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CORTICEIRA AMORIM, S.G.P.S., S.A.



annual report

# 05

CORTICEIRA AMORIM, S.G.P.S., S.A.

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## chairman's letter

Dear Shareholder,

In 2005 the world economy showed appreciable growth, thus continuing the positive trend which had been observed since 2002, though at a slower rate than that noted in 2004. The United States, and a substantial part of Asia, showed notable expansion, while Continental Europe progressively succeeded in recovering from the depressed climate in which 2004 closed.

For the sixth consecutive year, the Portuguese economy registered growth below the European average, estimated at around 0.3%. Despite this, the end of 2005 marks an improvement in the confidence of the economic agents, namely in categories that had been registering a negative performance. It is calculated that net external demand will contribute in a positive way to economic growth and that, following the strong contraction seen in 2005, investment will contribute to significant competitiveness gains.

In the Iberian Peninsula, the year was also marked by the greatest drought which has occurred in recent decades and by the fires that devastated vast areas of forest. Although these fires did not reach the cork forests, the prolonged drought had a serious impact on the extraction of the cork. As a result, around 35% of the raw material that it had been planned to extract, remained on the tree.

Even so, CORTICEIRA AMORIM, benefiting from its unique position as the principal purchaser of cork, acquired a greater quantity of cork at an average price lower than that for 2004, which gives it a significant competitive advantage.

Adopting a forward-looking approach to the evolution of its main target markets, CORTICEIRA AMORIM has been directing its organisation and acting in such a way as to anticipate increasingly demanding market necessities and trends. This has allowed it to strengthen its leadership, especially in higher added value segments.

I should like to highlight certain factors which have had a positive impact on the activity conducted in 2005:

- the acquisition of the Equipar Group, which will allow the reorganisation and reinforcement of the entire industrial base of the Cork Stoppers Business Unit;
- the application to all cork stopper production units of the anti-TCA measures and technologies developed by CORTICEIRA AMORIM, an important step towards consolidating the quality of the cork stopper industry's offer, allowing Clients to access quality products with a high technical and sensorial performance;
- the excellent results obtained through the strategy of market diversification and complementary commercialisation of non cork coverings, which have made it possible to reduce dependence on traditional markets, reach new publics and optimise the performance of the distribution structure;
- the deepening of understanding of the ecological characteristics of the products and their unbeatable technical performance, which has allowed CORTICEIRA AMORIM to consolidate its position in the insulation cork market segment;
- the strategic priority given to Research & Development, both within the Business Units, in the development and continuous improvement of the current products, and within the nucleus for development of new applications and products in/with cork. The results obtained in this area have permitted CORTICEIRA AMORIM to strengthen their technological leadership in the market segments in which it operates.

Also in 2005, important decisions were taken that will undoubtedly produce positive effects on the future performance of CORTICEIRA AMORIM. With sales presenting as relatively stable in the last three years, but with margins being substantially reinforced, a restructuring plan was initiated that involves three Business Units in particular: Cork Stoppers, Raw Materials and CorkRubber, with the aim of achieving substantial efficiency gains and subsequent gains in competitiveness, as well as matching levels of service to the growing demands of the market.

Today, as always, CORTICEIRA AMORIM's priority is to sustain growth, seeking to satisfy our clients and retain their loyalty, achieve excellence in the activities we undertake, maximise profitability and the remuneration to the Shareholder, and play a full role in valuing human resources, protecting the environment and promoting cork.

CORTICEIRA AMORIM has risen to the challenges with which it has been presented, and remains the uncontested leader in the sector of activity in which it acts, promoting this quintessentially Portuguese product in the four corners of the world, and standing out because of its tradition, its technical capabilities and its innovative applications.

Finally, on behalf of the Board of Directors, I should like to express our most sincere gratitude to our Clients and Shareholders, for the trust they have placed in us, to our Suppliers, for their support, and all those who work for us, for their dedication and professionalism.

Yours truly,

António Rios de Amorim



Chairman & CEO  
CORTICEIRA AMORIM, S.G.P.S., S.A.

# board members\*

## BOARD OF DIRECTORS

### **Chairman**

António Rios de Amorim

### **Vice - Chairman**

José Américo Amorim Coelho

### **Member**

Joaquim Ferreira de Amorim

### **Member**

Rui Miguel Duarte Alegre

### **Member**

José Fernando Maia de Araújo e Silva

### **Member**

Nuno Filipe Vilela Barroca de Oliveira

### **Member**

Luísa Alexandra Ramos Amorim

## BOARD OF THE GENERAL MEETING

### **Chairman**

Jorge Manuel Bonito Pratas e Sousa

### **Vice - Chairman**

José Manuel Ferreira Rios

### **Secretary**

Pedro Jorge Ferreira Magalhães

### **Secretary**

Pedro Nuno Esteves Duarte

## AUDITORS

### **Auditor**

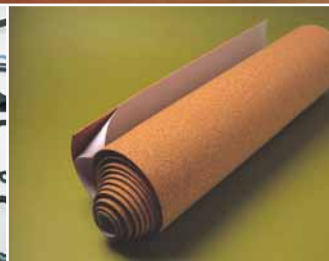
Pricewaterhousecoopers & Associados-Sociedade de Revisores Oficiais de Contas, Lda, represented by José Pereira Alves (ROC) or by António Joaquim Brochado Correia (ROC)

### **Substitute**

Hermínio António Paulos Afonso (ROC)

(\*) Board Members as of December 31, 2005.

## SIGNIFICANT EVENTS





# events

## JANUARY

**CORTICEIRA AMORIM announced their intention to invest, with a Chinese partner**, in a small unit to be located in China, destined for local manufacture of cork agglomerated composite products.

**Amorim Revestimentos participated in important international exhibitions**, which took part in Germany:

- Domotex in Hanover;
- BAU in Munich.

**Amorim Revestimentos installed a new cork floor in the BBC studies**, the Wicanders 3000 Series.

**Amorim Revestimentos North America was present at SURFACES (Las Vegas, USA)**, with the intention of promoting their products alongside Key Players in the coverings business in this important market.

**Amorim Isolamentos was present in the BAU**, the biggest construction materials trade show, which takes place in Munich (Germany), to present their products, with particular emphasis on the ecological component for thermal and acoustic insulation.

**Amorim Irmãos sponsored the 6<sup>th</sup> edition of Wine Evolution**, which was held in the Palais des Congrès in Paris (France), an annual event which constitutes an important exchange between professionals in the viticulture industry.

**Corticeira Amorim Indústria participated in Paperworld 2005**, in Frankfurt (Germany), the biggest world fair for stationery and office material, presenting their new collection for the office.

**Corticeira Amorim Indústria was present in international exhibitions** intended to promote building products, with the main objective of promoting the range of AcoustiCORK® underlays:

- BAU (Munich, Germany);
- SURFACES (Las Vegas, USA).

