 4.25% |
| 4 | 4.65% |
| 5 | 5.00% |
| 6 | 5.40% |
| 7 | 5.65% |
| 8 | 5.85% |
| 9 | 6.00% |
| 10 | 6.10% |

### 24.2 Impacts on Financial Statements

The impact on financial statements of the instruments referred above was a financial cost of EUR 179 thousand entered against trade creditors and accrued costs.

## 25. Employee benefits

### 25.1 Defined contribution plans for employees, in third party managed fund

The company had a defined benefit plan for its employees, with a third party managed fund.

The above pension plan was changed to a defined contribution plan, by a decision of the Executive Board. This measure allows controlling the costs incurred with the attribution of benefits and at the same time encourages employee participation in their own retirement arrangements. This change took effect on 1 June 2003.

The defined contribution plan was maintained for former employees who at the date of the change were receiving complementary retirement benefits.

The liabilities arising from the former plan, yet unfunded, as well as the contributions under the new plan are recognised in the financial statements.

**Movements on the year:**

| | |
|---|---|
| Liabilities at 1 January 2003 | 35 |
| Staff costs on the year | 43 |
| Contributions on the year | - |
| Liabilities at 31 December 2003 | 78 |

The amount of EUR 78 thousand are recognised in liabilities, under trade creditors and accrued costs.

**25.2 Group managed defined benefit plans for former employees**

The liabilities arising from these plans are secured directly by the company. Independent agents also assess these plans every six months. According to the actuarial valuation referred to 31 December 2003 these liabilities are fully provided for, in the amount of EUR 17,055 thousand, recognised in employee benefits.

**Movements on the year:**

| | **2003** | **2002** |
|---|---|---|
| Balance on 1 January 2003 | 15,077 | 15,315 |
| Staff costs on the year | 2,608 | 411 |
| Retirement pensions paid in | (630) | (649) |
| Balance on 31 December 2003 | 17,055 | 15,077 |

**Actuarial assumptions used:**

| | |
|---|---|
| Mortality table | TV 73/77 |
| Difference between rate of return and pension growth rate | 3% |

**26. Guarantees**

The guarantees given to D.G.C.I (Portuguese Tax Authority) amounts to EUR 56 thousand.

**27. Contingencies**

As referred in note 22, JMH holds a stake in a company that has a negative shareholders' equity. The company set up a provision for financial investments that reduces investment down to zero. Additionally, there is a provision for risks and contingencies relating to potential liabilities associated with negative shareholders' equity.

**28. Related parties**

**28.1 Benefits attributed to directors**

Directors of Jerónimo Martins, SGPS, S.A. board are entitled to complementary retirement benefits, providing they have been board members for at least 10 years, and retire at 65 years old in the function.

This benefit corresponds to a complementary pension so as to receive an amount equivalent to the net salary earned as of retirement date.

**28.2 Remuneration paid to directors**

The members of the board of directors received the following remuneration:

| | **2003** | **2002** |
|---|---|---|
| Executive directors | 907 | 907 |
| Non-executive directors | 90 | 95 |
| | 997 | 1,002 |

The remunerations mentioned above, that includes the total of all companies, are referred to 3 executive directors and 4 non-executive directors of Jerónimo Martins, SGPS, S.A.

## 29. Subsidiaries, joint-ventures and available for sale investments

The direct investments owned by JMH, at 31 December 2003, are as follows:

