MODELO CONTINENTE

CONSOLIDATED FINANCIAL STATEMENTS

IAS/IFRS

1st Quarter 2005

(Translation of financial statements originally issued in Portuguese - Note 32)

MODELO CONTINENTE, SGPS, SA
Sociedade Gestora de Participações Sociais
Head Office: R. João Mendonça, 529 - 4464-501 SENHORA DA HORA
Porto Commercial Registry Nr. 38045
Fiscal Nr. 501 532 927 - Share Capital 1.100.000.000 Euro
" sociedade com o capital aberto ao investimento do público "

MODELO CONTINENTE, S.G.P.S., S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2005 AND AS AT 31 DECEMBER 2004

(Amounts expressed in Euro)
(Translation of financial statements originally issued in Portuguese - Note 32)

ASSETS	Notes	IFRS 31-03-05	IFRS 31-12-04	Local GAAP 31-12-04
NON CURRENT ASSETS				
Tangible and intangible assets	7	1,216,368,093	1,194,149,971	1,246,965,252
Goodwill	8	274,658,901	265,293,994	
Investments	9	48,105,352	49,104,992	41,221,322
Deferred tax assets	12	62,348,566	59,731,623	
Other non-current assets	10	43,412,884	44,528,376	44,528,377
Total non current assets		1,644,893,796	1,612,808,956	1,332,714,951
CURRENT ASSETS				
Inventory		394,187,428	387,517,766	387,517,766
Other debtors and other current assets	11	250,819,028	183,344,416	242,652,563
Investments	9	81,390,018	87,325,645	
Cash and cash equivalents	13	35,938,379	260,096,724	260,007,397
Total current assets		762,334,853	918,284,551	890,177,726
TOTAL ASSETS		2,407,228,649	2,531,093,507	2,222,892,677
EQUITY AND LIABILITIES				
EQUITY				
Share Capital	14	1,100,000,000	1,100,000,000	1,100,000,000
Reserves and retained earnings		(443,129,811)	(576,996,940)	(776,614,877)
Net profit (loss) for the period attributable to the shareholders of Modelo Continente, SGPS		9,807,775	119,088,499	114,415,880
Total equity attributable to the Shareholders of Modelo Continente, SGPS		666,677,964	642,091,559	437,801,003
Minority interests	15	7,574,231	7,331,008	18,860,054
TOTAL EQUITY		674,252,195	649,422,567	456,661,057
LIABILITIES				
NON-CURRENT LIABILITIES				
Loans	16	605,411,992	607,526,175	609,175,306
Other non-current liabilities	18	45,710,880	44,338,488	55,634,373
Deferred tax liabilities	12	43,945,118	43,623,446	
Provisions	21	15,912,429	17,251,593	17,237,462
Total non-current liabilities		710,980,419	712,739,702	682,047,141
CURRENT LIABILITIES				
Loans	16	290,991,042	251,603,218	157,278,460
Trade creditors and other current liabilities	20	730,755,823	916,684,825	926,440,178
Provisions	21	249,170	643,195	465,841
Total current liabilities		1,021,996,035	1,168,931,238	1,084,184,479
TOTAL LIABILITIES		1,732,976,454	1,881,670,940	1,766,231,620
TOTAL EQUITY AND LIABILITIES		2,407,228,649	2,531,093,507	2,222,892,677

The accompanying notes are part of these financial statements

The Board of Directors

MODELO CONTINENTE, S.G.P.S., S.A.

CONSOLIDATED INCOME STATEMENTS BY NATURE

FOR THE QUARTERS ENDED 31 MARCH 2005 AND 2004

(Amounts expressed in Euro)
(Translation of financial statements originally issued in Portuguese - Note 32)

	Notes	IFRS 31-03-05	IFRS 31-03-04	Local GAAP 31-03-04
Operating income				
Sales		872,327,534	778,612,029	778,729,571
Services rendered		5,539,881	5,990,198	5,990,198
Other operational income		69,887,800	48,239,916	39,772,143
Total operational income		947,755,215	832,842,143	824,491,912
Operating expenses				
Cost of sales		(695,876,684)	(600,058,150)	(608,957,668)
External supplies and services		(92,549,342)	(83,476,426)	(81,985,257)
Staff costs		(97,478,751)	(87,610,410)	(87,578,263)
Depreciation and amortization	7	(22,191,155)	(20,444,162)	(23,339,817)
Provisions and impairment losses	21	606,455	(1,007,466)	(1,007,466)
Other operational expenses		(15,211,368)	(12,746,670)	(4,299,251)
Total operational expenses		(922,700,845)	(805,343,284)	(807,167,722)
Net operating profit/(loss)		25,054,370	27,498,859	17,324,190
Financial profit/(loss)		(12,936,985)	(16,131,151)	(9,025,203)
Profit/(loss) related to associated companies		(124,166)	(391,059)	(410,427)
Profit/(loss) related to investments		-	-	7,596,178
Profit/(loss) before income tax		11,993,219	10,976,649	15,484,738
Income tax	25	(1,942,221)	(1,697,621)	(2,039,749)
Profit/(loss) after income tax		10,050,998	9,279,028	13,444,989
Consolidated profit/(loss) for the three month peric		10,050,998	9,279,028	13,444,989
Attributable to:				
Equity holders of Modelo Continente		9,807,775	9,131,141	13,371,474
Minority interests		243,223	8,787	73,515
Profit / (loss) per share (Basic and dilutec	26	0.01	0.01	0.01

The accompanying notes are part of these financial statements

The Board of Directors

MODELO CONTINENTE, S.G.P.S., S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE QUARTERS ENDED 31 MARCH 2005 AND 2004

(Amounts expressed in Euro)
(Translation of financial statements originally issued in Portuguese - Note 32)

	Attributable to Shareholders of Parent Company					
	Share capital	Reserves and Retained earnings	Net profit/(loss)	Total	Minority interests	Total Equity
Balance at 1 January 2004	1,100,000,000	(578,683,653)	-	521,316,347	11,214,733	532,531,080
Changes in reserves						
Translation Reserves	-	11,434,259		11,434,259	-	11,434,259
Hedge Reserves	-	(2,895,317)		(2,895,317)	-	(2,895,317)
Others	-	(6,075,016)		(6,075,016)	(5,828,610)	(11,903,626)
Net consolidated profit (loss) for the three month period ending 31 March 2004	-	-	9,191,141	9,191,141	87,887	9,279,028
Balance at 31 March 2004	1,100,000,000	(576,219,727)	9,191,141	532,971,414	5,474,010	538,445,424
Balance at 1 January 2005	1,100,000,000	(576,996,940)	119,088,499	642,091,559	7,331,008	649,422,567
Appropriation of consolidated profit of 2004						
Transfer to legal reserves and retained earnings	-	119,088,499	(119,088,499)	-	-	-
Changes in reserves						
Translation Reserves	-	15,341,211		15,341,211	-	15,341,211
Hedge Reserves	-	(724,169)		(724,169)	-	(724,169)
Others	-	161,588		161,588	-	161,588
Net consolidated profit (loss) for the three month period ending 31 March 2005			9,807,775	9,807,775	243,223	10,050,998
Balance at 31 March 2005	1,100,000,000	(443,129,811)	9,807,775	666,677,964	7,574,231	674,252,195

The accompanying notes are part of these financial statements

The Board of Directors

MODELO CONTINENTE, S.G.P.S., S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE QUARTERS ENDED 31 MARCH 2005 AND 2004

(Amounts expressed in Euro)

(Translation of financial statements originally issued in Portuguese - Note 32)

OPERATING ACTIVITIES	Notes	31-03-05	31-03-04
Net cash flow from operating activities (1)		(179,128,079)	(165,069,671)
INVESTING ACTIVITIES			
Cash receipts related to:			
Tangible and intangible assets		9,152,132	159,877
Interests and similar income		7,447,804	10,125,153
Dividends		392,807	
Loans granted		21,108,000	25,000,000
Others		-	442,247
		38,100,743	35,727,277
Cash payments related to:			
Investments		(16,469,365)	(17,379,243)
Tangible and intangible assets		(39,969,914)	(28,167,605)
Loans granted		(46,108,000)	(50,000,000)
Others		-	-
		(102,547,279)	(95,546,848)
Net cash used in investing activities (2)		(64,446,536)	(59,819,571)
FINANCING ACTIVITIES			
Cash receipts related to:			
Loans obtained		150,143,696	312,565,310
		150,143,696	312,565,310
Cash payments related to:			
Loans obtained		(123,455,647)	(341,461,940)
Interests and similar charges		(16,426,909)	(14,319,724)
Others		-	2,394,229
		(139,882,556)	(353,387,435)
Net cash used in financing activities (3)		10,261,140	(40,822,125)
Net increase in cash and cash equivalents (4) = (1) + (2) + (3)		(233,313,475)	(265,711,367)
Effect of foreign exchange rate		(986,583)	(757,762)
Cash and cash equivalents at the beginning of the period		(255,709,321)	(321,380,524)
Cash and cash equivalents at the end of the period	13	23,382,429	56,971,919

The accompanying notes form an integral part of these financial statements

The Board of directors

MODELO CONTINENTE SGPS, S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE QUARTER ENDED 31 MARCH 2005

(Amounts expressed in Euro)

(Translation of financial statements originally issued in Portuguese - Note 32)

1. INTRODUCTION

MODELO CONTINENTE, SGPS, S.A. ("the Company" or "Modelo Continente"), whose head-office is in Rua João Mendonça nº 529, 4464-501 Senhora da Hora, Portugal, is the parent-company of a group of companies, as detailed in Notes 4 e 5 ("Modelo Continente Group"). The Group's operations and segments of business are described in Note 28.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the accompanying consolidated financial statements are as follows:

2.1. Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS" – previously named International Accounting Standards – "IAS"), issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") or by the previous Standing Interpretations Committee ("SIC"), applicable to financial years beginning on 1 January 2005.

International Financial Reporting Standards (IFRS) were adopted for the first time in 2005. As a result, the transition date from the Portuguese generally accepted accounting principles to the standards referred above is 1 January 2004, as established by IFRS 1 – "First time adoption of International Financial Reporting Standards".

