SONAE INDÚSTRIA, SGPS, S. A.
Head Office: Lugar do Espido, Via Norte, Maia
Maia Commercial Registry Nr. 57 048
Share Capital: 700 000 000 euros
Fiscal Nr. 506 035 034
Sociedade Aberta

Report and Accounts
31 December 2005

(Translation from the Portuguese original)

10 March 2006

Report of The Board of Directors

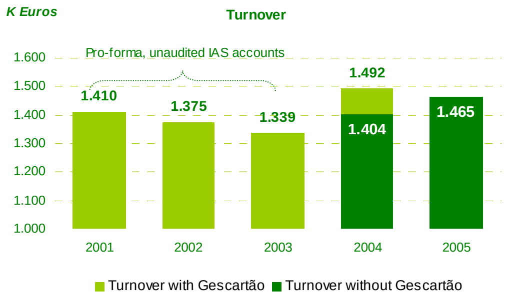
Board of Director's Report

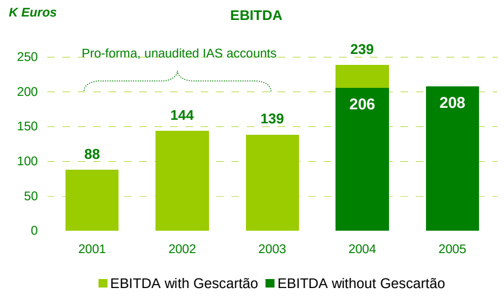
Foreword

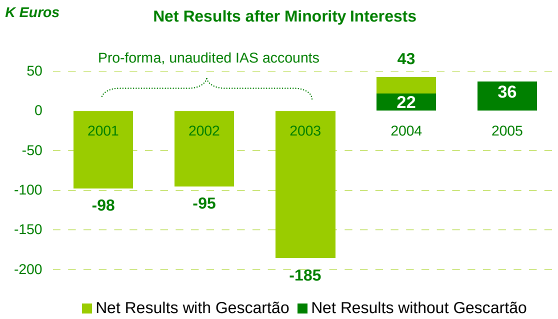
On 15 December 2005, Sonae SGPS demerged 126.510.092 shares (representing 90.36% of the share capital) of Sonae Indústria and these shares were merged into an instrumental company, Sonae 3P. 100% of the share capital of Sonae Indústria (including both the demerged and the retained shares owned by Sonae SGPS and the shares owned by outside shareholders) was incorporated into the share capital of the instrumental company. With the merger completed, the "old" Sonae Indústria ceased to exist and the instrumental company, Sonae 3P was renamed "new" Sonae Indústria.

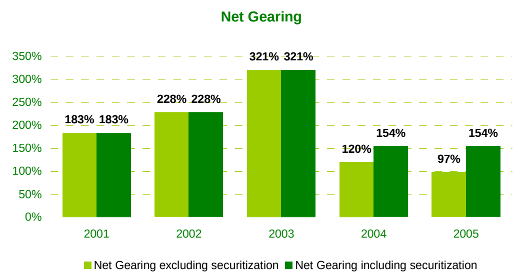
Although "new" Sonae Indústria is a different legal entity, it is in practice a successor to the previous company as no change has occurred to the underlying business composition, operations and governance system. The following Report and Accounts reports on the consolidated activities of the Sonae Indústria Group in 2005 and compares them with 2004, as if no change in the legal entity had arisen.

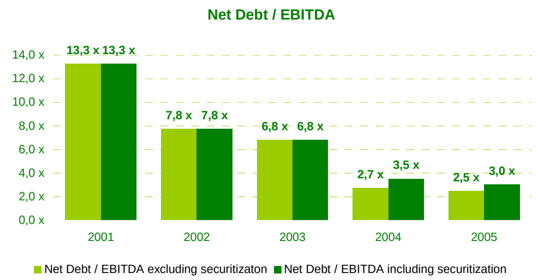
Sonae Indústria in Numbers
Financial Highlights





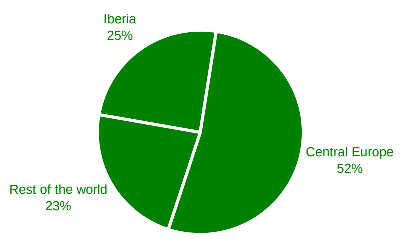




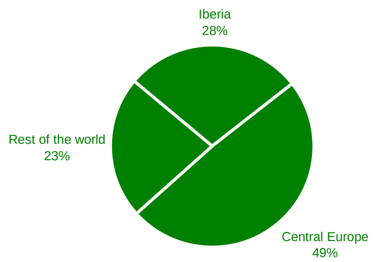


Operating Highlights

Volumes produced by Plant Location 2005



Turnover by Plant Location 2005

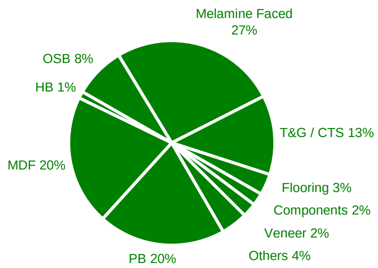


Rest

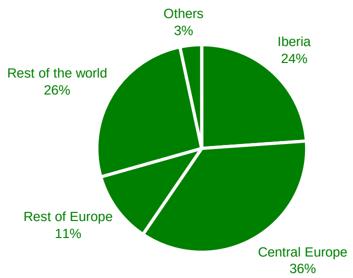
of the World : Canada, Brazil, South Africa

Central Europe : Germany, France, UK

Sales by Product 2005



Turnover by Market 2005



Letter from the Chairman

2005 was a solid year in terms of performance for Sonae Indústria: Turnover grew by 4% to 1.465 million euros, EBITDA by 1% to 208 million euros and Net Results were 36 million euros, up 67% on 2004, on a like for like basis.

Overall, Sonae Indústria performed well across all of its geographies, with average prices and sales improving in most countries. Efforts were made to strengthen our market positioning through the launch of higher value-added product offerings and improved product mix. However, sector growth in PB, MDF and OSB eased from the pace recorded in 2004 and increasing profitability in Central European markets is proving to be a challenge.

We were encouraged to see the consolidation activity that has taken place in some of our key markets, namely the acquisition of the German Group, Kunz by Pfleiderer and the sale by Weyerhauser of its two French plants to the Spanish manufacturer, Finsa. The North American market witnessed a significant level of M&A activity, with some of the largest groups increasingly concentrating on their core businesses and announcing the divestment of their particleboard and MDF operations. Such transactions represent move that may lead to a more rational competitive environment and lower price volatility.

With increased profitability and free-cash-flow generation and a stronger balance-sheet, posted by the end of June 2005, we were in a position to formally launch the spin-off process of Sonae Indústria from Sonae SGPS. Final registration of the operation was achieved in December and, as a result, our free-float has increased to 42,06%, Sonae SGPS' shareholding in Sonae Indústria has reduced to 6,68%, and Efanor (Sonae SGPS' reference shareholder) now holds a stake of 51,28%.

During 2005, Sonae Indústria reinforced its strategic intent:

- To be a multiregional wood panels manufacturer;
- To focus on innovation and continuous improvements in operating performance;
- To grow while retaining a strong balance sheet.

... and established strategic guidelines focused on increasing Sonae Indústria's profitability in markets where it is already present:

- Protect our market share and profitability in Iberia;
- Increase our profitability and strengthen our market position in Central Europe, where consolidation in this market is viewed as a key driver;
- Grow in our more profitable markets.

During 2005, aligned with our strategy for Central Europe, we announced a joint-venture agreement with Tarkett AG to build an integrated laminate flooring production plant in Germany. To sustain market share and profitability in South Africa, a new particleboard production line was approved for our White River plant, which should allow us to benefit from the continued growth forecast in this market.

Sustainable growth is core to Sonae Indústria's strategy. In July 2005, the Board of Directors approved global strategic guidelines, with particular emphasis placed on the importance of health and safety and eco-efficiency related issues. These two areas will be the catalysts of sustainability management within the Group going forward.

As a global player with multinational, multicultural operations, our success is dependent on our employees' willingness to embrace the Sonae Indústria vision and on our ability to share best practices and experiences throughout the Group. I would like to thank our team for their tireless dedication and commitment and their invaluable contribution to the success of our operations.

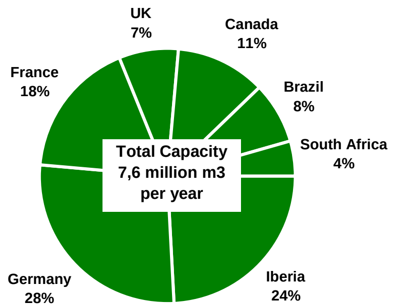
Organisational Overview
Sonae Indústria is a world leader in wood-based panel manufacturing sector.

The Group manufactures a wide range of products, ranging from simple raw-board to high value added products: Particleboard, MDF, OSB, Hardboard, Laminate Flooring, Melamine Faced Board, Wood Veneer Faced Board and High Pressure Laminate. Construction systems and solutions for furniture and decoration are also manufactured. Sonae Indústria has aimed to differentiate itself, boosting revenues and profitability by positioning itself by focusing on increasingly higher value-added products in some of its key markets.

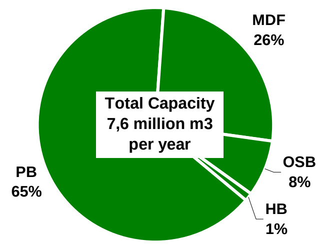
In addition to production, the Group also has significant trading activities in export markets that strengthen its position as a global player.

Sonae Indústria has 33 industrial plants with total board production capacity of 7,6 million m^3 a year.

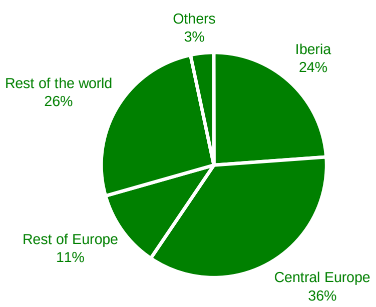
Capacity by Geography (Rawboard)



Capacity by Product (Rawboard)



In 2005, the Sonae Indústria Group generated Turnover of 1.465 million euros, with over 70% being generated in Europe.



From a management information perspective the Group is organised into three main geographic regions: Iberia, Central Europe and Rest of the World. In as much as is possible a centralised structure has been implemented at the Group's head office in Maia. Maia is responsible for all Corporate related functions and for supplying the Group with shared services - such as financial and treasury management, general accounting and planning and control - thus extracting a significant level of synergies.

A Brief History of Sonae Indústria
The history of Sonae Indústria Group is closely linked to that of the Sonae Group, which is the largest private, non-financial group in Portugal, and whose main activities cover retail, telecommunications, tourism, shopping centre development and

management and until the end of 2005, also included wood-based panels, before Sonae Indústria was demerged.

Sonae Indústria began operating in 1959 with a small industrial plant that produced decorative high-pressure laminates in Maia, which is still today the Group's head office. During the following decades, Sonae Indústria grew both organically and through acquisitions, to become one of the leading players worldwide in the wood panels sector:

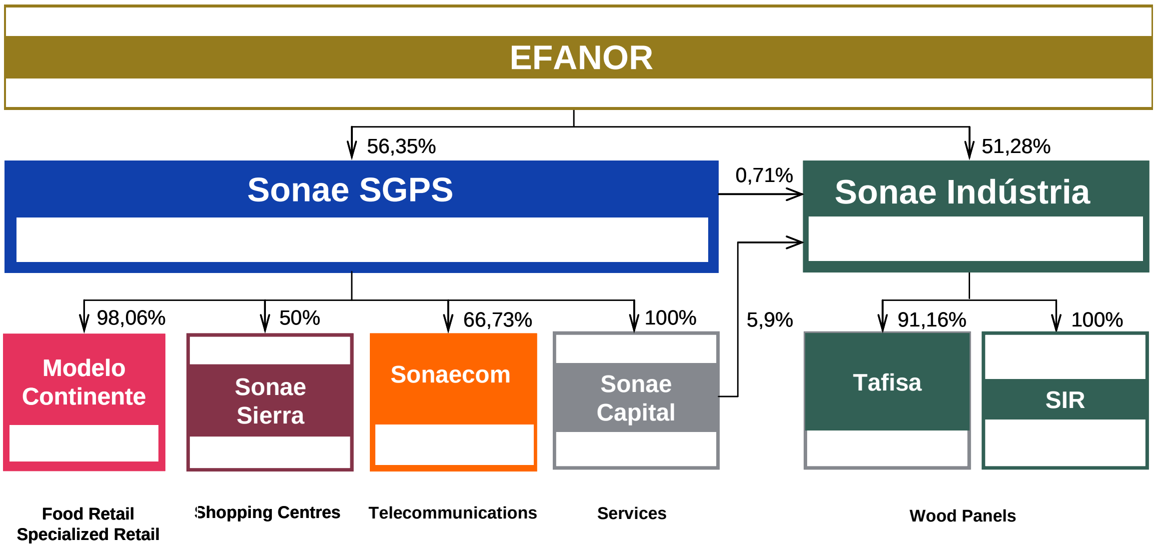
Key Milestones

1959	Sonae (Sociedade Nacional de Estratificados de Madeira) is established to manufacture decorative High Pressure laminates.
1971	Acquisition of a 50% shareholding in Novopan – particleboard manufacturer in Portugal
1975	Sonae starts production of resins
1984	Acquisition and modernization of Agloma – largest domestic producer
1987	Consolidation of leadership position in Portugal with acquisition of Siaf and Paivopan. Beginning of international expansion with aquisition of Spanboard in Northern Ireland.
1993	Acquisition of 24,9% stake in Tafisa (increased gradually to 94% in 2004) – one of the largest Spanish groups in wood-based panels, with plants in Spain and Canada.
…	Period of investment in greenfield plants in Brazil, South Africa and UK.
1998	Acquisition of Glunz, a German operator with a relevant position in Germany and France (Isoroy)
2000	Position in South Africa consolidated with acquisition of Sappi's wood based products assets.

Organisational Changes in 2005

On 23 September 2005, Sonae SGPS announced that its Board of Directors had approved the demerger of Sonae Indústria from Sonae SGPS, leading to a significant change in shareholder structure:

New Structure (as of 15 December 2005)



The Demerger Process

- Sonae SGPS demerged 93% of its shareholding in Sonae Indústria (representing 90.36% of the share capital of Sonae Indústria) at book value (756 million euros) to ensure tax neutrality for shareholders including Sonae SGPS;
- The demerged shares were merged into an instrumental company called Sonae 3P – Panels, Pulp and Paper, SGPS, SA and shares in Sonae 3P were given to the original Sonae Indústria SGPS shareholders and to shareholders of Sonae SGPS. Simultaneously, Sonae Indústria was merged into Sonae 3P. "Old" Sonae Indústria ceased to exist and previous Sonae Indústria shareholders received Sonae 3P shares in exchange;
- Existing Sonae Indústria shareholders received one share in Sonae 3P for each share held and shareholders of Sonae SGPS received 0.0677966103 Sonae 3P shares for each Sonae SGPS share held. There was a rights trading period in the first week of January;
- The Board composition of Sonae 3P remained the same as that of "old" Sonae Indústria and Sonae 3P changed its name to "new" Sonae Indústria, SGPS,SA;
- Shares in the "new" Sonae Indústria (ex-Sonae 3P) that were given to the original shareholders of Sonae Indústria were listed on Euronext Lisbon on 27 December 2005. Shares given to holders of "spin-off" rights were listed on 20 January.

The key effects achieved from the demerger process are that Sonae Indústria has become an autonomous entity from the Sonae Group and that it has increased its visibility in capital markets as a result of the significant change in its free-float from just under 3% to just over 42%.

Sector Review for 2005

The recovery of the European wood-based panels business, initiated at the end of 2003 and consolidated in 2004, slowed at the beginning of 2005 leading to lower than expected levels of demand and production. Nevertheless, performance was slightly different among the three main product categories.

The European Panel Federation (EPF) estimates that particleboard production in 2005 dropped overall 1.5%, while consumption decreased 4%. Notwithstanding the decline compared with 2004, production and demand figures are better than those registered in 2003.

The beginning of 2005 was rather different for the European MDF market, with production rising by more than 6% in the first quarter, though domestic demand failed to fulfil producers' expectations, leading to an adjustment in the output level for the second quarter. However, the second half of the year brought a recovery in foreign demand, compensating weaker domestic markets. For the whole of 2005 production is estimated to have grown 3% to a total of more than 13 million m^3,

OSB production abandoned the two-digit growth rates registered in the last few years to rise a modest 3% in 2005, exceeding the 3 million m^3 level. The declining trend in European demand was more than compensated by the sound performance of export markets, especially North America where OSB consumption was prompted by the strength of the housing market. The first investment in a new OSB site, since 2001, started operating in the Czech Republic.

On the demand side, the European wood-based panels sector is being affected by the disappointing performance of the furniture and construction industries. The world furniture industry is undergoing structural changes and Europe is no exception. The fast development of furniture production in emergent countries, especially China and Southeast Asia, the relocation of production capacity to geographies with lower production costs, and the private consumption slowdown in the main Western European economies is negatively influencing furniture production in Europe. In addition, with the imposition of anti-dumping measures by the United States against wooden furniture imported from China, Europe and Canada have increasingly become primary targets for Chinese exports, which have now moved from lower-quality, lower cost items to better quality furniture.

The year was also problematic for the European construction industry and in November 2005, Euroconstruct (an association of European construction institutes) revised downwards its estimate of construction output growth from 2.2% to 1.3%, in particular due to the poorer than expected development of the sector in four main economies: Germany, Italy, UK and France. Construction in Western European countries is registering only modest growth whereas Central and Eastern European economies are significantly stronger.

The European wood-based panels industry is being strongly affected by a general increase in production costs with record oil prices affecting energy, resins and transport costs. The situation is also negative for wood costs that have risen by nearly 20% since 2002 due primarily to increasing competition from the bio-energy industry. Following concerns expressed by wood-based panels producers on this matter, the European Commission has decided to review the impact of the use for energy production of wood and wood residues on forest based industries.

Due to the weak performance of domestic demand, wood-based panel prices in Europe inverted last year's upward trend. While particleboard prices registered only a slight decrease, MDF and OSB recorded a more significant reduction. The combined effect of rising production costs and decreasing prices has affected producers' profitability.

This challenging environment has led to further pressure for the wood-based panels industry to consolidate.

In North America, activity in the main end-use markets for wood products was strong in 2005, boosted by continued growth in housing construction, repair and refurbishing. Exceptions to this trend were the industrial and non-residential construction markets which posted lower and declining growth respectively. The furniture industry continues to face the challenge of strong imports, namely from Asia, supported by relatively weak local currencies, low manufacturing costs and state-of-the art production plants in China.

As regards structural panels, North American production posted moderate growth as strong demand was satisfied primarily by imports from Europe for OSB and Brazil for plywood. Average prices held up well in 2005, although below the highs of early 2004. The hurricanes on the Gulf coast during the year boosted prices to some extend, primarily due to disruptions in supply and a pick-up in demand in 3Q05. Particleboard demand and capacity supply were stable in 2005. Although prices were relatively weak, producers were able to pass on at least a portion of their higher production costs. MDF was boosted by strong residential demand, namely from demand for laminate flooring, which also led to increased imports.

China's production and consumption of wood-based panels has continued to evolve rapidly in order to satisfy the demand registered from the fast growing local furniture and laminate flooring industries, and, as in previous years, several new lines started operating during 2005. Asian countries are building up their own production capacities, using modern European technology, and new lines came on stream in Malaysia and Thailand and further investment in capacity is expected in 2006 and 2007.

In South America, particleboard and MDF markets have evolved significantly in the last years, primarily due to the development of the main market driver - the furniture industry in Brazil and Chile, an industry oriented to exporting to the United States. New investments in production capacity are planned for these two countries during 2006.

Principal Capacity Trends by Geography

Iberian Peninsula

Last year saw the start-up of Interbon's planned particleboard investments in Burgos and Tableros Talsa in Albacete. The increase in installed production capacity was partly compensated by the closure of Aglomerados Ecar, a smaller particleboard producer whose site was acquired by Finsa and converted for furniture production. Finsa also acquired the Portuguese wood-based panels producer Jomar during 2005.

France

Finsa acquired Weyerhaeuser's sites in Linxe and Morcenx, and International Paper decided to close the Polyrey particleboard plant in Ussel.

Germany

Pfleiderer acquired Kunz, a wood-based panels producer with sites in Germany and North America. The sector is showing signs of some renewed confidence with two MDF investments (one new line and one modernization of an existing line) being started.

United Kingdom

No significant changes in production capacities were seen in 2005, however a replacement investment by a particleboard manufacturer has been announced for 2006.

Canada and the U.S.

North American producers were very dynamic during 2005 and some of the biggest groups are concentrating on core businesses and markets, thus divesting from some operations.

International Paper sold its 50.5% stake in the New Zealand panels' producer Carter Holt Harvey to concentrate on its paper business. Also in New Zealand the US forest products company Rayonier sold its MDF activities to the South Korean group Dongwha in order to focus on its core timber and real estate businesses.

Weyerhaeuser sold its two production sites in France and has already announced plans to sell its remaining particleboard and MDF sites, including its production site in Ireland, thus focusing their portfolio on OSB and plywood manufacture, forestlands and pulp & paper.

The new player Aconcagua continued to build up production capacities by acquiring the Pembroke (Ontario, Canada) site from Temple Inland. Also in Canada, Georgia-Pacific agreed the sale of its stake in the GP Flakeboard joint-venture to its partner Flakeboard. Later in the year, the Georgia-Pacific group was acquired by Koch Industries, a diversified group of companies engaged in industries such as chemicals, energy or pulp & paper.

In the laminate flooring and panels business the US group Mohawk, one of the world's largest floor covering manufacturers, acquired the Belgian group Unilin.

Due to the strong performance of OSB demand registered over recent years, installed production capacity for this product is set to increase over 2006-2007, several investments already having been announced.

Brazil

The wood-based panels market in Brazil was relatively stable in terms of production capacity with the exception of one important acquisition: the Chilean Arauco group acquired several assets from the Louis Dreyfus conglomerate, including the Brazilian particleboard and MDF producer Placas do Paraná, thus gaining internal access to the panels market in Brazil.

Fibraplac (Isdra Group) decided to cancel its investment in a new particleboard line in favour of a second MDF line in Rio Grande do Sul.

South Africa

No major changes in capacity occurred during 2005.

Sonae Indústria - Review of Operations in 2005

Iberia

Spanish and Portuguese construction and furniture industries witnessed contrasting trends. Whereas in Portugal, the construction sector continues to decline (down 18% in 2005), Spanish residential construction still posted strong growth, with more than 600 thousand new houses built in 2005. Spanish furniture consumption performed well however furniture manufacturing remained flat year on year, as a consequence of pressure from higher imports and lower exports. Portugal actually increased its exports of furniture which now represent approximately 50% of sales.

Tafisa focused its efforts on sustaining market share with particular emphasis on improving customer service, product portfolio management and consolidating its presence in strategic export markets.

Total Income excluding non-recurrent items grew by 6% in 2005 to 443 million euros. This increase was helped by an overall improvement in average prices year-on-year, led by a change in product mix, tending towards higher value added products, particularly in MDF based products. Although overall volumes declined, this was more than offset by price improvements.

Variable costs were affected by higher energy and chemical costs however their impact has been minimized mainly through better wood costs in the PB production process. This has been led by important investments in recycling sites, self management of forestry activities and technical developments to allow a higher proportion of eucalyptus consumption.

EBITDA in 2005 was 83 million euros, up 27% from the previous year, of which 24 million euros were related to non-recurrent items (4,5 million euros in 2004), namely the sale of forestry land and of shares in Tafisa. EBITDA from underlying operations represented 13% of Total Income.

Central Europe - Germany, France and UK

Demand in the main market segments – trade and industry - was generally flat to weak when compared to 2004. Total demand for wood based products declined, primarily led by a continued slowdown from industry.

Despite the slowdown in domestic demand, Glunz (Sonae Indústria Germany) was able to increase sales volume on the back of higher exports to strategic markets.

Particleboard prices were strong in all of Central Europe whereas improvements in MDF prices were registered only in France and the UK. Negative pressure was felt on OSB prices, particularly in Germany due to the fact OSB that prices in this region are exposed to the high price volatility of OSB prices in the US market, given that the latter is a strategic export market.

In November 2005, a 50/50 joint venture was signed with Tarkett A.G. to build an integrated laminate flooring production plant at Sonae Indústria's existing MDF site in Eiweiler to produce and sell laminate floorings in Western Europe, Africa, Asia and Oceania. Final production capacity will be 30 million m^2. The joint-venture will operate together in the above markets, using Sonae Indústria's know-how within the panel industry and Tarkett's within the flooring industry.

In Germany, nearly all plants were run at full capacity utilisation. French utilisation rates were affected by a de-bottlenecking investment in the Lure plant and by an important investment made at the Ussel plant, which will permit an improvement in capacity utilisation rates in 2006. In the UK, an additional investment was completed in 2005, enabling provision of adequately cleaned raw recycled fibre to the production process. However, during implementation, some constraints in production capacity were felt.

Sonae Indústria has completed the roll-out of an integrated, SAP based information system across its German and French operations and is now extending roll-out to other countries.

The competitive environment remains challenging as there is still excess capacity in both France and Germany and the opportunities to pass on some of the increased input costs have been arising slower than in other geographies where Sonae Indústria operates. Some consolidation was already seen during 2005, namely the acquisition of Weyerhauser's French plants by Finsa and the acquisition of Kunz by Pfleiderer, which should represent a step towards reducing excess capacity in the market and stabilizing competitive pressures.

Total Income in Central Europe was marginally lower than in 2004, by 0,2%, at 782 million euros. EBITDA was 40 million euros in 2005, compared with 68 million in 2004 representing a margin of 5% of Total Income.

Rest of the World - Canada, Brazil and South Africa

Market conditions were mixed in 2005. North American housing starts remained strong, led by the low interest rate environment and, despite the appreciation of the CAD over the USD, the Canadian economy has shown remarkable resilience. The Brazillian market was characterized by a general decline in volumes of PB and flooring sold and slow growth in MDF. This trend is explained by a slowdown in production levels of the furniture industry caused by lower internal demand and a decline in exports, primarily due to the significant revaluation of the Real. The flooring market is also facing strong competition from alternative flooring products such as ceramics and carpets. Notwithstanding the fact that the Brazillian market continues to exhibit excess capacity, three new investments in MDF lines have been announced. Market conditions in the South African (SA) market remained favourable for the year, led by the positive macroeconomic environment, and with a shortfall in capacity throughout the industry. Both the SA construction and furniture manufacturing sectors reported robust growth.

Sonae Indústria's Canadian sales to the United States decreased to 45%, with a marginally negative impact on total sales of the CAD revaluation against the USD. Brazil achieved an increase in Turnover, despite the weak market environment, on the back of a rise in sales of melamine, Raw PB and MDF. However, the appreciation of the Real, led to a significant decline in export volumes. Sales in South Africa recorded growth of more than 13% in 2005 on the back of strong consumer demand and the low interest rate environment. A notable evolution in South Africa was the shift in production to a higher proportion of PB, at the expense of MDF, to satisfy local demand, a trend that is likely to continue into 2006. Sonae Indústria's flooring brand (Poliface) is positioned as a premium brand in SA and has been extremely successful at capturing market share.

The high oil prices again impacted the level of variable costs, namely in terms of chemicals, resins and energy costs. In the Canadian market, the supply of fibre has been under some pressure as a result of the decline in competitiveness of the

Canadian sawmills due to the significant revaluation of the CAD against the USD. A number of other issues are also affecting the supply of fibre in Canada: (i) softwood sawmills are facing countervailing and antidumping duties on softwood lumber exports from Canada into the US (ii) the new forest management legislation in Quebec has reduced the harvest rights on softwood public land by 15% to 20% (iii) many of the hardwood sawmills are not running at full capacity as China has been exporting more hardwood flooring into the US (iv) utilization of recycled wood for energy production has increased thereby reducing the amount of fibre available for panels production.

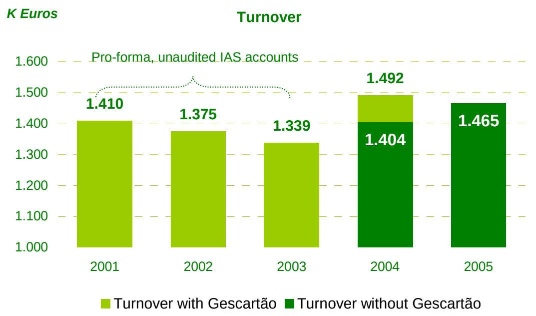
Sales volume grew on average by 4% accompanied by an improvement in average prices. Total Income was 368 million euros, up 16% from 2004 also influenced by favourable exchange rate movements, and EBITDA was 82 million euros representing a margin of 22% of Turnover.

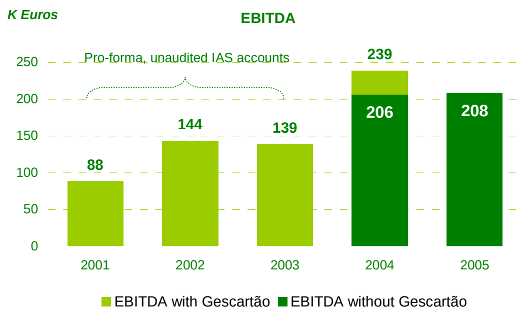
Some investments were made in 2005 namely the start-up of the recycled wood project in Canada, which has allowed the Lac Megantic PB plant to start using recycled wood in the manufacturing process. A new melamine line is planned for 2H06, which together with the refurbishment of an existing line, will allow the Canadian operation to increase its melamine production capacity by close to 50%, leading to increased production of value added products.

Financial Review for 2005

In order to be able to compare underlying operational and financial performance, on a comparable basis Gescartão has been excluded from the 2004 figures, as the company was sold at the end of 2004 and did not contribute to 2005 figures.

Consolidated Turnover grew by 4% in 2005 to 1.465 million euros. Sales performance was supported primarily by an overall improvement in average prices, across all geographies with the exception of the German market. Sales volumes were in line with 2004 as a result of higher volumes in Germany and the Rest of the World and lower volumes in Iberia, France and the UK.



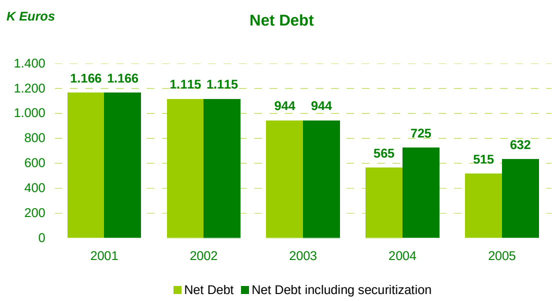


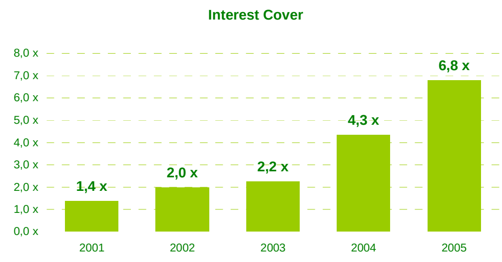
Rising oil prices drove up costs throughout 2005, affecting Sonae Indústria's cost of energy, resins and chemicals and direct and indirect transport costs. Some savings were achieved in fixed costs, mainly in terms of staff costs (-1%) as a result of further restructuring measures implemented throughout the year. Fixed costs represented close to 19% of Turnover in 2005, which was in line with 2004

In 2005, EBITDA included 24.5 million euros of non-recurrent items primarily from the sale of forestry assets and shares in Tafisa. Non-recurrrent items in 2004 were of 4.5 million euros. EBITDA in 2005 was 208 million euros, representing 14% of Turnover.

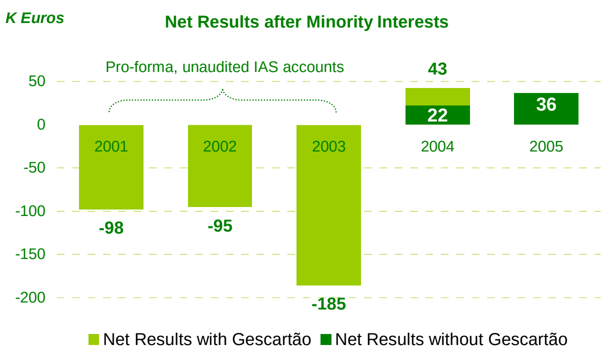
Depreciation charges of 102 million euros in 2005 were 2% lower than in 2004. Provisions in 2005 fell to 1 million euros, compared with 9,5 million euros in 2004. As a result, EBIT in 2005 increased 3% in comparison with 2004 to 108 million euros.

A significant improvement was achieved in Net Financial Results in 2005 which reduced to a negative 44 million euros, 38% better than in 2004 driven by the continued reduction in Gross Debt, improved financial conditions and more favourable exchange rates. The lower level of gross debt led to an increase in interest coverage ratio from 4.34x in 2004 to 6.8x in 2005.





Earnings before Tax in 2005 increased by 79% in comparison with 2004 to 64 million euros. Income Tax in 2005 was 28 million euros and Net profit after Minority Interests in 2005 was 36 million euros, up 67% from 22 million euros in 2004.



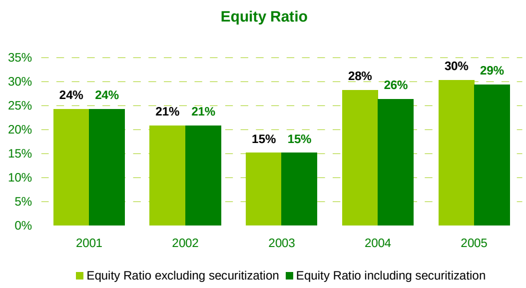
Sonae Indústria has focused on improving its capital structure, which had been strained as a result of a period of heavy investment which coincided with a challenging period for the wood panels sector at the beginning of the decade.