| Companies | Notes | Head Office | % Owned | Stake held directly | Total assets | Shareholders's equity | Net profit/loss |
|---|---|---|---|---|---|---|---|
| INVESTMENTS IN SUBSIDIARIES: | | | | | | | |
| Jerónimo Martins – Distrib. de Prod. de Consumo, Lda. | a) | Lisboa | 100.0% | 1,746 | 29,656 | 4,241 | 2,146 |
| Recheio, SGPS, S.A. | a) | Lisboa | 15.93% | 23,850 | 913,757 | 666,546 | 23,146 |
| Desimo – Desenvolvimento e Gestão Imobiliária, Lda. | a) | Lisboa | 100.00% | 50 | 532 | 158 | -24 |
| JMR - Gestão de Empresas de Retalho, SGPS, SA | a) | Lisboa | 51.00% | 168,300 | 1,331,546 | 1,018,295 | 43,451 |
| Comespa-Gestão de Espaços Comerciais, S.A. | a) | Lisboa | 51.00% | 26 | 1,721 | 156 | 113 |
| Jerónimo Martins Serviços, S.A. | a) | Lisboa | 100.00% | 50 | 1,714 | 48 | -643 |
| Servicompra - Consultores de Aprovisionamento, Lda | a) | Lisboa | 96.00% | 5 | 198,966 | 198,883 | 6,450 |
| Imocash – Imobiliário de Distribuição, S.A. | a) | Lisboa | 1.00% | 30 | 52,939 | 7,537 | 1,623 |
| Larantigo – Sociedade de Construções, S.A. | a) | Lisboa | 0.20% | 1 | 5,308 | 5,193 | 63 |
| Hermes - Soc. de Invest. Mobiliários e Imobiliários, Lda. | a) b) | Funchal | 99.99% | 999 | 40,943 | 40,897 | 1,314 |
| Eva – Soc. de Investimentos Mobiliários e Imobiliários, Lda | a) | Funchal | 5.60% | 28 | 710,641 | 710,620 | 43,066 |
| PSQ – Soc. de Investimentos Mobiliários e Imobiliários, Lda | a) | Funchal | 11.00% | 55 | 87,432 | 87,431 | 12,361 |
| Friedman – Soc. de Investim. Mobiliários e Imobiliários, Lda | a) | Funchal | 100.00% | 5 | 174,686 | 174,684 | 6,609 |
| JMFC1 – Jerónimo Martins Finance Company, Limited | a) b) d) | Dublin | 100.00% | 100 | 9,166 | -3,592 | 6,014 |
| JM Holdings UK, Ltd | a) b) | Londres | 100.00% | 8,312 | 70 | 70 | -27 |
| Soc. Com. de Representações Socorel Lda | a) b) | Angola | 90.00% | 7 | c) | c) | c) |
| Empal - Emp. Ind. de Produtos Alimentares, Lda. | a) b) | Angola | 60.00% | 18 | c) | c) | c) |
| INVESTMENTS IN JOINT-VENTURES: | | | | | | | |
| Fima/VG - Distribuição de Produtos Alimentares, Lda | | Lisboa | 60.00% | 5,400 | 334,639 | 76,571 | 15,170 |
| LeverElida – Distrib. de Prod. Limp. e Higiene Pessoal, Lda. | | Lisboa | 40.00% | 2,000 | 210,695 | 51,468 | 22,590 |
| IgloOlá - Distribuição de Gelados e UltraCongelados, Lda | | Lisboa | 26.00% | 1,300 | 218,863 | 60,279 | 12,480 |
| AVAILABLE FOR SALE INVESTMENTS (IN PORTUGUESE GAAP: PROPERTY AND SECURITIES): | | | | | | | |
| BCP - Banco Comercial Português, S.A. | b) | Porto | 0.26% | 8,403 | 67,687,984 | 2,851,208 | 437,654 |
| Locanda Avis do Chiado, S.A. | | Lisboa | 6.20% | 17 | c) | c) | c) |

a) For the purposes of article 486, paragraph 3, of the Portuguese Commercial Companies Code, we declare that we hold the control of the companies indicated.
b) A value adjustment provision has been set up
c) Not available
d) This company presents annual financial statements ending November 30

This information corresponds to the information required by the note 16 of the annex to the balance sheet and to the profit and loss account, in accordance with the statutory accounts.