## FEBRUARY

**CORTICEIRA AMORIM announced an increase in production capacity in the Cork Stoppers Business Unit, with the acquisition of 50% of the Equipar Group**. Through this measure they significantly reinforce their industrial base, namely in the areas of production of natural corks and technical corks, which will allow them to consolidate in those segments which have evolved most and for which the greatest growth is anticipated, namely in the technical corks.

**Corticeira Amorim Indústria was present at the Ambiente fair**, in Frankfurt (Germany), the most important European fair for interior decoration articles, the table and the kitchen.

In the same month, the company **officially launched the [www.corknature.com](http://www.corknature.com) website**, intended to promote its own brand, *corknature*, for visual communication articles (cork pictures) and table decoration.

Amorim & Irmãos took part in ENOVIT 2005 **3<sup>rd</sup> Professional Salon of Techniques and Equipment for Viticulture and Oenology, in Lisbon (Portugal)**, having sponsored the 3<sup>rd</sup> edition of the Portuguese Technical Conference for the Wine Industry, which was centred on the theme “Price and Competitiveness of Wine” and included around 160 participants.

**Amorim & Irmãos supported the 1<sup>st</sup> edition of the Itinerant International Wine Competition - *Tempranillos al Mundo* - held in Copenhagen (Denmark)**, which aims to disseminate knowledge of the *Tempranillo* variety throughout the world, promote its consumption and encourage exportation of its wines. There were around 300 samples in this 1<sup>st</sup> edition, originating, among other countries, from Argentina, Portugal, Austria, Mexico, France and Spain.

### MARCH

CORTICEIRA AMORIM promotes an audio-conference to present the activity that has taken place and the consolidated results obtained in the financial year 2004.

**CORTICEIRA AMORIM confirmed the positive evolution of their business activity and results in the financial year 2004**, with Sales reaching a total of 429 M€ and the EBIT 20.7 €. The Net Consolidated Results of the financial year reached 10 M€ and net bank indebtedness was reduced by 48 M€.

**Amorim & Irmãos took part in the DETROP wine fair, which occurred in Salonica (Greece)**, where important contacts were made for a better understanding of the needs of this market.

For the eighth consecutive year, **Amorim & Irmãos, S.A. was present at the Brussels World Competition (Belgium)**, the biggest wine competition in the world. The event was attended by an enormous audience, made up of more than 150 internationally renowned wine journalists and critics. More than 4,500 wines were sampled over three days.

**CORTICEIRA AMORIM was present in force in the Portuguese Pavilion at Expo Aichi 2005, in Japan.** “Nature’s Wisdom” was the theme of the first Expo of the 21<sup>st</sup> century, which took place in the province of Aichi. Few products in the world have the “wisdom of Nature” which is provided by cork, and Portugal is the main country to produce this raw material. Thus the Portuguese pavilion was designed with a strong focus on cork.

### APRIL

**Amorim Revestimentos presented the Wicanders® Acousticork® NRT, the quietest and most comfortable floating floor on the market.**

This new product is the result of past investment in Research & Development, namely the project to develop floating acoustic products. Acousticork® is made up of cork granules and polymer composites, creating a perfect barrier to sound transmission and improving its elasticity. This revolutionary solution will enhance Wicanders® floors with characteristics such as reduction of impact and step noise, better than those which are currently available through alternative coverings, also favouring underfoot comfort.

**Corticeira Amorim Indústria took part in Lineapelle (Italy)**, an important international exhibition intended to promote footwear component products.

**The University of Cambridge (United Kingdom) installed cork floors from Amorim Revestimentos in three lecture theatres.** The choice of the Wicanders 2000 Series “Corkmaster Harmony” was based on the intense human traffic in these locations.

**Amorim Benelux installed Wicanders 3000 Series in the Jaguar exhibition hall.**

The Wicanders 3000 Series was chosen because of the visual aspect, its acoustic properties, the need for low maintenance, its high resistance and ease of installation.

**Lakeland installed the Wicanders 3000 Series and the Wicanders 4000 Series** in six of its DVD shops in the United Kingdom.

**MAY**

**Consolidated Results at 31-03-2005**

In this quarter, CORTICEIRA AMORIM registered a slowing of activity, with sales totalling 106.6 million euros, and Net Consolidated Results reaching 3.5 million euros. Attention should be drawn to the improvement in the Gross Margin, the reduction of remunerated debt and the reinforcement of Financial Autonomy.

**Amorim Nordic installed 9000 m<sup>2</sup> in Salling of Aarhus**, a large chain of stores in Denmark. The Wicanders 3000 Series oak floor was chosen for the refurbishment of the whole establishment.

**Amorim & Irmãos was present at the 14th International Oenology Symposium**, in Porto Carras, in Greece, with a presentation entitled "Rosa®: Advances in the Fight against TCA", where new aspects of the Rosa® System and progress made in the fight against TCA were demonstrated.

In order to make known the latest advances in the fight against TCA and the scientific developments achieved by the company, **Amorim & Irmãos took part in the London International Wine and Spirit Fair**, in the United Kingdom.

After the conference there followed a debate with representatives and defenders of alternative stoppers. The technological capacity of the leader of the cork industry, and the superiority of its stoppers, was clearly acknowledged.

**Amorim Isolamentos was present in Tektónica**, an International Building and Public Works Fair, in Lisbon (Portugal).

**Corticeira Amorim Indústria took part in various international exhibitions:**

- **Gourmet** (Las Vegas, USA), one of the most important North American trade fairs for articles for the kitchen and table, with the presentation of new proposals for the American market;
- **Coverings** (Orlando, USA), to promote AcoustiCORK® solutions for ceramic floors. The company led a seminar on the topic of sound rated floors, aimed at professionals in this sector.
- **Futurmoda** (Spain), intended to promote footwear components.

**JUNE**

**Corticeira Amorim Indústria participated in the development of the SpaceHouse**, a new living space concept, a project of the European Space Agency (ESA).

**Amorim Isolamentos obtained the Nature Plus ecological certification** (Germany).

## JULY

**Amorim & Irmãos - Coruche Industrial Unit, obtained FSC certification** from Smartwood, the auditing company responsible for the international FSC (Forest Stewardship Council) certification process. This certificate distinguishes the company for being environmentally and socially responsible, key elements for sustainable forest management. This is the second CORTICEIRA AMORIM company to be certified with this standard and the first company in the world in the cork raw material area to receive this certification.

**Amorim Revestimentos held two seminars aimed at clients in the Portuguese market**, with a view to bringing the company closer to its clients, understanding their needs and coming up solutions to match their expectations of value, in a permanent effort to anticipate and differentiate vis-à-vis the competition.

**Amorim Cork South Africa partner of EKOV** - Association of Former Students of Oenology and Viticulture - in the training programme for wine workers in South Africa.

**Amorim Cork South Africa was accredited with International Standard ISO 9001/2000 and HACCP 0330** (Hazard Analysis Critical Control Points) becoming the first company supplying cork stoppers to meet the quality parameters in the management of food industry and retail. It should be emphasised that this company has also been accredited, since 2004, by the Wine Industry Ethical Trade Association (WIETA).