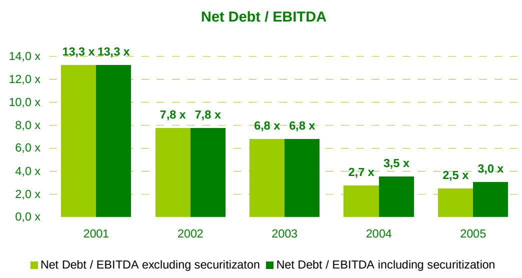
The improvement in Sonae Indústria's capital structure was driven by the increase in Equity led by higher profitability, the continued reduction in Gross Debt and the improved debt profile in terms of both maturity and amortization of the facilities negotiated. In addition, Sonae Indústria has no financial covenants in place.

Due to a clarification of the interpretation of IFRS 39, the receivables securitisation programme previously treated as off balance sheet financing was brought onto the balance sheet and comparative figures were also restated. Gross Debt stood at the end of 2005 at 751 million euros, a reduction of 55 million when compared to the restated debt at the end of 2004 and available liquidity at the end of 2005 stood at 120 million euros. As a result, Net Debt reduced by 13% during 2005 to 632 million euros.

As a consequence of these improvements in profitability and in the capital structure:

- Our Equity Ratio increased from 26% in 2004 to 29% in 2005;
- Net Gearing reduced from 154% to 119%;
- Net Debt to EBITDA fell from 3.52x to 3.04x.





Working Capital at the end of 2005 was 233 million euros compared with 229 million euros at the end of 2004 and CAPEX during the year was 41 million euros.

Review of the Individual Accounts of the Holding Company Sonae Indústria SGPS

Sonae Indústria SGPS, as the holding company of the Sonae Indústria Group, defines the strategic guidelines for the Group and actively manages shareholdings and monitors the business activity of its subsidiaries. Amongst its main activities, It is responsible for the global finance function, allocating funds for investment and for treasury requirements to its subsidiaries.

The following financial transactions, occurred in 2005 in the "old" Sonae Indústria, prior to the demerger process:

a) As a result of changed circumstances at Socelpac SGPS SA, the value at which this shareholding was recorded in the accounts was considered to be excessive. As such, an imparity loss of 74,685,976 euros was recognised in the profit and loss statement, under "Provisions and imparity losses". This has no impact in the consolidated accounts;
b) Sonae Indústria SGPS SA acquired Agloma – Soc. Industrial de Madeira Aglomerada, S.A. from Tafiber Ibéricos – Tableros de Fibras S.L. for 56,800,000 euros in June;
c) Accumulated losses at Ecociclo – Energia e Ambiente, SA were covered by a cash injection of 460,968,74 euros;
d) Sonae Industria SGPS SA sold 1,850,000 shares in Tafisa during February through the stock exchange;
e) Sonae Indústria issued 55,000,000 euros of bonds on 31 March 2005. The issue (Sonae Indústria 2005/2013) has a bullet repayment at the end of the 8 year term. Interest is based on EURIBOR 6 months with an 87.5 basis point spread and is payable every 6 months on 31 March and 30 September;
f) Sonae Indústria issued 100,000,000 euros of bonds on 27 April 2005. The issue (Sonae Indústria 2005/2008) has a bullet repayment at the end of the 3 year term. Interest is based on EURIBOR 6 months with a 100 basis point spread and is payable every 6 months on 27 April and 27 October;
g) Sonae Indústria issued 150,000,000 euros of bonds on 27 April 2005. The issue (Sonae Indústria 2005/2010) has a bullet repayment at the end of the 5 year term. Interest is based on EURIBOR 6 months with a 110 basis point spread and is payable every 6 months on 27 April and 27 October;
h) During 1H05, a 50.000.000 euros facility in place at Sonae SGPS SA since 2001 with the European Investment Bank, was transferred to Sonae Indústria. The facility pays interest every quarter, at market rates, and the principal is repaid in 16 consecutive payments every six months. At 31 December 2005, the facility outstanding was 34,375,000 euros.

The following financial transaction, occurred in 2005 in the "new" Sonae Indústria, post the demerger process:

i) Sonae Indústria injected 194,433.04 euros to cover accumulated losses at Maiaequipa – Gestão Florestal SA in December 2005.

As explained at the beginning of this report, the demerger-merger-merger process of Sonae Indústria from Sonae SGPS was completed on 15 December 2005, with effect in the financial statements as of 1 October 2005. As a result, Sonae SGPS demerged 126.510.092 shares (90.36% of the share capital) of Sonae Indústria – SGPS, SA from its asset base and these were merged into a vehicle company, Sonae 3P, which fully incorporated Sonae Indústria – SGPS share capital. The "old" Sonae Indústria ceased to exist and the vehicle company, Sonae 3P, was renamed to Sonae Indústria, SGPS, SA.

Given that Sonae 3P's original share capital was 50.000 euros represented by 10.000 shares, and the company already owned 10 thousand shares of the "old" Sonae Indústria, the final share capital of the "new" Sonae Indústria is 700.000.000 euros represented by 140.000.000 shares with a nominal value of 5 euros per share.

Treasury Shares

The Company did not acquire or sell any own shares during the year. As at 31 December, the Company did not hold any own shares.

Proposal for Appropriation of Results

Sonae Indústria, SGPS, SA, as the holding company of the Group on an individual accounts basis, achieved net profits of 1,199,879.02 euros for 2005. The Board of Directors will propose to the Shareholders' General Meeting that this net profit should be appropriated as follows:

Retained Earnings	157,748.96 euros
Legal Reserves	59,993.95 euros
Free Reserves	982,136.11 euros

Subsequent events

In January 2006, Sonae Indústria approved an investment in a new continuous press line for the manufacture of particleboard at its South African plant in White River. Estimated capital expenditure totals 45 million euros. The investment in new capacity will position Sonae Indústria to capture the additional growth potential of the South African market, thus sustaining its strong market position and ensuring long term profitability. Total capacity at the White River plant will be increased by 270 thousand m^3 a year and the new production line is expected to be up and running by mid 2007.

In line with Sonae Indústria's stated strategy for Central Europe, on 22 February an agreement was reached to acquire the assets of the Hornitex Group in Germany. The transaction is subject to approval by the Competition Authorities and entails the acquisition of the assets of two production plants, Horn and Duisburg and 100% of the shares of the company that owns a third plant, Beeskow, which will taken together, increase Sonae Indústria's wood panel production capacity in Germany, by just under 1,5 million m3 to almost 3,5 million m3. As a result, Sonae Indústria's global wood panel production capacity will increase to over 9 million m3. The acquisition price for the assets and shares is approximately 60 million.

Outlook

We anticipate that we will see a marginal increase in sales volumes in 2006, with stronger growth in consumption of wood panels in the South African and Canadian markets. No significant disruptions to production capacity are foreseen in the main markets where Sonae Indústria operates and as a result, in overall terms, pricing dynamics are likely to be stable or slightly positive.

The continuing impact of high oil prices on our costs is a concern for Sonae Indústria as this not only affects direct energy costs, but also affects the cost of chemicals and the transport cost of raw-materials and finished goods. Sonae Indústria's ability to sustain current levels of profitability will depend on our ability to offset higher input costs with internal efficiency gains, and the strength of our markets.

Dividend Policy

Sonae Indústria has not distributed dividends in recent years, in particular throughout a period whereby it was important to strengthen the balance sheet, namely until 2004. As regards the future, and given that Sonae Indústria now generates positive results, shareholders will decide in the General Shareholder Meeting, whether they wish to continue to reinvest in the company or to deliberate on the pay-out of a portion of the Net Results generated, in the form of dividends.

Acknowledgements

The Board of Directors would like to thank our employees for their relentless commitment to achieving continuous improvements in efficiency and operating profitability, and their contribution to transforming Sonae Indústria into a leading wood panel's producer world wide. The Board extends its thanks to all its customers for choosing Sonae Indústria's products and to its financial stakeholders, both banks for facilitating the restructuring of the Group's Capital Structure and equity holders for their continuing confidence in Sonae Indústria's ability to create value for shareholders. Thanks are also extended to the Statutory Auditors for their valuable advice and help provided during 2005.

Maia, 10 March 2006

The Board of Directors,

____

Belmiro de Azevedo

____

Carlos Bianchi de Aguiar

____

Christian Schwarz

____

José Antonio Comesaña

Rui Correia

Louis Brassard

Paulo Azevedo

Álvaro Cuervo

Ángel Altozano

Per Knuts

Thomas Nystén

APPENDIX REGARDING ARTICLE 447 OF THE COMPANY LAW

		Acquisitions		Sales		Balance at 31.12.2005
	date	amount	€ average value	amount	€ average value	amount
Belmiro Mendes de Azevedo						
Efanor Investimentos, SGPS, SA (1)						49,999,997
Demerger-Merger rights (*)						14,901
Split of rights	28.12.2005	14,901	0			
Carlos Bianchi de Aguiar						
Demerger-Merger rights (*)						10,620
Split of rights	28.12.2005	10,620	0			
Rui Manuel Gonçalves Correia						
Demerger-Merger rights (*)						35,000
Split of rights	28.12.2005	35,000	0			
Tableros de Fibras, SA	22.04.2005	100	1.28			100
Duarte Paulo Teixeira de Azevedo						
Efanor Investimentos, SGPS, SA (1)						1
Imparfin, SGPS, SA (5)						150,000
Demerger-Merger rights (*)						360,591
Split of rights		360,591	0			
Jose Antonio Comesaña Portela						
Tableros de Fibras, SA						57,024

		Acquisitions		Sales		Balance at 31.12.2005
	date	amount	€ average value	amount	€ average value	amount
(1) Efanor Investimentos, SGPS, SA						
Sonae Indústria - SGPS, SA (***)						0
Acquisition	16.09.2005	10,000	5.26			
Sale	21.09.2005			10,000	4.20	
Sonae Indústria, SGPS, SA						10,000
Acquisition	29.07.2005	50 000 (**)	0.93			
Pareuro, BV **(2)**						20,000
Sonae-SGPS, SA **(3)**						658,804,410
Sale	18.07.2005			291,179,305	1.14	
Demerger-Merger rights (*)						658,804,410
Split of rights	28.12.2005	658,804,410	0.00			
(2) Pareuro, BV						
Sonae, SGPS, SA						400,000,000
Acquisition	18.07.2005	291,179,305	1.14			
Demerger-Merger rights (*)						400,000,000
Split of rights	28.12.2005	400,000,000	0.00			
(3) Sonae-SGPS, SA						
Sonae Indústria - SGPS, SA (***)						0
Demerger-Merger	15.12.2005			126,510,092		
Sonae Indústria, SGPS, SA						1,000,000
Sale	30.12.2005			8,322,354	6.45	
Sonae Capital-SGPS, SA **(4)**						391,046,000
(4) Sonae Capital-SGPS, SA						
Sonae Indústria, SGPS, SA						8,322,354
Acquisition	30.12.2005	8,322,354	6.45			
(5) Imparfin, SGPS, SA						
Sonae, SGPS, SA						4,105,273
Demerger-Merger rights (*)						4,105,273
Split of rights	28.12.2005	4,105,273	0.00			

(*) - Rights resulting from the demerger-merger and merger operation that involved Sonae, SGPS, SA, Sonae Indústria - SGPS, SA (extinguished company) and Sonae 3P - Panels, Pulp and Paper, SGPS, SA (renamed Sonae Indústria, SGPS, SA) registered on January 2nd, 2006 in the accounts of their respective holders.

On January 20th, 2006, these rights were converted in Sonae Indústria shares as follows:

Belmiro Mandes de Azevedo	1,010
Carlos Bianchi de Aguiar	720
Rui Manuel Gonçalves Correia	2,372
Duarte Paulo Teixeira Azevedo	24,446
Efanor Investimentos, SGPS, SA	44,664,706
Pareuro, BV	27,118,645
Imparfin, SGPS, SA	278,324

(**) - Shares with a nominal value of 1€, later changed to 5 €, with the unification of shares in one share.

(***) - Sonae Indústria - SGPS, SA (extinguished company)

APPENDIX REGARDING ARTICLE 448 OF THE COMPANY LAW

	Number of shares at 31.12.05
Efanor Investimentos, SGPS, SA	
Sonae Indústria,SGPS, SA	10,000
Demerger-Merger rights (*)	658,804,410
Pareuro, BV	20,000
Sonae-SGPS, SA	658,804,410
Pareuro, BV	
Demerger-Merger rights (*)	400,000,000
Sonae, SGPS, SA	400,000,000
Sonae-SGPS, SA	
Sonae Indústria, SGPS, SA	1,000,000
Sonae Capital-SGPS, SA	391,046,000
Sonae Capital-SGPS, SA	
Sonae Indústria,SGPS, SA	8,322,354

(*) - Rights resulting from the demerger-merger and merger operation that involved Sonae, SGPS, SA, Sonae Indústria - SGPS, SA (extinguished company) and Sonae 3P - Panels, Pulp and Paper, SGPS, SA (renamed Sonae Indústria, SGPS, SA) registered on January 2nd, 2006 in the accounts of their respective holders.

On January 20th, 2006, these rights were converted in Sonae Indústria shares as follows:

Efanor Investimentos, SGPS, SA	44,664,706
Pareuro, BV	27,118,645

QUALIFIED SHAREHOLDINGS

Complying with Article 8, no. 1, e) of the CMVM Regulation no. 04/2004

Considering the participation of this company in a demerger-merger and merger operation, and that shares were attributable in two different moments, the last of which in January 2006, the information at 31 December 2005 does not properly give evidence of the qualified shareholdings held in this company. Therefore, the information below shows the holders of qualified shareholdings at 20 January 2006 (the date of the last attribution of shares).

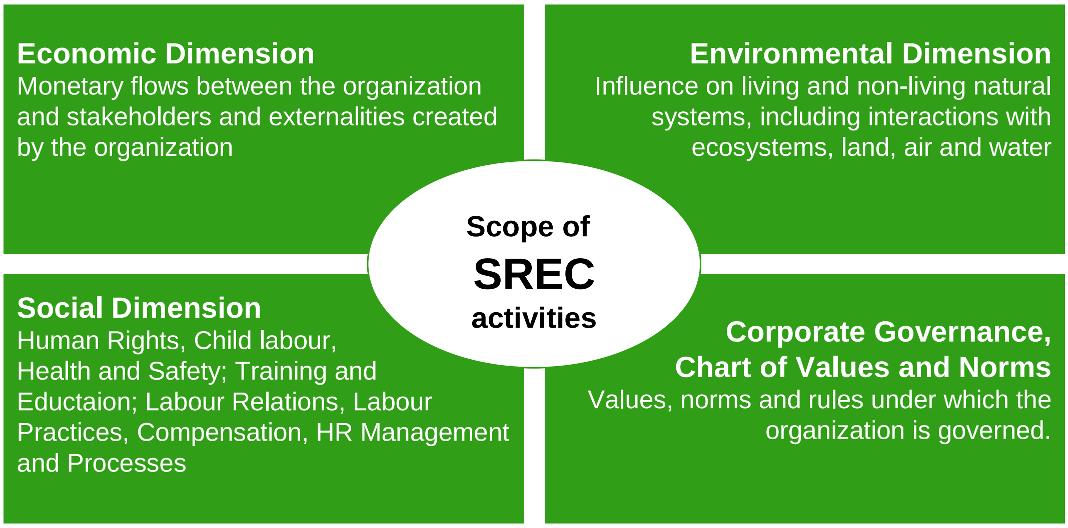
Shareholder	No. of shares	% Voting rights
Efanor Investimentos, SGPS, S.A.	44,674,706	31.9105%
Pareuro, BV	27,118,645	19.3705%
Sonae, SGPS, SA	1,000,000	0.7143%
Sonae Capital, SGPS, SA	8,322,354	5.9445%
Sonaecom, SGPS, SA	75,937	0.0543%
Maria Margarida CarvalhaisTeixeira de Azevedo	1,010	0.0007%
Nuno Miguel Teixeira de Azevedo	969	0.0007%
Duarte Paulo Teixeira de Azevedo	24,446	0.0175%
Maria Claudia Teixeira de Azevedo	22,146	0.0158%
Total allocation	81,240,213	58.0288%
Centaurus Capital LP		
Centaurus Alpha Master Fund Limited	2,629,958	1.88%
Citi Centaurus Limited	92,460	0.07%
Greenway Managed Account Series Limited	149,028	0.11%
Total allocation	2,871,446	2.06%

Social and Evironment Report

Social and Environment Report

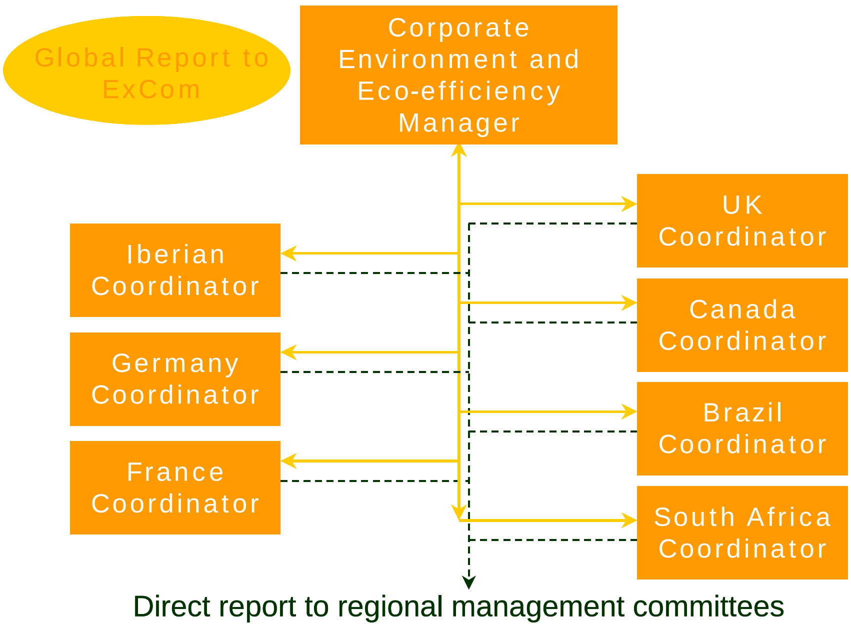
I. Governance Structure and Management Systems

The Social Responsibility and Environment Committee ("SREC")[1] is responsible for analysing the impact of economic, environmental and social dimensions of sustainability and of corporate governance on the management of the business.



The SREC assumes a challenger role within Sonae Indústria and promotes discussion and subsequent recommendations of key and emerging environmental and social issues that are relevant to Sonae Indústria's business, and which are then conveyed as challenges to the Executive Committee.

To ensure effective implementation and management of the Group's strategic guidelines for environmental management, Sonae Indústria established already in 2003 the "Corporate Environment and Eco-Efficiency Department". It coordinates environmental strategy across the various geographic regions of the Group.



[1] Board Committee.

The mission of the Corporate Environment and Eco-Efficiency Department is to support Sonae Indústria in abiding by local environmental regulations and challenge the organization to continuously improve its performance in this field. It is responsible for assessing the relevance of and exposure to all local environmental issues and establishes goals by country in accordance with local management committees. The local Coordinators are then responsible for implementing established guidelines, and monitoring and reporting them.

One of the core objectives of the Environment and Eco-Efficiency Department in recent years has been the integration of environmental management in the management processes and systems of the various companies throughout the Sonae Indústria Group. A milestone in this process is the achievement of third party certification of management systems.

Sonae Indústria's Environmental Management Systems are, as much as is possible integrated with issues related to Quality, Health and Safety and Chain of Custody of Forestry Products. The following table presents a status of management system certification, at the end of 2005:

		Quality	Environment	Forest products Chain-of-Custody		Health & Safety
		ISO 9001	ISO 14001	PEFC	FSC	OHSAS 18001
PORTUGAL	Maia*	✓				
	Mangualde	✓	on going (2006)	on going (2006)		
	Oliveira do Hospital	✓	on going (2006)	on going (2006)		
	Sines*	✓	on going (2006)	not applicable	not applicable	
SPAIN	Betanzos	✓		✓		
	Linares	on going (2006)	on going (2006)	✓		
	Solsona	✓		✓		
	Valladolid	✓		✓		
FRANCE	Auxerre	✓		✓		
	Chatellerault	✓		✓		
	Le Creusot	✓ [2]		✓		
	Lure	on going (2006)		✓		
	St Dizier	✓		✓		
	Ussel	on going (2006)		✓		
GERMANY	Meppen	✓	✓	✓	✓	
	Eiweiler	✓	✓	✓	✓	✓
	Nettgau	✓	✓	✓	✓	
	Kaisersesch	✓	✓			
THE UNITED KINGDOM	Knowsley	✓	✓		✓	
	Coleraine	✓			✓	
SOUTH AFRICA	Panbult	✓	✓			
	Whiteriver	✓	✓			
	George	✓	✓			

[2] Certification achieved in January 2006.

CANADA	Lac-Megantic	✓	✓			
BRAZIL	Piên	✓	on going (2006)			
		22	9	**13**	**5**	**1**

**NOTE: All sites refer to wood-based panels facilities with the exception of the ones in grey and marked with a "*" (the Maia site refers to a high pressure decorative laminates plant, Sines to a formaldehyde-based resins plants).*

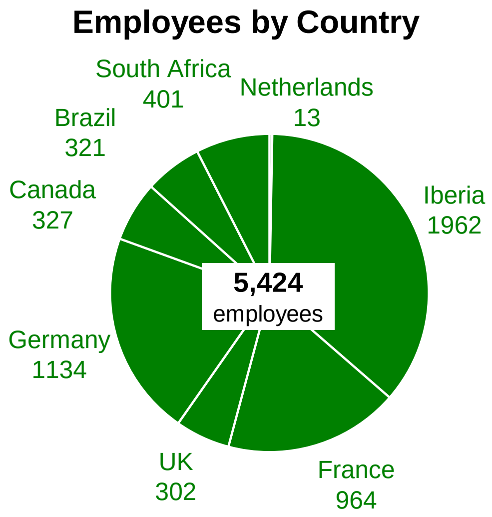
Highlights of Certification Processes

- During 2005 the Le Creusot and Meppen plants achieved PEFC certification for the chain-of-custody of forest products;
- Le Creusot achieved quality management system certification already in January 2006;
- During 2006 all plant quality management systems will be certified by a third party;
- Also during 2006, the following plants will conclude certification of their environmental management system:
  - Portugal : Mangualde, Oliveira do Hospital and Sines;
  - Spain: Linares;
  - Brazil: Piên.
- Chain-of-custody certification is also an objective for 2006 at the Mangualde and Oliveira do Hospital plants.

II. Social Report

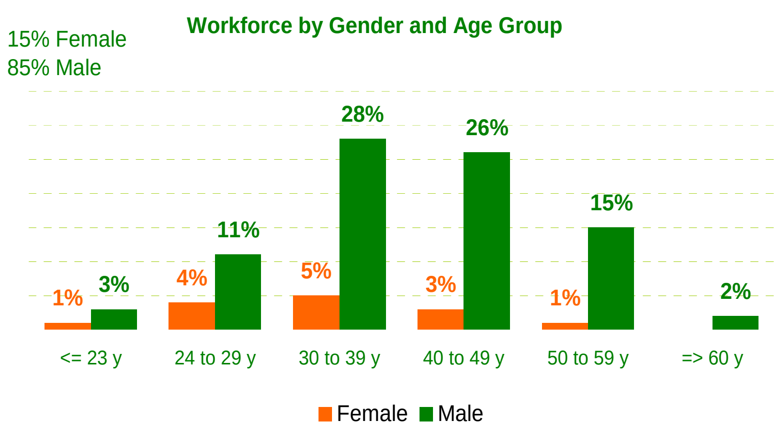
Human Resources

During the year the company continued to focus on productivity improvements. At the end of 2005, Sonae Indústria employed 5.424 people, 5% less than in the previous year.



Accumulated personnel costs at December 2005 were 206 million euros, compared with 207 million euros (excluding 14 million euros from Gescartão) in 2004.

The combination of a reduction in employee numbers and the increase in sales led to an increase of 9% in sales per employee in 2005, compared with 2004 and a cumulative increase of 30% was recorded over the past 2 years.



The company is strongly committed to analyze and promote the necessary initiatives to protect minorities and socially discriminated groups, namely in South Africa, where in 2005 the company established Employment Equity Committees at all three operational units and started an active promoted recruitment of previously disadvantaged individuals (PDIs).

Beyond continuous efforts to improve efficiency, strong emphasis is placed on health and safety and eco-efficiency related issues, which are viewed as conditions to achieve sustainable growth. These two areas will be the catalysts of sustainability management within the Group.

Health and Safety

Professional development, safety and employee well-being are key priorities for Sonae Indústria. In 2005, more than 80 thousand hours were invested in training programmes, worldwide, with 24% of this time dedicated to specific health and safety related programmes.

	2005	2004	2003
Absenteeism (% work hours)	5.00%	4.30%	4.80%
Training (thousands of hours)	80	72	67
Health and Safety Training (as % of total hours of training)	24%	27%	19%
% of total working time lost to injuries	0.6%	0.8%	0.8%

In September 2005 Sonae Indústria created the new corporate role of "Corporate Health and Safety Manager". The objectives defined for this department are to strength Sonae Indústria's promotion of sustainable development and to go beyond mere legal compliance to attain standards of excellence in Health and Safety practices.

In 4Q05, 8 countries and 17 plants were the object of an extensive Health and Safety diagnosis in order to determine the current status of the Sonae Indústria Group and to establish an action plan and guidelines going forward.

Aware of the critical role of Health and Safety for the future of the organization, it has been included in the strategic planning process and should be:

- Aligned with a Corporate Health and Safety policy that reflects the commitment, concerns and organizational vision;
- Led by standards of excellence in Corporate Health and Safety at all levels of intervention;
- Supported by systematic identification, evaluation, management and risk control processes;
- Directly linked to the strategic objectives of the business;
- Included in the planning cycle of all the Group's subsidiaries;
- Clearly defined through Health and Safety standards and policy (methodology, processes, objectives, metrics and responsibilities).

III. Environmental Report

Sonae Indústria actively embraces environmental management as a pillar of sustainability for the future. The group's environmental policy (available at www.sonaeindustria.com) is used as a management reference for:

- Compliance with environmental legislation;
- Sustainable use of natural resources by saving, reducing, reusing and recycling waste;
- Best practices in health and safety at the workplace;
- Minimizing the impact of industrial facilities on their surroundings and the environment.

The strategic importance of eco-efficiency was reinforced in 2005 as the leading theme at Sonae Indústria's International Management Meeting, a yearly forum that brings together top managers from the Group. Recommendations that resulted from discussion and workshops held at the forum, have already been incorporated in the 2006 strategic planning cycle, namely:

- Create a “common sense” on eco-efficiency;
- Design a country level training policy for eco-efficiency based on Sonae Indústria’s strategic priorities;
- Ensure plant managers and sales force reach a good and basic knowledge of eco-efficiency;
- Support the clients’ requirements for eco-efficiency needs and adapt the portfolio in accordance.

Environment and Eco-Efficiency Focus Areas

Sonae Indústria has defined a set of eco-efficiency priorities to be improved:

- I. Energy use and efficiency;
- II. Wood consumption and sustainable procurement of wood-based raw materials;
- III. Waste management;
- IV. CO_2 and other air emissions;
- V. Water use and wastewater.

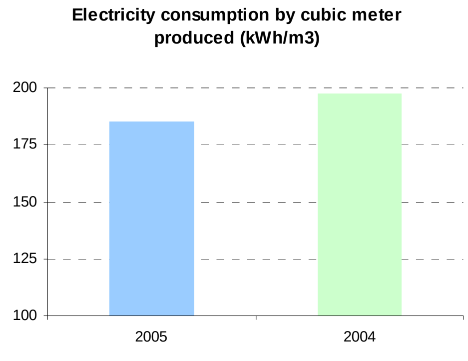
These key environmental issues for Sonae Industria were identified through workshops held at each European plant. The guidelines for discussion were based on stakeholder priorities and operational influences on the environment.

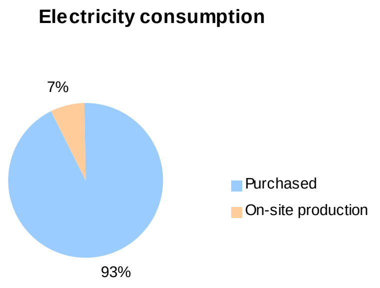
I. Energy use and efficiency

The efficient use of wood and energy is a key factor for Sonae Indústria’s overall operational efficiency. During 2005, electricity consumption was reduced from 198 kWh to 185 kWh per cubic meter.

The production of electricity on-site with co-generation facilities (representing 7% of total electricity consumption in 2005, compared with 6% in 2004) has been an important contribution to optimization of energy management.

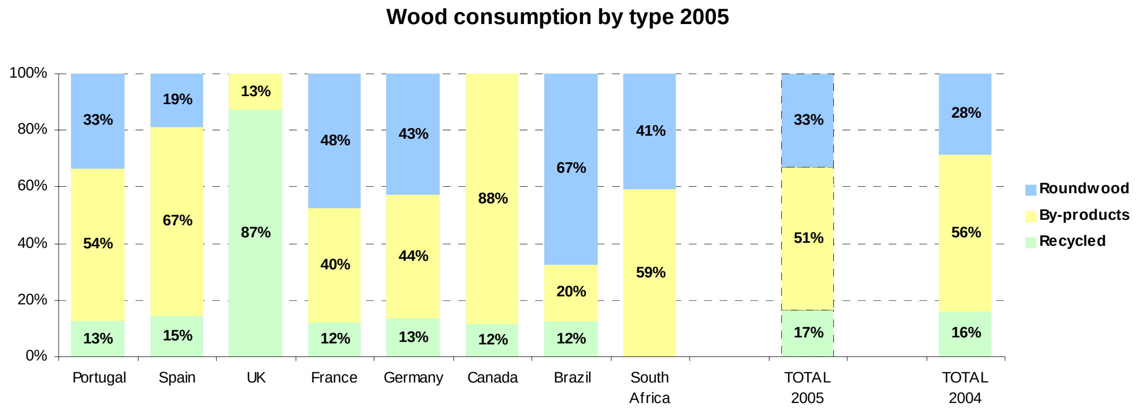
Increased efficiency in electricity consumption in 2005 compared with 2004, has offset a marginal decrease in efficiency in the use of wood raw materials.





II. Wood consumption and sustainable procurement of wood-based raw materials

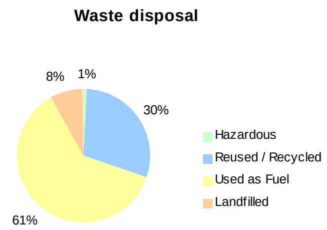
Consumption of recycled wood increased in 2005 to 17%, from 16% in 2004, as a result of the Group's increased focus on incrementing recycled wood as a source of raw materials. As an example, at the Knowsley plant in the UK, use of recycled wood in the particleboard production process reached approximately 97% in 2005.

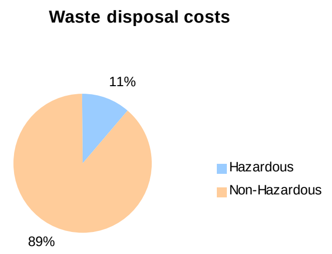


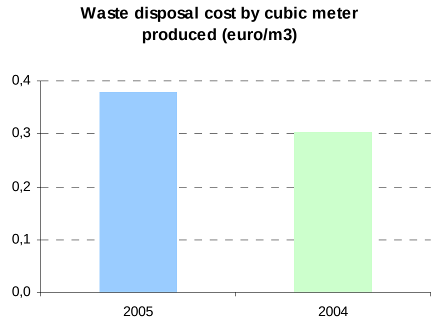
III. Waste management

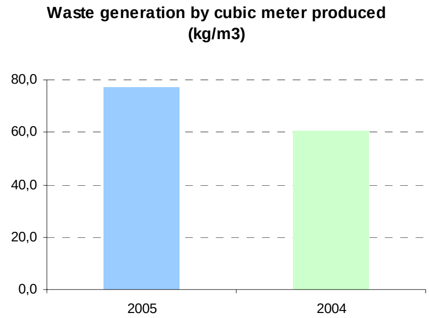
A gradual improvement in waste management accounting systems at the "plant" level has provided the Group with better quality information as regards waste management. As a result of this improvement in information systems, during 2005, an increase in waste generated was recorded, from 61 kg to 77 kg per cubic meter of production. In 2005, waste disposal costs grew by 0.08 euros to 0.38 euros per cubic meter produced.

Recycling and energy recovery contributes to the sustainable use of resources: 30% of the Company's waste is reused or recycled, and 61% is used as fuel. Only 8% is land filled, and 1% is considered as hazardous waste.









A clear and universally accepted definition of "waste" has yet to be established and without which it is proving a challenge for the various players to provide reliable and comparable data. As such, a key objective for 2006, from a waste management perspective, is to establish uniform criteria for both definition of waste and for differentiation of hazardous from non-hazardous waste.

IV. CO_2 and other air emissions

2005 was the first year of operations of the European Union Emission Trading Scheme (ETS). Five of Sonae Indústria's plants were assigned carbon dioxide emission licenses.

The Knowsley site was included in the 2004 draft of the UK National Allocation Plan. Later on, the UK authorities revised this plan and the site is no longer within the scope of the European Union ETS for 2005-2007. Now the site is only engaged in the UK wood-based panels sector "Climate Change Agreement".

