MODELO CONTINENTE

CONSOLIDATED FINANCIAL STATEMENTS

IAS/IFRS

31 DECEMBER 2005

(Translation of financial statements originally issued in Portuguese - Note 43)

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 "

Board of Directors´ Report-Modelo Continente, S.G.P.S., S.A.[1]

In accordance with Portuguese Law and the statutes of the company, we hereby present to shareholders the Report of Modelo Continente, S.G.P.S., S.A. for the year ending 31 December 2005.

Note

On 13 December 2005, Modelo Continente, SGPS, S.A. disposed of its entire shareholding in the Brazilian company Sonae Distribuição Brasil, S.A., thus ceasing its retail activity in the country. In the middle of last year, the company had also finalised the sale of 10 hypermarkets in the São Paulo metropolitan area. As a result, it is not possible to directly compare the results for 2005 with those of the previous year. Nonetheless, in those parts of this report that relate to activity in 2005, mention will be made of the business of the company in both markets, while the current situation of Modelo Continente's business portfolio will be described in specific sections of this report.

Economic and market background

Throughout 2005, the world economy showed a very positive trend with real growth of around 4%, driven by the performance of the North American (+3.5%), Chinese (+9.0%) and Japanese (+2.4%) economies. Contrastingly, the countries making up the Euro zone had overall much lower growth of around 1.5% in real terms.

In Portugal, GDP growth was even weaker, and very close to zero. Growth was less than 2004, and for the fourth year running, was less that that of the European average.

During the year, the trend of stagnation of the country's economy worsened, negatively impacted not only by oil price rises and strong competition from exports coming from Asian

[1] *This document should be read together with and as a complement to the company's Corporate Governance Report since certain issues are dealt with in the latter document in order to avoid duplication.*

markets, but also by the structural weaknesses that are currently being discussed in terms of budget deficit and the need to make the country competitive again.

Against this background, all the components of GDP showed real growth rates that were lower than 2004, and total private investment even suffered a decline in real terms of more than 3%.

In Brazil, the economy grew by 3.2%. This was less than the previous year due to a slow down in internal demand with the performance of the export sector being the main driver of the economy. At the same time, the inflation rate was kept under control. However, the country's base interest rate continued at an average rate of 19%, thus imposing a heavy burden on investors and consumers. In addition, there was a fresh political scandal, leading to greater volatility on international capital markets and worsening development prospects for the near future.

In both countries, competitive pressures in the retail sector increased throughout the year, both because of the significant growth of installed supply, and because of the weak economic situation and lowered expectations of the situation improving in the short term.

In Portugal and in relation to those formats making up Commercial Units of Relevant Size, in 2005 alone, more than 90,000 m2 of sales area were opened, equal to an increase of around 6%. Non food retail also showed very strong growth, either linked to the opening of new shopping centres or the opening of new units on a stand alone basis. In terms of the overall Portuguese market, the increase in supply once again exceeded the nominal growth rate of demand.

In Brazil, the food retail market continued to grow in line with the country's inflation rate. This is closely linked to the weak level of private consumption and reflects the pressure exerted on domestic consumption by the high rates of interest. Thus, despite the fact that the main operators had shown intent to increase investment in the country, this did not in fact translate into an increase in the number of square metres of sales area during the year, which shows the lack of confidence in the prospects for the economic development of Brazil.

Strategic background

The last few years have been ones of strong demands and challenges but also of important accomplishments for Modelo Continente.

- Portugal

In Portugal, a sharp slowdown in economic activity has been the main feature recently. This performance resulted in cumulative negative growth rate gaps compared to that of the Euro Zone. The slowdown has also been reflected in a change in the purchasing profile of the Portuguese consumer, directed more towards simplicity, clarity and value-for-money, and a structure of expenditure that increasingly comes closer to the European average.

These changes are having important consequences for the retail sector. Whereas previously the consumer favoured a generic and huge store that combined variety with very low prices, today different solutions are demanded that oblige a constant renewal of the major food concepts towards a more multi-specialist trend and improvement in service levels.

In response to this challenge, Modelo Continente made important changes in 2005 in its hypermarket format, renewing the Continente image and presenting a new generation of stores – the third of its history – with the Antas, Loures and Covilhã hypermarkets. Continente rejuvenated its initial proposal (introducing various innovations in store premises and equipment, and the product range) and adapted service levels to the requirements of the current pace of living, following the results of consumer and store team surveys carried out.

Continuing with its pioneering and entrepreneurial approach, and as a result of the new legal framework that has freed up the sale of medicines not requiring a doctor's prescription, Modelo Continente advanced on its competitors by opening the first area for the sale of these items as part of the new Loures hypermarket.

Despite this tendency towards greater sophistication, the price factor continued to be the corner stone of the value proposal of Modelo Continente formats, in which an aggressive pricing policy is a pre-requisite, although not sufficient on its own, for the sustainability of the company's private label, positioned as the best prices in their different markets by the different categories, and programmed an aggressive and widely advertised promotional plan.

At the same time, the synergistic development of the various non food retail formats remained at the top of Modelo Continente's strategic priorities. These chains focus on making available coherent groups of products in a very much more extensive way than is possible in a generic and huge store, in an approach that combines more specific presentation, service levels and product knowledge. Based on the commercial success and profitability attained in this area, Modelo Continente can have confidence in the competencies that it has developed, allowing it to evaluate broadening the current businesses to new geographic areas and developing new business areas.

At the same time, the regulatory background changed with new commercial licensing laws allowing the opening of new stores. In view of the fact that expansion of the retail sector had been subject to legislation constraints for around 3 years, the change has resulted in retail operators carrying out many of their previously identified expansion plans in a relatively short space of time.

This has led to an increase of close to 10% in the overall sales area in the market over the last two years, so that today a much wider range of commercial formats now exist.

In pursuit of its leadership goals, Modelo Continente has continued to be particularly active in this area, and has obtained licences corresponding to more than 100,000 new m2 of sales area. Overall, these imply a potential increase of 20% over the current sales area of Modelo Continente in Portugal, and will enable the company to consolidate its leadership position at the heart of the retail sector in the country.

- Brazil

In mid December, Modelo Continente made an agreement with the Wal-Mart group to dispose of its entire shareholding in the company Sonae Distribuição Brasil, S.A.. This company ran at the time 140 stores located in the Brazilian states of Rio Grande do Sul, Paraná, Santa Catarina and S. Paulo with 370 thousand square metres of sales area and net sales of around 3.1 thousand million Real (about 1.2 thousand million Euro, at the exchange rate on the date of the transaction). In the middle of the year, the company had already sold 10 hypermarkets in the metropolitan area of São Paulo.

Modelo Continente thus ceased any retail activity in the country. This decision was taken based on the perception that, with a high probability, the Brazilian operation would not deliver a level of profitability compatible with the respective cost of opportunity.

From Modelo Continente's viewpoint, to overcome this problem would have demanded an active participation in the process of consolidating the Brazilian retail sector. As Modelo Continente and other benchmark operators in the market have argued for a long time, the independent local operators continue to have a strong advantage from a regulatory and fiscal viewpoint, given the relevance of the so called informal economy. Thus, Modelo Continente would have had to reach a greater critical mass in order to have the necessary economies of scale to overcome this relative disadvantage and provide the platform for an attractive return on the investment. To reach this critical mass, it would have been necessary to continue to invest in a country which maintains some of the highest interest rates in the world and is highly volatile both politically and socially - a situation which implies a high risk and a prohibitive reference cost of capital.

Consolidated business activity during the year

Consolidated gross sales of Modelo Continente (including Brazilian operations, which, according to International Financial Reporting Standards, are classified as discontinued operations) totalled 4,506 million euro in 2005.

Gross sales of Modelo Continente's retail business in Portugal totalled 3,115 million Euro, up 5% compared to the year 2004. In Food Retail, gross sales amounted to 2,344 million Euro, up 3%. This trend resulted from a sharp increase in sales volumes that more than offset the general fall in prices that occurred in the period. Non Food Retail contributed 771 million Euro to total gross sales, an increase of 13%. This area benefited from the strong expansion plan of the brands with an increase of 30% in sales area over the last two years (with the opening of around 60 new stores).

Retail operations in Brazil contributed 1,391 million Euro to total gross sales. This figure is not directly comparable to 2004, in view of the fact that 2005 only includes 11 months of business, and also reflects the disposal of 10 hypermarkets in the São Paulo region in the middle of the year.

Cumulative operating cash flow in the same period was 289 million Euro, equal to 7.5% of net sales. Compared to last year, this was equivalent to an increase of 4%, or 10 million Euro. Portugal's contribution was 235 million Euro (8.6% of net sales), increasing by 2 million Euro compared to 2004. Of this total, 196 million Euro relate to food retail. This was equal to 9.4% of related net sales and was 0.3 p.p. below that of 2004, due to the strong promotional activity undertaken to strengthen the leadership position of the brands, and to an increase in costs from the very much higher volume of goods handled. At the same time, the fall in the profitability over sales reflects temporarily the high proportion of recently opened stores, which in the operating cycle have profiles that are more unfavourable during the first few months after opening. In a year which had an important number of store openings by competitors and weak consumer growth, the non food retail stores of Modelo Continente in Portugal had operating cash flow of 38 million Euro. This was equal to an increase of 2 million Euro compared to 2004, and to 6.0% of related net sales.

The Brazilian operation contributed 55 million Euro to the consolidated operating cash flow of Modelo Continente, equal to a ratio of 4.8% on net sales. Here also, comparisons with prior periods are not possible since the 2005 figure includes in particular the impact of the sale of 10 stores in São Paulo.

Consolidated net profits of the period were 215 million Euro, increasing by 94 million compared to 2004. This increase includes 89 million Euro from the sale of Brazilian operations that led to a transfer to profit and loss account from reserves of the exchange rate gains generated by Brazilian operations, which had already been included in shareholders' equity in September of 2005.

Investment and capital structure

The expansion and refurbishment program continued to be the priority of the company during 2005 with 55 new stores opened and over 30 refurbishments in Portugal. More than 62,000 m2 of sales area were added to the company's stores in the country, an increase of 14% over 2004.

- In food retail, the company opened three new Continente Hypermarkets (Antas, Loures and Covilhã – the latter being a conversion from the previous Modelo unit on the site), 5 Modelo hypermarkets and a Modelo Bonjour supermarket.
- The non food retail portfolio was also strengthened with 47 new stores, including 11 Worten, 6 Modalfa, 11 Sportzone, 4 Maxmat, 8 Vobis and 7 Zippy. During the year, the company also developed a new business concept, offering customers a specific health area in the Loures hypermarket, under the new law that has liberalised the sale of medicines that do not require a doctor's prescription.

Also in this area, the company continued to develop new projects that will allow the store portfolio to be expanded in the near future. It should be remembered that to date the company has obtained licences equal to 100,000 m2 of new sales area. This addition means a potential growth of 20% over the current sales area, and will enable the company to consolidate its leadership position in the Portuguese retail sector.

In addition, the company invested 175 million Euro in the acquisition of participation units of Real Estate Investment Funds, which mainly hold real estate assets in the retail business in Portugal.

Taking into account all the above, the company's overall investment totalled around 360 million Euro.

Despite the high levels of investment, net debt as at 31 December stood at 196 million Euro. This level is unusually low due to the impact of the disposal of the retail business in Brazil.

Outlook

Now that Modelo Continente is no longer present in the retail sector in Brazil, the company's focus in 2006 will be on Portugal, in both the food and non food sectors.

In this market, the goals of the company will be aimed at consolidating market share in the food sector through cover of regional markets that have business potential. Here, a strategy of rapid opening of new stores and refurbishment of the existing store portfolio will be followed, and for this it will be necessary to maintain high levels of investment. Thus, the investment plan for 2006 forecasts the opening of 12 Modelo units, and the refurbishment of more than 30 existing stores.

The aggressive competitive environment is expected to continue so that Modelo Continente has also planned a number of actions that will allow it to sustain its competitiveness and the high profile of its food stores. In this respect, specific guidelines will be followed designed to promote greater promotional efficiency, to take advantage of the increase of the scale of its operations due to the accelerated expansion process, and to capitalise on the market recognition achieved for the range of private label goods and first price products.

Also key will be the programmes to be carried out in the area of operational efficiency, which will allow more effective costs control and consequently lead to productivity gains.

As for non retail formats, the outlook is for continued accelerated growth for the various brands. The expansion plan for 2006 includes around 40 new units, located both in Modelo shopping galleries and in new large scale shopping centres. This strategy will enable each of the businesses to create differentiated competitive advantages in the specific markets in which they operate, based on a platform of more efficient logistics and the ability to reduce fixed operational unit costs.

Also in this area, teams will remain focused on increasing efficiency and profitability levels of the businesses, while also improving technical competencies and operational service levels, as well as increasing their knowledge of consumers and strengthening communication with them.

At the same time, further studies will be carried out to support the possibility of broadening the current businesses to new geographical areas as well as developing new business areas.

Proposal for profit appropriation of Modelo Continente, SGPS, SA

The net loss of the individual company Modelo Continente, SGPS, SA, was 227,707,550.15 Euro, and the Board of Directors propose that the entire loss should be carried to retained earnings.

It also proposes the distribution of a dividend of 55,000,000.00 Euro, equal to a payment of 0.05 Euro for each of the 1,100,000,000 shares making up the share capital and using Free Reserves.

Finally, the Board propose that the entire value of the negative retained earnings totalling 232,071,711.65 Euro be covered by a transfer of this value from Free Reserves.

Vote of thanks

We thank all our customers, suppliers, financial institutions and shareholders for their support and preference. We also thank the auditors for their cooperation throughout the year. Finally we offer a special word of thanks to all employees of Modelo Continente for the enthusiasm, dedication and competence which they once again demonstrated.

Matosinhos, 27 February 2006

The Board of Directors

Glossary

- Gross sales: the value of all transactions at the check out counters of the company's stores + Sales to companies not included in the consolidation perimeter of Modelo Continente SGPS, S.A..
- Net sales: the value of gross sales, less directly related taxes (e.g. VAT in Portugal).
- Operating cash-flow (EBITDA): Operating results - Amortizations and Depreciation - Provisions - Impairment losses + Reversal of impairment losses, with the exception of impairment losses and reversal of impairment losses relating to customers and suppliers, given their operational and recurrent nature.
- Operating results (EBIT): Consolidated net profit for the period - Income tax - Investment profit/losses - Profits/Losses of associated companies - Financial results.
- Investment: increase of gross tangible fixed assets.
- Net debt: Bank loans + Bond + Other loans + Bank overdrafts + Derivatives + Financial leasing creditors – Cash and cash equivalents – Current investments under negotiation.

Report on Corporate Governance

Modelo Continente S.G.P.S., S.A.
31 December 2005

This document gives a brief description of the Corporate Governance practices of Modelo Continente S.G.P.S., S.A., and was prepared to comply with Regulation 7/2001 of 20 December 2001 of the CMVM (Portuguese Stock Exchange Commission) together with those changes made in Regulation 11/2003 of 19 November 2003 and Regulation 10/2005 of 3 November 2005.
Given that this is an appendix to the Board of Directors' Report, it should be read together with and as a complement to that document. Certain aspects in this appendix are cross referenced to the main body of the report as it was felt that it was more appropriate to deal with them in the main body of the report to avoid repetition.

Note

On 13 December 2005, Modelo Continente S.G.P.S., S.A. disposed of its entire shareholding in the Brazilian company Sonae Distribuição Brasil, S.A., thus ceasing its retail activity in the country. In the middle of last year, the company had also finalised the sale of 10 hypermarkets in the São Paulo metropolitan area. As a result, it is not possible to directly compare the results for 2005 with those of the previous year. Nonetheless, in those parts of this report that relate to activity in 2005, mention will be made of the business of the company in both markets, while the current situation of Modelo Continente's business portfolio will be described in specific sections of this report.

0 – Statement of compliance

The adoption of the recommendations of the CMVM on corporate governance is explicit in this report and in each of the chapters into which it is divided.

1 – Information Disclosure

1.1 Decision making process

As at 31 December 2005, the Board of Directors of Modelo Continente S.G.P.S., S.A. was made up of seven members, as shown below.

Board of Directors (31 December 2005)

- Belmiro Mendes de Azevedo (Chairman)
- Nuno Manuel Moniz Trigoso Jordão (CEO)
- Ângelo Gabriel Ribeirinho dos Santos Paupério (CFO)
- Fernando Sérgio Maia Rebelo
- Manuel José Ferreira Fontoura

- Luís Filipe Campos Dias de Castro Reis
- José Manuel Alves Elias da Costa

After the year end, Fernando Sérgio Maia Rebelo and Luís Filipe Campos Dias de Castro Reis resigned as members of the Board of Directors. The members of the Board of Directors have collective duties of co-ordination and management of various functional departments.

In 2005, the functional organisation of the company was as follows:

Board of Directors	
Functional Departments	
Portugal	**Brazil**
Operations	Operations
Commercial	Commercial
Logistics	Logistics
Procurement	Procurement
Store Development	Store Development
Marketing	Marketing
Human Resources	Human Resources
Information Systems	Information Systems
Finance	Finance
Management Planning and Control	Management Planning and Control
Audit and Risk Management	Audit and Risk Management
Legal	Legal
Environment	Environment
Lost prevention	Lost prevention

The company also has a Remuneration Committee as described in paragraph 1.8 below. No other Committees with management responsibilities exist.

1.2 Risk control

Risk management is one of the component parts of the company culture, is present in all management processes and is a responsibility of all management and employees. The objective of risk management at Modelo Continente is to create value by managing and controlling uncertainties and threats that can affect the company on a going concern basis and prevent it from taking advantage of business opportunities.

Risk management is integrated into the entire planning process as a structured and disciplined approach that aligns strategy, processes, people, technologies and knowledge with the goal of identifying, evaluating and managing the uncertainties and threats that the company face in the pursuit of its business objectives and value creation.

- As part of strategic planning, the risks of the existing business portfolio as well as new businesses and relevant projects, are identified and evaluated, while strategies to manage those risks are also defined.

- At the operational level, business risks and planned actions to manage those risks, are identified and evaluated, and are included and monitored in business unit and functional unit plans.
- For risks that cross business unit boundaries, such as large scale organisational changes, contingency and business recovery plans, structural risk management programmes are developed with the involvement of those responsible for the units and functions involved.
- As far as tangible asset and people safety risks are concerned (technical-operational risks), audits are carried out at the main units, and preventive and corrective actions for the identified risks are implemented. The financial cover of insurable risks is reassessed on a regular basis. Financial risk management is carried out and monitored as part of the company's financial department's activity, whose work is co-ordinated by the Board of Directors.

The risk management process is supported by a uniform and systematic methodology that includes the following:

- Identifying systematically the risks that affect the organisation (common language); defining and grouping risks (dictionary and matrix of risks);
- Evaluating and attributing the level of criticality and priority of risks as a function of their impact on the objectives of the business and the probability of the risks occurring;
- Identifying the causes of the most important risks;
- Evaluating strategic risk management options;
- Developing a risk management action plan and integrating it into the management and planning procedures of the units and functions of the company;
- Monitoring and reporting on progress made to implement the action plans.

Risk Management is the responsibility of all managers and staff of the company at all levels of the organisation, and is supported in the most direct way by the Audit and Risk Management, and Management Planning and Control Departments. Throughout 2005, this activity was carried out by independent organisations to support the operations of the company in Portugal and Brazil, reporting directly to the Board of Directors.

The Audit and Risk Management function's mission is to help companies reach their objectives via a systematic and structural approach to developing and evaluating the effectiveness of management and control of business processes and information systems risks.

- The Risk Management function promotes, co-ordinates, facilitates and supports the development of risk management processes.
- The Internal Audit function identifies and evaluates the effectiveness and efficiency of management and control of business processes and information systems risks, as well as risks arising from non compliance with legislation, contracts and company policies and procedures. The Internal Audit annual plan includes critical business process audits, compliance audits, financial audits and information systems audits.
- Financial and accounting information reliability and integrity risks are also evaluated and reported upon by the External Audit function.
- The Management Planning and Control function promotes and supports the integration of risk management into the management and planning control process of Modelo Continente.

1.3 Share Price Performance

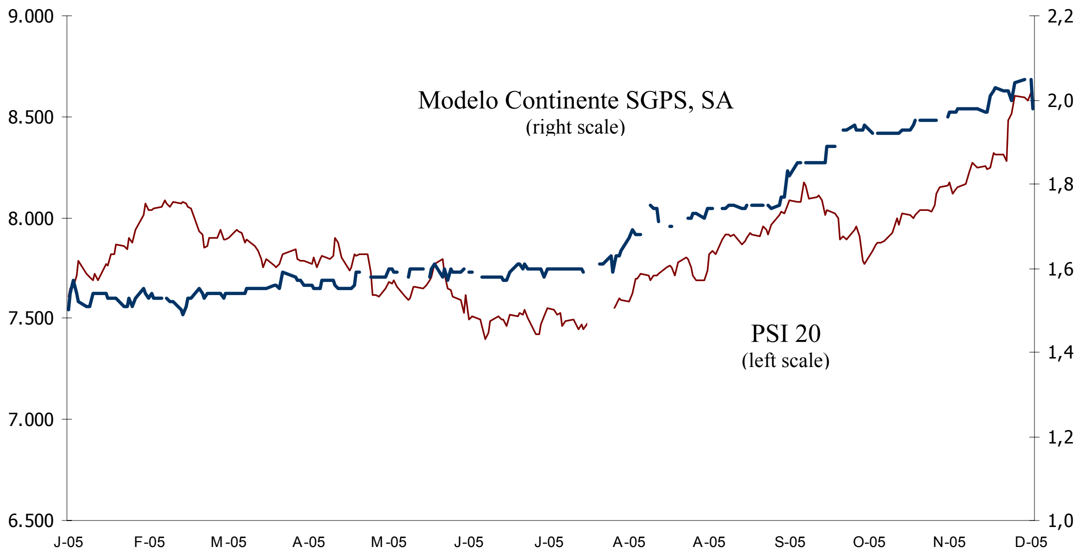
Modelo Continente S.G.P.S., S.A.'s shares are quoted on the Euronext Lisbon stock exchange. The key technical information concerning the shares is as follows:

Company name:	Modelo Continente S.G.P.S., S.A.
Share capital:	1,100,000,000 Euros
Nominal value of shares:	1€
Number of shares:	1,100,000,000
Stock exchange:	Euronext Lisbon
ISIN/Euronext Code:	PTMOC0AE0007
Reuters:	MDCT.IN1
Bloomberg:	MCON PL
Central Code:	MOCAE

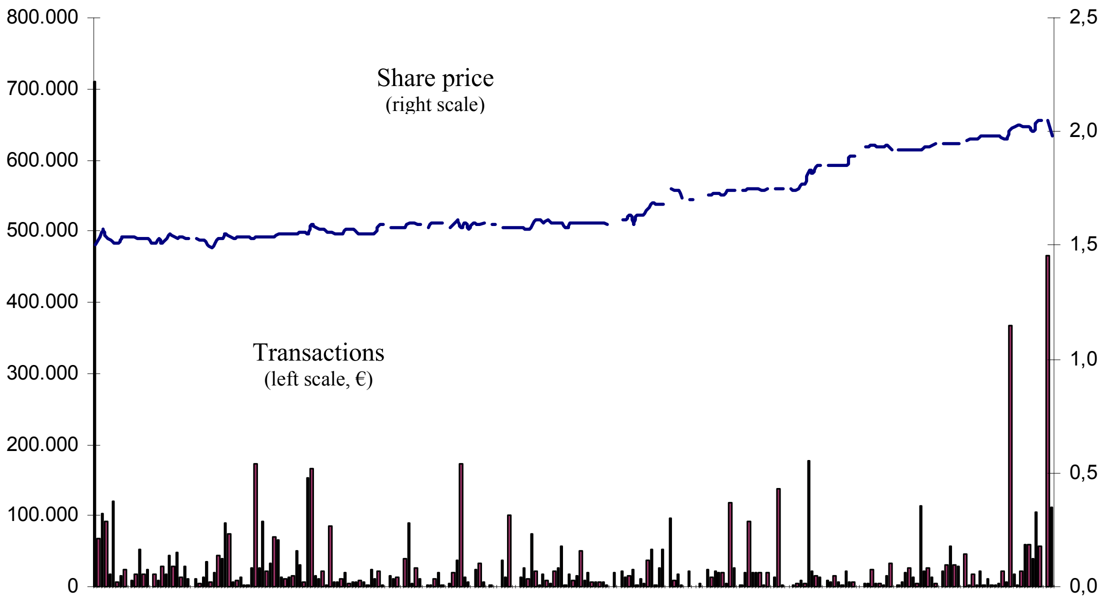
The share price at the beginning of the year was 1.50€ per share and ended the year 2005 at 1.98€ per share. The average price during the year was 1.69€ per share while the maximum price was 2.05€ per share which occurred in the last few stock market sessions of the year. The lowest price was recorded on 15 February at 1.49€ per share.
Comparing the share price at the end of 2004 and 2005, there was an increase of 16%, compared to an average increase of 7% in the capitalisation of the Portuguese stock exchange. Stock market trading during the last few sessions of the year led to a 36% increase in the share price.

The share performance throughout 2005 is shown in the graph below and also that of the main Portuguese stock exchange index, the PSI 20.