**Corticeira Amorim Indústria was present at the ISOT trade fair**, the most important Asian fair for stationery and office articles, held in Tokyo (Japan).

## AUGUST

CORTICEIRA AMORIM holds an audio-conference. Presentation of the activity carried out and the consolidated results obtained in the first six months of 2005.

Despite the macro-economic context, **CORTICEIRA AMORIM's activity recovered, especially at the level of Gross Margin, EBITDA and Net Consolidated Results**, which reached 6.9 million euros.

**Amorim & Irmãos sponsored a training course on cork for wine consultants at Marks & Spencer**, a chain of department stores in the United Kingdom. The course had 60 participants, including wine buyers and oenology consultants for the 40 biggest Marks & Spencer stores. The participants had the opportunity to get to know how cork stoppers are produced and to debate questions related to this closure. At the same time, the main myths associated with the cork stopper were laid to rest. The Marks & Spencer team also learned about CORTICEIRA AMORIM'S work in combating TCA.

## SEPTEMBER

**Amorim & Irmãos held a training session in Bottling**. This action involved the participation of around 500 collaborators. For the Cork Stoppers Business Unit, this training action took on particular significance since it made possible a deepening of knowledge and an enriching exchange of experiences, about the use and function of the company's products, with a view to continuously improving its performance.

**Amorim Isolamentos obtained the Testes ecological certificate OKO-TEST** (Germany). The company's insulation agglomerate obtained a classification of "very good" in the price/quality relationship.

## OCTOBER

**Amorim Industrial Solutions took part in the construction of the new Mitsubishi-ConceptX**, with a technological solution developed from cork, applied to the seats of this model of car. It involves a composite material with cork, which can be applied in different sectors, such as the automotive, aeronautical and construction sectors.

The development of the Mitsubishi-ConceptX arose out of a partnership between Amorim Industrial Solutions, the Centre of Excellence and Innovation for the Automotive Industry (CEIIA-CE) and Salt & Turinmodel.

**Amorim Industrial Solutions invited to take part in the "Auto-Polymers 2005 Workshop"** in Charleston (USA). The aim of this event was to bring together in the same space a vast body of experience in Research & Development, namely in the sharing of polymer systems and advanced processing methods to be used in the most varied applications in the automotive sector.

The company's presentation focused on the R & D capabilities of new products related to cork and the presentation of its new ranges of materials, such as CPC (Cork Plastic Composites) to be used, for example, in a new car seat module.

**Amorim Isolamentos took part in SAIE, in Bologna (Italy)**, the biggest Italian building materials trade fair, in which they presented insulating solutions in pre-fabricated houses and agglomerate incorporated into bricks.

**Amorim Isolamentos obtained the ICEA ecological certification** (Italy).

**Amorim Isolamentos a strong presence in the Concreta**, in Oporto (Portugal), with an original stand, built entirely of insulating boards, a fact that awoke the curiosity of various visitors. Maquettes illustrating thermal and acoustic applications and results were placed inside the stand.

**Amorim Revestimentos received a visit from a group of British journalists**, representing some of the most highly-rated media agencies in the United Kingdom. They were shown the most important industrial establishments of CORTICEIRA AMORIM's different Business Units.

**Amorim Revestimentos launched the Wicanders Xtreme WRT® - the most recent technological development in cork coverings**. The new high resistance ecological varnish, Xtreme WRT®, is considered to be the most revolutionary in the cork coverings market and the ideal solution for scratches, shoe marks and floor stains. It is four times more resistant to wear and tear than other varnishes denominated "high resistance". Despite its toughness and resistance, Xtreme WRT® gives the floor a softness and naturalness that match the visual and sensorial qualities required for a modern, natural and easily maintained floor.

**Amorim Revestimentos participated in the International Cork Meeting**, in Mainz (Germany), organised by the German Cork Association, which was attended by various members of the sector, and marked by discussion of the issue of safeguarding quality in the cork industry, as well as the marketing strategies that are an essential part of its promotion.

**CORTICEIRA AMORIM organised a seminar on the topic of *Understanding China: Opportunities and Threats*.** The guest speakers were Professor Jonathan Story, Shell Fellow in Economic Transformation, and Professor of International Political Economy at INSEAD, and Binit Patel, an analyst with Goldman-Sachs. During one day, these two specialists gave presentations and debated, with around a hundred CORTICEIRA AMORIM staff, the main tendencies and prospects of evolution in China in a macro-economic, social and business context.

## NOVEMBER

### **Consolidated Results at 30-09-05**

In the third quarter Accumulated Sales reached 328.2 million euros, with the Gross Margin improving for the third consecutive quarter, reaching the historical value of 49%. To be highlighted: the continued improvement in Financial Autonomy which, at the end of September, was 37.7%.

### **Japantex 2005: Amorim Revestimentos in the Land of the Rising Sun.**

Amorim Revestimentos, represented by its local distributor, Kobe Cork, once again was present at the Japantex trade fair, an annual exhibition of interior coverings that is held in Tokyo (Japan).

**Amorim Isolamentos took part in Batimat, in Paris (France).** This was the first time that the company was represented in the insulations pavilion, the most visited, with the "House" stand, presenting solutions for insulation in natural materials.

**Amorim & Irmãos promoted lectures in the Chilean and Argentinean market** in order to make known the company's advances in the combat against TCA. The speakers included Joaquim Amorim (Administrator of CORTICEIRA AMORIM), Miguel Cabral (Director of the Research & Development of the Cork Stopper Business Unit) and Pascal Chatonnet (Director of the Excell Laboratories).

## DECEMBER

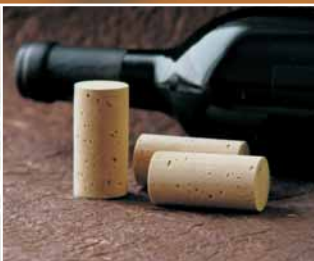
### **Amorim & Irmãos, S.A. was present at Iberwine - International Wine Salon 2005, which was held in Madrid (Spain).**

With five editions already having been held, and intended to reinforce the image of Spanish and Portuguese wines abroad, this event was a resounding success, marked by the presence of almost 30,000 visitors.

Amorim & Irmãos, S.A. took part with a much visited stand and a presentation in the conference "The future of cork and advances in Research & Development", which offered the audience an information session concerning the future of cork and the investments that have been made in Research & Development, namely in the fight against TCA.

**In 2005, the number of visitors to Amorim & Irmãos broke the 1,000 barrier.** In order to disseminate the significant advances in Research & Development and quality that have occurred in the Cork Stoppers Business Unit, Amorim & Irmãos undertook a substantial promotion and marketing initiative that resulted in the visit to the manufacturing units of Santa Maria de Lamas and Coruche of a record 1,430 people, including clients, journalists, wine critics, oenologists, quality technicians, entrepreneurs' associations, universities and international distribution chains. Coming from dozens of countries from five continents, these opinion leaders represent an important contribution to world perception of CORTICEIRA AMORIM as the unchallenged leader in the market of stoppers for wine, champagne and spirits.