At the end of 2005, the Spanish authorities also revised their NAP and emission licences were assigned to three of Sonae Indústria's sites for the period 2006-2007. The additional sites assigned with licences were Betanzos, Solsona and Valladolid.

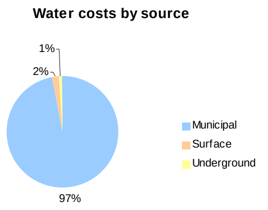
The emission allowances managed by the five plants and respective real emissions for 2005 were as follows:

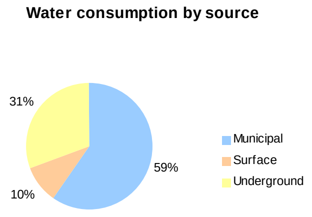
2005	Emissions Licences Assigned	Real Emissions (non-verified figures)
Eiweiler	9 733 ton CO_2	7 076 ton CO_2
Mangualde	23 122 ton CO_2	18 446 ton CO_2
Meppen	14 686 ton CO_2	13 411 ton CO_2
Oliveira do Hospital	31 678 ton CO_2	25 965 ton CO_2
Ussel	16 751 ton CO_2	16 582 ton CO_2

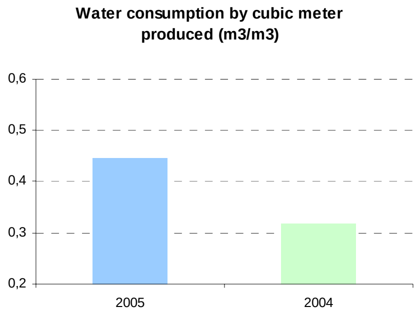
All five plants were able to stay below their carbon emissions allowances taking into consideration the non-verified real emissions values. Verification procedures are scheduled for the first quarter of 2006 for formal validation of operational data.

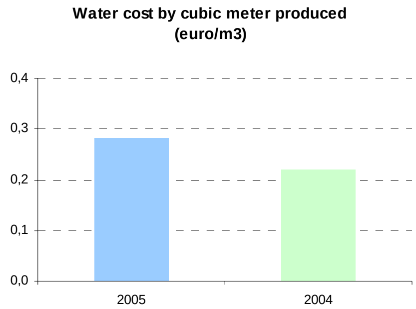
V. Water use and wastewater

The recorded consumption of water increased from 0.32 to 0.44 m^3 per unit produced, also a result of the improved environmental accounting system, which is now providing better quality and more reliable information.









Water costs increased by 0.06 euros to 0.28 euros per cubic meter per unit produced. Municipal resources account for 59% of water used, and 97% of the costs, albeit a 3% reduction in use of this source was achieved in 2005. Remaining sources of water are surface resources (10%) and underground resources (31%). A goal for Sonae Indústria in the future is to reduce the overall level of drinking water used and thus the level of costs.

Cooperation with Universities

Within the framework of a protocol between Sonae Indústria and the Universidade Nova de Lisboa (Faculdade de Ciências e Tecnologia) an eco-design project (together with an environmental diagnosis) was developed for the ready to assemble furniture business in Portugal.

This project is the platform for a second phase (to be started during 2006) that will further detail how the ready to assemble furniture business can profit from eco-efficiency opportunities linked with eco-design of its products.

Product Responsibility

Sonae Indústria is actively involved in workgroups coordinated by the two main sustainable forest management certification schemes: PEFC, Programme for the Endorsement of Forest Certification schemes and FSC, Forest Stewardship Council.

As an active stakeholder of these organizations, Sonae Indústria was able to introduce a set of certification criteria for recycled wood that focus on cleanliness and safety in use of the final product. In July 2005, PEFC recognized the positive contribution of wood recycling to the sustainable use of this resource and classified it as a certifiable raw material.

In addition, throughout its European operations, Sonae Indústria has voluntarily committed to produce only low formaldehyde emissions panels (known as E1 class products), a commitment assumed within the framework of EPF, the European Panels Federation.

Sonae Indústria is also actively engaged in the debate on future European regulation for volatile product emissions.

Outlook

A key element of the Group’s approach to environment and eco-efficiency issues entails the development of plant level eco-efficiency programmes for the period 2006-2010. These are currently being developed and will be the reference for planning and implementation of all future investments and actions at an operational level. Sonae Indústria’s primary environmental goal for 2006 is to further improve environmental systems and performance by optimizing the use of energy and raw materials.

Both eco-efficiency and health and safety will serve as catalysts to boost sustainability management within Sonae Indústria, supported by comprehensive reporting on achievements and progress in this field.

Corporate Governance Report

Corporate Governance Report

The present Sonae Industria, SGPS, SA (hereafter "Sonae Indústria") had no relevant activity prior to the demerger-merger and merger operation that occurred in December 2005 and that led to all of Sonae Indústria – SGPS, SA's activity (extinguished company) being incorporated in Sonae Indústria. The information in this report relates to both the extinguished company and the current Sonae Indústria.

0. Compliance with CMVM Recommendations

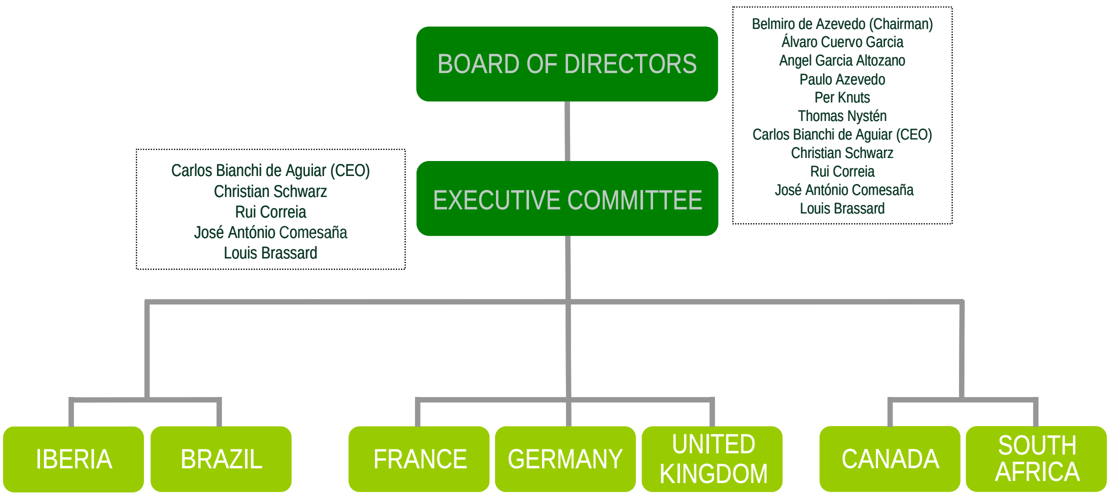
Sonae Indústria is committed to developing and implementing good corporate governance practices which go beyond complying with regulated obligations. Sonae Indústria believes that good governance reduces risk and creates shareholder value. Good governance is considered to include responsible management practices, Board governance, and a global concern with environmental, social and ethical issues.

Sonae Indústria is compliant with all but Recommendation 2 and Recommendation 8 of the Corporate Governance Recommendations made by the CMVM, (the Portuguese Securities Exchange Regulator).

As regards Recommendation 2, Sonae Indústria's statutes currently allow shareholders to vote by post in relation to changes to the Articles of Association and the election of Statutory Bodies. The restrictions to postal voting on the remaining issues are primarily viewed as a means of encouraging shareholder attendance and participation in Shareholder General Meetings and thereby establishing an interactive relationship between the Company and its shareholders.

In relation to Recommendation 8, Sonae Indústria discloses the individual remuneration of the Chairman of the Board of Directors and of the CEO, as well as the aggregate remuneration for the executive Directors and also for the Non-Executive Directors. The Board's decision is based on the fact that disclosure of individual remuneration of all Directors is not generally accepted practice amongst Portuguese companies. In addition, the Board believes that the disclosure currently made is sufficient to separately assess the remuneration of the main components of the Board: the Chairman, the CEO, the Executive Committee and the Non-Executive Directors.

1. Governing Bodies, Constitution and Organization.



1.1. Board Composition and Organization

Sonae Indústria's Board of Directors is comprised of 11 Directors elected at the Shareholder's General Meeting. The Board of Directors elects its Chairman. The number of Non-Executive Directors (6) exceeds the number of Executive Directors (5) and of the Non-Executive Directors, 3 are Independent, in that they are not associated with special interest groups related either to the Company or to its reference shareholder, and they have no materially relevant business interests that could interfere with their ability to freely exercise independent judgement. These independent Directors exercise an important influence over the decision-making process and development of company strategy and policy and as such the Board of Directors exhibits a clear balance between the number of Directors that represent reference shareholders and the number of independent Directors. The Board mandate is of four years, with the possibility of re-election. The current Board mandate covers the period 2002 to 2005. All members of the Board of Directors were appointed with effect from 15 December 2005, with the exception of Rui Correia who was initially appointed on 22 July 2002.

As stipulated by the Company's statutes, Sonae Indústria's Board of Directors should meet once a quarter and additionally whenever the Chairman or two of its members call a meeting. All decisions taken are recorded in the respective minutes. There were 7 Board meetings held in 2005. The Board of Directors can only deliberate if the majority of its members are present or represented by proxy and decisions are taken by a majority of votes cast.

Members of the Board of Directors are currently also members of the Boards of certain other companies, which are listed in Point 15 of this report. Former Board memberships over the last 5 years are also listed in Point 16 of this report.

Sonae Indústria's Directors
Belmiro de Azevedo (Chairman Sonae Indústria): obtained a degree in Industrial Chemical Engineering at the University of Oporto, a PMD from Harvard Business School and participated in the Financial Management Programme from Stanford University; and has occupied a diverse number of positions in the Sonae Group from early on. Mr de Azevedo is today Chairman of the Sonae Group, a member of the European Union Hong Kong Business Cooperation Committee, of the International Advisory Board of Allianz AG; of the Harvard Business School International Advisory Board. He has been decorated on a number of occasions, some of the most prominent of which being the "Encomienda de Numero de la Ordem del Mérito Civil" from His Majesty D.Juan Carlos, King of Spain, the "Order of the Cruzeiro do Sul" from the President of the Brazillian Federal Republic, the "Grã Cruz da Ordem do Infante D. Henrique" from the President of the Portuguese Republic, nomination as "Honorary Fellow" of the London Business School and member of the "Order of Outstanding Contributors to Sustainable Development" from the World Business Council for Sustainable Development.
Álvaro Cuervo Garcia holds a post graduate degree in Statistics and Psychology and a PhD in Economics from the University of Madrid (Spain). Mr Cuervo is a professor of Economics for Business and is head of the Business department at the Complutense University in Madrid, of Economics for Business at Valladolid and Oviedo University (Spain) and CIDE (Mexico). He is also a visiting professor at New York University and California Berkeley University (USA). He is a member of the Spanish government's consultive committee for privatizations and Chairman of the Economic and Business Scientific

Association (Spain).
Angel Garcia Altozano (Independent): obtained a degree in Civil Engineering from the University of Madrid (Spain) and an MBA from Dayton University (Ohio – USA). He holds a number of other managerial and directorship roles.
Paulo Azevedo: obtained a degree in Chemical Industrial Engineering from the Lausanne Polytechnic School (Switzerland) and a post graduate degree in Business studies from the Oporto Institute of Business Studies. He was CEO of Optimus – Telecomunicações S.A. between 1998 and 2000 and then became CEO of Sonaecom – SGPS, S.A. and Chairman of the Board of Optimus Telecomunicações S.A.. He holds a number of managerial and directorship roles at the Efanor Group. Paulo Azevedo is Belmiro de Azevedo's son.
Per Knuts (Independent): obtained a degree in Chemical Engineering from the Royal Institute of Technology (Sweden) and was Chairman of the Global Council of the Stora Feldmuhle AG Companies and FPB Holding AG (Dusseldorf – Germany) between 1998 and 2004.
Thomas Nystén (Independent): obtained a degree in political science from St Andrews University (Scotland) and was a Non Executive Director at the Myllyskoski Corporation and Executive Chairman of Myllykoski Lang Papier. He is currently Non-Executive Director at Gratenau & Hesselbacher GmbH.
Carlos Bianchi de Aguiar (President of the Executive Committee and CEO Sonae Indústria): obtained a degree in economics at the University of Oporto, having occupied a number of managerial and directorship roles within the Sonae Group.
Christian Schwarz (Vice President of the Executive Committee and COO Central Europe): obtained a degree in Industrial Engineering from the Karlsruhe Technical University (Germany). Mr.Schwarz worked as an executive manager for many years in the automotive sector and has since occupied a number of managerial and directorship roles at the Sonae Indústria Group.
Rui Correia (CFO): obtained a degree in Economics from the University of Oporto and a post graduate degree in Business Management from the Oporto Institute of Business Studies. In the Sonae Group since 1994, he was head of the Finance Department of Sonae SGPS from 2000. As from 2001, he has also held a number of directorship roles at the Sonae Group.
José António Comesaña (COO Iberia & Brazil): obtained a degree in Industrial Mechanical Engineering from the Barcelona School of Industria Engineers and has held a number of managerial and directorship roles at the Sonae Group.
Louis Brassard (COO Canada & South Africa): obtained a degree in Industrial Engineering from the Montreal Polytechnic School (Quebec Canada) and an MBA in Finance and Marketing from Montreal University. Mr Brassard has been with the Group since 1994, and has held a number of managerial and directorship roles at the Sonae Indústria Group.

Sonae Indústria Directors have the following Sonae Indústria Shares attributed to them:

	Number of Shares		Number of Shares
Belmiro Mendes de Azevedo		**(1) Efanor Investimentos, SGPS, SA**	
Efanor Investimentos, SGPS, SA **(1)**	49.999.997	Sonae Indústria, SGPS, SA	10.000
Demerger-merger rights (*)	14.901	Pareuro, BV **(2)**	20.000
		Sonae-SGPS, SA **(3)**	658.804.410
Carlos Bianchi de Aguiar		Demerger-merger rights (*)	658.804.410
Demerger-merger rights (*)	10.620		
		(2) Pareuro, BV	
Rui Manuel Gonçalves Correia		Sonae, SGPS, SA	400.000.000
Demerger-merger rights (*)	35.000	Demerger-merger rights (*)	400.000.000
Duarte Paulo Teixeira de Azevedo		**(3) Sonae-SGPS, SA**	
Efanor Investimentos, SGPS, SA **(1)**	1	Sonae Indústria, SGPS, SA	1.000.000
Imparfin, SGPS, SA **(5)**	150.000	Sonae Capital-SGPS, SA **(4)**	391.046.000
Demerger-merger rights (*)	360.591		
		(4) Sonae Capital-SGPS, SA	
		Sonae Indústria, SGPS, SA	8.322.354
		(5) Imparfin, SGPS, SA	
		Sonae, SGPS, SA	4.105.273
		Demerger-merger rights (*)	4.105.273

(*) - Rights resulting from de demerger-merger and merger operation that involved Sonae, SGPS, SA, Sonae Indústria - SGPS, SA (extinguished company) and Sonae 3P - Panels, Pulp and Paper, SGPS, SA (renamed Sonae Indústria, SGPS, SA) registered on January 2nd, 2006 in the accounts of their respective holders.

On January 20th, 2006, these rights were converted in Sonae Indústria shares as follows:

Belmiro Mendes de Azevedo	1.010
Carlos Bianchi de Aguiar	720
Rui Manuel Gonçalves Correia	2.372
Duarte Paulo Teixeira Azevedo	24.446
Efanor Investimentos, SGPS, SA	44.664.706
Pareuro, BV	27.118.645
Imparfin, SGPS, SA	278.324

1.2. Executive Committee Composition and Organization

The Executive Committee is appointed by the members of the Board of Directors and is composed of the CEO, CFO and COOs of the three main geographical regions where the Company has operations. Company statutes permit the Board to delegate ordinary company business, duties and responsibilities to an Executive Committee.

Responsibilities are divided among the Executive Committee members as follows:

EXECUTIVE COMMITTEE

Carlos Bianchi de Aguiar
President of the Executive Committee and CEO

Christian Schwartz
Vice President of the Executive Committee and COO Germany, France & UK

Rui Correia
CFO

Louis Brassard
COO Canada, SouthAfrica

José António Comesaña
COO Iberia & Brazil

The Board of Directors delegated powers to the Executive Committee to manage day-to-day operations of the company except:

a) appointing the Chairman of the Board of Directors;
b) co-opting a substitute for a member of the Board of Directors;
c) convening Shareholders General Meetings;
d) approving the Annual Report and Accounts;
e) granting any pledge, guarantees or charges over the assets of Sonae Indústria;
f) deciding to change the Company's headquarters or to approve any share capital increases;
g) deciding on mergers, demergers and modifications to the corporate format of Sonae Indústria;
h) approving the Company's business plan and annual budget;
i) defining key features of personnel policies, including stock incentive plans and variable remuneration plans applicable to executives and senior managers (Level XIV and above), in areas that do not require decisions from the Shareholders' Remuneration Committee or deliberations at Shareholders' General Meetings, as well as decisions on individual compensation for executives of Level XVII and above, which are delegated to the Board Nomination and Remuneration Committee and, when these executives are Officers of the Company, also require decisions from the Shareholders Remuneration Committee or deliberations at the Shareholders' General Meetings;
j) defining or changing major accounting policies of any company included in the consolidation perimeter of the Group;
k) approving quarterly and half-yearly reports and accounts;
l) selling, acquiring directly or by long term lease or transacting in any other way, investments classified as tangible fixed assets where the individual transaction value is in excess of 5,000,000 euros, unless covered by the Annual Budget or the Business Plan, duly approved by the Board;
m) purchasing or subscribing new shares in the share capital of any subsidiary company where the accumulated amount exceeds 20,000,000 euros in any financial year, unless covered by the Annual Budget or the Business Plan, duly approved by the Board;
n) investing in any other company or in other financial assets when the accumulated value is in excess of 10,000,000 euros in any financial year,

unless covered by the Annual Budget or the Business Plan, duly approved by the Board;

o) making any other financial investment which exceeds the accumulated amount of 10,000,000 euros in any financial year, unless covered by the Annual Budget or the Business Plan, duly approved by the Board;

p) disposing of assets or other divestments, if such a transaction has a significant effect on the operating results of the Company (defined as equal or greater than 5%) or affects the jobs of more than 100 employees, unless covered by the Annual Budget or the Business Plan, duly approved by the Board.

The Executive Committee currently meets at least once every month and additionally whenever the Chairman of the Executive Committee or a majority of its members call a meeting in writing, at least 3 days before the appointed date; Meetings can only take place if at least four of the members are present (either physically or by videoconference). The CEO acts as Chairman. There were 20 meetings of the Executive Committee in 2005.

The decisions of the Executive Committee are taken by a qualified majority of four votes in favour. In the absence of this qualified majority, the Executive Committee must submit the matter under consideration to the Board of Directors for a decision. In order to keep the Board of Directors updated on the decisions taken by the Executive Committee, all Board members are sent a summary of the minutes of the Executive Committee meetings.

2. Board Committees

To improve the operational efficiency of the Board of Directors and meet best practice in Corporate Governance, the Board of Directors has created 3 Board Committees:

- Board Audit and Finance Committee (“BAFC”);
- Social Responsibility and Environment Committee (“SREC”);
- Board Nomination and Remuneration Committee (“BNRC”).

2.1. Board Audit and Finance Committee (“BAFC”)

The BAFC is currently composed of the following Non-Executive Directors:

- Álvaro Cuervo (Chairman);
- Ángel Altozano (Independent);
- Paulo Azevedo.

The BAFC normally meets at least 5 times a year and its main tasks are:

- To review the financial statements and earnings announcements to be disclosed to the market and to report its findings to the Board of Directors;
- To review risk management, internal control and business processes;
- To review the results of internal and external audits;
- To advise on any changes in accounting policies and practices;
- To review compliance with accounting standards;
- To review compliance with legal and statutory obligations, in particular in the financial domain.

The BAFC met 7 times during 2005.

2.2. Social Responsibility and Environment Committee ("SREC")

The SREC is composed of the following Directors:

- Belmiro de Azevedo (Chairman);
- Christian Schwarz
- Per Knuts (Independent)
- Thomas Nysten (Independent)

The SREC met twice in 2005 and its main function is to analyse the impact of the economic, environmental and social dimensions of sustainability and of corporate governance on the management of the Company's businesses.

2.3. Board Nomination and Remuneration Committee ("BNRC")

The BNRC is composed of the following Directors:

- Belmiro de Azevedo (Chairman);
- Álvaro Cuervo
- Carlos Bianchi de Aguiar
- Paulo Azevedo

The BNRC normally meets at least once a year and its main function is to review and approve proposals and recommendations on behalf of the Board of Directors in relation to the remuneration and other compensation of the Board of Directors and other senior executives of the Sonae Indústria Group.

The BNRC liaises with the Sonae Indústria Shareholders Remuneration Committee ("Comissão de Vencimentos"). It may also receive assistance from external entities, which ensure absolute confidentiality in relation to the information obtained as a result of that cooperation.

The BNRC met 4 times during 2005.

3. Board and Board Committee Meetings and Attendance in 2005

During 2005, the number of meetings and attendance record for the Board of Directors and Board Committees were as follows:

	Number of meetings	Attendance
Board of Directors	7	87%
Executive Committee	20	92%
Board Audit and Finance Committee	7	81%
Social Responsibility and Environment Committee	2	100%
Board Nomination and Remuneration Committee	4	100%

4. Board Assessment

Aligned with Corporate Governance best practices, a self-assessment of the Board was carried out during 2005, with the help of an external consultant. The assessment was designed to review how the Board and the Board Committee's function and to evaluate Corporate Governance at Board level and propose actions to achieve further improvements.

5. Directors Remuneration and Other Compensation

The remuneration and other compensation of the Executive Members of the Board of Directors consists of 3 elements: a fixed annual remuneration, short term performance bonus and deferred medium term performance bonus.

The fixed annual remuneration is based on market reference values for similar functions and is paid in twelve monthly instalments.

The short term target performance bonus attributed is indexed to a percentage of the fixed annual remuneration. Actual amounts paid are linked to the achievement of several predefined annual key performance indicators directly aligned with short term financial and operational objectives of Sonae Indústria and a part is based on individual assessment.

The deferred medium term target performance bonus is indexed to a percentage of the short term performance bonus attributed. Payments are deferred over a 3 year period and the actual amounts payable are linked to the achievement of predefined medium term indicators directly aligned with medium term strategic objectives of Sonae Indústria.

Amounts paid in euros	Total Fixed Annual Remuneration	Total Short Term Performance Bonus (a)	Total Deferred Medium Term Performance Bonus (b)	Total 2005
Chairman of the Board of Directors	105.000	_	_	105.000
CEO	216.000	105.450	128.340	449.790
Executive Directors (all)	1.064.500	563.844	533.740	2.162.084
Non Executive Directors (all)	182.688	_	_	182.688

(a) relative to 2004

(b) relative to 2003 and 2004

In 2005, Sonae Indústria also paid indemnities of 186.000 Euro to Executive Directors who left Sonae Indústria during the year.

6. Voting Rights and Shareholder Representations

Under the terms of Sonae Indústria's Articles of Association, the Shareholders General Meeting is composed only by shareholders with voting rights and holding shares or subscription bonds who, until five business days before the meeting provide evidence of their ownership, according to the terms established by law.

Each block of one hundred shares corresponds to one vote; shareholders are entitled to a number of votes corresponding to the integer value obtained by dividing their number of shares divided by one hundred. Unless the law provides otherwise, the decisions of the Shareholders' General Meeting are taken by simple majority. Individual shareholders may be represented at Shareholders' General Meetings by their spouse, direct family, a Director of the Company or another shareholder, as long as they have notified the Chairman of the Shareholders' General Meeting in writing, identifying the representative and his residence and the date of the meeting. Corporate shareholders may be represented by a person duly appointed for that purpose, by letter. The authenticity of the letter is subject to scrutiny by the Chairman of the Shareholders' General Meeting.

As Sonae Indústria is regarded as a listed and "publicly traded company", shareholders may only vote by post in relation to changes to the Articles of Association and to elect the Statutory Bodies.

Votes by post can only be considered when sent to the headquarters of the Company by registered post with notification of receipt addressed to the Chairman of the Shareholders' General Meeting and which are received at least three days before the date of the Meeting, and are subject to the normal rules regarding evidence of ownership.

During 2005, neither a standard form for voting by post was made available, nor was the possibility of voting by electronic means implemented.

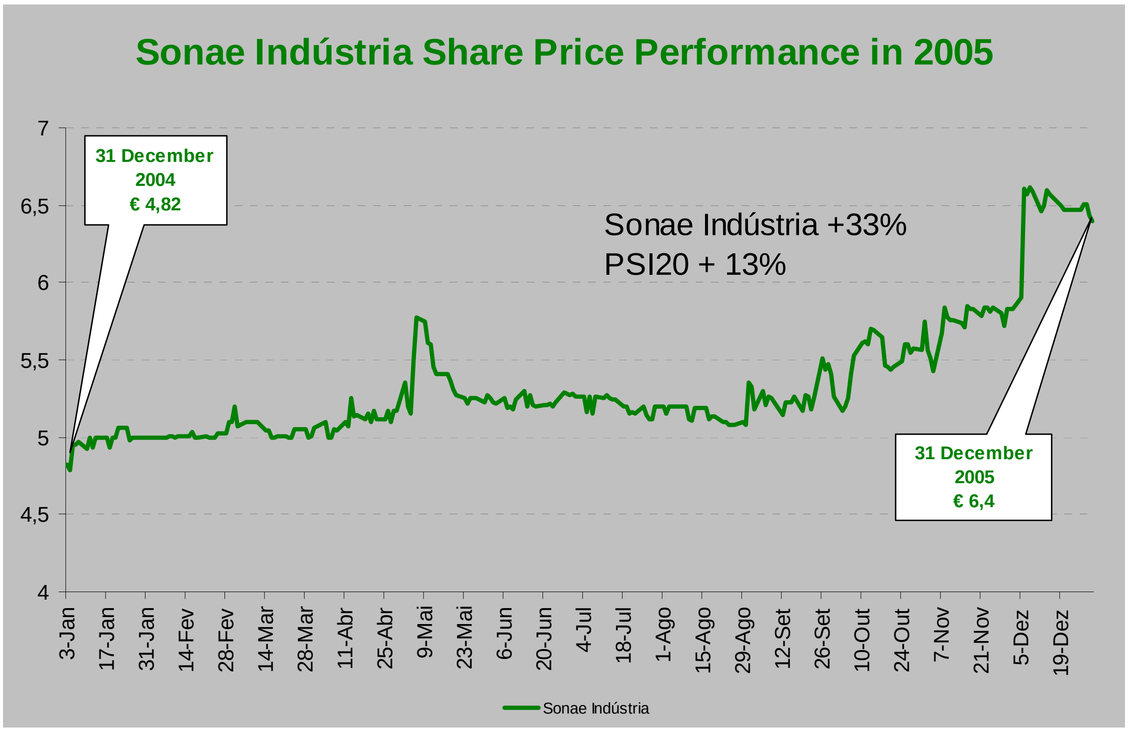
During 2006, Sonae Indústria will make available a standard form for voting by post at its corporate website **www.sonaeindustria.com** and also at its head offices.

Proposals to be submitted by the Board of Directors to the Shareholders' General Meeting are made available to shareholders, as requested by law, at the Company's headquarters, together with all relevant reports, documents and other legally mandatory information. Furthermore, these documents and the Annual Reports are available at the Company's website **www.sonaeindustria.com** as from the same date.

7. Shareholders' Remuneration Committee

Sonae Indústria's Shareholders' Remuneration Committee, appointed by the Shareholders' General Meeting for a four-year term, is currently composed of Efanor Investimentos - SGPS, SA, represented by José Manuel Neves Adelino, and Bruno Walter Lehmann.

8. Share Price Performance during 2005



Main events in 2005	
1 March	FY2004 Results announced
31 March	€55 million bond issue announced
5 April	Shareholder Annual General Meeting
27 April	€100 and €150 million bond issues announced
28 April	1Q05 Results announced
31 August	1H05 Results announced
23 September	Board of Sonae Indústria approves Demerger process
3 November	3Q05 Results announced
4 November	Shareholder Extraordinary General Meeting approves demerger process
18 November	Joint Venture with Tarkett announced
15 December	Notary Deed of Demerger
20 December	Delisting of "old" Sonae Indústria shares
27 December	Listing of shares in the "new" Sonae Indústria allocated to shareholders of "old" Sonae Indústria

During 2005, Sonae Indústria's share price increased by 33% to close at 6,4 euros per share on 31 December, representing an outperformance of the main Portuguese stock index by 20%. Average daily volume in 2005 was 8 thousand shares. In 2006 to date, average daily volume has increased significantly to 536 thousand shares, as a result of the increase in free-float from less than 3% to approximately 42%. Sonae Indústria's market capitalisation at the end of 2005 was approximately 900 million euros.

9. Investor Relations

Sonae Indústria has an Investor Relations' Department that is responsible for managing the relationship between the Company and shareholders, investors, analysts and market authorities including the CMVM (the Portuguese Securities Exchange Regulator).

Each quarter, the Investor Relations' Department is responsible for coordinating the preparation of an earnings announcement to be issued to the market and also provides statements whenever necessary to disclose or clarify any relevant fact or event that could influence the share price. The Investor Relations' Department is available at all times to answer general questions posed by the market. The Company is available to meet with investors, either in roadshows or in one to one meetings upon request, or at conferences in which it may participate.

The Sonae Indústria Investor Relations' Department may be contacted by email at **investor.relations@sonaeindustria.com** or by telephone: 00 351 22 010 0638. Sonae Indústria's Investor Relations' Officer is Maria João Carrapato.

In addition, Sonae Indústria has an institutional website (**www.sonaeindustria.com**) that posts all earnings announcements, statements, report and accounts and any other public documents, press releases or general news items on the Company and the Group.

Sonae Indústria's legal representative for equity market relations (Representante para as Relações com o Mercado) is Rui Correia, who can be contacted via the Investor Relations' Department or, if required, directly by email: **rmcorreia@sonaeindustria.com**.

10. Dividend Policy

In recent years Sonae Indústria has not distributed dividends, in order to help to strengthen the balance sheet. Future policy, will be decided by the shareholders at a Shareholders' General Meeting, based on a proposal from the Board of Directors.

11. Share and Share Options Schemes

Sonae Indústria does not award any remuneration or other compensation involving or linked to shares or share options.

12. Transactions with Related Parties

Sonae Indústria did not carry out any transactions with members of the Board of Directors or with the Statutory Auditor.

All transactions with holding or other related companies represent normal operational activity and were made under open market conditions and prices that fulfil transfer pricing regulations.

13. Remuneration of the Statutory Auditors

During 2005, the external auditors, Deloitte, invoiced Sonae Indústria and its affiliated companies in the total amount of 1.112.209 euros, of which 58,2% related to audit and the legal certification of the accounts, 16,5% to tax consultancy services and 25,3% to other services.

To safeguard auditor independence, tax consultancy and other services are provided by different teams from those involved in the audit process.

14. Corporate Rules

14.1 Codes of Conduct and Internal Regulations

Sonae Indústria's principles and values are disseminated and deeply rooted in the culture of its officers and employees, including, amongst others, the duty of confidentiality in relation to third parties and of safeguarding the Company's position in cases of conflict of interest.

A Sonae Group Ombudsman has always been made available to the general public and to staff. In the past, this has proved to be an effective means of transmitting complaints which are then followed up by a Director who is responsible for ensuring that they are treated independently, impartially and fairly. Throughout all our organization, employees are encouraged to contribute with suggestions and to openly communicate with management on any issues that they may feel hinder the fulfilment of their responsibilities or are detrimental to their well-being.
As a result of the demerger-merger and merger process, Sonae Indústria is no longer a part of the Sonae Group. Sonae Indústria will create a similar process and structure during 2006.

14.2 Risk Management

In addition to the Board Audit and Finance Committee described above, Sonae Indústria has an Internal Audit and Risk Management Department that is responsible for promoting and monitoring the development of structured and systematic activities to manage business risks.

Risk Management is a key concern within the Sonae Indústria culture, is present in all management processes and is part of the delegated responsibility of managers and employees at all levels within the Sonae Indústria Group.

Risk Management comprises the process of identifying potential risks, analysing their possible impact on the organisation's strategic goals and seeking ways to minimise the probability of their materialisation, in order to determine the best procedures to manage exposure to them.

Risk Management relies on the culture, processes and organisational structures that help Sonae Indústria to identify and assess risks, check their potential impact on the business and plan adequate actions to effectively manage their impact. Since the complete elimination of risk is an impossible task, the organisation has implemented efficient and effective processes, to assure that unacceptable risks are rejected, some are avoided, some are retained at acceptable levels, and others are transferred through insurance policies.

14.2.1 Process of Integrated Risk Management

At Sonae Indústria, Risk Management is based on a standard and integrated methodology, denominated Enterprise-Wide Risk Management.

During 2005, the systematisation process, initiated in 2004, was consolidated, fully integrated and aligned with the strategic business goals, aimed at prioritizing relevant business risks and identifying actions to mitigate their impacts. The process covers the whole organisation, involving all countries and corporate functions.

The Risk Model which was built in 2004, aggregates business risks into three categories (Business Environment Risks, Business Process Risks and Information for Decision-Making Risks), was revisited and key risks were identified, prioritised and analysed during the 2005 Business Planning Cycle, ensuring that risk mitigation strategies were identified and that actions and resources were established that will contribute to an efficient and effective management of the main business risks.

Financial risk management is included in Business Process Risk and is complemented and monitored within the scope of the financial function.

The efficiency of Risk Management strategies is monitored through follow-up of agreed action plans and results are reported to the Executive Committee and to the Board Audit and Finance Committee.