According to that standard, the adjustments as at the date of transition to IFRS (1 January 2004) were recorded under Equity and are described in Note 31. This note also includes the description of the adjustments made to the last annual financial statements presented (31 December 2004).

Interim financial statements are presented quarterly, in accordance with IAS 34 – "Interim Financial Reporting".

The accompanying consolidated financial statements have been prepared from the books and accounting records of the companies included in the consolidation (Notes 4 and 5) on a going concern basis and under the historical cost convention, except for some financial instruments which are stated at fair value (Note 2.11).

2.2. Consolidation principles

The consolidation methods adopted by the Group are as follows:

a) Investments in Group companies

Investments in companies in which the Group owns, directly or indirectly, more than 50% of the voting rights at Shareholders' General Meetings and is able to govern the financial and operating policies so as to benefit from its activities (definition of control normally used by the Group), are included in the consolidated financial statements by the full consolidation method. The equity and net profit attributable to minority shareholders are shown separately, under the caption Minority interests, in the consolidated balance sheet and consolidated statement of profit and loss, respectively. The companies included in the consolidated financial statements are listed in Note 4.

When losses attributable to the minority interests in a consolidated subsidiary exceed the minority interest in the equity of the subsidiary, the excess, and any further losses attributable to the minority interests, are charged against the majority interest except to the extent that the minority shareholders have a binding obligation and are able to, cover such losses. If the subsidiary subsequently reports profits, such profits are allocated against the majority interest until the minority's share of losses previously absorbed by the majority had been recovered.

Assets and liabilities of each subsidiary are measured at their fair values at the date of acquisition. Any excess on the cost of acquisition over the fair value of the identifiable net assets acquired is recognized as goodwill (Note 2.2.c)). Any difference of the cost of acquisition below the fair value of the identifiable net assets acquired is recognized as income in the statements of profit and loss of the period of acquisition, after the reassessment of the estimated fair value. Minority interests include their proportion of the fair value of net identifiable assets and liabilitiesrecognized on acquisition of subsidiaries.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Adjustments to the financial statements of companies within the group are performed, whenever necessary, in order to adapt the accounting policies to those used by the Group. All intra-group transactions, balances, income and expenses and distributed dividends are eliminated on consolidation.

Whenever the Group hold, in substance, the control over other entities created for a specific purpose, even if no share capital interest is directly held in those entities, these are consolidated by the full integration method.

b) Investments in associated companies

Investments in associated companies (companies where the Group holds a significant influence but does not hold the control or the joint control over the decisions, through the participation in the financial and operating decisions – usually corresponding to holdings between 20% and 50% in a company's share capital) are accounted for in accordance with the equity method.

Under the equity method, investments are recorded at acquisition cost, adjusted by the amount corresponding to the Group's share on the changes in equity (including the net profit) of the associated companies against profits and losses generated in the period and by the dividends received.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill (Note 2.2.c)), which is kept in the caption where the investment in associates is recognized. Any deficiency of the cost of acquisition below the fair value of the identifiable net assets acquired is recognized as income in the statement of profit and loss of the period of acquisition after having reassessed the estimated fair value of the net assets acquired.

An assessment of investments in associates is performed when there is an indication that the asset might be impaired. Any impairment loss existing as of the balance sheet date is recorded as cost in the consolidated statement of profit and loss. When impairments recorded in prior years no longer exist, these are reversed.

When the group’s share of losses exceeds the carrying amount of the investment, the investment is reported at nil value except to the extent of the Group’s commitment to the associate.

Unrealized gains arising from transactions with associates are eliminated to the extent of the group’s interest in the associate against that investment. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Financial investments in associated companies are disclosed in Note 5.

c) Goodwill

The difference between the acquisition cost of investments in group and associated companies and the fair value of the identifiable assets and liabilities of those companies at the date of acquisition are stated, if positive, under Goodwill or under Investments in associated companies (Note 8). The difference between the acquisition cost of investments in subsidiaries based in foreign countries and the fair value of their identifiable assets and liabilities at the date of acquisition are stated at the functional currency of those subsidiaries. The conversion to the Group’s currency (Euro) is made at the closing balance exchange rate. The exchange rate differences arising from the conversion are recorded under Translation reserves in Reserves and retained earnings.

Goodwill is not amortized, being tested for impairment on an annual basis. Impairment losses related to goodwill identified in the period are recorded in the statement of profit and loss under Provisions and impairment losses, and may not be reversed.

The differences between the acquisition cost of Group companies and associated companies and the fair value of the identifiable assets and liabilities of those companies at the date of acquisition, if negative, were recorded, at the date of acquisition and after reassessment of the fair value of the identifiable assets and liabilities acquired, as a gain.

Goodwill recognized prior to the transition date

Goodwill arising from acquisitions made prior to the date of transition to IFRS (1 January 2004) were maintained by the same amount as in accordance with generally accepted accounting principals in Portugal being adjusted by intangible assets which do not meet IFRS criteria for recognition and subject to impairment tests. The impacts of these adjustments were recorded on Retained earnings, in accordance with IFRS 1. Goodwill arising from the acquisition of foreign companies was re-expressed at functional currency of each subsidiary, retrospectively. The exchange rate differences generated in the conversion were also recorded under retained earnings (IFRS 1).

d) Conversion of financial statements of foreign entities

Assets and liabilities within the financial statements of foreign entities are translated to Euro using the closing balance exchange rates. Profit and loss and cash flows are translated to Euro using the average exchange rate for the period. The exchange rate differences originated after 1 January 2004 are recorded as equity under Translation reserves in Reserves and retained earnings. Exchange rate differences originated prior to 1 January 2004 (date of transition to IFRS) were written-off through retained earnings.

Goodwill and adjustments to the fair value arising from the acquisition of foreign entities are recorded as assets and liabilities of the referred entities and translated to Euro at the closing balance exchange rate.

When a foreign entity is sold, the accumulated exchange rate difference is recorded in the statement of profit and loss as a loss or gain from disposal of financial investments.

The exchange rates used for the conversion of foreign subsidiaries, jointly controlled entities and associated companies are listed as follows:

	31.03.05		31.12.04	31.03.04	
	End of period	Average of period	End of period	End of period	Average of period
Brazilian Real	0,28782	0,28582	0,27665	0,28190	0,27640

2.3. Tangible Assets

Tangible assets acquired until 1 January 2004 (transition date to IFRS) are recorded at acquisition cost, or revalued acquisition cost in accordance with the generally accepted accounting principles in Portugal until that date, net of amortizations and depreciations and accumulated impairment losses ("Deemed cost").

Tangible assets acquired after that date are recorded at acquisition cost, net of depreciations and accumulated impairment losses.

Depreciation is provided on a straight line basis, as from the date the asset is first used, taking into consideration the estimated useful life for each class of assets.

The depreciation rates used correspond to the following estimated useful lives:

	Years
Buildings	50
Basic equipment	10 to 15
Transport equipment	5
Tools and containers	4
Fixture and fittings	10
Other tangible assets	5

Maintenance and repair costs related to tangible assets are recorded directly as costs in the year they are incurred.

Tangible assets in progress represent fixed assets still in course of construction/promotion and are stated at acquisition cost net of eventual impairment losses. These assets are depreciated from the date they are concluded or start being in use.

Gains or losses out coming from the sale or disposal of tangible assets are determined from the difference between the selling price and the carrying amount of the asset at the date of its sale/disposal. These are recorded in the statement of profit and loss under either Other operating expenses or Other operating losses.

2.4. Intangible assets

Intangible assets are stated at acquisition cost, net of depreciations and accumulated impairment losses. Intangible assets are only recognized if, inherent to these, it is probable that future economic benefit will flow for the Group, are controlled by the Group and if their cost can be reliably measured.

Research costs inherent to new technical know-how are recorded in the statement of profit and loss when incurred.

Development costs related to assets for which the Group demonstrates capacity to complete its development, start to sell or use and for which it is probable that the developed asset will create future economic benefits are capitalized. Development costs which do not fulfil these criteria are recorded as a cost in the year in which are incurred.

Internal costs related to the maintenance and development of software are recorded as cost. Only costs directly attributable to projects for which the existence of future economic benefits is probable are capitalized as intangible assets.

Depreciation is computed, starting from the date of use, on straight line basis in accordance with the estimated useful life, usually 5 years, except for property occupation rights which are amortized in accordance with the duration of the contract which establishes these rights.

In what brands and patents which do not hold a defined useful life are concerned, depreciations are not calculated. Its book value is subject to impairment tests on an annual basis.

2.5. Accounting for leases

Accounting for leases where a Group is the lessee

Lease contracts are classified as (i) a finance lease if the risks and rewards inherent to ownership lie with the lessee and (ii) as an operating lease if the risks and rewards inherent to ownership do not lie with the lessee.

Classifying a lease as finance or as operating lease depends on the substance of transaction rather than the form of the contract.

Fixed assets acquired through finance lease contracts are recorded as assets and corresponding obligations as liabilities in the balance sheet. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Both the finance charge and the depreciation expenses for depreciable assets are taken to income statement in the period in which they are incurred.

Operating lease payments are recorded as cost for the year in the statement of profit and loss under a straight line basis over the lease period.

2.6. Government grants

Government grants are recorded at fair value when there is a reasonable assurance that these will be received and that the Company will comply with the conditions necessary for its grant.

Grants related to assets are included in Other non current liabilities and are credited in the statement of profit and loss under a straight line basis in connection with the estimated useful life of the inherent acquired assets.

2.7. Impairment of non-current assets, except for goodwill

Assets are assessed for impairment at each balance sheet date whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of profit and loss under Provisions and impairment losses.

The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognized in prior years is recorded when it is concluded that the impairment losses recognized for the asset no longer exist or have decreased. This analysis is performed whenever there is an indication that the impairment loss previously recognized has been reversed. The reversal is recorded in the statement of profit and loss as operating profit. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

2.8. Borrowing costs

Borrowing costs are normally recognized as expense in the period in which they are incurred.