# CONSOLIDATED MANAGEMENT REPORT





**To the Shareholders,**

In compliance with article 65<sup>th</sup> of the Portuguese Companies' Act (Código das Sociedades Comerciais) and "Regulamento" (CE) nr. 1606/2002 of the European Parliament and of the Council, of June 19<sup>th</sup>, 2002, regarding the use of the international accounting policies, namely its clause nr. 4 that rules the adoption of the said policies when elaborating the consolidated accounts for publicly traded companies. We respectfully submit for attention the Consolidated Management Report, the Consolidated Accounts for the financial year 2005 and those other documents which pertain to CORTICEIRA AMORIM, S.G.P.S., S.A. (henceforth designated CORTICEIRA AMORIM) required by law for rendering accounts.

# overview

## MACROECONOMIC OVERVIEW 2005



### GLOBAL OVERVIEW

In 2005, the World Economy showed an estimated growth rate of 4.3%, following the positive trend in place since 2002 though at a lower speed. The United States and most of Asia posted a meaningful expansion; Japan saw recovery signs strengthening and Continental Europe managed to progressively recover from the depressed context seen at the end of 2004. Energy-related components maintained the up-trend initiated in previous years, with demand led pressures being aggravated by bottlenecks at the supply side. The increase of geopolitical tensions in particularly energy-rich areas has aggravated imbalances still further. Nonetheless, price stability was generally achieved. Global imbalances, namely the US external deficit and the high saving levels in China and Japan, have widened. Stock markets have performed positively, sustained by rising profit shares and improved corporate balance sheets.

### EURO AREA

The Euro Area economic activity should have grown by about 1.3% in 2005, with positive momentum being felt since the summer months and especially in the third quarter. Monetary conditions were quite accommodative, with the ECB only raising rates to 2.25% at the beginning of December. Contrary to 2004, external demand was not the growth engine (this aggregate should have posted a decline of 0.2%). At the domestic demand level, thought to have increased by 1.5%, investment showed a faster pace than private consumption, and became the pull for economic expansion in the second half of the year. Public consumption registered an increase of 1.2%, about the same as in 2004. During the past twelve months, the government deficit should have accelerated slightly to 2.9% of GDP. Inflation remained sticky, posting a 2.2% increase and breaching ECB's rule for price stability for the sixth year in a row. Unemployment decelerated to 8.7%.



## UNITED STATES

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The United States maintained a strong level of economic activity throughout 2005 (estimates pointing to 3.5%) though at a lower pace than in the previous year. The economy was underpinned by private consumption and this, in turn, by a buoyant real state sector (forecasts indicate double-digit growth rate in house prices). Fixed investment jumped 7.2%. External demand should have had a negative contribution to growth around 0.2% of GDP. The Federal Reserve continued with the policy of gradual removal of expansionary monetary conditions that it started in June 2004, ending 2005 with a Fed Funds rate of 4.25%. Structural imbalances affecting the US economy should have worsened, especially the current account deficit, estimated to have accelerated to 6.3% of GDP. The need to clean-up the areas in the southern part of the US that have been hit by the two hurricanes should have had a negative impact on US public accounts. Inflation has followed a mildly upward trend, expectations pointing to a year-end level of 2.7%, while unemployment should have diminished to levels around 5.1%.

## PORTUGAL

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For the sixth consecutive year, Portugal has printed a lower growth rate than the EU average, further widening the accumulated gap it carried from before. The economy barely escaped recession, having grown just about 0.3%. It has gone through two distinctive phases - a more vivid first half, underpinned by private consumption, specially focused on durable goods and in anticipation of a VAT increase in July, was followed by a period of stagnation. Investment should have declined by 3.1%, reflecting the shrinking of the construction sector and lacklustre business prospects. Public consumption should have augmented 1.1% regardless of all the expenditure-re-curling measures. The government deficit has, once again, widened and should have reached 5.3% of GDP. External demand is considered to have subtracted less from output than in 2004, as a direct result of lower increase in imports. External competitiveness kept degrading, the Basic Balance showing a deficit around 8.2% of GDP. Unemployment trended upwards to levels around 7.5% (the last quarter of the year showing an increase to 8.0%) while inflation declined to 2.1%, a marginally lower print than the one seen at EMU level.

## activities



The companies that constitute the perimeter of CORTICEIRA AMORIM are structured in Business Units. The most relevant events that have taken place in the financial year 2004 are reported in reference to these units.

### RAW MATERIALS

This Business Unit brings together the management of purchasing, storage and preparation of the sole variable common to all the activities of CORTICEIRA AMORIM, which is the raw material - cork.

In terms of purchasing policy, the objectives defined for 2005 were those of a sustained and continuous purchasing strategy intended to minimize the pressure, and consequent anxiety, in obtaining the quantity/quality necessary for the activity of the different Business Units of CORTICEIRA AMORIM.

The extraction foreseeable for 2005 was exceptional in terms of quantity of cork. Because of this, the effect of the drought that beset the Iberian Peninsula, and gave rise to a reduction of quantities available, was attenuated. Therefore, despite around 35% of the cork predicted for this year having remained on the tree, it is calculated that the quantity of raw material extracted in 2005 is very similar to that registered for the previous year.

Despite the cork extraction campaign having ended before the usual period, as a result of the above mentioned drought, anticipation in the purchasing of the raw material allowed the Business Unit to achieve the objectives of quantity, quality and price that had been set out for the 2005 campaign. The acquisition in this year of a greater quantity of cork at a price lower than 2004, means that the value of the raw material in stock in 2005 is practically at the level of the previous year. The consequent impact of the decrease in the price of the raw material will only be seen in 2006, leading to favourable prospects in the evolution of costs.

The restructuring of operations, undertaken in the industrial units in Spain, Portugal and North Africa, with a significant impact on operating costs already visible in 2005, should be highlighted. Centralisation of all disc production for stoppers in the production units in the South of Portugal began in the second half of the year. The effects of this will be seen from 2006.

It is the mission of this Business Unit to optimise the purchase of the raw material and see it better applied. In this way, the profitability of such a strategic area cannot be measured in the traditional way, that is, just by the net profit obtained. The principal objective of this Business Unit is to supply the raw materials to be rendered profitable in CORTICEIRA AMORIM's chain of value. Because of this, because it is an activity that cuts across the entire Organisation, the performance of this unit necessarily has an impact on the performance of the other Business Units.

In the financial year under consideration, sales decreased more than 8% in comparison with 2004, due essentially to the reduction in the prices of transfer to the other Business Units, a reflection of the decrease in cost of the raw material cork, as well as a decrease in sales to external clients. The value of the gross margin increased more than 4% vis-à-vis the previous year, showing a good performance in the purchases of 2004, namely in respect of matching the raw material to the needs of the Business Units it supplies. To be highlighted; the important reduction in operating costs which is the result of a general increase in efficiency in the industrial units, thus giving rise to an increase in the EBIT and EBITDA, in comparison with the previous year, of 82% and 48%, respectively.