14.2.2 Operational Risk Management

The manufacture of wood-based panels is an industrial activity with a very significant operational fire risk. As a world leader, it would be unacceptable for Sonae Indústria not to be able to recover from a catastrophic event in a “world class” manner. Thus, loss prevention and protection of core assets is a constant concern for our Group.

As a structured response to this “risk exposure”, an ambitious Loss Prevention Programme was set up in 2003.

This programme is the corner stone of the property damage and loss prevention strategy in all plants:

Corporate Risk Standards

Developed in 2003, the Corporate Risk Standards are divided into several groups of Loss Prevention measures as follows:

- General fire protection systems
- Specific protection systems for machinery and equipment
- Surveillance
- Maintenance
- Human Element

- Contingency Planning and Business Continuity Management

External Risk inspections
Supported by the Corporate Risk Standards, General Electric Global Assets Protection Services conduct external risk inspections every two years, and a report is issued with a set of recommendations and a rating of the risk quality for each plant (QIN – Quality Index Number). Since 2000, the overall QIN of Sonae Indústria has improved continuously from 5.8 to 6.8 in 2005 (on a scale from 0 to10).

Internal Risk inspections
An internal visit is made to each plant every 18 months, to review the status of the previous internal and external recommendations, and to review compliance with Corporate Risk Standards.

Self Inspection Form
A Quarterly Control Self-Assessment Procedure has been carried out by each plant since 2000, which evaluates 106 items grouped into 23 categories. The template initially used was paper based, but was upgraded in 2004 using a Lotus Notes system, to make the task easier and to facilitate the follow-up of corrective actions. All non-conformities detected automatically generate a corrective action, and there is an automatic quarterly follow-up of outstanding corrective actions.

Risk Plan 2004-2010
Each individual plant plan (which is updated annually) defines a set of measures to be taken towards achieving full compliance with the Corporate Risk Standards by 2010. The main objectives are:

- To have a payback reflected in the insurance premium (demonstration of real and tangible concern about loss prevention).

- To form the basis for the preparation of the annual budget for investment in Loss Prevention measures, and to establish priorities based on impact on Loss Prevention.

Annual Operational Risk Workshop
In 2005, all plant managers met to discuss how to support and improve the effective application of Corporate Risk Standards, and also to share best practices in Loss Prevention and Sonae Indústria's experience and knowledge concerning asset protection.

Insurance premium distribution
Sonae Indústria's global insurance premium is charged to each plant with 50% being allocated according to local insurance market prices and 50% being based on plant's measured risk quality. The former is calculated in line with "stand alone" local market insurance premium levels, and the latter according to the QIN of each plant, so that the "worst" performers pay their fair share of insurance costs.

In conclusion, there is no doubt that "walking the talk" has been very worthwhile at Sonae Indústria. By increasing risk awareness and adopting a systematic and integrated approach, no catastrophic losses or relevant incidents (requiring declaration) have occurred in the last three years. Additionally, Sonae Indústria has benefited from significant reductions in its property protection and business interruption insurance premiums.

14.2.3 Risk Management Organisation

In addition to the active involvement of all Sonae Indústria Group managers and employees, risk management activity is performed and supported by the Internal Audit and Risk Management Department, as well as by the Corporate Planning and Management Control Department.

The Internal Audit & Risk Management Department has a team of 6 dedicated people organised in a matrix approach with responsibilities defined by area (Internal Audit, Risk Management and Health & Safety) and region (Iberia, France, Germany and Overseas).

The Corporate Planning and Management Control Department also has 6 people and is organised into two teams to better address the challenges and changes the businesses face: the Corporate Reporting Team which is responsible for all reporting activities and business analysis and the Investment Analysis, Mergers & Acquisitions and Strategic Planning Team.

14.3 Limits to exercising voting rights or to the transfer of shares, shareholder's agreements and special shareholder's rights.

Beyond the number of shares that correspond to one vote and the shareholders representation rules mentioned in paragraph 5 above, there are no limitations on the exercise of voting rights.

The Board of Directors has no knowledge of any special rights or shareholders' agreements in which the Company or the shareholders of the Company are involved.

The Company has not taken any measures that would hinder the success of a public tender offer for the purchase of the Company's shares.

15 Other Positions currently held by Sonae Indústria Directors:

Belmiro Mendes de Azevedo:

- Efanor Investimentos, SGPS, S.A. (Chairman)
- Modelo Continente, SGPS, S.A. (Chairman)
- Praça Foz – Sociedade Imobiliária, S.A. (Chairman)
- Setimanale – SGPS, S.A. (Chairman)
- Sonae – SGPS, S.A. (Chairman)
- Sonae Capital – SGPS, S.A. (Chaiman)
- Sonae Sierra – SGPS; S.A. (Chairman)
- Sonaecom – SGPS, S.A. (Chairman)

Carlos Francisco de Miranda Guedes Bianchi de Aguiar:

- 173509 Canada, INC.
- Agloma – Sociedade Industrial de Madeira Aglomerada, S.A.
- Aserraderos de Cuellar, S.A.
- Ecociclo – Energia e Ambiente, S.A.
- Euro Decorative Boards, Ltd.
- Euromegantic Ltée.
- Euroresinas - Industrias Quimicas, S.A.
- Glunz AG (Chairman)
- Glunz Service GmbH

- Glunz UK Holdings, Ltd.
- Imoplamac – Gestão de Imóveis, S.A.
- Ipaper – Indústria de Papeis Impregandos, S.A.
- Isoroy SAS (Chairman)
- Isoroy Transformation, SA
- Maiequipa – Gestão Florestal, S.A.
- Movelpartes – Componentes para a Indústria do Mobiliário, S.A.
- Poliface North America Inc.
- Racionalización y Manufacturas Forestales, S.A.
- Resoflex – Mobiliário e Equipamentos de Gestão, S.A.
- Rochester Real Estate, Ltd.
- SIAF - Imobiliária, S.A.
- Socelpac – SGPS, S.A.
- Somit - Imobiliária, S.A.
- Somit – Sociedade de Madeiras Industrializadas e Transformadas, S.A.
- Sonae – Serviços de Gestão, S.A.
- Sonae International, Ltd.
- Sonae Novobord (PTY) Ldt. (Chairman)
- Sonae Tafibra Benelux, B.V.
- Sonae Tafibra UK, Ltd.
- Sonae UK, Ltd.
- Spanboard Products, Ltd.
- Tableros de Fibras, S.A.
- Tableros Tradema, SL
- Tafiber – Tableros de Fibras Ibéricos, SL
- Tafibra South Africa (PTY) Ldt. (Chairman)
- Tafibrás Participações S.A.
- Tafisa Brasil S.A.
- Tafisa France S.A. (Chairman)
- Tafisa UK, Ltd.
- Taiber – Tableros Aglomerados Ibéricos, SL
- Tecnologias del Medio Ambiente, S.A.

Christian Günther Schwarz:

- Glunz AG
- Glunz UKA GmbH
- Isoroy S.A.S.
- Isoroy Transformation, SA
- OSB Deutschand Gmbh
- Sonae Novobord (PTY) Ldt.
- Sonae UK, Ltd.
- Spanboard Products, Ltd.
- Tafibra South Africa (PTY) Ldt.
- Tafisa France S.A.
- Tafisa UK, Ldt.
- Tavapan SA (Supervisory Board)
- Tool Gmbh

José António Comesaña Portela:

- Agloma – Sociedade Industrial de Madeira Aglomerada, S.A.
- Aserraderos de Cuellar, S.A. (Chairman)
- Compañia de Industrias y Negocios, S.A.
- Ecociclo – Energia e Ambiente, S.A.
- Euroresinas – Indústrias Químicas, S.A.
- Imoplamac – Gestão de Imóveis, S.A.

- Maiequipa – Gestão Florestal, S.A.
- Movelpartes – Componentes para a Indústria do Mobiliário, S.A.
- Racionalización y Manufacturas Forestales, S.A.
- Resoflex – Mobiliário e Equipamentos de Gestão, S.A.
- Scs Beheer, B.V.
- Serradora Boix, SL
- Siaf – Imobiliária, S.A.
- Socelpac – SGPS, S.A.
- Sociedade de Iniciativa e Aproveitamentos Florestais – Energia, S.A.
- Somit – Imobiliária, S.A.
- Somit – Sociedade de Madeiras Industrializadas e Transformadas, S.A.
- Sonae – Indústria de Revestimentos, S.A.
- Sonae – Serviços de Gestão, S.A.
- Sonae España, S.A.
- Sonae Indústria – Produção e Comercialização de Derivados de Madeira, S.A.
- Tableros de Fibras, S.A.
- Tableros Tradema, SL
- Tafiber, Tableros de Fibras Ibéricos, SL
- Tafibrás Participações, S.A. (Chairman)
- Tafisa Brasil, S.A. (Chairman)
- Taiber, Tableros Aglomerados Ibéricos, SL
- Tecnologias del Medio Ambiente, S.A. (Chairman)

Rui Manuel Gonçalves Correia:

- 173509 Canada, INC.
- Agloma – Sociedade Industrial de Madeira Aglomerada, S.A.
- Aserraderos de Cuellar, S.A.
- Ecociclo – Energia e Ambiente, S.A.
- Euromegantic Ltée.
- Euroresinas - Industrias Quimicas, S.A.
- Glunz AG
- Glunz UK Holdings, Ltd.
- Imoplamac – Gestão de Imóveis, S.A.
- Ipaper – Indústria de Papéis Impregnados, S.A.
- Isoroy SAS
- Maiequipa – Gestão Florestal, S.A.
- Movelpartes – Componentes para a Indústria do Mobiliário, S.A.
- Poliface North America Inc.
- Racionalización y Manufacturas Forestales, S.A.
- Resoflex – Mobiliário e Equipamentos de Gestão, S.A.
- SC - Consultadoria de Gestão, S.A.
- SIAF - Imobiliária, S.A.
- Socelpac – SGPS, S.A.
- Solução - Apoio à Gestão, S.A.
- Somit - Imobiliária, S.A.
- Somit – Sociedade de Madeiras Industrializadas e Transformadas, S.A.
- Sonae – Indústria de Revestimentos, S.A.
- Sonae – Serviços de Gestão, S.A.
- Sonae Indústria – Produção e Comercialização de Derivados de Madeira, S.A.
- Sonae Novobord (PTY) Ldt.
- Tableros de Fibras, S.A.
- Tafibra South Africa (PTY) Ldt.

- Tafisa France S.A.
- Tafisa UK, Ltd.
- Tecnologias del Medio Ambiente, S.A.

Louis Maurice Brassard:
- 173509 Canada, Inc.
- Isoroy SAS
- Sonae Novobord (PTY) Ldt.
- Tafibra South Africa (PTY) Ldt.
- Tafisa France S.A.

Duarte Paulo Teixeira de Azevedo:
- Efanor Investimentos, SGPS, S.A.
- Enabler - Informática, S.A. (Chairman)
- Glunz AG (Chairman Supervisory Board)
- Imparfin, SGPS, S.A.
- Migracom – SGPS, S.A.(Chairman)
- Novis Telecom, S.A. (Chairman)
- Praça Foz - Sociedade Imobiliária, S.A.
- Público Comunicação Social, S.A. (Supervisory Board)
- SonaeCom – Sistemas de Informação, SGPS, S.A. (Chairman)
- Sonae Matrix Multimédia, SGPS, S.A. (Chairman)
- Sonae Telecom, SGPS, S.A. (Chairman)
- Sonae, SGPS, S.A.
- Sonaecom, SGPS, S.A. (CEO)
- Tableros de Fibras, S.A. (Chairman)
- We do Consulting – Sistemas de Informação, S.A. (Chairman)

Jose Alvaro Cuervo Garcia:
- ACS – Actividades de Construccion Y Servicios, S.A.
- BA Vidrio, S.A.
- ThyssenKrupp, S.A.
- Sonae – SGPS, S.A.
- Tableros de Fibras, S.A.

Angel Manuel Garcia Altozano:
- Abertis Infraestructuras, S.A.
- Abertis Telecom, S.A.
- ACS Servicios y Concesiones, S.L.
- ACS Servicios, Comunicaciones y Energía, S.L.
- ACS Telefonía Móvil, S.A.
- Broadnet Consorcio, S.A. (Chairman)
- Clece, S.A.
- Continental Auto, S.L.
- Dragados Concesiones de Infraestructuras, S.A.
- Dragados, S.A.
- Energías Ambientales de Novo, S.A. (Chairman)
- Energías Ambientales de Outes, S.A. (Chairman)
- Energías Ambientales de Somozas, S.A. (Chairman)
- Energías Ambientales de Vimianzo, S.A. (Chairman)
- Energías Ambientales EASA, S.A. (Chairman)
- Inversora de Infraestructuras, S.L.
- Saba Aparcamientos, S.A.

- SAFRA, Energía Eólica, S.A. (Presidente)
- Servicios Portuarios y Logísticos, S.A.
- Societat Eolica de L'Enderrocada, S.A. (Chairman)
- Tableros de Fibras, S.A.
- Urbaser
- Xfera Moviles, S.A. (Chairman)

Knut Thomas Alarik Nysten:
- Gratenau & Hesselbacher GmbH

16 Other Positions formerly held by Sonae Indústria Directors:

During the past five years, Belmiro de Azevedo, Carlos Bianchi de Aguiar, Christian Schwarz, Rui Correia, Jose Antonio Comesaña and Paulo Azevedo were also Directors at several other companies belonging to the Efanor Group.

Within the same period, the following Directors also held directorships at the following companies not belonging to the Efanor Group:

Christian Günther Schwarz:
- Heraeus Sensor - Nite International, Amsterdam

Angel Manuel Garcia Altozano:
- Accesos de Madrid, C.E.S.A.
- ACS Proyectos, Obras Y Construcciones, S.A.
- Alazor Inversiones, S.A.
- Autopista Central Gallega, C.E.S.A.
- Autopista Trados 45, S.A.
- Broadnet Consorcio S.A.
- Cobra Instalaciones Y Servicios, S.A.
- Tacel Inversiones, S.A.
- Tecmed, S.A.
- Vias Y Construcciones, S.A.

Per Otto Knuts:
- Stora Feldmühle AG
- FPB Holding AG

Knut Thomas Alarik Nysten:
- MD Lang Papier GmbH
- Myllykoski Corporation
- Gratenau & Hesselbacher GmbH

Individual Financial Statements

Sonae Indústria,SGPS,SA

BALANCE SHEET AS AT 31 DECEMBER 2005 AND 2004

(Amounts in Euros)

ASSETS	Notes	31.12.05	31.12.04
NON CURRENT ASSETS			
Tangible assets	3	47,100	-
Intangible assets	4	41,457	-
Investment property		-	-
Investment property in progress		-	-
Goodwill arising on consolidation		-	-
Investments in jointly controlled companies		-	-
Investments in associated companies	5	680,111,535	-
Investments held for sale	5	17,922	-
Deferred tax assets		-	-
Other non current assets	6	809,148,197	35,000
Total Non Current Assets		1,489,366,210	35,000
CURRENT ASSETS			
Inventories		-	-
Trade debtors	7	377,841	-
Other debtors	7	5,839	-
Taxes and other contributions receivable	7	192,930	1,284
Other current assets	8	83,660	-
Investment at fair value through profit or loss		-	-
Cash and cash equivalents	9	36,421,049	10,967
Total Current Assets		37,081,319	12,251
Non current assets held for sale		-	-
TOTAL ASSETS		1,526,447,529	47,251
SHAREHOLDER´S FUNDS AND LIABILITIES			
SHAREHOLDER´S FUNDS:			
Share Capital	10	700,000,000	50,000
Own shares		-	-
Supplementary capital		-	-
Legal reserve		-	-
Revaluation reserve		-	-
Translation reserve		-	-
Other reserves		245,920,750	-
Retained earnings		(157,749)	(2,338)
Net profit (loss) for the period		1,199,879	(411)
Total Shareholder´s funds		946,962,880	47,251
LIABILITIES:			
NON CURRENT LIABILITIES			
Bank loans - long term - net of short-term portion	11	28,125,000	-
Debenture loans - long term - net of short-term portion	11	381,101,414	-
Finance lease creditors - long term - net of short-term portion		-	-
Derivatives		-	-
Other loans		-	-
Obligations arising from pensions:defined benefit plans	12	56,427	-
Obligations arising from share based payments		-	-
Other non current creditors		-	-
Deferred tax liabilities		-	-
Provisions		-	-
Total Non Current Liabilities		409,282,841	-
CURRENT LIABILITIES:			
Current portion of long term bank loans	11	6,250,000	-
Bank loans - short term		-	-
Current portion of long term debenture loans		-	-
Current portion of long term finance lease creditors		-	-
Finance lease creditors		-	-
Derivatives		-	-
Other loans		-	-
Trade creditors	13	399,677	-
Other creditors	14	158,724,840	-
Taxes and other contributions payable		1,604,721	-
Other current liabilities	15	3,222,570	-
Obligations arising from share based payments		-	-
Obligations arising from pensions:defined benefit plans		-	-
Provisions		-	-
Total Current Liabilities		170,201,808	-
Liabilities related to non current assets held for sale		-	-
TOTAL SHAREHOLDER´S FUNDS AND LIABILITIES		1,526,447,529	47,251

Sonae Indústria,SGPS,SA

INCOME STATEMENT

FOR THE EXERCISE ENDED 31 DECEMBER 2005 AND 2004

(Amounts in Euros)

	Notes	31.12.05	31.12.04
Operating Income:			
Sales		-	-
Services rendered	20	685,649	-
Changes in fair value of investment property		-	-
Other operating income		55	-
Total operating income		685,704	-
Operating Costs			
Cost of sales		-	-
Changes in stock and work in progress		-	-
External supplies and services		(903,070)	(516)
Staff costs		(572,272)	-
Amortisation and depreciation		(11,205)	-
Provisions and impairment losses		-	-
Other operating costs	21	(83,149)	(19)
Total operating costs		(1,569,697)	(535)
Operating profit / loss		(883,993)	(535)
Financial profit / (loss)	22	2,573,102	124
Profit/loss from associated companies		-	-
Profit/loss from other investments		-	-
Profit / loss before tax		1,689,109	(411)
Income taxation	23	(489,230)	-
Net Profit / loss from continuing operations		1,199,879	(411)
Profit/loss from discontinued operations			
Net profit (loss) for the period		1,199,879	(411)

Sonae Indústria,SGPS,SA

STATEMENT OF CHENGES IN EQUITY

FOR THE EXERCISE ENDED 31 DECEMBER 2005 AND 2004

(Amounts in Euros)

	Notes	Share Capital	Own Shares	Share Premiums	Supplementary Capital	Reserves: Legal Reserve	Reserves: Legal Revaluation Reserve	Reserves: Fair Value Reserve	Reserves: Hedging Reserve	Reserves: Other Reserves	Retained Earnings	Net profit/loss	Total
Balance at 1 January 2004		50,000	-	-	-	-	-	-	-	-	(582)	(1,362)	48,056
Appropriation of profits from 2003:													-
Transfer to legal reserve		-	-	-	-	-	-	-	-	-	(1,362)	1,362	-
Distribution dividends		-	-	-	-	-	-	-	-		-	-	-
Transfer to retained earnings										-	-	-	-
Acquisition/(disposal) of own shares		-	-	-	-	-	-	-	-	-	-	-	-
Increase/(decrease) in fair value of hedging financial instruments													-
net of taxes		-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax connected to increase/(decrease) in fair value													-
of hedging financial instruments		-	-	-	-	-	-	-	-	-	-	-	-
Increase/(decrease) in fair value of available for													-
sale investments		-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax connected to increase/(decrease) in fair value													-
of available for sale investment		-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the period ended at 31 December 2004		-	-	-	-	-	-	-	-	-	-	(411)	(411)
Other		-	-	-	-	-	-	-	-	-	(394)	-	(394)
Balance at 31 December 2004		50,000	-	-	-	-	-	-	-	-	(2,338)	(411)	47,251
Balance at 1 January 2005		50,000	-	-	-	-	-	-	-	-	(2,338)	(411)	47,251
Appropriation of profits from 2004:													
Transfer to legal reserve		-	-	-	-	-	-	-	-	-	-	-	-
Distribution dividends		-	-	-	-	-	-	-	-		-	-	-
Transfer to retained earnings										-	(411)	411	-
Acquisition/(disposal) of own shares		-	-	-	-	-	-	-	-	-	-	-	-
Increase/(decrease) in fair value of hedging financial instruments													
net of taxes		-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax connected to increase/(decrease) in fair value													
of hedging financial instruments		-	-	-	-	-	-	-	-	-	-	-	-
Increase/(decrease) in fair value of available for													
sale investments		-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax connected to increase/(decrease) in fair value													
of available for sale investment		-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the period ended at 31 December 2005		-	-	-	-	-	-	-	-	-	-	1,199,879	1,199,879
Other		-	-	-	-	-	-	-	-	-	(155,000)	-	(155,000)
Merger's effect (as described in Note 2.1)		699,950,000	-	-	-	-	-	-	-	245,920,750	-	-	945,870,750
Balance at 31 December 2005		700,000,000	-	-	-	-	-	-	-	245,920,750	(157,749)	1,199,879	946,962,880

SONAE INDÚSTRIA,SGPS,S.A.

CASH FLOW STATEMENT

OPERATING ACTIVITIES	**31.12.2005**		**31.12.2004**	
Cash receipts from trade debtors	799,363		0	
Cash paid to trade creditors	637,134		821	
Cash paid to employees	-324,508		0	
Operational Cash Flow	**486,737**		**-821**	
Corporate income tax paid / received	54,675		1,236	
Other cash receipts and payments relating to operating activities	430,387		0	
Net cash flow from operating activities [1]		**862,449**		**-2,057**
INVESTMENT ACTIVITIES				
Cash receipts arising from:				
Financial investments				
Tangible assets				
Intangible assets				
Interest and similar income	388,999	388,999	171	171
Cash payments owing to:				
Financial investments	195,555			
Tangible assets	4,613			
Intangible assets		200,168		0
Increase / decrease in granted loans		-82,469,153		
Net cash flow from investing activities [2]		**-82,657,983**		**171**
FINANCIAL ACTIVITIES				
Cash receipts arising from:				
Share capital increase, supplementary capital, share premiums	35,000			
		35,000		0
Cash payments owing to:				
Interest and similar costs	20,261,516		47	
Dividends				
Others		20,261,516		47
Increase / decrease in loans		-53,398,550		
Net cash flow from financing activities [3]		**-73,625,066**		**-47**
Net increase / decrease in cash and cash equivalents		9,895,366		-1,933
Cash and cash equivalents - opening balance		10,967		12,900
Cash and cash equivalents - closing balance		9,906,333		10,967
Net increase / decrease in cash and cash equivalents		9,895,366		-1,933

SONAE INDÚSTRIA SGPS, S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

(Amounts expressed in euros)

1. Introduction

SONAE INDÚSTRIA, SGPS, SA, is based at Lugar do Espido, Via Norte, Apartado 1096, 4470-909 Maia, Portugal. Due to the merger occurred in 2005, Sonae 3P - Panels, Pulp and Paper, SGPS, S.A was renamed to Sonae Industria, SGPS, S.A.

2. Main Accounting Policies

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

2.1. Basis of Preparation

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

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

In accordance with the standard, at the date of transition to IFRS (1 January 2004) the transition had no effect as no adjustments were made.

The accompanying consolidated financial statements have been prepared from the books and accounting records of the company on a going concern basis.

The notary deed of the demerger-merger-merger process of the stake held by Sonae SGPS, SA in Sonae Indústria, SGPS, SA's share capital was held on 15 December 2005. Sonae SGPS, SA demerged 90.3644% of Sonae Indústria, SGPS, SA's share capital, which was incorporated into Sonae 3P – Panels, Pulp and Paper, SGPS, SA and all of Sonae Indústria SGPS, SA's assets were simultaneously merged into Sonae 3P – Panels, Pulp and Paper, SGPS, SA. As a result, Sonae Indústria, SGPS, SA ceased to exist and the incorporating company, Sonae 3P – Panels, Pulp and Paper, SGPS, SA was renamed to Sonae Indústria, SGPS, SA. As a result, the financial statements ended 31 December 2005 are not directly comparanble with those of 2004.

The effects of the merger are recorded in the accounts as from 1 October 2005,

Balance sheet adjustments at the incorporating company and that result from the merger are as follows:

	Gross Value	Depreciations / Provisions	Net Value
ASSETS			
- Fixed Assets			
- Tangible Assets	476.361	-100.020	376.341
- Intangible Assets	217.189	-22.798	194.391
- Financial Investments	754.815.433	-74.685.976	680.129.457
- Loans Granted to Group Companies	865.300.034	-400.905	864.899.129
- Current Assets			
- Trade Debtors	491.555		491.555
- State & Other Public Entities	238.458		238.458
- Other Debtors	29.626		29.626
- Cash & Cash Equivalents	26.514.716		26.514.716
- Accruals & Deferrals	19.756.191		19.756.191
Total Assets	**1.667.839.563**	**-75.209.699**	**1.592.629.864**
LIABILITIES			
- Trade & Other Creditors	637.862.081		637.862.081
- Accruals & Deferrals	8.897.033		8.897.033
Total Liabilities	**646.759.114**	**0**	**646.759.114**
- Share Capital	699.950.000		699.950.000
- Reserves	245.920.750		245.920.750
Total Shareholder's Funds	**945.870.750**		**945.870.750**
Total Shareholder's Funds & Liabilities	**1.592.629.864**		**1.592.629.864**

2.2. Investments in Group companies and associated

Assets and liabilities of each Group company are measured at their fair value at the date of acquisition adjusted for acquisition related expenses. Financial investments in Group and Associated Companies are tested for imparity when appropriate. If an impairment loss exists, it is recorded as a cost.

Revenues from financial investments (dividends received) are recorded on the Profit and Loss statement of the period in which distribution is decided and announced.

2.3. Tangible assets

Tangible assets acquired up to 1 January 2004 (transition date to IFRS) are recorded at their deemed cost, which corresponds to their acquisition cost or revalued acquisition cost, in accordance with generally accepted accounting principles in Portugal until that date, net of depreciation and accumulated impairment losses.

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

Depreciation is calculated on a straight line basis, as from the date the asset is first used, over the expected useful life for each class of assets.

Depreciation rates used, correspond to the following expected useful lives of the underlying assets:

	Years
Plant & Machinery	**15**
Fixtures and Fittings	**10**

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

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Tangible assets in progress represent fixed assets still under construction/development and are stated at acquisition cost net of impairment losses. These assets are depreciated from the date they are completed or start being used.

Gains or losses arising from the sale or write-off of tangible assets are determined as the difference between the sale price and the accounting net value at the sale/write-off date and are registered as Other Operational Income/ Other Operational Losses.

2.4. Intangible assets

Intangible assets are stated at acquisition cost, net of depreciation and accumulated impairment losses. Intangible assets are only recognised if it is likely that they will generate future economic benefits, if they are controlled by the Group and if their cost can be reliably measured.

Development expenses are recognised as an intangible asset if the Group demonstrates technical feasibility and intention to complete the asset, ability to sell or use it and the probability that the asset will generate future economic benefits. Development expenses which do not fulfill these conditions are recorded as an expense in the period in which they are incurred.

Internal costs associated with maintenance and software development are recorded as an expense in the period in which they are incurred. Only costs directly attributable to projects for which the generation of future economic benefits is probable are capitalized as intangible assets.

Amortisation is calculated on a straight line basis, as from the date the asset is first used, over the expected useful life which is normally 5 years.

2.5. Accounting for leases

Accounting for leases in which the Group is the lessee

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

A lease is classified as a financial or an operating lease dependent on the substance of the transaction rather than the form of the contract.

Lease payments within operating lease contracts are recognised as expenses on a straight line basis over the lease term.

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

Assets are assessed for impairment at the end of each year, 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 fair value less costs to sell and its value in use. Fair value less sale related costs 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 only recorded when it is concluded that the impairment losses recognised for the asset no longer exist or have decreased. This analysis is performed whenever there is an indication that the impairment loss previously recognised has been reversed. The reversal is recorded in the income statement as Other Operational income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for that asset in prior years.

2.7. Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.8. Provisions

Provisions are recognised 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 date to reflect the best estimate as of that date.

2.9. 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. Investments classified as held to maturity have defined maturities and the Group has the intention and ability to hold 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 recognised on the trade date, independently of the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration paid for them, including transaction costs.

Available-for-sale investments and investments measured at fair value through profit or loss are subsequently carried at fair value, without any deduction for transaction costs which may be incurred on 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 recognised directly in equity, under Fair value reserve, included in Reserves and retained earning 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 recognised 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 or loss are included in the consolidated income statement for the period.

b) Accounts receivable

Receivables are stated at net realisable value, corresponding to their nominal value less impairment losses (recorded under the caption Impairment losses in accounts receivable).

c) Classification as equity or liability

Financial liabilities and equity instruments are classified and accounted for based on 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 accruals basis, in accordance with the accounting policy defined in Note 2.13. The portion of the effective interest charge relating to up-front fees and commissions, if not paid in the period, is added to the book value of the loan.

e) Trade accounts payable

Accounts payable are stated at their nominal value.

f) Cash and Cash Equivalents

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

In the consolidated statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in the balance sheet caption Borrowings.

2.10. Retirement benefit plans

As referred to in Note 12, the company has an insurance contract for employees which, at retirement age (65) will pay the equivalent of ,24 months salary at retirement date All employees hired up to 31/12/94 are covered by this contract.

It is a Defined Benefits Plan in the form of an insurance contract, established with Fidelidade, an insurance company.

2.11. Contingent assets and liabilities

Contingent liabilities are not recorded in the financial statements. Instead they are disclosed in the notes to the financial statements (Note 17), 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 future economic benefits are probable.

2.12. Income tax

Income tax for the year is determined based on the taxable income of companies included in the consolidation and includes deferred taxation, in accordance with the tax rules in force in the respective country of incorporation, considering the interim period profit 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 reviewed using the tax rates in place or announced and thereby expected to apply at the time the temporary differences are expected to reverse.

Deferred tax assets are recognised 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 recognised and expected to reverse in the same period. At each balance sheet date a review is made of the deferred tax assets recognised, which are reduced whenever their future use is no longer likely

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.

2.13. Revenue recognition and accrual basis

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

Dividends are recognised as income in the year they are attributed to 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 are to be recognised in the income statement.

2.14. Balances and transactions expressed in foreign currencies

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

2.15. Subsequent events

Events after the balance sheet date that provide additional information about conditions that existed at the balance sheet date (adjusting events), are reflected in the consolidated financial statements. Events after the balance sheet date that are non-adjusting events are disclosed in the notes when material.

3. Tangible Assets

During the year ended 31 December 2005, movements in tangible assets, accumulated depreciation and impairment losses were as follows:

	2005									
	Land & Building	Plant & Machinery	Vehicles	Fixtures & Fittings	Tools	Containers	Other Tangible Assets	Tangible Assets in Progress	Advances From Tangible FA Suppliers	Total
Gross Value										
Opening Balance	-	-	-	-	-	-	-	-	-	-
Mergers	-	24.742	-	130.303	-	-	-	321.316		476.360
Demergers										-
Acquisitions	-	-	-	-	-	-	-	1.496	-	1.496
Disposals	-	-	-	-	-	-	-	-		-
Write-Offs	-	-	-	-	-	-	-	-		-
Transfers	-	5.181	-	156	-	-	-	(322.812)		(317.475)
Capitalized Financial Costs	-	-	-	-	-	-	-	-		-
Closing Balance	-	29.923	-	130.459	-	-	-	-	-	160.382
Accumulated Depreciations & Imparment Losses										
Opening Balance	-	-	-	-	-	-	-	-	-	-
Mergers	-	1.568	-	98.452	-	-	-			100.020
Demergers										-
Depreciations	-	4.360	-	8.903	-	-	-			13.262
Imparment Losses	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-			-
Transfers	-	-	-	-	-	-	-			-
Write-Offs	-	-	-	-	-	-	-			-
Closing Balance	-	5.928	-	107.355	-	-	-	-	-	113.282
Net Value	-	23.995	-	23.104	-	-	-	-	-	47.100

During the year ended 31 December 2004 there was no movement in tangible assets.

4. Intangible Assets

During the twelve month period ended 31 December 2005 and 2004, movements in intangible assets, accumulated depreciation and impairment losses were as follows:

	2005					
	R&D Expenses	Patents, Royalties & Other Rights	Software	Other Intangible Assets	Intangible Assets in Progess	Total
Gross Value						
Opening Balance	-	-	-	(0)	-	(0)
Changes in Consolidation Scope	-	-	-	-	-	-
Mergers	62.187	-	-	155.000	-	217.187
Demergers	-	-	-	-	-	-
Exchange Rate Effect	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Transfers	-	-	-	(155.000)	-	(155.000)
Closing Balance	62.187	-	-	(0)	-	62.187
Accumulated Depreciations & Imparment Losses						
Opening Balance	-	-	-	-	-	-
Changes in Consolidation Scope	-	-	-	-	-	-
Mergers	17.620	-	-	5.178	-	22.798
Demergers	-	-	-	-	-	-
Exchange Rate Effect	-	-	-	-	-	-
Depreciation	3.110	-	-	(5.178)	-	(2.068)
Imparment Losses	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Closing Balance	20.730	-	-	-	-	20.730
Net Value	41.457	-	-	(0)	-	41.457

5. Investments

At 31st December 2005, detail of Investments is as follows:

	2005	
	Current	Non Current
Investment Group Companies		
Opening Balance	-	-
Aquisition	-	195.555
Disposal	-	-
Merger (Note 2.1)	-	754.601.956
Closing Balance	-	754.797.511
Accumulated Imparement Losses	-	(74.685.976)
	-	680.111.535
Available-For-Sale Investments		
Opening Balance	-	-
Aquisition	-	-
Disposal	-	-
Fair Value Adjustments	-	-
Merger (Note 2.1)	-	17.922
Closing Balance	-	17.922
	-	680.129.457

The impairment loss recorded is related to the financial participation in Socelpac, SGPS, S.A..