Trend of the Modelo Continente share price and the PSI20 during 2005



Trend of the Modelo Continente share price and transactions during 2005



The trend of the key stock market indicators for the company during the last three years was as follows:

	2003*	2004*	2005
Key data			
Share capital (€)	1.100.000.000	1.100.000.000	1.100.000.000
Number of shares	1.100.000.000	1.100.000.000	1.100.000.000
Nominal share value (€)	1,0	1,0	1,0
Net profit (€)	74.664.172	114.415.880	214.122.570
Net profit per share (€)	0,068	0,104	0,195
Dividend per share (€)	0	0	0,05
Share price (€)			
Beginning of the year	1,59	1,45	1,50
Maximum	1,64	1,64	2,05
Minimum	1,14	1,35	1,49
Average	1,39	1,45	1,69
End of year	1,42	1,46	1,98
Transactions (value per day, €)			
Maximum	1.360.775	2.824.880	475.427
Minimum	0	0	0
Average	23.705	35.290	17.642
Transactions (number per day, €)			
Maximum	1.703.600	3.818.745	710.233
Minimum	0	0	0
Average	32.749	51.166	29.499
Share capitalisation			
End of year (€)	1.562.000.000	1.606.000.000	2.178.000.000
Change	-12%	3%	36%

*The consolidated results as at 31 December 2003 and 2004 have been prepared according to Portuguese generally accepted accounting principles (POC), while those for 2005 were prepared using the international financial reporting standards (IFRS)

In order to assist in analysing adequately the trend of the share price in 2005, the most relevant events and press releases of the company were as follows:

- Press release concerning the consolidated financial statements for the year ending 31 December 2004 - 3 March
- Press release concerning the consolidated financial statements for the quarter ending 31 March 2005 - 4 May

- Information regarding qualified shareholdings - 23 May
- Information concerning disposal of a group of stores in the state of S. Paulo, Brazil - 9 June
- Press release concerning the consolidated financial statements for the six months ending 30 June 2005 - 7 September
- Press release concerning the consolidated financial statements for the nine months ending 30 September - 28 October
- Information concerning qualified shareholdings - 2 December
- Information concerning the disposal of the company's entire retail operation in Brazil - 14 December

1.4 Dividend distribution

For the years 2003 and 2004, Modelo Continente S.G.P.S., S.A. did not distribute dividends. For 2005, a dividend distribution of 0.05 Euro per share, making a total of 55 million Euro will be proposed at the Shareholders' General Meeting.

1.5 Share Plans and Stock Option Plans

The Remuneration Committee of Modelo Continente S.G.P.S., S.A. approved on 16 March 2005 the rules defining the conditions of the granting of a deferred compensation plan. The goal of this plan is to give the opportunity to managers to share in the value created by their direct involvement in the definition of strategy and management of the businesses. Those eligible are directors and managers of Modelo Continente S.G.P.S., S.A. whose involvement has the most impact on the performance of the businesses.

Deferred compensation is awarded by the management body concerning managers and by the Remuneration Committee concerning board directors, as a percentage of the value of the annual performance premium awarded.

The amount of the deferred compensation varies in direct proportion to a basket of shares made up of those of Sonae S.G.P.S., S.A. and of Modelo Continente S.G.P.S., S.A. The compensation plans are valued on the date they are awarded at the share prices quoted on the Portuguese stock exchange of those shares making up the basket. For this, the lower of the following share prices is used: that at the close of business on the first working day after the Shareholders' General Meeting or the average closing price for the 30 days prior to the Shareholders' General Meeting.

The Director/Manager can choose to:

- Acquire at zero cost three years after the award date a number of shares equal, in Euro, to the value of deferred compensation awarded and at the share prices mentioned above, or
- Acquire three years after the award date, at the share price at the date of award, a number of shares calculated by applying the Black-Scholes model to the value in Euro of the deferred compensation awarded.

In either case, the acquisition can be made between exactly three years after the date of the award and the end of that year. The company reserves the right to give the equivalent value in cash instead of shares. The right to deferred compensation expires when the Director/Manager leaves Modelo Continente S.G.P.S., S.A. but continues up to the date of payment in the case of retirement. In case of death or permanent disability, the deferred compensation plan is valued at market prices and given to the individual or his/her heirs.

1.6 Related Party Transactions

The company did not have business dealings with any member of the Board of Directors. The only transactions with the Statutory Auditor were those related to his official duties and his fees were paid as described in paragraph 1.9 below.

Transactions with group companies or those controlled by Modelo Continente were made at arms length, were part of the normal business activity of the company, and as such do not need further disclosure.

1.7 Investor Relations

The representative of Modelo Continente S.G.P.S., S.A. for Capital Market Relations is Ângelo Gabriel Ribeirinho dos Santos Paupério.

Modelo Continente S.G.P.S., S.A. has committed to inform the capital markets expeditiously of all relevant facts about the company, thus ensuring equal treatment to all parties involved and equal access to information by investors.

To that end, Modelo Continente S.G.P.S., S.A. uses the normal channels of communication but has put special emphasis on using new information technologies. Here, the main highlight is the company website (www.modelocontinente.pt) that acts as a focal point for a wide range of questions put by investors and the general public, as well as being a repository of historical information about the company, in particular financial statements, earnings announcements and the most important corporate presentations.

As part of the above commitment, Modelo Continente S.G.P.S., S.A. set up its Investor Relations Office that is technically well equipped and has a dedicated team, acting as a focal point for the Portuguese and international investment community.

Its main function is to rapidly respond to all questions put to it, but also to prepare institutional documents and presentations.

The office can be contacted at:

Rua João Mendonça, 529 – 6ºDto
4464-501 Senhora da Hora (Matosinhos – Portugal)
Telephone: 351.22.9561958
Fax: 351.22.9561318
Email: investor.relations@modelocontinente.pt

In recent years, the Office has helped a wide range of parties involved with the capital markets, in particular small private investors and the university community, as well as the main financial analysis teams in the Portuguese and International retail sector.

1.8 Remuneration Committee

The Shareholders' General Meeting appoints a Remuneration Committee with the same term of office as the statutory bodies. Its mission, in accordance with paragraph 2 of Article twenty-six of the company's articles of association, is to approve the remuneration of members of the Board of Directors.

In Modelo Continente S.G.P.S., S.A., the current Remuneration Committee is made up of Sonae S.G.P.S., S.A. represented by Professor José Manuel Trindade Neves Adelino and Bruno Walter Lehmann, who are not members of the Board of Directors.

1.9 Auditor's Fees

The company's auditors are Deloitte & Associados, SROC, who, in 2005, billed the company and its affiliated and associated companies included in the consolidation, a total of 853,000 thousand Euro (of which 307,000 thousand Euro were billed to foreign companies). Of the total, 57% were statutory audit fees, 5% tax consultancy fees and 37% other services fees.

Tax consultancy services and other services are provided by different specialists than those who are involved in audit, thus contributing to the independence of the auditor.

2 - Shareholder representation and voting rights

The articles of association of the company only allow participation in the Shareholders' General Meeting to shareholders who can provide proof of their title as shareholders and who, at least eight days before the date of the meeting, have those shares: either registered in their names in the company's share register; or deposited with a financial institution duly authorised in accordance with the law; or entered in an electronic shareholding account at the stock market register.

The deposit with a financial intermediary and those entered in an electronic shareholding account at the stock market register, have to be confirmed in writing by the respective intermediary, and this letter must be received by the company at least eight days before the General Meeting is held.

Shareholders can only attend the General Meeting if they inform the Chairman of the Board of the Shareholders' Meeting of their intention to do so, in writing, at least three days before the General Meeting is held, unless they have confirmed the deposit with a financial intermediary or the electronic shareholding account at the stock market register.

One vote corresponds to each group of one thousand shares, and each shareholder has as many votes as results from dividing the total number of shares he/she owns by one thousand, rounded down to the nearest whole number, without limit.

Shareholders who are private individuals can be represented at Shareholders' General Meetings by their spouse or direct family, a director or other shareholder, by sending a letter to the Chairman of the Board of the Shareholders' Meeting, stating the name and address of the representative and the date of the meeting.

Corporate entities will be represented by a person nominated by them by written letter whose authenticity will be verified by the Chairman of the Board of the Shareholders' General Meeting.

For as long as the company is listed on the Stock Exchange, shareholders can vote by correspondence but only in relation to changes to the articles of association and election of statutory bodies.

Correspondence votes will only be taken into account when received at the company's headquarters by registered mail addressed to the Chairman of the Board of the Shareholders'

General Meeting, and received at least three days before the meeting, subject to proof of title of the related shares.
The voting declaration should be signed by the holder of the shares or by his legal representative and, in the case of a private individual should be accompanied by an authenticated copy of his identity card, and in the case of a corporate entity, the signature should be authenticated by a notary public testifying to his/her status and powers.
Written voting papers shall only be considered valid when they clearly set out in an unambiguous manner:
a) The agenda item or items to which they refer;
b) The specific proposal to which they relate with an indication of the respective proposer or proposers;
c) The precise and unconditional voting intention on each proposal, as well as whether this is maintained, if the proposal is altered by its proposer.
Nonetheless, a shareholder is permitted to include in a written voting paper, in relation to an identified proposal, the intention to vote against all alternative proposals, in relation to the same item on the agenda, without further specification.
It is assumed that shareholders have abstained from any proposals that are not specifically included in their written voting papers.
Nonetheless, a shareholder may make a vote on a specific proposal conditional on the approval or rejection of another proposal within the same item on the agenda at the General Meeting.
It is the responsibility of the Chairman of the Board of the Shareholders' General Meeting, or the person substituting him, to verify correspondence voting declarations, eliminating any votes relating to declarations that are not accepted.
In accordance with paragraph 2 of article 22 of the articles of association, the shareholder must provide proof of his/her ownership of shares at least 8 days prior to the date of the Shareholders' General Meeting.
The individual company and consolidated financial statements and other documents required by law, as well as the proposals made by the Board of Directors for approval by the General Meeting, will be available for consultation by shareholders at the head office as from fifteen days prior to the date of the Shareholders' Annual General Meeting.
The General Meeting may pass resolutions at the first meeting as long as shareholders representing over fifty percent of the share capital of the company are present or represented, unless the law demands a different quorum.
The right to vote electronically is not contemplated in the company's articles of association.

3 - Company Rules

3.1 Codes of conduct and Internal Regulations

Modelo Continente S.G.P.S., S.A. values and principles are widely spread and deeply rooted in the company's culture. The key aspects are a business culture (leadership, openness to change, loyalty and rigour, transparency), responsibility towards employees (equal treatment, professional development, safety), social responsibility (social and environmental awareness, openness to society, trust and ethics) and political independence. As a publicly listed company it is particularly aware of its duties of diligence and confidentiality in its dealings with third parties, protecting its position in situations of conflict of interest. In this area, no written code of conduct for management bodies or other internal regulation relating to this subject exists.

3.2 Risk Management

i) Internal Audit and risk management

In its day to day and strategic management, the company actively practises policies of risk management and internal audit in all aspects of its business operations. These activities are considered by the company to be fundamental towards supporting and controlling the business, and have been the subject of growing attention by Modelo Continente S.G.P.S., S.A. During 2005, the Audit and Risk Management Department continued to work on a broad range of subjects among which we highlight:

Process and compliance audits

- Compliance audits of critical business variables including purchases, sales, write offs, returns and inventories.
- The scope of compliance audits was broadened to cover environmental legislation and that concerning handicapped people.
- Audits to key business processes, including sales returns, local changes to sales prices and consumer credit.
- The set up of a new support application to Internal Audit that allows better management of risk situations identified in audits, as well as increasing the function's productivity.

Information systems audits

- Development of a Business Continuity Plan that covers the risk of Information Systems failure
- Intrusion Tests on Electronic Commerce Sites and Wireless Networks
- Development of a Security indicator based on ISO 17799
- Audits of critical business data bases
- Audit of availability of critical systems
- Audit of Modelo Continente Software
- Security audits on the Wintel and UNIFO servers (Front Office)

Risk Management

- Implementation of a control self assessment process in stores on a quarterly basis, backed up by an application based on the Intranet, the objectives of which are to carry out a diagnostic of the exposure to physical risks and develop action plans for the non conformities identified. The risk areas included were: Emergency, Safety against Fires, Surveillance and Intrusion, and Training and Awareness.
- Analysis of risk to logistic warehouses to evaluate the risk profile.
- Daily execution of food safety audits to stores, warehouses and manufacturing centres.
- Development of a Crisis Management Manual for store operations with the main goals of guaranteeing continuity of operations and minimising loss of image and financial losses, in the case of a high impact accident.

At the same time the Audit and Risk Management Department closely followed all change processes that were of significant impact to Modelo Continente, and checked their feasibility and conformance with benchmark processes in the sector.

ii) Financial risks

As far as financial risks are concerned, Modelo Continente is mainly exposed to risks arising from fluctuations in interest and exchange rates. To ensure management of these risks, the group uses derivatives with the objective of limiting its exposure to these fluctuations. It is not the company's aim to use these for speculative purposes.

3.3 Limits to exercising voting rights or to the transfer of shares, shareholders' agreements and special shareholders' rights

Over and above the number of shares (1,000) that correspond to a vote and the representation rules mentioned in paragraph above, there are no other limitations on voting rights, nor are there any restrictions on transferring shares. The company has not taken any measures that would hinder the success of a tender offer for the purchase of shares.

4.

4.1 Management bodies

As at 31 December 2005, the Board of Directors of Modelo Continente S.G.P.S., S.A. was made up of seven members, who have collective duties of co-ordination and management of various functional departments. The mandate of this Board of Directors is four years and ends in 2005. The directors were elected from a single list. No alternative list was presented by any shareholder.

During 2005, the Board met 9 times, and the respective minutes were written up in the minute book.

After the end of the year, Fernando Sérgio Maia Rebelo and Luís Filipe Campos Dias de Castro Reis resigned from the Board of Directors. At present, the Board of Directors has the following members

		Executive*	Non executive*	Non Independent*
• **Belmiro Mendes de Azevedo**	(Chairman)		x	x
• **Nuno Manuel Moniz Trigoso Jordão**	(CEO)	x		x
• **Ângelo Gabriel Ribeirinho dos Santos Paupério**	(CFO)	x		x
• **Manuel José Ferreira Fontoura**		x		x
• **José Manuel Alves Elias da Costa**			x	x

** as defined in regulation nº10/2005 of the CMVM*

As part of the business decision making process, the members of the Board of Directors have the following duties:

- **Nuno Manuel Moniz Trigoso Jordão**
  has responsibility for overall co-ordination, in line with the duties of a traditional CEO

- **Ângelo Gabriel Ribeirinho dos Santos Paupério**
  has responsibility for overall co-ordination in line with the duties of a CFO

- **Manuel José Ferreira Fontoura**
  has operational responsibility for food store operations of Modelo Continente S.G.P.S., S.A.

A brief curriculum vitae of each director now follows, with details of their qualifications and professional activities:

- **Belmiro Mendes de Azevedo**
  Education and training
  - Degree in Industrial Chemical Engineering – Engineering Faculty of Porto University
  - PMD (Programme for Management Development) – Harvard Business School
  - Financial Management Programme – Stanford University
  - Strategic Management – Wharton University

  Professional activity
  - Chairman of the Board of Directors of Sonae, S.G.P.S., S.A.
  - Chairman of the Board of Directors of Sonae Indústria, S.G.P.S., S.A.
  - Chairman of the Board of Directors of Modelo Continemte, S.G.P.S., S.A.
  - Chairman of the Board of Directors of Sonae Com, S.G.P.S., S.A.
  - Chairman of the Board of Directors of Efanor Investimentos, S.G.P.S., S.A.
  - Chairman of the Board of Directors of Sonae Sierra, S.G.P.S., S.A.
  - Chairman of the Board of Directors of Setimanale, S.G.P.S., S.A.
  - Chairman of the Board of Directors of Praça Foz Sociedade Imobiliária, S.A.
  - Chairman of the Board of Directors of Casa Agrícola de Ambrães, S.A.
  - Board Director of Sonae Capital, S.G.P.S., S.A.

- **Nuno Manuel Moniz Trigoso Jordão**
  Education and training
  - Degree in Economics - ISCTE

  Professional activity
  - Vice-Chairman of the Board of Directors of Sonae, S.G.P.S., S.A.
  - Board Director of Modelo Continente S.G.P.S., S.A. (CEO)
  - Chairman of the Board of Directors of Sonae Turismo, S.G.P.S., S.A.
  - Board Director of other companies in which Sonae, S.G.P.S., S.A. has shareholdings

- **Ângelo Gabriel Ribeirinho dos Santos Paupério**
  Education and training

  - Masters in Business Management, MBA - Instituto Superior de Estudos Empresariais
  - Degree in Civil Engineering - Universidade do Porto

  Professional activity
  - Executive Vice-Chairman and CFO of Sonae SGPS, S.A.
  - Board Director of Modelo Continente S.G.P.S., S.A. and Sonae Sierra SGPS, S.A.
  - Executive Chairman of Sonae Capital, S.G.P.S., S.A.
  - Chairman of the Finance Committee of the Sonae Group
  - Board Director of other companies in which Sonae, S.G.P.S., S.A. has shareholdings

- **Manuel José Ferreira Fontoura**

  Education and training
  - Degree in Zoo technical Engineering - Instituto Universitário de Trás-os-Montes e Alto Douro
  - Company Top Management Programme – AESE

  Professional activity
  - Board Director of Modelo Continente S.G.P.S., S.A.
  - Board Director of other companies in which Modelo Continente S.G.P.S., S.A. has shareholdings

- **José Manuel Alves Elias da Costa**

  Education and training
  - Degree in Finance - ISCTE

  Professional activity
  - Board Director of Banco Santander Totta, S.A.
  - Board Director of Modelo Continente S.G.P.S., S.A.

None of the above mentioned directors own shares in Modelo Continente S.G.P.S., S.A.

The dates of the first appointment and term of the mandates of the above directors are as follows:

	1 st designation	Term of the mandate
• **Belmiro Mendes de Azevedo**	13.04.1999	2005
• **Nuno Manuel Moniz Trigoso Jordão**	31.03.1989	2005
• **Ângelo Gabriel Ribeirinho dos Santos Paupério**	29.08.1995	2005
• **Manuel José Ferreira Fontoura**	31.03.2000	2005
• **José Manuel Alves Elias da Costa**	16.11.2004	2005

In addition, there is no Executive Committee or any other Committee with management authority. No internal control committees were set up to evaluate corporate governance, since this evaluation is carried out in meetings of the Board of Directors.
No list of incompatibilities was defined nor the maximum number of cumulative duties of directors in the management bodies of other companies. This was because directors of the company generally exercise management duties in companies belonging to Modelo Continente.

4.2 Remunerations
In 2005, members of the Board of Directors remunerated by the company or by affiliated or associated companies were paid in total 3,086159 Euro, of which 1,801,493 Euro were performance bonuses.

The performance bonus is indexed to a group of financial indicators that best align the interests of Directors with those of the company and its shareholders. Half of this bonus is deferred and will only be paid in 2008, and may increase or decrease, depending on share price performance.
The Chairman of the Board of Directors had a total remuneration of 50,000 Euro that did not include any performance related bonus.
The CEO of the company had a total remuneration of 988,183 Euro, including a performance bonus of 650,083 Euro.
The average remuneration of the remaining members of the Board of the Directors was 682,659 Euro that includes performance bonuses of 383,803. The remaining non executive members of the Board of Directors did not receive any remuneration.

The Board of Directors believes that the information given above concerning remunerations is sufficient and that to give details for each director, as recommended by the CMVM, goes beyond the general principles governing the duty to inform and is of marginal usefulness to shareholders' interests.

4.3 Policy for communicating irregularities
Modelo Continente pays very special attention to detecting, taking responsibility for and correcting in a timely manner irregularities that may occur within its organisation.
The most frequent issues are concerned with mistakes from time to time in store operations (concerning customer attendance, the range of products or equipment, among others). The main detectors of these are the 2,000,000 weekly customers to the stores of the company in Portugal. Many of these customers make a complaint or leave a suggestion with the team of the store where the irregularity took place.
Modelo Continente values very highly these contacts since the customer is giving the company an opportunity to resolve a problem and identify areas of improvement that directly benefit that particular customer and others who are also affected.
In order to deal with these issues in a just and timely manner, the company has developed a Suggestions and Complaints System, with a decentralised structure of contact persons in various departments of the organisation and under the direct responsibility and follow up of the Board of Directors. The Marketing department is responsible for the central coordination and control of the

entire process, although the issues are dealt with and answers given to the customer by the unit directly concerned, with the knowledge and co-responsibility of the specific areas involved (e.g. Quality Control, Legal Department etc).
At the same time, Modelo Continente (as part of the Sonae Group) has an Ombudsman available to its team of employees and to the public in general. The Ombudsman functions as an entity that complements the suggestions and complaints procedure. He/she reports directly to the Chairman of the Sonae Group, and his/her mission is to ensure that claims, complaints and suggestions that are made by customers, suppliers and employees of the company are appropriately dealt with.
The post of the Ombudsman affirm and promote in an appropriate way the legally protected rights and interests of customers, users or suppliers of the company, ensure that justice is done, wrongs righted and improve the quality and efficiency of services provided by the company. He/she can be contacted at the following e mail address provedor@sonae.pt, or at the following address:
Lugar do Espido, Via Norte
Apartado 1011 - 4471-909 Maia Portugal
Tel: 22 010 4631 - Fax: 22 010 4784

4.4 Offices held in other companies
The members of the Board of Directors also held office in the following companies:

Belmiro Mendes de Azevedo
- Sonae, S.G.P.S., S.A.
- Sonae Industria - SGPS, S.A.
- Modelo Continente S.G.P.S., S.A.
- Sonae Com, S.G.P.S., S.A.
- Efanor Investimentos, S.G.P.S., S.A.
- Sonae Sierra, S.G.P.S., S.A.
- Setimanale - SGPS, S.A.
- Praça Foz - Sociedade Imobiliária, S.A.
- Casa Agrícola de Ambrães, S.A.
- Sonae Capital, S.G.P.S., S.A.

Nuno Manuel Moniz Trigoso Jordão
- Andar – Sociedade Imobiliária, S.A.
- Aqualuz – Turismo e Lazer, Lda
- Aquapraia – Investimentos Turísticos, S.A.
- Aquapraia – Investimentos Turísticos, S.G.P.S., S.A.
- Atlantic Ferries - Tráfego Local, Fluvial e Marítimo, S.A.
- Best Offer - Prestação de Informações pela Internet, S.A.
- Bikini – Portal de Mulheres, S.A.
- Bloco Q – Sociedade Imobiliária, S.A.
- Bloco W – Sociedade Imobiliária, S.A.
- Bloco Y – Sociedade Imobiliária, S.A.

- Cacetinho – Comércio Retalhista e Exploração de Centros Comerciais, S.A.
- Campimeios – Sociedade Imobiliária, S.A.
- Carnes do Continente - Industria e Distribuição de Carnes, S.A.
- Casa da Ribeira – Hotelaria e Turismo, S.A.
- Centro Residencial da Maia – Urbanismo, S.A.
- Chão Verde – Sociedade de Gestão Imobiliária, S.A.
- Citorres – Sociedade Imobiliária, S.A.
- Contibomba - Comércio e Distribuição de Combustíveis, S.A.
- Contimobe – Imobiliária do Castelo de Paiva, S.A.
- Country Club da Maia – Urbanismo, S.A.
- Cumulativa - Sociedade Imobiliária, S.A.
- Difusão – Sociedade Imobiliária, S.A.
- Distrifin Comercio y Prestacion de Servicios, S.A.
- Efanor - Design e Serviços, S.A.
- Efanor - Indústria de Fios, S.A.
- Empreendimentos Imobiliários da Quinta da Azenha, S.A.
- Equador – Agência de Viagens e Turismo, S.A.
- Estêvão Neves – Hipermercados da Madeira, S.A.
- Exit Travel - Agência de Viagens e Turismo Online, S.A.
- Fozimo - Sociedade Imobiliária, S.A.
- Fozmassimo – Comércio e Indústria de Produtos Alimentares, S.A.
- Gestholding – SGPS, S.A.
- Global S – Hipermercado, Lda.
- Golf Time - Golfe e Investimentos Turísticos, S.A.
- IGI – Investimento Imobiliário, S.A.
- Igimo – Sociedade Imobiliária, S.A.
- Iginha - Sociedade Imobiliária, S.A.
- Imoareia – Investimentos Turísticos, S.G.P.S., S.A.
- Imoclub – Serviços Imobiliários, S.A.
- Imoconti – Sociedade Imobiliária, S.A.
- Imoestrutura – Sociedade Imobiliária, S.A.
- Imoferro – Sociedade Imobiliária, S.A.
- Imohotel – Empreendimentos Turisticos Imobiliários, S.A.
- Imomuro – Sociedade Imobiliária, S.A.
- Imopenínsula – Sociedade Imobiliária, S.A.
- Imoponte – Sociedade Imobiliária, S.A.
- Imoresort – Sociedade Imobiliária, S.A.
- Imoresultado – Sociedade Imobiliária, S.A.
- Imosedas – Imobiliária e Serviços, S.A.
- Imosistema - Sociedade Imobiliária, S.A.
- Infofield – Informática, S.A.
- Informeios - Projectos e Representações, S.A.
- Insulatroia – Sociedade Imobiliária, S.A.
- Inventory – Acessórios de Casa, S.A.