## 30. Group Companies – Direct and indirect stakes

Table below describes the companies directly and indirectly held by Jerónimo Martins, SGPS, SA, as of 31 December 2003 according to business areas:

Retail Portugal

| Companies | Head Office | % Owned |
|---|---|---|
| JMR – Gestão de Empresas de Retalho, SGPS, S.A. | Lisbon | 51.00 |
| Pingo Doce – Distribuição Alimentar, S.A. | Lisbon | 51.00 |
| Supertur – Imobiliária, Comércio e Turismo, S.A. | Lisbon | 51.00 |
| Feira Nova – Hipermercados, S.A. | Lisbon | 51.00 |
| Bazar Novo – Distribuição de Produtos Não Alimentares, Lda. | Lisbon | 51.00 |
| Gestiretalho – Gestão e Consultoria para a Distribuição a Retalho, S.A. | Lisbon | 51.00 |
| Imoretalho – Gestão de Imóveis, S.A. | Lisbon | 51.00 |
| Bento & Martins, Lda | Lisbon | 51.00 |
| Casal de São Pedro – Administração de Bens, S.A. | Lisbon | 51.00 |
| Jerónimo Martins Finance Company (2), Limited | Dublin (Ireland) | 51.00 |
| EVA – Sociedade de Investimentos Mobiliários e Imobiliários, Lda. | Funchal | 51.00 |
| Moser & Branco – Distribuição Alimentar, S.A. | Carregal do Sal | 51.00 |
| Cunha & Branco – Distribuição Alimentar, S.A. | Águeda | 51.00 |
| Electric Co – Distribuição de Produtos não Alimentares, Lda. | Lisbon | 51.00 |
| Dantas & Vale, S.A. | Lisbon | 51.00 |

Madeira

| Companies | Head Office | % Owned |
|---|---|---|
| Funchalgest– Sociedade Gestora de Participações Sociais, S.A. | Funchal | 75.50 |
| João Gomes Camacho, S.A. | Funchal | 75.50 |
| Lidosol II – Distribuição de Produtos Alimentares, S.A. | Funchal | 75.50 |
| Idole–Utilidades, Equipamentos e Investimentos Imobiliários,Lda. | Lisbon | 75.50 |
| Lidinvest – Gestão de Imóveis, S.A. | Funchal | 75.50 |

Cash & Carry

| Companies | Head Office | % Owned |
|---|---|---|
| Recheio, SGPS, S.A. | Lisbon | 100.00 |
| Recheio-Cash & Carry, S.A. | Lisbon | 100.00 |
| Noredis – Sociedade de Representações e Distribuição do Norte, S.A. | Lisbon | 100.00 |
| Imocash – Imobiliário de Distribuição, S.A. | Lisbon | 100.00 |
| Larantigo – Sociedade de Construções, S.A. | Lisbon | 100.00 |
| PSQ – Sociedade de Investimentos Mobiliários e Imobiliários, Lda. | Funchal | 100.00 |

Services

| Companies | Head Office | % Owned |
|---|---|---|
| Jerónimo Martins – Distribuição de Produtos de Consumo, Lda. | Lisbon | 100.00 |
| Caterplus – Comercialização e Distribuição Produtos de Consumo, Lda. | Lisbon | 49.00 |
| Hussel Ibéria – Chocolates e Confeitaria, S.A. | Lisbon | 51.00 |
| Jerónimo Martins – Restauração e Serviços, S.A. (ex. Centro Dominó) | Lisbon | 100.00 |

Retail Poland

| Companies | Head Office | % Owned |
|---|---|---|
| Belegginsmaatschappij Tand B.V. | Rotterdam (Holland) | 100,00 |
| Jerónimo Martins Dystrybucja Sp. Zo.o | Poznan (Poland) | 100.00 |
| Sklepy Spozywece Sp. zo.o | Poznan (Poland) | 99.98 |
| Twoje Sklepy Spozywece Sp. zo.o | Poznan (Poland) | 100.00 |
| Tip Marken – Discount Handelsgesellschaft mbh | Sarstedt (Germany) | 100.00 |
| PITT Sp. Zo.o | Poznan (Poland) | 100.00 |