On 31 December 2005, Sonae Industria, SGPS had the following participations in Group and Associated Companies:

Company	% Share	Acquisition Value	Shareholder's Funds	Net Profit	
Euroresinas - Industrias Quimicas, S.A.	100,00%	5.204.481	6.590.805	1.216.415	
Glunz AG	0,05%	129.870	66.310.526	-3.165.815	
Ipaper . Produção de Papeis Impregnados,S.A.	49,00%	509.144	48.390	-94.261	
Maiequipa - Gestão Florestal,S.A.	100,00%	3.282.131	489.611	-166.851	
Movelpartes - Componentes para Industria do Mobiliário,S.A.	100,00%	4.437.198	3.832.025	619.324	
Resoflex - Mobiliário e Equipamento de Gestão,S.A.	100,00%	3.742.915	2.303.869	-374.236	
Sonae Industria de Revestimentos,S.A.	99,98%	38.548.932	38.719.954	-4.281.507	
Socelpac,SGPS,S.A.	100,00%	120.000.000	45.673.249	739.811	a)
Sonae Espanha	99,94%	9.976	-340.610	3.088	
Sonae Industria Brasil	100,00%	490.252	249.701	-2.572	
Sonae Serviços de Gestão,S.A.	100,00%	2.000.000	2.278.996	225.445	
Sonaegest	20,00%	159.615	1.376.546	-10.105	
Taiber	0,02%	25.142	19.039.696	16.120.559	
Tafisa - Tableros de Fibras,S.A.	89,01%	514.937.661	170.400.021	14.241.562	
Ecociclo - Gestão Ambiental,S.A.	100,00%	631.267	429.231	224.231	
Somit Imobiliária,S.A.	0,02%	5.000	50.929.066	4.297.649	
Sonae Industria - Produção e Comercialização de Derivados de Madeira,S.A.	2,81%	3.868.925	132.007.798	7.390.954	b)
Siaf Energia, S.A.	0,20%	5.000	3.664.333	997.246	
Siaf Imobiliária,S.A.	0,02%	5.000	24.850.891	87.669	
Agloma - Soc.Ind.Madeira Aglomerada,S.A.	99,84%	56.805.000	56.973.457	746.873	

a) Due to changes in the circumstances associated to Socelpac's activity, the amount for which the value of the financial participation had been registered was considered to be greater than its recoverable amount, therefore an impairment loss was recorded, under Provisions and Impairment losses in the P&L (Note 16).

b) Shareholder's funds and net profit for Sonae Industria - PCDM,S.A. relate to accounts prepared in accordance with the IFRS normative.

In December 2005 we offset losses in Maiequipa – Gestão Florestal,S.A. by 194.433,04 euros.

6. Other Non Current Assets

The detail of Other Non Current Assets at December 31, 2005 and December 31, 2004, is as follows:

	31.12.05	31.12.04
Loans Granted To Group Companies (Nota 2.1 e 19)	809 549 102	0
Other Loans Granted	0	0
Advances For Financial Undertakings	0	0
Trade Accounts Receivable & Other Debtors	0	35 000
Tax Recoverable	0	0
Other Non-Current Assets	0	0
	809 549 102	34 999
Accumulated Imparment Losses (Nota 16)	400 905	0
	809 148 197	35 000

Loans granted to Group companies have a medium and long term maturity and they yield interest at an average rate of 3,3%.

7. Trade & Other Current Debtors

At 31 December 2005 and 2004, Current Trade Debtors presented the following detail:

	31.12.05	31.12.04
Current Accounts	377 841	0
Bills Receivable	0	0
Doubtful Debtors	0	0
Accumulated Imparment Losses	0	0
	377 841	0

At 31 December 2005 and 2004, the details of Other Current Debtors were as follows:

	31.12.05	31.12.04
State & Other Public Entities		
Income Tax	58 952	1 284
Value Added Tax	133 978	
Social Security Contributions		
Others		
	192 930	1 284
Other Debtors	5.839	

8. Other Current Assets

The detail of Other Current Assets at 31 December, 2005 and 2004, was the following:

	31.12.05	31.12.04
Accrued Revenue	77 153	0
Deferred Costs	6 507	0
	83 660	0
Imparment Losses	0	0
	83 660	0

"Other Current Assets" includes mainly interest due in regards to loans granted to Group and Associated companies.

9. Cash & Cash Equivalents

On December 31, 2005 and on December 31, 2004 cash and equivalents detail was the following:

	31.12.05	31.12.04
Cash At Hand	869	0
Deposits	425 403	10 967
Treasury Applications	35 994 778	0
Cash & Cash Equivalents - Balance Sheet	36 421 049	10 967
Bank Overdrafts	0	0
Cash & Cash Equivalents - Cash Flows Statement	36 421 049	10 967

Cash & Equivalents comprises cash at hand, deposits, treasury applications and term deposits with less than three months maturity, and for which the risk of value change is insignificant.

10. Share Capital

On December 31, 2005, the share capital, fully underwritten and paid, is represented by 140 000 000 ordinary shares, not entitled to fixed income, with a face value of 5 euros.

After the demerger/merger merger on 15 December 2005 the shareholder structure changed.

The following entities had more than 20% of the subscribed capital on 31 December , 2005:

Entity:	%
Efanor Investimentos, SGPS, S. A.	31,9

11. Loans

At 31 December 2005 and 2004 Sonae Industria, SGPS, S.A had the following outstanding loans:

	31.12.05				31.12.04			
	Reductions / Repayments		Nominal Value		Reductions / Repayments		Nominal Value	
	Current	Non Current	Current	Non Current	Current	Non Current	Current	Non Current
Bank Loans	6 250 000	28 125 000	6 250 000	28 125 000				
Debentures		381 101 414		385 000 000				
Obligations Under Finance Leases								
Other Loans								
Bank Overdrafts								
Hedge Derivatives (Nota 20)								
Gross Debt	6 250 000	409 226 414	6 250 000	413 125 000				
Investments								
Cash & Cash Equivalents - Balance Sheet	36 421 049		36 421 049		10 967		10 967	
Net Debt	- 30 171 049	409 226 414	- 30 171 049	413 125 000	- 10 967		- 10 967 #	
Total Net Debt	379 055 365		382 953 951		- 10 967		- 10 967	

The loans have the following repayment schedule:

	31.12.05	31.12.04
2006	6 250 000	
2007	6 250 000	
2008	106 250 000	
2009	86 250 000	
2010	156 250 000	
After 2010	58 125 000	
	419 375 000	0

On December 31, 2005, the contracted loans are summarized as follows:

a) Sonae Indústria 2004 bonds, issued on 15 October 2004, with a principal of 80 000 000 euros. Principal will be paid in a single bullet payment 5 years after issue date. Interest is calculated using Euribor 6 months plus 87.5 bps basis, and paid semi annually in arrears on 15 April and 15 October;

b) Sonae Indústria 2005/2013 bonds, issued on 31 March 2005, with a principal amount of 55 000 000 euros, and a bullet repayment 8 years after issue date. Interest is calculated using Euribor six months plus 87.5 bps, paid semi annually in arrears on 31 March and 30 Setember;

c) Sonae Indústria 2005/2008 bonds, issued on 27 April 2005, with a principal amount of 100 000 000 euros and a bullet repayment 3 years after issue date. Interest is calculated using Euribor six months plus 100 bps, paid semi annually in arrears on 27 April and October;

d) Sonae Indústria 2005/2010 bonds, issued on 27 April 2005, with a principal amount of 150 000 000 euros and a bullet repayment 5 years after issue date. Interest is calculated using Euribor six months plus 110 bps, paid semi annually in arrears on 27 April and October.

e) During 1H05 a loan contracted by Sonae SGPS SA with the European Investment Bank, in the total amount of 50,000,000 Euros, was transferred to Sonae Indústria SGPS, SA. The loan pays interest quarterly, at market rates, and will be redeemed in 16 consecutive and equal semi annual instalments, the first of which occurred on 30 June 2003. On 31 December 2005, the principal outstanding was 34 375 000 euros;

12. Pension Fund Liabilities

Sonae Industria – Produção e Comercialização de Derivados de Madeira,S.A, has an insurance contract for employees under which they will receive at retirement age (65) the equivalent of 24 months salary. All employees hired up to 31/12/94 are covered by this contract,. Sonae Indústria,SGPS,S.A. employees are also covered by this plan.

It is a Defined Benefits Plan in the form of an insurance contract, established with Fidelidade, an insurance company.

According to actuarial studies carried out by the fund manager, total liabilities for services provided taking into account salary growth amounted to 245.217 euros (161.787 euros without salary growth assumptions) the market value of the fund being 107.694 euros. The company has recorded a provision of 56.427 euros. The Board of Directors considers that the amount posted is enough to cover the liabilities incurred.

The actuarial assumptions were as follows:

Pension Growth Rate:0%

Forecasted Income Rate: 6%

Expected Salary Growth Rate: 3%

Technical Actuarial Rate : 4%

Mortality Rate: TV 73/77

13. Trade Creditors

In 31 of December of 2005 and 2004 all amounts recorded under this item arose from normal operations.

The Board considers that at 31 December 2005, debts accounted for are close to fair value.

14. Other Creditors

On 31 December 2005 and 2004 the detail of this item was as follows:

	31.12.05	31.12.04
State & Other Public Entities		
Income Tax	1 573 755	
Value Added Tax		
Social Security Contributions	30 881	
Others	85	
	1 604 721	
Other Creditors		
Loans From Group Companies (Note 19)	158 023 296	
Derivatives		
Trade Debtors Advances		
Fixed Assets Suppliers	1 528	
Others	700 017	
	158.724.840	-

15. Other Current Liabilities

On 31 December 2005 and 2004 this item had the following detail:

	31.12.05	31.12.04
Accrued Costs		
Holidays	125 781	
Bonus	339 191	
Interests	2 721 871	
External Supplies & Services	35 727	
Deferred Income		
	3 222 570	

16. Provisions & Accumulated Impairment Losses

The changes in provisions and accumulated impairment losses during the fiscal year ended in December 31, 2005 were the following:

Description	Opening Balance	Increases	Utilisation	Mergers (Note 2.1)	Reductions	Closing Balance
Accumulated Imparment Losses on investments (Nota 5)	0	0	0	74 685 976	0	74 685 976
Accumulated Imparment Losses on Other Non Current Assets (Nota 6)	0	0	0	400 905	0	400 905
Accumulated Imparment Losses on Other Current Assets	0	0	0	0	0	0
Provisions	0	0	0	0	0	0
	- 1	0	0	75 086 881	0	75 086 881

Impairment losses are offset against the corresponding asset.

17. Contingent Assets & Liabilities

	31.12.05	31.12.04
Granted Guarantees:		
Fiscal Processes in Course	357.258	
Lawsuits in Course		
Others - Siempelkamp	1.750.000	
Loans		
BEI - Isoroy	37.500.744	
BEI - Glunz	119.000.000	
	158.608.002	

The company, together with its affiliates, Isoroy and Glunz, signed financing contracts with the European Investment Bank which are guaranteed in the full amount of the facility.

18. Operational Leases

During 2005, 13.981 euros were recorded as a cost in regards to lease payments for operational lease contracts. In 2004 there no cost was recorded for this item.

In addition, at the balance sheet date the company had irrevocable operational lease contracts with the following payment maturities:

	31.12.05	31.12.04
2005		
2006	61.675	
2007	51.775	
2008	38.031	
2009	21.155	
After 2009		
	172.636	0

19. Related Parties

Balances and transactions with related parties may be summarized as follows:

Transactions	Sales & Services Rendered		Purchases & Acquired Services		Interest Income		Interest Expenses	
	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 & Group Companies	**685 152**		**284 398**		**7 339 518**		**1 170 045**	
- Agloma							302 592	
- Ecociclo	2 616				19 294			
- Euroresinas	3 343				163 719			
- Glunz	115 955							
- Implamac	1 244		5 658					
- SInd-pcdm	119 253		32 232				365 176	
- Isoroy	140 112							
- Maiequipa	1 244				13 193			
- Movelpartes	1 380				- 156		2 329	
- Resoflex	1 244						5 092	
- Sc - Consultadoria			4 686					
- Siaf Imobiliária	1 741						2 535	
- Siaf Energia	423				1 925		18 929	
- Sonae Industria Revestimentos	2 770		69 684				110 752	
- Socelpac							286 606	
- Somit Imobiliária	1 244						76 006	
- Solinca			3 210					
- Sonae ,sgps			109 431					
- Sonae Uk	35 029							
- Spanboard	11 676							
- Sonae Serviços de Gestão	1 514		9 064		2 768		28	
- Tafisa Canadá	63 513							
- Tafisa Espanha	141 752							
- Tafisa South Africa	39 099							
- Taiber					7 138 775			
- Novis			1 166					
- Optimus			3 403					
- Equador			45 864					
Associated Companies	497							
- Ipaper	497							

Balance	Accounts Receivable		Accounts Payable		Loans			
					Obtained		Granted	
	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 & Group Companies	**375 310**		**263 077**		**158 023 296**	**35 000**	**809 449 103**	
- Agloma					57 000 000			
- Ecociclo	1 055						310 099	
- Euroresinas	1 348						15 803 891	
- Sonae Espanha							400 905	
- Glunz	38 652							
- Implamac	502							
- SInd-pcdm	56 059		13 794		1 686 847			
- Isoroy	47 992							
- Maiequipa	502						342 903	
- Movelpartes	557				657 500		1 806	
- Resoflex	502				1 093 800			
- Sc - Consultadoria			4 952					
- Siaf Imobiliária	702				14 298 200			
- Siaf Energia	171							
- Sonae Industria Revestimentos	1 117		22 635		24 936 500			
- Socelpac					45 683 549			
- Somit Imobiliária	502				12 660 600			
- Solinca			1 799					
- Sonae ,sgps			173 247			35 000		
- Sonae Uk	11 676							
- Spanboard	3 892							
- Sonae Serviços de Gestão	611		3 656		6 300			
- Tafisa Canadá	67 383		713					
- Tafisa Espanha	47 251							
- Tafisa South Africa	91 617							
- Taiber			1 753				792 589 499	
- Tradema	3 219							
- Novis			885					
- Optimus			2 628					
- Equador			37 015					
Empresas associadas	201						100 000	
- Ipaper	201						100 000	

20. Services Rendered

The detail for Services Rendered is presented below:

Services Rendered	31.12.05	31.12.04
Internal Communication	128.382	
Consolidation & Management Control	36.897	
Legal	34.786	
Administration	285.392	
Engineering	52.858	
Others	147.334	
TOTAL	**685.649**	**0**

21. Other Operational Costs

	31.12.05	31.12.04
Taxes	28 371	19
Losses on Disposals of Non Current Assets	-	-
Losses on Disposals of Tangible & Intangible Assets	-	-
Others	54.778	-
	83.149	19

22. Financial Results

	31.12.05	31.12.04
Financial Expenses:		
Interest Expenses	4 752 751	
Cash Discounts Granted		
Exchange Losses	2 144	
Others	99 481	49
Resultados financeiros	2 573 102	124
	7 427 478	173
Financial Revenues:		
Interest Income	7 426 524	173
Cash Discounts Obtained		
Exchange Gains	954	
Others	0	-
	7.427.478	173

23. Income Tax

Income taxes recognised in 2005 and 2004 were the following:

	31.12.05	31.12.04
Current Tax	489 230	-
Deferred Tax	-	-
	489 230	

A reconciliation of earnings before tax with income tax is presented below:

	31.12.05	31.12.04
Net Profit Before Taxes	1.689.109	(411)
IFRS Conversion - Cancelled Assets Depreciation	-63.844	
Others		
	-63.844	0
Non Deductible Costs		
Financial Instruments Valuation	21.331	
Net Profit From Associated Companies		
Depreciations Not Accepted For Tax Purposes	8.151	
Provisions Not Accepted For Tax Purposes	56.427	
Others	13.137	
	99.046	0
Taxable Net Profit	1.724.311	-411
Previous Years' Not Recognized Losses		
Income Tax Rate (Portugal)	27,5%	27,5%
Calculated Tax Amount	474.186	-113
Previous Years' Not Recognized Deferred Tax		
Autonomic Taxation	1.506	113
Accounting/Reversal of Deffered Taxes Impact		
Inadequacy / Surplus Estimate	13.538	
Income Tax	489.230	0

24. Earnings Per Share

Earnings per share, excluding the effect of discontinued operations, were calculated as follows:

	31.12.05	31.12.04
Net Profit		
Net Profit Considered for Basic EPS Calculation (Periodic Net Profit)	1 199 879	- 411
Effect of Potencial Shares		
Interest of Convertible Bonds (after tax)		
Net Profit Considered for Diluted EPS Calculation	1 199 879	- 411
Number of Shares		
Weighted Average Number of Shares for Basic EPS Calculation	140 000 000	10 000
Effect of Potencial Ordinary Shares from Convertible Bonds		
Weighted Average Number of Shares for Diluted EPS Calculation	140 000 000	10 000

During the fiscal year, no effect from discontinued operations was recorded.

25. Financial Statements Approval

Present financial statements were approved by the Executive Commission by delegation of power from the Board of Directors and authorised for issuance on 10 March 2006.

26. First-Time Adoption of “International Financial Reporting Standards”

The company adopted International Financial Reporting Standards – IFRS in 2005, applying “IFRS 1 – First-Time Adoption of International Financial Reporting Standards”. For presentation of these accounts, the transition date adopted was 1 January 2004.

The conversion from Portuguese Accounting Standards (POC) to International Financial Reporting Standards (IFRS) had no impact on the financial statements as at 1 January and 31 December 2004.

Statutory Audit and Auditors' Report Report and Opinion of the Statutory Auditor

(Individual Financial Statements)

STATUTORY AUDIT AND AUDITORS' REPORT

NON-CONSOLIDATED FINANCIAL STATEMENTS

(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 financial information contained in the Board of Directors' Report and the financial statements of Sonae Indústria, SGPS, S.A. ("the Company" – formerly Sonae 3P – Panels, Pulp and Paper, SGPS, S.A. – Note 1), for the year ended 31 December 2005, which comprise the balance sheet that presents a total of 1,526,447,529 Euros and shareholders' equity of 946,962,880 Euros, including a net profit of 1,199,879 Euros, the statement of profit and loss by nature, the statement of cash flows and the statement of changes in equity for the year then ended and the corresponding notes.

Responsibilities

2. The Company's Board of Directors is responsible for: (i) the preparation of financial statements that present a true and fair view of the financial position of the Company, the results of its operations and its 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) the disclosure of any significant facts that have influenced its operations, financial position or results of operations.

3. Our responsibility is to examine the financial information contained in the documents of account 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 an independent professional report based on our work.

Scope

4. Our examination was performed in accordance with the Auditing Standards ("Normas Técnicas e as Directrizes de Revisão/Auditoria") issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the financial statements are free of material misstatement. Our examination includes verifying, on a sample basis, evidence supporting the amounts and disclosures in the financial statements and assessing the significant estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation. Our examination also includes assessing the adequacy of the accounting policies used and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, assessing the adequacy of the overall presentation of the financial statements and assessing it, in all material respects, the financial information is complete, true, timely, clear, objective and licit. Our examination also includes verifying that the information included in the Board of Directors' Report is consistent with the financial statements. We believe that our examination provides a reasonable basis for expressing our opinion.

Opinion

5. In our opinion, the financial statements referred to in paragraph 1 above, present fairly in all material respects, for the purposes mentioned in paragraph 7 bellow, the financial position of Sonae Indústria, SGPS, S.A as of 31 December 2005 and the results of its operations and its cash flows for the year then ended, in conformity with international financial reporting standards as adopted in the European Union, and the financial 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 explained in Note 2 to the financial statements, on 15 December 2005 a public deed was drawn up under which Sonae SGPS, S.A. transferred part of its investment in Sonae Indústria SGPS, S.A. to Sonae 3P – Panels, Pulp and Paper, SGPS, S.A. and simultaneously all the net assets of Sonae Indústria SGPS, S.A. were transferred to Sonae 3P – Panels, Pulp and Paper, SGPS, S.A., upon which Sonae Indústria SGPS, S.A. was extinguished and the name of Sonae 3P – Panels, Pulp and Paper, SGPS, S.A. was changed to Sonae Indústria, SGPS, S.A.. Consequently, the financial statements for the year ended 31 December 2005 are not comparable with those of the prior year.

7. The financial statements mentioned in paragraph 1 above relate to the non-consolidated activity of the Company and were prepared for approval and publishing in compliance with applicable legislation. As mentioned in note 2 investments in affiliated and associated undertakings are stated at the lower of cost and realisable value. The Company prepared, in compliance with applicable legislation, consolidated financial statements as of 31 December 2005, also in conformity with international financial reporting standards as adopted in the European Union, which presents a balance sheet totalling 1,802,548,890 Euros, liabilities of 1,274,053,323 Euros, operational profits of 1,529,061,264 Euros and shareholders' equity of 528,495,567 Euros, including minority interests of 44,960,793 Euros and a net profit of 36,383,591 Euros.

8. As explained in Note 2 to the financial statements, the Company applied, for the first time in 2005, International Financial Reporting Standards as adopted by the European Union (IAS/IFRS) in the preparation of its financial statements. In the transition process from the previous accounting standards (Portuguese Official Chart of Accounts – "POC") to IAS/IFRS, the Company followed the requirements of International Financial Reporting Standard 1 – First Time Adoption of International Financial Reporting Standards, the transition date being 1 January 2004. Consequently, the financial information as of that date and for the year 2004, previously stated in accordance with POC, was restated for comparison purposes to IAS/IFRS (Note 26).

Porto, 10 March 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

NON-CONSOLIDATED FINANCIAL STATEMENTS

(Translation of a report originally issued in Portuguese)

To the Shareholders of
Sonae Indústria, 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 documents of presentation of annual accounts of Sonae Indústria, S.G.P.S., S.A. ("the Company" – formerly Sonae 3P – Panels, Pulp and Paper, SGPS, S.A.) for the year ended 31 December 2005, which are the responsibility of the Company's Board of Directors.

We accompanied with the timming and extension we considered necessary in the circumstances, the operations of the Company, the 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, the information and explanations required.

In performing our work, we examined the balance sheet as of 31 December 2005, the statements of profit and loss by nature, the statement of cash flows and the statement of changes in equity for the year then ended and the corresponding notes. In addition, we analysed the Management Report for 2005 prepared by the Board of Directors and the proposal included therein. As a consequence of the work performed, we issued on this date the Statutory Audit and Auditors' Report on the financial statements, which includes in its paragraphs 6 to 8 three emphasis.

Considering the above, in our opinion, taking in consideration the matters referred in paragraphs 6 to 8 of the Statutory Auditors Report, the financial statements referred to above and the Management Report, as well the proposal therein, 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 for the assistance provided to us.

Porto, 10 March 2006

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

Consolidated Financial Statements

SONAE INDÚSTRIA, S.G.P.S., S.A.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euros)

		IFRS		POC
ASSETS	Notes	31.12.2005	31.12.2004	31.12.2004
NON CURRENT ASSETS				
Tangible assets	8	1 127 955 731	1 146 543 796	1,149,956,076
Goodwill	11	44 492 181	45 269 819	
Intangible assets	9	896 245	1 513 933	19 681 580
Investment properties	10	8 985 512		
Associated undertakings and non consolidated undertakings	7	3 213 222	3 215 937	14 211 619
Investment available for sale	7	1 372 620	6 303 830	
Deferred tax asset	12	52 685 592	66 318 079	60 488 971
Other non current assets	13	2 007 538	1 129 578	926 615
Total non current assets		1 241 608 641	1 270 294 972	1 245 264 861
CURRENT ASSETS				
Inventories	14	163 976 752	159 011 303	159 577 295
Trade debtors	15	239 891 538	227 360 848	89 715 975
Other current debtors	16	16 676 327	29 566 368	46 054 871
State and other public entities	18	15 538 683	14 322 111	14 254 701
Other current assets	17	4 973 080	5 801 660	7 787 155
Investments	7	3 041 265	5 980 187	41 061 866
Cash and cash equivalents	19	116 842 604	74 817 721	39 684 453
Total current assets		560 940 249	516 860 198	398 136 316
TOTAL ASSETS		1 802 548 890	1 787 155 170	1 643 401 177
SHAREHOLDERS' FUNDS, MINORITY INTERESTS AND LIABILITIES				
SHAREHOLDERS' FUNDS				
Share capital	20	700 000 000	700 000 000	700 000 000
Legal Reserve			9 695 354	9 695 354
Reserves and retained earnings		- 252 848 817	- 320 968 583	- 333 334 757
Net profit (loss) for the period - Group		36 383 591	42 580 440	29 213 582
Total shareholders' funds		483 534 774	431 307 211	405 574 179
Minority interests	21	44 960 793	38 906 799	41 211 484
TOTAL SHAREHOLDERS' FUNDS		528 495 567	470 214 010	446 785 663
LIABILITIES				
NON CURRENT LIABILITIES				
Long term bank loans - net of short-term portion	22	176 146 046	315 089 218	304 789 987
Non convertible debentures	22	381 101 414	78 085 302	80 001 968
Long term Finance Lease Creditors - net of short-term portion	22	229 326	5 134 120	5 210 947
Other loans	22	107 182 288	141 089 683	3 291 121
Pensions liabilities	25	23 770 510	23 596 349	20 878 782
Other non current liabilities	24	106 236 035	259 721 993	175 038 079
Deferred tax liabilities	12	43 136 143	32 127 706	27 934 725
Provisions	28	17 254 812	13 961 213	16 383 488
Total non current liabilities		855 056 574	868 805 584	633 529 097
CURRENT LIABILITIES				
Short term portion of long term bank loans	22	56 192 111	51 933 349	51 933 349
Short term bank loans	22	27 347 137	29 880 081	38 554 962
Short term portion of long term non convertible debentures	22		23 138 966	23 138 966
Short term portion of Finance Lease Creditors	22	4 476 336	3 852 136	3 894 638
Other loans	22	1 072 734	13 950 417	2 016 302
Trade creditors		183 420 752	175 184 310	175 997 901
Taxes and Other Contributions Payable	26	21 136 608	21 235 129	21 235 071
Other current liabilities	27	120 073 415	119 195 598	236 768 789
Provisions	28	5 277 656	9 765 590	9 546 439
Total current liabilities		418 996 749	448 135 576	563 086 417
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		1 802 548 890	1 787 155 170	1 643 401 177

The notes are an integral part of the consolidated financial statements

The Board of Directors

SONAE INDÚSTRIA, S.G.P.S., S.A.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE PERIODS ENDED AT 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euros)

		IFRS		POC
	Notes	31.12.2005	31.12.2004	31.12.2004
Operating revenues				
Sales	37	1 459 552 013	1 484 010 946	1 569 284 095
Services rendered	37	5 468 193	8 128 525	10 808 153
Other operating revenues	32	64 041 058	81 731 372	81 714 439
Total operating revenues		1 529 061 264	1 573 870 843	1 661 806 687
Operating costs				
Cost of sales		702 113 592	680 289 957	712 174 459
(Increase) / decrease in production		- 4 653 806	9 976 763	8 303 698
External supplies and services		392 744 222	379 224 506	404 588 016
Staff expenses		206 049 227	221 431 663	234 654 757
Depreciation and amortisation	8,9	101 827 792	107 687 500	126 039 928
Provisions and impairment losses	7,8 e 28	801 737	9 511 583	7 212 559
Other operating costs	33	21 793 187	33 977 277	41 750 620
Total operating costs		1 420 675 951	1 442 099 249	1 534 724 037
Operational profit / (loss)		108 385 313	131 771 594	127 082 650
Financial profits	34	31 836 538	15 723 651	18 130 417
Financial costs	34	75 961 611	87 438 534	86 463 240
Gains and losses in associated companies		133 356	837 189	778 457
Gains and losses in investments		- 141 358	430 906	- 15 962
Current profit / (loss)		64 252 238	61 324 806	59 512 322
Taxation	35	27 820 544	16 251 076	18 590 652
Consolidated net profit / (loss) afer taxation		36 431 694	45 073 730	40 921 670
Profit / (loss) after taxation from descontinued operations		-	-	-
Consolidated net profit / (loss) for the perio		36 431 694	45 073 730	40 921 670
Attributable to:				
Equity Holders of Sonae Industria		36 383 591	42 580 440	29 213 582
Minority Interests		48 103	2 493 290	11 708 088
Profit/(Loss) per share				
Excluding discontinued operations:				
Basic	36	0.2599	0.3041	0.2087
Diluted	36	0.2599	0.3041	0.2087
From discontinued operations:				
Basic	36	-	-	-
Diluted	36	-	-	-

The notes are an integral part of the consolidated financial statements

The board of directors

SONAE INDÚSTRIA, S.G.P.S., S.A.

CONSOLIDATED MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEARS ENDED AT 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euros)

		Attributable to Equity Holders of Sonae Indústria					
	Notes	Share Capital	Reserves and retained earnings	Net Profit/(Loss)	Total	Minority Interests	Total Equity
Balance as at 1 January 2004		500 000 000	- 300 961 506 1)		199 038 494	94 870 525	293 909 019
Appropriation of consolidated result of 2003:							
Transfer to legal reserves and retained earnings							
Share capital increase		200 000 000			200 000 000		200 000 000
Changes in negative Goodwill			- 9 872 514		- 9 872 514		- 9 872 514
Changes in conversion reserves			- 2 496 324		- 2 496 324		- 2 496 324
Acquisition and disposals of affiliated undertakings						- 56 566 877	- 56 566 877
Consolidated Profit/(Loss) for the period ended at 31 December 2004				42 580 440	42 580 440	2 493 290	45 073 730
Others			2 057 115		2 057 115	- 1 890 139	166 976
Balance as 31 December 2004		700 000 000	- 311 273 229	42 580 440	431 307 211	38 906 799	470 214 010
Balance as at 1 January 2005		700 000 000	- 311 273 229	42 580 440	431 307 211	38 906 799	470 214 010
Appropriation of consolidated result of 2004:							
Transfer to legal reserves and retained earnings			42 580 440	- 42 580 440			
Changes in conversion reserves			15 803 248		15 803 248	6 281 046	22 084 294
Changes in fair value of hedge financial instruments, net of taxation			- 1 650 356		- 1 650 356	- 160 039	- 1 810 395
Consolidated Profit/(Loss) for the period ended at 31 December 2005				36 383 591	36 383 591	48 103	36 431 694
Others			1 691 080		1 691 080	- 115 116	1 575 964
Balance as 31 December 2005		700 000 000	- 252 848 817	36 383 591	483 534 774	44 960 793	528 495 567

1) Provided that the conversion of consolidated accounts to IAS/IFRS was done at 1 January 2004, there is no segreggated information about 2003 Net Profit.

The notes are an integral part of the consolidated financial statements

The board of directors

SONAE INDÚSTRIA, S.G.P.S., S.A.

CONSOLIDATED CASH FLOWS STATEMENTS

FOR THE PERIODS ENDED AT 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euros)

OPERATING ACTIVITIES	Notes	31.12.05	31.12.04
Receipts from trade debtors		1 444 830 952	1 391 192 395
Payments to trade creditors		1 080 776 757	1 026 065 407
Payments to staff		205 524 987	226 924 365
Net cash flow from operations		158 529 208	138 202 623
Payment / (receipt) of corporate income tax		6 619 028	- 5 177 168
Other receipts / payments relating to operating activities		20 591 437	- 12 337 135
Net cash flow from operating activities (1)		172 501 617	131 042 656
INVESTMENT ACTIVITIES			
Cash receipts arising from:			
Investments		107 624 889	59 376 956
Tangible and intangible assets		23 745 895	29 260 070
Loans granted		433 627	989 580
Investment subventions			10 099 077
Interest and similar charges		3 645 457	4 785 479
Dividends		47 058	9 689
Others		7 442	2 220
		135 504 368	104 523 071
Cash Payments arising from:			
Investments		99 200 072	28 325 135
Tangible and intangible assets		44 562 604	53 704 012
Loans granted		158 901	217 298
		143 921 577	82 246 445
Net cash used in investment activities (2)		- 8 417 209	22 276 626
FINANCING ACTIVITIES			
Cash receipts arising from:			
Loans obtained		348 462 286	141 107 867
Increase in share capital, supplementary capital			200 000 000
Others			1 591 323
		348 462 286	342 699 190
Cash Payments arising from:			
Loans obtained		427 014 965	396 929 450
Interest and similar charges		43 790 120	49 149 742
Dividends		5 013	177 096
Others		60 240	528
		470 870 338	446 256 816
Net cash used in financing activities (3)		- 122 408 052	- 103 557 626
Net increase in cash and cash equivalents (4) = (1) + (2) + (3)		41 676 356	49 761 656
Effect of foreign exchange rate		- 2 629 424	- 467 154
Cash and cash equivalents at the beginning of the period	19	72 170 072	21 941 262
Cash and cash equivalents at the end of the period	19	116 475 852	72 170 072

The notes are an integral part of the consolidated financial statements

The board of directors

SONAE INDÚSTRIA SGPS, S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

(Amounts expressed in euros)

1. INTRODUCTION

SONAE INDÚSTRIA, SGPS, SA, whose head-office is at Lugar do Espido, Via Norte, Apartado 1096, 4470-909 Maia, Portugal, is the parent company of a group of companies as detailed in notes 4 a 6 ("Sonae Indústria Group"). The Group's operations and business segments are described in Note 37.

