

relatório & contas

annual 2006 report

corporate governance

O MARTINS



Instruções de Conservação:
 Conservar a -18 °C no Congelador



Frigorífico 5°C no inferior	1 hora
Congelador Sem estrelas (-18°C)	3 dias
* Uma estrela (-14°C)	1 semana
** Duas estrelas (-12°C)	1 mês
*** Três ou quatro estrelas (-10°C)	Até 3 dias indicados na embalagem

▶ **Gelado Magistic Amêndoas**
Valores nutricionais médios por 100 ml

Valor Energético (kJ/kcal)	869 kJ / 203 kcal
Proteínas	2,7 g
Hidratos de carbono, dos quais:	23,4 g
Açúcares	21 g
Amido	0,13 g
Lípidos, dos quais:	14,2 g
Saturados	9,1 g
monoinsaturados	2,6 g
poliinsaturados	0,4 g
Colésterol	0,9 mg
Fibras alimentares	0,3 g
Sódio	0,02 g

Seu método de gelado. O helado de conservados através da de durante a mistura e agitação

Dehora e paladar "gelado" se refere a diferentes gelados genericamente, "sem falar" de diferentes tipos de gelado típicos, de acordo com as tradições próprias de cada país - o "sorbet", de origem turca (sobretudo o "gelado" de origem italiana, por exemplo).

A maçã

▶ **Maçã tipo - Granny Smith**
 Origem - Portugal
 Cultura - 75/80

▶ **Características:**
 As maçãs Granny Smith são de um verde claro, embora algumas possam ter um tom rosado. São muito suculentas, crocantes e ligeiramente ácidas. Tendem para acedem ao ser consumidas fora do caso habitual. No local de origem, a maçã é utilizada no comércio para fazer produtos como compotas, marmeladas, geleias, entre outros.

Segurança nutricional
 A maçã é excelente para prevenir e manter a taxa de colesterol sanguíneo aceitável. Além disso, a presença de polifenóis, encontrados na casca. Também tem um efeito antioxidante para o organismo, pela a presença de flavonóides e a presença dos glicozídeos da pectina. O alto teor em potássio contribui para a redução da tensão arterial.



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1. DECLARATION OF COMPLIANCE

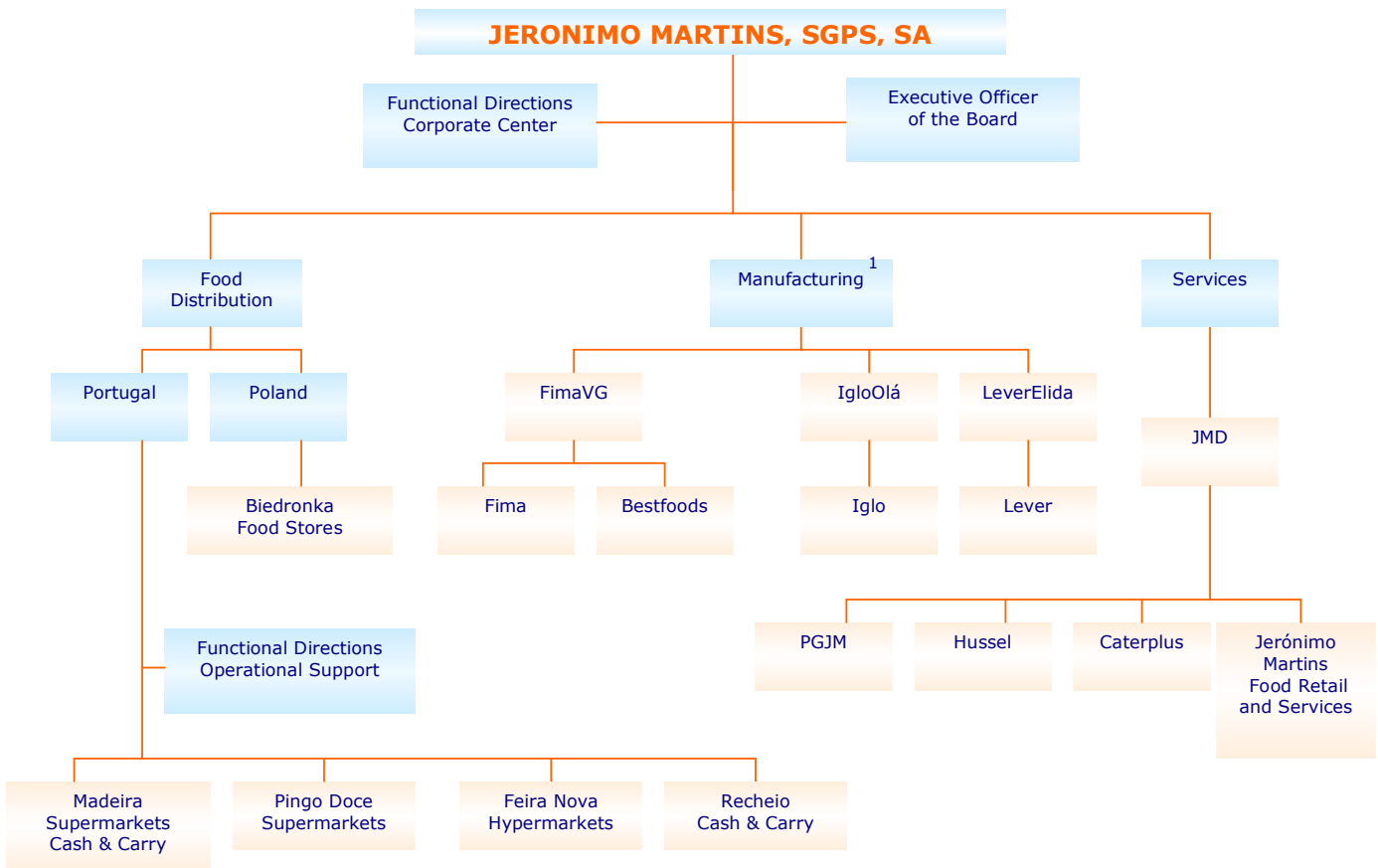
The Company fully complies with the recommendations of the Securities and Exchange Commission on the Governance of Listed Companies. The Company accepts, however, that in the light of the document in question, it might be thought that there has not been a complete response to the recommendation concerning the individual discrimination of remuneration paid to the Members of the Board of Directors.

In this respect, the Company maintains the view that there are other options for verifying the internal distribution of remuneration and assessing the relationship between the performance of each Company sector and the level of remuneration of the Members of the Board of Directors who are responsible for supervising these sectors. Such a requirement can be obtained by indicating the overall remuneration paid to the Executive Members, on the one hand, and the Non-Executive Members, on the other.

In addition, the Board of Directors believes that the internal and external sensitivity that such a disclosure could cause in no way contributes towards improving the performance of its members. Therefore, the Recommendation has been adopted as far as remunerations in collective terms are concerned, and by differentiating the amounts paid to Executive Members and Non-Executive Members, with reference to both the fixed and variable parts.

Likewise, the recommendation with regard to the General Meeting issuing a declaration on the Board of Directors remuneration policy was adopted, although it may be interpreted another way. In any event, it is believed that the purpose of this recommendation is entirely covered by the fact that the Annual Report submitted for endorsement by the Shareholders contains the information about the remuneration paid in the previous year, as well as the main guidelines to be followed by the Remuneration Committee. The Board of Directors believes that the existence of this Committee, elected by the Shareholders, enables compliance with the objectives which underpin this recommendation, and hence a further appreciation of the remuneration policy defined by this body would undermine its jurisdiction.

2. DISCLOSURE OF INFORMATION



2.1. Organizational Structure and Distribution of Responsibilities

The Jerónimo Martins Group is organized into three business areas: (i) Food Distribution, (ii) Manufacturing and (iii) Marketing, Representations and Restaurant Services. The former, in its turn, is organized into two geographical areas and Operating Divisions.

2.1.1. Operating Divisions

The organizational structure of the Jerónimo Martins Group is aimed mainly at ensuring specialization in the various Group businesses by creating geographical areas and Operating Divisions that guarantee the required proximity to the different markets.

As mentioned, the Food Distribution business is divided into Geographical Areas and currently has four Operating Divisions in Portugal - Pingo Doce (supermarkets), Feira Nova (hypermarkets), Recheio (cash & carry) and Madeira (supermarkets and cash & carries) - and an Operating Division in Poland - Biedronka (food stores).

* With effects as of January 1, 2007, Fima/VG - Distribuição de Produtos Alimentares, Lda., LeverElida - Distribuição de Produtos de Limpeza e Higiene Pessoal, Lda, IgloOlá - Distribuição de Gelados e Ultracongelados, Lda. and Unilever Bestfoods Portugal, Lda. were merged, originanting a single company, Unilever Jerónimo Martins, Lda..

Manufacturing operates in partnership with Unilever, in the Company Unilever Jerónimo Martins, Lda., which brought together from 1 January 2007, the businesses that up until then had been run separately by the FimaVG (Food Products), LeverElida (Detergents and Personal Products) and IgloOlá (Ice Cream) Companies.

Within the portfolio of the Group there is also a business area dedicated to Marketing, Representations and Restaurant Services, which includes: (i) JMD, managing the representation in Portugal of important international brands, some of which are market leaders, of fast-moving food products, some cosmetics premium brands and also mass market brands. JMD also includes Caterplus, specialists in the trade and distribution of specific products for Food Service; (ii) Hussel, a retail chain specialized in chocolates and confectionary, with 18 stores nationally; and (iii) Jerónimo Martins Restauração e Serviços, with the chain of coffee kiosks Jerónimo, the ice-cream stores Ben & Jerry's and Olá and also the Subway stores, which provide light, fast, healthy meals under the concept eat fresh.

2.1.2. Functional Operational Support Divisions

The Functional Divisions at operational level ensure that Group synergies are maximized through the sharing of resources and functions across the main markets, in order to optimise the efficiency of the Organization and the sharing of relevant skills and know-how.

The Functional Operational Support Divisions are: Sourcing, Logistics, Quality and Environmental Control, Financial and Information Systems. These Divisions are responsible for providing services to the various distribution operating divisions in Portugal, in accordance with the guidelines given by the Group's Holding Company. They are also responsible for ensuring standard of policies and internal procedures.