## CORK STOPPERS

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In 2005, the Cork Stoppers Business Unit demonstrated its capacity to adapt to the transformations in the wine market, namely the concentration at world level of the principal operators; an increased quota in multinational and large domestic clients was registered. Investments made in R&D, service to the client and optimisation of processes contributed greatly to this performance.

Following the acquisition of Equipar, announced in February 2005, the entry of this company into CORTICEIRA AMORIM's consolidation perimeter is noted. With this acquisition, the Cork Stoppers Business Unit then had five production units for the *Twin Top®* stoppers, three production units for agglomerated stoppers, two production units for natural cork stoppers and three production units for champagne corks. Thus, 2005 saw the beginning of the industrial restructuring aimed at the specialisation of the production units, with emphasis on the concentration in Equipar of all of the production of the *Twin Top®* and agglomerated stoppers, which will be finalised in the second half of 2006, making it possible to raise efficiency and service levels in the Business Unit.

Sales in 2005 registered an increase, in respect of 2004, in the quantity of stoppers and value of 5.1% and 4.1% respectively. Equipar had an impact of 0.5% on the growth in value. Almost all of these sales to external clients involve raw material in existence when the company was acquired and set aside because it did not match the mix desired.

To be highlighted: the growth of 61% in the *Neutrocork®* stoppers, which shows the growing adoption of this product in segments where strong competition from alternative closures is of some relevance in terms of price. In the financial year under consideration, the *Twin Top®* stoppers once again took on a dominant role, both in terms of consolidation of the image of quality associated with the natural cork stopper, and in terms of margin of contribution. Despite having closed 2005 with a decrease in sales of 3% in respect of the previous year, it recovered from an unfavourable deviation of 12.5% observed in the first half of the year, as compared with the same period of the previous year. The good performance achieved above all in the North American market stands out as contributing to this significant increase in sales.

In the Champagne corks segment, a growth of 8% was registered in respect of the previous year, with a significant increase in countries such as Australia, United States and New Zealand and, simultaneously, the consolidation of the position in the traditional markets of this segment.

As regards the Natural Cork Stoppers, a growth of 2.4% in quantity and 5.8% in value was noted. This increase in average sales price, caused by the alteration of the mix, is fundamentally the result of the strengthening of the market-share in the top-of-the-range wines.

In an analysis of the evolution of sales by markets, a good performance was registered in the USA and in France which more than compensated for the unfavourable evolution noted in Australia.

Despite the strong competition, in terms of price, noted in some markets, the gross margin presented an increase of 4.7% in comparison with the previous year. Contributory factors in this favourable evolution were, besides the increase in activity, consistent quality and the stability of the price of the raw material, as well as a system to oversee indicators of the production process, which gave rise to immediate corrective actions at the level of rationalisation of consumption.

Operating Costs registered a growth of 5.4% vis-à-vis the previous year, with an observable increase in costs at the level of service rendered to the client on the one hand, and, on the other, the costs associated with the beginning of the restructuring plan, whose effects will only be seen from 2006.

In the light of the above, the EBIT and EBITDA registered in 2005 an increase of 0.3% and 7.2% respectively, in comparison with the previous year. The inclusion of Equipar in the consolidation perimeter had a negative impact on those indicators, which when expunged, raise the EBIT and EBITDA increases to 5.2% and 7.3% respectively.

At the end of 2005 capital employed showed an increase of 5.9% as compared with December 2004, above all the result of an increase of capital invested in clients which results from an increase in sales registered in the last quarter, as compared with the same period of the previous year.

## FLOOR AND WALL COVERINGS

In 2005, sales in the Floor and Wall Coverings Business Unit increased around 2.5% in respect of the previous year. The commercialisation of non-cork floor coverings, similarly to what had already occurred in 2004, presented significant growth, taking full advantage of the distribution network and the internal competences in the area of procurement of this kind of product.

As regards cork floor coverings, in 2005 the trend towards the growth of floating products was strengthened to the detriment of glued products. In this area, also to be highlighted, on the one hand, are the growth registered in products with new colours and the cork look, and, on the other, the good results obtained with the strategy of diversifying markets. The good performance that stands out for Eastern Europe and North America partially offset the decrease noted in Denmark, Switzerland and Holland.

With operating costs presenting a slight increase in respect of the previous year, the EBIT of the Business Unit registered an increase of 1.4%, in comparison with the previous year.

At the end of 2005, the capital invested showed an increase of 2.9% in comparison with the same period of the previous year, due above all to a reinforcement of stocks.

## COMPOSITE CORK

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In 2005, the Composite Cork Business Unit registered a decrease of 10% in sales, in respect of the previous year. However, the increase in activity registered in the second half of the year does stand out, with the recovery from the negative deviation of 15% observed in the first half of 2005, as compared to the same period in 2004. This recovery is largely due to the reinforcing of the supply of granulates to the Cork Stoppers Business Unit, replacing the activity registered in 2004. Also worthy of note is the general trend towards recovery in external markets, vis-à-vis the first half of 2005, which was not, however, sufficient to wipe out the decrease noted in respect of 2004.

In more detail, following the logic of orientation by application of the different products and excluding the activity for other Business Units, it was possible to observe:

### Construction:

- strong competition in the European underlay market;
- good performance in sales outside Europe;
- introduction of new, technically more evolved and higher added value products;

### Industry:

- beginning of commercial development of new applications, where cork presents competitive advantages, with more visible effects to be seen from 2006;
- decrease in sales, in comparison with 2004, with the growing competition in the majority of geographical markets;

### Footwear:

- increase in sales, mainly in the European markets, benefiting from the growth in demand for cork in the Visual sub segment;
- increase in activity in the production and commercialisation of footwear components;

### Gifts:

- sales remained the same as for 2004, despite increased competition in the main markets, which has required constant innovation and the updating of ranges of products;

### Memoboards:

- a decrease, in respect of the previous year, of sales of components for the memoboards;
- sales of finished memoboards remained at the 2004 level.

To optimise commercial activity and reinforce the technically qualified positioning of the Business Unit in the market, in the second half of 2005 human resources in the commercial area were reorganised, in order to increase closeness to the Client, namely in the Construction and Industry segments.

In 2005 the gross margin presented an equally negative variation, in comparison with 2004, being less in percentage terms than the reduction noted in sales. As a result, a slight improvement in the gross margin percentage was noted.

The operating costs showed a reduction of 5.9%, compared with the previous year, as a result, on the one hand, of the above-mentioned decrease in activity, and, on the other, of the rationalisation in the cost structure, which already showed some of the anticipated effects in 2005.

Thus in 2005 the EBIT in this Business Unit showed a decrease of 9.1% as compared with the previous year.

At the end of 2005, the invested capital shows an increase of 2.6% vis-à-vis the previous year and is above all the result of stock reinforcement.

## CORK RUBBER

In 2005, sales of the Cork Rubber Business Unit were slightly higher than those in the previous year. The following should be highlighted:

- decrease in global sales of cork rubber, with a decrease in sales to the automotive sector only partially offset by the growth in sales for other applications;
- increase in sales of cork sheets;
- growth in sales of products made from recycled rubber.