Borrowing costs relating directly to the acquisition, construction or production of fixed assets are capitalized as part of the cost of the qualified asset. Borrowing costs are capitalized from the time of preparation of the activities to construct or develop the asset to the time the production or construction is completed or when the asset is suspended. Any eventual financial income derived from a loan obtained and allocable to a qualifying asset, are deducted to the financial expenses that qualify for capitalization.

2.9. Inventories

Inventories held by the group are stated at acquisition cost, deducted from quantity discounts received or to be received from suppliers, which is lower than their market value. Inventories are valued at the last purchase's price. Attending to the rotation level of inventories at the stores this method is not materially different from FIFO or average cost.

The difference between the inventory cost and its net realizable value, if negative, is recorded as an operating expense under Cost of sales.

2.10. Provisions

Provisions are recognized when, and only when, the Group has an obligation (legal or constructive) resulting from a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of that obligation. Provisions are reviewed and adjusted at the balance sheet to reflect the best estimate as of that date.

Restructuring provisions are recorded by the Group whenever a formal and detailed restructuring plan exists and that plan has been communicated to the involved parties.

2.11. Financial instruments

a) Investments

Investments are classified into the following categories:

- Held to maturity
- Investments measured at fair value through profit or loss
- Available-for-sale

Held to maturity investments are classified as non-current assets unless they mature within 12 months of the balance sheet date. The investments classified as held to maturity have defined maturity and the Group has intention and capacity to maintain them until the maturity date.
Investments measured at fair value through profit or loss are classified as current assets. Available-for-sale investments are classified as non current assets.

All purchases and sales of investments are recognized on the trade date, independently of the liquidation date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs if related to Held to maturity and Available-for-sale investments

Available-for-sale and investments measured at fair value through profits or loss are subsequently carried at fair value without any deduction for transaction costs which may be incurred on its sale by reference to their quoted market price at the balance sheet date. Investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured are stated at cost less impairment losses.

Gains or losses arising from a change in fair value of available-for-sale investments are recognized directly under the Fair value reserve in Equity, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is transferred to net profit or loss for the period.

Changes in the fair value of investments measured at fair value through profit and loss are included in the consolidated income statement for the period.

Held to maturity investments are carried at amortized cost using the effective interest rate method, net of capital reimbursements and interest income received.

b) <u>Accounts receivable</u>

Receivables are stated at their nominal value less eventual impairment losses (recorded under the caption Impairment losses in accounts receivable) in order to those receivables reflect their net realizable value.

c) <u>Classification as Equity or Liability</u>

Financial liabilities and equity instruments are classified and accounted for based upon their contractual substance, independently from the legal form they assume.

d) <u>Loans</u>

Loans are recorded as liabilities at their nominal value net of up-front fees and commissions related to the issuance of those instruments. Financial expenses are calculated based on the effective interest rate and are recorded in the statement of profit and loss on an accrual basis, in accordance with the accounting policy defined in Note 2.8. The portion of the effective interest rate regarding up-front fees and commissions, if not paid in the period, is added to the book value of the loan.

e) <u>Trade accounts payable</u>

Accounts payable are stated as their nominal value.

f) Derivatives

The Group uses derivatives in the management of its financial risks, only to hedge such risks. Derivatives are not used by the Group for trading purposes.

Derivatives classified as cash flow hedge instruments are used by the Group mainly to hedge interest and exchange rates risks on loans obtained. The conditions established for these cash flow hedge instruments are identical to those of the corresponding loans in terms of the amount, maturity dates of the interest and repayment schedules of the loans and for these reason they qualify as perfect hedges.

The Group's criteria for classifying a derivative instrument as a cash flow hedge instrument include:

- the hedge transaction is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured;
- there is adequate documentation of the hedging relationships at the inception of the hedge;
- the forecasted transaction that is being hedged is highly probable.

Cash flow hedge instruments used by the Group to hedge the exposure to changes in the interest and exchange rates of its loans are initially accounted for at cost and subsequently adjusted to the corresponding fair value. Changes in fair value of these cash flow hedge instruments are recorded in equity under the caption Hedging reserves, and then recognized in the statement of profit and loss over the same period in which the hedged instrument affects the income statement.

Hedge accounting of derivative instruments is discontinued when the instrument matures or is sold. Whenever a derivative instrument can no longer be qualified as a hedging instrument, the fair value differences recorded and deferred in equity under the caption Hedging reserve are transferred to profit and loss of the year or to the carrying amount of the asset that resulted from the hedged forecast transaction. Subsequent changes in fair value are recorded in the income statement.

In those cases in which the derivatives, despite being negotiated to hedge financial risks inherent to the business (essentially, currency "forwards" to cover future imports), do not fulfil the criteria for hedge accounting under IAS 39, changes in the fair value are recorded directly in the income statement.

When embedded derivatives exist, they are accounted for as separate derivatives when the risks and the characteristics are not closely related to economic risks and characteristics of the host contract and this is not stated at fair value with gains and losses not realizable are recorded in the Profit and Loss statement.

Additionally, the Group also negotiates, in specific situations, interest rate derivatives in order to hedge fair values. In these cases, the derivatives are stated at fair value through the statement of profit and loss. When the hedged instrument is not measured at fair value (i.e. loans which are recorded at amortized cost) the book value is adjusted by the amount which is effectively hedged through the profit and loss.

g) Equity instruments

Equity instruments are those that represent a residual interest upon the Group's net assets and are recorded by the amount received, net of costs incurred with their issuance.

h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cash at banks in demand and term deposits and other treasury applications which mature in less than three months that are subject to insignificant risk of change in value.

For purposes of the consolidated statement of cash flows, cash and cash equivalents caption also includes bank overdrafts, which are included in the balance sheet caption Loans.

2.12. Share based payments

Share based payments result from Deferred Performance Bonus Plans that are referenced to the evolution of the Sonae shares' price and/or of its publicly held subsidiaries.

Share based payments liabilities are measured at fair value on the date they are granted (usually in March each year) and are subsequent remeasured at the end of each reporting period based on the number of shares or share options granted and the corresponding fair value at the closing date. The fair value of the share options is estimated based on the "Black-Scholes" model. The obligations are recorded under personnel costs and other liabilities, under a straight line basis, between the date the shares were granted and their vesting date, taking into consideration the time elapsed between these dates when referring to shares or call options which can be net settled. When these are obligatorily physically settled, the obligations are recorded under personnel expenses and reserves under a straight line basis between the date the shares were granted and their vesting date.

2.13. Contingent assets and liabilities

Contingent liabilities are not recorded in the consolidated financial statements, being disclosed, unless the probability of a cash outflow is remote, in which case, no disclosure is made.

Contingent assets are not recorded in the consolidated financial statements but disclosed when the existence of future economic benefit is probable.

2.14. Income tax

Current income tax is determined based on the taxable income of companies included in the consolidation, in accordance with the tax rules in force in their respective country of incorporation, considering the interim period income and using the estimated effective average annual income tax rate.

Deferred taxes are calculated using the balance sheet liability method, reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are calculated and annually remeasured using the tax rates that have been enacted or substantively enacted and therefore expected to apply in the periods when the temporary differences are expected to reverse.

Deferred tax assets are recognized only when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be used, or when taxable temporary differences are recognized and expected to reverse in the same period. At each balance sheet date a review is made of the deferred tax assets recognized, being reduced whenever their future use is no longer probable.

Deferred tax assets and liabilities are recorded in the income statement, except if they relate to items directly recorded in equity. In these cases the corresponding deferred tax is recorded in Equity

2.15. Revenue recognition and accrual basis

Revenue from the sale of goods is recognized in the consolidated income statement when the risks and benefits have been transferred to the buyer and the amount of the revenue can be measured reasonably.
Sales are recognized net of sales taxes and discounts and other expenses arising from the sale, and are measured as the fair value of the amount received or receivable.

Revenue from services rendered is recognized in the consolidated income statement taking into consideration the stage of completion of the transaction at the balance sheet date.

Dividends are recognized as income in the year they are attributed to the shareholders.

Income and expenses are recorded in the year to which they relate, independently of the date of the corresponding payment or receipt. Income and expenses for which their real amount is not known are estimated.

Other current assets and Other current liabilities include income and expenses of the reporting year which will only be invoiced in the future. Those captions also include receipts and payments that have already occurred but will only correspond to income or expenses of future years, when they will be recognized in the income statement.

2.16. Balances and transactions expressed in foreign currencies

Transactions in currencies other than Euro, are translated to Euro using the exchange rate prevailing as of the transaction date.

At each balance sheet date, all monetary assets and liabilities expressed in foreign currencies are translated to the functional currency of each foreign entity at the exchange rates prevailing as of that date. All non-monetary assets and liabilities recorded at fair value and stated in foreign currencies are converted to the functional currency of each subsidiary, taking into consideration the exchange rate at the date the fair value was determined.

Exchange gains and losses arising from differences between the historical exchange rates and those prevailing at the date of collection, payment or the date of the balance sheet, are recorded as profits or loss for the period, except for those related to non-monetary assets or liabilities, in which, the adjustments to the fair value are directly recorded under equity.

When exposure to currency risk is aimed to be minimized, the Group negotiates hedging currency derivatives (Note 2.12.f)).

2.17. Subsequent events

Post-balance-sheet events that provide additional information about conditions that existed at the balance sheet date (adjusting events), are reflected in the consolidated financial statements. Post-balance-sheet events that are not adjusting events are disclosed in the notes when material.

2.18. Segment information

All business and geographic segments of the Group are identified annually.

Information regarding the business and geographic segments identified is included in Note 28.

3. CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF ERRORS

During the period there were no changes neither in accounting policies nor correction of errors

4. GROUP COMPANIES INCLUDED IN THE CONSOLIDATION

The subsidiaries, its Head offices and percentage of capital held as of 31 December 2004 and 31 March 2005 are as follows:

		Percentage of capital held			
	Head	31.03.2005		31.12.2004	
Company	office	Direct	Total	Direct	Total
Parent company					
Modelo Continente SGPS, S. A.	Matosinhos				
Modelo Continente					
Best Offer – Prestação de Informações pela Internet, S.A.	Maia	100,00%	100,00%	100,00%	100,00%
Bikini, Portal de Mulheres, S.A.	Maia	100,00%	100,00%	100,00%	100,00%
Cacetinho – Comércio Retalhista e Expl. Centros Comerciais, S.A.	Matosinhos	100,00%	100,00%	100,00%	100,00%
Tlantic Sistemas de Informação, Ltda	Porto Alegre(Brazil)	100,00%	100,00%	100,00%	100,00%
Carnes do Continente – Industria e Distribuição Carnes, S.A.	Santarém	100,00%	100,00%	100,00%	100,00%
Chão Verde - Sociedade de Gestão Imobiliária, S.A.	Maia	100,00%	100,00%	100,00%	100,00%
Citorres - Sociedade Imobiliária, S.A.	Maia	100,00%	100,00%	100,00%	100,00%
Comcerne - Madeiras e Derivados, S.A.	Marinha Grande	100,00%	100,00%		
Contifin - S.G.P.S., Lda	Matosinhos	89,90%	89,90%	89,90%	89,90%
Contibomba - Comércio e Distribuição de Combustíveis, S.A.	Matosinhos	100,00%	100,00%	100,00%	100,00%
Contimobe - Imobiliária de Castelo de Paiva, S.A.	Castelo Paiva	100,00%	100,00%	100,00%	100,00%
Difusão - Sociedade Imobiliária, S.A.	Maia	100,00%	100,00%	100,00%	100,00%
Efanor – Design e Serviços, S.A.	Matosinhos	100,00%	100,00%	100,00%	100,00%
Efanor - Industria de Fios, S.A.	Matosinhos	100,00%	100,00%	100,00%	100,00%
Estevão Neves - Hipermercados da Madeira, S.A.	Madeira	100,00%	100,00%	100,00%	100,00%
Fozimo - Sociedade Imobiliária, S.A.	Maia	100,00%	100,00%	100,00%	100,00%
Fozmassimo – Comércio e Indústria de Produtos Alimentares, S.A.	Matosinhos	100,00%	100,00%	100,00%	100,00%
Global S Hipermercado, Lda.	Matosinhos	100,00%	100,00%	100,00%	100,00%
IGI – Investimento Imobiliário, S.A.	Porto	100,00%	100,00%	100,00%	100,00%
Igimo – Sociedade Imobiliária, S.A.	Maia	100,00%	100,00%	100,00%	100,00%
Iginha – Sociedade Imobiliária, S.A.	Matosinhos	100,00%	100,00%	100,00%	100,00%
Imoconti – Sociedade Imobiliària, S.A.	Matosinhos	100,00%	100,00%	100,00%	100,00%
Imoestrutura – Sociedade Imobiliária, S.A.	Maia	100,00%	100,00%	100,00%	100,00%
Imomuro – Sociedade Imobiliária, S.A.	Matosinhos	100,00%	100,00%	100,00%	100,00%
Imoponte – Sociedade Imobiliária, S.A.	Maia	100,00%	100,00%	100,00%	100,00%

Company	Head office	Percentage of capital held 31.03.2005 Direct	Total	31.12.2004 Direct	Total
Imoresultado – Sociedade Imobiliária, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Imosistema – Sociedade Imobiliária, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Informeios - Projectos e Representações, S.A.	Lisboa	100.00%	100.00%	100.00%	100.00%
Infofield – Informática, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Inventory - Acessórios de Casa, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Maxoffice – Artigos e Serviços para Escritório, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Modelo - Distribuição de Materiais de Construção, S.A.	Maia	50.00%	50.00%	50.00%	50.00%
Modis International Trade, S.A.	Madrid(Spain)	100.00%	100.00%	100.00%	100.00%
Modalfa – Comércio e Serviços, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Modelo.Com - Vendas por Correspondência, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Modelo – Sociedade Gestora de Participações Sociais, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Modelo Continente Hipermercados, S.A.	Matosinhos	100.00%	100.00%	100.00%	100.00%
Modelo Continente – Operações de Retalho, S.G.P.S., S.A.	Matosinhos	100.00%	100.00%	100.00%	100.00%
Modelo Hiper Imobiliária, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Modelo Investimentos Brasil, S.A.	São Paulo(Brazil)	100.00%	100.00%	100.00%	100.00%
Modis - Distribuição Centralizada, S.A.	Matosinhos	100.00%	100.00%	100.00%	100.00%
Modis, S.G.P.S., Lda	Matosinhos	100.00%	100.00%	100.00%	100.00%
Ok Bazar - Comércio Geral, S.A.	Ermesinde	100.00%	100.00%	100.00%	100.00%
Predicomercial – Promoção Imobiliária, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Sempre à Mão - Sociedade Imobiliária, S.A.	Matosinhos	100.00%	100.00%	100.00%	100.00%
Sesagest – Projectos e Gestão Imobiliária, S.A.	Porto	100.00%	100.00%	100.00%	100.00%
Sociloures – Sociedade Imobiliária, S.A.	Matosinhos	100.00%	100.00%	100.00%	100.00%
Socijofra – Sociedade Imobiliária, S.A.	Gondomar	100.00%	100.00%	100.00%	100.00%
Soflorin, B.V.	Amsterdam(Holland)	100.00%	100.00%	100.00%	100.00%
Sonae Distribuição Brasil, S.A.	Porto Alegre(Brazil)	97.67%	97.67%	96.56%	96.56%
Sonae Admin.Cartões Crédito e Prom.Vendas, Ltda	Porto Alegre(Brazil)	100.00%	100.00%		
Sonae Retalho España – Servicios Generales, S.A.	Madrid(Spain)	100.00%	100.00%	100.00%	100.00%
Sondis, B.V.	Amsterdam(Holland)	100.00%	100.00%	100.00%	100.00%
Sondis Imobiliária, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Sontária - Empreendimentos Imobiliários, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Sonvecap, B.V.	Amsterdam(Holland)	100.00%	100.00%	100.00%	100.00%
Sport Zone – Comércio de Artigos de Desporto, S.A.	Matosinhos	100.00%	100.00%	100.00%	100.00%
Distrifin - Comercio y Prestacion de Servicios, S.A.	Madrid(Spain)	100.00%	100.00%	100.00%	100.00%
SRE - Projectos e Consultadoria, S.A.	Maia	100.00%	100.00%	100.00%	100.00%
Todos os Dias – Comércio Ret. E Explor.Centros Comerciais, S.A.	Matosinhos	100.00%	100.00%	100.00%	100.00%
Worten – Equipamentos para o Lar, S.A.	Matosinhos	100.00%	100.00%	100.00%	100.00%

This subsidiaries where included in the consolidated financial statements by the full consolidation method (Note 2.2.a)).

5. INVESTMENTS IN ASSOCIATED COMPANIES

The associated companies, their head offices, the percentage of the share capital held as at 31 March 2005 and 31 December 2004 are as follows:

Company	Head office	Percentage of capital held 31.03.2005 Direct	Total	31.12.2004 Direct	Total
Star-Viagens e Turismo, S.A.	Lisboa	50,00%	50,00%	50,00%	50,00%
Sonae Retalho Especializado, S.G.P.S., S.A.	Maia	49,90%	49,90%	49,90%	49,90%
Sonaegest-Soc. Gestora de Fundos de Investimento,S.A.	Maia	40,00%	40,00%	40,00%	40,00%
Sempre a Postos-Produtos Alimentares e Utilidades, S.A.	Lisboa	25,00%	25,00%	25,00%	25,00%

Associated companies were included in the consolidation under the equity method, as referred to in Note 2.2.b).

6. CHANGES IN CONSOLIDATION PERIMETER

The main acquisitions and disposals of companies over the three month period ending on 31 March 2005 are as follows:

Acquisitions

Firm	Head office	Percentage of capital held 31.03.2005 Direct	Percentage of capital held 31.03.2005 Total	Percentage of capital held 31.12.2004 Direct	Percentage of capital held 31.12.2004 Total
Comcerne - Madeiras e Derivados, S.A.	Marinha Grande	100,00%	100,00%		

Effect of acquisitions and disposals

The acquisitions referred to above had the following impact upon the consolidated financial statements as at 31 March 2005:

	Acquire's carrying amount	Fair Value adjustments	Fair Value
Net assets acquired			
Tangible and intangible assets	60,522	1,934,669	1,995,191
Other current assets	4,227		4,227
Deferred taxes		(528,647)	(528,647)
	64,749	1,406,022	1,470,771
Goodwill (Note 8)			524,420
Acquisition price			1,995,191
Payments made			1,795,191
Future payments to be made			200,000
			1,995,191
Net cash outflow arising from acquisition			
Payments made			1,795,191

The impact of the acquisitions on the statement of profit and loss is as follows:

Operating expense	(273)
Net profit before tax	(273)
Income tax	-
Net profit for the period	(273)

7. TANGIBLE AND INTANGIBLE ASSETS

During the three months period ending 31 March 2005, movements in tangible and intangible assets as well as depreciations and accumulated impairment losses, are made up as follows:

Tangible assets

	Land and buildings	Machinery and equipment	Transport equipment	Office equipment	Tools and utensils	Reusable containers	Other tangible assets	Tangible assets in progress a)	Advances on account of tangible assets b)	Total
Gross asset:										
Opening balance	828,855,869	556,452,919	17,713,519	118,774,183	4,576,316	251,533	1,892,005	33,632,508	27,621,815	1,589,770,667
Changes in consolidation perimeter	1,995,191									1,995,191
Capital expenditure	1,866,873	3,501,367	149,116	873,122	22,744			22,107,493	10,278	28,530,993
Disposals		(107,512)	(130,942)	(522,018)	(978)	(225)		(190,882)		(952,557)
Exchange rate effect	4,604,148	8,022,597	173,848	1,217,388				75,083	12,698	14,105,762
Transfers	1,291,348	3,569,443	160,090	473,618	125,943		(13,586)	(6,397,869)	180,972	(610,041)
Closing balance	838,613,429	571,438,814	18,065,631	120,816,293	4,724,025	251,308	1,878,419	49,226,333	27,825,763	1,632,840,015
Accumulated amortizations, depreciations and impairment losses										
Opening balance	112,412,641	255,785,555	14,475,941	64,929,062	3,305,830	251,533	1,875,357	-		453,035,919
Changes in consolidation perimeter	-	-	-	-		-	-	-		-
Depreciations for the period	3,713,716	12,107,103	327,082	3,302,370	151,648		3,590	-		19,605,509
Disposals	-	(14,548)	(66,042)	(318,306)	(99)	(225)		-		(399,220)
Exchange rate effect	570,883	3,045,232	112,668	602,787				-		4,331,570
Transfers	(21,697)	15,387	1,538	(74,527)	(1,081)		(13,830)	-		(94,210)
Closing balance	116,675,543	270,938,729	14,851,187	68,441,386	3,456,298	251,308	1,865,117	-	-	476,479,568
Carrying amount	721,937,886	300,500,085	3,214,444	52,374,907	1,267,727	-	13,302	49,226,333	27,825,763	1,156,360,447