2.1.3. Holding Company Functional Divisions



As the Holding Company of the Group, Jerónimo Martins SGPS, S.A. is responsible for ensuring consistency between the established objectives and the available resources.

The Holding Company is responsible for: (i) defining and implementing the development strategy of the Group's portfolio; (ii) strategic planning and control of the various businesses and its consistency with global objectives; (iii) defining and controlling financial policies and (iv) defining human resources policy, with direct responsibility for implementing the Management Development Policy.

The Functional Divisions of the Holding Company provide support to the corporate centre and provide services to the operating and functional divisions of the Group Companies. They are organized in the following way:

Legal Affairs – Responsible for supervising the Group's corporate affairs and for ensuring strict compliance by all its Companies with legal obligations. Legal Affairs also assists the Board of Directors in preparing and negotiating contracts in which Jerónimo Martins is a party, and heads the development and implementation of strategies for the protection of the Group's interests in the case of legal disputes, and the management of external counselling.

In 2006, the Division focused its activity on overseeing the restructuring and expansion plans of the Group, as well as on compliance with company obligations in relation to the new requirements deriving from the change of the Portuguese Commercial Company Code.

Internal Audit – Assesses the quality and efficiency of the systems (both operational and non-operational) of internal control and risk control established by the Board of Directors, and ensures conformity with the Group's Manual of Procedures. The Division also guarantees full compliance with the procedures laid out in the Operations Manual of each business unit and ensures for compliance with the legislation and regulations applicable to the respective operations.

The activities carried out by this Functional Division can be found in detail later in this chapter.

Communication – Proposes and implements strategies for external and internal communication. It is also responsible for: media advise for the Holding Company and its subsidiaries, internal communications, patronage, communication in the area of Social Responsibility and the development of any article or event which may impact the image of Jerónimo Martins.

One of the highlights of 2006 in terms of external communication was the re-launch of the Group's corporate website, containing more in-depth and systematic information, aimed at better informing stakeholders about the Company and its subsidiaries. As regards the media, as well as daily clarifications and numerous press releases issued disclosed, two press conferences were held between the Media and members of the Group's Board of Directors.

As for internal communication, the most important tools of the Group were reformulated – the My.JM.pt portal, the in-house magazine "A Nossa Gente" and the magazine aimed at senior staff "Workout".

Consolidation and Accounts – Prepares consolidated financial information in order to comply with legal obligations and supports the Board of Directors, by implementing and monitoring the policies and the accounting principles adopted by the Board and

common to all the Companies of the Group. The Division also verifies compliance with the respective statutory obligations.

In 2006, activity was centred on supervising conformity with the accounting standards adopted by Jerónimo Martins, supporting the companies in the accounts assessment of all non recurrent transactions, as well as in the restructuring and expansion activities of the Group.

The year 2006 was also marked by the implementation of a new consolidation and reporting system, which together with the ongoing project to reformulate processes and upgrade the SAP used in Distribution in Portugal, will allow the Group to become even more flexible in the near future as regards disclosure of profits to the market.

Development and Strategy – Guarantees continuous assessment of the markets, identification of the risks, opportunities and major contingencies of the Group's activity in relation to its Vision, and critical analysis of the medium to long-term plans for the different business areas. Contributes with perspectives on strategic debates that lead to growth projects, both in the current portfolio and in new business areas, and to change initiatives aimed at optimising the value creation processes. It also ensures mechanisms to align priorities deriving from the strategic debate, and the common and general understanding of the main challenges that face the Organisation, leading to clear and objective communication.

In 2006 this Department was focussed on consolidating the market analysis processes and assessment of risks, opportunities and contingencies, as well as the building of alternative investment scenarios, within the framework of the Group's mission. Training and internal communication materials also continued to be produced as part of the "Management Orientation and Value Creation" programme, aimed at clarifying the notion of value creation and the underlying financial concepts, as well as highlighting the importance of having integrated business goals and individual goals, and promoting a culture of innovation.

Fiscal Affairs – Provides all the Group's Companies with assistance in fiscal matters, ensuring compliance with the current legislation as well as optimising the business unit's management activities from a fiscal viewpoint. The Division also manages Jerónimo Martins' tax disputes and its relations with external consultants and Tax Authorities.

In the course of its work in 2006, the Fiscal Affairs Department provided assistance to the Company's restructuring operations. Furthermore, special work was carried out with regard to the different taxes, and in particular in the areas of circulating goods and transport documents, to unify the policies adopted by the different Companies of the Group.

Finally, over the year 2006, the Fiscal Department collaborated on the filing of several procedures to better defend the interests of the Group before the Tax Authorities.

Financial Operations – This Division includes two distinct areas: Risk Management and Treasury Management. The activity of the area of Risk Management is dealt with in detail later in this chapter.

Treasury Management is responsible for managing relations with the banks that carry out, or intend to carry out, business with Jerónimo Martins, establishing the criteria that these entities must fulfil.

The Treasury is also in charge of planning, for all the Companies of the Group, the most suitable financial sources according to need. The kind of funding, corresponding terms cost and backup documentation must comply with the criteria established by Management. Likewise, the treasury is responsible for prosecuting the business with the banks, optimising these factors with a view to obtaining the best possible conditions at that time.

A large proportion of the Jerónimo Martins treasury activities are centralised in the Holding Company, which is a structure that provides services to the rest of the Companies of the Group. The National Distribution Companies are completely centralised while the Polish Distribution and Representation and Restaurant areas still work independently in relation to processing of payments to third parties.

Finally, it is the responsibility of the treasury to elaborate and comply with the treasury budget that is based on the activity plans of the Group's Companies.

The new investment phase of Jerónimo Martins, which began in 2006, led to the undertaking of activities to adapt the funding sources to the new assets that will serve as the backup for growth of the Group.

Planning and Control – Responsible for ensuring the definition and implementation of planning and control, policies and procedures (plans, budgets and investments); coordinates and supports the M&A activities of the Group.

In 2006 the process of investment approval and control was analysed in order to find ways of making it more flexible without losing any rigour, during a phase of considerable investment in all the businesses of the Group. Plans are in place for a new process to be implemented in 2007. In order to draw conclusions for future projects a follow-up audit was carried out of the investments made in new stores since 2002.

The Company and organisational structures of the Group were reworked, and different scenarios were presented, which will be implemented next year, with a view to simplifying management and maximising operational efficiency of the different competence areas.

Additionally agreement was reached with the Unilever Group to reorganise the Manufacturing's businesses in Portugal, which included sale of the frozen food business and culminated in the merger of the Distribution and Marketing Companies for food, detergents and personal care products, and ice cream, into a single company from 1 January 2007.

Finally, different acquisition operations were coordinated and/or concluded, such as the six stores acquired through transfers by Pingo Doce.

Special Projects– In collaboration with the various Operating Divisions of Food Distribution in Portugal, the Division's main objectives are: (i) to identify, prioritise and optimise existing processes within the Companies; (ii) to recognize new opportunities that may add value for customers; (iii) increase business profitability; (iv) increase productivity and improve competition in the markets in which they are present; and (v) to strengthen innovation processes, promote responsibility in those involved and integrate businesses and new information technologies.

The activities carried out by this Functional Division can be found in detail in chapter III.

Human Resources – Defines and implements global Human Resources strategies and policies for Human Resources to be applied across the whole Group, in particular to its managers. It is therefore responsible for drawing up Human Resources strategies, policies, standards and procedures, particularly in the areas of recruitment, training, performance management, career management and the salaries and benefits of the Group's Management staff. The Division is also responsible for coordinating new projects and for compliance with good Human Resources practices.

The activities carried out by this Functional Division, in 2006, can be found detailed on the Consolidated Management Report and Social Responsibility chapters.

Investor Relations - This Division is the interface with all investors - institutional and private, national and foreign - as well as the analysts who formulate opinions and recommendations regarding Jerónimo Martins' share price.

Besides guaranteeing the availability, through institutional channels, in particular the website of the CMVM (Securities Exchange Commission), of all information which may influence the price of stocks, the Division is responsible for providing general information and clarification regarding the different Business Areas.

The activities carried out by this Functional Division can be found in detail later in this chapter.

Security – Defines and controls procedures aimed at preserving the security of personnel and assets within the Group and monitors any matters involving the police or legal authorities, when required. The Department is also responsible for supporting the audit of security systems and risk prevention. The activities carried out by this Functional Division can also be found in detail in this chapter.

In 2006, the Security Department paid particular attention to the control of access to the store safes, in order to optimise the respective security procedures.

2.1.4. Departments under the supervision of Members of the Executive Committee

While their functions are carried out collectively, each Member of the Executive Committee holds supervisory responsibilities in certain specific areas, as follows:

Luís Palha da Silva (President): *Development and Strategy, Financial Area, Reporting and Operational Control, Investor Relations, Legal Affairs, Fiscal Affairs, Human Resources and Communication.*

Pedro Soares dos Santos: *Food Distribution Operations, including Sourcing, Logistics, Quality Control, Human Resources, Security and Information Systems.*

José Soares dos Santos: *Manufacturing Operations, Marketing Services, Representations and Restaurants.*

2.2. Specific Committees

2.2.1. The Ethics Committee

The Ethics Committee of the Jerónimo Martins Group currently comprises Mrs. Ana Vidal (Communication Director), who presides, Mr. Hugo Cunha (Recheio's Director of Human Resources), Mr. António Neto Alves (Director of the Legal Department of the Company), Professor Leslaw Kanski (Director of the Legal Department of Jerónimo Martins Dystrybucja) and Mrs. Ewa Micinska (Director of Labour Relations of Jerónimo Martins Dystrybucja). Reporting to the President of the Board of Directors, its mission is to provide independent supervision of the disclosure of, and compliance with, the Code of Conduct of the Group in all its Companies.