At the level of gross margin, the significant reduction of the gross margin in percentage terms should be emphasised, due to the increase in costs of the raw materials derived from oil (rubbers and other chemical products) and the alteration in the sales mix. Thus, in 2005, the value of the gross margin registered a reduction of 15.8% in respect of the previous year.

The operating costs of the Business Unit remained practically at the same level as in 2004. It should be emphasised that at the end of 2005 the Business Unit presents 52 fewer workers than in the same period of the previous year. This reduction is related above all to the transfer of production from the United States to Portugal, begun in the fourth quarter of 2005. Despite the above-mentioned transfer, it was necessary to proceed to a resizing of the structure in Portugal, a fact that caused an increase of 800 thousand euros in provisions for indemnities to be paid in 2006.

With a significant reduction of the gross margin, in 2005 the EBIT presents an unfavourable deviation of 3.1 million euros, as compared with 2004.

The investments made at the end of 2005 impact especially on the increase in productivity and the atomisation of the industrial processes.

## INSULATION CORK

In the year 2005, the sales of the Insulation Cork presented an increase of 14% in respect of the previous year, having been supported by a good performance in the main European markets.

The gross margin of the financial year registered a growth superior to 17%, as compared with 2004. This variation is due to an increase in activity on the one hand and, on the other, the increase of the gross margin in percentage terms, caused not only by increases in the sale price of expanded cork boards but also by more efficient use of the raw material (cork).

Despite the increase in activity, operating costs showed a slight decrease as compared with 2004.

Thus, the EBIT and EBITDA registered an increase of 260% and 92%, respectively, compared with 2004.

At the end of 2005, invested capital shows an increase of 2.1% compared with the same period of the previous year, and is due essentially to the increase in capital invested in clients, as a result of the increase in activity.



In 2005, CORTICEIRA AMORIM reaffirmed its permanent strategic commitment to innovation, by reinforcing the resources channelled into Research & Development (R&D) and by obtaining results that clearly differentiate CORTICEIRA AMORIM's products and strengthen its leadership in Innovation and Technological Development. The establishment of a knowledge network in CORTICEIRA AMORIM has made possible the increase of synergies in Research & Development, through the sharing and transfer of knowledge between Business Units. Some of the new products launched in 2005 are a good example of this. The Brainstorming Forum, with a leading role in the increase of the above-mentioned synergies, met three times in 2005.

## DEVELOPMENT OF NEW APPLICATIONS AND PRODUCTS IN/WITH CORK

In 2005 the nucleus Development of New Applications and Products in/with Cork (DNAPC) entered its second year of activity, with the strategic intention of coming up with and developing new applications and new products for cork, in addition to those which are currently manufactured by the cork industry. Among those projects undertaken in this year, the following should be highlighted:

- the conclusion of the study of absorption/adsorption in cork: the studies made revealed the potential of cork to be used as a material to absorb different kinds of oil. The absorption capacity was measured, and the specifications of different typologies of granulate in respect of the material to be absorbed were drawn up;

- increased thermal resistance and resistance to ultra-violet rays: the results obtained showed that it is possible to increase resistance to ultra-violets and increase the thermal resistance of cork, which makes it possible, on the one hand, to process cork, in contact with other materials, at higher temperatures, and, on the other, to ensure the greater long-term stability of cork when it is exposed to solar rays. Activities relating to this project will continue in 2006;
- the development of a cork treatment system: this was done with the intention of altering surface characteristics and achieving better links between cork and other materials. An important industrial partner has already been found. Activities relating to this project will continue in 2006;
- the valuing of components extracted from cork: the characterisation of all those components which may be of value to other industries was begun. Through this project, it is intended both to optimise the extraction of these components and to transform them for higher added value applications;
- the beginning of the European STREP WaCheUp Project, involving eight European partners: this aims to transform into high added value chemical projects the residues (and by-products) of the cork and wood pulp industries, and, at the same time, develop ecological methods integrated into the cork/wood pulp production cycle in order to obtain the above mentioned products and study possible applications of the components obtained in this way. Activities relating to this project will continue in 2006;
- the beginning of the study of glues and adhesives obtained from cork: with this study it is intended to develop a more natural glue, obtained from the components extracted from cork, which may then be used in the cork industry itself. Given the promising results so far obtained, activities relating to this project will continue in 2006.

The extensive bibliography on cork (developed in 2004) was systematised in an review article entitled "Cork: properties, capabilities and applications"<sup>(1)</sup>. This article was published in the International Material Review, one of the most prestigious scientific journals on the subject of materials, whose considerable impact contributes to reinforce CORTICEIRA AMORIM's position as an centre of international knowledge in the area of cork.

## CORK STOPPERS

The Research & Development activities of the Cork Stoppers Business Unit were framed by the following strategic orientations:

1. Resolving the TCA issue;
2. Improving the performance of the product;
3. Increasing knowledge of the product;
4. Optimising the production processes;
5. Developing new types of cork stoppers.

In respect of "Resolving the TCA issue", the following preventative actions stand out: reinforcing the capacity to analyse and control levels of TCA by chromatography, with the acquisition of two more equipments.

Chromatography analysis is an indispensable routine, which makes it possible to take out of the production process the products that do not obey previously defined specifications (levels of TCA).

In the sphere of curative actions, the evolution of the ROSA® process into ROSA®Evolution is especially noteworthy. This evolution of the system for application in natural cork stoppers not only makes it possible to improve the performance indicator, but above all, it does not deform the natural cork stoppers and thus avoids the later correction phase. Activities relating to this project will continue in 2006, with the development of an industrial prototype.

(1) Silva SP, Sabino MA, Fernandes EM, Correlo VM, Boesel LF, Reis RL,  
INTERNATIONAL MATERIALS REVIEWS 50 (6): 345-365 DEC 2005

Among the following activities and projects developed under the strategic orientation "Improving the performance of the product", the following stand out:

- the search for alternative glues, with tests being carried out on the end client. Activities relating to this project will continue in 2006;
- the beginning of the Ecobinders Project, which involves collaboration with 22 European partners and aims at obtaining ecological agglomerate, using cork components as the agglomerating agent. Activities relating to this project will continue in 2006.

As regards the strategic orientation, "Increasing knowledge of the product", what stands out here is the study of the cork stopper's permeability, where the performance of the cork stopper is demonstrably better in comparison with synthetic closures. This study gave rise to the publication of a scientific article, which resulted in considerable dissemination in the viticultural market.

Under the heading of "Optimising production processes", the beginning of the study of new processes to boil the cork should be highlighted. Because of the favourable results achieved so far, activities relating to this project will continue in 2006.

As for the strategic orientation "Developing new types of cork stopper", two projects developed in partnership with research centres in the United Kingdom should be highlighted. In both projects, numerous tests have already been carried out, with promising results. Activities relating to these two projects will continue in 2006, in a phase to optimise the product.

In addition to these two projects, the internal development of a new type of stopper that may be of relevance in the combat against alternative closures, namely screw tops.