- Marimo – Exploração Hoteleira e Imobiliária, S.A.
- Marina de Tróia, S.A.
- Marinamagic - Exploração de Centros Lúdicos e Marítimos, Lda
- Marmagno - Exploração Hoteleira e Imobiliária, S.A.
- Martimope – Sociedade Imobiliária, S.A.
- Marvero - Exploração Hoteleira e Imobiliária, S.A.
- MaxOffice – Artigos e Serviços para Escritório, S.A.
- MJLF - Empreendimentos Imobiliários, S.A.
- Modalfa - Comércio e Serviços, S.A.
- Modelo – Distribuição de Materiais de Construção, S.A.
- Modelo - Sociedade Gestora de Participações Sociais, S.A.
- Modelo Continente – Operações de Retalho, S.G.P.S., S.A.
- Modelo Continente Hipermercados, S.A.
- Modelo Continente S.G.P.S., S.A.
- Modelo Hiper Imobiliária, S.A.
- Modelo Investimentos Brasil, S.A.
- Modelo.Com – Vendas por Correspondência, S.A
- Modis - Distribuição Centralizada, S.A.
- Modis International Trade, S.A.
- O.K. Bazar- Comércio Geral, S.A.
- Partnergiro - Empreendimentos Turísticos, Lda.
- Praedium II – Imobiliária, S.A.
- Praedium III – Serviços Imobiliários, S.A.
- Praedium, S.G.P.S., S.A.
- Predicomercial – Promoção Imobiliária, S.A.
- Prédios Privados – Imobiliária, S.A.
- Predisedas - Predial das Sedas, S.A.
- Promosedas – Promoções Imobiliárias, S.A.
- S.I.I. – Soberana – Investimentos Imobiliários, S.A.
- Selifa - Sociedade de Empreendimentos Imobiliários, S.A.
- Sempre à Mão – Sociedade Imobiliária, S.A.
- Sesagest – Projectos e Gestão Imobiliária, S.A.
- Sociedade Construções do Chile, S.A.
- Socijofra - Sociedade Imobiliária, S.A.
- Sociloures - Sociedade Imobiliária, S.A.
- Solinca – Lazer, S.G.P.S., S.A.
- Solinca III – Desporto e Saúde, S.A.
- Solinca- Investimentos Turísticos, S.A.
- Soltróia – Sociedade Imobiliária de Urbanização e Turismo de Tróia, S.A.
- Sonae Capital, SGPS, SA
- Sonae Retalho Espanã – Servicios Generales, S.A.
- Sonae Turismo – Gestão e Serviços, S.A.
- Sonae Turismo, S.G.P.S., S.A.
- Sonae, S.G.P.S., S.A.

- Sondis Imobiliária, S.A.
- Sontária – Empreendimentos Imobiliários, S.A.
- SportZone – Comércio de Artigos de Desporto, S.A.
- SRE – Projectos e Consultadoria, S.A.
- Star – Viagens e Turismo, S.A.
- Todos os Dias - Comércio Retalhista e Exploração de Centros Comerciais, S.A.
- Torralta – Club Internacional de Férias, S.A.
- Torre São Gabriel – Imobiliária, S.A.
- Troiaverde – Exploração Hoteleira e Imobiliária, S.A.
- Tulipamar - Exploração Hoteleira e Imobiliária, S.A.
- Urbisedas – Imobiliária das Sedas, S.A.
- Vastgoed One - Promoção Imobiliária, S.A.
- Vastgoed Sun - Promoção Imobiliária, S.A.
- Venda Aluga – Sociedade Imobiliária, S.A.
- World Trade Center Porto, S.A.
- Worten - Equipamentos para o Lar, S.A.

Ângelo Gabriel Ribeirinho dos Santos Paupério

- Andar – Sociedade Imobiliária, S.A.
- Aqualuz – Turismo e Lazer, Lda
- Aquapraia – Investimentos Turísticos, S.A.
- Aquapraia – Investimentos Turísticos, S.G.P.S., S.A.
- Atlantic Ferries - Tráfego Local, Fluvial e Marítimo, S.A.
- Best Offer - Prestação de Informações pela Internet, S.A.
- Bikini - Portal de Mulheres, S.A.
- Bloco Q – Sociedade Imobiliária, S.A.
- Bloco W – Sociedade Imobiliária, S.A.
- Cacetinho – Comércio Retalhista e Exploração de Centros Comerciais, S.A.
- Campimeios - Sociedade Imobiliária, S.A.
- Canasta - Empreendimentos Imobiliários, S.A.
- Carnes do Continente - Industria e Distribuição de Carnes, S.A.
- Carplus – Comércio de Automóveis, S.A.
- Casa da Ribeira - Hotelaria e Turismo, S.A.
- Centro Residencial da Maia – Urbanismo, S.A.
- Change, SGPS, S.A
- Chão Verde – Sociedade de Gestão Imobiliária, S.A.
- Choice Car - Comércio Automóveis, S.A.
- Choice Car, S.G.P.S., S.A.
- Citorres – Sociedade Imobiliária, S.A.
- Contibomba - Comércio e Distribuição de Combustíveis, S.A.
- Contimobe – Imobiliária do Castelo de Paiva, S.A.
- Country Club da Maia – Imobiliária, S.A.
- Cumulativa - Sociedade Imobiliária, S.A.
- Difusão – Sociedade Imobiliária, S.A.

- Distrifin Comercio y Prestación de Servicios, S.A.
- Efanor - Design e Serviços, S.A.
- Efanor - Indústria de Fios, S.A.
- Elmo, S.G.P.S., S.A.
- Empreendimentos Imobiliários Quinta da Azenha, S.A.
- Espimaia - Sociedade Imobiliária, S.A.
- Estêvão Neves - Hipermercados da Madeira, S.A.
- Finlog – Aluguer e Comércio de Automóveis, S.A.
- Fozimo - Sociedade Imobiliária, S.A.
- Fozmassimo – Comércio e Industria de Produtos Alimentares, S.A.
- Gestholding – SGPS, S.A.
- Global S – Hipermercado, Lda.
- Golf Time - Golfe e Investimentos Turísticos, S.A.
- Guérin Rent - a – Car (Dois), Lda
- IGI – Investimento Imobiliário, S.A.
- Igimo – Sociedade Imobiliária, S.A.
- Iginha - Sociedade Imobiliária, S.A.
- Imoareia – Investimentos Turísticos, S.G.P.S., S.A.
- Imoclub – Serviços Imobiliários, S.A.
- Imoconti – Sociedade Imobiliária, S.A.
- Imoestrutura – Sociedade Imobiliária, S.A.
- Imoferro – Sociedade Imobiliária, S.A.
- Imohotel – Empreendimentos Turísticos Imobiliários, S.A.
- Imomuro – Sociedade Imobiliária, S.A.
- Imopenínsula - Sociedade Imobiliária, S.A.
- Imoponte – Sociedade Imobiliária, S.A.
- Imoresort– Sociedade Imobiliária, S.A.
- Imoresultado – Sociedade Imobiliária, S.A.
- Imosedas – Imobiliária e Serviços, S.A.
- Imosistema - Sociedade Imobiliária, S.A.
- Infofield – Informática, S.A.
- Informeios - Projectos e Representações, S.A.
- Inparvi – SGPS, S.A.
- Insulatroia - Sociedade Imobiliária, S.A.
- Integrum - Serviços Partilhados, S.A.
- Inventory – Acessórios de Casa, S.A.
- Luso – Assistência – Gestão de Acidentes, S.A.
- Marimo – Exploração Hoteleira e Imobiliária, S.A.
- Marina de Tróia, S.A.
- Marinamagic - Exploração de Centros Lúdicos e Maritimos, Lda
- Marmagno - Exploração Hoteleira e Imobiliária, S.A.
- Martimope – Sociedade Imobiliária, S.A.
- Marvero - Exploração Hoteleira e Imobiliária, S.A.
- MaxOffice – Artigos e Serviços para Escritório, S.A.

- MDS – Corrector de Seguros, S.A.
- MJLF - Empreendimentos Imobiliários, S.A.
- Modalfa - Comércio e Serviços, S.A.
- Modelo – Distribuição de Materiais de Construção, S.A.
- Modelo - Sociedade Gestora de Participações Sociais, S.A.
- Modelo Continente – Operações de Retalho, S.G.P.S., S.A.
- Modelo Continente Hipermercados, S.A.
- Modelo Continente S.G.P.S., S.A.
- Modelo Hiper Imobiliária, S.A.
- Modelo Investimentos Brasil, S.A.
- Modelo.Com – Vendas por Correspondência, S.A
- Modis - Distribuição Centralizada, S.A.
- Modis International Trade, S.A.
- Norscut – Concessionária de Auto-Estradas, S.A.
- O.K. Bazar - Comércio Geral, S.A.
- Pargest, S.G.P.S., S.A.
- Partnergiro - Empreendimentos Turísticos, Lda.
- Peixes do Continente - Indústria e Distribuição de peixes, SA
- Praedium II – Imobiliária, S.A.
- Praedium III – Serviços Imobiliários, S.A.
- Praedium, S.G.P.S., S.A.
- Predicomercial – Promoção Imobiliária, S.A.
- Prédios Privados – Imobiliária, S.A.
- Predisedas – Predial das Sedas, S.A.
- Promosedas – Promoções Imobiliárias, S.A.
- Publimeios, S.G.P.S., S.A.
- S.I.I. – Soberana – Investimentos Imobiliários, S.A.
- SC – Insurance and Risk, S.G.P.S., S.A.
- SC – Sociedade de Consultadoria, S.A.
- Selfrio, Engenharia do Frio, S.A.
- Selfrio, S.G.P.S., S.A.
- Selifa - Sociedade de Empreendimentos Imobiliários S.A.
- Sempre à Mão – Sociedade Imobiliária, S.A.
- Sesagest – Projectos e Gestão Imobiliária, S.A.
- Sistavac – Sistemas de Aquecimento, Ventilação e Ar Condicionado, S.A.
- SKK – Central de Distribuição para Refrigeração e Climatização, S.A.
- SMP – Serviços de Manutenção e Planeamento, S.A.
- Sociedade Construções do Chile, S.A.
- Socijofra - Sociedade Imobiliária, S.A.
- Sociloures - Sociedade Imobiliária, S.A.
- Sodesa – Comercialização de Energia, S.A.
- Soflorin, BV
- Solinca – Lazer, S.G.P.S., S.A.
- Solinca III – Desporto e Saúde, S.A.

- Solinca - Investimentos Turísticos, S.A.
- Soltróia – Sociedade Imobiliária de Urbanização e Turismo de Tróia, S.A.
- Sonae 3P – Panels, Pul and Paper, S.G.P.S., S.A.
- Sonae Capital, S.G.P.S., S.A.
- Sonae Investments, BV
- Sonae Retalho Espanã – Servicios Generales, S.A.
- Sonae Sierra, S.G.P.S., S.A.
- Sonae Turismo, S.G.P.S., S.A.
- Sonae Wood Products, BV
- Sonae, S.G.P.S., S.A.
- Sonaegest – Sociedade Gestora de Fundos de Investimento, S.A.
- Sondis Imobiliária, S.A.
- Sontária – Empreendimentos Imobiliários, S.A.
- Sontur, BV
- Sonvecap BV
- Sopair, S.A.
- SportZone – Comércio de Artigos de Desporto, S.A.
- SRE – Projectos e Consultadoria, S.A.
- Star - Viagens e Turismo, S.A.
- Todos os Dias - Comércio Retalhista e Exploração de Centros Comerciais, S.A.
- Torralta - Club Internacional de Férias, S.A.
- Torre S. Gabriel – Imobiliária, S.A.
- TP - Sociedade Térmica Portuguesa, S.A.
- Troiaverde – Exploração Hoteleira e Imobiliária, S.A.
- Tulipamar - Exploração Hoteleira e Imobiliária, S.A.
- Urbisedas – Imobiliária das Sedas, S.A.
- Vastgoed One – Promoção Imobiliária, S.A.
- Vastgoed Sun – Promoção Imobiliária, S.A.
- Venda Aluga – Sociedade Imobiliária, S.A.
- World Trade Center Porto, S.A.
- Worten - Equipamentos para o Lar, S.A.

Manuel José Ferreira Fontoura

- Cacetinho – Comércio Retalhista e Exploração de Centros Comerciais, S.A.
- Carnes do Continente – Indústria e Distribuição de Carnes, S.A.
- Contibomba – Comércio e Distribuição de Combustíveis, S.A.
- Estêvão Neves – Hipermercados da Madeira, S.A.
- IGI - Investimento Imobiliário, S.A.
- Insco – Insular de Hipermercados, S.A.
- Modelo - Sociedade Gestora de Participações Sociais, S.A.
- Modelo Continente – Operações de Retalho, S.G.P.S., S.A.
- Modelo Continente Hipermercados, S.A.
- Modelo.Com – Vendas Por Correspondência, S.A.
- Modis - Distribuição Centralizada, S.A.

- Modis International Trade, S.A.
- O.K. Bazar – Comércio Geral, S.A.
- Todos os Dias – Comércio Retalhista e Exploração de Centros Comerciais, S.A.
- Casa da Quinta de Vale d'Arados, Turismo Rural, Lda.
- Sempre a Postos – Produtos Alimentares e Utilidades, Lda.
- Peixes do Continente – Indústria e Distribuição de Peixe, S.A.

José Manuel Alves Elias da Costa
- Santander Totta, S.G.P.S., S.A.
- Banco Santander de Negócios Portugal, S.A.
- Santander – Gestão de Activos, S.G.P.S., S.A.
- Santander Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.
- Modelo Continente S.G.P.S., S.A.

Matosinhos, 27 February 2006

NOTE RELATING TO ARTICLE 447 OF THE COMMERCIAL COMPANY CODE ("CÓDIGO DAS SOCIEDADES COMERCIAIS")

SECURITIES HELD BY THE MEMBERS OF CORPORATE BOARDS AND RESPECTIVE TRANSACTIONS DURING 2005

Shares	Date	Acquisitions		Disposals		Held at 31.12.2005
		Quantity	Average value - Euro	Quantity	Average value - Euro	Quantity
THE BOARD OF DIRECTORS						
Belmiro Mendes de Azevedo						
Efanor Investimentos, SGPS, SA (1)						49.999.997
Sonae, SGPS, SA						14.901
Ângelo Gabriel Ribeirinho dos Santos Paupério						
Sonae, SGPS, SA						4.564
Manuel José Ferreira Fontoura						
Sonae, SGPS, SA						73.340

Notes:

(1) Efanor Investimentos, SGPS, SA						
Sonae, SGPS, SA						658.804.410
Venda	18.07.2005			291.179.305	1,14	
Pareuro, BV (2)						20.000
(2) Pareuro, BV						
Sonae, SGPS, SA						400.000.000
Acquisition	18.07.2005	291.179.305	1,14			

Modelo Continente, S.G.P.S., S.A.

NOTE RELATING TO ARTICLE 448 OF THE COMMERCIAL COMPANY CODE

	Number of shares at 31.12.05
Sonae, SGPS, SA (1)	831.991.399
Banco Santander Totta, SA	246.625.000

Notas:

(1) Efanor Investimentos, SGPS, SA	
Sonae, SGPS, SA	658.804.410
Pareuro, BV (2)	20.000
(2) Pareuro, BV	
Sonae, SGPS, SA	400.000.000

Modelo Continente, S.G.P.S., S.A.

QUALIFIED PARTICIPATIONS

Pursuant to paragraph e), article 8 of the Stock Exchange Commission ("Comissão do Mercado de Valores Mobiliários") Regulation 04 indicate the shareholders with qualified participations at 31 December 2005:

Shareholders		Number of shares	% Voting rights
Sonae, SGPS, SA		831.991.399	75,64%
Vote rights under paragraph e), article 20 of the Stock Exchange Commission and CVM (1)		246.625.000	22,42%
	Total imputable	1.078.616.399	98,06%
Banco Santander Totta, SA		246.625.000	22,42%
	Total imputable	246.625.000	22,42%

Notes:

(1) Imputation resulting from agreements with Grupo Santander Totta

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

CONSOLIDATED BALANCE SHEETS AS AT 30 DECEMBER 2005 AND 2004

(Amounts expressed in Euro)

(Translation of financial statements originally issued in Portuguese - Note 43)

		IFRS		Local GAAP
ASSETS	Notes	31-12-2005	31-12-2004	31-12-2004
NON CURRENT ASSETS				
Tangible assets	7	1.159.162.807	1.136.734.749	1.221.038.880
Goodwill	8	47.164.598	265.293.994	-
Intangible assets	7	61.715.276	57.415.222	25.926.372
Investments in associated companies	5,9	8.080.761	40.536.824	32.182.741
Others financial investments	9	53.807.682	8.568.168	9.038.581
Deferred tax assets	14	24.126.376	59.731.623	-
Other non-current assets	10	839.152	44.528.376	44.528.377
Total non current assets		1.354.896.652	1.612.808.956	1.332.714.951
CURRENT ASSETS				
Inventory	15	325.206.095	387.517.766	387.517.766
Trade accounts receivable		18.487.609	20.314.348	21.386.959
Other accounts receivable	11	174.993.339	122.887.318	122.082.545
Sate and public entities	12	37.793.072	33.889.426	33.417.113
Other current assets	13	10.661.819	6.253.324	65.765.946
Other financial investments	9	10.560.475	87.325.645	-
Cash and cash equivalents	16	563.855.996	260.096.724	260.007.397
Total current assets		1.141.558.405	918.284.551	890.177.726
TOTAL ASSETS		2.496.455.057	2.531.093.507	2.222.892.677
EQUITY AND LIABILITIES				
EQUITY				
Share Capital	17	1.100.000.000	1.100.000.000	1.100.000.000
Reserves and retained earnings		(467.504.160)	(576.996.940)	(776.614.877)
Net profit for the year attributable to the shareholders of Parent company		214.122.570	119.088.499	114.415.880
Total equity attributable to the Shareholders of Parent company		846.618.410	642.091.559	437.801.003
Minority interests	18	8.717.734	7.331.008	18.860.054
TOTAL EQUITY		855.336.144	649.422.567	456.661.057
LIABILITIES				
NON-CURRENT LIABILITIES				
Bank Loans	19	1.400.000	281.585.260	297.175.551
Bonds	19	592.279.778	177.958.653	182.000.000
Obligations under finance leases	19, 20	8.197.376	13.094.122	-
Other Loans	19	326.063	134.888.140	129.999.755
Other non-current liabilities	22	17.719.446	44.338.488	55.634.373
Deferred tax liabilities	14	37.487.973	43.623.446	-
Provisions	27	27.775.929	17.251.593	17.237.462
Total non-current liabilities		685.186.565	712.739.702	682.047.141
CURRENT LIABILITIES				
Bank Loans	16, 19	164.093.367	157.367.788	157.278.460
Obligations under finance leases	19, 20	4.119.488	1.748.644	-
Derivatives	19, 21	198.293	92.486.786	-
Trade accounts payable	24	598.484.705	727.906.665	727.817.464
Other accounts payable	25	89.880.848	71.760.337	35.043.470
State and public entities	12	29.088.267	39.336.757	38.878.587
Other current liabilities	26	70.067.380	77.681.066	124.700.657
Provisions	27	-	643.195	465.841
Total current liabilities		955.932.348	1.168.931.238	1.084.184.479
TOTAL LIABILITIES		1.641.118.913	1.881.670.940	1.766.231.620
TOTAL EQUITY AND LIABILITIES		2.496.455.057	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 DECEMBER 2005 AND 2004

(Amounts expressed in Euro)

(Translation of financial statements originally issued in Portuguese - Note 43)

	IFRS					
	4th Quarter 05 [1]			4th Quarter 04 [1]		
	Operations			Operations		
	Continued	Discontinued	TOTAL	Continued	Discontinued	TOTAL
Operating income:						
Sales	805.484.023	242.560.562	1.048.044.585	749.190.616	294.804.697	1.043.995.313
Services rendered	4.950.154	823.929	5.774.083	5.156.230	588.844	5.745.074
Other operating income	94.140.451	5.690.411	99.830.862	65.648.530	12.967.843	78.616.373
Total operating income	904.574.628	249.074.902	1.153.649.530	819.995.376	308.361.384	1.128.356.760
Operating expenses:						
Cost of sales	(632.256.310)	(188.871.019)	(821.127.329)	(586.248.084)	(227.757.207)	(814.005.291)
External supplies and services	(76.389.357)	(30.799.173)	(107.188.530)	(64.287.609)	(37.201.020)	(101.488.629)
Staff costs	(81.984.051)	(27.557.374)	(109.541.425)	(68.435.646)	(24.302.630)	(92.738.276)
Depreciation and amortization	(17.480.542)	(4.658.592)	(22.139.134)	(17.680.577)	(5.201.265)	(22.881.842)
Provisions and impairment losses	92.605	(611.154)	(518.549)	344.147	811.986	1.156.133
Other operational expenses	(14.047.400)	(2.126.139)	(16.173.539)	(16.874.750)	(8.065.711)	(24.940.461)
Total operational expenses	(822.065.055)	(254.623.451)	(1.076.688.506)	(753.182.519)	(301.715.847)	(1.054.898.366)
Net operating profit/(loss)	82.509.573	(5.548.549)	76.961.024	66.812.857	6.645.537	73.458.394
Financial profit/(loss)	(7.642.514)	(42.237)	(7.684.751)	(3.785.735)	(7.324.198)	(11.109.933)
Profit/(loss) related to associated companies	(1.359.835)	144.454	(1.215.381)	(1.126.472)	-	(1.126.472)
Profit/(loss) related to investments	13.482	89.303.833	89.317.315	-	-	-
Profit/(loss) before income tax	73.520.706	83.857.501	157.378.207	61.900.650	(678.661)	61.221.989
Income tax	(6.824.054)	(557.680)	(7.381.734)	(4.467.228)	(137.809)	(4.605.037)
Profit/(loss) after income tax	66.696.652	83.299.821	149.996.473	57.433.422	(816.470)	56.616.952
Consolidated profit/(loss) for the quarter	66.696.652	83.299.821	149.996.473	57.433.422	(816.470)	56.616.952
Attributable to:						
Equity holders of Parent Company	66.302.508	83.299.821	149.602.329	56.751.913	(816.470)	55.935.443
Minority interests	394.144	-	394.144	681.509	-	681.509

The accompanying notes are part of these financial statements

The Board of Directors

1) Prepared in accordance with International Financial Reporting Standards (IAS/IFRS) but not subject to audit.

2)Only includes the first two months of the 4th Quarter Operations (Note 6).

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

CONSOLIDATED INCOME STATEMENTS BY NATURE

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euro)

(Translation of financial statements originally issued in Portuguese - Note 43)

		IFRS			IFRS			Local GAAP
		31-12-2005			31-12-2004			31-12-2004
		Operations			Operations			
	Notes	Continued	Discontinued	TOTAL	Continued	Discontinued	TOTAL	Accumulated
			(Note 6)			(Note 6)		
Operating income:								
Sales	32	2.726.117.684	1.135.533.327	3.861.651.011	2.600.451.837	977.151.427	3.577.603.264	3.577.610.129
Services rendered	32	19.272.399	3.701.147	22.973.546	20.401.881	2.163.782	22.565.663	22.565.663
Other operating income	33	269.214.290	73.462.997	342.677.287	214.856.643	54.334.897	269.191.540	218.652.446
Total operating income		3.014.604.373	1.212.697.471	4.227.301.844	2.835.710.361	1.033.650.106	3.869.360.467	3.818.828.238
Operating expenses:								
Cost of sales	15	(2.163.345.697)	(884.934.138)	(3.048.279.835)	(2.045.861.480)	(755.460.505)	(2.801.321.985)	(2.800.220.829)
External supplies and services		(272.385.001)	(134.880.790)	(407.265.791)	(249.112.757)	(120.839.430)	(369.952.187)	(364.143.699)
Staff costs		(300.696.784)	(113.585.723)	(414.282.507)	(266.076.343)	(88.479.118)	(354.555.461)	(354.863.711)
Depreciation and amortization	7	(69.238.310)	(22.246.655)	(91.484.965)	(65.331.904)	(19.710.066)	(85.041.970)	(96.134.174)
Provisions and impairment losses	27	(800.929)	(9.115.840)	(9.916.769)	(915.697)	(987.262)	(1.902.959)	(8.601.039)
Other operational expenses	34	(40.106.500)	(27.007.225)	(67.113.725)	(41.271.839)	(23.254.100)	(64.525.939)	(15.920.812)
Total operational expenses		(2.846.573.221)	(1.191.770.371)	(4.038.343.592)	(2.668.570.020)	(1.008.730.481)	(3.677.300.501)	(3.639.884.264)
Net operating profit/(loss)		168.031.152	20.927.100	188.958.252	167.140.341	24.919.625	192.059.966	178.943.974
Financial profit/(loss)	35	(27.568.281)	(18.424.666)	(45.992.947)	(28.629.906)	(25.634.925)	(54.264.831)	(51.334.951)
Profit/(loss) related to associated companies		260.299	485.334	745.633	(559.649)		(559.649)	(1.469.126)
Profit/(loss) related to investments	6	(434.322)	89.303.833	88.869.511	105.141		105.141	6.617.001
Profit/(loss) before income tax		140.288.848	92.291.601	232.580.449	138.055.927	(715.300)	137.340.627	132.756.898
Income tax	36	(17.140.447)	41.755	(17.098.692)	(15.717.822)	(573.537)	(16.291.359)	(16.747.685)
Profit/(loss) after income tax		123.148.401	92.333.356	215.481.757	122.338.105	(1.288.837)	121.049.268	116.009.213
Consolidated profit/(loss) for the quarter		123.148.401	92.333.356	215.481.757	122.338.105	(1.288.837)	121.049.268	116.009.213
Attributable to:								
Equity holders of Parent Company		121.789.214	92.333.356	214.122.570	120.377.336	(1.288.837)	119.088.499	114.415.880
Minority interests	18	1.359.187		1.359.187	1.960.769		1.960.769	1.593.334
Profit/(loss) per share (basic and diluted)	37	0,11	0,08	0,19	0,11	(0,00)	0,11	0,10

The Board of Directors

The accompanying notes are part of these financial statements

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euro)

(Translation of financial statements originally issued in Portuguese - Note 43)