In performing its duties, the Ethics Committee: (i) establishes channels of communication with the targets of the Code of Conduct of the Jerónimo Martins Group and gathers information sent for this purpose; (ii) supervises the setting up of a suitable system of internal control of compliance with the Code of Conduct and assesses the recommendations arising from these controls; (iii) evaluates questions which, in terms of compliance with the Code of Conduct of the Group, may be submitted to it by the Board of Directors and by the Audit Committee, and makes a impartial analysis of any questions raised by employees, customers or business partner through the system of communication of alleged irregularities implemented; and (iv) submits to the Company's Board of Directors any measures it considers appropriate for adoption in this area, including the reviewing of internal procedures, as well as proposals for changing the Code of Conduct of the Jerónimo Martins Group.

In the course of 2006, the Ethics Committee met twelve times, and examined various questions, submitted to it by the Executive Committee, the Group's employees or by third parties. During the year the Ethics Committee submitted to the Executive Committee the Code of Conduct for the Group's Suppliers, which seeks to ensure that Suppliers adjust their social responsibility practices to those followed by the Company.

2.2.2. The Internal Control Committee

The Internal Control Committee, appointed by the Board of Directors and reporting to the Audit Committee, is specifically responsible for assessing the quality and reliability of the internal control system and the process of preparing financial statements, as well as assessing the quality of the monitoring process being used in the Companies of the Jerónimo Martins Group, with a view to assuring compliance with the laws and regulations to which they are subjected. In performing its tasks of assessing the quality of the monitoring process being used in the Companies of the Group, the Internal Control Committee must obtain regular information on the legal and fiscal contingencies that affect the Group's Companies.

The Internal Control Committee meets once a month and consists of a Chairman (Mr. David Duarte) and three non-executive members (Mr. José Gomes Miguel, Mr. Nuno Sereno e Mr. Henrique Santos), none of whom is a Company Director.

In 2006, the Internal Control Committee met ten times to carry out its activities of supervision and assessment of risks and critical processes and to review the reports prepared by the Internal Audit Department. As a representative of the External Auditing Company is invited to attend these meetings, the Committee is also informed of the conclusions of the external audit work that takes place over the year.

2.2.3. Audit Committee

An Audit Committee was formed in 2004, within the scope of the Board of Directors, responsible for assessing corporate structure and governance and supervising risk management processes of Jerónimo Martins. In particular, in performing its duties, the Audit Committee has to submit to the Board of Directors the corporate governance policies and procedures to be adopted by the Group. In addition, this Committee supervises the accounting report of the Group. In supervising the risk management process, it is responsible for approving the relevant activity plans, supervising the carrying out of these plans and creating an appropriate system of internal risk management control with a view to meeting its objectives effectively.

The Audit Committee comprises three Non-Executive members - Mr. Alexandre Soares dos Santos (President), Mr. Artur Santos Silva and Prof. António Borges (the latter considered an independent member, according to number 2 of Article 1 of the Regulation CMVM 07/2001, as amended by Regulation 10/2005), met four times during 2006, and was particularly focused on questions related to the adaptation of the Company rules due to the change of the Portuguese Commercial Companies Code and the monitoring of the work of the Internal Control Committee.

2.3. Risk Control System

2.3.1. Risk Management Process

The Company, and in particular the Board of Directors, dedicate much attention to the risks affecting their business. The continuity of the business depends in a critical way on the elimination or control of risks, which may materially affect its assets (people, information, equipment, facilities), thereby jeopardising the strategic objectives they have set. To formalise this concern, the Risk Management Policy was instituted in 2006.

Because of the size and geographical dispersal of Jerónimo Martins' activities, the success of risk management depends on the participation of all associates, who should assume it as an integral part of their jobs, in particularly through the identification and reporting of risks associated with their area. All activities must be carried out with an understanding of what risk is and an awareness of the potential impact of unexpected events on the Company and its reputation.

Risk Management Objectives

Within the Group, Risk Management aims to meet the following objectives:

- To promote the identification, evaluation, management and monitoring of risks, in accordance with a methodology common to the whole Group;
- To assess regularly the strengths and weaknesses of key value drivers;
- To develop and implement programmes to cover and prevent risk;
- To integrate Risk Management into business planning;
- To promote the awareness of the workforce with regard to risks and the positive and negative effects of all processes which help to create value;
- To improve the decision-making and priority-setting processes, through the structured understanding of the business processes of the Group, their volatility, opportunities and threats.

The Risk Management Process (RMP)

The evaluation of risks aims, essentially, to distinguish irrelevant risks from material ones given that only the latter require active management. It involves a consideration of the sources of risk, the likelihood and the consequences of occurrence in the context of the control environment. Controls may encompass both the likelihood of occurrence of an event and the extent of its consequences.

The RMP is cyclical in nature, and includes (i) identification and evaluation of risks; (ii) definition of management strategies; (iii) implementation of control processes; and (iv) monitoring of the process.

The RMP of the Group complies with the Federation of European Risk Management Associations (FERMA) standards, which are seen as a model of good practice.

The objectives set during the process of strategic and operational planning are the starting point for the RMP. At that stage, internal and external factors, which may compromise the achievement of those goals, are identified and evaluated.

This approach is based on the concept of Economic Value Added (EVA). It begins with the analysis of the key value drivers of both the operating profit and the cost of capital, in an attempt to identify the factors of uncertainty, which may negatively influence the generation of value.

In this manner, a systematized, interconnected perspective of the risks inherent to processes, functions and organizational Divisions is developed.

2.3.2. Organization of Risk Control

The risk areas where the management must be assumed by specific departments are as follows:

Contingency Plan for the Bird Flu Pandemic

The World Health Organisation (WHO) has warned that bird flu (H5N1 virus) has a high likelihood of becoming the next pandemic. Previous pandemics had a huge impact on people's lives and on the economy on a global scale.

Currently in Phase 3 (WHO), transmission between humans has already occurred in more than one geographical region. However, the virus has still not acquired the capacity for actual transmission; therefore the WHO has not yet decreed progress to the next phase.

In addition to being a public health problem, a pandemic flu constitutes a social and economic risk with a huge impact on the supply chain, caused by breakdowns in areas of the economy as important as production and distribution of fuel, energy, water and food products.

In order to minimise the impact of a possible pandemic, it is considered necessary to prepare and implement contingency plans aimed at reducing the propagation of the disease, as well as finding ways to keep business activities running.

Hence, an operational contingency plan has been prepared establishing which management activities and procedures must be carried out to minimise the impact of a pandemic on the Organisation and guarantee business continuity.

Hygiene and Safety at Work (HSW)

In this area the continuous action has focussed on the gradual implementation of a safety culture, with consequent improvement in working conditions and accident reduction.

As such, safety and hygiene in the workplace audits were carried out, especially focussing on professional risk factors. Furthermore, among other initiatives a Safety and Hygiene in the Workplace Manual was produced and physical, chemical and biological hazards were assessed.

A study was also carried out to prepare an internal questionnaire for associates of the Group, aimed at stimulating their participation in the HSW initiatives, raising awareness of these issues and, using their experience and knowledge, improving safety in working areas.

The prevention of possible emergency situations was also made a priority in the action programme for this area, with the definition and preparation of several Internal Emergency Plans, including one for head office.

In the Food Distribution area in Portugal, the Director of HSW heads coordination of the risk management process. In Poland, this responsibility is decentralized among the implementation regions of Biedronka operation. As for the Manufacturing, this risk area is managed centrally, covering all the Companies involved.

Security of People and Property

The physical integrity of people and property is one of the main concerns of Jerónimo Martins. To respond to the needs, which arise in this area, there is a Security Department, which intervenes in cases of robbery or break-in, as well as fraud, or other illicit and/or violent activities perpetrated on the premises of, or against the employees of, the Group.

Among the responsibilities of the Security Department are: i) definition and checking of procedures, in terms of prevention, regarding the security of people and property of the Group, including the supervision of the performance and strategies of the security/surveillance firms hired; ii) follow up, when deemed necessary, of events involving the police or judicial authorities; iii) providing support to the security systems and risk prevention audits.

The Security Department is part of the Functional Divisions, which make up the Corporate Centre of the Company and reports directly to a member of the Executive Committee. In the course of its operations, the Department is in close contact with the Operational, Legal Affairs, Internal Audit and Risk Management Divisions.

Quality, Food Safety and Environment

This area is coordinated by the Quality and Environment Department which, in collaboration with other areas of the Companies, acts with preventive measures throughout the distribution chain, from the source of raw materials to the delivery of the products to the Client, minimising food risks (with an impact on the consumers' health) and progressively reducing the associated environmental impacts of the products and services of the Group. The management of this area of risk follows the principles of prevention, monitoring and training.

To minimise food risks and environmental impacts, and consequent validation of hazards, as well as monitoring and checking the systems implemented (environmental and/or food safety management), the following initiatives are highlighted:

- Regular internal audits geared towards monitoring the product right through the logistical circuit, from the suppliers to their display and sale in the stores, including inspection when entering the distribution centres;
- Audits of selection, assessment and monitoring of improvement proposals by suppliers, especially in the Perishables area, but also of the product still on their premises;
- Regular internal audits aimed at assessing compliance with good practices (environmental, hygiene and labour) and compliance with the requirements of systems (HACCP Food Safety System/Environmental Management System), during which guidelines are established that trigger an action when a situation is detected, either to correct or prevent it;
- Implementation of analytical control plans, both internal – store operations – involving work surfaces, product handling/transformation in the stores and the water used, and external – suppliers – such as the periodic control that private brand products are subject to, or research of the phytopharmaceutical residue in fruit and vegetables;
- Training for new and current staff and subcontractors to ensure good practices with regard to the environment, working methods, production, display of products and hygiene.

Also noteworthy in 2006 was the revalidation of the certificates obtained for: the HACCP Food Safety System implemented in the Recheio Cash & Carry stores in accordance with the Codex Alimentarius CAC/RCP-1-1969, Rev. 4 of 2003, and the Gestiretalho Integrated Management System (Environment and Food Safety), in accordance with the DS3027: 2002 standard (Food Safety Management System) and NP EN ISO 14001:2004 standard (Environmental Management System), covering the reception, storage, production and shipping of food and non-food products at the warehouses of the Distribution Centres of Azambuja, Vila do Conde and Guardediras.