Industry

The above mentioned companies results from the joint-venture with Unilever Group:

| Companies | Head Office | % Owned |
|---|---|---|
| Fima/VG Distribuição de Produtos Alimentares, Lda. | Lisbon | 60.00 |
| Fima - Produtos Alimentares, S.A. | Lisbon | 60.00 |
| Victor Guedes – Indústria e Comércio, S.A. | Lisbon | 60.00 |
| LeverElida – Distribuição de Produtos de Limpeza e Higiene Pessoal, Lda. | Lisbon | 40.00 |
| Indústrias Lever Portuguesa, S.A. | Lisbon | 40.00 |
| IgloOlá – Distribuição de Gelados e Ultracongelados, Lda. | Lisbon | 26.00 |
| Iglo – Indústria de Gelados, S.A. | Lisbon | 26.00 |
| Gelcasa – Comercialização de Gelados e Ultracongelados, S.A. | Lisbon | 26.00 |

Other

| Companies | Head Office | % Owned |
|---|---|---|
| JM Holdings UK, Ltd | London (England) | 100.00 |
| Hermes–Sociedade Investimentos Mobiliários e Imobiliários, Lda. | Funchal | 100.00 |
| Friedman - Sociedade Investimentos Mobiliários e Imobiliários ,Lda. | Funchal | 100.00 |
| Jerónimo Martins Finance Company (1), Limited | Dublin (Ireland) | 100.00 |
| Desimo – Desenvolvimento e Gestão Imobiliária, Lda. | Lisbon | 100.00 |
| Jerónimo Martins – Serviços, S.A. | Lisbon | 100.00 |
| Servicompra – Consultores de Aprovisionamento, Lda. | Lisbon | 100.00 |
| Jerónimo Martins Retail Services, S.A. | Klosters (Switzerland) | 51.00 |
| Comespa - Gestão de Espaços Comerciais, S.A. | Lisbon | 51.00 |

## 31. Transactions with related parties

Note: transactions with related parties are always carried out at market prices.

### 31.1 Technical and administrative services provided

JMH provides a set of technical, administrative and management services to operational companies within the Group. These services are debited to respective companies according to the following criteria:

**Joint-ventures**

The amount of services rendered is calculated based on the number of hours spent with these companies by each employee of each department of the holding. The number of hours is then valued according to the value/hour of each employee.

**Subsidiaries**

The amount of rendered services is calculated based on incurred costs, taking into account the weight of each company on the Group, weighed according to a pre-set allocation key. A 10% mark-up is applied on the amount of incurred costs. This sum does not include the debit to a Swiss subsidiary, which complies with Swiss tax rules.

In the light of the above, income from technical and administrative services provided during 2003 totalled EUR 12,087 thousand, as follows:

| Companies | Amount |
|---|---|
| Joint-ventures | 4,433 |
| Subsidiaries | 7,654 |
| Total | **12,087** |

**31.2 Financial services provided**

The Financial Operations Division of the holding ensures part of the financial management of Group companies. This management includes acting on behalf of the companies in the negotiation and contracting with banks and other financial institutions, debt conditions and application of funds. The purpose of this centralized management is to obtain more favourable conditions for funding and applications than would be obtained if negotiated on an individual basis.

This centralized management is remunerated, whenever the financial services provided to subsidiaries in 2003 totalled EUR 1,671 thousand.

**31.3 Acquisitions of subsidiaries**

In 2003, the company continued the restructuring process viewing the rationalization of Jerónimo Martins Group's portfolio and the organization of these companies according to business areas. In this sense, the company purchased to the subsidiary Bivol (liquidated in 2003) a 1% stake in Imocash, in the amount of EUR 30 thousand, and a 0.2% stake in LarAntigo, in the amount of EUR 0,1 thousand, which were both group companies.

**31.4 Disposals of subsidiaries**

During the year, the company sold its stake in Hussel Ibéria to its subsidiary Jerónimo Martins – Distribuição de Produtos de Consumo, for EUR 2,346 thousand. This sale was included in the restructuring process referred above, as the two companies share various resources, including human resources and premises.

**31.5 Lease of property**

JMH holds a warehouse in Vila Franca de Xira, which was leased to a subsidiary. Income from this lease totalled EUR 420 thousand.