	Attributable to Shareholders of Parent Company							Minority interests	Total Equity
	Share Capital	Legal Reserves	Translation Reserve	Hedging Reserve	Others Reserves and Retained earnings	Net profit/(loss)	Total		
Balance at 1 January 2004 [(1)]	1.100.000.000	86.000.000	-	4.620.711	(669.304.363)	-	521.316.348	11.214.724	532.531.072
Changes in reserves									
During the period	-	-	8.384.886	-	-	-	8.384.886	-	8.384.886
Transfer to net profit/(loss)	-	-	-	(3.713.454)	-	-	(3.713.454)	-	(3.713.454)
Changes consolidation perimeter	-	-	-	-	-	-	-	(5.844.485)	(5.844.485)
Others	-	-	-	-	(2.984.720)	-	(2.984.720)	-	(2.984.720)
Net consolidated profit (loss) for the year	-	-	-	-	-	119.088.499	119.088.499	1.960.769	121.049.268
Balance at 31 December 2004	1.100.000.000	86.000.000	8.384.886	907.257	(672.289.083)	119.088.499	642.091.559	7.331.008	649.422.567
Balance at 1 January 2005	1.100.000.000	86.000.000	8.384.886	907.257	(672.289.083)	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	-	4.200.000	-	-	114.888.499	(119.088.499)	-	-	-
Changes in reserves									
During the period	-	-	127.910.020	-	-	-	127.910.020	-	127.910.020
Transfer to net profit/(loss)	-	-	(136.169.517)	(907.257)	-	-	(137.076.774)	-	(137.076.774)
New Companies	-	-	-	-	-	-	-	27.539	27.539
Others	-	-	-	-	(428.965)	-	(428.965)	-	(428.965)
Net consolidated profit (loss) for the year	-	-	-	-	-	214.122.570	214.122.570	1.359.187	215.481.757
Balance at 31 December 2005	1.100.000.000	90.200.000	125.389	-	(557.829.549)	214.122.570	846.618.410	8.717.734	855.336.144

The accompanying notes are part of these financial statements

(1) As the transitions to IFRS has occuered at 1 January 2004, the 2003 net profit /(loss) is represented in tha caption Other reserves and retained earnings

The Board of Directors

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Translation of financial statements originally issued in Portuguese - Note 43)

(Amounts expressed in Euro)

	Notes	31-12-2005			31-12-2004		
		Operations			Operations		
OPERATING ACTIVITIES		Continued	Discontinued	TOTAL	Continued	Discontinued	TOTAL
Cash receipts from trade debtors		2.742.171.597	1.141.959.171	3.884.130.768	2.616.939.916	943.044.793	3.559.984.709
Cash payments to trade suppliers		(2.252.219.857)	(1.018.563.757)	(3.270.783.614)	(2.053.214.340)	(794.733.826)	(2.847.948.166)
Cash paid to employees		(289.643.314)	(103.882.106)	(393.525.420)	(260.175.202)	(88.059.907)	(348.235.109)
Net cash flow generated by operations		200.308.426	19.513.308	219.821.734	303.550.374	60.251.060	363.801.434
Income taxes paid/(received)		(16.588.337)	1.002.466	(15.585.871)	(19.029.753)	(1.163.269)	(20.193.022)
Other cash receipts/payments from operating activities		(30.085.939)	21.536.811	(8.549.128)	(20.095.827)	(26.456.205)	(46.552.032)
Net cash flow from operating activities (1)		153.634.150	42.052.585	195.686.735	264.424.794	32.631.586	297.056.380
INVESTING ACTIVITIES							
Cash receipts related to:							
Investments	6	28.634.784	540.262.789	568.897.573	320.000	-	320.000
Tangible and intangible assets		15.839.524	60.623.672	76.463.196	3.730.622	2.812.532	6.543.154
Interest and similar income		12.271.414	10.953.040	23.224.454	12.959.758	4.541.151	17.500.909
Dividends		64.641	-	64.641	105.141	-	105.141
Loans granted		185.428.992	214.008	185.643.000	569.274.461	1.089.939	570.364.400
Others		-	-	-	652.127	-	652.127
		242.239.355	612.053.509	854.292.864	587.042.109	8.443.622	595.485.731
Cash payments related to:							
Investments		(21.382.395)	7.021.869	(14.360.526)	(145.021.840)	126.384.624	(18.637.216)
Tangible and intangible assets		(223.913.989)	(46.147.434)	(270.061.423)	(104.699.128)	(39.203.513)	(143.902.641)
Loans granted		(206.611.000)	-	(206.611.000)	(568.958.591)	(1.405.809)	(570.364.400)
Others		(63.500.000)	-	(63.500.000)	-	-	-
		(515.407.384)	(39.125.565)	(554.532.949)	(818.679.559)	85.775.302	(732.904.257)
Net cash used in investing activities (2)		(273.168.029)	572.927.944	299.759.915	(231.637.450)	94.218.924	(137.418.526)
FINANCING ACTIVITIES							
Cash receipts related to:							
Loans obtained		1.049.743.621	201.675.731	1.251.419.352	488.857.140	157.872.223	646.729.363
		1.049.743.621	201.675.731	1.251.419.352	488.857.140	157.872.223	646.729.363
Cash payments related to:							
Loans obtained		(1.125.086.071)	(262.830.601)	(1.387.916.672)	(536.747.187)	(266.980.251)	(803.727.438)
Interest and similar charges		(42.096.921)	(26.723.978)	(68.820.899)	(39.706.454)	(29.098.007)	(68.804.461)
		(1.167.182.992)	(289.554.579)	(1.456.737.571)	(576.453.641)	(296.078.258)	(872.531.899)
Net cash used in financing activities (3)		(117.439.371)	(87.878.848)	(205.318.219)	(87.596.501)	(138.206.035)	(225.802.536)
Net increase/(decrease) in cash and cash equivalents (4) = (1) + (2) + (3)		(236.973.250)	527.101.681	290.128.431	(54.809.157)	(11.355.525)	(66.164.682)
Effect of foreign exchange rate		(6.988.813)	(7.947.086)	(14.935.899)	(30.562)	(462.915)	(493.477)
Cash and cash equivalents at the beginning of the year	16	(226.754.010)	(28.955.309)	(255.709.319)	(281.532.605)	(39.847.919)	(321.380.524)
Cash and cash equivalents at the end of the year	6,16	(3.230.427)	564.004.076	560.773.649	226.754.010	28.955.309	255.709.319

The accompanying notes are part of these financial statements

The Board of Directors

MODELO CONTINENTE SGPS, S.A.

NOTES TO THE CONSOLIDTAED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

(Amounts expressed in Euro)

(Translation of Notes originally issued in Portuguese – Note 43)

1. INTRODUCTION

MODELO CONTINENTE, SGPS, S.A. ("the Company" or "Modelo Continente"), holds its Head-office 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 and 5 ("Modelo Continente Group"). The Group's operations and segments of business are described in Note 39.

The consolidated financial statements are presented in Euro as this is the currency mainly used by the Group. The transactions in foreign exchange are included in accordance with the accounting policy detailed in Note 2.2.d).

2. PRINCIPAL ACCOUNTING POLICIES

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

2.1. Basis of presentation

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, as adopted by the European Union.

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 42. 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 withholds, directly or indirectly, more than 50% of the voting rights at Shareholders' General Meetings or 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 liabilities recognized on acquisition of subsidiaries.

The profit/loss of subsidiaries acquired or disposed of during the year 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 within the 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 recorded in the caption where the investments in associated companies is recognized. Any shortage of the cost of acquisition against the fair value of the identifiable net assets acquired is recognized as income in the income statement in the period in which it was purchased after granting that the estimated fair value of the purchased net assets was reassessed.

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 income statement. 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 foreign exchange rate. The foreign 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.

Impairment losses related to goodwill cannot 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, are 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 under Retained earnings, in accordance with IFRS 1. Goodwill arising from the acquisition of foreign companies was re-expressed at the functional currency of each subsidiary, retrospectively. The foreign 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 foreign exchange rates. Profit and loss and cash flows are translated to Euro using the average foreign exchange rate for the period. The foreign exchange rate differences originated after 1 January 2004 are recorded as equity under Translation reserves in Reserves and retained earnings. Foreign 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 foreign exchange rate.

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

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

	31.12.05		31.12.04	
	End of period	Period average	End of period	Period average
Brazilian real	0,36443	0,33279	0,27665	0,27526

2.3. Tangible assets

Tangible assets acquired until 1 January 2004 (transition date to IFRS) are recorded at acquisition cost, or revaluated 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 a 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 based upon 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 income statement under either Other operating income 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 those future economic benefits 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 income statement 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 a 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 recorded in the income statement in the period in which they are incurred.

Operating lease payments are recorded as cost for the year in the income statement 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 recorded as assets under the Other non current liabilities caption, the gain being recorded in the income statement 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 recorded in the income statement 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 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 recorded as Non current assets unless they mature within less than 12 months from the balance sheet date. This caption comprises investments which hold a defined maturity and which the Group intend and withhold the capacity to hold onto until the inherent 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 at the date they were purchased, including transaction costs if related to Held to maturity and Available-for-sale investments.

Available-for-sale investments and investments measured at fair value through profits or loss are subsequently recorded at fair value excluding any deduction of transaction costs which may be incurred during its sale taking into consideration the stock market price at the balance sheet date. Investments in equity instruments that do not have a stock market price and whose fair value cannot be reliably measured are stated at cost less impairment losses.

Gains or losses arising from changes in fair value of available-for-sale investments are recorded directly under the Fair value reserve in Equity, until the investment is sold or otherwise disposed of, or until it is considered to be impaired, at which time the cumulative gain or loss previously recorded 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) Accounts receivable

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

c) Classification as Equity or Liability

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

d) Loans

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 income statement 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) Trade accounts payable and other accounts payable

Trade and other accounts payable are stated at 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 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 reasons 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 recorded in the income statement 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 in 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 when these are not stated at fair value. Gains and losses which are not realizable are recorded in the Income statement.

Additionally, the Group also negotiates, in specific situations, interest rate derivatives and foreign exchange rate derivatives directed to hedge fair values. In these cases, the derivatives are stated at fair value through the Income statement. 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) <u>Equity instruments</u>

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) <u>Cash and cash equivalents</u>

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

For the preparation 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 re-evaluated at the end of each reporting period based on the number of shares granted and the corresponding fair value at the closing date. The obligations are recorded under personnel costs and other current and non-current 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 through down payment. In the case of equity-settled share-based payment transactions, these obligations are stated as Personnel expenses and Reserves and are recorded on a straight line basis between the date the shares are 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

Income tax is determined based upon the taxable income of each company included in the consolidation perimeter taking into consideration deferred taxes when applicable.

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 inherent to 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 recorded 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 recorded 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 in which 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 in future years, thus being recorded in the income statement of the future period.

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 foreign 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 foreign exchange rate at the date the fair value was determined.

Exchange gains and losses arising from differences between the historical foreign 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, excepting 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 2.11.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 to the consolidated financial statements when considered to be material.

2.18. Segment information

All business and geographic segments of the Group are identified on an annual basis.

Information regarding the Groups income and its net performance per business segment is included in Note 39.

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 2005 and 2004 are as follows:

			Percentage of Capital held 31.12.2005		Percentage of Capital held 31.12.2004	
	Company	Head 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%
e)	Canasta – Empreendimentos Imobiliários, S.A.	Maia	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%
a)	Cumulativa - Sociedade Imobiliária, S.A.	Maia	100,00%	100,00%	-	-
i)	Contifin - S.G.P.S., Lda	Matosinhos	-	-	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%
m)	Fundo Fechado de Investimento Imobiliário Efisa Imobiliário	Lisboa	100,00%	100,00%	-	-
m)	Fundo de Investimento Imobiliário Imosonae Dois	Maia	99,98%	99,98%	-	-
	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%
b)	Iginha – Sociedade Imobiliária, S.A.	Matosinhos	-	-	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%
	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%
n)	Marcas MC, zRT	Budapest	100,00%	100,00%	-	-
	Maxoffice – Artigos e Serviços para Escritório, S.A.	Maia	100,00%	100,00%	100,00%	100,00%
f)	MJLF-Empreendimentos Imobiliários, S.A.	Maia	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%

	Company	Head Office	Percentage of Capital held 31.12.2005 Direct	Total	Percentage of Capital held 31.12.2004 Direct	Total
	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%
d) h)	Modelo Investimentos Financeiros, Ltda.	Porto Alegre(Brazil)	-	-	-	-
	Modis - Distribuição Centralizada, S.A.	Matosinhos	100,00%	100,00%	100,00%	100,00%
j)	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%
o)	Peixes do Continente-Indústria e Distribuição de Peixes, S.A	Matosinhos	100,00%	100,00%	-	-
c)	Pinto Ribeiro – Supermercados, S.A.	Viana do Castelo	100,00%	100,00%	-	-
g)	Selifa - Sociedade de Emprendimentos Imobiliários de Fafe, S.A.	Maia	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(The Netherlands)	100,00%	100,00%	100,00%	100,00%
h)	Sonae Distribuição Brasil, S.A.	Porto Alegre(Brazil)	-	-	96,56%	96,56%
l)	Sonae Medicamentos, Ltda	Porto Alegre(Brazil)	100,00%	100,00%	-	-
a) h)	Sonae Promotora de Vendas, Ltda	Porto Alegre(Brazil)	-	-	-	-
	Sonae Retalho España – Servicios Generales, S.A.	Madrid(Spain)	100,00%	100,00%	100,00%	100,00%
k)	Sondis, B.V.	Amsterdam(The Netherlands)	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(The Netherlands)	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%

These subsidiaries were included in the consolidated financial statements by the full consolidation method as mentioned in Note 2.2.a)

a) Change in entity’s name, having been purchased in the first half of 2005.
b) Subsidiary sold on 20 June 2005.
c) Subsidiary purchased on 30 June 2005.
d) Subsidiary incorporated on 13 April 2004 and inactive until May of 2005.
e) Subsidiary purchased on 26July 2005
f) Subsidiary purchased on 11 July 2005
g) Subsidiary purchased on 27 July 2005
h) Subsidiary sold on 13 December 2005 (Note 6)
i) Subsidiary dissolved on 7 December 2005
j) Subsidiary dissolved on 23 December 2005
k) Subsidiary dissolved on 30 December 2005.
l) Subsidiary incorporated on 1 April de 2005.
m) Real Estate Investment Funds purchased on 28 December 2005
n) Subsidiary created on 21 December 2005
o) Subsidiary created on 15 December 2005

5. INVESTMENTS IN ASSOCIATED COMPANIES

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

		Percentage of Capital held				Book Value	
	Head	31.12.05		31.12.04		31.12.05	31.12.04
Company	Office	Direct	Total	Direct	Total		
Star-Viagens e Turismo, S.A.	Lisbon	50,00%	50,00%	50,00%	50,00%	7.478.262	8.176.661
a) Sonae Retalho Especializado, S.G.P.S., S.A.	Maia	-	-	49,90%	49,90%		31.378.683
Sonaegest-Soc. Gestora de Fundos de Investimento,S.A.	Maia	40,00%	40,00%	40,00%	40,00%	554.402	563.684
Sempre a Postos-Produtos Alimentares e Utilidades, S.A.	Lisbon	25,00%	25,00%	25,00%	25,00%	48.097	417.796
						8.080.761	40.536.824

a) Associated company sold on 28 June 2005.

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

Additionally, the main financial indicator's aggregated amounts of these associated companies are as follows:

	Total of assets		Total of liabilities		Income		Profit/(loss) for the year	
	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04
Star-Viagens e Turismo, S.A.	25.280.469	17.445.317	24.709.955	23.531.598	97.906.561	88.831.609	359.984	(3.152.001)
Sonae Retalho Especializado, S.G.P.S., S.A.	-	68.653.239	-	4.615.118	-	186	-	758.555
Sonaegest-Soc. Gestora de Fundos de Investimento,S.A.	1.441.631	1.441.569	55.623	43.249	284.670	261.828	(12.313)	(17.803)
Sempre a Postos-Produtos Alimentares e Utilidades, S.A.	12.934.696	13.764.223	12.742.307	12.093.043	56.115.920	52.549.757	(1.478.791)	628.091
	39.656.796	101.304.348	37.507.885	40.283.008	154.307.151	141.643.380	(1.131.120)	(1.783.158)

6. CHANGES IN CONSOLIDATION PERIMETER

The main purchases and disposals of companies over the year ended 31 December 2005 were as follows:

Purchases

		Percentage of Capital held	
	Head	31.12.2005	
Company	Office	Direct	Total
Cumulativa - Sociedade Imobiliária, S.A.	Maia	100,00%	100,00%
Pinto Ribeiro - Supermercados, S.A.	Viana do Castelo	100,00%	100,00%
Canasta-Empreendimentos Imobiliários, S.A.	Maia	100,00%	100,00%
MJLF-Empreendimentos Imobiliários, S.A.	Maia	100,00%	100,00%
Selifa-Soc. de Empreend. Imobiliários de Fafe,S.A.	Maia	100,00%	100,00%
Fundo Fechado de Investimento Imobiliário Efisa Imobiliário	Lisbon	100,00%	100,00%
Fundo de Investimento Imobiliário Imosonae Dois	Maia	99,98%	99,98%

Effect of purchases and disposals

The purchases referred to above had the following impact on the consolidated financial statements as at 31 December 2005:

	Purchasing date			31.12.2005
	Book Value	Fair value Adjustment	Fair value Purchasing date	Book Value
Net assets purchased				
Tangible and intangible assets	178.668.216	4.753.375	183.421.591	192.815.297
Inventory	489.222		489.222	234.728
Other current assets	1.799.942		1.799.942	3.132.204
Cash and cash equivalents	16.878.724		16.878.724	16.308.753
Deferred taxes	629.619	(1.588.037)	(958.418)	(852.819)
Loans	(592.712)		(592.712)	
Other liabilities	(38.186.216)		(38.186.216)	(49.113.902)
	159.686.795	3.165.338	162.852.133	162.524.261
Minority Interest			(27.732)	
Goodwill arising on acquisition (Note 8)			3.363.961	
Purchase price			166.188.362	
Payments made			6.577.342	
Deferred payment			159.611.020	
			166.188.362	
Net cash-flow out coming from purchase				
Payments made			6.577.342	
Cash and cash equivalents acquired			(16.878.724)	
			(10.301.382)	

The impacts of the purchase on the consolidated income statement were made up as follows:

Operating expenses		1.910.571
Operating costs		(2.263.501)
Financial profit /(loss)		(103.893)
	Net profit before tax	(456.823)
Income tax		(29.657)
	the period	(427.166)

If the above mentioned purchased companies had been consolidated with reference to 1 January 2005, the consolidated net profit would be increased by near 6 millions of euro.

Disposals

Company		Head Office	Percentage of Capital held 31.12.2005 Direct	Total	Percentage of Capital held 31.12.2004 Direct	Total
Iginha - Sociedade Imobiliária, S.A.		Matosinhos	-	-	100,00%	100,00%
Sonae Distribuição Brasil, S.A.	(a)	Porto Alegre(Brazil)	98,45%	98,45%	96,56%	96,56%
Sonae Promotora de Vendas. Ltdª	(a)	Porto Alegre(Brazil)	100,00%	100,00%	-	-
Modelo Investimentos Financeiros, Ltdª	(a)	Porto Alegre(Brazil)	100,00%	100,00%	-	-

(a)Subsidiaries classified as discontinued operations.

Net assets of these subsidiaries as at the date of disposal and as at 31 December 2004 are presented as follows:

	Disposal of a subsidiary	Discontinued operations	Disposal of a subsidiary	Discontinued operations
	Disposal date	Disposal date	31.12.2004	31.12.2004
Net assets disposed of				
Tangible assets	6.108.843	259.485.452		231.989.923
Intangible assets		16.621.726		4.026.792
Goodwill		290.966.757		221.496.587
Other non current assets		57.559.863		49.744.727
Deferred tax assets		42.774.185		32.499.991
Inventories		137.142.840		102.122.540
Other current assets	168	89.809.803	22.500.900	69.290.577
Cash and cash equivalent	325.142	23.856.638	1.051	28.955.309
Other non current liabilities	(332.000)	(60.554.885)	(1.014.000)	(50.362.825)
Deferred tax liabilities		(5.710.217)		(4.338.476)
Other current liabilities	(6.005.462)	(265.186.050)	(19.982.620)	(258.174.951)
	96.691	586.766.112	1.505.331	427.250.194
Translation reserve		(136.169.517)		
Other disposal allowances		24.103.648		
	96.691	474.700.243	1.505.331	427.250.194
Net gains or losses resulting from the disposal	5.309	89.303.833		
Price of disposal	102.000	564.004.076		
Cash received	102.000	564.004.076		
Net cash-flow outcoming from the disposal				
Cash received	102.000	564.004.076		
Cash and cash equivalents disposed	(325.142)	(23.856.638)		
	(223.142)	540.147.438		
Future amounts to be received		8.550.000		
Financial debt at disposal date		86.302.562		
Enterprise value of the subsidiaries sold		635.000.000		

The Other disposals allowances include a provision on the amount of 27,000,000 Euro to face to future outflows (Note 27), as well as an amount 8,550,000 euro income recognized against the caption Account receivable (Note 11). This amount relates to receivables from the company that acquired Sonae Distribuição Brasil, S.A. and that will be settled on the date of exercise of the put option sold by the Modelo Investimentos Brasil, S.A. to the former shareholders.

The mentioned sold put option is recorded under Other Accounts payable in the amount of 74,139,801 BRL, approximately 27 millions euro (Note 25).

Part of the cash received from the sale of Brazilian assets amounting to 63,500,000 euro is deposited in an Escrow Account and guarantees contractual contingent liabilities (Note 9).

The guarantee schedule is as follows:

2006	10.500.000
2007	21.250.000
2008	31.750.000
	63.500.000

The Board of Directors considers that this guarantee will not be used, and consequently will be released in accordance with the guarantee scheduled, and that no further losses will arise over and above of the ones already included in the above mentioned provision.

The impact of these disposals on the income statement can be analysed as follows:

	Disposal of a subsidiary 2005	Discontinued operation 2005	Disposal of a subsidiary 2004	Discontinued operation 2004
Sales		1.135.533.327		977.151.427
Other operating income		77.164.144	3.000.978	56.498.679
Cost of sales		(884.934.138)		(755.460.505)
Other operating expenses	(10.740)	(306.836.233)	(20.938)	(253.269.976)
Financial profit /(loss)	60.778	(17.939.332)	(797.857)	(25.634.925)
Profit /(loss) befor income tax	50.038	2.987.768	2.182.183	(715.300)
Income tax	(13.761)	41.755	(393.933)	(573.537)
Net profit	36.277	3.029.523	1.788.250	(1.288.837)
Gains or losses on the disposals	5.309	89.303.833	-	-
	41.586	92.333.356	1.788.250	(1.288.837)

7. <u>TANGIBLE AND INTANGIBLE ASSETS</u>

During the year ended 31 December 2005 and 2004, movements in tangible and intangible assets as well as depreciations and accumulated impairment losses, were made up as follows:

Tangible Assets - 2005

	Land and buildings	Machinery and equipment	Transporte 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 assets:										
Opening balance	828.855.869	556.452.919	17.713.519	118.774.183	4.576.316	251.533	1.892.006	33.632.508	27.621.815	1.589.770.668
Changes in consolidation perimeter - Purchase (d) (Note 6)	182.331.961	1.304.691	64.413	121.028			-			183.822.093
Changes in consolidation perimeter - Disposals (f) (Note 6)	(117.394.899)	(240.883.468)	(5.849.337)	(36.916.027)			-	(10.159.425)	(608.298)	(411.811.454)
Investments	24.545.309	11.954.433	960.674	3.965.562	84.551		5.031	139.045.509	2.795.418	183.356.487
Disposals (c)	(50.258.449)	(43.480.699)	(1.824.503)	(8.366.827)	(620.927)	(171.104)	(132.797)	(674.956)		(105.530.262)
Foreign exchange rate effect	33.552.124	61.204.665	1.382.359	9.351.436			479	992.362	55.474	106.538.899
Transfers	76.598.864	59.057.801	1.670.220	2.722.526	1.670.482		185.805	(124.549.624)	(24.015.856)	(6.659.782)
Closing balance	978.230.779	405.610.342	14.117.345	89.651.881	5.710.422	80.429	1.950.524	38.286.374	5.848.553	1.539.486.649
Accumulated depreciation, amortization 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 - Purchase (d) (Note 6)	126.459	226.526	22.789	24.728			-	-		400.502
Changes in consolidation perimeter - Disposals (f) (Note 6)	(17.190.937)	(104.671.446)	(3.821.090)	(20.533.686)			-	-		(146.217.159)
Depreciations	15.346.683	49.649.555	1.446.452	13.106.290	720.276		18.685	-		80.287.941
Disposals (c)	(4.688.339)	(23.523.113)	(1.510.008)	(5.778.125)	(616.284)	(171.104)	(132.788)	-		(36.419.761)
Foreign exchange rate effect	4.346.911	24.273.321	895.572	4.798.191				-		34.313.995
Transfers	833.088	(3.123.687)	1.392	(2.776.707)	(8.761)		(2.920)	-		(5.077.595)
Closing balance	111.186.506	198.616.711	11.511.048	53.769.753	3.401.061	80.429	1.758.334	-	-	380.323.842
Carrying amount	867.044.273	206.993.631	2.606.297	35.882.128	2.309.361	-	192.190	38.286.374	5.848.553	1.159.162.807

Intangible assets - 2005

	Development costs	Industrial property and other rights	Software	Premiuns paid for property occupation rights	Other Intangible Assets	Intangible assets in progress a)	Advances on account of intangible assets	Total
Gross assets:								
Opening balance	233.669	5.011.725	80.410.148	11.679.303		3.681.437		101.016.282
Changes in consolidation perimeter - Purchase (d) (Note 6)		(13.696.463)	(10.401.826)					(24.098.289)
Investments		10.955.029	1.452.260			18.331.285		30.738.574
Disposals		(816.716)	(1.042.853)			(74.568)		(1.934.137)
Foreign exchange rate effect		1.579.230	2.278.160					3.857.390
Transfers	135.529	898.020	13.717.766			(14.563.514)		187.801
Closing balance	369.198	3.930.825	86.413.655	11.679.303	-	7.374.640	-	109.767.621
Accumulated depreciation, amortization and impairment losses								
Opening balance	22.903	1.989.451	32.099.533	9.489.173				43.601.060
Changes in consolidation perimeter - Disposals (f) (Note 6)		(1.048.430)	(6.428.133)					(7.476.563)
Depreciations for the period	48.993	1.280.940	8.966.106	900.985				11.197.024
Disposals		(559.730)	(303.918)					(863.648)
Foreign exchange rate effect		146.878	1.444.530					1.591.408
Transfers		4.455	(1.394)	3				3.064
Closing balance	71.896	1.813.564	35.776.724	10.390.161	-	-	-	48.052.345
Carrying amount	297.302	2.117.261	50.636.931	1.289.142	-	7.374.640	-	61.715.276

a) the most significant amounts included in the captions “Tangible and intangible assets in progress” correspond to the following projects:

Remodelling and expansion of stores in Portugal	33.637.911
New projects in Portugal	9.948.271
	43.586.182

b) the most significant amounts under the caption “Advances on account of tangible assets” refer to projects of Modelo stores;

c) The most significant amounts referred to as “Disposals” under “Land and Building” and “Machinery and Equipment” concern to the disposal of 10 shopping centres which operated under the brand “Big” located in S. Paulo, Brazil by Sonae Distribuição Brasil, Lda. The disposal resulted in an inflow amounting to approximately 326 million BRL and a consolidated gain for the Group, in other operating income, amounting to approximately 29 million Euro (Note 33);

d) The most significant amounts in the caption “Tangible and Intangible Assets - Changes in the perimeter – Disposals”, refers to the Brazilian subsidiaries sold (276,107,178 euro net value)

e) The most significant amounts in the caption “Tangible Assets - Changes in the consolidated perimeter – Purchase” refers to the acquisition of Participations Unities in Real Estate Investment Funds, which mainly own real estate assets related with retail operations in Portugal (174,980,901 euro) and purchases companies whose assets are mainly Land (approximately 8 millions euro)

Tangible assets - 2004

	Land and buildings	Machinery and equipment	Transporte 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 assets										
Opening balance	836.629.714	510.797.837	17.308.555	102.728.073	3.933.027	251.533	1.929.448	20.130.330	16.495.108	1.510.203.625
Investment	13.402.607	25.136.800	724.366	11.212.889	44.353	-	124	67.265.703	17.433.655	135.220.497
Disposals	(42.004.806)	(13.993.771)	(940.778)	(2.196.644)	(78.446)	-	(20.512)	(866.588)		(60.101.545)
Foreign exchange rate effect	1.472.305	2.525.909	56.012	388.179			182	16.329	1.415	4.460.331
Transfers	19.356.049	31.986.144	565.364	6.641.686	677.382		(17.236)	(52.913.266)	(6.308.363)	(12.240)
Closing balance	828.855.869	556.452.919	17.713.519	118.774.183	4.576.316	251.533	1.892.006	33.632.508	27.621.815	1.589.770.668
Accumulated depreciation, amortization and impairment losses										
Opening balance	103.579.046	219.324.152	13.866.722	54.158.132	2.843.774	251.533	1.894.311	-		395.917.670
Depreciations for the period	14.629.150	45.920.378	1.314.254	11.917.167	529.819		24.728	-		74.335.496
Disposals	(6.208.178)	(9.223.930)	(740.328)	(1.106.058)	(67.273)		(19.564)	-		(17.365.331)
Foreign exchange rate effect	167.475	923.202	34.906	182.956			182	-		1.308.721
Transfers	245.148	(1.158.247)	387	(223.135)	(490)		(24.300)	-		(1.160.637)
Closing balance	112.412.641	255.785.555	14.475.941	64.929.062	3.305.830	251.533	1.875.357	-	-	453.035.919
Carrying amount	716.443.228	300.667.364	3.237.578	53.845.121	1.270.486	-	16.649	33.632.508	27.621.815	1.136.734.749

Intangible assets - 2004

	Development costs	Industrial property and other rights	Software	Premiuns paid for property occupation rights	Other Intangible Assets	Intangible assets in progress a)	Advances on account of intangible assets	Total
Gross assets								
Opening balance	25	4.763.416	67.996.148	11.105.685	55	2.367.214		86.232.543
Investment	12.900	211.722	1.040.583			11.032.689		12.297.894
Disposals		(1.209)	(710.545)			(59.569)		(771.323)
Foreign exchange rate effect		25.708	83.719	3.439.254				3.548.681
Transfers	220.744	12.088	12.000.243	(2.865.636)	(55)	(9.658.897)		(291.513)
Closing balance	233.669	5.011.725	80.410.148	11.679.303	-	3.681.437	-	101.016.282
Accumulated depreciation, amortization and impairment losses								
Opening balance		1.437.988	23.380.249	7.778.476				32.596.713
Depreciations for the period	22.903	548.034	8.998.455	1.137.082				10.706.474
Disposals			(698.986)					(698.986)
Foreign exchange rate effect		3.399	53.237					56.636
Transfers		30	366.578	573.615				940.223
Closing balance	22.903	1.989.451	32.099.533	9.489.173	-	-	-	43.601.060
Carrying amount	210.766	3.022.274	48.310.615	2.190.130	-	3.681.437	-	57.415.222

a) the most significant amounts included in the captions “Tangible and intangible assets in progress” in 2004 correspond to the following projects:

Remodelling and expansion of stores in Portugal	12.539.469
Remodelling and expansion of stores in Brasil	1.657.069
New projects in Portugal	21.991.170
	36.187.708

b) the most significant amounts under the caption "Advances on account of tangible assets" in 2004 refer to projects of Modelo stores as well as Continente stores (27,472,905 Euro).

8. GOODWILL

In the years ended 31 December 2005 and 2004, movements in goodwill, as well as in the corresponding impairment losses, were as follows:

	31-12-2005	31-12-2004
Opening balance	265.293.994	252.692.088
New companies in the consolidation perimeter (Note 6)	3.363.961	-
New parent companies	-	9.618.143
Disposals (Note 6)	(290.966.757)	-
Foreign exchange rate effect	69.473.400	2.983.763
Closing balance	47.164.598	265.293.994

Goodwill is not depreciated. Impairment tests are performed on an annual basis. Goodwill decrease in 2005, is mainly caused by the sale of the Brazilian companies (Note 6).

9. INVESTMENTS

As at 31 December 2005 and 2004, this caption is made up as follows:

	31-12-2005		31-12-2004	
	Non Current	Current	Non Current	Current
Investments in associated companies				
Opening balance at 1 January 2005	40.536.824	-	40.049.939	-
Purchases over the year	7.622.547	-		-
Disposals over the year	(39.491.435)	-		-
Equity method effect	(587.175)	-	486.885	-
Closing balance at 31 December 2005	8.080.761	-	40.536.824	-
Others financial investments - non currents				
Opening balance at 1 January 2005	1.278.095	-	1.278.095	-
Purchases over the year (Note 6)	53.000.000	-		-
Disposals over the year		-		-
Closing balance at 31 December 2005	54.278.095		1.278.095	
Accumulated impairment losses (Note 27)	(470.413)		(470.413)	
	53.807.682	-	807.682	-
Derivative financial instruments (Note 21)				
Fair value at 1 January 2005		87.325.645		105.245.118
Increase/(decrease) in fair value		(87.265.170)		(17.919.473)
Fair value at 31 December 2005	-	60.475	-	87.325.645
Others financial investments - currents				
Opening balance at 1 January 2005				
Purchases over the year (Note 6)		10.500.000		
Closing balance at 31 December 2005	-	10.500.000	-	-
Advances on financial investments				
Opening balance at 1 January 2005	7.760.486	-	1.513.114	-
Purchases over the year (Note 6)	(8.947.081)	-	6.217.993	-
Exchange rate effect	1.186.595	-	29.379	-
Closing balance at 31 December 2005	-	-	7.760.486	-
	61.888.443	60.475	49.104.992	87.325.645

Investments in associated companies include goodwill amounting to 7,478,262 Euro (8,176,661 Euro on 31 December 2004).

During the first half 2005 the associated company Sonae Retalho Especializado, S.G.P.S., S.A. was sold to a subsidiary of Sonae, S.G.P.S.

The other financial investments can be detailed as follows:

a) 1,278,095 euro, essentially refers to share held in non listed companies. The investments in non listed companies and which fair value was not estimated due to the fact that it could not be measured reliably are recorded at acquisition cost less impairment losses. The investments held in publicly held companies are recorded at fair value.

b) 63,500,000 Euro of the Escrow Account mentioned in Note 6, which is classified as current assets (10,500,000 euro) and non current assets (53,000,000 euro) in accordance with the guarantee schedule.

10. OTHER NON CURRENT ASSETS

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

	31.12.05	31.12.04
Trade accounts receivable and other debtors	839.152	39.353.115
Taxes recoverable	-	5.175.261
	839.152	44.528.376

The amount recorded under Trade accounts receivable and other debtors as at 31 December 2004 refer to legal deposits made by a Brazilian subsidiary (Note 22) which has been disposed of during 2005.

11. OTHER CURRENT ASSETS

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

	31.12.05	31.12.04
Other debtors	85.310.181	129.966.336
Accounts receivable from suppliers	28.107.111	25.621.107
Special Regime for the Settlement of Debts to the Tax Authorities and Social Security (Decree – Law	14.576.053	14.576.053
VAT-Real Estate Assets	8.572.458	
Sale of fixed assets	324.191	32.648.349
Credit sales to third parties	2.070.958	50.856.015
Others	31.659.410	6.264.812
Advances to suppliers of fixed assets	75.201.741	9.210
Others bond granted (Note 30)	21.018.647	
	181.530.569	129.975.546
Accumulated impairment losses (Note 27)	(6.537.230)	(7.088.228)
	174.993.339	122.887.318

The caption "Others" is essentially composed by receivables related with the sale of the Brazilian subsidiaries amounting to 8,550,000 euro (Note 6) and related party receivables totalling 17,585,870 euro that refer to income with stores opening.

The caption "Advances to suppliers of fixed assets" includes the amount of 75,000,000 euro paid to Sonae, SGPS, S.A. as an advance of a future purchase of commercial brands (Note 30).

The amount described as Special Regime for the Settlement of Debts to the Tax Authorities and Social Security (Decree – Law 248-A) refers to taxes paid subject to appeal, the outcome of which the Board of Directors believes will be favourable to the Company.

12. STATE AND PUBLIC ENTITIES

As of 31 December 2005 and 2004 this caption is detailed as follows:

Assets	31.12.05	31.12.04
Income tax	7.734.512	7.563.016
Value Added Tax	29.048.377	26.168.984
Other taxes	1.010.183	157.426
	37.793.072	33.889.426

Liabilities	31.12.05	31.12.04
Income tax	11.322.140	10.198.013
Value Added Tax	10.702.313	19.715.220
Withheld tax - Payroll	1.403.121	1.233.880
Social security contributions	5.594.173	6.537.261
Other taxes and other taxes witheld	66.520	1.652.383
	29.088.267	39.336.757

13. OTHER CURRENT ASSETS

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

	31.12.05	31.12.04
Discounts receivable from supliers	3.055.670	1.278.438
Interests receivable	252.324	-
Claims	330.085	-
Rents	2.707.938	2.952.979
Condominiums management fee's	1.607.429	1.098.239
Insurance premiums paid in advance	1.038.293	129.920
Re-chargeable costs	918.279	682.196
Others	751.801	111.552
	10.661.819	6.253.324

14. DEFERRED TAX

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

	Deferred tax assets		Deferred tax liabilities	
	31.12.05	31.12.04	31.12.05	31.12.04
Difference between fair value and purchase cost (Note 6)	-	-	1.588.037	-
Harmonization adjustments (amortizations and depreciations)	252.939	1.291.601	29.115.608	33.101.789
Provisions and impariment losses not accepted for tax purposes	2.925.739	3.429.033	-	-
Write off of fixed assets	11.100.684	11.681.306	-	-
Write off of deferred costs	37.385	211.763	-	-
Valuation of derivatives	47.738	3.670.378	16.631	3.593.966
Reinvestment of capital gains	-	-	3.726.929	3.808.597
Ravaluation of tangible fixed assets	-	-	3.040.768	3.119.094
Tax losses carried forward	9.761.891	39.447.542	-	-
	24.126.376	59.731.623	37.487.973	43.623.446

The movements that occurred in deferred tax assets and liabilities in the years ended 31 December 2005 and 2004 can be detailed as follows:

	31.12.05		31.12.04	
	Assets	Liabilities	Assets	Liabilities
Openning balance	59.731.623	43.623.446	61.697.269	44.004.607
Effects on net profit:				
Write off of intangible assets	(1.261.659)	-	(4.864.711)	-
Write off of tangible assets	78.801	-	1.225.133	-
Revaluation of fixed assets	-	(78.281)	-	(167.972)
Harmonization adjustments (amortizations and depreciations)	(1.256.961)	-	1.273.942	1.112.789
Writte off of accrual and deferral	(174.378)	245.436	(369.968)	(26.693)
Provisions and impairment losses not accepted for tax purposes	99.000	-	1.534.239	-
Impairment losses	-	-	-	(1.299.217)
Financial instruments	(2.771.191)	(3.082.220)	(126.372)	(232.343)
Tax losses carried forward	2.150.084	-	(1.070.374)	-
Reinvestment of capital gains	-	(81.669)	-	(75.559)
Others	-	-	(230.668)	(123.770)
	(3.136.304)	(2.996.734)	(2.628.779)	(812.765)
Effect on reserves:				
Valuation of derivates under hedge operations	(851.449)	(495.160)	(1.350.882)	(1.094.121)
Foreign exchange rate effect	10.527.129	1.477.964	448.293	51.378
Effects on tax rate change	-	-	1.359.278	1.598.887
Others	-	-	206.525	(124.540)
	9.675.680	982.804	663.214	431.604
Changes on consolidation perimeter effects (Note 6)				
Purchases	629.619	695	(81)	-
Difference between fair value and purchase cost	-	1.588.037	-	-
Disposals	(42.774.242)	(5.710.275)	-	-
	(42.144.623)	(4.121.543)	(81)	-
Closing balance	24.126.376	37.487.973	59.731.623	43.623.446

Tax returns of the group companies that recorded deferred tax assets arising on tax losses carried forward (considering exchange rates effective at that time) and the expiry date of the referred losses existing as at 31 December 2005 and 2004 are made up as follows:

	31-12-05			31-12-04		
	Tax Losses	Deferred tax assets	Expiry date	Tax Losses	Deferred tax assets	Expiry date
With limited time use						
Originated in 1999				59.926	16.479	2005
Originated in 2000				800.575	220.158	2006
Originated in 2001	3.229.649	888.154	2007	3.003.074	825.846	2007
Originated in 2002	12.876.252	3.540.969	2008	11.783.165	3.240.370	2008
Originated in 2003	9.154.493	2.517.486	2009	8.262.433	2.272.169	2009
Originated in 2004	2.848.318	783.287	2010	1.354.651	372.529	2010
Originated in 2005	7.389.076	2.031.995	2011			
	35.497.788	9.761.891		25.263.824	6.947.551	
Without limited time use						
Originated in 1999				20.073.303	3.498.798	
Originated in 2000				29.235.545	4.219.443	
Originated in 2001				10.260.994	1.215.915	
Originated in 2002				139.437.889	23.565.835	
				199.007.731	32.499.991	
				224.271.555	39.447.542	

The deferred tax assets arising on the adjustments to IFRS were only recorded if it was probable that taxable income would flow to the company in order to recover those deferred tax assets. Deferred tax assets resulting from tax losses carried forward were re-assessed against each company's business plans, which are regularly updated, and available tax planning opportunities. Deferred tax assets have only been recorded to the extent that future profits will arise which may be offset against available tax losses or against deductible temporary differences.

As of 31 December 2005 the Company had carried forward tax losses in the amount of 252,556,905 Euro (191.008.457 Euro at 31 December 2004) for which no deferred tax assets were recognized for prudential reasons.

	31-12-05			31-12-04		
	Tax Losses	Deferred tax assets	Expiry date	Tax Losses	Deferred tax assets	Expiry date
With limited time use						
Originated in 1999				22.799	6.270	2005
Originated in 2000	46.285	12.729	2006	1.939.192	533.278	2006
Originated in 2001	2.079.478	571.856	2007	3.168.410	871.313	2007
Originated in 2002	68.969.158	18.966.518	2008	77.144.025	21.214.607	2008
Originated in 2003	64.524	17.744	2009	786.744	216.355	2009
Originated in 2004	49.655	13.655	2010	36.700	10.092	2010
Originated in 2005	181.347.805	49.870.646	2011			
	252.556.905	69.453.148		83.097.870	22.851.915	
Without limited time use				107.910.587	29.675.411	
	252.556.905	69.453.148		191.008.457	52.527.326	

a) The amounts disclosed as at 31 December 2004, without limited time use were originated by discontinued operation in 2005.

15. INVENTORIES

As of 31 December 2005 and 2004 this caption can be detailed as follows:

	31.12.05	31.12.04
Merchandise	335.902.568	397.854.239
Accumulated impairment losses on inventories (Note 27)	(10.696.473)	(10.336.473)
	325.206.095	387.517.766

The cost of goods sold in the years ended 31 December 2005 and 2004, including the amount related to the discontinued operations, amounted to Euro 3,048,279,835 and Euro 2,801,321,985, respectively, and was determined as follows:

	31.12.05	31.12.04
Opening inventories	397.854.239	390.623.777
Foreign exchanges rate effect	32.630.323	1.460.129
Changes in the perimeter - Purchases	541.845	-
Changes in the perimeter - Disposals (Note 6)	(137.142.840)	-
Purchase	3.098.876.922	2.813.859.791
Inventories adjustments	8.938.086	12.403.946
Closing inventories	335.902.568	397.854.239
	3.047.919.835	2.795.685.512
Impairment losses (Note 27)	360.000	5.636.473
	3.048.279.835	2.801.321.985

The amounts recorded under “Inventory adjustments” for the years ended 31 December 2005 and 2004 correspond mainly to adjustments made in discounts received or to be received from suppliers included in the acquisition cost.

16. CASH AND CASH EQUIVALENTS

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

	31.12.05	31.12.04
Cash at hand	1.964.645	1.943.338
Bank deposits	555.850.840	245.778.386
Treasury applications	6.040.511	12.375.000
Cash and equivalents presented on Balance sheet	563.855.996	260.096.724
Bank overdrafts (Note 19)	(3.082.347)	(4.387.405)
Cash and equivalents presented on Cash flow statements	560.773.649	255.709.319

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

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

17. SHARE CAPITAL

As at 31 December 2005, the share capital, which is fully subscribed and paid for, is made up by 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 hold any own shares.

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

Entity	%
Sonae, S.G.P.S, S.A.	75,64
Banco Santander Totta, S.A.	22,42

Sonae S.G.P.S., S.A. is controlled by Efanor Investimentos S.G.P.S., S.A. and its subsidiaries in 56,7%.

As of 31 December 2005 the company had 90,200,000 Euro (86,000,000 at 31 December 2004) of legal reserves. These reserves cannot be distributed except upon dissolution of the company, but can be used to absorb losses after all the other reserves have been used up, or to increase capital.

18. MINORITY INTERESTS

Movements in minority interests over the years ended 31 December 2005 and 2004 were as follows:

	31.12.05	31.12.04
Opening balance on 1 de January	7.331.008	11.214.733
Aquisition of subsidiaries	27.539	(5.787.394)
Changes in subsidiaries' equity		(57.100)
Profit for the year attributable to minority interests	1.359.187	1.960.769
Closing balance on 31 December	8.717.734	7.331.008

19. LOANS

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

	31.12.05				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	161.011.020	1.400.000	161.011.020	1.400.000	152.980.383	281.585.260	152.980.383	297.175.551
Bonds	-	592.279.778	-	597.000.000	-	177.958.653	-	182.000.000
Other loans	-	326.063	-	326.063	-	134.888.140	-	129.999.755
Bank overdrafts (Note 16)	3.082.347	-	3.082.347	-	4.387.405	-	4.387.405	-
Derivatives(Note 21)	198.293	-	-	-	92.486.786	-	-	-
	164.291.660	594.005.841	164.093.367	598.726.063	249.854.574	594.432.053	157.367.788	609.175.306
Obligations under finance leases (Note 20)	4.119.488	8.197.376	4.119.488	8.197.376	1.748.644	13.094.122	1.748.644	13.094.122
	168.411.148	602.203.217	168.212.855	606.923.439	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:

	31.12.05	31.12.04
2005		159.116.432
2006	168.212.855	431.478.274
2007	4.191.861	3.675.959
2008	1.978.287	1.680.863
2009	101.629.680	101.588.042
2010	266.924.755	1.846.290
After 2010	232.198.856	82.000.000
	775.136.294	781.385.860

Bond loans

As of 31 December 2005 bond loans are made up as follows:

Modelo Continente / 2003	82,000,000
Modelo Continente / 2004	100,000,000
Modelo Continente / 2005/2010	265,000,000
Modelo Continente / 2005/2012	150,000,000

Bonds - MODELO CONTINENTE / 2003
1,640,000 bonds – Nominal Value: 50 euro.
Maximum term: 8 (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.

Bonds - MODELO CONTINENTE / 2004
10,000,000 bonds – Nominal Value: 10 euro.
Maximum term: 5 (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.

Bonds - MODELO CONTINENTE 2005/ 2010
265,000 bonds – Nominal Value: 1,000 euro.
Maximum term: 5 (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 0.70% p.a..
Interest Payment: half yearly in arrears, on 3 February and 3 August of each year.
Redemption: at par, in one payment on 5th year in one payment on 3 August 2010, the maturity date of the loan, except if it an early redemption occurs.
Early redemption (call-option): early redemption is possible by initiative of the issuer, either totally or partially (by reducing the nominal value of the bonds), on the 2nd, 3rd or 4th year of maturity. In this situation the issuer is obliged to pay a prize of 0.125% over de reimbursed value.

Bonds - MODELO CONTINENTE 2005/ 2012
15,000,000 bonds – Nominal Value: 10 euro.
Maximum term: 7 (seven) 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 0.85% p.a..
Interest Payment: half yearly in arrears, on 2 February and 2 August of each year.
Redemption: at par, in one payment on 2 August 2012 the payment date of the 14th coupon, except if it an early redemption occurs.
Early redemption (call-option): early redemption is possible by initiative of the issuer, either totally or partially (by reducing the nominal value of the bonds), on the reimbursed dates of 10th, 11th, 12th and 13th coupon, without the obligation of paying any prize.

<u>Bank loans – non currents</u>

A bank loan of 2,800,000 Euro obtained from a financial institution, repayable until 2007, bearing interest payable half yearly at usual market rates. As of 31 December 2005, 1,400,000 euro are considered as current loans

<u>Other loans – non currents</u>

At 31 December 2005 this caption corresponds to repayable subsidies granted from IAPMEI under the Measure of Support to the Energy Potential and Rationalization (MAPE).These subsidies do not bear interests and had been attributed by a 12 years period, with a grace period of 3 years redemption after attribution. The subsidies will be redempted in half-yearly instalments, occurring the first six months after the grace period.

20. OBLIGATIONS UNDER FINANCE LEASES

As at 31 December 2005 and 2004, this caption is made up as follows:

	31.12.05	31.12.04
Assets acquired under finance leases		
Land and buildings	13.414.106	13.747.647
Office equipment	4.662.255	7.264.921
	18.076.361	21.012.568

Leasing creditors	Minimum lease payments	Present value of minimum lease payments	
Leasing payable amounts	31.12.05	31.12.05	31.12.04
2005			1.748.644
2006	4.408.134	4.119.488	6.138.897
2007	2.968.942	2.773.340	1.950.627
2008	2.073.632	1.942.058	1.566.493
2009	1.675.571	1.593.451	1.589.644
2010	1.920.862	1.888.527	1.848.461
	13.047.141	12.316.864	14.842.766
Future finance chareges	(730.277)		
	12.316.864		
Amount due for settlement within 12 months (current liabilities)		4.119.488	1.748.644
Amount due for settlement after 12 months (non-current liabilities)		8.197.376	13.094.122

Lease agreements bear interests at usual market rates, have defined life time lessee and the lessee has call options over the leased assets.

As of 31 December 2005, the fair value of financial obligations under financial lease contracts is similar to its book value.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

21. DERIVATIVES

Currency derivatives

The Group uses currency derivatives, essentially, to hedge future exchange rate fluctuations.

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

	31.12.05	31.12.04
Assets	60.475	307.485
Liabilities	-	(573)
	60.475	306.912

Gains and losses for the year arising from changes in the fair value of instruments that did not qualify for hedging accounting treatment, amounting to 61,048 Euro, were recorded directly in the income statement under financial result.

Additionally, in 31 December 2004 the group held currency call options in order to hedge the fair value of bought embedded currency call options for which the 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 5,494,113 Euro at 31 December 2004 having both asset and liabilities been recorded. These derivatives were sold during the 2005 because the hedged loan was early redempted.

Interest rate derivatives

As at 31 December 2005, the derivatives used by the Group essentially refer to "swaps" ("cash flow hedges"). These were negotiated to hedge the interest rate risk inherent to bank loans by the group. During 2005, the bank loans underlying the derivatives were reimbursed before the maturity date. Therefore and in accordance with the accounting standards adopted, these derivatives can no longer be classified as hedging instruments, although they contribute to reduce the net exposure of the Group to changes in interest rates:

The estimated fair value is as follows:

	31.12.05	31.12.04
Liabilities	(198.293)	(1.204.549)
	(198.293)	(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.

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

Additionally, as at 31 December 2004, the Group had negotiated interest rate derivatives (interest rate swaps) aiming to hedge the fair value of specific fixed interest rate loans which were early redempted in 2005 having the group sold the mentioned derivatives. The fair value of these derivatives amounted to 8,823,290 euro.

Interest rate and foreign Exchange rate derivatives

As at 31 December 2004 the Group held derivatives aimed to hedge interest rate and foreign exchange rate risk. These are directed, mainly, to eliminate the volatility resulting from foreign Exchange rate changes inherent to the hedged assets or liabilities and the outcoming interest. With the early redemption of the hedged assets and underlying liabilities, the Group proceeded to the disposals of the hedging instruments.