Facilities and Equipment

The Companies Technical Teams, in strict collaboration with the respective Operating Divisions, have responsibility for: (i) guaranteeing the integrity of the facilities and the definition of regular maintenance programmes, in order to meet operational needs as well as (ii) managing the process which aims to reduce to the minimum the negative impacts of equipment maintenance and repair on operations.

In this area of risk Technical Managers are also involved in supervision of the state of electrical equipment, the management of the means of protection and detection of fires as well as the storage of flammable material.

Financial Risks

In this risk area, the Jerónimo Martins Group is mainly exposed to Euro related interest rate risk and the depreciation of the Polish Zloty. In material terms, ignoring the existing hedging operations: (i) an increase of 1% in Euro interest rates would have a negative impact in the consolidated accounts of Euro 6 million pre-tax; and (ii) an adverse variation of 10% on the EUR/PLN would have a negative impact of Euro 17 million in the consolidated accounts.

Management of such risks is governed by principles defined by the Executive Committee. The Group's Strategic Scorecard includes a target hedge of 75% of the net value of invested capital in Poland.

In order to manage these risks, the Risk Management Department is aided by specific software, allowing not only validation of the accounting records, but also an analysis of the proposals and quotes presented by the financial counter parties with whom it deals.

The interest rate risk is managed through operations involving more or less structured financial derivatives, contracted at zero cost. At the end of the year, the notional amount of interest rate derivatives was Euro 140 million.

On the 31st December 2006, the fair value of the hedging instruments was minus Euro 2.36 million. The present value of future flows associated with these hedging instruments was nevertheless positive, at around Euro 3.22 million. The difference is down to the time value of the optionality embedded in some of the hedging instruments. These transactions generated positive cash flows during the year of Euro 666 000, explained mostly by the interest associated to the structured swaps (Euro 1.4 million). Over the next two years approximately 90% of the aforementioned value is expected to be generated, i.e. Euro 2.86 million.

In 2006 the portfolio of interest rates derivatives was managed more dynamically. The changes that were introduced aimed to increase the cash flow generated against a background of interest rate rises. It was therefore necessary to restructure some positions, unwind others and enter into new ones. The portfolio is now balanced between transactions which aim to monetise short term directional movements and those aimed to profit from medium to long-term macroeconomic reasoning.

Period	Euribor 6M	€ 2Y IRS	€ 5Y IRS	€ 10Y IRS
31/Dec/05	2.64%	3.07%	3.22%	3.46%
31/Dec/06	3.85%	4.12%	4.11%	4.18%
p.p. variation	+121	+105	+89	+72
2005 average	2.23%	2.53%	2.97%	3.47%
2006 average	3.23%	3.62%	3.79%	3.99%
p.p. variation	+100	+109	+82	+52

Regarding foreign exchange risk, and whenever possible, attempts are made to manage exposure through natural hedges, namely through the issuance of financial debt in local currency. When this is not possible, the risk is managed through, more or less structured, zero cost transactions.

At the end of 2006, there were two significant cross currency swaps: (i) hedging of the Polish net investment worth Zloty 400 million; (ii) full hedge of debt issued in dollars in 2004 worth US Dollars 180 million.

The hedging of the Zloty exposure was restructured during 2006. Essentially the purpose was to extend the maturity of the existing plain vanilla cross currency swap until December 2010, keeping the reference exchange rate of the previous hedging instrument (3.9850).

Complementary three interest rate swaps were added, involving a total notional amount of 300 million zloty. At the end of the year the fair value of these derivatives was 1.58 million euros negative while the present value of its future cash flows was

1.90 million euros positive. The difference between the fair value and the intrinsic value of these transactions is explained by the time value of the embedded optionality.

In 2006, the total charges with the hedging of the Polish investment were 2.50 million euros, which compares favourably with the 3.91 million euros spent in 2005.

The hedging of the Polish investment represents close to 56% of the net value of invested capital in Poland and allows reducing the negative impact of a 10% negative change in the EUR/PLN to 8 million euros.

Information Security

The mission of the Information Security Department consists of setting up and maintaining an information security management system that ensures confidentiality, integrity and availability of the critical business information and recovery of the systems in the event of interruption in the operations.

The Information Security Officer (ISO) acts under the guidance of the Information Security Policy, which defines the usage and maintenance rules for the information assets of Jerónimo Martins.

In 2006, continuing the initiatives to raise awareness of the Information Security Policy directives and to keep in step with the technological renewal of the main systems, the information systems recovery plan of the Group was reviewed. Furthermore, information security rules and procedures were implemented, namely:

- Rules governing access to the systems and applications, and user management;
- Authorized software;
- Procedures for using the Campo Grande offices internal network;
- Information classification and protection policy;
- Review of access and profiles of users of the SAP system;
- Disclosure of the information security rules to the Group's staff;
- E-mail usage policy and respective Internal Regulations.

In 2007 systems recovery procedures will be improved and fine-tuned, and other projects are planned to minimise the risks linked to compliance with the information protection policy.

Legal Compliance

Compliance with legal obligations is ensured by the Legal Departments at Group's Companies level. As for the Holding Company, the Legal Department guarantees the coordination and implementation of strategies aimed at protecting the Group's interests in case of legal dispute and also coordination with any external advice required.

In order to ensure the fulfilment of tax obligations and also to mitigate risk due to inadequate checks and balances, the Fiscal Department of the Holding Company advises all the Group's Companies, and also manages their judicial tax proceedings.

Process Risks

The model used in the management of Process Risks includes the following categories: Operating Risks, Human Resources, Information Systems and Risks to Information for

Decision-Making. The management of some risks considered in these categories is, given its impact on various critical processes of the business, divided into different functional areas in the Group's Companies.

The Operating Risks category takes into account those risks related to sourcing, supply chain, transport, stock losses, obsolescence, disruption, level of service, customer satisfaction, pricing, cash collection, investments, assets safety, efficiency in the use of resources, business interruption and fraud. Among the risks relating to Human Resources, those are associated with payroll, authorization levels and ethical behaviour. Risks to Information for Decision-Making includes accounting and financial report risks.

The Information Systems Risk category includes access risks, communications, and infrastructure and disaster recovery. Information security risks were removed from this category upon the establishment of the Information Security Department, in 2005.

2.3.3. Communication, Report and Risk Management Process Monitoring

Risk Management process monitoring involves the Board of Directors of the Company, the Operating Divisions, the Functional Divisions of the Operation, the Audit Committee and members of Risk Management and Internal Audit.

Specifically, the Board of Directors, as the body responsible for the Group's strategy, has the following objectives and responsibilities:

- To establish the most significant risks affecting the Group;
- To ensure that the Group possesses appropriate levels of knowledge of the risks affecting operations, and how to manage them;
- To ensure the widespread promotion of the Group's Risk Strategy at all hierarchical levels;
- To ensure that the Group is able to minimize the probability and impact of risks to the business;
- To ensure that the Group can react to crisis situations;
- To ensure that the Risk Management process is adequate and it strictly monitors those risks which have the highest probability of occurrence or impact on the Group's activities.

Those responsible for critical processes of the business, along with members of the Risk Management Department, develop and implement the risk control mechanisms. The Internal Audit of the Group, in turn, evaluates the efficiency of these mechanisms.

Evaluation of the Internal Control System

Annually, the Internal Control Committee approves the Internal Audit Department activity plan which defines the nature of the audits to be carried out, for evaluating the quality of the control processes which aim to achieve the Internal Control System objectives, particularly those which ensure the efficiency of operations, the integrity of financial and operational reports and respect for the laws and regulations.

To this end, process and conformity audits were carried out, as well as financial audits and information systems audits where the associated risks presented a higher probability of occurrence and/or potential impact on operations.

This approach helps make the process of internal auditing of the Group more efficient and contributes to increase the awareness of those responsible for the prompt implementation of scheduled recommendations.

The results of these consultations and the evaluation of operating risks are made available by the Internal Audit Department to the Audit Committee, to the Internal Control Committee and to the Executive Members of the Group's Board via a quarterly Audit Letter.

In 2006, the Internal Audit Department evaluated to what extent the Internal Control System of the Group's Companies can cover the effect of identified risks, both in terms of likelihood and of impact on operations. This evaluation of the control processes allowed the updating of a risks database, which affects or may come to affect the Group's Companies.

In accordance with the plan of activities and also in light of the updating of the models of operating risks and critical business processes applicable to each Company in the Group, audits were carried out on processes related to stock damage and obsolescence risks, cash collection, supply chain and level of service, transport, investments, assets safety and control of payables. In the area of Human Resources, audits were carried out on risks related to salary processing and time control.

In the area of information systems, evaluation audits were carried out on risks in access, communications and information integrity, while at the same time promoting the updating of the conclusions reached the previous year regarding the general controls for information systems, especially with regard to disaster recovery.

2.4. Share Price Performance

During 2006 the main Portuguese Stock Market index - PSI-20 - increased in value 30%, which was one of the biggest rises ever and meant the Portuguese market equalled the best in the world.

During the year under analysis the stock markets were influenced by factors which, to a certain degree, conditioned their performance over the year, such as: Takeover Bids (Sonaecom/Sonae bid for Portugal Telecom and BCP bid for BPI), the strong increase in value of the Euro over the Dollar and the rise in underlying interest rates in some of the world's main economies, among other factors. There was also strong growth in the Company results area, mainly in sectors such as Banking and Energy, and the likelihood of improved future results, allied to increased dynamism in the area of Mergers and Acquisitions in Europe and the United States (large scale businesses with significant volumes), allowed the markets to achieve identical growth rates to those of 2001.

In particular, the Portuguese stock market was characterised by 16 gains, some of which were substantial, such as the cases of Altri, Mota Engil and BPI. Jerónimo Martins, the Sonae Group, Brisa and EDP, all showing gains of more than 30% contributing to the positive end the year.

But 2006 was also a year marked by the Galp (Portuguese oil company) IPO – which contributed to the increased size and capitalisation of the national market – and for the final phase of the privatisation of Portucel, which was also a success.