The notary deed of the demerger-merger-merger process of the stake held by Sonae SGPS, SA in Sonae Indústria, SGPS, SA's share capital was held on 15 December 2005. Sonae SGPS, SA demerged 90.3644% of Sonae Indústria, SGPS, SA's share capital, which was incorporated into Sonae 3P – Panels, Pulp and Paper, SGPS, SA and all of Sonae Indústria SGPS, SA's assets were simultaneously merged into Sonae 3P – Panels, Pulp and Paper, SGPS, SA. As a result, Sonae Indústria, SGPS, SA ceased to exist and the incorporating company, Sonae 3P – Panels, Pulp and Paper, SGPS, SA was renamed to Sonae Indústria, SGPS, SA.

Due to the fact that the activity of Sonae Indústria Group remained substantially unchanged after the aforementioned merger operation, both the consolidated financial statements for the year ended 31 December 2005 and the comparative information restated under International Financial Reporting Standards for the year ended 31 December 2004 represent the continuation of the consolidated activity of Sonae Indústria Group for those years.

The movements in the Company's share capital are detailed in Note 20.

2. MAIN ACCOUNTING POLICIES

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

2.1. Basis of Preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" – previously named International Accounting Standards – "IAS"), issued by the International Accounting Standards Board

("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") or by the previous Standing Interpretations Committee ("SIC"), applicable to financial years beginning on 1 January 2005.

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

According to that standard, adjustments as at the date of transition to IFRS (1 January 2004) are recorded in Equity and described in Note 39. This note also includes the description of adjustments made to the last annual consolidated financial statements presented (31 December 2004).

The accompanying consolidated financial statements have been prepared from the books and accounting records of the companies included in the consolidation (Note 4) on a going concern basis and under the historical cost convention, except for financial instruments which are stated at fair value (Note 2.12).

2.2. Consolidation Principles

The consolidation methods adopted by the Group are as follows:

a) Investments in Group companies

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

When losses attributable to minority interests exceed the minority interest in the equity of the Group company, the excess, and any further losses attributable to minority interests, are charged against the equity holders of Sonae except to the extent that minority shareholders have a binding obligation and are able to cover such losses. If the Group company subsequently reports profits, such profits are allocated to the equity holders of

Sonae until the minority's share of losses previously absorbed by the equity holders of Sonae has been recovered.

Assets and liabilities of each Group company are measured at their fair value at the date of acquisition. Any excess of the cost of acquisition over the Group's interest in the fair value of the identifiable net assets acquired is recognised as goodwill (Note 2.2.c and 11)). Any excess of the Group's share in the fair value of the identifiable net assets acquired over cost, is recognised as income in profit or loss for the period of acquisition, after reassessment of the estimated fair value. Minority interests include their proportion of the fair value of net identifiable assets and liabilities recognised on acquisition of Group companies.

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

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

b) Investments in associated companies

Investments in associated companies (companies where the Group exercises significant influence but does not establish financial and operational policies – 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 cost, adjusted by the amount corresponding to the Group's share of changes in equity (including net profit) of associated companies and are offset against losses or profits in the period and against dividends received.

Any excess of the cost of acquisition over the Group's share in the fair value of the identifiable net assets acquired is recognised as goodwill (Note 2.2.c)), which is included in the caption Investment in associated companies. Any excess of the Group's share in the fair value of the identifiable net assets acquired over cost is recognised as income in the profit or loss for the period of acquisition, in results related to associated companies.

An assessment of investments in associated companies is performed when there is an indication that the asset might be impaired. Any impairment loss is disclosed in the income statement. Impairment losses recorded in prior years that are no longer justifiable, are reversed.

When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued, unless the Group is committed beyond the value of its investment.

The Group's share in unrealized gains arising from transactions with associated companies is eliminated. Unrealized losses are eliminated, but only to the extent that there is no evidence of impairment of the asset transferred.

Investments in associated companies are disclosed in Note 5.

c) Goodwill

The excess of the cost of acquisition of investments in group, jointly controlled and associated companies over the Group's share in the fair value of the assets and liabilities of those companies at the date of acquisition is shown as Goodwill or as Investments in associated companies (Note 11). The excess of the cost of acquisition of investments in foreign companies over the fair value of their identifiable assets and liabilities at the date of acquisition is calculated using the functional currency of each of those companies. Translation to the Group's currency (Euro) is made using the closing exchange rate. Exchange rate differences arising from this translation are disclosed in Reserves and retained earnings.

Goodwill is not amortised, but it is subject to impairment tests on an annual basis. Impairment losses identified in the period are disclosed in the income statement under Provisions and impairment losses, and may not be reversed.

Any excess of the Group's share in the fair value of identifiable assets and liabilities in group, jointly controlled and associated companies over cost, is recognised as income in the profit or loss for the period, at the date of acquisition, after reassessment of the fair value of the identifiable assets and liabilities acquired.

Goodwill recognised prior to the transition date

Goodwill arising from acquisitions made prior to the date of transition to IFRS (1 January 2004) is stated using the carrying amounts, net of accumulated amortisation, calculated in accordance with generally accepted accounting principals in Portugal, adjusted for intangible assets which do not meet IFRS criteria, and is subject to impairment tests. Impacts of these adjustments were recorded in Retained earnings, in accordance with IFRS 1. Goodwill arising from foreign companies was recalculated retrospectively using the functional currency of each such company. Exchange rate differences generated in the translation are also disclosed as Retained earnings (IFRS 1).

d) Translation of financial statements of foreign companies

Assets and liabilities denominated in foreign currencies in the individual financial statements of foreign companies are translated to euro using exchange rates at the balance sheet date. Profit and loss and cash flows are converted to euro using the average exchange rate for the period. Exchange rate differences originated after 1 January 2004 are recorded as equity under Translation reserves in Reserves and retained earnings. Exchange rate differences that originated prior to 1 January 2004 (date of transition to IFRS) were written-off through Retained earnings

Goodwill and fair value adjustments arising from the acquisition of foreign companies are recorded as assets and liabilities of those companies and translated to euro using exchange rates at the balance sheet date.

Whenever a foreign company is sold, accumulated exchange rate differences are recorded in the income statement as a gain or loss on the disposal.

Exchange rates used on translation of foreign group, jointly controlled and associated companies are listed below:

	31.12.2005		31.12.2004	
	Closing rate	Average rate	Closing rate	Average rate
Great Britain Pound	0.6853	0.6837	0.7051	0.6782
Brazilian Real	2.7440	3.0049	3.6147	3.6329
South African Rand	7.4644	7.9120	7.6899	7.9942
Canadian Dollar	1.3725	1.5029	1.6416	1.6161
Swiss Franc	1.5551	1.5483	1.5429	1.5437

Source: Bloomberg

2.3. Tangible assets

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

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

Depreciation is calculated on a straight line basis, as from the date the asset is first used, over the expected useful life for each class of assets.

Depreciation rates used correspond to the following estimated useful lives of underlying assets:

	Years
Buildings	50
Plant & Machinery	15
Vehicles	5
Tools	4
Fixtures and Fittings	10
Other Tangible Assets	5

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

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Tangible assets in progress represent fixed assets still under construction/development and are stated at acquisition cost net of impairment losses. These assets are depreciated from the date they are completed or start being used.

2.4. Intangible assets

Intangible assets are stated at acquisition cost, net of depreciation and accumulated impairment losses. Intangible assets are only recognised if it is probable that future economic benefits will flow from them, if they are controlled by the Group and if their cost can be reliably measured.

Expenditure on research associated with new technical know-how is recognised as an expense recorded in the income statement when it is incurred.

Expenditure on development is recognised as an intangible asset if the Group demonstrates the technical feasibility and its intention to complete the asset, its ability to sell or use it and the probability that the asset will generate future economic benefits. Expenditure on development which does not fulfil these conditions is recorded as an expense in the period in which it is incurred.

Internal costs associated with maintenance and development of software are recorded as an expense in the period in which they are incurred. Only costs directly attributable to projects for which the generation of future economic benefits is probable are capitalized as intangible assets.

Amortisation is calculated on a straight line basis, as from the date the asset is first used, over the expected useful life which normally is 5 years.

Brands and patents with indefinite useful lives are not amortised, but are subject to impairment tests on an annual basis.

2.5. Accounting for leases

Accounting for leases where the Group is the lessee

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

Whether a lease is classified as a finance or an operating lease depends on the substance of the transaction rather than the form of the contract.

Tangible 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 expense for depreciable assets are taken to the income statement in the period in which they are incurred.

Lease payments under operating lease contracts are recognised as an expense on a straight line basis over the lease term.

2.6. Investment Properties

Investment properties are recorded at acquisition cost net of depreciation and of accumulated impairment losses. These are registered as a result of land and buildings used in discontinued operations and that the Group had established lease contracts with third parties.

2.7. Government grants

Government grants are recorded at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Grants received as compensation for expenses, namely grants for personnel training, are recognised as income in the same period as the relevant expense.

Grants related to depreciable assets are disclosed as Other non-current liabilities and are recognised as income on a straight line basis over the expected useful lives of those assets.

2.8. 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 recognised in the income statement under Provisions and impairment losses.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Fair value less costs to sell 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 recognised in prior years is only recorded when it is concluded that the impairment losses recognised for the asset no longer exist or have decreased. This analysis is performed whenever there is an indication that the impairment loss previously recognised has been reversed. The reversal is recorded in the income statement as Other Operational income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for that asset in prior years.

2.9. Borrowing costs

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

Borrowing costs directly attributable to the acquisition, construction or production of tangible and intangible assets are capitalised as part of the cost of the qualifying asset. Borrowing costs are capitalised from the time of preparation of the activities to construct or develop the asset up to the time the production or construction is complete or when asset development is interrupted. Any income earned on funds temporarily invested pending their expenditure on the qualifying asset, is deducted from the borrowing costs that qualify for capitalisation.

2.10. Stocks

Consumer goods and raw materials are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

Finished goods and work in progress are stated at the lower of the weighted average production cost or net realisable value. Production cost includes cost of raw materials, labour costs and overheads (including depreciation of production equipment based on normal levels of activity).

Net realisable value is the estimated selling price less estimated costs of completion and estimated costs necessary to make the sale.

Differences between cost and net realisable value, if negative, are shown as operating expenses under Cost of sales or Changes in stocks of finished goods and work in progress, depending on whether they refer to consumer goods and raw materials or finished goods and work in progress.

2.11. Provisions

Provisions are recognised 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 date 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 parties involved.

2.12. 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. Investments classified as held to maturity have defined maturities and the Group has the intention and ability to hold 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 recognised on the trade date, independently of the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration paid for them, including transaction costs.

Available-for-sale investments and investments measured at fair value through profit or loss are subsequently carried at fair value, without any deduction for transaction costs which may be incurred on 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 recognised directly in equity, under Fair value reserve, included in Reserves and retained earning 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 recognised 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 or loss are included in the consolidated income statement for the period.

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

b) Accounts receivable

Receivables are stated at net realisable value, corresponding to their nominal value less impairment losses, recorded under the caption Impairment losses in accounts receivable, and thereby reflect their net realisable value.

c) Classification as equity or liability

Financial liabilities and equity instruments are classified and accounted for based on 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 accruals basis, in accordance with the accounting policy defined in Note 2.9. The portion of the effective interest charge relating to up-front fees and commissions, if not paid in the period, is added to the book value of the loan.

e) Trade accounts payable

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 and exchange rate risks on loans obtained. Conditions established for these cash flow hedge instruments are identical to those of the corresponding loans in terms of base rates, calculation rules, rate setting dates and repayment schedules of the loans and for these reasons they qualify as perfect hedges. Inefficiencies that may arise are recorded on the Profit and Loss statement.

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

Whenever the company chooses not to apply hedge accounting to derivative instruments, changes in fair value affect results immediately on a daily basis.

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 in equity under the caption Hedging reserve are transferred to profit or loss of the period or to the carrying amount of the asset that resulted from the hedged forecast transaction. Subsequent changes in fair value are recorded in the income statement.

In those cases in which derivatives, in spite of having been negotiated to hedge financial risks inherent to the business (essentially, currency "forwards" to cover future imports), no longer meet the criteria for hedge accounting under IAS 39, changes in the fair value are recorded directly in the income statement.

When embedded derivatives exist, they are accounted for as separate derivatives when the risks and the characteristics are not closely related to economic risks and characteristics of the host contract, and this is not stated at fair value.

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

g) Equity instruments

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

h) Own shares

Own shares are recorded at acquisition cost as a reduction to equity. Gains or losses arising from sales of own shares are recorded in Reserves and retained earnings under Other reserves

i) Cash and Cash Equivalents

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

In the consolidated statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in the balance sheet caption Borrowings.

2.13. Retirement benefit plans

As referred to in Note 25, some of the Group companies are committed to provide pension complements to their employees. These commitments are considered as defined benefit plans, and autonomous pension funds have been established to this effect:

In order to estimate its obligations, the Group obtains, annually, actuarial valuations according to the "Projected Unit Credit Method". When unrecognised cummulative actuarial gains and losses exceed the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets, these are recorded as income or expense on a straight line basis over the average remaining service period of the participants.

Past service costs are recorded immediately when benefits are being paid. Otherwise, these are recorded on a straight line basis over the average remaining service period until they vest (generally, the date of retirement if they still work for the Group).

Obligations recorded at the closing balance sheet date reflect the present value of obligations for defined benefits adjusted for actuarial gains or losses and/or past service costs not recorded, net of the fair value of net assets of the pension fund.

2.14. Contingent assets and liabilities

Contingent liabilities are not recorded in the consolidated financial statements. Instead they are disclosed in the notes to the financial statements, 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 future economic benefits are probable.

2.15. Income tax

Income tax for the period is calculated based on the taxable income of companies included on consolidation and considers deferred taxation.

Current income tax is determined based on the taxable income of companies included on consolidation and includes deferred taxation, in accordance with the tax rules in force in the respective country of incorporation, considering the period profit 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 are expected to apply in the periods when the temporary differences are expected to reverse.

Deferred tax assets are recognised 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 recognised and expected to reverse in the same period. At each balance sheet date a review is made of the deferred tax assets recognised, which are 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.

2.16. <u>Revenue recognition and accrual basis</u>

Revenue from the sale of goods is recognised in the 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 recognised 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 recognised in the income statement taking into consideration the stage of completion of the transaction at the balance sheet date.

Dividends are recognised 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 recognised in the income statement.

2.17. <u>Capital gains and losses</u>

Capital gains and losses that result from the sale or write-off of tangible and intangible assets and of investments are presented on the profit and loss statement as the difference between the sale price and the net book value at date of sale or write-off, under the caption Other Operating Profits and Losses.

2.18. <u>Balances and transactions expressed in foreign currencies</u>

Transactions in currencies other than the Euro, are translated to Euro using the exchange rate as at 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 company at the exchange rates as at 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 company, using the exchange rate at the date the fair value was determined.

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

When the Group wants to reduce currency exposure, it negotiates hedging currency derivatives (Note 2.12f)).

2.19. Subsequent events

Events after the balance sheet date that provide additional information about conditions that existed at the balance sheet date (adjusting events), are reflected in the consolidated financial statements. Events after the balance sheet date that are non-adjusting events are disclosed in the notes when material.

2.20. Segment information

All business and geographic segments of the Group are identified annually.
Information regarding business and geographic segments identified is included in Note 37.

3. CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF ERRORS

No changes to accounting policies and no corrections to prior period errors were made.

4. GROUP COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

Group companies included in the consolidated financial statements, their head offices and percentage of capital held by the Group as at 31 December 2005 and 2004 are as follows:

COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD				TERMS FOR INCLUSION
		31.12.2005		31.12.2004		
		Direct	Total	Direct	Total	
Agloma - Sociedade Industrial de Madeira Aglomerada, S.A.	Oliveira do Hospital (Portugal)	100,00%	100,00%	100,00%	92,66%	a)
Cia. De Industrias y Negocios, S.A.	Madrid (Spain)	100,00%	91,16%	100,00%	92,66%	a)
Ecociclo, Energia e Ambiente, S. A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
Euro Decorative Boards Ltd.	Knowsley (United Kingdom)	100,00%	91,16%	100,00%	92,66%	a)
Euromegantic Lteé	Lac Mégantic (Canadá)	100,00%	91,16%	100,00%	92,66%	a)

	Euroresinas - Indústrias Quimicas, S.A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
2)	Explotaciones Comerciales, Industriales y de Servicios, S.A.	Madrid (Spain)	100,00%	91,16%	100,00%	92,66%	a)
2)	Explotaciones Madereras Catalanas, S. A.	Barcelona (Spain)	100,00%	91,16%	100,00%	92,66%	a)
2)	Florestal y Maderera, S. A.	Madrid (Spain)	100,00%	91,16%	100,00%	92,66%	a)
	Glunz AG	Meppen (Germany)	98,17%	90,36%	98,17%	91,84%	a)
	Glunz Service GmbH	Hamm (Germany)	100,00%	90,36%	100,00%	91,84%	a)
	Glunz UK Holdings, Ltd.	Londres (United Kingdom)	100,00%	90,36%	100,00%	91,84%	a)
	Glunz UkA GmbH	Hamm (Germany)	100,00%	90,36%	100,00%	91,84%	a)
2)	Gollin GmbH	Bad Oeynhausen (Germany)	90,00%	81,32%	90,00%	82,65%	a)
	Isoroy Transformation S.A.S.	St. Dizier (France)	99,99%	91,16%	99,99%	92,66%	a)
	Isoroy, SAS	Boulogne (France)	100,00%	91,16%	100,00%	92,66%	a)
	Maiequipa - Gestão Florestal, S.A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
1)	Manipulaciones Florestales, S.A.	Madrid (Spain)	100,00%	91,16%	100,00%	92,66%	a)
	Megantic B.V.	Amsterdão (The Netherlands)	100,00%	91,16%	100,00%	92,66%	a)
	Movelpartes – Comp. para a Indústria do Mobiliário, S.A.	Paredes (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
2)	Novobord (Pty) Ltd.	Woodnead South Africa)	100,00%	91,16%	100,00%	92,66%	a)
2)	Orpin, S. A.	Madrid (Germany)	100,00%	91,16%	100,00%	92,66%	a)
	OSB Deustchland	Germany	100,00%	91,16%	100,00%	92,66%	a)
	Poliface Brasil, Ltda.	São Paulo (Brazil)	99,99%	99,99%	99,99%	99,99%	a)
	Poliface North America	Baltimore (USA)	100,00%	91,16%	100,00%	92,66%	a)
	Racionalización y Manufacturas Florestales, S.A.	Madrid (Spain)	100,00%	91,16%	100,00%	92,66%	a)
	Resoflex – Mobiliário e Equipamentos de Gestão, S.A.	Vila de Conde (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	SCS Beheer, BV	The Netherlands	100,00%	91,16%	100,00%	92,66%	a)
	Siaf – Soc. de Iniciativa e Aproveitamentos Florestais, S.A.	Mangualde (Portugal)	100,00%	91,16%	100,00%	92,66%	a)
	Socelpac, SGPS, SA	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	Sociedade de Iniciativa e Aproveit. Florestais - Energias, S.A.	Mangualde (Portugal)	100,00%	91,18%	100,00%	92,67%	a)
	Société Industrielle et Financière Isoroy	Rungis (France)	100,00%	91,16%	100,00%	92,66%	a)
	Somit – Imobiliária, S.A.	Oliveira do Hospital (Portugal)	100,00%	91,16%	100,00%	92,66%	a)
	Sonae – Serviços de Gestão, S. A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
2)	Sonae 4-P, Panels, Pulp, Paper and Packiging, S. A.	Madrid (Spain)	100,00%	91,16%	100,00%	92,66%	a)
	Sonae España, S. A.	Madrid (Spain)	99,94%	99,94%	99,94%	99,94%	a)
	Sonae Indústria – Prod. e Comerc. Derivados Madeira, S. A.	Mangualde (Portugal)	100,00%	91,41%	100,00%	92,86%	a)
	Sonae Indústria – Soc. Gestora de Participações Sociais, S.A.	Maia (Portugal)	MÃE	MÃE	MÃE	MÃE	MÃE
	Sonae Indústria Brasil, Ltda.	São Paulo (Brazil)	100,00%	100,00%	100,00%	100,00%	a)
	Sonae Indústria de Revestimentos, S.A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	Sonae Novobord (Pty) Ltd	Woodnead (South Africa)	100,00%	91,16%	100,00%	92,66%	a)
	Sonae Tafibra (UK) Ltd	Knowsley (United Kingdom)	100,00%	91,16%	100,00%	92,66%	a)
	Sonae Tafibra Benelux, B. V.	Woerden (The Netherlands)	100,00%	91,16%	100,00%	92,66%	a)
	Sonae UK, Limited	Knowsley (United Kingdom)	100,00%	91,16%	100,00%	92,66%	a)

	Spanboard Products Ltd	Belfast (United Kingdom)	100,00%	91,16%	100,00%	92,66%	a)
	Tableros de Fibras, S.A.	Madrid (Spain)	91,16%	91,16%	92,66%	92,66%	a)
	Tableros Tradema, S.L.	Madrid (Spain)	100,00%	91,16%	100,00%	92,66%	a)
	Tafiber, Tableros de Fibras Ibéricas, S.L.	Madrid (Spain)	100,00%	91,16%	100,00%	92,66%	a)
2)	Tafibra - Tableros Aglomerados y de Fibras, A.I.E.	Madrid (Spain)	100,00%	91,18%	100,00%	92,67%	a)
	Tafibra South Africa, Limited	South Africa	100,00%	91,16%	100,00%	92,66%	a)
	Tafibras, S.A.	Curitiba (Brazil)	53,99%	49,55%	53,99%	50,36%	a)
	Tafisa Brasil, S.A.	Curitiba (Brazil)	100,00%	57,46%	100,00%	58,39%	a)
	Tafisa Canadá Societé en Commandite	Lac Mégantic (Canadá)	99,99%	91,16%	99,99%	92,66%	a)
	Tafisa France S.A.S.	Rungis (France)	100,00%	91,16%	100,00%	92,66%	a)
	Tafisa U.K.Ltd.	Knowsley (United Kingdom)	100,00%	91,16%	100,00%	92,66%	a)
	Taiber, Tableros Aglomerados Ibéricos, S.L.	Madrid (Spain)	100,00%	91,16%	100,00%	92,66%	a)
	Tavapan, SA	Tavannes (Switzerlanda)	100,00%	90,36%	100,00%	91,84%	a)
	Tecnologias del Medio Ambiente, S.A.	Barcelona (Spain)	100,00%	91,16%	100,00%	92,66%	a)
	Tool, GmbH	Meppen (Germany)	100,00%	90,36%	100,00%	91,84%	a)

a) Majority of voting rights.

1) Company merged in Tecnologias del Medio Ambiente, S.A. on 1 January 2005.

2) Percentages of capital held refer to the date the company was excluded from the consolidation perimeter (note 6).

These group companies are consolidated using the full consolidation method as described in Note 2.2.a).

5. INVESTMENTS IN ASSOCIATED COMPANIES

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

	COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD			
			31.12.2005		31.12.2004	
			Direct	Total	Direct	Total
	Ipaper - Indústria de Papéis Impregnados, S. A.	Maia (Portugal)	49,00%	49,00%	49,00%	49,00%
1)	Oko Zentrum NRW	Germany	25,00%	22,59%	25,00%	22,99%
	Promodeco – Proj. Imobiliário Decoração e Constr., Lda.	Maia (Portugal)	27,60%	27,60%	27,60%	27,60%
	Serradora Boix	Barcelona (Spain)	31,25%	28,49%	31,25%	28,96%
	Sonaegest	Maia (Portugal)	20,00%	20,00%	20,00%	20,00%

1) Investment disposed of on 30 October 2005. Percentage of capital held refers to the date of disposal.

Associated companies are consolidated using the equity method, as referred to in Note 2.2.b).

6. CHANGES TO THE CONSOLIDATION PERIMETER

Main changes occurred in the consolidation perimeter during the twelve months period ended 31 December 2005 are as follows:

Disposals:

	Company	Head Office	Percentage of capital held at disposal date	
			Direct	Total
1)	Explotaciones Comerciales, Industriales y de Servicios, S.A.	Madrid (Spain)	100,00%	91,16%
2)	Explotaciones Madereras Catalanas, S. A.	Barcelona (Spain)	100,00%	91,16%
3)	Florestal y Maderera, S. A.	Madrid (Spain)	100,00%	91,16%
4)	Gollin GmbH	Bad Oeynhausen (Germany)	90,00%	81,32%
5)	Orpin, S. A.	Madrid (Spain)	100,00%	91,16%

1) Company disposed of on 31 December 2005:
2) Company disposed of on 25 October 2005;
3) Company disposed of on 25 October 2005;
4) Company disposed of on 31 December 2005;
5) Company disposed of on 25 October 2005.

Companies liquidated:

	Company	Head Office	Percentage of capital held at disposal date	
			Direct	Total
1)	Tafibra - Tableros Aglomerados y de Fibras, A.I.E.	Madrid (Spain)	100,00%	91,18%
2)	Sonae 4-P, Panels, Pulp, Paper and Packiging, S. A.	Madrid (Spain)	100,00%	91,16%
3)	Novobord (Pty) Ltd.	Woodnead (South Africa)	100,00%	91,16%

1) Company liquidated on 30 December 2005;
2) Company liquidated on 31 December 2005;
3) Company liquidated during 2005 after assets were transferred to Sonae Novobord (Pty) Ltd.

Effect of disposals:

The aforementioned changes in the consolidation perimeter that occurred during the twelve months period ended 31 December 2005 affected the comparability of consolidated financial statements as at 31 December 2005 and 2004. Should the consolidation perimeter for 2004 consider changes referred to in this note, the consolidated balance sheet and consolidated profit and loss statement would show the following effect:

ASSETS	31.12.2004 2004 Perimeter	2005 Perimeter	Difference
NON CURRENT ASSETS			
Tangible assets	1 148 057 729	1 145 113 237	2 944 492
Goodwill	45 269 819	45 269 819	
Associated undertakings and non consolidated undertakings	9 519 767	9 519 767	
Deferred tax asset	66 318 079	66 318 079	
Other non current assets	1 129 578	1 129 578	
Total non current assets	1 270 294 972	1 267 350 480	2 944 492
CURRENT ASSETS			
Inventories	159 011 303	157 360 878	1 650 425
Trade debtors	227 360 848	226 455 302	905 546
Other current assets	49 690 139	48 508 443	1 181 696
Investments	5 980 187	5 980 187	
Cash and cash equivalents	74 817 721	74 562 736	254 985
Total current assets	516 860 198	512 867 546	3 992 652
TOTAL ASSETS	1 787 155 170	1 780 218 026	6 937 144
SHAREHOLDERS' FUNDS, MINORITY INTERESTS AND LIABILITIES			
SHAREHOLDERS' FUNDS			
Share capital	700 000 000	700 000 000	
Reserves and retained earnings	- 311 273 229	- 314 522 194	3 248 965
Net profit (loss) for the period - group	42 580 440	41 331 687	1 248 753
Total shareholders' funds	431 307 211	426 809 493	4 497 718
Minority interests	38 906 799	38 297 753	609 046
TOTAL SHAREHOLDERS'S FUNDS	470 214 010	465 107 246	5 106 764
LIABILITIES			
NON CURRENT LIABILITIES			
Long term bank loans - net of short-term portion	539 398 323	539 315 237	83 086
Other non current liabilities	283 318 342	283 295 481	22 861
Deferred tax liabilities	32 127 706	32 127 706	
Provisions	13 961 213	13 961 213	
Total non current liabilities	868 805 584	868 699 637	105 947
CURRENT LIABILITIES:			
Short term portion of long term bank loans	122 754 949	122 687 142	67 807
Trade creditors	175 184 310	174 888 464	295 846
Other current liabilities	140 430 727	139 083 733	1 346 994
Provisions	9 765 590	9 751 805	13 786
Total current liabilities	448 135 576	446 411 144	1 724 433
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES	1 787 155 170	1 780 218 027	6 937 144

	31.12.2004 2004 Perimeter	2005 Perimeter	Difference
Operating revenues:			
Sales	1 484 010 946	1 472 614 938	11 396 008
Services rendered	8 128 525	8 128 525	
Other operating revenues	81 731 372	79 667 354	2 064 018
Total operating revenues	1 573 870 843	1 560 410 817	13 460 026
Operating costs			
Cost of sales	680 289 957	675 823 675	4 466 282
(Increase) / decrease in production	9 976 763	9 839 662	137 101
Overheads	379 224 507	377 374 856	1 849 651
Staff expenses	221 431 661	216 102 208	5 329 453
Amortisation and depreciation	107 687 500	107 273 633	413 867
Provisions and impairment losses	9 511 583	9 507 788	3 794
Other operating costs	33 977 278	33 784 830	192 448
Total operating costs	1 442 099 249	1 429 706 652	12 392 596
Net operating profit / (loss)	131 771 594	130 704 165	1 067 430
Financial profits	15 723 651	15 406 460	317 191
Financial costs	87 438 534	87 420 795	17 739
Gains and losses in associated companies	837 189	837 189	
Gains and losses in investments	430 906	430 906	
Current profit / (loss)	61 324 806	59 957 925	1 366 881
Taxation	16 251 076	16 251 076	
Consolidated net profit / (loss) afer taxation	45 073 730	43 706 849	1 366 881
Consolidated net profit / (loss) for the period	45 073 730	43 706 849	1 366 881
Attributable to:			
Equity holders of Sonae Indústria	42 580 440	41 331 687	1 248 753
Minority interests	2 493 290	2 375 163	118 127

7. INVESTMENTS

At 31 December 2005 and 2004, details of Investments are as follows:

	31.12.05		31.12.04	
	Current	Non current	Current	Non current
Investiment in group companies excluded from consolidation				
Opening balance		42 948 640		42 772 464
Acquisition				176 176
Disposal		196 990		
Liquidation		25 641		
Closing balance		42 726 009		42 948 640
Accumulated impairment losses (Note 28)		42 661 176		42 875 937
Net investment in group companies		64 833		72 703
Investment in associeted companies				
Opening balance		3 168 799		2 729 458
Incerase in share capital		100 000		
Disposal		50 463		
Effect of equity method application		137 700		439 341
Changes in scope of consolidation		- 138 744		
Transfer		- 68 903		
Closing balance		3 148 389		3 168 799
Accumulated impairment losses (Note 28)				25 565
Net investment in associated companies		3 148 389		3 143 234
Available-for-sale investments				
Opening balance		6 437 535		1 571 722
Acquisition		8 209		
Disposal		5 393 091		
Transfer		68 903		4 865 813
Currency translation effect		274 639		
Closing balance		1 396 195		6 437 535
Accumulated impairment losses (Note 28)		23 575		133 705
Net available-for-sale investments		1 372 620		6 303 830
Investments measured at fair value through profit and loss				
Opening balance	15 287 880		6 962 167	
Acquisition	12 208 438		1 169 415	
Changes in scope of consolidation			9 495 128	
Closing balance	3 079 442		15 287 880	
Accumulated impairment losses (Note 28)	38 177		9 307 693	
Net investments measured at fair value through profit and loss	3 041 265		5 980 187	

Disposal of investments during the period originated net gains of circa 10 900 000 euros, included in Other operating revenues.

8. TANGIBLE ASSETS

During the twelve months period ended 31 December 2005 and 2004, movements in tangible assets, accumulated depreciation and impairment losses were as follows:

2005

	Land and Buildings	Plant and Machinery	Vehicles	Tools	Fixtures and Fittings	Other Tangible Fixed Assets	Fixed Assets under construction	Total tangible
Gross cost:								
Opening balance	398 140 852	1 577 797 176	13 514 125	5 805 246	42 552 969	12 498 164	16 527 666	2 066 836 198
Changes in consolidation perimeter	- 2 367 295	- 3 710 067	- 354 410	- 57 529	- 609 014			- 7 098 315
Capital expenditure	44 217	697 604	168 833	32 948	424 903	79 037	39 536 170	40 983 712
Disposals	11 017 239	26 010 103	662 370	368 722	157 874	85 454		38 301 762
Transfers	- 4 631 141	34 086 784	175 266	2 574 827	2 065 330	310 805	- 40 422 686	- 5 840 815
Exchange rate effect	19 112 545	62 179 141	393 326	129 672	1 478 557	17 533	679 825	83 990 599
Closing balance	399 281 939	1 645 040 535	13 234 770	8 116 442	45 754 871	12 820 085	16 320 975	2 140 569 617
Accumulated depreciation, amortisation and impairment losses								
Opening balance	89 325 386	780 914 776	9 098 282	4 161 927	26 744 724	10 047 307		920 292 402
Changes in consolidation perimeter	- 868 563	- 2 669 092	- 309 192	- 45 767	- 455 852			- 4 348 466
Charge for the period	7 002 453	87 784 816	675 493	1 143 678	4 404 918	907 280		101 918 638
Disposals	6 415 295	22 439 988	614 109	56 948	118 902	84 961		29 730 203
Transfers	1 588 919	- 2 880 082	- 6 841	- 12 867	- 13 733	- 16 176		- 1 340 780
Exchange rate effect	2 108 175	22 572 970	283 578	88 535	769 037			25 822 295
Closing balance	92 741 075	863 283 400	9 127 211	5 278 558	31 330 192	10 853 450		1 012 613 886
Carrying amount	306 540 864	781 757 135	4 107 559	2 837 884	14 424 679	1 966 635	16 320 975	1 127 955 731

2004

	Land and Buildings	Plant and Machinery	Vehicles	Tools	Fixtures and Fittings	Other Tangible Fixed Assets	Fixed Assets under construction	Total tangible
Gross cost:								
Opening balance	458 732 115	1 680 833 182	18 195 315	5 692 912	52 884 325	20 555 738	21 707 937	2 258 601 524
Changes in consolidation perimeter	- 39 324 790	- 105 866 579	- 3 674 466	- 293 778	- 3 245 719	- 8 022 233	- 1 941 142	- 162 368 706
Capital expenditure	3 817 103	1 470 585	504 237	32 802	408 713	25 576	42 140 100	48 399 116
Disposals	26 829 519	49 853 806	2 385 436	159 599	7 867 658	426 960	979 467	88 502 445
Transfers	427 249	47 685 609	832 662	529 827	287 331	364 827	- 44 396 615	5 730 890
Exchange rate effect	1 318 694	3 528 185	41 813	3 082	85 977	1 216	- 3 147	4 975 820
Closing balance	398 140 852	1 577 797 176	13 514 125	5 805 246	42 552 969	12 498 164	16 527 666	2 066 836 198
Accumulated depreciation, amortisation and impairment losses								
Opening balance	101 734 131	786 366 802	16 327 597	3 605 508	35 593 312	16 138 693		959 766 043
Changes in consolidation perimeter	- 11 782 700	- 66 138 102	- 3 045 788	- 276 559	- 2 332 423	- 7 349 621		- 90 925 193
Charge for the period	7 335 171	92 054 116	958 662	980 211	2 910 727	1 348 493		105 587 380
Disposals	8 544 472	35 397 003	1 955 444	148 276	8 960 835	166 074		55 172 104
Transfers	546 292	3 680 980	- 3 212 118	5 484	- 486 576	75 816		609 878
Exchange rate effect	36 964	347 983	25 373	- 4 441	20 519			426 398
Closing balance	89 325 386	780 914 776	9 098 282	4 161 927	26 744 724	10 047 307		920 292 402
Carrying amount	308 815 466	796 882 400	4 415 843	1 643 319	15 808 245	2 450 857	16 527 666	1 146 543 796

Charges for the period includes circa 800 000 euros of impairment losses included in the consolidated Profit and Loss statement under Provisions and impairment losses.