Intangible assets

	Development costs	Industrial property and other rights	Software	Premiums paid for property occupation rights	Other intangible assets	Intangible assets in progress a)	Advances on account of intangible assets	Total
Gross asset:								
Opening balance	233,669	5,011,725	80,410,148	11,679,303		3,681,438		101,016,283
Changes in consolidation perimeter								-
Capital expenditure		396,614	245,478			4,306,263		4,948,355
Disposals								-
Exchange rate effect		77,616	274,048					351,664
Transfers		127,681	920,857			(982,116)		66,422
Closing balance	233,669	5,613,636	81,850,531	11,679,303	-	7,005,585	-	106,382,724
Accumulated amortizations, depreciations and impairment losses								
Opening balance	22,903	1,989,451	32,099,533	9,489,173				43,601,060
Changes in consolidation perimeter								-
Depreciations for the period	11,683	159,260	2,189,457	225,246				2,585,646
Disposals								-
Exchange rate effect		11,186	177,186					188,372
Transfers		4,455	(4,455)					-
Closing balance	34,586	2,164,352	34,461,721	9,714,419	-	-	-	46,375,078
Carrying amount	199,083	3,449,284	47,388,810	1,964,884	-	7,005,585	-	60,007,646

a) The most significant amounts included in the captions "Tangible and intangible assets in progress" correspond to the following:

Remodelling and expansion of stores in Portugal	22,505,653
Remodelling and expansion of stores in Brazil	2,892,606
Projects concerning new stores in Portugal	30,712,963
	56,111,222

b) The most significant amounts under the caption "Advances on account of tangible assets" refer to the following projects:

Continente and Modelo Stores Projects	26,494,881

8. GOODWILL

Over the three month period ending 31 March 2005, movements in goodwill, as well as in the corresponding impairment losses, are as follows:

	Goodwill
Gross value:	
Opening balance	265,293,994
New companies in consolidation (Note 6)	524,420
Exchange rate effect	8,840,487
Closing balance	274,658,901

Goodwill is not depreciated. Impairment tests are performed on an annual basis.

9. INVESTMENTS

As at 31 March 2005, this caption is made up as follows:

	Investments	
	Non current	Current
Investment in associated companies		
Opening balance at 1 January 2005	40,590,323	-
Acquisitions over the three month period	9,793	-
Equity method effect	139,139	-
Closing balance at 31 March 2005	40,739,255	-
Available for sale Investments		
Opening balance at 1 January 2005	1,224,596	-
Closing balance at 31 March 2005	1,224,596	
Accumulated impairment losses (Note 21)	(470,413)	
	754,183	-
Derivative financial instruments (Note 17)		
Fair value at 1 January 2005		87,325,645
Increase/(Decrease) in fair value		(5,935,627)
Fair value at 31 March 2005	-	81,390,018
Advances on Financial Investments		
Opening balance at 1 January 2005	7,760,486	-
Acquisitions over the three month period	(1,597,114)	-
Exchange rate effect	448,542	-
Closing balance at 31 March 2005	6,611,914	-
	48,105,352	81,390,018

Investments in associated companies include goodwill amounting to 8,196,454 Euro (8,176,661 Euro at 31 December 2004)

The most significant amounts under the caption Available for sale investments refers essentially to equity investments in non-quoted companies and whose fair value was not estimated. These investments are stated at cost.

10. OTHER NON CURRENT ASSETS

As at 31 March 2005 and 31 December 2004, other non current assets are detailed as follows:

	31.03.05	31.12.04
Trade accounts receivable and other debtors	38,653,829	39,353,115
Taxes recoverable	4,759,055	5,175,261
	43,412,884	44,528,376

The caption Trade accounts receivable and other debtors corresponds essentially to legal deposits made by a Brazilian subsidiary (Note 18).

11. OTHER CURRENT ASSETS

As at 31 March 2005 and 31 December 2004 Other current assets are made up as follows:

	31.03.05	31.12.04
Trade accounts receivable	32,496,424	32,811,602
Taxes recoverable	35,050,338	33,889,426
Other debtors	146,781,118	129,966,237
Advances to suppliers	1,369,310	9,210
Other loans granted (Note 24)	25,000,000	
Other current assets	28,464,103	6,253,423
	269,161,293	202,929,898
Accumulated impairment losses (Note 21)	(18,342,265)	(19,585,482)
	250,819,028	183,344,416

The amounts in the caption Other Debtors refer essentially to: (i) credit sales, made basically in Brazil, by the use of predated cheques, as well as accounts receivable relating to sales paid for by credit cards, which were received from financial institutions during April 2005; (ii) receivable amounts related to the sale of fixed assets in the last months of 2004;(iii) Suppliers - current accounts - debit balances.

12. DEFERRED TAX

Deferred tax assets and liabilities as at 31 March 2005 and 31 December 2004 can be detailed, taking into consideration its temporary differences, as follows:

	Deferred tax assets		Deferred tax liabilities	
	31.03.05	31.12.04	31.03.05	31.12.04
Difference between fair value and acquisition cost (Note 6)	-	-	528,647	-
Harmonization adjusments (amortizations)	1,342,078	1,291,601	33,695,305	33,101,789
Provisions and impairment losses not accepted for tax purposes	3,453,783	3,429,033	-	-
Write off of tangible and intangible assets	11,389,479	11,681,306	-	-
Write off of deferred costs	198,400	211,763	-	-
Valuation of financial derivatives	3,002,989	3,670,378	2,834,167	3,593,966
Reinvestment of capital gains	-	-	3,788,180	3,808,597
Revaluation of tangible fixed assets	-	-	3,098,819	3,119,094
Tax losses carried forward	42,961,837	39,447,542	-	-
	62,348,566	59,731,623	43,945,118	43,623,446

Accordingly with the tax returns of the group companies that recorded deferred tax assets by tax losses carried forward and the limit expiry date of the referred losses existing as at 31 December 2004 are as follows:

	Tax losses	Deferred tax assets	Limit expiry date
With expiry date			
Generated in 1999	59,925	16,479	2005
Generated in 2000	366,198	220,158	2006
Generated in 2001	3,003,074	825,846	2007
Generated in 2002	11,779,195	3,240,370	2008
Generated in 2003	8,262,433	2,272,169	2009
Generated in 2004	1,354,651	372,529	2010
	24,825,476	6,947,551	
Without expiry period			
Generated in 1999	20,073,303	3,498,798	
Generated in 2000	29,235,545	4,219,443	
Generated in 2001	15,039,737	2,410,601	
Generated in 2002	139,437,889	22,371,149	
	203,786,474	32,499,991	
	228,611,950	39,447,542	

13. CASH AND CASH EQUIVALENTS

As at 31 March 2005 and 31 December 2004 cash and cash equivalents can be detailed as follows:

	31.03.05	31.12.04
Cash at hand	1,817,571	1,943,338
Bank deposits	34,120,808	245,778,386
Treasury applications	-	12,375,000
Cash and cash equivalents on balance sheet	35,938,379	260,096,724
Bank overdrafts	(12,555,950)	(4,387,405)
Cash and cash equivalents on the statement of cash flow	23,382,429	255,709,319

Bank overdrafts are recorded in the balance sheet under Current loans.

14. SHARE CAPITAL

As at 31 March 2005, the share capital, which is fully subscribed and paid for, is made up of 1,100,000,000 ordinary shares which do not hold right to any fixed reimbursement, with a nominal value of 1 Euro each. As at that date, the company and the group companies did not held any own shares.

As at 31 March 2005, the following entities hold more than 20% of the subscribed share capital:

Entity	%
Sonae, S.G.P.S, S.A.	68,06
Banco Santander Totta, S.A.	21,38

15. MINORITY INTERESTS

Movements in minority interests over the three month period ending 31 March 2005 are as follows:

	31.03.05
Opening balance as at 1 January	7,331,008
Profit for the period attributable to minority interests	243,223
Closing balance as at 31 March	7,574,231

16. LOANS

As at 31 March 2005 and 31 December 2004, loans are made up as follows:

	31.03.05				31.12.04			
	Book Value		Nominal value		Book Value		Nominal value	
	Current	Non Current	Current	Non Current	Current	Non Current	Current	Non Current
Bank loans	184,329,413	280,552,746	184,329,413	297,562,988	152,980,383	281,585,260	152,980,383	297,175,551
Bond loans	-	178,116,903	-	182,000,000	-	177,958,653	-	182,000,000
Other loans		134,260,259		129,999,755		134,888,140		129,999,755
Bank overdrafts	12,555,949		12,555,949	-	4,387,405	-	4,387,405	-
Derivatives (Note 17)	92,437,884				92,486,786			
	289,323,246	592,929,908	196,885,362	609,562,743	249,854,574	594,432,053	157,367,788	609,175,306
Obligations under finance leases	1,667,796	12,482,084	1,667,796	12,482,084	1,748,644	13,094,122	1,748,644	13,094,122
	290,991,042	605,411,992	198,553,158	622,044,827	251,603,218	607,526,175	159,116,432	622,269,428

The repayment schedule of nominal value of borrowing may be summarized as follows:

	31.03.05	31.12.04
2005	183,934,018	168,593,078
2006	445,423,266	422,001,628
2007	3,964,475	3,675,959
2008	1,841,458	1,680,863
2009	101,588,478	101,588,042
2010	1,846,290	1,846,290
After 2010	82,000,000	82,000,000
	820,597,985	781,385,860

Bond Loans

As at 31 March 2005 bond loans are as follows:

Modelo Continente / 2003	82,000,000
Modelo Continente / 2004	100,000,000

MODELO CONTINENTE / 2003 BONDS
1,640,000 bonds - Nominal Value: 50 Euro.
Maximum term: eight years.