2.4.1. Performance of Jerónimo Martins Share

JM Shares description			
<i>Jerónimo Martins, SGPS, SA</i>			
Share trading: Lisbon Euronext			
Date entered stock market: November 1989			
Euronext Codes:			
Description	Type	ISIN Codes	Symbol
J. Martins - Out/03	Obr.	PTJMTEOE0008	JMTEOE
Jerónimo Martins- SGPS	Acc.	PTJMTOAE0001	JMT
Codes:			
Reuters RIC		JMT.LS	
Bloomberg		JMAR PL	
Shares:			
Share Capital:		629.293.220	Euros
Nominal value of shares:		5,00	Euros
Number of shares:		125.858.644	

Since the first months of 2006, Jerónimo Martins shares have experienced growth, in line with the PSI-20 Index.

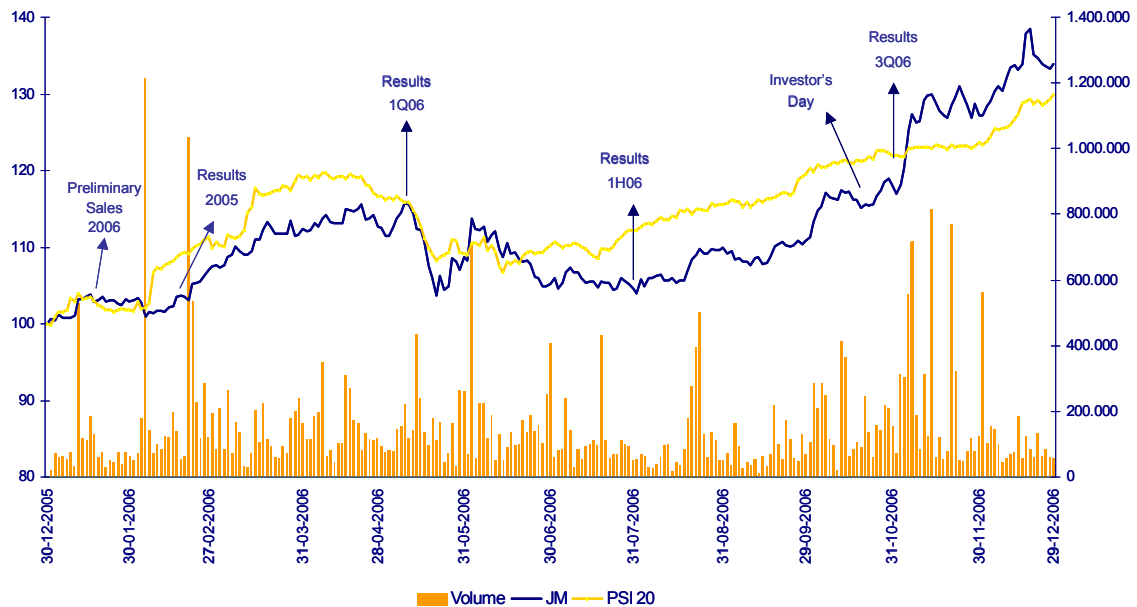
The low of the year was on 3rd January (12.76 euros), and the high on 19th December (17.58 euros).

The biggest rises in share value coincided with release of the 2005 FY results communicated, at the end of February, and the Investor's Day event in Lisbon, in the third week of October.

During the fourth quarter of the year, the Jerónimo Martins shares overtook the PSI-20 growth, apparently driven by the announcement by Ahold of the intention to sell 49% of JMR, with the price closing at 17 euros (+34%) on 31st December, corresponding to a rise of around 4 euros (+34%) in 2006. The year 2007 also began with increases, and at the end of January Jerónimo Martins shares had reached the price of 19.22 euros (13.1% up this month).

In terms of liquidity, the share registered an average daily transaction rate in 2006 of 148 thousand shares, around 10.4% up on 2005, which shows investor interest in the Group's shares.

JM Shares Price & PSI20 Index Performance



JM SHARES DESCRIPTION

	2006	2005	2004	2003	2002
Share Capital	629.293.220	629.293.220	629.293.220	479.293.220	479.293.220
Number of ordinary shares	125.858.644	125.858.644	125.858.644	95.858.644	95.858.644
Own Shares	171.800	171.800	171.800	171.800	171.800
EPS (EUR)	0,92	0,88	0,83	0,61	-2,13
Cash Flow per share (EUR)	2,05	1,96	2,23	2,33	1,75
Dividend per share (EUR)	0,42	0,36	0,00	0,00	0,00
Stock market Performance					
High (EUR)	17,58	12,84	9,98	9,63	8,17
Low (EUR)	12,76	9,85	7,71	5,26	4,77
Average (Closing) (EUR)	14,23	11,76	8,80	6,40	6,49
Closing (End of year) (EUR)	17,00	12,70	9,70	9,24	6,14
Market Capitalisation (31/12) (EUR 000,000)	2.140	1.598	1.221	1.003	666
Transactions					
Volume (1.000 shares)	37.886	34.627	28.963	20.209	18.471
Annual Growth					
PSI 20	29,9%	13,4%	12,2%	16,0%	-25,6%
Jerónimo Martins	33,9%	30,9%	5,0%	49,6%	-24,9%

2.4.2. Publication of Market Results

Throughout the year, the Investor Relations Office continued to ensure the announcement and updating of the performance indicators of the various businesses. It also disclosed the Group's quarterly results in order to keep analysts and investors informed as to the development of Jerónimo Martins' operational and financial activity.

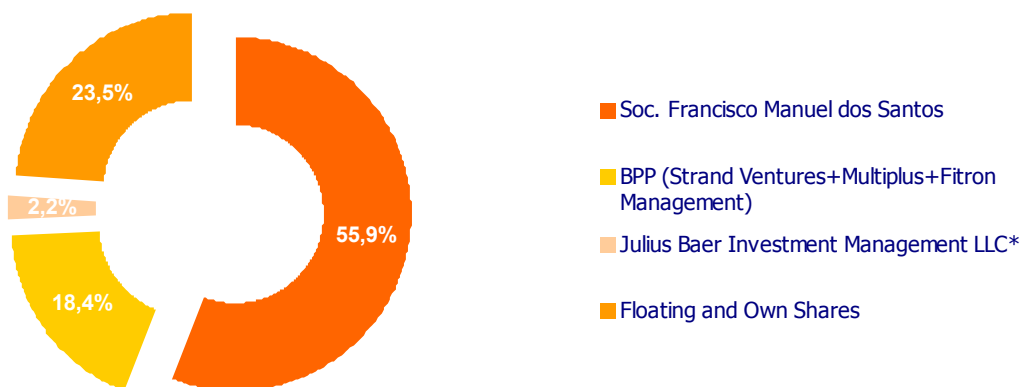
All the financial analysts and investors who contacted this Office were provided with information.

The financial statements were released to the market on the following dates:

16-01-2006	❖ Preliminary Sales 2005
20-02-2006	❖ 2005 Yearly Profits
03-05-2006	❖ 1 st quarter of 2006 Profits
27-07-2006	❖ 1 st half of 2006 Profits
02-11-2006	❖ 3 rd quarter of 2006 Profits

2.4.3. Shareholder Structure

Shareholder Structure



* Reported on 6 December, 2006

In 2005, the Companies whose rights to vote under the terms of Article 20, paragraph 1 of the Securities and Exchange Code are attributable to Banco Privado Português are identified in the note that refers the List of Qualified Shareholders on December 31st 2006, included in the Appendix to chapter III - Consolidated Management Report of this Report. Other qualified shareholders are Sociedade Francisco Manuel dos Santos and Julius Baer Investment Management LLC. All shares are ordinary and there are no restrictions concerning their transaction.

2.4.4. Plan for Own Share Acquisition

During 2006, there were no transactions involving own shares and the Company maintained 171,800 own shares in its portfolio, acquired in 1999 at an average price of 35.28 euros per share, and representing 0.14% of its share capital.

2.5. Dividend Distribution Policy

The Board of Directors of the Company maintained a policy of dividend distribution based on the following rules:

- The value of the dividend distributed should be between 40% and 50% of ordinary consolidated net earnings.
- If, as a result of the application of criterion mentioned in (I), there is a drop in the dividend in a certain year compared to that of the previous year and the Board of Directors considers that this decrease is a result of abnormal and merely circumstantial situations, it may propose that the value from the previous year should be maintained. It may even resort to free existing reserves, providing that the use of these reserves does not jeopardise the principles adopted in terms of balance sheet management.

In 2005 the gross dividend paid to shareholders was Euro 0.42 per share, decided in accordance with the above-mentioned rules.

In view of the net results of this financial year and the established policy, the Board of Directors will propose, at the General Shareholders Meeting, the distribution of a gross dividend of Euro 0.44 per share, excluding the 171,800 owned shares.

This proposal represents an increase of 4.8% on the 2005 dividend, corresponding to a dividend yield of 3.1% on the average share price in 2006 – Euro 14.23.

2.6. Stock Options Plan

The Company does not have any plan in force to attribute shares or options to acquire shares. The Board of Directors believes that there are instruments that allow a fairer and more effective system of management by objectives to be set up, implemented based on analysis of indicators of profitability, business growth and generation of value for the Shareholders.

2.7. Business between the Company and the Members of the Board, Holders of Qualified Stakes and Companies in a Parent-Subsidiary or Group Relationship

During 2006, no significant business or operations were carried out, in economic terms, between the Company and members of its Management or Supervisory Bodies, or holders of Qualified Stakes. Regarding the companies in a Parent-Subsidiary or Group relationship, the business carried out with the Company was done so in the normal running of its business and under arms length conditions.

2.8. Investor Relations Office

The Investor Relations Office of Jerónimo Martins is the interface with all investors - institutional and private, national and foreign - as well as the analysts who formulate opinions and recommendations regarding Jerónimo Martins.

Aimed at transmitting an up-to-date and clear vision of the strategies of the different Areas of the Group's Business to the market, in terms of operational performance and perspectives, every year the Office draws up a Financial Market Communication Plan.

This Plan, incorporated into the global communication strategy of the Group, includes a series of events organized with a view to publicising the various businesses of the Group, their strategies and future projections and, at the same time, accompanying the development of the year's business activity, and providing clarification.