The fair value of these instruments can be detailed as follows:

	31.12.05	31.12.04
Assets	-	72.700.757
Liabilities	-	(85.787.551)
	-	(13.086.794)

Fair value of derivatives

The fair value of the derivatives is detailed as follows:

	Assets (Note 9)		Liabilities (Nota 19)	
	31.12.05	31.12.04	31.12.05	31.12.04
Exchange rate derivatives	60.475	-	198.293	573
Hedging derivatives		87.325.645	-	92.486.213
	60.475	87.325.645	198.293	92.486.786

22. OTHER NON CURRENT LIABILITIES

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

	31.12.05	31.12.04
Participating companies (Note 30)	14.398.994	14.325.652
Other non current trade accounts payable	1.233.523	28.358.606
Share-based payments (Note 23)	2.086.929	1.654.230
	17.719.446	44.338.488

As at 31 December 2004, the caption Other non current liabilities refer mainly to the estimated amounts to fulfil the judicial obligations of a Brazilian subsidiary which were considered sufficient to face future losses on lawsuits and for which legal deposits exist, which are recorded under the captions Trade accounts receivable and Other non current assets (Note 10). This subsidiary has been disposed in 2005.

The amount payable to participating companies refers to a shareholders' loan granted by a minority shareholder to a subsidiary that bears interest at usual market rate. The fair value of this loan is similar to its book value.

23. SHARE BASED PAYMENT PLANS

In 2005 and in previous years, Modelo Continente Group granted deferred performance bonuses to its directors and eligible employees. These are based on shares to be acquired at nil cost, three years after they were attributed to the employee. The purchase 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 its responsibilities in cash rather than through shares. The option can only be exercised if the employee still works for the Group at the vesting date.

Liabilities arising from deferred performance bonuses are valued in accordance with that referred to in note 2.12. As at 31 December 2005 and 2004 the market value of the Groups obligations is made up as follows:

	Year of grant	Vesting year	Number of participants	Fair value 31.12.05	Fair value 31.12.04
Shares					
	2002	2005	40		950.383
	2003	2006	40	5.050.842	1.817.349
	2004	2007	49	2.215.319	1.327.994
	2005	2008	41	1.830.150	
Total				9.096.311	4.095.726

The amount recorded as at 31 de Dezembro de 2005 and 2004 related to the responsabilities incurred from the date in which each plan was granted to the period then ended can be presented as follows:

	31.12.05	31.12.04
Recorded as Other non current liabilities (Nota 22)	2.086.929	1.654.230
Recorded as Other current liabilities (Nota 25)	5.050.842	950.383
Recorded in Retained Earnings	(1.654.230)	(1.239.372)
Recorded in Staff costs	5.483.541	1.365.241

The share based payment plans costs are recognized during the year between the grant and vesting date are recognized as payroll costs. Payments related with share based payments made during 2005 amounted to 1,485,596 euro (715,598 euro in 2004).

24. TRADE ACCOUNTS PAYABLE

As of 31 December 2005 and 2004 this caption can be detailed as follows:

	31.12.05	31.12.04
Suppliers - current account	462.356.092	594.780.789
Suppliers - invoices waiting approval	136.128.613	133.125.876
	598.484.705	727.906.665

At 31 December 2005 and 2004 the caption Trade accounts payable resulted form usual Group business. The Board of Directors understands the book value of these accounts payable is similar to its fair value.

25. OTHER ACCOUNTS PAYABLES

As of 31December 2005 and 2004 Other current liabilities is made up as follows:

		31.12.05	31.12.04
	Partipated and participating companies	340.395	766.498
	Suppliers of fixed assets	46.071.845	25.268.603
	Amounts payable to related parties	8.396.819	
a)	Others accounts payable	30.020.947	44.774.853
	Share-based payments (Nota 23)	5.050.842	950.383
		89.880.848	71.760.337

a) In the caption Other accounts payable it's included the put option sold to the shareholders of one Brazilian subsidiary amounting to 74,139,801 BRL, approximately 27 millions euro. After the exercise of this put option the Group will resell these shares by 8,550,000 euro, as defined in the sale agreements of that subsidiary (Note 6).

26. OTHER CURRENT LIABILITIES

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

	31.12.05	31.12.04
Personnel costs	45.838.755	46.672.390
Share-based payments (Note 23)	5.050.842	950.383
Accrued interests	6.577.431	4.189.348
Advertising and promotion	4.628.911	5.025.097
Other external supplies and services	3.258.734	5.793.309
Taxes and contributions payable	3.906.273	5.112.384
Other liabilities	806.434	9.938.155
	70.067.380	77.681.066

The caption "Personnel costs" refers mainly to payroll amounts to be paid during 2006 as holiday and holiday pay.

27. PROVISIONS AND ACCUMULATED IMPAIRMENT LOSSES

Movements in provisions and impairment losses for the year ended 31 December 2005 is as follows:

Rubricas	Openning balance	Increases a)	Change in consolidation perimeter c)	Decreases	Closing balance
Accumulated impairment losses on investments (Note 9)	470.413	-		-	470.413
Accumulated impairment losses - Trade account receivable - current	12.497.254	1.095.707	(2.152.857)	(1.167.543) d)	10.272.561
Accumulated impairment losses - Other accounts receivable (Note 11)	7.088.228	441.339		(992.337)	6.537.230
Accumulated impairment losses - inventory (Note 15)	10.336.473	360.000			10.696.473
Non current provisions	17.251.593	37.179.053	(23.357.243)	(3.297.474) b)	27.775.929
Current provisions	643.195	3.491.080	(1.311.802)	(2.822.473)	-
	48.287.156	42.567.179	(26.821.902)	(8.279.827)	55.752.606

a) Increases include 5,290,410 Euro regarding the foreign exchange rate effect of the Opening balances, having these been recorded under Translation reserves, as well as 27,000,000 Euro related to the sale of Brazilian subsidiaries (Note 6) that was recognized in the caption Profit/(loss) related to investments. Additionally, the amount of 360,000 euro of inventories impairment losses recognized during the year was recorded under the caption Cost of Sales.

b) A provision for accumulated losses of an associated company amounting to (3,297,474) Euro was reversed during the year. Additionally, the company recognized as Other operating income the amount of (643,194) Euro regarding the reversal of current provisions.

c) The amounts recorded in the column Change in Consolidation Perimeter refer to the Brazilian subsidiaries disposals.

d) Trade accounts receivables decreases include a reversal of 1,074,930 euro recorded in Operation income.

Impairment losses are deducted from the corresponding asset carrying amount.

28. CONTINGENT ASSETS AND LIABILITIES

	31.12.05		31.12.04
Guarantees rendered:			
related to tax claims awaiting outcome	54.009.154	a)	36.080.134
related to local and municipal claims awaiting outcome	8.439.969		7.782.492
Others	4.538.251		4.638.101

a) Includes guarantees amounting to 27,257,082 Euro and 25,543,999 Euro related to appeals against additional corporate income tax and VAT assessments, respectively.

No provision has been recorded for the liabilities that could arise from these processes, as the Board of Directors believes that they will be resolved without loss to the Company.

29. FINANCIAL COMMITMENTS NOT INCLUDED IN THE BALANCE SHEET

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

30. RELATED PARTIES

Balances and transactions with related parties are detailed as follows:

Transactions	Sales and services rendered		Purchase and services attained		Interest income		Interest expense	
	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04
Parent company	265.836	351.731	600.522	553.687	636.486	525.883	15.749	106.029
Associated companies	1.587.795	694.605	2.449.367	2.095.313	47.413			
Participated companies	46.462.392	43.328.157						
Participating companies							386.267	331.340
Other related parties	14.622.828	39.360.087	97.712.882	94.809.927	303.137		121.233	1.129
	62.938.851	83.734.580	100.762.771	97.458.927	987.036	525.883	523.249	438.498

Transactions of fixed assets	Purchase of assets		Disposal of assets	
	31.12.05	31.12.04	31.12.05	31.12.04
Other related parties	74.146.665	41.994.151	36.099	8.829.306
	74.146.665	41.994.151	36.099	8.829.306

Balances	Accounts receivable		Accounts payables		Loans: Payables		Loans: Receivable	
	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04
Parent company	75.000.000		260.400	210.018			13.861.000	
Associated companies	166.988	608.077	241.837	90.003			7.107.000	
Participated companies	12.498.470	6.969.998	83.436					
Participating companies			45.955		14.325.652	14.325.652		
Other related parties	20.258.645	36.762.645	40.054.083	22.844.299	73.338			
	107.924.103	44.340.720	40.685.711	23.144.320	14.398.990	14.325.652	20.968.000	-

The amounts recorded under Loans payable to participating companies refer to loans granted by shareholders of subsidiaries which bear interests at market rates.

The accounts receivable from Parent company, in the amount of 75 million euro refers to an advance payment made to Sonae, SGPS, S.A. in relation with the future acquision of a set of commercial brands.

"Other related parties" includes transactions with Sonae's Group companies.

31. REMUNERATION AND OTHER COMPENSATION ATTRIBUTED TO THE MEMBERS OF THE BOARD OF DIRECTORS

The Fixed Remuneration and Performance Bonus attributed to the members of the Board of Directors, by the companies included in the consolidation, calculated on an accruals basis, amounted to 3,086,159 euro from which 1,801,493 euro relates to performance bonus.

32. SALE AND SERVICES RENDERED

Sales and Services rendered in 2005 and 2004 years were as follows:

	31.12.05	31.12.04
Sales		
Continued operations	2.726.117.684	2.600.451.837
Discontinued operations	1.135.533.327	977.151.427
	3.861.651.011	3.577.603.264
Services rendered		
Continued operations	19.272.399	20.401.881
Discontinued operations	3.701.147	2.163.782
	22.973.546	22.565.663

33. OTHER OPERATING INCOME

At 31 December 2005 and 2004 the caption “Other operating income” was made up as follows:

	31.12.05			31.12.04		
	Continued Operations	Discontinued Operations	Total	Continued Operations	Discontinued Operations	Total
a) Supplementary revenues	253.516.679	31.821.479	285.338.158	202.570.766	29.619.713	232.190.479
Benefits from contractual penalities	8.464	-	8.464	67.692	-	67.692
Subventions received	-	-		12.279	-	12.279
b) Gains on disposals of tangible assets	210.497	39.462.240	39.672.737	5.346.673	-	5.346.673
Reversal of Impairment losses	2.141.113	2.179.278	4.320.391	-	-	-
c) Other income	13.337.537	-	13.337.537	6.859.233	24.715.184	31.574.417
	269.214.290	73.462.997	342.677.287	214.856.643	54.334.897	269.191.540

a) The caption Supplementary revenues refers basically to co partnership on promotions carried out in Modelo Continente stores.

b) As of 31 December 2005, gains on disposals of tangibles assets recorded as Discontinued Operations refers to the disposal in the first half of 10 commercial establishments in S. Paulo (Brazil).

c) At 31 December 2004, Other income of Discontinued operations relates to the recover of, approximately, 23 million euro of Value-Added Tax - ICMS

34. OTHER OPERATING COSTS

At 31 December 2005 and 2004 the caption “Other operating costs” was made up as follows:

	31.12.05			31.12.04		
	Continued	Operations Discontinued	Total	Continued	Operations Discontinued	Total
Costs of Automatic payment terminals	18.352.429	9.799.072	28.151.501	17.427.870	7.914.709	25.342.579
Local government tax over Real Estate properties	1.723.252	2.580.612	4.303.864	2.198.601	2.574.297	4.772.898
Other tax	1.569.010	6.452.213	8.021.223	3.268.072	5.351.763	8.619.835
Losses on the Disposal of tangible assets	3.067.912	6.349.117	9.417.029	3.961.453	1.714.815	5.676.268
Losses on the Disposal of intangible assets	-	-	-	1.327.905	-	1.327.905
Donations	5.003.420	-	5.003.420	4.491.517	-	4.491.517
Fines and penalities	197.117	303	197.420	264.869	-	264.869
Uncollectible debts	3.584.351	-	3.584.351	911.128	-	911.128
Other costs	6.609.009	1.825.908	8.434.917	7.420.424	5.698.516	13.118.940
	40.106.500	27.007.225	67.113.725	41.271.839	23.254.100	64.525.939

35. FINANCIAL PROFIT/(LOSS)

Net financial profit / (loss) for the years ended 31 December 2005 and 2004 are made up as follows:

	31.12.05			31.12.04		
	Operations			Operations		
	Continued	Discontinued	Total	Continued	Discontinued	Total
Losses						
Interest						
Bank overdrafts and loans	(8.577.746)	(14.678.898)	(23.256.644)	(16.311.742)	(15.782.356)	(32.094.098)
Bonds	(10.897.693)		(10.897.693)	(5.191.994)		(5.191.994)
Lease Agreements	(347.744)		(347.744)	(390.406)		(390.406)
Others	(1.550.676)	(107.238)	(1.657.914)	(5.918.093)		(5.918.093)
	(21.373.859)	(14.786.136)	(36.159.995)	(27.812.235)	(15.782.356)	(43.594.591)
Exchange rate losses	(1.280.450)	(230.415)	(1.510.865)	(466.057)	(1.287.372)	(1.753.429)
Losses in the valuation of derivatives	(7.820.937)		(7.820.937)	(2.154.710)		(2.154.710)
a) Other financial losses	(11.617.651)	(14.605.688)	(26.223.339)	(11.525.368)	(13.315.651)	(24.841.019)
	(42.092.897)	(29.622.239)	(71.715.136)	(41.958.370)	(30.385.379)	(72.343.749)
Net financial profit/(loss)	(27.568.281)	(18.424.666)	(45.992.947)	(28.629.906)	(25.634.925)	(54.264.831)
Income						
Interests earned	6.742.205	1.008.315	7.750.520	5.294.202	81.724	5.375.926
Exchange rate income	2.184.461	244.534	2.428.995	163.369	171.769	335.138
Financial discounts received	96.192	4.352.351	4.448.543	115.762	1.607.555	1.723.317
Profits in the valuation of derivatives	2.906.092		2.906.092	6.906.537		6.906.537
Other financial income	2.595.666	5.592.373	8.188.039	848.594	2.889.406	3.738.000
	14.524.616	11.197.573	25.722.189	13.328.464	4.750.454	18.078.918

a) The amounts under the caption "Other financial losses" include mainly expenses with credit sales and taxes relating to financial flows in Brazil.

36. INCOME TAX

Income tax for period ended 31 December 2005 and 2004 is made up as follows:

	31.12.05	31.12.04
Current Tax	16.959.122	14.475.345
Deferred Tax	139.570	1.816.014
	17.098.692	16.291.359

Total income tax charge for the year can be reconciled to the accounting profit as follows:

	31.12.05	31.12.04
Profit/(loss) before income tax	232.580.449	137.340.627
Income tax rate	27,50%	27,50%
	(63.959.623)	(37.768.672)
Use of tax losses not recognized in the past	1.362.665	27.217.189
No recognition of deferred tax assets arising on:		
Tax losses	(58.919.819)	(15.881.052)
Provisions and impairment l.osses	(7.413.721)	(57.335)
Shortage / (Excess) of previous year income tax estimate	(684.674)	375.394
Income tax rate difference in other jurisdictions	3.928.177	2.105.043
Municipality surcharge rate diferences	50.108	218.384
Other adjustments to the taxable income	108.538.195	7.499.690
Income tax	(17.098.692)	(16.291.359)

37. EARNINGS PER SHARE

Earnings per share for the year were calculated taking into consideration the following amounts:

	31.12.05			31.12.04		
	Operations			Operations		
	Continued	Discontinued	Total	Continued	Discontinued	Total
Net profit						
Net profit taken into consideration to calculate diluted earnings per share (Net profit for the period)	121.789.214	92.333.356	214.122.570	120.377.336	(1.288.837)	119.088.499
Net profit taken into consideration to calculate diluted earnings per share	121.789.214	92.333.356	214.122.570	120.377.336	(1.288.837)	119.088.499
Number of shares						
Weighted average number of shares used to calculated basic Earnings per share	1.100.000.000		1.100.000.000	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	1.100.000.000		1.100.000.000
Earning per share (basic and diluted)	0,11		0,19	0,11		0,11

38. DIVIDENDS

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

39. SEGMENT INFORMATION

Geographical segments that have been identified in 2005 and 2004 period were:

- Portugal
- Brazil

The contribution of the principal segments to the Consolidated Income Statement for the year ended 31 December 2005 and 2004 can be detailed as follows:

euros

	Portugal		Brazil		Consolidated	
	31-12-2005	31-12-2004	31-12-2005	31-12-2004	31-12-2005	31-12-2004
Operating income						
Sales	2.726.117.684	2.600.451.837	1.135.533.327	977.151.427	3.861.651.011	3.577.603.264
Operating Cash-flow (EBITDA) **a)**	234.506.706	232.758.507	54.790.642	46.298.794	289.297.348	279.057.301
Operating profit (EBIT)	165.598.737	167.415.972	23.359.515	24.643.994	188.958.252	192.059.966
FTE's	19.438	17.810	19.640	20.471	39.078	38.281
Number of stores	335	282	-	170	335	452
Sales ares ('000 m^2)	495	433	-	437	495	870

a) Operating profit plus amortizations, depreciations, provisions and impairmaent losses

The contribution of the segment Brazil as of 31 December 2005 refers mainly to discontinued operations.

The contribution of each segment for the Consolidated Balance Sheet as at 31 December 2005 and 2004 can be presented as follows:

euro

	Portugal		Brazil		Discontinued operations	Consolidated	
	31-12-2005	31-12-2004	31-12-2005	31-12-2004	31-12-2004	31-12-2005	31-12-2004
Fixed assets	1.270.447.432	1.008.513.729	59.483.692	42.521.926	457.513.302	1.329.931.124	1.508.548.957
Inventories	325.206.095	285.395.226			102.122.540	325.206.095	387.517.766
Other assets	817.205.420	450.420.508	24.112.418	4.115.672	180.490.604	841.317.838	635.026.784
Total	2.412.858.947	1.744.329.463	83.596.110	46.637.598	740.126.446	2.496.455.057	2.531.093.507
Accounts payable	1.445.810.610	1.425.945.727	30.552.239	980.327	281.679.888	1.476.362.849	1.708.605.942
Other liabilities	137.418.211	140.994.992	27.337.853	872.641	31.197.364	164.756.064	173.064.997
Total	1.583.228.821	1.566.940.719	57.890.092	1.852.968	312.877.252	1.641.118.913	1.881.670.939
Fixed assets investments	351.888.632	87.502.601	46.028.523	207.584	42.374.550	397.917.155	130.084.735
Financial fixed assets on Subsidiary	8.080.761	40.536.824				8.080.761	40.536.824
Provisions for financial investments-Equity method a)	(3.297.474)	505.535				(3.297.474)	505.535

a) During 2005, a provision for accumulated losses on an associated company on the amount of (3,297,474) euro has been reversed.

40. SUBSEQUENT EVENTS

The Board of Directors will propose in the Shareholders General Meeting the payment of a gross dividend of 0.05 euro per share on a total amount of 55 million euro.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved by the Board of Directors and authorized for issue on 27 February 2006, but they are subject to final approval of the Shareholders General Meeting as defined in Portuguese Commercial Law.

42. 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		
	LOCAL GAAP	Transition to IFRS	IFRS	LOCAL GAAP	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 asset	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 asset	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 shareholders of Modelo Continente, SGPS			-	114.415.880	4.672.619	119.088.499
Total equity attributable to the shareholders of Modelo Continente, SGPS	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 accounts payable 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 adjustments to IFRS	
	01.01.04	31.12.04
Adjustments to the financial statements in Local 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 liabilities	(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 inherent to the conversion to IFRS is essentially related to the treatment of the following captions:

Goodwill

IFRS indicates 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 foreign exchange rate in effect at the corresponding balance sheet date. Foreign exchange rate differences arising from this translation are recorded in equity. This accounting treatment differs from that which 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 Local GAAP.

Goodwill arising from purchases of companies prior to the date of transition to IFRS (1 January 2004) was kept by the same amounts presented according to LOCAL GAAP expressed in the currency of the corresponding subsidiary company. The differences originated from this conversion process are presented in the financial information under the caption “Retained Earnings”, in accordance with IFRS 1.

By adopting IFRS, the company, thus, increased its assets by 265.293.994 Euro. Of this amount, around 216 million Euro 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 revaluated 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 carrying amounts and the taxable amounts. In 2004, this adjustment amounted to 13.422.237 Euro, and essentially results from 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.

Trade accounts payable and Other liabilities

With the adoption of IFRS, Modelo Continente recorded the written put option to third parties over shares held upon a Brazilian subsidiary. This procedure, which is followed under IFRS, results in a difference, when compared to Local GAAP, amounting to 38.479.738 Euro in the consolidated financial information (41.499.267 Euro on 1 January 2004). This is the amount which, as at 31 December 2004, is estimated to be 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 Local GAAP).

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

The adjustment in the captions concerning accruals and deferrals totals, approximately, 11.608.031 Euro, and is related, mainly, to the write off of interest costs, resulting from stating derivatives at fair value and the recognition of up front fees, which are netted from the loan due at its initial recording.

Similarly, net financial debt decreased 9.504.431 Euro. This is explained by the same facts referred to above for accruals and deferrals - the recognition of up front fees of loans contracted by Modelo Continente and valuation at fair value of derivatives – qualified as hedging instruments – embedded in these loans.

Additionally, the effect of the conversion to IFRS upon the income statement as at 31 December 2004 can be detailed as follows:

	31.12.04		
	LOCAL GAAP	Transition to IFRS	IFRS
Operating income			
Sales	3.577.610.129	(6.865)	3.577.603.264
Services rendered	22.565.663		22.565.663
Other operating income	218.652.446	50.539.094	269.191.540
Total operating income	3.818.828.238	50.532.229	3.869.360.467
Operating expenses			-
Cost of sales	(2.800.220.829)	(1.101.156)	(2.801.321.985)
External supplies and services	(364.143.699)	(5.808.488)	(369.952.187)
Personnel expenses	(354.863.711)	308.250	(354.555.461)
Depreciation of tangible and intangible assets	(96.134.174)	11.092.204	(85.041.970)
Provisions and impairment	(8.601.039)	6.698.080	(1.902.959)
Other operating expenses	(15.920.812)	(48.605.127)	(64.525.939)
Total operating expenses	(3.639.884.264)	(37.416.237)	(3.677.300.501)
Net operating profit/(loss)	178.943.974	13.115.992	192.059.966
Financial profit/(loss)	(51.334.951)	(2.929.880)	(54.264.831)
Profit/(loss) related to associated companies	(1.469.126)	909.477	(559.649)
Profit/(loss) related to investments	6.617.001	(6.511.860)	105.141
Profit/(loss) before income tax	132.756.898	4.583.729	137.340.627
Income tax	(16.747.685)	456.326	(16.291.359)
Profit/(loss) after income tax	116.009.213	5.040.055	121.049.268
Consolidated profit/(loss) for the year	116.009.213	5.040.055	121.049.268

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

	31.12.04
Write-off of tangible and intangible assets net of amortizations and depreciations	5.384.359
Deferred taxes resulting from conversion adjustments to IFRS	982.128
Write-off of deferred costs	909.028
Use of equity method for associated companies	909.477
Derivatives and marketable securities	(2.693.834)
Others	(451.103)
Total adjustments from conversion to IFRS	5.040.055

The conversion to IFRS resulted, mainly, in the following impacts upon the Net profit:

Amortisation and Depreciation

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

Financial Gain and Losses

Decrease in net financial profit amounting to 2,929,880 Euro inherent to income from titled funds held (4,724,424 Euro). Under IFRS, these units are stated at fair value and the opening balance sheet already includes related income, while under Local GAAP, this income was only recorded in the first quarter of 2004, coinciding with the moment in which those units were sold.

Besides the abovementioned adjustments, it is important to note the following changes, which, despite not having any impact upon the net profit, correspond to reclassifications within the captions which make up the income statement:

Extraordinary Gains and Losses

According to local GAAP, 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 the operating cash flow (EBITDA). Under IFRS, this classification does not exist. As a result, the amounts involved were reclassified within the income statement according to their specific nature, essentially affecting net operating profit.

Provisions for stocks

Under Local GAAP, reductions in the value of stocks are presented under the caption “Provisions” while under IFRS they are presented as “Cost of Sales”, thus explaining the decrease in provisions. As detailed in the notes to the 2004 consolidated financial statements prepared according to Local GAAP, 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 Local GAAP.

Regarding the statement of cash-flows, 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.

43. NOTE ADDED TO TRANSLATION

These consolidated financial statements are a translation of financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards. In the event of discrepancies, the Portuguese language version prevails.