Annual interest rate: the interest rate, which is variable, is indexed to the EURIBOR 6 month rate on the second working day preceding the interest period, with a spread of 0.75% p.a..
Interest Payment: half yearly in arrears, on 15 April and 15 October of each year.
Redemption: at par, in one payment on 15 October 2011, the maturity date of the loan. Early redemption is not possible, either by initiative of the issuer or the bondholders.

MODELO CONTINENTE / 2004 BONDS
10,000,000 bonds – Nominal Value: 10 euro.
Maximum term: five years.
Annual interest rate: the interest rate, which is variable, is indexed to the EURIBOR 6 month rate on the second working day preceding the interest period, with a spread of 1.15% p.a..
Interest Payment: half yearly in arrears, on 18 March and 18 September of each year.
Redemption: at par, in one payment on 18 March 2009, the maturity date of the loan. Early redemption is not possible, either by initiative of the issuer or the bondholders.

Bank loans – non current

Includes:

a) A bank loan of 340,000,000 Euro obtained from a syndicate of banks, repayable up to 2006, bearing interest payable half yearly at normal market rates, of which 200,000,000 Euro corresponds to a “Revolving facility”. The “Revolving facility” is considered as non current liability as the Board of Directors intends to continue using this credit facility for a period no shorter than a year. As of 31 March 2005, 270,000,000 Euro are considered as non current liabilities and 70,000,000 Euro as current liabilities;

b) A bank loan of 4,000,000 Euro obtained from a financial institution, repayable up to 2007, bearing interest payable half yearly at normal market rates. As of 31 March 2005, 2,800,000 Euro are considered as non current liabilities and the remaining as current liabilities;

c) A bank loan of 86,036,370 BRL (24,762,988 Euro), repayable up to 2009, bearing interest payable monthly at normal market rates, including of financial hedging operations to cover exchange risk.

Other loans – non currents

At 31 March 2005 this caption corresponded to a loan obtained from an external entity, which bears interest at normal market rates and is repayable in 2006.
For account presentation purposes, the Company has reflected, in the accompanying balance sheet, the liability of 157,499,755 Euro net of the associated no-risk application of 27,500,000 Euro which matures on the same date as the loan, because the Group has the legal capability and intends to do so.

Additionally the loan book value includes 4,260,504 Euro (4,888,385 Euro as at 31 December 2004) relating to a fair value hedge obtained through negotiated interest rate swaps (Note 17) net of the swaps’ interest accruals and net of this financial structure up-front fees.

17. DERIVATIVES

Currency derivatives

The Group uses currency derivatives, essentially, to hedge future cash flows.

The Group contracted several currency forwards, swaps and options in order to manage its exchange rate exposure.

As at 31 March 2005, the fair value of the currency derivatives, calculated taking into consideration present market value of equivalent financial instruments, is estimated as follows:

	31.03.05	31.12.04
Assets	70,740,847	73,008,242
Liabilities	(85,844,363)	(85,788,124)
	(15,103,516)	(12,779,882)

Gains and losses for the three month period related to changes in the fair value of the hedging instruments (identified in accordance with IAS 39) amounting to (2,402,001) Euro ((32,117,535) Euro for the year ending on 31 December 2004) were recorded in equity.

Gains and losses for the three month period arising from changes in the fair value of instruments that did not qualify for hedging accounting treatment, amounting to 78,367 Euro (111,106 Euro for the period ending on 31 March 2004), were recorded directly in the statement of profit and loss under financial profit.

Additionally, the group sold currency call options in order to hedge the fair value of bought embedded currency call options which host contract is a non current loan obtained. The fair value of these options, which is identical to the fair value of the hedged options, amounts to 5,160,315 Euro (5,494,113 Euro at 31 December 2004) both asset and liabilities were recorded.

Interest rate derivatives

As at 31 March 2005, the derivatives used by the Group, essentially, refer to "swaps" and interest rate options ("cash flow hedges"). These were negotiated to hedge the interest rate risk inherent to bank loans amounting to 140.000.000 Euro (140.000.000 Euro as at 31 December 2004) the estimated fair value is as follows:

	31.03.05	31.12.04
Liabilities	(1,433,206	(1,204,549
	(1,433,206)	(1,204,549)

These interest rate derivatives are valued at fair-value, at the balance sheet date, based on valuations performed within the Group using specific software and on external valuations when this software does not deal specific instruments. The fair value of the swaps was calculated, with reference to the balance sheet date, based upon the discounted cash flow of the difference between the fixed interest rate of the fixed leg and the indexed variable interest rate inherent to the variable leg.

The hedging principles used by the Group when negotiating these financial derivatives are as follows:

- Perfect "matching" between cash in-flows and out-flows, i.e., the fixing dates of the interest rate of the bank loans coincide with those of the interest rate derivative;
- Perfect "matching" in the indexes used: the basis of the hedging derivative and that of the covered loan are coincidental;
- In a scenario of extreme increase in interest rates, the financing expenses are ceiled.

Counterparts issuing derivative financial instruments are selected based on financial strength and credit risk established by internationally recognized rating agencies. These counterparts are nationally and internationally recognized first class financial institutions.

Additionally, the Group negotiated interest rate derivatives (interest rate swaps) aiming to hedge the fair value of specific fixed interest rate loans. The fair value of these derivatives was recorded under the profit and loss statement, having the effectively hedged portion of the loans - which are registered at amortized cost - been adjusted. The fair value of these derivatives amount to 5,488,856 Euro (8,823,290 Euro as at 31 December 2004).

Fair value of derivatives

The fair value of the derivatives is detailed as follows:

	Assets (Note 9)		Liabilities (Note 16)	
	31.03.05	31.12.04	31.03.05	31.12.04
Exchange rate derivatives	77,794	-	-	573
Hedge derivatives	81,312,224	87,325,645	92,437,884	92,486,213
	81,390,018	87,325,645	92,437,884	92,486,786

18. OTHER NON CURRENT LIABILITIES

As at 31 March 2005 and 31 December 2004 other non current liabilities were made up as follows:

	31.03.05	31.12.04
Participant Companies (Note 24)	14,325,652	14,325,652
Other non current liabilities	29,233,877	28,358,606
Share based payments (Note 19)	2,151,351	1,654,230
	45,710,880	44,338,488

The caption Other non current liabilities corresponds basically to the estimated amounts to fulfil the judicial obligations of the Brazilian subsidiary which are considered enough to face uncertain losses on lawsuits, for which legal deposits exist, recorded under the caption Other non current assets (Note 10)

19. SHARE BASED PAYMENT PLANS

In 2005 and in previous years, the Modelo Continente Group granted deferred performance bonuses to its directors and eligible employees. These are, either, based on shares to be acquired at nil cost, three years after they were attributed to the employee, or based on share options with the exercise price equal to the share price at the grant date to be exercised three years later. In both cases, the acquisition can be exercised during the period commencing on the third anniversary of the grant date and the end of that year. The company has the choice to settle in cash instead of shares. The option can only be exercised if the employee still works for the Group on the vesting date.

Liabilities arising from deferred performance bonuses are valued in accordance with note 2.12 and, as at 31 March 2005 and 31 December 2004, can be detailed as follows:

	Year of grant	Expiry year	Number of participants	Fair value 31.03.05	Fair value 31.12.04
Shares					
	2002	2005	40	1,485,598	950,383
	2003	2006	40	1,858,455	1,817,349
	2004	2007	40	1,532,818	1,327,994
	2005	2008	41	1,426,027	
Total				6,302,898	4,095,726
Recorded under other non current liabilities				2,151,351	1,654,230
Recorded under other current liabilities				1,485,598	950,383
Recorded under retained earnings				(2,604,613)	(1,239,372)
Amount recorded under personnel costs				1,032,336	1,365,241

20. OTHER CURRENT LIABILITIES

As at 31 March 2005 and 31 December 2004 other current liabilities were made up as follows:

	31.03.05	31.12.04
Suppliers	587,790,235	754,894,097
Related undertakings	83	766,498
Other accounts receivable	34,228,985	43,864,945
Taxes and contributions payable (including income tax)	24,596,894	39,336,757
Accrued costs	80,147,665	74,171,575
Deffered income	2,506,363	2,700,570
Share-based payments (Note 19)	1,485,598	950,383
	730,755,823	916,684,825

21. PROVISIONS AND ACCUMULATED IMPAIRMENT LOSSES

Movements in provisions and impairment losses over the three month period ending 31 March 2005 were as follows:

Account	Opening balance	Increase a)	Decrease	Closing balance
Accumulated impairment losses in investments (Note 9)	470,413	-	-	470,413
Accumulated impairment losses in current assets (Note 11)	19,585,482	427,187	(1,670,404)	18,342,265
Provisions	17,894,788	1,228,971	(2,962,160) b)	16,161,599
	37,950,683	1,656,158	(4,632,564)	34,974,277

a) Includes 592,209 Euro relating to exchange rate differences arising from the translation of opening balances booked in Translation reserves under Reserves and retained earnings;

b) The decrease in the caption Provisions includes: the reversal of accumulated losses in an associated company amounting to (2,176,901) Euro and other reversals amounting to (785,259) Euro recorded in the caption Other operating profit.

Impairment losses and the corresponding assets are presented net.
Accumulated impairment losses in current assets include an estimated loss of 11,630,739 Euros in Other current assets in a Brazilian subsidiary.
The caption provisions includes 14,015,928 Euro for judicial lawsuits in a Brazilian subsidiary.