The activities carried out by the Office during 2006 are listed in the following table:

16 January	Release - Preliminary Sales
20 February	Release - FY 2005 Results
6 March	Roadshow Paris
31 March	General Shareholders Meeting
3 May	Release - 1st Quarter 06 Results
9-12 May	Roadshow Portugal
18-19 May	Food Retail Conference (JP Morgan) - London
07-09 June	Roadshow Frankfurt and Milan
21 July	Roadshow Lisbon
27 July	Release - 1st Half 06 Results
21 September	Small & Mid Cap Conference (BPI) - Oporto
28-29 September	CF&B Conference - Paris
16 October	Investor's Day - Lisbon
2 November	Release - 3rd Quarter 06 Results
09-10 November	Roadshow London
04-08 December	Roadshow NY - Boston - Chicago - Texas

Besides the events mentioned, the Office also promotes other contacts, through:

- Meetings with analysts/investors;
- Answering questions sent by e-mail to the Office;
- Telephone - answering calls and providing clarifications;
- The publication of announcements to the market through CMVM (Securities and Exchange Commission) extranet, at the Jerónimo Martins and Euronext Lisbon sites and aimed at all the Company's investors/analysts who make up the mailing list database created and updated by the Office;
- Presentations to the financial community: the presentation of results, roadshows, General Meeting and conferences.

The communications issued regularly by the Office are available in full on the Group's site, at www.jeronimomartins.com, in order to create more accessible information for all those interested. The site provides not only the mandatory information, as stipulated in Article 3-A of the CMVM no. 11/2003, but also general

information about the Group and its Companies, in addition to other information considered relevant, namely:

- Announcements to the market on privileged information;
- The Group annual, semester and quarterly results;
- Economic and financial indicators and statistical data, updated once or twice a year according to the Company or Business Area;
- Annual Reports of the Group's Companies with listed securities;
- Recent presentations of the Group to the financial community;
- Information about the performance of the stock on the stock market;
- The annual calendar of Company events, at the beginning of every year, including Shareholders' General Meetings, the disclosure of annual, semester, or, if applicable, quarterly, results;
- Information regarding the Shareholders' General Meeting;
- Information about Corporate Governance;
- Code of Conduct of Jerónimo Martins;
- Customer Ombudsman.

In this regard, the site also has a contact/information request form, which allows rapid interaction, via e-mail, with the Company and inclusion on information mailing list.

The Office may be contacted through the Market Relations representative and the Investor Relations Office Manager, Cláudia Falcão. The main contacts are as follows:

Address: Rua Actor António Silva, nº 7, 14º andar, 1600-404, Lisbon

Telephone: +351 21 752 61 05

Fax: +351 21 752 61 65

E-mail: investor.relations@jeronimo-martins.pt

It is also the responsibility of the Office to produce the Annual Report, which is well known as a fundamental document for communicating with financial markets. Through it, the Office strives for transparency and comprehensiveness of information about the various Business Areas of Jerónimo Martins, to transmit clearly, completely and coherently the progress of the different Group businesses during the year.

The effort made by the whole Jerónimo Martins team in preparing this document earned the Group, for the second successive year, an honourable mention for its Annual Report, in the category of Non-Financial Companies attributed at the Investor Relations Awards '06, organised by Deloitte in partnership with the *Semanário Económico* and *Diário Económico* newspapers, where the Group was also given an honourable mention in the category of Report on Corporate Governance.

2.9. Remuneration Committee

The Annual General Meeting for 2004 elected a Remuneration Committee, made up of the shareholders Mr. António Sousa Gomes, Mr. José Queirós Lopes Raimundo and Mr. Arlindo do Amaral, none of whom is a Member of the Board of the Company, nor has any spouse or relative in such circumstances. This Committee, in accordance with legal requirements, determines the earnings of the Members of the Board of Directors. During 2006, the Remuneration Committee met once.

2.10. Yearly amount paid to External Auditor

In 2006, the total remunerations paid to the External Auditor over the year were Euro 790,552, not including expenses referring to travel and other costs supported directly by the Companies of the Group.

In percentage terms, the amount referred to is divided as follows:

- Legal accounts audit services: 83%;
- Other services (not legal accounts audits or External audits): 17%.

The services not included in the legal account certification, on a total of Euro 137,959, relate to access to a fiscal database, revision of subsidiary accounts as a part of commercial transactions with third parties, and to technical and administrative support for reorganisation processes. All these services are marginal to the work of the auditors and are carried out by employees who do not participate in any auditing work for the Group.

3. EXERCISE OF SHAREHOLDER VOTING AND REPRESENTATION RIGHTS

3.1. Statutory Rules on Exercising the Right to Vote

The right to vote by representation and the way in which this right is exercised are fully ensured in accordance with the law and the Company's Articles of Association, under the terms set down in the respective notices convening General Meetings. Moreover, the Company is actively committed to promoting the Shareholders' exercise of voting rights, namely through votes submitted by mail.

The Company provides appropriate information to enable the represented Shareholders to give voting instructions, in particular by providing them with the proposals to be submitted at the General Meeting within the legally established time limits. Since 2003, the preparatory information for the General Meetings has also been made available on the Group's corporate website.

A Member of the Company's Board of Directors or other Shareholder may also represent Shareholders at the General Meeting. In the case of an individual, the person appointed for this purpose may be a spouse, a relative in ascending or descending line, or, in the case of a Company, a person appointed for that purpose. The instruments of Shareholder representation must be addressed to the Chairman of the General Meeting, indicating the representative name, address and the date of the meeting, and delivered by the start of the proceedings.

3.1.1. Postal Vote

The Company has established the right to vote by mail in accordance with the form provided in the latest convening notices. This form aims to facilitate voting in this manner and makes it secure. Since 2004, the Company has provided Shareholders with ballot papers to facilitate this procedure.

3.1.2. Electronic Voting

The Company accepts that the use of new technologies promotes the exercise of voting rights, especially in the case of electronic voting, so it has instituted this mechanism in 2006.

3.2. Required Deadline for Depositing or Blocking Shares

In accordance with the Company's Articles of Association, shareholders with the right to vote may participate in the General Meeting provided that their shares are registered under their name in a securities account, or deposited in the Company's safes or those of a credit institution, at least five working days prior to the meeting. In the latter case, there must be proof of this deposit by means of a letter issued by the respective credit institution, which must also reach the Company's Head Office within the same deadline of five working days. Shareholders may form a group to complete the minimum number of one hundred shares equivalent to one vote and may be represented by one of the members of the Group.

3.3. Deadline for Receiving Postal Votes

As the Company's Articles of Association fail to provide an indication in this matter, the Company has established a deadline of 48 hours prior to the General Meeting for the reception of postal votes, thus complying with and, to a certain extent, exceeding the recommendations of the Securities and Exchange Commission in this respect.

3.4. Number of Shares Corresponding to One Vote

In accordance with the Company's Articles of Association, each block of one hundred shares corresponds to one vote. At the 2007 Annual General Meeting the Board of Directors will present a proposal to change the Articles of Association in order to equal one share to one vote.

4. COMPANY RULES

4.1. Code of Conduct and Internal Regulations

The Company complies with current legislation and the rules of behaviour appropriate to its activity, adopting codes of conduct and internal regulations whenever the issues involved call for them.

Jerónimo Martins has always acted upon principles of absolute respect for the rules of good conduct in the management of conflict of interests, incompatibilities and confidentiality and in ensuring that Members of the Board of Directors and Managers do not use insider information. To this end the Company has a regularly updated list of people that may have access to insider information.

Although the existing instruments and practices have proved adequate in regulating these matters, it was decided that a code should be drawn up for the existing rules concerning the aforementioned issues, as well as others that are specifically related to the activities of the Group companies. The aim of this code is to formalise commitments that require a high standard of conduct from everyone within the Group and provide a tool for optimising management.

To this end, and in addition to the current Code of Conduct, there are currently in force Regulations for the Board of Directors, the Executive Committee, the Audit Committee and the Internal Control Committee, regulating the competence and functioning of the respective bodies, as well as a Company Share Transactions Regulations applicable to Board Members and Senior Management of the Group.

These Codes and Regulations can be consulted on the website of the Group at www.jeronimomartins.com, or requested from the Investor Relations Office.

4.2. Internal Procedures for Risk Control in Company Activity

This issue is dealt with earlier within this chapter.

4.3. Measures Likely to Interfere with Public Tender Offers

No special rights or restraints on the exercise of voting rights are provided for in the Company's Articles of Association. The Board of Directors knows of no agreements or any other means that could interfere with public tender offers. It also feels that clear information must be provided in this matter and recognises that such limitations may not be in the interest of Shareholders.

5. BOARD OF DIRECTORS

5.1. Description of the Board of Directors

Since its election at the General Meeting on 15th April 2004, the Board of Directors of the Company has consisted of nine Members, of which three are Executive – Mr. Luís Palha da Silva, Mr. Pedro Soares dos Santos and Mr. José Soares dos Santos – and six are Non-Executive – Mr. Elísio Alexandre Soares dos Santos (Chairman of the Board of Directors), Mr. António Borges, Mr. Rui Patrício, Mr. Hans Eggerstedt, Mr. Artur Santos Silva and Mr. Manuel Alves Monteiro. Mr. Alvaro Troncoso was also elected as substitute.

In accordance with the principles by which the Company is run, all Board Members are accountable to all Shareholders equally. However, the independence of the Board of Directors in relation to them is further reinforced by the existence of Independent Board Members.

In light of the new amendment to Article 1, paragraph 2 of Regulations 07/2001 of Securities and Exchange Commission (CMVM), as amended by Regulation 10/2005, the Board Members Mr. António Borges, Mr. Rui Patrício, Mr. Hans Eggerstedt and Mr. Manuel Alves Monteiro are regarded as Independent Members.

The Members of the Board of Directors also hold positions in other companies, namely:

Elísio Alexandre Soares dos Santos

Member of the Supervisory Board of Banco Comercial Português, S.A.
Director of Sindcom, SGPS, S.A.
Director of Sociedade Francisco Manuel dos Santos, SGPS, S.A.