JMH develops its activity in premises rented to a subsidiary, which represented costs of EUR 385 thousand.

**31.6 Supplementary Income**

JMH makes an annual debit to a joint-venture company relating to a commission on the sale of margarine. Jerónimo Martins held this brand when it set up the joint-venture, having agreed its assignment against an annual remuneration calculated based on the average price of the products sold during the year. This commission totalled EUR 77 thousand in 2003.

**31.7 Treasury Operations (current loans)**

Jerónimo Martins Group manages centrally treasury operations of all Group companies. Treasury operations between companies are used as a way to internally manage companies' liquidity. In this light, companies with surplus may lend funds to the parent company or its subsidiaries and shorted cash companies may temporarily receive treasury operations from the parent company or its subsidiaries.

**31.7.1 Interest received on loans to subsidiaries**

In 2003, interest received on short-term loans to subsidiaries totalled EUR 20 thousand.

### 31.7.2 Interest paid on loans from subsidiaries

In 2003, interest paid on short-term loans from subsidiaries totalled EUR 319 thousand.

### 31.8 Loans to subsidiaries (non-current loans)

Jerónimo Martins granted loans to subsidiaries, which generated interest in the amount of EUR 792 thousand.

### 31.9 Debts relating to staff

As a group, Jerónimo Martins takes advantage of the synergies existing amongst its various companies and frequently transfers staff from one company to another, according to the needs of the various businesses. In 2003, total costs incurred with personnel from other companies amounted to EUR 2,239 thousand.

### 31.10 Open balances as of 31 December 2003

| Companies | Loans obtained | Loans granted | Interest receivable | Interest payable | Accrued income | Accrued costs | Accounts payable to shareholders and group comp. | Clients | Suppliers | Other debtors |
|---|---|---|---|---|---|---|---|---|---|---|
| Joint-ventures | - | - | - | - | - | - | - | 155 | - | 1,161 |
| Subsidiary companies | 266 | 1,010 | 7 | 5 | 2,121 | 232 | 100 | 218 | 82 | 1,476 |
| | 266 | 1,010 | 7 | 5 | 2,121 | 232 | 100 | 373 | 82 | 2,637 |

## 32. Interests in joint ventures

The company has interests in the following joint ventures:

- Fima – This group of companies manufactures and sells food products, specifically edible fats and drinks, and private labels as well as Unilever Group brands, in which JMH holds 60% of the share capital;
- Lever - This group of companies manufactures and sells personal, home and industrial hygiene products for the hotel and food sectors. The brands marketed are the property of the Unilever Group, in which JMH holds 40% of the share capital.
- Iglo – This group of companies manufactures and markets ice cream and frozen and deep frozen food products under Unilever Group brands, in which JMH holds 26% of the share capital.

## 33. Information on environmental matters

As referred in the management report, there are no environmental matters likely to affect the company's financial performance and situation, and the company is unaware of any contingent liability or obligation concerning environmental matters. Likewise, the company did not recognise in its financial statements any relevant costs or investment of environmental nature.

## 34. Events after the balance sheet date

By the closing of this report, there are no relevant events that should be mentioned.

## COMPLEMENTARY INFORMATION

### 35. Reconciliation between Portuguese GAAP and IAS

Differences between accounting principles followed by JMH and Portuguese GAAP are as follows:

**Fixed assets held for sale**

JMH recognised revaluations of assets held for sale (IAS 40) in the profit and loss account, under financial results, while according to Portuguese GAAP, revaluations are entered against reserves in shareholders' equity.

As described in Note 12, the property in Vila Franca was revaluated in EUR 1,626 thousand and was entered in financial results for the year.

**Financial instruments**

JMH has financial instruments such as interest rate swaps (note 2.4 and 24), recognised in the financial statements at fair value, in accordance with IAS 39. Portuguese GAAP does not cover subject.

As described in note 24.2, the fair value of financial instruments resulted in a financial cost of EUR 179 thousand entered against trade creditors and accrued costs.