22. CONTINGENT ASSETS AND LIABILITIES

	31.03.05		31.12.04
Guarantees rendered:			
related to tax claims awaiting outcome	49.659.176	a)	36.080.134
related to local municipalities claims awaiting outcome	8.482.379		7.782.492
Others	2.013.001		4.638.101

a) Includes guarantees of 26,005,307 Euro relating to appeals against additional corporate income tax assessments, as well as guarantees of 22,826,350 Euro relating to VAT processes.

23. FINANCIAL COMMITMENTS NOT INCLUDED IN THE BALANCE SHEET

As at 31 March 2005 the Group did not hold any contractual commitments concerning fixed assets acquisition

24. RELATED PARTIES

Balances and transactions with related parties are detailed as follows:

Transactions	Sales and services rendered 31.03.05	Sales and services rendered 31.03.04	Purchases and services obtained 31.03.05	Purchases and services obtained 31.03.04	Interest income 31.03.05	Interest income 31.03.04	Interest expenses 31.03.05	Interest expenses 31.03.04
Parent company and group companies	126,325	114,156			199,634	141,735		
Associated companies			599,694	580,629				
Participated Companies	9,949,983	10,907,132						
Participant Companies							83,913	82,382
	10,076,308	11,021,288	599,694	580,629	199,634	141,735	83,913	82,382

					Loans			
	Accounts receivable		Accounts payable		Payable		Receivable	
Balance	31.03.05	31.12.04	31.03.05	31.12.04	31.03.05	31.12.04	31.03.05	31.12.04
Parent company	886,424	255,891					25,000,000	
Associated companies			247,945	241,952				
Participated Companies	7,296,326	8,706,816						
Participant Companies					14,325,652	14,325,652		
	8,182,750	8,962,707	247,945	241,952	14,325,652	14,325,652	25,000,000	-

25. INCOME TAX

Income tax for the three month period ended 31 March 2005 and 2004 is made up as follows:

	31.03.05	31.03.04
Current tax	3,597,707	3,444,755
Deferred tax	(1,655,486)	(1,747,134)
	1,942,221	1,697,621

26. EARNING PER SHARE

Earning per share for the period was calculated taking into consideration the following amounts:

	31.03.05	31.03.04
Net profit		
Net profit taken into consideration to calculate basic earnings per share (Net profit for the period)	10,050,998	9,279,028
Net profit taken into consideration to calculate diluted earnings per share	10,050,998	9,279,028
Number of shares		
Weighted average number of shares used to calculated basic Earnings per share	1,100,000,000	1,100,000,000
Weighted average number of shares used to calculated the diluted earnings per share	1,100,000,000	1,100,000,000
Earning per share (basic and diluted)	0.01	0.01

27. DIVIDENDS

In the Annual General Meeting on 5th of April of 2005 no dividends were attributed.

28. SEGMENT INFORMATION

The contribution of the principal business segments to the Statement of Profit and Loss for the three month period ending on 31 March 2005 and 2004 can be detailed as follows:

			euros
31 March 2005	Portugal	Brasil	Consolidated
Operating income			
Sales	586,449,469	285,878,065	872,327,534
Operating cash-flow (EBITDA) a)	35,224,063	11,415,007	46,639,070
Operating result (EBIT)	19,834,533	5,219,837	25,054,370
Number stores	289	171	460
Sales area ('000 s^q)	438	438	876

			euros
31 March 2004	Portugal	Brasil	Consolidado
Operating income			
Sales	561,968,822	216,643,207	778,612,029
Operating cash-flow (EBITDA) a)	36,233,776	12,716,711	48,950,487
Operating result (EBIT)	20,292,784	7,206,075	27,498,859
Number stores	273	166	439
Sales area ('000 s^q)	428	434	862

a) Operating result plus amortizations, depreciations, provisions and impairment losses

29. SUBSEQUENT EVENTS

After 31 March 2005 no relevant facts occurred.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved by the Board of Directors and authorized for issue on the 4 May 2005.

31. FIRST TIME ADOPTION OF “INTERNATIONAL FINANCIAL REPORTING STANDARDS”

The Group adopted International Financial Reporting Standards (IFRS) in 2005, having taken into consideration “IFRS 1 – First-Time Adoption of International Financial Reporting Standards”. In terms of presentation of the financial statements, the transition date was set at 1 January 2004.

The effect on the balance sheets as at 1 January 2004 and 31 December 2004 of converting the financial statements prepared under Portuguese GAAP (“POC”) to the financial statements re-expressed under International Financial Reporting Standards (IFRS) can be detailed as follows:

	1-01-04			31-12-04		
	POC	transition to IFRS	IFRS	POC	transition to IFRS	IFRS
NON CURRENT ASSETS						
Tangible and intangible assets	1,230,027,490	(62,106,228)	1,167,921,262	1,246,965,252	(52,815,281)	1,194,149,971
Goodwill		252,692,088	252,692,088		265,293,994	265,293,994
Investments	35,452,413	6,897,823	42,350,236	41,221,322	7,883,670	49,104,992
Deferred tax assets		61,697,269	61,697,269		59,731,623	59,731,623
Other non-current assets	48,826,105	219,536	49,045,641	44,528,377	(1)	44,528,376
Total non current assets	1,314,306,008	259,400,488	1,573,706,496	1,332,714,951	280,094,005	1,612,808,956
CURRENT ASSETS						
Inventory	385,923,777		385,923,777	387,517,766		387,517,766
Trade Debtors and other current assets	163,620,370	(53,082,518)	110,537,852	242,652,563	(59,308,147)	183,344,416
Investments	136,079,991	109,969,542	246,049,533		87,325,645	87,325,645
Cash and cash equivalents	182,262,567	7,058	182,269,625	260,007,397	89,327	260,096,724
Total current assets	867,886,705	56,894,082	924,780,787	890,177,726	28,106,825	918,284,551
TOTAL ASSETS	2,182,192,713	316,294,570	2,498,487,283	2,222,892,677	308,200,830	2,531,093,507
EQUITY						
Share Capital	1,100,000,000		1,100,000,000	1,100,000,000		1,100,000,000
Reserves and retained earnings	(768,814,739)	190,131,087	(578,683,652)	(776,614,877)	199,617,937	(576,996,940)
Net profit (loss) for the period attributable to the equity holders of Modelo Continente			-	114,415,880	4,672,619	119,088,499
Total equity attributable to the equity holders of Modelo Continente	331,185,261	190,131,087	521,316,348	437,801,003	204,290,556	642,091,559
Minority interests	30,592,482	(19,377,758)	11,214,724	18,860,054	(11,529,046)	7,331,008
TOTAL EQUITY	361,777,743	170,753,329	532,531,072	456,661,057	192,761,510	649,422,567
LIABILITIES						
NON-CURRENT LIABILITIES						
Loans	591,051,863	17,973,125	609,024,988	609,175,306	(1,648,131)	607,527,175
Other non-current liabilities	52,220,078	2,394,232	54,614,310	55,634,373	(11,295,885)	44,338,488
Deferred tax liabilities		44,004,607	44,004,607		43,623,446	43,623,446
Provisions	5,838,834	3,498,779	9,337,613	17,237,462	14,131	17,251,593
Total non-current liabilities	649,110,775	67,870,743	716,981,518	682,047,141	30,693,561	712,740,702
CURRENT LIABILITIES						
Loans	327,807,132	(37,071)	327,770,061	157,278,460	94,324,758	251,603,218
Trade creditors and other current liabilities	842,560,421	77,921,310	920,481,731	926,440,178	(9,755,353)	916,684,825
Provisions	936,642	(213,741)	722,901	465,841	177,354	643,195
Total current liabilities	1,171,304,195	77,670,498	1,248,974,693	1,084,184,479	84,746,759	1,168,931,238
TOTAL EQUITY AND LIABILITIES	2,182,192,713	316,294,570	2,498,487,283	2,222,892,677	308,201,830	2,531,094,507

As at 1 January 2004 and 31 December 2004, the impact upon equity of the transition to IFRS can be detailed as follows:

	Conversion Adjustmens to IFRS	
	01.01.04	31.12.04
Adjustments to financial statements Portuguese GAAP		
Restatement under assets of goodwill which had been written off by reserves net of impairment losses	252,692,088	265,293,994
Conversion adjustments to IFRS		
Net financial debt including fair value valuation of hedging derivatives	12,531,386	9,504,431
Deferred taxes resulting from valuation of hedge financial instruments at fair value	6,383,037	76,412
Write-off of tangible and intangible assets	(55,208,401)	(44,931,610)
Deferred taxes resulting from conversion adjustments to IFRS	7,223,463	13,345,825
Consolidation of companies priorly excluded	2,092	-
Write-off of accruals and deferrals	(5,941,519)	(11,608,031)
Other current assets	(41,499,267)	(38,479,738)
Others	(5,429,550)	(439,773)
Total adjustments from conversion to IFRS	(81,938,759)	(72,532,484)
Total adjustments	170,753,329	192,761,510

The impact of the change to IFRS is basically due to the treatment of the following captions:

<u>Goodwill</u>

IFRS states that goodwill should be presented as an asset of the subsidiary acquired and therefore recorded under the functional currency of that subsidiary. This amount is translated to the reporting currency at the Exchange rate in effect at the corresponding balance sheet date. Exchange rate differences arising from this translation are recorded in equity. This accounting treatment differs from the one that was adopted by Modelo Continente since 2001. Using a prudent accounting policy, of which the financial markets were aware, goodwill was written off against reserves (equity). This was a different approach to that established by POC.

Goodwill arising from acquisitions of companies prior to the date of transition to IFRS (1 January 2004) was kept by the same amounts presented according to Portuguese accounting principles expressed in the currency of the corresponding subsidiary company. The generated differences in this conversion process are shown in the accounts under the caption "Retained Earnings", according to IFRS 1.

By adopting IFRS, the company thus increased its assets by 265,293,995 Euro. Of this amount, around 216 MEuro relate to operations in the Brazilian market with the remainder relating to operations in Portugal.

These amounts will be subject to annual impairment tests, and will not be amortised.