At 31 December 2005 and 2004, the net value of leased assets classified as finance leases was composed of:

	31.12.05	31.12.04
Land and Buildings	1 567 148	2 814 959
Plant and Machinery	13 547 312	14 859 793
Vehicles	204 101	235 998
Tools		
Fixtures and Fittings	113 892	152 892
Other tangible assets		
	15 432 453	18 063 642

During 2005 no interest paid or any other financial charges were capitalised, in accordance with conditions defined in note 2.9.

At 31 December 2005, mortgaged Land and buildings amounted to 33 492 500 euros (32 510 000 euros at 31 December 2004) as a guarantee for loans. At the same date, the Group had assumed commitments for acquisition of fixed assets of 3 950 239 euros (925 895 euros at 31 December 2004).

9. INTANGIBLE ASSETS

During the twelve month period ended 31 December 2005 and 2004, movements in intangible assets, accumulated depreciation and impairment losses were as follows:

	2005					
	Development Costs	**Patents, Royalties And Other Rights**	**Software**	**Other Intangible Assets**	**Intangible Assets Under Development**	**Total intangible**
Gross cost:						
Opening balance	828 159	3 993 935	223 951	1 724 531	62 081	6 832 657
Changes in consolidation perimeter				- 69 005		- 69 005
Capital expenditure					7 689	7 689
Disposals	23 325				6 795	30 120
Transfers		39 811			- 42 031	- 2 220
Exchange rate effect	226	2 759				2 985
Closing balance	805 060	4 036 505	223 951	1 655 526	20 944	6 741 986
Accumulated depreciation, amortisation and impairment losses						
Opening balance	479 142	3 837 003	134 370	868 209		5 318 724
Changes in consolidation perimeter				- 15 787		- 15 787
Charge for the period	105 853	79 220	44 790	330 730		560 593
Disposals	20 604					20 604
Transfers						
Exchange rate effect	136	2 679				2 815
Closing balance	564 527	3 918 902	179 160	1 183 152		5 845 741
Carrying amount	240 533	117 603	44 791	472 374	20 944	896 245

	2004					
	Development Costs	**Patents, Royalties And Other Rights**	**Software**	**Other Intangible Assets**	**Intangible Assets Under Development**	**Total intangible**
Gross cost:						
Opening balance	3 623 280	4 064 918	223 951	1 654 466	2 088 015	11 654 630
Changes in consolidation perimeter	- 2 663 124	- 18 565			- 2 015 394	- 4 697 083
Capital expenditure	364 625	300		53 598	723 472	1 141 995
Disposals	670 567	- 70 859		99 449	332 016	1 031 173
Transfers	173 371	- 123 784		115 916	- 401 996	- 236 493
Exchange rate effect	574	207				781
Closing balance	828 159	3 993 935	223 951	1 724 531	62 081	6 832 657
Accumulated depreciation, amortisation and impairment losses						
Opening balance	2 628 556	3 853 890	89 580	494 295		7 066 321
Changes in consolidation perimeter	- 2 404 595	- 11 398				- 2 415 993
Charge for the period	255 570	283 213	44 790	351 034		934 607
Disposals	163 119	24 111				187 230
Transfers	162 663	- 263 977		22 880		- 78 434
Exchange rate effect	67	- 614				- 547
Closing balance	479 142	3 837 003	134 370	868 209		5 318 724
Carrying amount	349 017	156 932	89 581	856 322	62 081	1 513 933

10. INVESTMENT PROPERTIES

During the twelve month period ended 31 December 2005 and 2004, movements in investment properties, accumulated depreciation and impairment losses were as follows:

	2005			2004
	Cost	Under construction	Total	Total
Gross cost:				
Transfers	9 237 766		9 237 766	
Closing balance	9 237 766		9 237 766	
Accumulated depreciation and impairment losses				
Charge for the period	155 856		155 856	
Transfers	96 398		96 398	
Closing balance	252 254		252 254	
Carrying amount	8 985 512		8 985 512	

During the period, investment properties have been reclassified from tangible assets.

11. GOODWILL ARISING ON CONSOLIDATION

During the twelve month period ended 31 December 2005 and 2004, movements in goodwill arising on consolidation, accumulated depreciation and impairment losses were as follows:

	31.12.05	31.12.04
	Goodwill	
Gross value:		
Opening balance	45 269 819	45 585 210
New companies		
Increases	219 726	
Decreases	1 400 250	1 274 851
Transfers and write-offs	26 811	
Currency translation	376 075	959 460
Closing balance	44 492 181	45 269 819
Accumulated impairment losses:		
Closing balance		

Goodwill is not amortised. Impairment tests on goodwill are performed on a yearly basis.

12. DEFERRED TAXES

At 31 December 2005 and 2004 deferred tax assets and liabilities were detailed according to the underlying 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 acquisition cost				30 059
Harmonisation adjusments			41 130 842	31 244 787
Provisions and impairment losses not accepted for tax purposes	3 898 133	2 003 668		
Tangible assets written off	184 692	410 235		
Intangible assets written off	299 538	339 656		
Deferred costs written off	43 327	88 824		
Tax losses carried forward	48 254 901	63 463 432		
Others	5 001	12 264	2 005 301	852 860
	52 685 592	66 318 079	43 136 143	32 127 706

The movements in deferred tax assets and liabilities during the years ended 31 December 2005 and 2004 were as follows:

	Deferred tax assets		Deferred tax liabilities	
	31.12.05	31.12.04	31.12.05	31.12.04
Opening balance	66 318 079	66 662 930	32 127 706	24 891 009
Impact on results:				
Harmonisation adjusments			4 524 632	2 577 887
Changes in provisions and impairment losses not accepted for tax purposes	1 320 656	571 390		
Derecognized tangible assets	- 225 543			
Derecognized intangible assets	- 40 118			
Deferred costs written off	- 45 497			
Tax losses carried forward	- 16 036 341	- 511 297		
Others	29	1 499 752	2 680 110	9 096 136
Impact on reserves:				
Difference between fair value and acquisition cost		39 611		30 059
Currency translation effect	1 394 327	252 245	3 803 695	286 901
Impact of changes in the consolidation perimeter:				
Disposals		- 2 196 552		- 4 754 286
Closing balance	52 685 592	66 318 079	43 136 143	32 127 706

In accordance with International Financial Reporting Standards / International Accounting Standards, at 31 December 2005 the Group performed an evaluation of the deferred tax assets relating to tax losses carried forward that were accounted for in previous years.

Considering the estimated projected net profit for the companies and countries based on income from current and foreseen restructuring operations, the Board of Directors decided to reallocate by company and by country a portion of deferred tax assets formerly recognised, aiming at recognising deferred tax assets in companies and in countries where the corresponding net profit is expected to take place in a shorter period of time.

Therefore, deferred tax assets previously recognised in subsidiaries located in France and United Kingdom, amounting circa 30,8 million euros, were reverted; deferred tax assets previously recognised in a subsidiary located in Germany, amounting circa 21,4 million euros, were kept; and new deferred tax assets relating to tax losses carried forward were recognised in subsidiaries located in Spain, amounting circa 21,8 million euros.

During 2005, the movement occurred in deferred tax asset relating to tax losses carried forward was as follows:

		Euros
Opening balance		63 463 432
Movement with impact in net profit		
Reversion	-30 838 876	
Increase	24 025 125	
Use	-9 222 590	-16 036 341
Movements with impact on reserves		
Effect of currency translation		827 000
Closing balance		48 254 091

At 31 December 2005, deferred tax assets were allocated to companies with head office in the following countries:

	Euros
Spain	21 791 723
Germany	21 399 498
Brazil	5 252 596
Portugal	3 046 562
South Africa	1 046 379
Canada	148 834
Closing balance	52 685 592

According to the tax return of each company, accounting for deferred tax assets on tax losses carried forward, at 31 December 2005 and 2004, presented the following composition:

	31.12.05			31.12.04		
	Tax loss carried forward	Deferred tax assets	Limit date to be used	Tax loss carried forward	Deferred tax assets	Limit date to be used
With time limit						
Originated in 1993	2 310 596	808 708	2009			
Originated in 1999	1 528 502	534 976	2015			
Originated in 2000	36 725	12 854	2016	673 926	185 330	2005
Originated in 2001	97 047	26 688	2007	497 803	136 896	2006
Originated in 2001	40 877 400	14 306 985	2017			
Originated in 2002	269 693	74 166	2008	1 038 268	285 524	2007
Originated in 2002	13 714 886	4 800 210	2018			
Originated in 2003	138 205	38 462	2009	5 391 235	1 447 362	2008
Originated in 2003	3 740 985	1 309 345	2019			
Originated in 2004	9 468 726	2 374 689	2010	1 912 097	525 827	2009
Originated in 2004	53 271	18 645	2020			
	72 236 036	24 305 728		9 513 329	2 580 939	
Without time limit	64 569 001	23 949 173		175 206 637	60 882 493	
	136 805 036	48 254 901		184 719 966	63 463 432	

Furthermore, at 31 December 2005 and 2004, tax losses for which no deferred tax assets were recognised, are detailed as follows:

	31.12.05			31.12.04		
	Tax loss carried forward	Tax credit	Limit date to be used	Tax loss carried forward	Tax credit	Limit date to be used
With time limit						
Originated in 1999	43 812 435	15 334 352	2015	47 825 591	16 738 957	2015
Originated in 2000						
Originated in 2000				36 726	12 854	2016
Originated in 2001						
Originated in 2001	48 908 453	17 117 959	2017	89 785 853	31 425 049	2017
Originated in 2002	5 338	1 468	2008	4 812 381	1 323 405	2007
Originated in 2002	48 725 176	17 053 812	2018	59 162 037	20 706 713	2018
Originated in 2003	172 496	47 436	2009	473 511	130 215	2008
Originated in 2003	95 088 900	33 281 115	2019	95 495 818	33 423 536	2019
Originated in 2004	263 398	72 434	2010	7 938 418	2 183 065	2009
Originated in 2004	19 280 761	6 748 266	2020			
Originated in 2005	375 609	103 293	2011			
	256 632 566	89 760 135		305 530 335	105 943 794	
Without time limit	768 067 547	267 719 807	-	624 053 617	222 871 475	-
	1024 700 113	357 479 942		929 583 952	328 815 269	
	1 161 505 150	405 734 844		1 114 303 918	392 278 701	

As a result of conversion adjustments to IAS, recognition of Deferred tax was reevaluated. Deferred tax assets resulting from the mentioned adjustments were accounted for if occurrence of future taxable profits was considered likely to happen therefore enabling the recovery of tax losses carried forward and other deductible temporary differences. The evaluation was based on the business plans of Sonae Indústria Group companies, periodically reviewed and updated, and on the available and identified tax planning opportunities.

Deferred tax assets are offset against deferred tax liabilities in situations where the company generating the related temporary differences is legally entitled to offset the recognised amounts and intends to settle on a net basis or else to realise the assets and settle the liability simultaneously.

13. OTHER NON CURRENT ASSETS

At 31 December 2005 and 2004 details of Other non current assets on the Consolidated Balance sheet were as follows:

	31.12.05	31.12.04
Loans granted to associated companies	14 132 905	14 530 400
Other loans granted	161 200	178 328
Advances for financial undertakings		
Trade accounts receivable and other debtors	1 770 959	855 105
Tax recoverable		
Other non-current assets	75 395	
	16 140 459	15 563 833
Accumulated impairment losses (Note 28)	14 132 921	14 434 255
	2 007 538	1 129 578

14. INVENTORIES

At 31 December 2005 and 2004, details of Inventories on the Consolidated Balance Sheet were as follows:

	31.12.05	31.12.04
Merchandise	10 672 926	8 585 443
Finished and intermediate products	64 509 000	57 537 425
Products and working in progress	2 353 767	3 655 817
Raw Materials and Consumables	91 212 997	92 242 545
	168 748 690	162 021 230
Accumulated impairment losses on inventories (Note 28)	4 771 938	3 009 927
	163 976 752	159 011 303

15. TRADE DEBTORS

At 31 December 2004 and 2005, details of Trade Debtors on the Consolidated Balance Sheet were as follows:

	31.12.05	31.12.04
Current accounts	243 284 568	221 627 319
Bills receivable	341 025	8 805 207
Doubtful debtors	12 561 675	11 728 564
	256 187 268	242 161 090
Accumulated impairment losses on trade debtors (Note 28)	16 295 730	14 800 242
	239 891 538	227 360 848

In April 2004, various companies included in the consolidation perimeter located in Portugal, Spain, France, Germany, Holland, England and Northern Ireland, contracted a securitization facility with Tulip Asset Purchase Company B. V., related with the sale of up to 150 000 000 euros in trade debts and with a maturity of 5 years.

16. OTHER CURRENT DEBTORS

At 31 December 2005 and 2004, details of Other current debtors on the Consolidated Balance Sheet were as follows:

	31.12.05	31.12.04
Other debtors	14 175 453	12 245 372
Advances to trade creditors	829 448	1 008 176
Goup companies	2 163 548	18 901 127
	17 168 449	32 154 675
Accumulated impairment losses in accounts receivable (Note 28)	492 122	2 588 307
	16 676 327	29 566 368

17. OTHER CURRENT ASSETS

At 31 December 2005 and 2004, details of Other current assets on the Consolidated Balance Sheet were as follows:

	31.12.05	31.12.04
Accrued revenue	1 386 208	2 135 806
Deferred Costs	3 503 054	2 749 006
Others	83 818	916 848
	4 973 080	5 801 660

18. STATE AND OTHER PUBLIC ENTITIES

At 31 December 2005 and 2004, details of Other non current assets on the Consolidated Balance Sheet were as follows:

	31.12.05	31.12.04
State and other public entities:		
Income Tax	4 059 189	4 114 487
Value Added Tax	10 295 174	8 699 914
Social Security Contribution	14 993	11 854
Others	1 169 327	1 495 856
	15 538 683	14 322 111

19. CASH AND CASH EQUIVALENTS

At 31 December 2005 and 2004, the detail of Cash and Cash Equivalents was as follows:

	31.12.05	31.12.04
Cash at hand	3 175 464	657 086
Bank deposits	52 823 600	39 078 955
Treasury applications	60 843 540	35 081 680
Cash and cash equivalents on the balance sheet	116 842 604	74 817 721
Bank overdrafts	366 752	2 647 649
Cash and cash equivalents on the statement of cash flows	116 475 852	72 170 072

Bank overdrafts include credit balances of bank current accounts, included in the item Bank loans of the consolidated balance sheet's current liabilities.

The balance of Treasury applications at 31 December 2005 and 2004 was composed of several very short term treasury applications at banks, with low risk (bank risk) and returns aligned with existing market applications with similar maturity and risk profiles.

20. SHARE CAPITAL

During the demerger-merger merger process described in note 1., Sonae Indústria, SGPS, SA's (formerly Sonae 3P – Panels, Pulp and Paper, SGPS, SA) share capital was increased from 50 000 euros to 700 000 000 euros, through issuance of 139 990 000 common shares, each of which with a face value of 5 euros.

At 31 December 2005 and 2004, Sonae Indústria's Share Capital was fully underwritten and paid and was comprised of 140 000 000 common shares, not entitled to fixed income, with a face value of 5 euros per share. At this date, neither the company nor any of its affiliates held any shares in the company.

Sonae Indústria, SGPS, SA is included in the consolidation perimeter of its ultimate parent company, Efanor Investimentos, SGPS, SA.

21. MINORITY INTERESTS

Changes to this item during 2005 and 2004 were as follows:

	31.12.05	31.12.04
Opening balance	38 906 799	94 870 525
Decrease / (increase) in ownership percentage on consolidated companies	- 235 893	-58 560 218
Change resulting from currency translation	6 318 979	103 202
Net profit for the period attributed to minority interests	48 103	2 493 290
Others	- 77 195	
-	44 960 793	38 906 799

22. LOANS

As at 31 December 2005 and 2004 Sonae Indústria had the following outstanding loans:

	31.12.05				31.12.04			
	Amortised cost		Nominal value		Amortised cost		Nominal value	
	Current	Non current	Current	Non current	Current	Non current	Current	Non current
Bank loans	83 539 248	176 146 046	83 539 248	176 146 046	81 813 430	315 089 218	81 813 430	315 089 218
Debentures		381 101 414		385 000 000	23 138 966	78 085 302	23 138 966	78 085 302
Obligations under finance leases	4 476 336	229 326	4 476 336	229 326	3 852 136	5 134 120	3 852 136	5 134 120
Other loans	1 072 734	107 182 288	1 072 734	107 182 288	13 950 417	141 089 683	13 950 417	141 089 683
Gross debt	89 088 318	664 659 074	89 088 318	668 557 660	122 754 949	539 398 323	122 754 949	539 398 323
Investment	3 041 265		3 041 265		5 980 187		5 980 187	
Cash and cash equivalent in balance	116 842 604		116 842 604		74 817 721		74 817 721	
Net debt	- 30 795 551	664 659 074	- 30 795 551	668 557 660	41 957 041	539 398 323	41 957 041	539 398 323
Total net debt	633 863 523		637 762 109		581 355 364		581 355 364	

The loans have the following repayment schedule:

	31.12.05	31.12.04
2005		122 754 949
2006	89 088 318	171 360 898
2007	37 961 270	33 851 800
2008	140 970 897	33 781 794
2009	224 227 737	249 495 478
2010	172 619 155	16 254 751
2011	19 836 061	18 401 042
After 2011	72 942 540	16 252 560
	757 645 978	662 153 272

The aforementioned loans do not include loans granted by related parties.

22.1 Bank Loans

The bank loans and overdrafts presented in the table in note 22. are included in "Long Term Bank Loans – net of the Short Term portion", "Short Term portion of Long Term Bank Loans" and "Short Term Bank Loans" on the Consolidated Balance Sheet and their composition as at 31 December 2005 is detailed in the following table:

Company	Short term portion				
	Bank loans	Short term portion	Short term	Bank overdrafts	Total
Glunz AG	92 391 600	13 542 200			105 933 800
Sonae Indústria -SGPS,SA	28 125 000	6 250 000			34 375 000
Sonae Novobord (Pty) Ltd	21 444 876	3 279 314			24 724 190
Sonae UK,Ltd.	17 024 117	6 809 647			23 833 763
Tafisa Brasil, SA	510 202	20 867 445	26 977 097		48 354 743
Sonae Ind., Prod. e Com.Deriv.Madeira,SA	12 591 194	4 964 045			17 555 239
Others	4 059 057	479 460	3 289	366 751	4 908 559
	176 146 046	56 192 111	26 980 386	366 751	259 685 294

a) During 2002, the Company, together with its main shareholder, Sonae S.G.P.S., SA and with its affiliated company Glunz AG., contracted a loan with the European Investment Bank in the total amount of 119 000 000 Euros, withdrawn in full until 31 December 2004. The loan pays interest quarterly, indexed to Euribor, and will be redeemed in 16 consecutive and equal semi annual instalments, the first of which was made in June 2005. At 31 December

2005, this loan amounted 105 933 800 euros. Following the financial restructuring process that Sonae Indústria, S.G.P.S., S.A. undergone, Sonae S.G.P.S., SA was released from this loan.

b) During 1H05 a loan contracted by Sonae SGPS SA with the European Investment Bank, in the total amount of 50,000,000 Euros, was transferred to Sonae Indústria SGPS, SA. The loan pays interest quarterly, at market rates, and will be redeemed in 16 consecutive and equal semi annual instalments, the first of which occurred on 30 June 2003. On 31 December 2005, the principal outstanding was 34 375 000 euros;

c) Sonae Novoboard raised debt from Firstrand Bank in the total amount of ZAR 200 000 000. The facility was issued at a fixed rate of 13.18%, and interest is payable semi annually, and principal is repaid in 14 consecutive and variable instalments, the first of which occurred in June 2003. As at 31 December 2005, the principal outstanding was 24 742 190 euros;

d) Sonae UK signed a bank loan contract with the European Investment Bank, in the total amount of GBP 35,000,000. This loan pays interest at market rates and is redeemable in 15 consecutive and semi annual instalments, the first of which matured in June 2002. As at 31 December 2005, the principal outstanding was 23 833 763 euros;

e) In 2000, Sonae Indústria – Produção e Comercialização de Derivados de Madeira, SA contracted a 27 000 000 euros.loan with the European Investment Bank. The loan pays interest semi annually in arrears, at market rates, and the principal is repaid in 16 consecutive semi annual instalments. As at 31 December 2005, the principal outstanding was 17 555 239 euros;

f) In the past, Tafisa Canada had contracted a CAD 101 200 000 syndicated loan, bearing interest at market rates. 45% of the principal was repaid in 9 six-monthly payments, the first of which was made in June 2000. The remaining 55% was repaid in a single payment in April 2005.

g) Sonae Indústria and some of its subsidiaries contracted a syndicated revolving facility of 400 000 000 euros, that was reduced to 300 000 000 euros on 20 December 2002 and was further reduced to 100 000 000 euros on the 20 December 2004, and that was to mature on 20 December 2006. In June 2005, the company fully repaid the outstanding principal and voluntarily terminated the facility.

22.2 Bonds Issues

a) Tafisa 98 bonds outstanding principal of 23 138 966 euros were fully repaid on March 2005;

b) Sonae Indústria 2004 bonds, issued on 15 October 2004, with a principal of 80 000 000 euros. Principal will be paid in a single bullet payment 5 years after issue date. Interest is calculated using Euribor 6 months plus 87.5 bps basis, and paid semi annually in arrears on 15 April and 15 October;

c) Sonae Indústria 2005/2013 bonds, issued on 31 March 2005, with a principal amount of 55 000 000 euros, and a bullet repayment 8 years after issue date. Interest is calculated using Euribor six months plus 87.5 bps, paid semi annually in arrears on 31 March and 30 Setember;

d) Sonae Indústria 2005/2008 bonds, issued on 27 April 2005, with a principal amount of 100 000 000 euros and a bullet repayment 3 years after issue date. Interest is calculated using Euribor six months plus 100 bps, paid semi annually in arrears on 27 April and October;

e) Sonae Indústria 2005/2010 bonds, issued on 27 April 2005, with a principal amount of 150 000 000 euros and a bullet repayment 5 years after issue date. Interest is calculated using Euribor six months plus 110 bps, paid semi annually in arrears on 27 April and October.

22.3 Finance Leasing

At 31 December 2005 and 2004, this item had the following composition:

	Minimum lease payments		Present value of minimum lease payments	
	31.12.05	31.12.04	31.12.05	31.12.04
2005		5,376,103		4,256,496
2006	5 363 377	5 363 377	4 443 758	4 423 617
2007	147 775	147 775	147 248	191 487
2008	114 656	114 656	114 656	114 656
	5 625 808	11 001 911	4 705 662	8 986 256
Long term lease creditors - short term portion			4 476 336	3 852 136
Lease creditors - net of short term portion			229 326	5 134 120

22.4 Other Loans

Other loans, as detailed in the table in note 22., are included in the consolidated Balance Sheet, in the item “Other Financing” in Current Liabilities and Non-Current Liabilities, had the following composition on 31 December 2005:

Company	Other Loans		
	Long term		Short term
	Securitization	Others	Others
Tableros Tradema,S.L.	20 080 469		
Sonae Ind., Prod. e Com.Deriv.Madeira,SA	19 562 505	155 552	27 522
Isoroy SAS	18 551 402	334 287	170 193
Glunz AG	17 711 523		43 689
Sonae Tafibra Benelux, BV	14 014 662		
Sonae UK,Ltd.	12 222 605		
Spanboard Products,Ltd	3 680 718		
Others		868 565	831 330
	105 823 884	1 358 404	1 072 734

23. FINANCIAL DERIVATIVES

Foreign Exchange (fx) derivatives

Sonae Indústria Group hedges mostly with the purpose of mitigating cash flow risk and not as a negotiation instrument.

The Group has contracted several foreign exchange forwards as well as cross currency swaps that are not perfect hedging relationships thus have not received a hedge accounting treatment. Nevertheless, these hedging transactions materially mitigate the effects of foreign exchange rate fluctuations in loans that have been contracted in currencies that differ from the base currency of each company.

Profits and losses associated to changes in the value of derivative instruments that have not received hedge accounting treatment were negative by 8 748 343 euros and have been recorded directly in the Profit and Loss Statement, as Financial Losses. This item also includes changes in market value of loans due to foreign exchange rate fluctuations, which the Group aims to hedge.

Interest rate derivatives

Interest rate hedging instruments in place on the 31 December 2005 are essentially interest rate related swaps and collars (cash flow hedges), contracted to hedge the risk of interest rate fluctuation associated with loans with outstanding principal of 24 724 190 euros (24 558 397 euros at 31 December 2004).

These hedging instruments are valued at fair value at each reference date, in evaluations performed by the Group using appropriate treasury systems. The methodology used to calculate the fair value of these instruments is the comparison, for swaps, of the present value of future cash flows from the fixed leg of the derivative and the present value of the future cash flows from the variable leg of such instrument. For options, fair value is calculated using the Black'76 model.

Hedging principles utilised by the Group in using this type of hedging are as follows:

- Matching between paid and received cash flows: the timing of cash flows and the timing of rate resets in the underlying debt and in the hedging derivative coincide;
- Matching between base rates: the underlying rate for the hedge must be the same as the underlying rate for the loan the company is hedging;
- The maximum rate of each hedge must be determined up-front: the elimination of costly lower tail outcomes, such as extremely fast interest rate increases, must be substantiated through definition of a maximum rate from inception;

Hedging instruments are accounted for at cost (if such a cost exists) and subsequently valued at fair value. Changes in fair value are recorded in Shareholder's Funds, under "Hedging Reserves" included in item "Reserves and Retained Earnings", which are transferred to Net Income in the same period that Net Results are impacted by the underlying loan. The Group recorded a loss of 3 276 710 euros during 2005.

Fair value of hedging instruments

The fair value of hedging instruments is composed of the following:

	Investment		Loans	
	31.12.05	31.12.04	31.12.05	31.12.04
Exchange rate derivatives			-8 748 343	
Interest rate derivatives				
Hedge derivatives			-3 276 710	
			-12 025 053	

24. OTHER NON CURRENT LIABILITIES

At 31 December 2005 and 2004, details of Other non current liabilities were as follows:

	31.12.05	31.12.04
State and other public entities:		
Others	26 656 350	14 056 100
Goup companies	72 604	154 759 549
Other creditors	79 507 081	90 906 344
	106 236 035	259 721 993

Other creditors include circa 78 670 000 euros relating to deferred income-investment subventions.

25. PENSION FUND LIABILITIES

Various Group companies assumed the liability of giving their employees cash contributions to pension plans for old age, incapacity, early retirement and survival. These contributions are determined as a percentage that increases as a result of the number of years that the employee has worked at the company, and that is applied to a salary table that is negotiated on a yearly basis.

Current liabilities associated with past years of service are evaluated every year through actuarial studies and based on the "Projected Unit Credit" methodology. Actuarial assumptions employed were:

	South Africa		Germany		France		Portugal	
	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04
Mortality table	PA (90)	PA (90)	Richttafeln 1998	Richttafeln 1998	TPG 1993	TPG 1993	TV 73/77	TV 73/77
Salary growth rate	5,0%	5,0%	2,0%	2,0%	2,0%	2,0%	3,0%	3,0%
Return on fund	8,0%	9,0%	-	-	-	-	6,0%	6,0%
Actuarial tecnical rate	8,0%	9,0%	4,5%	5,7%	4,0%	4,0%	4,0%	4,0%
Pension growth rate	3,5%	4,0%	1,5%	1,5%	2,0%	2,0%	0,0%	0,0%

In previous periods, pension funds and provisions for pension liabilities were created by various companies within the Group in the following countries:

South Africa

The employees of Tafibra South Africa Ltd. have the following benefit scheme:

Defined contribution plan composed of a number of assets that are managed by a third party. The Company is obliged to deliver the defined contributions. At 31 December 2005, no contributions were outstanding or unpaid.

Defined Benefit plan with a fund managed by a third party and that is calculated in accordance with International Accounting Standard 19 and based on actuarial studies performed by an independent party. An actuarial study carried out on 31 December 2005, liabilities amounted to 32 926 000 Rands (4 411 096 euros) covered by the market value of the fund of 29 298 000 Rands (3 925 053 euros) and by a provision of 3 628 000 Rands (486 043 euros), which is recorded as a Pension Liability in Non Current Liabilities on the Consolidated Balance Sheet.

Post-Retirement Health Benefit scheme under which the Company will provide for 50% of eligible health expenses incurred after the employee's retirement. The Company's liability was evaluated by an actuarial study on 31 December 2005 and is fully covered by a 3 655 998 Rands (489 794 euros) provision, recorded as a Pension Liability in Non Current Liabilities on the Consolidated Balance Sheet

Germany

Glunz AG has a defined benefit plan however it has not constituted a fund. The plan is calculated according to International Accounting Standard 19, and based on actuarial studies carried out by an independent party. The company has recorded a provision for Pension Liabilities in Non Current Liabilities of 20 226 196 euros, which fully provides for the liabilities calculated by the actuarial study reported to 31 December 2005.

France:

Upon retirement of their employees, Isoroy SAS and Isoroy Transformation are obliged to pay a sum defined under the terms of the sector's collective labour agreement. An actuarial study calculated the liabilities of the two companies on 31 December 2005 to be 1 769 234 euros. This is fully covered by a provision that is recorded as a Pension Liability in Non Current Liabilities on the Consolidated Balance Sheet

Portugal:

Various Group companies have a defined benefit plan and funds managed by third parties, calculated in accordance with International Accounting Standard 19 and based on actuarial studies carried out by independent parties. Employees of eight companies at 31 December 1994 are covered by this plan under which they will receive from retirement, a life long monthly payment equivalent to 20% of their salary at their retirement date. The liability for services provided as at 31 December 2005, based on an actuarial study on the same date, were calculated to be 1 962 835 euros. This was fully covered by the value of the fund and by a provision included as a Pension Liability Non Current Liabilities on the Consolidated Balance Sheet, of 1 163 593 euros and 742 815, respectively.

The main changes, during 2004 and 2005, to the present value of these liabilities are presented below:

	31.12.05	31.12.04
Opening balance of obligations' present value	25 980 562	28 063 407
Interest cost	1 548 985	1 651 034
Current service cost	477 698	448 539
Actuarial (Gains)/Losses	3 144 097	- 14 525
Recognised past service cost	525 769	
Paid pensions	1 562 009	4 167 893
Exchange rate effect	124 932	
Closing balance of obligations' present value	30 240 034	25 980 562

At 31 December 2004 and 2005, liabilities for defined benefit plans recorded on the Balance Sheet were the following:

	31.12.05	31.12.04
Present value of obligations	30 240 034	25 980 562
Actuarial Losses/(Gains) not recognised	1 171 751	-2 065 433
Fair value of plan assets	5 297 773	4 449 646
Non current liabilities	23 770 510	23 596 349

The impact of these liabilities on the Profit and Loss statement in 2004 and 2005 is as follows:

	31.12.05	31.12.04
Interest cost	1 548 985	1 651 034
Current service cost	477 698	448 539
Past service cost	525 769	
Increase/(Decrease) in fair value of plan assets	639 305	586 610
Recognized actuarial (Gains)/Losses	- 101 649	
	3 090 108	2 686 183

26. STATE AND OTHER PUBLIC ENTITIES

At 31 December 2005, State and other public entities had the following composition:

	31.12.05	31.12.04
State and other public entities		
Income Tax	8 598 252	6 250 203
Value Added Tax	2 828 463	3 272 696
Social Security Contribution	7 825 568	8 031 660
Others	1 884 325	3 680 569
	21 136 608	21 235 129

27. OTHER CURRENT LIABILITIES

At 31 December 2005 and 2004, Other current liabilities were composed of:

	31.12.05	31.12.04
Group companies	983 195	9 979 794
Derivatives	6 792 743	
Trade debtors advances	181 611	738 277
Fixed assets suppliers	15 883 230	13 384 557
Other creditors	33 081 546	29 536 835
Accrued expenses:		
Insurances	632 031	468 811
Personnel costs	17 366 221	18 482 104
Accrued financial expenses	3 517 003	1 719 266
Rappel discounts (annual quantity discounts)	18 653 530	23 311 906
External supplies and services	8 922 036	6 831 329
Other accrued expenses	6 827 808	6 387 674
Deferred income:		
Investment subventions	7 232 200	8 354 784
Other deferred income	261	261
	120 073 415	119 195 598

Other creditors include 12 600 000 euros relating to advances received for sale of land.