Given the good results obtained in 2005 by R&D in this Business Unit in the "resolving the TCA issue" which was for a number of years its first priority, we should point out a shift in focus to activities more closely related to the development of new types of cork stopper, with the beginning of three new projects in 2005, and to a greater number of contacts with clients, thus managing to reinforce the relationship with the main players in the wine market who seek and increasingly value a "technical" approach to their needs.

## FLOOR AND WALL COVERINGS

The R&D activities and projects developed in this Business Unit took form in the launching of new products and the development of projects intended to respond to trends in the coverings market. The following should be highlighted:

- the launching of Wicanders® Acousticork® NRT 2005: with characteristics such as reduction of impact and step noise, better than those which are currently available through alternative coverings, being classified as one of the products which achieves the best compromise between reduction of step noise and impact;
- the launching of Wicanders® Xtreme WRT®: a range of products aimed in particular at domestic areas, with ecological surfaces and high resistance to wear and tear, thus making available an alternative to PVC, especially in floor coverings with a wood look;
- the development of new technical solutions in respect of application and installation of floors. Activities relating to this project will continue in 2006;
- the launching of a new collection of wall coverings, with innovative looks obtained by using new techniques in the application of dye and in the subsequent brushing. This new collection is intended to revitalise the image of this product, habitually associated with the "classic" appearance of cork, making available more eye-catching looks;
- the development of a new collection of floor coverings, to be launched in 2006, with innovative wood and cork visuals, that also draw on new techniques in the application of dye and the subsequent brushing;

- the carrying out of studies into the development of floors with innovative dimensions, in a cork look, a project that will continue in 2006;
- the technical characterisation, in independent accredited laboratories, of the mechanical and thermal performance of the current range of products and their perception by the user. The tests and experiments carried out to date have shown mechanical and thermal performance indicators, which are superior to those of alternative coverings. Activities relating to this project will continue in 2006;
- the development of cork rubber floors in floating application, developed in partnership with the Cork Rubber Business Unit. The launch of these new products is planned for 2007;
- the project to increase resistance to fire and ultraviolet rays, in collaboration with the DNAPC;
- the beginning of the project to increase the thermal resistance of the products: with this project, it is intended to give the product unique characteristics of thermal insulation, without increasing thickness, in order to favour thermal stability in the spaces in which they are used. Activities relating to this project will continue in 2006.

## COMPOSITE CORK

The R&D activities of this Business Unit are aimed above all at the segments in which they act. In a broader sphere, given its application potential, the beginning of the extrusion project should be highlighted, intended to develop more efficient and more flexible manufacturing processes that make it possible to reinforce the competitiveness of current products and the new products that will be launched.

Regarding the R&D activities directed to the market segments of the Business Unit, the following should be highlighted:

### Industry:

- the project to characterise cork: which allowed Corticeira Amorim-Indústria, S.A. to be the only Portuguese company to win the competition held by the European Space Agency (ESA). As a result of this project the ESA is interested in developing new systems that incorporate cork, in recognition of the technical potential of this raw material. In 2006 a partner will be chosen from among the ESA's systems suppliers, with the aim of developing a new application/system with cork;
- the beginning of the project to use cork in aircraft fuselages: with the intention of reducing noise by using more ecological products. This project will continue in 2006.

### Construction:

- the launching of underlays made of composite cork with coconut fibre: positioned at the top of the market in terms of acoustic performance;
- the beginning of the study of new profiles for underlays that make it possible to optimise their acoustic performance, aimed at the highest volume market segments. Given the good results obtained in 2005, the industrialisation of this new concept and the launch of a new product in the market are anticipated for 2006;
- the validation, through experiments carried out by universities, of the high performance of panels made of cork and other materials, in reducing aircraft noise. This project will continue in 2006, developed according to the specifications of the partner in the project;
- the development of partnerships with Portuguese Universities, for the study of the acoustic and thermal insulation of underlays. With these partnerships it is intended to augment technical information about the products, as well as disseminate them among future architects and civil engineers;
- the partnership with the University of Coimbra, with future participation in the future of the University of Coimbra's Construction Laboratory, in which tests and experiments will be carried out on the products of f this Business Unit;

- the development of a waterproof cork membrane that allows the use in bathrooms and kitchens of a product of the Business Unit hitherto only recommended for dry floors the crack suppression membrane. This product aimed above all at the USA market (namely California) makes it possible to deaden the vibrations provoked by the movement of tectonic plates, thus preventing fissures in ceramic floors. In 2006, this new solution will be launched in the market.

#### Footwear:

- the beginning of the production of moulded inner soles, allowing the manufacture of a greater number of references as well as greater efficiency in the use of the raw material (cork).

#### Gifts:

- the activities developed in 2005 and those to be developed in 2006 are centred above all on the study of new products and new manufacturing processes that will permit increases in efficiency.

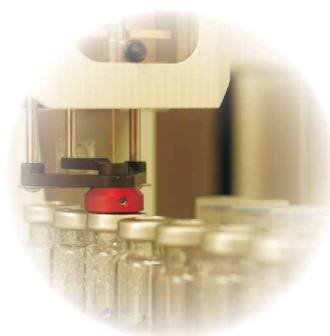
### CORK RUBBER

Among those projects developed by the Cork Rubber Business Unit, stand out the homologation and development of new products, namely:

- the development of solutions for outdoor furniture;
- the certification by Underwriters Laboratories Inc. (Standard UL 157) of material 1302 for gas sealing;
- the approval by the client and by the JIA - Japan Gas Appliances Inspection Association, of the solution for sealing gas meters in Japan;
- the development of the Cork Plastic Composites range of products: components for floating floor with high acoustic performance in the Coverings Business Unit;
- the development of a component for the new Mitsubishi Concept X, with a technological solution developed from cork, applied in the seats of this model of car. This is a composite material with cork, which can be applied in various sectors, such as the automotive, aeronautical and construction sectors. This project arose out of a partnership between Amorim Industrial Solutions, the Centre of Excellence and Innovation for the Automotive Industry (CEIIA-CE) and Salt & Turinmodel;
- the development of a component for integration in the "Seats" module: in the sphere of the Complementary Grouping of Companies ACECIA: this project demonstrated that cork could make it possible to reduce the volume of seats to less than half, offering the same comfort. In addition to being recyclable, it contributes to reducing automobile consumption and emissions. This project, which recently won the support of the Innovation Agency, will continue in 2006, is already in the phase of constructing the first prototypes.