Tangible and Intangible Assets

Tangible and Intangible assets acquired up to 1 January 2004 (date of transition to IFRS) are shown in the accounts at acquisition cost, or at acquisition cost revalued in accordance with generally accepted accounting principles in Portugal up to that date, less depreciation and accumulated impairment losses ("Deemed Cost").

The value of the adjustment relative to Tangible and Intangible Assets in the balance sheet as at 31 December 2004 was 44,931,610 Euro.

Deferred taxes

The adjustment for deferred taxes relates to the impact of temporary differences between the carrying amount and the taxable amount. In 2004, this adjustment amounted to 13,422,237 Euro, and is mainly the result of the write off of fixed assets in the company's balance sheet as mentioned in the previous note.

Additionally, the amounts of deferred taxes shown under the captions "Accruals and deferrals" in "Other current assets" and "Other current liabilities" according to POC were reclassified to the captions "Deferred tax assets" and "Deferred tax liabilities" as non-current assets and liabilities.

Other liabilities

With the adoption of IFRS, Modelo Continente recorded the written put option to third parties over shares of a Brazilian subsidiary. This procedure stated in IFRS results in a difference compared to the POC consolidated accounts in 38,479,738 Euro. This is the estimated amount, as at 31 December 2004, necessary for Modelo Continente to acquire full control of its Brazilian operations (as detailed in the explanatory notes to the annual management report for the year 2004, prepared and presented according to Portuguese accounting principles).

Accruals and Deferrals and net financial debt (including fair value of derivatives)

The adjustment in the caption accruals and deferrals totals around 11,608,021 Euro, and is explained mainly by the write off of interest costs, resulting from stating derivatives at fair value and the recognition of up front fees, that are now deducted from the loan due value at initial recognition.

Similarly, net financial debt reduced 9,504,431 Euro explained by the same factors as for accruals and deferrals, the recognition of up front fees of loans contracted by Modelo Continente and valuation at fair value of derivatives – hedging instruments – embedded in these loans.

Additionally, the effect of the conversion to IFRS upon the balance sheet as at 31 March 2004 can be detailed as follows:

	31-03-04		
	POC	transition to IFRS	IFRS
NON CURRENT ASSETS			
Tangible and intangible assets	1,242,167,078	(61,087,927)	1,181,079,151
Goodwill		269,606,117	269,606,117
Investments	34,476,757	7,737,938	42,214,695
Deferred tax assets		66,004,807	66,004,807
Other non-current assets	50,364,544	453,587	50,818,131
Total non current assets	1,327,008,379	282,714,521	1,609,722,900
CURRENT ASSETS			
Inventory	404,685,920		404,685,920
Trade Debtors and other current assets	224,457,983	(61,006,979)	163,451,004
Investments		61,948,356	61,948,356
Cash and cash equivalents	59,644,680		59,644,680
Total current assets	688,788,583	941,377	689,729,960
TOTAL ASSETS	2,015,796,962	283,655,898	2,299,452,860
EQUITY			
Share Capital	1,100,000,000		1,100,000,000
Reserves and retained earnings	(769,806,114)	193,586,387	(576,219,727)
Net profit (loss) for the period attributable to the equity holders of Modelo Continente	13,371,474	(4,180,333)	9,191,141
Total equity attributable to the equity holders of Modelo Continente	343,565,360	189,406,054	532,971,414
Minority interests	17,059,033	(11,585,023)	5,474,010
TOTAL EQUITY	360,624,393	177,821,031	538,445,424
LIABILITIES			
NON-CURRENT LIABILITIES			
Loans	717,943,112	(34,567,640)	683,375,472
Other non-current liabilities	55,003,872	-	55,003,872
Deferred tax liabilities		49,095,406	49,095,406
Provisions	7,989,109	1,922,256	9,911,365
Total non-current liabilities	780,936,093	16,450,022	797,386,115
CURRENT LIABILITIES			
Loans	180,498,923	93,818,042	274,316,965
Trade creditors and other current liabilities	692,663,867	(4,062,486)	688,601,381
Provisions	1,073,686	(370,712)	702,974
Total current liabilities	874,236,476	89,384,844	963,621,320
TOTAL EQUITY AND LIABILITIES	2,015,796,962	283,655,897	2,299,452,859

As at 31 March 2004, the impact upon equity of the conversion to IFRS can be detailed as follows:

	Conversion Adjustmens to IFRS 31.03.04
Adjustments to financial statements Portuguese GAAP	
Restatement under assets of goodwill which had been written off by reserves net of impairment losses	269,606,117
Conversion adjustments to IFRS	
Net financial debt including fair value valuation of hedge derivatives	2,697,956
Deferred taxes resulting from valuation of hedge financial instruments at fair value	495,975
Write-off of tangible and intangible assets	(53,349,987)
Deferred taxes resulting from conversion adjustments to IFRS	9,929,904
Write-off of accruals and deferrals	(10,772,645)
Other current assets	(42,877,212)
Others	2,090,923
Total adjustments from conversion to IFRS	(91,785,086)
Total adjustments	177,821,031

Essentially, the reasons given for these adjustments are the same explanations given before related to the Balance as at 1 January and 31 December 2004.

The effect upon the income statements for the year ending on 31 December 2004 and for the three month period ending 31 March 2004 can be detailed as follows:

	31.12.04			31.03.04		
	POC	transition to IFRS	IFRS	POC	transition to IFRS	IFRS
Operating income						
Sales	3,577,610,129	(6,865)	3,577,603,264	778,729,571	(117,542)	778,612,029
Services rendered	22,565,663		22,565,663	5,990,198		5,990,198
Other operating income	218,652,446	50,539,094	269,191,540	39,772,143	8,467,773	48,239,916
Total operating income	3,818,828,238	50,532,229	3,869,360,467	824,491,912	8,350,231	832,842,143
Operating expenses			-			-
Cost of sales	(2,800,220,829)	(1,101,156)	(2,801,321,985)	(608,957,668)	8,899,518	(600,058,150)
External supplies and services	(364,143,699)	(5,808,488)	(369,952,187)	(81,985,257)	(1,491,169)	(83,476,426)
Personnel expenses	(354,863,711)	308,250	(354,555,461)	(87,578,263)	(32,147)	(87,610,410)
Depreciation of tangible and intangible assets	(96,134,174)	11,092,204	(85,041,970)	(23,339,817)	2,895,655	(20,444,162)
Provisions and impairment	(8,601,039)	6,698,080	(1,902,959)	(1,007,466)		(1,007,466)
Other operating expenses	(15,920,812)	(48,605,127)	(64,525,939)	(4,299,251)	(8,447,419)	(12,746,670)
Total operating expenses	(3,639,884,264)	(37,416,237)	(3,677,300,501)	(807,167,722)	1,824,438	(805,343,284)
Net operating profit/(loss)	178,943,974	13,115,992	192,059,966	17,324,190	10,174,669	27,498,859
Financial profit/(loss)	(51,334,951)	(2,929,880)	(54,264,831)	(9,025,203)	(7,105,948)	(16,131,151)
Profit/(loss) related to associated companies	(1,469,126)	909,477	(559,649)	(410,427)	19,368	(391,059)
Profit/(loss) related to investments	6,617,001	(6,511,860)	105,141	7,596,179	(7,596,179)	-
Profit/(loss) before income tax	132,756,898	4,583,729	137,340,627	15,484,738	(4,508,090)	10,976,649
Income tax	(16,747,685)	456,326	(16,291,359)	(2,039,749)	342,128	(1,697,621)
Profit/(loss) after income tax	116,009,213	5,040,055	121,049,268	13,444,989	(4,165,962)	9,279,028

The adjustments arising on the transition to International Financial Reporting Standards, which have impact upon net profit for the year ending 31 December 2004 and for the three month period ending 31 March 2004, can be detailed as follows:

	31.12.04	31.03.04
Write-off of tangible and intangible assets net of amortizations and depreciations	5,384,359	457,013
Deferred taxes resulting from conversion adjustments to IFRS	982,128	-
Write-off of deferred costs	909,028	35,776
Use of equity method for associated companies	909,477	19,368
Derivatives and marketable securities	(2,693,834)	(4,601,411)
Others	(451,103)	(76,708)
Total adjustments from conversion to IFRS	5,040,055	(4,165,962)

Main impacts of the change to IFRS on 2004 consolidated net profits are as follows:

Amortisation and Depreciation

As referred to in the note that explained changes relating to tangible and intangible assets, repair and maintenance expenses are recorded as a cost of the accounting period, thus leading to a reduction in the depreciation charge in 2004 of 11,092,204 Euro.

Financial Gain and Losses

The reduction of 2,929,881 Euro in net financial expenses resulted mainly from income from investment fund participating units (4,724,424 Euro). Under IFRS, these units are stated at fair value and the opening balance sheet already includes related income, while under POC, this income was only recognised in the first quarter of 2004, at the time the units were sold.

Besides these adjustments, it is important to note the following changes, which, although not having any impact on profit, correspond to reclassifications on the profit and loss captions:

Extraordinary Gains and Losses

According to POC, transactions outside the scope of the company's normal business or relating to prior years, are classified as "Extraordinary Gains and Losses", and are not included in operational cash flow (EBITDA). Under IFRS, this classification does not exist. As a result, amounts involved were reclassified to operational profit according to their specific nature.

Provisions for stocks

Under POC, reductions in the value of stocks are shown in the caption "Provisions" while under IFRS they are shown as "Cost of Sales", thus explaining the reduction of provisions. As detailed in the notes to the 2004 consolidated financial statements prepared according to POC, the total of "Provisions" is mainly made up of provisions for stocks, thus explaining the reduction in the line "Provisions and impairment losses" in IFRS compared to POC.

Regarding the statements of cash-flow, the most significant impacts refer to the restatement of payments related to intangible assets, within investment activities, which, under IFRS, are not considered as such and are reclassified under operating expenses.

32. EXPLANATION ADDED FOR TRANSLATION

These financial statements are a translation of financial statements originally issued in Portuguese according to International Financial Reporting Standards (IFRS). In the event of discrepancies the Portuguese language version prevails.

Matosinhos, 4 May 2005