Matosinhos, 27 February 2006

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

INDIVIDUAL FINANCIAL STATEMENTS

IAS/IFRS

31 DECEMBER 2005

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

BALANCE SHEET AS AT 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euro)

(Translation of financial statements originally issued in Portuguese - Note 31

		IFRS		POC
ASSETS	Notes	31-12-05	31-12-04	31-12-04
NON CURRENT ASSETS				
Intangible assets	5	700.988	981.308	711.196
Tangible assets	5	10.851	9.231	5.539
Investments	4	1.321.128.781	1.339.448.230	2.195.471.837
Deferred tax assets	6	75.490	516.471	-
Loans to Group Companies	7	312.434.192	855.553.195	-
Total non current assets		1.634.350.302	2.196.508.435	2.196.188.572
CURRENT ASSETS				
Trade accounts receivable	8	20.047.466	24.234.176	431.749
Group companies	10	795.283.310	800.763.459	824.565.886
Other accounts receivable	11	2.679.180	3.553.209	3.555.250
State and public entities	9	6.837.566	4.555.517	4.555.517
Other current assets	12	78.080.147	1.267.655	8.850.382
Derivatives	18	-	8.823.291	-
Cash and cash equivalents	13	450.008.364	45.271.844	45.271.844
Total current assets		1.352.936.033	888.469.151	887.230.628
TOTAL ASSETS		2.987.286.335	3.084.977.586	3.083.419.200

EQUITY AND LIABILITIES	Notes	31-12-05	31-12-04	31-12-04
EQUITY				
Share Capital	14	1.100.000.000	1.100.000.000	1.100.000.000
Legal reserves		90.200.000	86.000.000	86.000.000
Other reserves		1.192.586.414	1.288.436.859	1.282.309.325
Retained earnings		(4.364.161)	(176.018.548)	(176.018.549)
Net profit / (loss) for the year		(227.707.550)	80.003.942	83.437.126
TOTAL EQUITY		2.150.714.703	2.378.422.253	2.375.727.902
TOTAL EQUITY		2.150.714.703	2.378.422.253	2.375.727.902
LIABILITIES				
NON CURRENT LIABILITIES				
Bank loans	15	1.400.000	2.800.000	2.800.000
Bonds	15	592.279.778	177.958.653	182.000.000
Deferred tax liabilities	6	157.879	1.712.480	-
Total non-current liabilities		593.837.657	182.471.133	184.800.000
CURRENT LIABILITIES				
Short term portion of non-current bank loans	15	161.011.020	1.188.353	-
Bank loans	15	293.292	30.490	1.230.489
Derivatives	18	198.293	1.204.549	-
Suppliers		12.872	18.825	18.825
Group companies	10	65.837.200	511.360.350	511.360.350
Other account payable	16	37.701	12.980	12.980
State and public entities	9	4.928.417	5.847.240	5.847.240
Other current liabilities	17	10.415.180	4.421.413	4.421.414
Total current liabilities		242.733.975	524.084.200	522.891.298
TOTAL LIABILITIES		836.571.632	706.555.333	707.691.298
TOTAL EQUITY AND LIABILITIES		2.987.286.335	3.084.977.586	3.083.419.200

The accompanying notes are part of these financial statements

The Board of Directors

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

INCOME STATEMENTS BY NATURE

FOR THE YEARS AND QUARTERS ENDED 31 DECEMBER 2005 AND 2004

(Translation of financial statements originally issued in Portuguese - Note 31)

(Amounts expressed in Euro)

		IFRS		IFRS		Local GAAP
			31-12-05		31-12-04	31-12-2004
	Notes	4th Quarter 05 (1)	Cumulative	4th Quarter 04 (1)	Cumulative	Cumulative
Operating Income						
Services rendered	21	4.904.277	17.229.805	8.828.519	20.603.424	20.603.424
Other operating income	22	744.745	3.850.530	5.790.217	5.867.560	5.792.866
Total operating income		5.649.022	21.080.335	14.618.736	26.470.984	26.396.290
Operating expenses						
External supplies and services		(291.212)	(1.175.075)	660.442	(1.162.425)	(1.162.425)
Staff costs		(1.896.462)	(4.496.066)	(872.185)	(3.381.227)	(3.381.226)
Amortization and depreciation	5	(70.528)	(282.005)	(70.446)	(281.757)	(628.070)
Other operating expenses	23	(679.857)	(3.933.325)	412.084	(1.159.141)	(914.776)
Total operating expenses		(2.938.059)	(9.886.471)	129.895	(5.984.550)	(6.086.497)
Net Operating profit /(loss)		2.710.963	11.193.864	14.748.631	20.486.434	20.309.793
Net financial profit/(loss)	24	4.731.475	27.231.812	8.633.709	28.046.184	32.888.051
Investment income / (loss)	25	(298.551.911)	(282.531.246)	-	20.665.733	20.665.733
Extraordinary income/ (loss)						(566.174)
Profit / (loss) before taxes		(291.109.473)	(244.105.570)	23.382.340	69.198.351	73.297.403
Income tax	26	21.098.920	16.398.020	10.415.949	10.805.591	10.139.723
Net profit /(loss) for the year	27	(270.010.553)	(227.707.550)	33.798.289	80.003.942	83.437.126
Profit /(Loss) per share	27	(0,25)	(0,21)	0,03	0,07	0,08

1) Prepared in accordance with International Financial Reporting Standards (IFRS) but not subject to audit,

The accompanying notes are part of these financial statements

The Board of Directors

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euro)

(Translation of financial statements originally issued in Portuguese - Note 31)

	Notes	Share capital	Legal Reserves	Other Reserves	Retained earnings	Net profit/loss	Total Equity
Balance at 1 January 2004 (a)	29	1.100.000.000	86.000.000	1.288.797.305	(176.018.548)	-	2.298.778.757
Changes in reserves							
Others		-	-	(360.446)	-	-	(360.446)
Net profit/(loss) for the year							
ended 31 December 2004		-	-	-	-	80.003.942	80.003.942
Others		-	-		-	-	-
Balance at 31 December 2004	29	1.100.000.000	86.000.000	1.288.436.859	(176.018.548)	80.003.942	2.378.422.253
Balance at 1 January 2004	29	1.100.000.000	86.000.000	1.288.436.859	(176.018.548)	80.003.942	2.378.422.253
Appropriation of net profit of 2004							
Appropriation of net profit/(loss) of 2004		-	4.200.000	(95.850.445)	171.654.387	(80.003.942)	-
Net profit/(loss) for the year							
ended 31 December 2004		-	-	-	-	(227.707.550)	(227.707.550)
Balance at 31 December 2005		1.100.000.000	90.200.000	1.192.586.414	(4.364.161)	(227.707.550)	2.150.714.703

The accompanying notes are part of these financial statements

(a) As the transitions to IFRS have occurred at 1 January 2004, the 2003 net profit /(loss) is represented in the caption Other reserves and retained earnings

The Board of Directors

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euro)

(Translation of financial statements originally issued in Portuguese - Note 31)

	Notes	31-12-05	31-12-04
OPERATING ACTIVITIES			
Cash receipts form trade debtors		21.416.516	17.134.311
Cash payments to trade suppliers		1.080.290	739.610
Cash paid to employees		2.472.994	1.957.913
Net cash flow generated by operations		17.863.232	14.436.788
Income taxes paid/(received)		(8.790.139)	(12.401.549)
Other cash receipts/payments from operating activities		321.253	(416.382)
Net cash flow from operating activities (1)		26.974.624	26.421.955
INVESTING ACTIVITIES			
Cash receipt related to:			
Investments		624.849.075	2.992.788
Interests and similar income		55.994.777	56.515.542
Dividends		16.021.796	20.665.733
Loans granted		2.734.783.617	2.123.499.539
		3.431.649.265	2.203.673.602
Cash payments related to:			
Investments		(297.288.413)	(1.103.000)
Tangible assets		(5.346)	-
Intangible assets		(75.000.000)	(1.602)
Loans granted		(2.633.388.714)	(2.488.989.645)
		(3.005.682.473)	(2.490.094.247)
Net cash used in investing activities (2)		425.966.792	(286.420.645)
FINANCING ACTIVITIES			
Cash receipts related to:			
Loans obtained		1.244.531.300	1.425.682.900
		1.244.531.300	1.425.682.900
Cash Payments related to:			
Loans obtained		(1.274.792.300)	(1.348.842.125)
Interest and similar charges		(18.206.624)	(24.953.252)
Dividends		(74)	(67)
		(1.292.998.998)	(1.373.795.444)
Net cash used in financing activities (3)		(48.467.698)	51.887.456
Net increase in cash and cash equivalents (4) = (1) + (2) + (3)		404.473.718	(208.111.234)
Cash and cash equivalents at the beginning of the period	13	45.241.354	253.352.588
Cash and cash equivalents at the end of the period	13	449.715.072	45.241.354

The accompanying notes are part of these financial statements

The Board of directors

MODELO CONTINENTE, SGPS, S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 December 2005

(Amounts expressed in Euro)

(Translation of notes originally issued in Portuguese – Note 31)

1. INTRODUCTION

MODELO CONTINENTE, SGPS, S.A. ("the Company" or "Modelo Continente") is a Portuguese corporation with shares listed on the Euronext Lisbon, whose head office is in Rua João Mendonça nº 529, 4464-501 Senhora da Hora, Portugal.

Its principal activity is the management of equity investments (Note 4).

2. PRINCIPAL ACCOUNTING POLICIES

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

2.1. Basis of preparation

The accompanying 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, as adopted by the European Union.

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 29. 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 financial statements have been prepared from the books and accounting records on a going concern assumption and under the historical cost convention, except for some financial instruments which are stated at fair value (Note 2.5).

2.2. Tangible Assets

Tangible assets acquired until 1 January 2004 (transition date to IFRS) are recorded at acquisition cost, or revaluated 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 available for use, 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

2.3. 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 Company, are controlled by the Company and if their cost can be reliably measured.

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

2.4. Borrowing costs

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

2.5. 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 Company 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.

Gains or losses arising from change in fair value of investments measured at fair value through profit and loss are recorded directly in the income statement.

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

Investments in subsidiaries are recorded according with IAS 27, at cost less eventual impairment losses.

b) Accounts receivable

Receivables are stated at their nominal value less eventual impairment losses, recorded under the caption Impairment losses in accounts receivable, so that those receivables reflect their net realizable value.

c) Classification as Equity or Liability

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

d) Loans

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.

The granted loans to the group companies are measured according to amortized cost.

e) Trade accounts payable

Accounts payable are stated as their nominal value.

f) Derivatives

The Company 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 Company 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 Company'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 has being hedge is highly probable.

Cash flow hedge instruments used by the Company 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.

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. When the hedged instrument is not measured at the fair value (i.e. loans which are recorded ate amortized cost) the book value is adjusted by the amount which is effectively hedged through the profit and loss.

In specific situations, when the derivates instruments which were negotiated with hedging purposes do not fit in the IAS 39 requirement to the hedged instruments classification, fair value changes will affect the Profit and Loss statement.

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

2.6. Share based payments

Share based payments result from Deferred Performance Bonus Plans that are referenced to the evolution of the Sonae share's 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 re-evaluated at the end of each reporting period based on the number of shares granted and the corresponding fair value at the closing date. The obligations are recorded under personnel costs and other current and non-current liabilities, under a straight line basis, between the date the shares were granted and their vesting date, taking into a consideration the time elapsed between these dates when referring to shares or call options which can be net settled through down payment. In case of equity-settled share based payment transactions, these obligations are stated as Staff costs and Reserves and are recorded on a straight line basis between the date the shares are granted and their vesting date.

2.7. Contingent assets and liabilities

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

2.8. Revenue recognition and accrual basis

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.

2.9. 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.

2.10. Income tax

Modelo Continente is taxed in accordance with Special Regime of Taxing Groups of Companies (Parent company). Each company included in this regime records income tax for the year in its individual accounts in the caption “Group companies”. Where a subsidiary contributes with a tax loss, it reflects, in its individual accounts, the amount of tax corresponding to the loss to be compensated by the profits of the other companies covered by in this regime.

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

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. INVESTMENTS

As of 31 December 2005 and 2004, the detail of investments is as follows:

euro

Company	31. December.2005 % Held	31. December.2005 Acquisition Price	31. December.2004 % Held	31. December.2004 Acquisition Price
Contibomba - Comércio e Distribuição de Combustíveis, S.A.	100,00%	372.000	100,00%	272.000
Contimobe - Imobiliária Castelo Paiva, S.A.	10,00%	10.728.063	8,07%	5.924.043
Fozimo - Sociedade Imobiliária, S.A.	100,00%	24.940	100,00%	24.940
Fundo Fechado de Investimento Imobiliário Efisa Imobiliário (1)	100,00%	43.913.700	-	-
Fundo de Investimento Imobiliário Imosonae Dois (1)	99,98%	115.697.320	-	-
Igimo - Sociedade Imobiliária, S.A.	100,00%	220.000	100,00%	220.000
Iginha - Sociedade Imobiliária, S.A.	-	-	10,00%	5.000
Imoconti - Sociedade Imobiliária, S.A.	100,00%	50.000	100,00%	50.000
Imomuro - Sociedade Imobiliária, S.A.	100,00%	439.940	100,00%	189.940
Imoresultado - Sociedade Imobiliária, S.A.	100,00%	109.736	100,00%	109.736
Infofield - Informática, S.A.	10,00%	420.459	10,00%	420.459
Marcas MC zRt	100,00%	79.545	-	-
Modelo Continente - Operações de Retalho, SGPS, S.A.	100,00%	1.000.000.000	100,00%	1.000.000.000
Modelo Continente Hipermercados, S.A.	46,20%	2.304.446	46,20%	2.304.446
Modelo Investimentos Brasil, S.A.	37,35%	19.640.219	10,97%	72.034.667
Modelo, SGPS, S.A.	0,15%	562.444	0,15%	562.444
Modelo.Com - Vendas por Correspondência, S.A.	100,00%	11.387.016	100,00%	6.387.016
Modis, SGPS, Ldª. (2)	-	-	60,00%	1.197
Ok Bazar - Comércio Geral, S.A.	100,00%	1.953.945	100,00%	1.953.945
Predicomercial - Promoção Imobiliária, S.A.	10,00%	187.548	10,00%	187.548
Sempre à Mão - Sociedade Imobiliária, S.A.	100,00%	50.000	100,00%	50.000
Sempre a Postos - Produtos Alimentares e Utilidades, Lda	25,00%	249.399	25,00%	249.399
Sesagest - Projectos e Gestão Imobiliária, S.A.	100,00%	36.677.088	100,00%	36.677.088
Sociloures - Sociedade Imobiliária, S.A.	100,00%	10.000.000	100,00%	10.000.000
Soflorin, B.V.	100,00%	57.309.037	100,00%	57.309.037
Sonae, SGPS, S.A.	0,003%	53.500	0,003%	53.500
Sonae Distribuição Brasil, S.A.	-	-	34,32%	129.510.898
Sonae Retalho España, S.A.	100,00%	2.549.832	100,00%	2.549.832
Sondis, B.V. (3)	-	-	100,00%	6.752.491
Sonvecap, B.V.	100,00%	3.000.000	100,00%	3.000.000
Sportzone - Comércio de Artigos de Desporto, S.A.	10,00%	706.326	10,00%	706.326
SRE - Projectos de Consultadoria, S.A.	100,00%	1.259.784	100,00%	1.259.784
Todos os Dias - Comércio Ret. e Expl. de Centros Comerciais, S.A.	100,00%	1.180.000	100,00%	680.000
Worten - Equipamentos para o Lar, S.A.	10,00%	2.494	10,00%	2.494
		1.321.128.781		1.339.448.230

1) Participation Units on Real Estate Investment Funds acquired in 29 December 2005
2) Company liquidated on 23 December 2005
3) Company liquidated on 30 December 2005

The movement of this caption during the years ended 31 December 2005 and 2004 can be detailed as follows:

		euro
	31. Dezembro.2005	31. Dezembro.2004
	Non Current	Non Current
Investments in group companies		
Opening balance at 1 January 2005	1.336.086.244	1.207.802.075
Purchases during the year	291.438.413	-
Disposals during the year	(176.660.640)	-
Others	(270.116.242)	128.284.169
Closing balance at 31 December 2005	1.180.747.775	1.336.086.244
Accumulated Impairment Losses (Note 19)	(28.912.413)	(470.413)
	1.151.835.362	1.335.615.831
Investments in associated companies		
Opening balance at 1 January 2005	249.399	249.399
Purchases during the year	-	-
Disposals during the year	-	-
Others	-	-
Closing balance at 31 December 2005	249.399	249.399
Accumulated Impairment Losses	-	-
	249.399	249.399
Supplementary capital		
Opening balance at 1 January 2005	2.480.000	5.472.787
Made during the year	-	-
Reimbursed during the year	-	(2.992.787)
Increase/ (Decrease) in fair value	-	-
Others	-	-
Closing balance at 31 December 2005	2.480.000	2.480.000
Real Estate Investment Funds		
Opening balance at 1 January 2005	-	-
Purchases during the year	159.611.020	-
Disposals during the year	-	-
Others	-	-
Closing balance at 31 December 2005	159.611.020	-
Accumulated Impairment Losses	-	-
	159.611.020	-
Capital non-compulsory in flows on group companies		
Opening balance at 1 January 2005	1.103.000	-
Made during the year	5.850.000	1.103.000
Reimbursed during the year	-	-
Others	-	-
Closing balance at 31 December 2005	6.953.000	1.103.000
Accumulated Impairment Losses	-	-
	6.953.000	1.103.000
	1.321.128.781	1.339.448.230

The amount of 291,438,413 Euro recorded in the caption Investments in Group Companies relates to the purchase of 2% of Contimobe – Imobiliária de Castelo de Paiva, S.A. share capital; to the incorporation of Marcas MC Zrt and amounts transferred to Sondis, B.V. in order to cover accumulated losses. This company was liquidated afterwards.

The amount of (176,660,640) Euro recorded in the caption Investments in Group Companies relates to the share capital reimbursement made in December by Modelo Investimentos Brasil, S.A..

The amount of (270,116,242) Euro described as "Others" in Investments in Group Companies relates to the liquidation of Sondis B.V (293,307,339 Euro (Note 25)), net of the profit obtained with the Modelo Investimentos Brasil, S.A. share capital increase, which was paid with the investment of 34,32% on Sonae Distribuição Brasil on the amount of 23,191,097 Euro (Note 25).

As at 29 December 2005, the company bought 100% of Real Estate Investment Fund Efisa Imobiliário and 99,98% of Real Estate Investment Closed Fund, Imosonae Dois by a total amount of 159,611,020 Euro.

5. TANGIBLE AND INTANGIBLE ASSETS

During the year ended 31 December 2004, movements in tangible and intangible assets as well as depreciations and accumulated impairment losses, are made up as follows:

Gross Assets				Euro
Caption	Opening Balance 2003-12-31	Increase	Decrease	Closing Balance 2004-12-31
Intangible Assets :				
Industrial Property and other rights	1.400.000	1.602		1.401.602
	1.400.000	1.602		1.401.602
Tangible Assets :				
Transport Equipment	19.062			19.062
Office Equipment	14.633			14.633
Other Tangible Assets	679			679
	34.374			34.374
	1.434.374	1.602		1.435.976

Accumulated Amortizations and Impairment Losses				Euro
Caption	Opening Balance 2003-12-31	Increase	Decrease	Closing Balance 2004-12-31
Tangible Assets :				
Industrial Property and other rights	140.000	280.294		420.294
	140.000	280.294		420.294
Tangible Assets :				
Transport Equipment	19.062			19.062
Office Equipment	3.939	1.463		5.402
Others Tangible Assets	679			679
	23.680	1.463		25.143
	163.680	281.757		445.437

During the year ended 31 December 2005, movements in tangible and intangible assets as well as depreciations and accumulated impairment losses, are made up as follows:

Gross Assets				euro
Caption	Opening Balance 2004-12-31	Increase	Decrease	Closing Balance 2005-12-31
Intangible Assets :				
Industrial Property and other rights	1.401.602			1.401.602
	1.401.602			1.401.602
Tangible Assets :				
Machinery and Equipment		2.464		2.464
Transport Equipment	19.062			19.062
Office Equipment	14.633	841		15.474
Others Tangible Assets	679			679
	34.374	3.305		37.679
	1.435.976	3.305		1.439.281

Accumulated Amortizations and Impairment Losses				euro
Caption	Opening Balance 2004-12-31	Increase	Decrease	Closing Balance 2005-12-31
Intangible Assets :				
Industrial Property and other rights	420.294	280.320		700.614
	420.294	280.320		700.614
Tangible Assets :				
Machinery and Equipment		164		164
Transport Equipment	19.062			19.062
Office Equipment	5.402	1.521		6.923
Others Tangible Assets	679			679
	25.143	1.685		26.828
	445.437	282.005		727.442

6. DEFERRED TAX

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

				euro
	31.December.2005		31.December.2004	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Financial Instruments	47.738		331.251	1.451.964
Write off of Intangible Assets	27.752		185.220	
Differences between amortizations for accounting and tax purposes		157.879		260.516
	75.490	157.879	516.471	1.712.480

The movement of deferred tax assets and liabilities during the years 2005 and 2004 can be detailed as follows:

	Assets		Liabilities	Euro
	31. December.2005	31. December.2004	31. December.2005	31. December.2004
Opening Balance	516.471	750.812	1.712.480	2.872.537
Effects on income				
Write off of intangibles assets	(157.468)	(212.463)		
Harmonization adjustments (amortizations)			(102.637)	(120.430)
Effect of financial instruments	(283.513)	(21.878)	(1.451.964)	(1.420.573)
(Note 26)	(440.981)	(234.341)	(1.554.601)	(1.541.003)
Effects on equity				
Harmonization adjustments (amortizations)				380.946
				380.946
Closing Balance	75.490	516.471	157.879	1.712.480

As a result of IFRS implementation, the deferred taxes to be accounted for were re-valued. The deferred tax assets arising on the adjustments to IFRS were only recorded if it was probable that taxable income would flow to the company in order to recover those deferred tax assets.

As of 31 December 2005 the Company had carried forward tax losses in the amount of 272,336,759 Euro for which no deferred tax asset was recognized for prudential reasons.

	31.December.2005			31.December.2004		
	Tax Losses	Tax Amount	Expiry date	Tax Losses	Tax Amount	Expiry date
Originated 2002	85.045.075	23.387.396	2008	91.445.000	25.147.375	2008
Originated 2005	187.391.684	51.532.713	2011	-	-	2011
	272.436.759	74.920.109		91.445.000	25.147.375	

7. LOANS TO GROUP COMPANIES

As of 31 December 2005 and 2004, Other non current assets are detailed as follows:

		Euro
	31. December.2005	31. December.2004
Loans to group companies (Note 30)	312.434.192	855.553.195

These loans bear interests at usual market rates and its fair value is similar to its book value.

8. TRADE ACCOUNTS RECEIVABLE

The amount of trade accounts receivable refers to Management Fee's and royalties, invoiced, mainly, to Modelo Continente, SGPS, S.A. Group companies.

9. STATE AND PUBLIC ENTITIES

As at 31 December 2005 and 2004 this caption is detailed as follows:

		euro
Assets:	31. December.2005	31. December.2004
Income tax	6.837.566	4.555.517
	6.837.566	4.555.517

Liabilities:	31. December.2005	31. December.2004
Value Added Tax	3.504.805	3.846.950
Social Security contributions	5.621	5.484
Withheld taxes related with capital income	1.179.635	1.769.165
Others	238.356	225.641
	4.928.417	5.847.240

10. GROUP COMPANIES - CURRENT

As at 31 December 2005 and 2004 these captions can be detailed as follows:

Assets	31.December.2005	31.December.2004 (euro)
Loans – short term (Note 30)	757.119.100	315.395.000
Interest charged but not received	22.678.318	24.453.847
Taxes (a)	15.481.200	12.731.377
Others (b)	4.692	448.183.235
	795.283.310	800.763.459

Liabilities	31.December.2005	31.December.2004
Loans – short term (Note 30)	64.275.000	508.336.000
Taxes (a)	1.561.960	3.024.350
Others	240	
	65.837.200	511.360.350

a) Income tax estimated by group companies taxed in accordance with the Special Regime for Taxing Groups of Companies

b) In 2004, the amount of 448,183,235 Euro relates to a portion of 2002 sales of equity investments to be received from a subsidiary;

The book value of this caption is similar to its estimated fair value.

11. OTHER ACCOUNTS RECEIVABLES

As at 31 December 2005 and 2004 this caption is detailed as follows:

	31.December.2005	31.December.2004 (euro)
Other Accounts receivables	2.679.180	3.553.209
	2.679.180	3.553.209

This caption includes the amount of 2,650,000 Euro relating to taxes claimed against tax authorities. The Board of Directors believes that the claims will be decided in favour of the company.

12. OTHER CURRENT ASSETS

As at 31 December 2005 and 2004, the caption Other current assets can be detailed as follows:

	31.December.2005	31.December.2004
Advances to fixed assets suppliers	75.002.041	2.040
Deferred costs	53.728	616.990
Accrued income	3.024.378	648.625
	78.080.147	1.267.655

The caption Advances to fixed assets suppliers includes the amount paid in advance to Sonae SGPS, S.A. of 75,000,000 euro in relation with a future acquisition of commercial brands.

As at 31 December 2005, Accrued income includes (i) 2,689,547 Euro of interest earned on group companies loans, (ii) 184,722 Euro of short term interest applications; and (iii) 150,109 Euro of Management Fee's to invoice during next year to Group Companies.

13. CASH AND CASH EQUIVALENTS

As of 31 December 2005 and 2004, the caption "Cash and Cash Equivalents" can be detailed as follows:

		euro
	31.December.2005	31.December.2004
Bank Deposits	450.008.364	-
Treasury applications	-	45.271.844
Cash and equivalents on balance sheet	450.008.364	45.271.844
Bank overdrafts (Note 15)	(293.292)	(30.490)
Cash and equivalents on the cash flow statement	449.715.072	45.241.354

Cash and cash equivalents includes values of cash on hand, cash at banks, treasury applications and term deposits which mature in less than three months and are readily convertible and that are subject to insignificant risk of change in value. As at 31 December 2005 bank deposits includes 450,000,000 euro of readily convertible term deposits which mature in the beginning of January.

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

14. SHARE CAPITAL

As of 31 December 2005 and 2004, the share capital, which is fully subscribed and paid for, is made up of 1,100,000,000 ordinary shares with a nominal value of 1 Euro each.

As at 31 December 2005, the following entities held more than 20% of the subscribed share capital.

Entity	%
Sonae, S.G.P.S, S.A.	75.64
Banco Santander Totta, S.A.	22.42

Sonae, S.G.P.S., S.A. is controlled by Efanor Investimentos, S.G.P.S., S.A. and its subsidiaries on 56.7%.

As of 31 December 2005 the company had 90,200,000 Euro (86,000,000 at 31 December 2004) of legal reserves. These reserves cannot be distributed except upon dissolution of the company, but can be used to absorb losses after all the other reserves have been used up, or to increase capital.

15. LOANS

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

euro

	31.December.2005				31.December.2004			
	Book value		Nominal value		Book value		Nominal value	
	Current	Non current	Current	Non current	Current	Non current	Current	Non current
Bank Loans	161.011.020	1.400.000	161.304.312	2.800.000	1.188.353	2.800.000	1.230.489	2.800.000
Bank overdrafts	293.292				30.490			
Bonds		592.279.778		597.000.000		177.958.653		182.000.000
	161.304.312	593.679.778	161.304.312	599.800.000	1.218.843	180.758.653	1.230.489	184.800.000

As of 31 December 2005 bond loans are made up as follows:

Modelo Continente / 2003	82,000,000
Modelo Continente / 2004	100,000,000
Modelo Continente / 2005/2010	265,000,000
Modelo Continente / 2005/2012	150,000,000

Bonds - MODELO CONTINENTE / 2003
1,640,000 bonds – Nominal Value: 50 euro.
Maximum term: 8 (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.