Luís Palha da Silva

Director of Jerónimo Martins Serviços, S.A.*
Director of JMR - Gestão de Empresas de Retalho, SGPS, S.A.*
Director of Lidosol II - Distribuição de Produtos Alimentares, S.A.*
Director of Funchalgest - Sociedade Gestora de Participações Sociais, S.A.*
Director of Lidinvest - Gestão de Imóveis, S.A.*
Director of João Gomes Camacho, S.A.*
Manager of Desimo - Desenvolvimento e Gestão Imobiliária, Lda.*
Manager of EVA - Sociedade de Investimentos Mobiliários e Imobiliários, Lda.*
Manager of Friedman - Consultoria e Serviços, Lda.*
Manager of Hermes - Sociedade de Investimentos Mobiliários e Imobiliários, Lda.*
Manager of Idole - Utilidades, Equipamentos e Investimentos Imobiliários, Lda.*
Manager of PSQ - Sociedade de Investimentos Mobiliários e Imobiliários, Lda.*
Director of Fima - Produtos Alimentares, S.A. *
Director of Victor Guedes Indústria e Comércio, S.A. *
Director of Indústrias Lever Portuguesa, S.A. *
Director of Iglo - Indústrias de Gelados, S.A. *
Manager of Unilever Jerónimo Martins, Lda. *

* Companies that are part of the Jerónimo Martins Group

Pedro Soares dos Santos

Director of Jerónimo Martins Serviços, S.A.*
Director of Imocash - Imobiliário de Distribuição, S.A.*
Director of Recheio Cash & Carry, S.A.*
Director of Recheio, SGPS, S.A.*
Director of Sindcom, SGPS, S.A.
Director of Lidosol II - Distribuição de Produtos Alimentares, S.A.*
Director of Funchalgest - Sociedade Gestora de Participações Sociais, S.A.*
Director of Lidinvest - Gestão de Imóveis, S.A.*
Director of Larantigo - Sociedade de Construções, S.A.*
Manager of Idole - Utilidades, Equipamentos e Investimentos Imobiliários, Lda.*
Director of João Gomes Camacho, S.A.*
Director of JMR - Gestão de Empresas de Retalho, SGPS, S.A.*
Director of Feira Nova - Hipermercados, S.A.*
Director of Comespa - Gestão de Espaços Comerciais, S.A.*
Director of Gestiretalho - Gestão e Consultoria para a Distribuição a Retalho, S.A.*
Director of Supertur - Imobiliária, Comércio e Turismo, S.A.*
Director of Imoretalho - Gestão de Imóveis, S.A.*
Director of Cunha & Branco - Distribuição Alimentar, S.A.*
Director of Dantas & Vale, S.A.*
Director of Pingo Doce - Distribuição Alimentar, S.A.*
Director of Casal de S. Pedro - Administração de Bens, S.A.*
Director of Masterchef, S.A.*
Manager of Friedman - Consultoria e Serviços, Lda.*
Manager of Hermes - Sociedade de Investimentos Mobiliários e Imobiliários, Lda.*
Manager of Servicompra - Consultores de Aprovisionamento, Lda.*

José Soares dos Santos

Director of Fima - Produtos Alimentares, S.A. *
Director of Victor Guedes Indústria e Comércio, S.A. *
Director of Indústrias Lever Portuguesa, S.A. *
Director of Iglo - Indústrias de Gelados, S.A. *
Director of Sindcom, SGPS, S.A.
Director of Sociedade Francisco Manuel dos Santos, SGPS, S.A.
Manager of Unilever Jerónimo Martins, Lda. *
Manager of Transportadora Central do Infante, Lda.

António Borges

Vice-chairman of Goldman Sachs International
Chairman of the Supervisory Board of Banco Santander de Negócios Portugal
Member of the Board of Directors of Heidrick & Struggles (USA)
Member of the Board of Directors of CNP Assurances (France)
Member of the Board of Directors of SCOR (France)
Member of the Board of Directors of Caixa Seguros (Brazil)

Rui Patrício

Member of the Board of Directors of Monteiro Aranha, S.A.
Member of the Board of Directors of Monteiro Aranha Participações, S.A.
Member of the Board of Directors of Owens-Illinois do Brasil
Member of the Board of Directors of Klabin, S.A.
Member of the Board of Directors of Espírito Santo International Holding
Member of the Board of Directors of Vivo Participações

Hans Eggerstedt

Member of the Supervisory Board of Unilever Deutschland GmbH
Non-Executive Director of Colt Telecom Group, Plc.
Member of the Supervisory Board of Amsterdam Institute of Finance

* Companies that are part of the Jerónimo Martins Group

Artur Santos Silva

Chairman of the Board of Directors of Banco BPI, S.A.
Chairman of the Board of Directors of Banco Português de Investimento, S.A.
Member of the Board of Directors of the Calouste Gulbenkian Foundation
Member of the Board of Directors of Sindcom, SGPS, S.A.
President of the Direction of Cotec Portugal - Business Association for Innovation

Manuel Alves Monteiro

Spokesman for the Board of Directors of the CIN-Corporação Industrial do Norte, S.A.
Member of the General and Supervisory Board of E.D.P. (and member of the Auditing, Company Governance and Sustainability Committees)
Spokesman for the Board of Directors of Novabase (and member of the Audit Committee)
Spokesman for the Board of Directors of Douro Azul, S.G.P.S., S.A.
Member of the Remuneration Committee of Portugal Telecom
President of the Direction of IPCG - Portuguese Institute of Corporate Governance

Álvaro Troncoso

Does not hold any other company post.

The current Chairman of the Board of Directors, Elísio Alexandre Soares dos Santos, began his career in 1957, joining Unilever. From 1964 to 1967, he took up a position as Marketing Director for Unilever Brazil. In 1968, he joined the Board of Jerónimo Martins as a Deputy Director, a post he combined with that of Jerónimo Martins' representative in the joint venture with Unilever. He has been President of the Group since February 1996 and his current mandate expires in 2006.

Luís Palha da Silva, President of the Executive Committee, has a degree in Company Management from the Universidade Católica Portuguesa and another in Economics from the Instituto Superior de Economia e Gestão. He was an Assistant at the Universidade Católica between 1985 and 1992. From 1987 on he took on Director's functions at various Companies, including Covina, SEFIS, EGF, CELBI, SOGEFI and IPE. He was Secretary of State for Trade, between 1992 and 1995, and Director of Cimpor between 1998 and 2001. He has been an Executive Director of the Company since 29th June 2001 and President of the Executive Committee since 2004. His current mandate expires in 2006.

Executive Director Pedro Soares dos Santos joined the Operating Division of Pingo Doce in 1983. In 1985, he joined the Sales and Marketing Department of Iglo/Unilever and, five years later, took up the post of Assistant Director of Recheio Operations. In 1995, he was nominated General Manager of the Company. Between 1999 and 2000 he accepted responsibility for operations in Poland and Brazil. In 2001, he also became responsible for the area of operations for Food Distribution in Portugal. He has been Executive Director of Jerónimo Martins SGPS, S.A. since 31st March 1995. His current mandate expires in 2006.

The Executive Director Jose Soares dos Santos, who holds a Biology Degree from the Universidade Clássica de Lisboa, joined Svea Lab AB in Sweden, in 1985, prior to going to work for Url Colwort laboratory in 1987. In 1988 he joined the human resources Department of FimaVG – Distribuição de Produtos Alimentares, Lda. And in 1990 was named Product Director. Between 1992 and 1995 he worked for Brooke Bond Foods. He was Executive Director of Jerónimo Martins SGPS, S.A. between 31st March 1995 and 29th June 2001, and was reappointed on 15th April 2004. His present mandate expires in 2006.

António Borges, who has a degree in Economics from the Universidade Técnica de Lisboa and a PhD in Economics from Stanford University, joined INSEAD in 1980. In 1990 he was nominated Vice-Governor of the Bank of Portugal and in 1995 Dean of INSEAD, as well

as being a Lecturer at the Universidade Católica and Stanford University and a Consultant for the Treasury Department of the United States of America, the OCDE and the Portuguese Government. He has held various administrative posts, including at Citibank Portugal, Petrogal, Vista Alegre, Paribas and SONAE. He has been a Non-Executive Director of the Company since 29th June 2001 and his current mandate expires in 2006.

Hans Eggerstedt, has a degree in Economics from the University of Hamburg and joined Unilever in 1964, where he developed his career. Among other positions, he has been Director of Operations for Retail, Ice Creams and Frozen Foods in Germany, President and CEO of Unilever Turkey, Regional Director for Central and Eastern Europe, Financial, Information and Technology Director of Unilever. He was nominated for the Board of Directors of Unilever N.V and Unilever PLC in 1985, a position he held until 1999. He has been Non-Executive Director of Jerónimo Martins SGPS, S.A. since 29th June 2001, and his current mandate expires in 2006.

Rui Patrício has a degree in Law from the Law School of the Universidade de Lisboa, where he was an Assistant from 1958 to 1963. In 1970 he was named Sub-Secretary of State for Foreign Development. He was Vice-President of the Monteiro Aranha Group between 1976 and 1991, at which point he took up administrative functions at various Brazilian companies, among which were Monteiro Aranha, a Masa-Alsthom, Hochtief, Ericsson, Telesp Celular, and Axa Seguros. He was also a Consultant for the Grupo Espírito Santo. He has been a Non-Executive Director of the Company since 2001, and his current mandate expires in 2006.

Artur Santos Silva holds a degree in law from the Universidade de Coimbra. He was Director of the Banco Português do Atlântico, from 1968 to 1975, and Secretary of State for the Treasury, between 1975 and 1976. From 1977 to 1978, he was Vice-Governor of the Bank of Portugal. He has been President of Grupo BPI since 1981, member of the Board of Directors of the Calouste Gulbenkian Foundation since 2002, member of the Consulting Committee of Portuguese Technologic Plan and member of the Consulting Council of the CMVM. He has been Non-Executive Director of the Company since 15th April 2004, and his current mandate expires in 2006.