Lisbon, 9 of March 2004

The Certified Accountant                    The Board of Directors

BERNARDES SISMEIRO & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas

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# Report of the Auditors for Statutory and Stock Exchange Regulatory Purposes in respect of the Individual Financial Information

**(Free translation from the original version in Portuguese)**

## Introduction

1 As required by law, we present the Report of the Statutory Auditors for Stock Exchange Regulatory Purposes in respect of the Financial Information included in the Directors' Report and the financial statements of Jerónimo Martins, SGPS, SA., comprising the balance sheet as at 31 December 2003, (which shows total assets of Euros 1.059.411 thousand and a total of shareholder's equity of Euros 786.178 thousand, including a net profit of Euros 111.665 thousand), the statements of income by nature and by functions and the cash flow statement for the year then ended and the corresponding notes to the accounts.

## Responsibilities

2 It is the responsibility of the Company's Board of Directors (i) to prepare financial statements which present fairly, in all material respects, the financial position of the company, the results of its operations and cash flows; (ii) to prepare the historic financial information in accordance with generally accepted accounting principles in Portugal while also meeting the principles of completeness, truthfulness, accuracy, clarity, objectivity and lawfulness, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain an adequate system of internal control; and (v) the disclosure of any relevant matters which have influenced the activity and the financial position or results of the company.

3 Our responsibility is to verify the financial information included in the financial statements referred to above, particularly as to whether it is complete, truthful, accurate, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of expressing an independent and professional opinion on that financial information, based on our audit.

## Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations approved by the Institute of Statutory Auditors which require that we plan and perform the examination to obtain reasonable assurance about whether the financial statements are free of material misstatement. Accordingly, our examination included: (i) verification, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, and assessing the reasonableness of the estimates, based on the judgements and criteria of Management used in the preparation of the financial statements; (ii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iii) assessing the applicability of the going concern basis of accounting; (iv) assessing the overall presentation of the financial statements; and (v) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the financial information.

5 Our audit also covered the Directors' Report, having included the verification of its conformity with the financial information disclosed.

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

## Opinion

7 In our opinion, the financial statements referred to above, present fairly in all material respects, the financial position of Jerónimo Martins, SGPS, SA. as at 31 December 2003, the results of its operations and its cash flows for the year then ended in conformity with the generally accepted accounting principles in Portugal, modified to bring the accounts in line with the International Accounting Standards, as mentioned in note 2.1, and duly comply with principles of completeness, truthfulness, accuracy, clarity, objectivity and lawfulness.

## Emphasis

8 Without qualifying our opinion, we draw attention to the fact that, as mentioned in note 2.1, contrary to prior year, this year the individual financial statements were prepared in the same basis of the consolidated financial statements. As such, the qualification included in the report of 2002, is no longer applicable.

Lisbon, March 10, 2004

Bernardes, Sismeiro & Associados, S.R.O.C., Lda.
represented by:

José Manuel Oliveira Vitorino, R.OC.

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# Report and Opinion of the Statutory Auditors

## (Free Translation from the original in Portuguese)

To the Shareholders

1 In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the Directors' Report and the corresponding Financial Statements presented by the Board of Directors of Jerónimo Martins, SGPS, SA. with respect to the year ended 31 December 2003.

2 During the course of the year, we have accompanied the evolution of the company's activities, as and when deemed necessary, and have verified the timeliness and adequacy of the accounting records and supporting documentation. We have also ensured that the law and the company's statutes have been complied with.

3 As a consequence of our work, we have issued the attached Report of the Auditors for Statutory and Stock Exchange Regulatory Purposes in respect of the Individual Financial Information. Furthermore we have considered the Statutory Auditors' Report sent to the Board of Directors in which the audit procedures undertaken are described, as required by Article 451º of the Commercial Companies Code.

4 Within the scope of our mandate, we have verified that:

i) the Balance Sheet, the Statements of Income by nature and by functions, the Cash Flow Statement and corresponding Notes, present adequately the financial position and the results of the company;

ii) the accounting policies and valuation methods applied are appropriate;

iii) the Directors' Report is sufficiently clear as to the evolution of the business and the position of the company and highlights the most significant aspects.

iv) the proposed distribution of the results is adequately supported.