Bonds - MODELO CONTINENTE / 2004
10,000,000 bonds – Nominal Value: 10 euro.
Maximum term: 5 (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.

Bonds - MODELO CONTINENTE 2005/ 2010
265,000 bonds – Nominal Value: 1,000 euro.
Maximum term: 5 (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 0.70% p.a..
Interest Payment: half yearly in arrears, on 3 February and 3 August of each year.
Redemption: at par, in one payment on 5th year in one payment on 3 August 2010, the maturity date of the loan, except if it an early redemption occurs.
Early redemption (call-option): early redemption is possible by initiative of the issuer, either totally or partially (by reducing the nominal value of the bonds), on the 2nd, 3rd or 4th year of maturity. In this situation the issuer is obliged to pay a prize of 0.125% over de reimbursed value.

Bonds - MODELO CONTINENTE 2005/ 2012
15,000,000 bonds – Nominal Value: 10 euro.
Maximum term: 7 (seven) 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 0.85% p.a..
Interest Payment: half yearly in arrears, on 2 February and 2 August of each year.
Redemption: at par, in one payment on 2 August 2012 the payment date of the 14th coupon, except if it an early redemption occurs.
Early redemption (call-option): early redemption is possible by initiative of the issuer, either totally or partially (by reducing the nominal value of the bonds), on the reimbursed dates of 10th, 11th, 12th and 13th coupon, without the obligation of paying any prize.

Bank loans – non-current

Bank loan of 1,400,000 Euro obtained from a financial institution, repayable in 2007, bearing interest payable half yearly at usual market rates.

16. OTHER ACCOUNTS PAYABLES

As of 31December 2005 and 2004 other accounts payables is made up as follows:

	31. December.2005	31. December.2004
		euro
Other account payable	37.701	12.980
	37.701	12.980

17. OTHER CURRENT LIABILITIES

As of 31 December 2005 and 2004 Other non current liabilities were made up as follows:

	31.December.2005	31.December.2004
		euro
Accrued costs	10.415.180	4.421.413
	10.415.180	4.421.413

The caption Accrued Costs contains the amount of 666,609 Euro (682,840 Euro at 31 December 2004) relating to staff costs to be paid, as well the amount of 6,630,286 Euro (2,055,457 Euro at 31 December 2004) relating to the accrued interests from loans obtained.

This caption also includes the amount of 3,101,925 Euro (1,675,353 Euro at 31 December 2004) relating to the differed responsibilities with bonus to employees.

In 2005 and in previous years, Modelo Continente Group granted Deferred Performance Bonuses to its directors and eligible employees. These are based on shares to be acquired at nil cost, three years after they were attributed to the employee. The purchase 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 its responsibilities in cash rather than through shares. The option can only be exercised if the employee still works for the Group at the vesting date. Liabilities arising from deferred performance bonuses are valued in accordance with that referred to in note 2.6.

18. DERIVATIVES

Interest rate derivatives

As of 31 December 2005 and 2004, the fair value of the interest rate derivatives, calculated taking into consideration present market value of equivalent financial instruments, is estimated as follows:

	31.December.2005	31.December.2004
		euro
Assets		8.823.291
Liabilities	198.293	1.204.549

Gains and losses for the year arising from changes in the fair value of these instruments amounted to a net loss of 4,248,913 Euro (net profit 4,474,910 Euro as at 31 December 2004) which was recorded directly in the Income statement financial results caption.

19. PROVISIONS AND ACCUMULATED IMPAIRMENT LOSSES

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

Caption	Opening Balance	Increase	Decrease	Closing Balance
				euro
Impairment investments losses	470.413	28.442.000		28.912.413
	470.413	28.442.000		28.912.413

The increase recognized during the year relates to an Modelo Investimentos Brasil, S.A. impairment loss and was recorded in the caption Investment impairment losses in the Income Statement (Note 25).

20. CONTINGENT ASSETS AND LIABILITIES

	31. December.2005	31. December.2004
		Euro
Guarantees rendered:		
Related to tax additional assessments	19.065.102	17.556.249
	19.065.102	17.556.249

No provision has been recognized for these tax additional assessments as the Board of Directors expects them to be resolved with no additional liability to the company.

21. SERVICES RENDERED

This caption includes services rendered to Modelo Continente, SGPS, S.A. group companies located in Portugal.

22. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2005 and 2004 is made up as follows:

			euro
		31.December.2005	31.December.2004
Expense Recover	(a)	3.557.254	
Other operating income		293.276	5.867.560
		3.850.530	5.867.560

a) Expenses paid by the company in name of its subsidiaries and re-charged to those.

The caption Other operating income in 2004 includes the amount of 3,792,867 Euro recognized as result of the write off of royalties accrued as a consequence of negotiations carried out in that year.

23. OTHER OPERATING EXPENSES

Other operating expenses for the years ended 31 December 2005 and 2004 can be made up as follows:

		Euro
	31.December.2005	31.December.2004
Indirect taxes	3.637.350	783.592
Bank services	295.975	1.159.141
	3.933.325	1.159.141

Indirect taxes for the year 2005 correspond mainly to store opening taxes which had been re-charged to the group companies that own the right to explore these new stores (Note 22).

24. NET FINANCIAL PROFIT /(LOSS)

As of 31 December 2005 and 2004 net financial profit / (loss) is made up as follows:

		Euro
	31.December.2005	31.December.2004
Expenses:		
Interest		
Bank overdrafts and loans	2.158.307	3.633.916
Bonds	10.897.693	5.191.994
Others	7.461.785	14.462.379
	20.517.785	23.288.289
Exchange losses		7
Losses in the valuation of derivatives	6.094.660	441.291
Other financial losses	1.031.853	1.539.886
	27.644.298	25.269.473
Net financial profit / (loss)	27.231.812	28.046.184
	54.876.110	53.315.657
Income:		
Interest earned	53.030.363	48.399.456
Profit in the valuation of derivatives	1.845.747	4.916.201
	54.876.110	53.315.657

The caption of Other financial losses relates mainly to up-front fees paid with the issuance of bonds.

25. INVESTMENT INCOME / (LOSS)

As at 31 December 2005 and 2004 and in the quarters ending in those dates, the net investment income / (loss) is made up as follows:

euro

	2005		2004	
	4º Quarter	Accumulated	4º Quarter	Accumulated
Dividends	6.331	16.021.796		20.665.733
Profit in financial investments (Note 4)	23.191.097	23.196.297		
Losses in financial investments (Note 4)	-293.307.339	-293.307.339		
Investment impairment losses (Note 19)	-28.442.000	-28.442.000		
	-298.551.911	-282.531.246		20.665.733

26. INCOME TAX

Income tax for the period 2005 and 2004 is made up as follows:

euro

	31.December.2005	31.December.2004
Tax charge for the year	(2.400)	(2.869)
Excess / (Shortage) on previous year estimate	(495.522)	(640.794)
Current Tax	(497.922)	(643.663)
Write off of Intangible Assets	(157.468)	(212.463)
Difference between amortizations for accounting and tax purposes	102.637	120.430
Financial Instruments	1.168.451	1.398.695
Tax losses	15.782.322	10.142.592
Deferred Tax	16.895.942	11.449.254
	16.398.020	10.805.591

The reconciliation of the profit / (loss) before taxes with the tax charge for the year as at 31 December 2005 and 2004 is as follows:

euro

	31. December.2005	31. December.2004
Profit/ (loss) before income tax	(244.105.571)	69.198.351
Tax rate	27.50%	27.50%
	(67.129.032)	19.029.547
Use of tax losses not recognized in the past	-	(24.910.880)
Not recognized deferred tax assets arising on carried forward tax losses	51.532.713	-
Not recognized deferred tax assets arising on impairment losses	7.821.550	-
Shortage/Excess of previous year tax charge estimate	495.522	640.794
Difference between gains or losses for tax and accounting purposes	(4.737.549)	-
Non – taxable Dividends	(4.405.994)	(5.683.076)
Others	24.770	118.024
Income Tax	(16.398.020)	(10.805.591)

27. EARNING PER SHARE

The earnings per share for the period were calculated taking into consideration the following amounts:

		Euro
	31. December.2005	31. December.2004
Net profit		
Net profit taken into consideration to calculate basic earnings per share		
(Net profit for the period)	(227.707.550)	80.003.942
Net profit into consideration to calculate diluted earnings per share	(227.707.550)	80.003.942
Number of shares		
Weighted average number of shares used to calculated the		
basic Earnings per share	1.100.000.000	1.100.000.000
Weighted average number of shares used to calculate		
the diluted earnings per share	1.100.000.000	1.100.000.000
Earnings per share (basic and diluted)	(0,21)	0,07

28. APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements were approved for issuance by the Board of Directors on the 27 February 2006, but they are subject to final approval of the General Shareholders Meeting in accordance with Portuguese Commercial law.

The Net loss for the year was of 227,707,550.15 Euro and the Board of Directors proposes its transfer to Retained Earnings.

It is also to be proposed the distribution of 55,000,000.00 Euro as dividends, corresponding 0.05 Euro per each of the 1,100,000,000 shares by means of the use of Other Reserves, as well as the cover of negative Retained Earnings by the transfer from Other reserves of 232,071,711.65 Euro.

29. 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:

Euro

	1.Janeiro.2004			31.Dezembro.2004		
	POC	Transition to IFRS	IFRS	POC	Transition to IFRS	IFRS
ASSETS						
NON CURRENT ASSETS						
Tangible and intangible assets	1.343.204	(72.510)	1.270.694	716.735	273.804	990.539
Diferenças de consolidação	-	-	-	-	-	-
Investments	1.741.963.574	(528.930.225)	1.213.033.349	2.195.471.837	(856.023.607)	1.339.448.230
Deferred tax assets	-	750.812	750.812	-	516.471	516.471
Other non-current assets	-	528.439.312	528.439.312	-	855.553.195	855.553.195
Total non current assets	1.743.306.778	187.389	1.743.494.167	2.196.188.572	319.863	2.196.508.435
CURRENT ASSETS						
Other current assets	933.373.674	(2.787.649)	930.586.025	841.958.784	(7.584.768)	834.374.016
Investments	-	149.313.226	149.313.226	-	8.823.291	8.823.291
Cash and cash equivalents	248.687.423	(136.079.991)	112.607.432	45.271.844	-	45.271.844
Total current assets	1.182.061.097	10.445.586	1.192.506.683	887.230.628	1.238.523	888.469.151
TOTAL ASSETS	2.925.367.875	10.632.975	2.936.000.850	3.083.419.200	1.558.386	3.084.977.586
EQUITY AND LIABILITIES						
Equity						
Share Capital	1.100.000.000	-	1.100.000.000	1.100.000.000	-	1.100.000.000
Reserves and retained earnings	1.192.290.776	6.487.981	1.198.778.757	1.192.290.776	6.127.535	1.198.418.311
Net profit for the year		-		83.437.126	(3.433.184)	80.003.942
Total equity	2.292.290.776	6.487.981	2.298.778.757	2.375.727.902	2.694.351	2.378.422.253
Interesses Minoritários	-	-	-	-	-	-
TOTAL EQUITY	2.292.290.776	6.487.981	2.298.778.757	2.375.727.902	2.694.351	2.378.422.253
LIABILITIES:						
NON-CURRENT LIABILITIES						
Loans	86.000.000	-	86.000.000	184.800.000	(4.041.347)	180.758.653
Deferred tax liabilities	-	2.872.537	2.872.537	-	1.712.480	1.712.480
Total non current liabilities	86.000.000	2.872.537	88.872.537	184.800.000	(2.328.867)	182.471.133
CURRENT LIABILITIES						
Loans	15.848.679	(11.648)	15.837.031	1.230.489	(11.647)	1.218.842
Other current liabilities	531.228.420	1.284.105	532.512.525	521.660.809	1.204.549	522.865.358
Total current liabilities	547.077.099	1.272.457	548.349.556	522.891.298	1.192.902	524.084.200
TOTAL LIABILITIES	633.077.099	4.144.994	637.222.093	707.691.298	(1.135.965)	706.555.333
TOTAL EQUITY AND LIABILITIES	2.925.367.875	10.632.975	2.936.000.850	3.083.419.200	1.558.386	3.084.977.586

The adjustments arising on the transition to International Financial Reporting Standards, which have impact upon equity for the year on 1 January 2004 and 31 December 2004, can be detailed as follows:

Euro

	1. January.2004	31. December.2004
Tangible and Intangible Assets	(52.570)	201.710
Financial Instruments	6.286.161	2.619.197
Other deferred taxes	254.390	(126.556)
	6.487.981	2.694.351

The effect upon the income statement for the year ended 31 December 2004 can be detailed as follows:

			euro
	31.Dezembro.2004		
	POC	Transition to IFRS	IFRS
Operating income			
Services rendered	20.603.424	-	20.603.424
Other operating income	5.792.866	74.694	5.867.560
Total operating income	26.396.290	74.694	26.470.984
Operating expenses			
External supplies and services	(1.162.425)	-	(1.162.425)
Staff costs	(3.381.226)	(1)	(3.381.227)
Amortization and depreciation	(628.070)	346.313	(281.757)
Other operating expenses	(914.776)	(244.365)	(1.159.141)
Total operating expenses	(6.086.497)	101.947	(5.984.550)
Net Operating profit /(loss)	20.309.793	176.641	20.486.434
Net financial profit/(loss)	32.888.051	(4.841.867)	28.046.184
Investment income / (loss)	20.665.733	-	20.665.733
Extraordinary income/ (loss)	(566.174)	566.174	-
Profit / (loss) before taxes	73.297.403	(4.099.052)	69.198.351
Income tax	10.139.723	665.868	10.805.591
Net profit /(loss) for the year	83.437.126	(3.433.184)	80.003.942

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

		euro
	31. December.2004	4 º Quarter 2004
Tangible and Intangible Assets	254.280	129.946
Financial Instruments	(3.687.464)	(456.362)
	(3.433.184)	(326.416)

30. INFORMATION REQUIRED BY LAW

Art 5, item 4 of Decree-Law 3318/94

During the year ended 31 December 2005, shareholders' loan contracts were entered into with the following companies:

Fozimo – Sociedade Imobiliária, S.A.
Imoconti – Sociedade Imobiliária, S.A.
Imomuro – Sociedade Imobiliária, S.A.
Imoresultado – Sociedade Imobiliária, S.A.
Modelo Com – Vendas por Correspondência, S.A.
Modelo Continente Hipermercados, S.A.
OK Bazar – Comércio Geral, S.A.
Predicomercial – Promoção Imobiliária, S.A.
Sempre à Mão – Sociedade Imobiliária, S.A.
Sesagest – Projectos e Gestão Imobiliária, S.A.
Sociloures – Sociedade Imobiliária, S.A.
Soflorin, B.V.
Sportzone – Comércio e Artigos de Desporto, S.A.
Worten – Equipamentos para o Lar, S.A.

During the twelve month period ending 31 December 2005, short-term treasury loan contracts were entered into with the following companies:

Canasta – Empreendimentos Imobiliários, S.A.
Citorres – Sociedade Imobiliária, S.A.
Contibomba – Comércio e Distribuição de Combustíveis, S.A.
Cumulativa – Sociedade Imobiliária, S.A.
Efanor – Indústria de Fios, S.A.
Fozimo – Sociedade Imobiliária, S.A.
Igimo – Sociedade Imobiliária, S.A.
Imoconti – Sociedade Imobiliária, S.A.
Imomuro – Sociedade Imobiliária, S.A.
Imoresultado – Sociedade Imobiliária, S.A.
MJLF – Empreendimentos Imobiliários, S.A.
Modelo Com – Vendas por Correspondência, S.A.
Modelo Continente - Operações de Retalho, S.G.P.S., S.A.
Modelo Continente Hipermercados, S.A.
Modis, S.G.P.S., Lda
OK Bazar – Comércio Geral, S.A.
Selifa – Sociedade de Empreendimentos Imobiliários, S.A.
Sempre à Mão – Sociedade Imobiliária, S.A.
Sesagest – Projectos e Gestão Imobiliária, S.A.
Sociloures – Sociedade Imobiliária, S.A.
Soflorin, B.V.
Sonae, S.G.P.S., S.A.
Sondis, B.V.
Todos os Dias – Comércio Retalhista e Exploração de Centros Comercias, S.A.

As of 31 December 2005, the receivable balances related to the contracts mentioned above were as follows:

Loans granted (Notes 8 and 10):

Euro

Company	Closing Balance
Contibomba - Comércio e Distribuição de Combustíveis, S.A.	133.000
Fozimo – Sociedade Imobiliária, S.A.	2.166.000
Igimo – Sociedade Imobiliária, S.A.	698.000
Imoconti – Sociedade Imobiliária, S.A.	19.815.965
Imomuro - Sociedade Imobiliária, S.A.	4.158.897
Imoresultado – Sociedade Imobiliária, S.A.	407.000
Modelo, S.G.P.S., S.A.	580.022.100
Modelo.Com - Vendas por Correspondência, S.A.	3.266.998
Modelo Continente Hipermercados, S.A.	94.227.000
Ok Bazar - Comércio Geral, SA	12.859.000
Predicomercial - Promoção Imobiliária, S.A.	11.113.000
Sempre à Mão - Sociedade Imobiliária, SA	28.000
Sesagest - Projectos e Gestão Imobiliária, S.A.	49.592.000
Sociloures - Sociedade Imobiliária, S.A.	32.773.000
Soflorin, B.V.	202.265.330
Sonae Retalho España, S.A.	466.002
Sportzone - Comércio de Artigos de Desporto, S.A.	6.530.000
Todos os Dias - Comércio Ret. e Expl. de Centros Comerciais, S.A.	1.125.000
Worten - Equipamentos para o Lar, S A.	47.907.000
	1.069.553.292

These amounts are recorded in accordance with their maturity in current assets (Note 10) or non- current assets (Note 8).

As of 31 December 2005, the payable balances related to the contracts mentioned above were as follows:

Loans obtained – Short term (Note 10):

Euro

Company	Closing Balance
Modelo.Com - Vendas por Correspondência, S.A.	-4.590.000
Modelo Continente - Operações de Retalho, SGPS, SA	-52.523.000
Infofield–Informática, S.A.	-571.000
Modelo Hiper - Imobiliária, S.A.	-2.193.000
Sonvecap, B.V.	-3.790.000
SRE - Projectos de Consultoria, S.A.	-608.000
	-64.275.000

31. <u>NOTE ADDED FOR TRANSLATION</u>

The accompanying financial statements are a translation of financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards. In the event of discrepancies the Portuguese language version prevails.

Matosinhos, 27 de February 2006

CORPORATE BOARDS

BOARD OF DIRECTORS
Engº Belmiro Mendes de Azevedo - Presidente
Dr. Nuno Manuel Moniz Trigoso Jordão
Engº Ângelo Gabriel Ribeirinho dos Santos Paupério
Engº Manuel José Ferreira Fontoura
Dr. José Manuel Alves Elias da Costa

STATUTORY AUDITOR
Deloitte & Associados, SROC, SA representada pelo
Dr. Jorge Manuel Araújo de Beja Neves - Revisor Oficial de Contas

ALTERNATE STATUTORY AUDITOR
Dr. António Marques Dias - Revisor Oficial de Contas

BOARD OF THE SHAREHOLDRE'S GENERAL MEETING
Dr. Carlos Manuel Teixeira Osório de Castro - Presidente
Dra. Alice de Assunção Castanho Amado – Vice - Presidente
Dr. António Manuel Ramos de Oliveira - Secretário

SALARY COMMITEE
Sonae, S.G.P.S., S.A. representada pelo
Prof. Dr. José Manuel Trindade Neves Adelino
Engº Bruno Walter Lehmann

COMPANY SECRETARY
Dra Alice de Assunção Castanho Amado - Secretária
Dra Júlia Maria Moreira da Silva Santos - Secretária Suplente

STATUTORY AUDIT AND AUDITORS' REPORT

(Translation of a report originally issued in Portuguese)

Introduction

1. In compliance with the applicable legislation we hereby present our Statutory Audit and Auditors' Report on the consolidated and individual financial information contained in the Report of the Board of Directors, and the consolidated and individual financial statements of Modelo Continente, S.G.P.S., S.A. ("Company") for the year ended 31 December 2005, which comprise the consolidated and individual balance sheets (that present a total of 2,496,455,057 Euro and 2,987,286,335 Euro, respectively, and consolidated and individual equity of 855,336,144 Euro and 2,150,714,703 Euro, respectively, including consolidated net profit attributable to the Company's Equity Holders of 214,122,570 Euro and a individual net loss of 227,707,550 Euro), the consolidated and individual statements of profit and loss, cash flows and changes in equity for the year then ended and the corresponding notes.

Responsibilities

2. The Board of Directors is responsible for: (i) the preparation of consolidated and individual financial statements that present a true and fair view of the financial position of the Company and of the companies included in the consolidation, the consolidated and individual results of their operations and their consolidated and individual cash flows; (ii) the preparation of historical financial information in accordance with International Financial Reporting Standards as adopted by the European Union that is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code; (iii) the adoption of adequate accounting policies and criteria and the maintenance of an appropriate system of internal control; and (iv) informing of any significant facts that have influenced the operations of the Company and companies included in the consolidation, their financial position and results of operations.

3. Our responsibility is to examine the consolidated and individual financial information contained in the accounting documents referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our examination.

Scope

4. Our examination was performed in accordance with the Auditing Standards issued by the Portuguese Institute of Statutory Auditors, which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated and individual financial statements are free of material misstatement. Such an examination includes verifying, on a test basis, evidence supporting the amounts and disclosures in the consolidated and individual financial statements and assessing the significant estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation. Such an examination also includes verifying the consolidation procedures, the application of the equity method and that the financial statements of the companies included in the consolidation have been appropriately examined, assessing the adequacy of the accounting principles used and their uniform application and disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, verifying the adequacy of the overall presentation of the consolidated and individual financial statements and assessing that, in all material respects, the consolidated and individual financial information is complete, true, timely, clear, objective and licit. Our examination also includes verifying that the consolidated and individual financial information included in the Report of the Board of Directors is consistent with the consolidated and individual financial statements. We believe that our examination provides a reasonable basis for expressing our opinion.

Opinion

5. In our opinion, the consolidated and individual financial statements referred to in paragraph 1 above, present fairly in all material respects, the consolidated and individual financial position of Modelo Continente, S.G.P.S., S.A. as of 31 December 2005, the consolidated and individual results of its operations and its consolidated and individual cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the information contained therein is, in terms of the definitions included in the auditing standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

Emphases

6. As referred to in Notes 2.1 to the consolidated and individual financial statements, the Company used International Financial Reporting Standards ("IFRS") as adopted by the European Union in the preparation of its financial statements for the first time in 2005. In the transition from the previous generally accepted accounting principles (Portuguese Official Chart of Accounts – "POC") to IFRS as adopted by the European Union, the Company followed the requirements of International Financial Reporting Standard 1 – First Time Adoption of International Financial Reporting Standards and the transition date was set at 1 January 2004. As a result, the financial information as at that date and for the year 2004, previously reported in accordance with POC, was restated under IFRS as adopted by the European Union for comparability purposes. The Company included in Notes 42 and 29 of the consolidated and individual financial statements, respectively, additional disclosures required in respect with the transition process to International Financial Reporting Standards as adopted by the European Union.

7. Our Statutory Audit and Auditors' Report dated 28 February 2005, on the consolidated financial statements as at 31 December 2004 prepared in accordance with POC, includes a qualification relating to the accounting policy followed by the Company as to Goodwill. As a result of the use of International Financial Reporting Standards as adopted by the European Union, referred to in the preceding paragraph, the Company changed this policy, having the impacts of such change been included in the transition adjustments as disclosed in Note 42 to the consolidated financial statements. As a result, that qualification is no longer applicable to those restated financial statements.

Porto, 27 February 2006

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DELOITTE & ASSOCIADOS, SROC S.A.
Represented by Jorge Manuel Araújo de Beja Neves

REPORT AND OPINION OF THE STATUTORY AUDITOR

(Translation of a report originally issued in Portuguese)

To the Shareholders of
Modelo Continente, S.G.P.S., S.A.

In compliance with the applicable legislation and our mandate we hereby submit our Report and Opinion which covers our work and the consolidated and individual documents of account of Modelo Continente, S.G.P.S., S.A. for the year ended 31 December 2005, which are the responsibility of the Company's Board of Directors.

We accompanied with the periodicity and scope considerated adequated by us, the evolution of the operations of the Company and its principal affiliated companies, the timely writing up of their accounting records and their compliance with statutory and legal requirements, having obtained from the Boards of Directors and personnel of the Company and its principal affiliated companies all the information and explanations required.

In performing our work, we examined the consolidated and individual Balance sheets as of 31 December 2005, the consolidated and individual Statements of profit and loss, changes in equity and cash flows for the year then ended and the related notes. Additionally, we examined the Report of the Board of Directors for the year 2005. As consequence of our legal examination we have issued the Statutory Audit and Auditors' Report which in paragraphs 6 and 7 contains two emphases.

In our opinion and considering the matters referred to in paragraphs 6 and 7 of the Statutory Audit and Auditors' Report, the consolidated and individual financial statements referred to above and the Report of the Board of Directors, are in accordance with the accounting, legal and statutory requirements and so can be approved by the Shareholders' General Meeting.

We wish to thank the Company's Board of Directors and personnel, as well as the statutory boards and personnel of the Group companies for the assistance provided to us.

Porto, 27 February 2006

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DELOITTE & ASSOCIADOS, SROC, S.A.
Represented by Jorge Manuel Araújo de Beja Neves