Manuel Alves Monteiro, holds a degree in Law from the Universidade de Coimbra. He was Spokesman for the -The Stock Market Committee, from 1991 to 2003, and Director Delegate of the Porto Stock Market and the Porto Derivatives Market from 1992 to 1999. He was spokesman for the Board of Directors of Interbolsa – Soc. Gestora de Sistemas Centralizados de Valores e Sistemas de Liquidação, S.A, between 1991 and 1999, and General Manager of the IMC – Instituto Mercado de Capitais, between 1994 and 2003. He was a Member of the Founding Committee of the IFCI - International Finance and Commodities Institute (London), between 1996 and 2003, Chairman of the Board of Directors of Euronext Lisbon (Portugal) and Spokesman for the Board of Directors of Euronext Holding (Holland), Euronext Amsterdam (Holland), Euronext Brussels (Belgium), Euronext Paris (France) and Clearnet (France), between 2002 and 2003. From 2003 to 2004, he took on the Presidency of the Board of Directors of the Porto Casa da Musical/Porto 2001. He has been Non-Executive Director of the Company since 15th April 2004, and his current mandate expires in 2006.

Álvaro Troncoso has worked for the Jerónimo Martins since 1961, having held several management positions in Manufacturing and Distribution, in particular in the areas of sales and human resources, having been General Manager of Recheio SGPS, S.A. and Deputy Director of Pingo Doce - Distribuição Alimentar, S.A. and Feira Nova - Hipermercados, S.A. He was President of UNIARME - União de Armazenistas de Merceria,

CrI. until 2003. He has been Director of the Company since 31st March 1995, and his current mandate expires in 2006.

5.2. Executive Committee

The main role of the Company's Executive Committee is to assist the Board of Directors in its management functions. As a delegate body of the Board of Directors, and in accordance with its regulations, the Executive Committee is responsible for the following functions:

- Monitoring the implementation by the Group's Companies of the strategic guidelines and policies outlined by the Board of Directors;
- Financial and accounting control of the Group and its Companies;
- Top-level coordination of the operational activities under the responsibility of the various Group Companies, whether or not integrated into business areas;
- Supervision of new business, during their launch phase and whilst the respective Companies are not integrated into a business area;
- Implementation of the Human Resources management policy outlined for the entire Group's executive staff.

The Executive Committee meets at the Company's Head Office, or at any other location. The Chairman is responsible for convening and running the meetings, setting the respective date, time and agenda. In 2006, the Executive Committee met thirty one times.

5.3. Structure and Role of the Board of Directors

Under the terms of the Articles of Association, the Board of Directors consists of an odd number of effective Members, with a minimum of seven and a maximum of twenty-one, and three substitutes. At present, the Board of Directors consists of nine Members, of which three are Executive and six Non-Executives.

Since the Board of Directors has Independent Members and Non-Executive Members, it is endowed with a range of skills that enriches management of the Company, reflecting a desire and an interest to bring together a wide range of technical skills, contact networks and connections with national and international entities, which optimises the Board's contribution to the governance of the Jerónimo Martins Group from the standpoint of creating value for Shareholders and defending their interests. The selection of this model represents yet another step to guarantee the defence of the interests of all Shareholders. For this same purpose, since election of the Board of Directors for the three-year period 2004-2006, there has been an increase in the number of Independent Members, at present totalling four of the nine Members. Furthermore, the practices of Corporate Governance have been reinforced and the Chair of the Board of Directors (under the responsibility of Mr. Elísio Alexandre Soares dos Santos) has been separated from the Chair of the Executive Committee (under the responsibility of Mr. Luís Palha da Silva).

The Board of Directors meets at least four times a year and another Member, by means of a letter addressed to the Chairman, may represent any Member at the Board meetings.

Except when otherwise provided, decisions are carried by majority vote. In the event of a tie, the Chairman has the casting vote.

The duties of the Board of Directors are described in article 12 of the Company's Articles of Association. The matters referred to in article 407, paragraph 4 of the Commercial Companies Code are denied to the Executive Committee. Any capital increase is subject to prior deliberation by shareholders.

As set down in specific regulations, the Board of Directors has delegated several duties to the Executive Committee, such as management of corporate business within the ambit of the day-to-day running of the Company. This includes approving expansion plans, representing the Company and financial management of the Group, amongst others.

However, the Board of Directors has effective control over the Company's affairs, always seeking to be duly informed and ensuring supervision of Company management. For this purpose, it meets at regular intervals and held six meetings in 2006.

To this end, the Board of Directors has at its disposal the minutes of the Executive Committee meetings, in which the matters discussed and the decisions taken are recorded. At each Board meeting, the Executive Committee reports on Company activity since the last meeting, and is ready to provide any further clarification that the Non-Executive Members may require.

5.4. Remuneration Policy of Board of Directors

Under the terms of its obligations, the Remuneration Committee has established the parameters of this payment as having a fixed component and a variable one, with the aim of making it more competitive in market terms. It will also serve as a motivating element for high individual and collective performance, allowing aggressive targets for rapid growth to be established and achieved.

The variable component is approved annually by the Remuneration Committee, according to the proposal submitted by the Chairman of the Board of Directors, who will take into account the extent to which the Executive Committee has brought about business evolution (EVA) and increased share prices over the previous year. The Remuneration Committee, under these guiding principles, defines the rules for the attribution of performance bonuses to Executive Directors, bearing in mind how far personal and Company objectives have been met.

The Remuneration Committee decided that Non-Executive Directors should be remunerated through attendance vouchers, with the exception of the Chairman of the Board of Directors, given that his representative functions within the Group, can benefit from a fixed and a variable amount, considering that he is responsible in accordance with the Regulations of the Board for implementing decisions made by this body, for the defining the global strategy for the Group and for management development.

There is no type of scheme or defined policy in place for the possible compensation of Company Directors in the case of breaking or terminating contracts, and such a situation has never, in fact, arisen.

5.5. Remuneration of the Members of the Board

The remuneration paid to the Members of the Board in 2006 was 2,863,325.84 euros, with the Executive Directors paid 1,729,029.84 euros (1,228,283.76 euros fixed payment and 500,746.08 euros variable payment). Non-Executive Directors received 1,134,296.00 euros (839,007.20 euros fixed and 295,288.80 euros variable).

The criteria for attributing the variable part of the remuneration to the members of the Board were referred to above. In concrete terms, the Remuneration Committee, decided to award the above amounts, based on results obtained, the share performance, the work carried out this year and the criteria applied to the attribution of variable payments to the Company's Senior Management.

No plan is in place to attribute shares, or options to purchase shares to the Directors. In the same way, no remuneration was paid as profit sharing, nor was any compensation paid to former directors, executive or not, related to the cessation of his duties, and there is no outstanding debt in the Company in this respect. The Group's Directors did not receive any other amount from any Company in a parent/subsidiary or Group related to the Company.

As for the complementary pension or retirement regimes, under the terms of the Regulations in force, Directors have the right to a Complementary Pension, at retirement age, cumulatively, when they: (i) are over 60 years old, (ii) exercise executive functions, and (iii) perform the role of a Director for more than ten years.

At the Annual General Meeting in 2005, a retirement pension plan was approved. It is a fixed-contribution Pension Plan, with a pre-determined contribution amount, with the value of benefits depending on earnings received. The Remuneration Committee defines the contribution rate of the Company and the initial contribution.

Participants in the Plan are the Executive Directors of the Company, and those who opted for the current Pension Plan forwent eligibility for the Retirement Complement Plan, which had to be expressly and irretrievably renounced.

The retirement date is defined as either the actual day or the first day of the month following the natural age of retirement as established by the General Social Security Regime (currently 65 years). A Participant will be considered to be in a state of total and permanent invalidity if the Portuguese Social Security Authorities acknowledge so.

Pensionable salary is the gross monthly base salary multiplied by 14 and divided by 12. To this monthly amount is added, at the end of the calendar year, a variable amount made up of all variable payments received. The annual amount of the variable payments in question is a maximum of 20% of the gross base monthly salary, based on the final month of the year, multiplied by 14.

5.6. Communications Policy for Alleged Irregularities Occurring within the Company (Whistleblower Procedure)

Since 2004, the Ethics Committee of Jerónimo Martins has implemented a system of bottom-up communication which guarantees every Employee at every level the opportunity to access those communications channels to make contact with recognized addressees regarding possible irregularities occurring within the Group, as well as to

make any other comments or suggestions, particularly with respect to compliance with the procedural manuals in force, especially the Code of Ethics.

This measure clarifies guidelines on questions as diverse as compliance with current legislation, respect for the principles of non-discrimination and equal opportunities, environmental concerns, business transparency and the integrity of relations with suppliers, customers and official entities, among other questions.

The Ethics Committee forwarded a message to all Employees of the Group to the effect that, if necessary, they could communicate with the Committee via: (i) prepaid letter, or (ii) internal or external e-mail with a dedicated address. Interested parties may also request from the respective General Manager or Functional Director any clarification of the rules in force and their application, or providing them with information about any relevant situation.

Whichever communication channel is used, anonymity is assured for anyone who requires it.

5.7. 2007 Perspectives

As a consequence of the modification of the Commercial Companies Code, and the application of Decree-Law 76-A/2006 of 29 March, which brings about a profound change in the rules with respect to Corporate Governance in Portugal, the Jerónimo Martins Board of Directors will present a proposal at the 2007 Annual General Meeting to review the Articles of Association, encompassing the changes brought about by the law in this important area.

In particular, the law sought to reformulate the supervision of companies by separating the supervisory function and the auditing of the accounts, reinforcing the independence and technical competence of the members of the supervisory bodies. On this point a proposal shall be made to adopt the so-called Anglo-Saxon model of governance, whereby the governing bodies are the General Meeting, the Board of Directors, the Audit Committee and the Chartered Accountant, so as to instigate a coherent evolution of the current monist model.

In order to modernise the Articles of Association an effort shall also be made to adjust the related material accordingly, such as: regulating votes by correspondence, the possibility of holding meetings of the Board of Directors using telematic means, as well as establishing the number of absences from meetings (without justification accepted by the Board) which will lead to declaration of definitive absence of the Director. With regard to remuneration, the Articles of Association shall establish the maximum profits from the year that may be delivered to the directors as variable pay.

Finally, the opportunity shall be taken to correct some minor anachronisms and inconsistencies that are still contained in the Articles of Association wording.