5 On this basis, and taking into account the information obtained from the Board of Directors and the company's employees, together with the conclusions in the Report of the Auditors for Statutory and Stock Exchange Regulatory Purposes in respect of the Individual Financial Information, we are of the opinion that:

i) the Director' Report be approved;

ii) the Financial Statements be approved;

iii) the proposed distribution of the results be approved.

Lisbon, March 10, 2004

The Statutory Auditor

Bernardes, Sismeiro & Associados, S.R.O.C., Lda.
represented by:

José Manuel de Oliveira Vitorino, R.O.C.

# JERÓNIMO MARTINS, SGPS, S.A.

PUBLIC COMPANY
Rua Tierno Galvan, Torre 3, Piso 9, Letra J – 1099-008 Lisboa
Registered with the Lisbon registrar of Companies under no. 8 122
Share Capital: 479.293.220 Euros
Corporate Tax No. 500 100 144

## EXCERPT OF THE ANNUAL GENERAL MEETING DRAFT MINUTES

Jerónimo Martins, SGPS, S.A.'s Annual General Meeting took place at 10:00 a.m., on the 15th of May, 2004, at Rua Actor António Silva, 7 – 15th floor, Lisbon.

(…)

Starting the Meeting, the Chairman of the Meeting after analysing and signing all the respective documentation, referred that all the legal requests were fulfilled so that the Meeting could legally meet and deliberate, being present or represented seventy seven comma fifty nine per cent of Shareholders.

(…)

The Chairman of the Meeting read the Summoning for the General Meeting and referred that he was going to start with the first and third issues which presentation and voting would be made together, if all shareholders present were in accordance.

(…)

Having occurred no other interventions, the Chairman of the Meeting announced that he was going to proceed with co-joint voting for the first and third issues under discussion, if all shareholders present were in accordance – resolution on the Management Report and Financial Statements for the year 2003 and the Consolidated Management Report and Financial Statements of 2003 – referring that, as is known by all shareholders, the Statutory Auditors opinion on this point is that the Management Report and Financial Statements should be approved, emphasizing only the fact that also this year, the Individual Financial Statements had been prepared in accordance with the IAS (international Accounting Standards).

Results of this voting were announced by the Chairman of the Meeting having the first and third issues on Agenda been approved by 99.30% of favourable Shareholders' votes, with 0.70% of abstentions.

(…)

Moving forward to the second issue on the Agenda – the resolution of the Proposal on Results' Application – the Chairman of the Meeting referred that on the Individual Financial Statements, the Board of Directors informed that Jerónimo Martins, SGPS, S.A., presented a net positive consolidated results of 58,246,452.75 euros (Fifty Eight Million, Two Hundred and Forty Six Thousand, Four Hundred and Fifty Two Euros and Seventy and Five Cents) and a net positive result in Individual Accounts of 111,664,801.93 euros (One Hundred and Eleven Million, Six Hundred and Sixty Four Thousand and Eight Hundred and one Euros and Ninety Three Cents), the Board of Directors proposed the following distribution for the net result of the exercise: the amount of 5,583,240.10 (Five Million, Five Hundred and Eighty Three Thousand and Two

Hundred and Forty Euros and Ten Cents) to Legal Reserve and the amount of 106,081,561.83 (One Hundred and Six Million, Eighty One Thousand and Five Hundred and Sixty One Euros and Eighty Three Cents) to Retained Earnings.

(…)

Results of this voting were announced by the Chairman of the Meeting having the second issue on Agenda been approved by 99.90% of favourable Shareholders' votes, with 0.10% of abstentions.

(…)

Since there were no more issues on the Agenda, the Chairman of the Meeting thanked all present for their collaboration and declared the Meeting over and ordered the elaboration of the present draft minutes which, after been read aloud and explained to all interested, will be signed by Chairman and secretary of the General Meeting.