28. PROVISIONS AND ACCUMULATED IMPAIRMENT LOSSES

Movements occurred in provisions and accumulated impairment losses during the periods ended 31 December 2005 and 2004 were as follows:

Description	2005 Opening balance	Exchange Rate Effect	Changes in consolidation perimeter	Increases	Utilization	Reduction	Closing balance
Accumulated impairment losses on investments (Note 7)	52 345 667		- 181 572	10 597	156 637	- 9 295 127	42 722 928
Accumulated impairment losses on other non-current assets (Note 13)	14 434 255			262 402		- 563 736	14 132 921
Accumulated impairment losses on trade and other debtors (Notes 15 and 16)	17 388 549	553 199	- 22 058	3 091 327	1 372 450	- 2 850 715	16 787 852
Accumulated impairment losses on inventories (Note 14)	3 009 927	121 940		3 906 787	2 266 716		4 771 938
Provisions	23 726 803	2 809 982	- 395 785	5 592 031	8 722 707	- 477 856	22 532 468
	110 905 201	3 485 121	- 599 415	12 863 144	12 518 510	- 13 187 434	100 948 107

Description	2004 Opening balance	Exchange Rate Effect	Changes in consolidation perimeter	Increases	Utilization	Reduction	Closing balance
Accumulated impairment losses on investments (Note 7)	52 345 788		- 9 128	15 963		- 6 956	52 345 667
Accumulated impairment losses on other non-current assets (Note 13)	15 056 844		- 215 910	8 909	375 761	- 39 827	14 434 255
Accumulated impairment losses on trade and other debtors (Notes 15 and 16)	19 311 012	224 312	- 507 785	4 016 034	3 376 754	- 2 278 270	17 388 549
Accumulated impairment losses on inventories (Note 14)	4 070 417	11 574	- 32 037	2 167 491	3 207 518		3 009 927
Provisions	26 964 591	120 121	- 292 365	9 999 938	13 065 482		23 726 803
	117 748 652	356 007	- 1 057 225	16 208 335	20 025 515	- 2 325 053	110 905 201

Impairment losses are offset against the corresponding asset.

Figures in the “Utilization” column refer to impairment losses related with assets written off against the corresponding impairment loss previously accounted.

29. CONTINGENT ASSETS AND LIABILITIES

At 31 December 2005 and 2004, the Group had granted guarantees with the following purpose:

	31.12.05	31.12.04
Responsability for granted guarantees		
Loans	249 252 907	372 978 192
Investment subventions	7 053 305	5 987 397
Others	6 604 980	9 089 866
	262 911 192	388 055 455

Guarantees in the previous table had the following nature:

	31.12.05	31.12.04
Bank guarantees	206 624 450	258 446 794
Mortgaged Land and buildings	33 492 500	85 282 400
Pledged assets	10 929 000	3 990 840
Others	11 865 243	40 335 421
	262 911 192	388 055 455

30. OPERATING LEASES

At 31 December 2005 and 2004 the Group had non-cancellable operating leases with the following payment maturities:

	31.12.2004	31.12.2005
2004	4 327 885	
2005	6 067 931	6 349 486
2006	4 578 322	5 761 681
2007	3 739 394	4 803 099
2008	3 046 479	4 807 772
2009	2 367 056	2 888 350
After 2009	12 698 357	13 045 077
	36 825 424	37 655 465

31. RELATED PARTIES

Balances and transactions with related parties may be summarised as follows:

Balances	Accounts receivable		Accounts payable		Loans			
					Obtained		Granted	
	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04	31.12.04	31.12.04
Parent company and group companies	9 726 889	18 401 818	8 318 020	28 233 661	72 605	144 201 799	1 650 191	
Associated companies	800 135	5 623	971 587			30 500		100 000

Transactions	Sales and services rendered		Purchases and services obtained		Interest income		Interest expenses	
	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 and group companies	11 133 610	16 083 436	48 343 371	58 840 942	222 690	1 709 393	2 664 210	15 973 845
Associated companies	669 158	9 547	1 073 732		5 029		163	

Remunerations of members of the Board of directors of the parent company and its subsidiaries were as follows:

	2005	2004
Total fixed salaries	1 344 341	1 240 916
Total bonus	1 250 764	588 121
	2 595 105	1 829 037

32. OTHER OPERATING REVENUES

Details of Other operating revenues on the Consolidated Profit and Loss Statement for the period ended 31 December 2005 and 2004 are as follows:

	31.12.05	31.12.04
Gains on disposals of non current investments	12 551 322	25 485 236
Gains on disposals of tangible and intangible assets	16 738 981	8 656 486
Supplementary Revenue	6 456 663	9 963 067
Investment subventions	8 429 234	9 304 454
Tax received	5 889 593	6 069 687
Reversion of impairment losses	1 283 089	7 577 403
Others	12 692 176	14 675 039
	64 041 058	81 731 372

33. OTHER OPERATING COSTS

Details of Other operating costs on the Consolidated Profit and Loss Statement for the period ended 31 December 2005 and 2004 are as follows:

	31.12.05	31.12.04
Taxes	11 693 868	9 240 515
Losses on disposal of non current investments	1 688 575	633 034
Losses on disposal of tangible and intangible assets	3 088 392	12 782 565
Others	5 322 352	11 321 163
	21 793 187	33 977 277

34. FINANCIAL RESULTS

Financial results for the periods ended 31 December 2005 and 2004 were as follows:

	31.12.05	31.12.04
Financial Expenses:		
Interest expenses	33 887 807	50 734 336
Cash discounts granted	15 300 847	15 819 506
Losses in currency translation	10 870 856	10 265 283
Others	15 902 100	10 619 410
Financial profit/(loss)	- 44 125 073	- 71 714 883
	31 836 538	15 723 651
Financial revenues:		
Interest income	3 265 086	3 360 158
Cash discounts obtained	2 153 661	2 904 703
Gains in currency translation	25 817 621	9 323 345
Others	600 170	879 872
	31 836 538	15 723 651

35. TAXES

Corporate income tax accounted for during the periods ended 31 December 2005 and 2004 are detailed as follows:

	31.12.05	31.12.04
Current tax	8 387 026	7 188 720
Deferred tax	19 433 518	9 062 356
	27 820 544	16 251 076

36. EARNINGS PER SHARE

Earnings per share, excluding the effect of discontinued operations, were calculated as follows:

	31.12.05	31.12.04
Net Profit		
Net profit considered to calculate basic earnings per share (Net Profit attributable to equity holders of Sonae Indústria)	36 383 591	42 580 440
Effect of potential shares Interest related to convertible bonds (net of tax)		
Net Profit considered to calculate diluted earnings per share	36 383 591	42 580 440
Number of shares		
Weighted average number of shares used to calculate basic earnings per share	140 000 000	140 000 000
Effect of potential ordinary shares from convertible bonds		
Weighted average number of shares used to calculate diluted earnings per share	140 000 000	140 000 000

37 . SEGMENT INFORMATION

The main activity of the Group is the production of wood based panels and derivative products through industrial plants and commercial facilities located in Portugal, Spain, France, Germany, United Kingdom, Switzerland, The Netherlands, Canada, Brazil and South Africa. It is, therefore, an activity characterised by a high geographical dispersion of assets and markets and by a relative homogeneity of products. For segment analysis purposes, the geographic element is considered the main segmentation vector of the Group activity and it is the way the internal management and financial reporting systems are organised.

Geographic segments identified for 2005 and 2004 are as follows:

- Portugal
- Spain
- France

- United Kingdom
- Germany
- Rest of Europe
- Brazil
- Canada
- South Africa

37.1. Geographic segments

The contribution of main geographic segments for the Consolidated Profit and Loss Statement of the twelve month periods ended 31 December 2005 and 2004, based on location of assets, are detailed as follows:

	2005									
	Portugal	Spain	France	Un. Kingdom	Germany	Rest of Europe	Brazil	Canada	South Africa	Consolidated
Operating income	278 570 767	293 009 303	256 639 442	107 038 696	436 519 303	171 724 901	101 280 113	141 842 073	105 972 745	
Intersegmental eliminations	- 99 059 074	- 45 941 577	- 84 517 012	- 109 495	- 155 932 162	- 5 357 595	- 1 899 145	- 23 084		
External Operating income	**179 511 693**	**247 067 726**	**172 122 430**	**106 929 201**	**280 587 141**	**166 367 306**	**99 380 968**	**141 818 989**	**105 972 745**	**1 499 758 199**
Allocated Operating Net Profit/(Loss)	14 285 075	10 353 074	- 7 675 957	- 3 159 127	13 992 009	655 195	7 393 907	17 984 188	30 313 081	**84 141 445**
Non Allocated Operating Net Profit/(Loss)										**24 243 868**
Financial Net Profit/(Loss)										**- 44 125 073**
Gains and losses in associated companies										133 356
Gains and losses in investments										- 141 358
Taxation										**27 820 544**
Net Consolidated Profit/(Loss) after taxation										**36 431 693**
Attributable to Equity Holders of Sonae Industria										36 383 591
Attributable to Minority Interests										48 103

	2004									
	Portugal	Spain	France	Un. Kingdom	Germany	Rest of Europe	Brazil	Canada	South Africa	Consolidated
Operating income	354 162 636	276 348 552	264 091 750	104 974 454	431 993 349	137 743 091	76 525 892	131 661 626	92 594 066	
Intersegmental eliminations	- 108 888 599	- 48 597 501	- 63 419 270	2 854 990	- 109 300 407	- 6 155 161	- 99 826	1 709 170	2 066 818	
External Operating income	**245 274 037**	**227 751 051**	**200 672 480**	**107 829 444**	**322 692 942**	**131 587 930**	**76 426 066**	**133 370 796**	**94 660 884**	**1 540 265 630**
Allocated Operating Net Profit/(Loss)	25 319 430	8 926 920	1 626 548	- 2 920 895	30 577 655	893 897	8 209 769	18 778 361	20 083 730	**111 495 415**
Non Allocated Operating Net Profit/(Loss)										**20 276 179**
Financial Net Profit/(Loss)										**- 71 714 883**
Gains and losses in associated companies										837 189
Gains and losses in investments										430 906
Taxation										**16 251 076**
Net Consolidated Profit/(Loss) after taxation										**45 073 730**
Attributable to Equity Holders of Sonae Industria										42 580 440
Attributable to Minority Interests										2 493 290

Inter-segment transactions followed the arm's length principle.

Contribution of the aforementioned geographic segments for the Consolidated Balance Sheet at 31 December 2005 and 2004, based on the location of assets, is detailed as follows:

31.12.2005

	Portugal	Espanha	França	Alemanha	Reino Unido	Brasil	Canadá	África do Sul	Outros	Consolidado
Net segmental assets	233 981 407	236 179 580	232 203 072	308 009 766	141 673 518	148 892 928	170 708 801	99 909 014	18 260 272	1 589 818 358
Non current	165 215 830	163 556 558	162 135 196	245 491 913	106 594 251	116 035 910	147 143 495	67 782 319	621 146	1 174 576 618
Current	68 765 577	72 623 022	70 067 876	62 517 853	35 079 267	32 857 018	23 565 306	32 126 695	17 639 126	415 241 740
Investments in associated companies	692 040	2 456 354								3 148 394
Non-allocated net assets										209 582 138
Total net consolidated assets										1 802 548 890
Segmental Liabilities	46 141 456	76 493 857	70 335 974	131 357 630	22 678 259	36 016 926	19 720 839	20 437 663	2 555 558	425 738 162
Non current	3 896 211	23 882 252	9 600 238	68 982 985	5 565 665	24 481 958	0	975 837	0	137 385 146
Current	42 245 245	52 611 605	60 735 736	62 374 645	17 112 594	11 534 968	19 720 839	19 461 826	2 555 558	288 353 016
Non-allocated liabilities										848 315 161
Total consolidated liabilities										1 274 053 323
Investment in tangible and intangible assets	3 554 681	4 370 139	6 563 859	5 824 289	10 596 362	1 112 792	6 620 100	2 287 324	61 849	40 991 395
Amortisation and depreciation	17 386 341	15 940 057	13 847 854	21 767 425	8 257 730	8 169 637	11 905 997	4 421 085	131 666	101 827 792

31.12.2004

	Portugal	Spain	France	Germany	United Kingdom	Brazil	Canada	South Africa	Others	Consolidated
Net segmental assets	219 083 949	283 463 021	241 633 871	336 494 245	131 247 281	117 261 404	149 106 665	102 384 112	16 612 330	1 597 286 878
Non current	155 274 030	209 113 835	168 215 058	269 480 581	101 625 461	93 769 450	127 813 966	68 330 036	761 953	1 194 384 370
Current	63 809 919	74 349 186	73 418 813	67 013 664	29 621 820	23 491 954	21 292 699	34 054 076	15 850 377	402 902 508
Investments in associated companies	620 429	2 294 607								2 915 036
Non-allocated net assets										186 953 256
Total net consolidated assets										1 787 155 170
Segmental Liabilities	45 756 896	82 467 781	70 522 009	132 036 341	22 330 137	27 379 140	17 129 047	18 395 625	4 023 866	420 040 842
Non current	3 393 138	26 940 365	10 952 677	70 550 607	5 818 119	16 416 962	0	1 397 382	382 064	135 851 314
Current	42 363 758	55 527 416	59 569 332	61 485 734	16 512 018	10 962 178	17 129 047	16 998 243	3 641 802	284 189 528
Non-allocated liabilities										896 900 318
Total consolidated liabilities										1 316 941 160
Investment in tangible and intangible assets	30 192 500	5 050 004	5 128 801	1 433 221	1 091 129	768 808	3 856 771	1 480 048	270 952	49 272 234
Amortisation and depreciation	25 570 321	15 692 860	13 297 704	22 744 343	8 340 918	6 708 781	10 985 869	4 215 364	131 340	107 687 500

The average number of workers by geographic location is detailed as follows:

	31.12.05	31.12.04
Portugal	1 090	1 726
Germany	1 135	1 247
France	881	933
Spain	828	886
South Africa	391	415
Canada	323	324
Brazil	320	317
United Kingdom	302	299
Others	38	38
	5,308	6,185

Sales and services rendered of the twelve month periods ended 31 December 2005 and 2004, based on the location of external customers, is detailed as follows:

2005

Segment	'000 Euros	
Germany	248 419	17%
Spain	240 703	16%
France	168 189	11%
Portugal	115 694	8%
South Africa	103 983	7%
United Kingdon	90 054	6%
Brazil	87 971	6%
North America	68 110	5%
Others	341 897	23%
Total	**1 465 020**	

2004

Segment	'000 Euros	
Germany	290 719	19%
Spain	276 131	19%
France	189 946	13%
North America	164 879	11%
South Africa	100 584	7%
United Kingdon	100 633	7%
Portugal	89 633	6%
Brazil	65 680	4%
Others	213 934	14%
Total	**1 492 139**	

Cash flows by geographic segment, considering geographic location of assets, might be detailed as follows:

31.12.05

Cash flows arising from:	Portugal	Spain	France	Germany	United Kingdom	Brazil	Canada	South Africa	Others	Inter-segment eliminations	Consolidated
Operating activities	24 915 901	30 490 584	22 199 583	27 065 914	- 913 972	20 030 614	28 812 944	34 676 384	1 294 369	- 16 070 704	172 501 617
Investment activities	- 311 220 739	80 955 787	- 13 737 369	13 653 446	- 9 237 217	- 813 200	- 13 640 878	- 30 628 616	41 770 882	234 480 695	- 8 417 209
Financing activities	276 619 750	- 71 513 157	- 7 515 076	- 42 714 032	15 332 577	- 17 765 711	- 18 369 653	5 517 592	- 42 063 817	- 219 936 525	- 122 408 052
Change in cash and cash equivalents	- 9 685 088	39 933 214	947 138	- 1 994 672	5 181 388	1 451 703	- 3 197 587	9 565 360	1 001 434	- 1 526 534	41 676 356

31.12.04

Cash flows arising from:	Portugal	Spain	France	Germany	United Kingdom	Brazil	Canada	South Africa	Others	Inter-segment eliminations	Consolidated
Operating activities	150 418 001	- 53 183 500	14 408 337	3 870 649	6 905 941	20 341 376	37 835 590	27 281 516	- 4 156 722	- 72 678 532	131 042 656
Investment activities	- 214 082 061	- 21 254 664	49 938 383	- 12 719 799	- 244 682	- 510 865	- 27 813 053	- 883 091	- 13 975 809	263 822 267	22 276 626
Financing activities	100 633 258	84 334 249	- 66 068 581	4 603 548	- 9 188 018	- 19 554 358	- 2 776 836	- 23 833 728	19 019 301	- 190 726 461	- 103 557 626
Change in cash and cash equivalents	36 969 198	9 896 085	- 1 721 861	- 4 245 602	- 2 526 759	276 153	7 245 701	2 564 697	886 770	417 274	49 761 656

37.2. Business segments

At 31 December 2005, the contribution of identified business segments to the consolidated revenue, consolidated net assets and consolidated investment, details as follows:

	Wood Based Panels		Other segments		Total
Revenues	1 369 552 434	92%	122 587 037	8%	1 492 139 471
Net asset	1 703 354 159	95%	83 801 011	5%	1 787 155 170
Investment in tangible and intangible assets	38 813 735	79%	10 458 499	21%	49 272 234

Following the disposal of Imocapital, SGPS, SA in December 2004 and consequent exclusion of the paper derivative business from the consolidation perimeter, the main business segment of the Group, which consists on the manufacture of wood based panels, became representative of nearly all consolidated revenue, consolidated net assets and consolidated investment.

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

Present consolidated financial statements were approved by the Executive Commission by delegation of power of the Board of Directors and authorised for issuance on 10 March 2006.

39. FIRST-TIME ADOPTION OF "INTERNATIONAL FINANCIAL REPORTING STANDARDS"

The Group adopted International Financial Reporting Standards – IFRS in 2005, applying "IFRS 1 – First-Time Adoption of International Financial Reporting Standards". For presentation of these accounts, the transition date adopted was 1 January 2004.

The effects of the conversion from Portuguese Accounting Standards (POC) to International Financial Reporting Standards (IFRS) on the financial statements as at 1 January and 31 December 2004 are detailed in the following table:

	01.01.2004			31.12.2004		
	POC	Transition adjustments to IFRS	IFRS	POC	Transition adjustments to IFRS	IFRS
NON CURRENT ASSETS:						
Tangible and intangible assets	1 411 124 225	- 108 164 835	1 302 959 390	1 169 637 656	- 21 579 927	1 148 057 729
Goodwill		45 577 013	45 577 013		45 269 818	45 269 819
Investments	10 986 045	- 7 192 107	3 793 938	14 211 619	- 4 691 854	9 519 766
Deferred tax assets	67 594 595	- 931 665	66 662 930	60 488 971	5 829 107	66 318 079
Other non current assets	941 661	10 552 347	11 494 008	926 615	202 962	1 129 578
Total non current assets	1 490 646 526	- 60 159 247	1 430 487 279	1 245 264 861	25 030 106	1 270 294 972
CURRENT ASSETS:						
Inventories	183 941 058	- 11 306 155	172 634 903	159 577 295	- 565 992	159 011 303
Other current assets	323 442 898	- 44 098 469	279 344 429	157 812 702	119 238 285	277 050 987
Investments	9 027 887	- 1 878 285	7 149 602	41 061 866	- 35 081 679	5 980 187
Cash and Cash equivalents	46 711 736	- 2 649 548	44 062 188	39 684 453	35 133 268	74 817 721
Total current assets	563 123 579	- 59 932 457	503 191 122	398 136 316	118 723 882	516 860 198
Total assets	2 053 770 105	- 120 091 704	1 933 678 401	1 643 401 177	143 753 988	1 787 155 170
LIABILITIES:						
NON CURRENT LIABILITIES:						
Loans obtained	389 626 932	- 556 591	389 070 341	393 294 024	146 104 298	539 398 323
Other non current liabilities	434 614 579	79 140 127	513 754 706	175 038 076	108 280 265	283 318 342
Deferred tax liabiliites	30 552 206	- 5 661 197	24 891 009	27 934 725	4 192 980	32 127 706
Provisions	37 614 255	- 22 349 651	15 264 604	37 262 270	- 23 301 057	13 961 213
Total non current liabilities	892 407 972	50 572 688	942 980 660	633 529 095	235 276 486	868 805 584
CURRENT LIABILITIES:						
Loans obtained	328 825 867	- 5 098 495	323 727 372	119 538 217	3 216 733	122 754 949
Other current liabilities	460 512 527	- 99 151 163	361 361 364	434 001 763	- 118 386 726	315 615 037
Provisions	19 699 448	- 7 999 461	11 699 987	9 546 439	219 150	9 765 590
Total current liabilities	809 037 842	- 112 249 119	696 788 723	563 086 419	- 114 950 843	448 135 576
Total net assets	352 324 291	- 58 415 273	293 909 018	446 785 663	23 428 346	470 214 010
SHAREHOLDER'S FUNDS:						
Share capital	500 000 000		500 000 000	700 000 000		700 000 000
Reserves and retained results	- 316 389 954	15 428 448	- 300 961 506	- 323 639 403	12 366 173	- 311 273 229
Net profit/(loss) for the period				29 213 582	13 366 858	42 580 440
Minority interests	168 714 245	- 73 843 721	94 870 524	41 211 484	- 2 304 685	38 906 799
Total shareholder's funds	352 324 291	- 58 415 273	293 909 018	446 785 663	23 428 346	470 214 010

The main effects of the change to IFRS on 1 January and 31 December 2004 are the following:

Goodwill

In line with IFRS, the Sonae Indústria Group now records Goodwill as an asset that is not depreciated and that is subject to impairment tests every year. Goodwill generated on acquisition of subsidiaries, jointly owned companies and foreign associated companies has been allocated to those units and is thereby registered in the local currency, and converted to the Group reporting currency on the balance sheet date at the current exchange rate at the time. Exchange rate differences that arise upon conversion are recorded as “Exchange rate conversion reserves and Retained Earnings” on the Consolidated Balance Sheet.

Since 2001, Sonae Indústria had adopted a policy whereby Goodwill was written-off against reserves, contrary to Portuguese Accounting Standards (POC), however explaining this approach in all prior financial statements.

All Goodwill generated on transactions prior to conversion to IFRS (1 January 2004) was maintained at values accepted under Portuguese Accounting Standards, although adjusted for assets and liabilities that are not accepted under IFRS (namely intangible assets). These assets were subjected to impairment tests and the impact of the adjustments made are recorded as Retained Earnings, in accordance with IFRS1. When dealing with foreign subsidiaries, Goodwill was restated in local currency and accounted for, backdated, under Retained Earnings (IFRS1).

At 31 December 2004, this effect amounts to 45.3 million euros in Assets and Equity. (45.6 million euros on 1 January 2004).

Intangible Assets

Intangible assets are recorded at acquisition cost, net of depreciation and accumulated imparity losses. At 31 December 2004, all intangible assets that were not recognized as such under IFRS, 18.2 million euros (29.6 million euros on 1 January 2004) were written-off against Retained Earnings. All intangible assets recorded during 2004 under POC, were restated under the respective cost line (0.2 million euros).

Tangible Assets

Under POC, The Sonae Industria Group had recorded as tangible assets, inefficiency costs occurred at the start-up of new production facilities. As this is not accepted under IAS, these costs were restated from Tangible Assets and into Retained Earnings thereby leading to a reduction in Assets and Equity, at 31 December 2004, of 3.8 million euros (5.4 million euros on 1 January 2004).

Inclusion of previously excluded companies

Under IFRS, all companies must be consolidated. The effect of including companies that were previously excluded, primarily as they were considered immaterial, is highlighted separately.

At 31 December 2004, this effect amounts to a 0.5 million euros increase in Assets (3.9 million euros on 1 January 2004), an increase in Liabilities of 1.1 million euros (8.1 million euros on 1 January 2004) and a reduction in Equity of 0.7 million euros (4.2 million euros on 1 January 2004).

Proportionate Consolidation Method

Financial Holdings in Jointly controlled companies are now included under the proportionate consolidation method, as from the date that joint control is gained. Under this method, Assets, Liabilities, Revenues and Costs are included in the attached financial statements, line by line and in the proportion o the holding attributable to the Group. If a gap is identified between the acquisition cost and the fair value of the assets and liabilities of the controlled companies on the date of the transaction, then it is recorded as Goodwill. Transactions, balances and dividends that are distributed amongst these companies and Group companies are eliminated according to the Group holding. Financial Investments in jointly controlled companies are classified according shareholder agreements that regulate the joint control.

At 31 December 2004, jointly controlled companies were excluded from the consolidation perimeter therefore the effect on the Consolidated Balance Sheet is non existent (at 1 January 2004, application of the proportionate method led to a reduction in Total Assets, Liabilities and Equity of 157,9 million euros, 92.2 million euros and 65.7 million euros respectively).

Details of the adjustments made to Equity reported on 1 January 2004 and 31 December 2004, and as a result of conversion to IFRS, are presented below:

	Conversion adjustments to IFRS	
	01.01.04	31.12.04
Reclassification to assets of net goodwill previously eliminated against reserves, net of impairment losses	45 577 013	45 269 819
Intangible assets written off	- 29 611 033	- 18 227 092
Tangible assets written off	- 5 495 708	- 3 832 659
Inclusion of companies previously excluded	- 4 209 404	- 695 841
Proportionate consolidation method	- 65 720 467	
Others	1 044 326	914 119
Total conversion adjustments to IFRS	- 58 415 273	23 428 346
Effect on Net Profit		13 366 858

Extract from the Minutes of the Annual General Shareholders' Meeting

SONAE INDÚSTRIA

SONAE INDÚSTRIA, SGPS, S. A.
Head Office: Lugar do Espido, Via Norte, Maia
Maia Commercial Registry Nr. 57 048
Share Capital: 700 000 000 euros
Fiscal Nr. 506 035 034
Sociedade Aberta

I hereby certify that according to the terms recorded in Minute number seven, dated April 5 of two thousand and six and recorded in the Minutes Book of the Annual General Shareholders' Meeting, the following deliberations were taken:

a) A majority of votes approved the following proposal:
"That the 2005 Management Report, Individual and Consolidated Accounts and respective notes to the accounts, be approved as presented", and:

b) A unanimous vote approved the following proposal:
"That Sonae Indústria SGPS, SA, as recorded in the Individual accounts, generated a Net Profit in 2005 of 1,199,879.02 Euros.

The Board of Directors proposes that this Net Profit be appropriated as follows:

Retained Earnings	Eur 157,748,96
Legal Reserves	Eur 59,993.95
Free Reserves	Eur 982,136.11

Maia, 13 April 2006

Vice President of the General Shareholders Meeting

Júlia Moreira da Silva

Statutory Audit and Auditors' Report Report and Opinion of the Statutory Auditor

(Consolidated Financial Statements)

STATUTORY AUDIT AND AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

(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 financial information contained in the Board of Directors' Report and the accompanying consolidated financial statements of Sonae Indústria, SGPS, S.A. ("the Company" – formerly Sonae 3P – Panels, Pulp and Paper, SGPS, S.A. – Note 1) and subsidiaries ("the Sonae Indústria Group") for the year ended 31 December 2005, which comprise the consolidated balance sheet that reflects a total of 1,802,548,890 Euros and shareholders' equity of 528,495,567 Euros, including net profit of 36,383,591 Euros, the consolidated statement of profit and loss by nature, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended and the corresponding notes.

Responsibilities

2. The Company's Board of Directors is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated results of their operations and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with International Financial Reporting Standards ("IAS/IFRS") issued by the International Accounting Standards Board ("IASB") 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 maintenance of appropriate systems of internal control; and (iv) the disclosure of any significant facts that have influenced the operations of the companies included in the consolidation, their financial position and results of operations.

3. Our responsibility is to examine the financial information contained in the documents of account 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 an independent professional report based on our examination.

Scope

4. Our examination was performed in accordance with the Auditing Standards ("Normas Técnicas e as Directrizes de Revisão/Auditoria") issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the significant estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation. Our examination also included verifying the consolidation procedures used and that the financial statements of the companies included in the consolidation have been appropriately examined, assessing the adequacy of the accounting policies used, their uniform application and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, verifying the adequacy of the overall presentation of the consolidated financial statements and assessing if, in all material respects, the consolidated financial information is complete, true, timely, clear, objective and licit. Our examination also included verifying that the consolidated financial information included in the consolidated Board of Directors' Report is consistent with the consolidated financial statements. We believe that our examination provides a reasonable basis for expressing our opinion.

Opinion

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above, present fairly in all material respects, the consolidated financial position of Sonae Indústria, SGPS, S.A as of 31 December 2005 and the consolidated results of its operations and its consolidated cash flows for the year then ended, in conformity with the International Financial Reporting Standards issued by the International Accounting Standards Board as adopted in the European Union, and the financial 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 explained in Note 12, at the end of 2005 the Group updated its analyses supporting the deferred tax assets recognised in prior years relating to tax losses carried forward and, consequently, maintained the deferred tax assets related with a German subsidiary, wrote off the deferred tax assets relating to subsidiaries in France and the United Kingdom and recognised deferred tax assets relating to tax losses carried forward generated in prior years by Spanish subsidiaries. The impact of these records, as explained in Note 12, represented a net charge of approximately 9,000,000 Euros, which was recorded in the caption "income tax" of the statement of profit and loss for the year ended 31 December 2005. The supporting analyses to the recognition of the deferred tax assets relating to subsidiaries located in German and Spain, amounting to approximately 43,200,000 Euros as of 31 December 2005, are based in business plans and restructuring operations identified that include uncertainties, and so realisation of these assets depends upon the existence of sufficient future taxable profits in these subsidiaries and continuation of the current rules for carrying tax losses forward.

7. As explained in Note 1 to the consolidated financial statements, on 15 December 2005 a public deed was drawn up under which Sonae SGPS, S.A. transferred part of its investment in Sonae Indústria SGPS, S.A. to Sonae 3P – Panels, Pulp and Paper, SGPS, S.A. and simultaneously all the net assets of Sonae Indústria SGPS, S.A. were transferred to Sonae 3P – Panels, Pulp and Paper, SGPS, S.A., upon which Sonae Indústria SGPS, S.A. was extinguished and the name of Sonae 3P – Panels, Pulp and Paper, SGPS, S.A. was changed to Sonae Indústria, SGPS, S.A.. Considering that, in substance, the operations of the Sonae Indústria Group did not change, the attached consolidated financial statements for the year ended 31 December 2005 and comparative financial information for the year ended 31 December 2004, restated to International Financial Reporting Standards, represent continuation of the consolidated operations of the Sonae Indústria Group for these years.

8. As explained in Note 2.1 to the consolidated financial statements, the Company applied, for the first time in 2005, International Financial Reporting Standards as adopted by the European Union (IAS/IFRS) in the preparation of its consolidated financial statements. In the transition process from the previous accounting standards (Portuguese Official Chart of Accounts – “POC”) to IAS/IFRS, the Company followed the requirements of International Financial Reporting Standard 1 – First Time Adoption of International Financial Reporting Standards, the transition date being 1 January 2004. Consequently, the financial information as of that date and for the year 2004, previously stated in accordance with POC, was restated for comparison purposes to IAS/IFRS. Note 39 to the consolidated financial statements includes the disclosures required with respect to transition to International Financial Reporting Standards as adopted by the European Union.

9. Our Statutory Audit and Auditors' Report dated 28 February 2005 on the consolidated financial statements of the Sonae Indústria Group as of 31 December 2004, prepared in accordance with the previous accounting standards (POC), includes a qualification relating to the accounting policy followed by the Company for recording goodwill. In the transition to International Financial Reporting Standards as adopted by the European Union the Company changed this policy, the impact of the change being included in the transition adjustments explained in Note 40 to the consolidated financial statements and so the qualification is no longer applicable to the restated financial statements.

Porto, 10 March 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

CONSOLIDATED FINANCIAL STATEMENTS

(Translation of a report originally issued in Portuguese)

To the Shareholders of
Sonae Indústria, 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 documents of presentation of consolidated annual accounts of Sonae Indústria, S.G.P.S., S.A. ("the Company" – formerly Sonae 3P – Panels, Pulp and Paper, SGPS, S.A.) for the year ended 31 December 2005, which are the responsibility of the Company's Board of Directors.

We accompanied with the timming and extension we considered necessary in the circumstances, the operations of the Company and its principal companies included in the consolidation, the 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 companies included in the consolidation, the information and explanations required.

In performing our work, we examined the consolidated balance sheet as of 31 December 2005, the consolidated statements of profit and loss by nature, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended and the corresponding notes. In addition, we analysed the consolidated Management Report for 2005 prepared by the Board of Directors. As a consequence of the work performed, we issued on this date the Statutory Audit and Auditors' Report on the consolidated financial statements, which in paragraphs 6 to 9 contains four emphasis.

Considering the above, in our opinion, despite the matter mentioned in paragraph 6 of the Statutory Auditors Report and taking in consideration the matters referred in paragraphs 7 to 9 of the same Statutory Auditors Report, the consolidated financial statements referred to above and the consolidated Management Report, 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, 10 March 2006

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