IV

QUALITY



In a context where the Processes are integrated into the strategic perspectives of the Balanced Scorecard, and given the intention of lining up tools to promote efficacy and efficiency as well as the sustained development of the organisation, the following should be highlighted in respect of 2005:

- the Forest Stewardship Council certification of Amorim & Irmãos, S.A. - Coruche Industrial Unit. This is the second CORTICEIRA AMORIM company to be certificated with this standard and the first, at world level, in the area of preparation of the raw material, cork. This certification is of considerable importance, since it makes it possible to give Clients increased guarantees of business ethics in the production of the companies' products and the preservation of the cork oak plantations;

- Amorim Isolamentos obtained the Nature Plus ecological certification (Germany) and ICEA certification (Italy);
- Amorim Cork South Africa was accredited with International Standard ISO 9001/2000 and HACCP 0330 (Hazard Analysis Critical Control Points), becoming the first company supplying cork stoppers to meet the quality parameters in the management of food industry and retail. It should be emphasised that this company has also been accredited, since 2004, by the Wine Industry Ethical Trade Association (WIETA);
- Amorim & Irmãos, S.A. began the process leading to certification by Standard NP EN ISO 22000 (Food Safety Management System), of its main distribution units;
- Corticeira Amorim - Indústria, S.A. concluded the first phase of certification in the area of Standard NP EN ISO 14001 (Environmental Management System) and OHSAS 18001 (Safety and Hygiene in the Workplace Management System);
- the maintenance and improvement of ISO 9001:2000 quality management systems in the remaining industrial units;
- the retention and improvement of CIPR certification ((International Code of Good Bottle Closure Practices).



## HUMAN RESOURCES



The implementation of plans for restructuring and industrial reorganisation marked the policies and practices of Human Resources (HR) throughout CORTICEIRA AMORIM's Business Units. These actions to integrate and optimise processes led to a decrease in the number of employees in specific areas, accompanied by the strengthening and updating of competences which have dictated different recruitments of functions in key business areas, namely in the technical areas and R&D.

In the general counting of companies that constitute the perimeter of CORTICEIRA AMORIM, the number of employees at the end of 2005 was 3,880 (as compared with 4,059 in 2004).

### Absenteeism

The year 2005 saw a slight worsening of rates of absenteeism in the Business Units that have implemented a greater number of organisational integrations and alterations, an increase of approximately 0.5% in the Cork Stoppers Business Unit and 1% in the Raw Materials Business Unit. The indicators in the remaining Business Units remained at the 2004 level.

### Training

In respect of training, a strong performance was shown in updating and developing qualifications, with an approximate volume of 34,000 training hours, an increase of 19,000 hours in respect of the previous year. The following initiatives should be highlighted:

- Actions for Prevention, Hygiene and Safety (PHS), at the level of direct industrial workers, which represented around 50% of the volume of training carried out;
- Actions on current Management Topics, aimed at senior and intermediate staff, with the purpose of achieving the levels of information and knowledge desirable for carrying professional activity in a context of change.

### Prevention, Hygiene and Safety

Investment in PHS also took the form of a growing differentiation in these areas, with the Raw Materials and Insulation Cork Business Units now having their own PHS structures. A transversal risk assessment project was also carried out, with the collaboration of specialist entities, intended to allow the different industrial units to establish independent, exempt and specific plans of intervention to support the main activity in this area: Prevention.

The work that has been carried out in recent years continues to bear fruit, manifested in indicators of frequency and seriousness of accidents in the workplace that are substantially less than those in the sector are in general.

### Internal Communication, Climate and Organisational Culture

Also to be emphasised the fact that 2005 was a year of unequivocal commitment to internal communication, both through the maintenance of various initiatives linked to the themed weeks that involve a range of cultural, sporting and recreational events, and, more specifically, through the implementation of methods and practices linked to an intentional utilisation of mechanisms of information and communication, directed to the business objectives.

As the result of a work to assess the implementation of the Balanced Scorecard methodology, a specific communication plan was established, including, at the very least, senior staff in each Business Unit.

In each Business Unit, three-monthly meetings were held in the Business Units to disseminate and analyse the main performance indicators and, in the last quarter, meetings to analyse and discuss the objectives proposed for each Business Unit for 2006. Also to be highlighted: the holding of a meeting with all of CORTICEIRA AMORIM's senior staff, to present the objectives for the next three years.

The Floor and Wall Coverings Business Unit held an enquiry into social climate. Three Business Units (Composite Cork, Cork Stoppers and Floor and Wall Coverings) already have made, systematically, diagnostic tests and intervention plans as regards organisational climate and culture.

## VI STOCK MARKET



### A) Stock Market

The year 2005 showed the improvement in economic conditions, which had been anticipated, and the end of the year confirmed the better times being experienced by the main world economies.

The stock markets closed on a high - the MSCI World Index registered a valuing of around 14%, despite the pressure exerted by the increase in the price of oil and the increase in key interest rates.

In the **USA**, despite some foci of uncertainty, namely the monetary policy of the FED and the increase in the price of oil, companies published information that makes it possible to predict good results in the majority of sectors of activity.

The main share indices registered gains, albeit reduced ones: Standard & Poor's gained 3% and the NASDAQ was valued at 1.4%. The Dow Jones closed the year in a counter cycle with a devaluing of 0.6%.

Throughout 2005, the **Europe** showed strong dynamism at entrepreneurial level and a clear insistence on the more sustained recovery of the economy.

The devaluing of the euro against the American dollar and the maintenance of key interest rates at low levels also had the effect of dynamising the stock market. The main European indices registered notable values in respect of the values registered at the end of 2004. In annual terms, the FTSE was valued at 16.17%, the DAX at 27.1%, the CAC closed on an upward trend at 23.4% and the Euro Stoxx 50 was valued at 19%.

In **Portugal**, the stock exchange closed on a positive note, with its main index, the PSI-20, registering a value of 13.4%, thus reaching 8,618.67 points on the last day of trading in 2005, the date on which this index also registered its highest value of the year.

Share capitalisation of the capital market grew 4.6%, registering 177,900 million euros at the end of the year. An increase in the volume of transactions of 7.6% in comparison with the value reached in 2004 was also registered. The reduction in the accumulated volatility of 10.35% registered in 2004 to 8.27% should also be noted. Notwithstanding these facts, the performance of the Portuguese market throughout 2005 fell short of that registered by its European counterparts, also reflecting the poor economic performance of Portugal compared with other European countries.

## B) CORTICEIRA AMORIM's Shares in the Stock Market

Currently, CORTICEIRA AMORIM's share capital amounts to 133 million euros, represented by 133 million ordinary shares with a nominal value of 1 euro, which grant the right to dividends.

Admittance to trading on the Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, S.A. - of the shares issued in the operation to increase capital took place on 19 December 2000, adding these to the remaining shares of the Company already quoted on the BVLP since the beginning of 1991, part of the continuous national trading system in effect since 11 December 1991.

Throughout 2005, CORTICEIRA AMORIM's shares continued to integrate the main index of the Portuguese stock market, the PSI-20, despite the fact that at the end of the year, following the ordinary revision of the index, Euronext announced that, from 2006, that index would cease to include the Company's shares.

On 30 December, CORTICEIRA AMORIM shares ended the session dealing at 1.48 euros, end of year quotation, which represents a valuation of around 39.6% in relation to the same quotation at the close of the previous year. 35.1 million shares (an increase of 54.7% in respect of 2004) were traded in the Stock Exchange in almost 8,375 transactions, which exceeded 43 million euros, that is, 62.1% more than the volume of transactions registered in 2004.

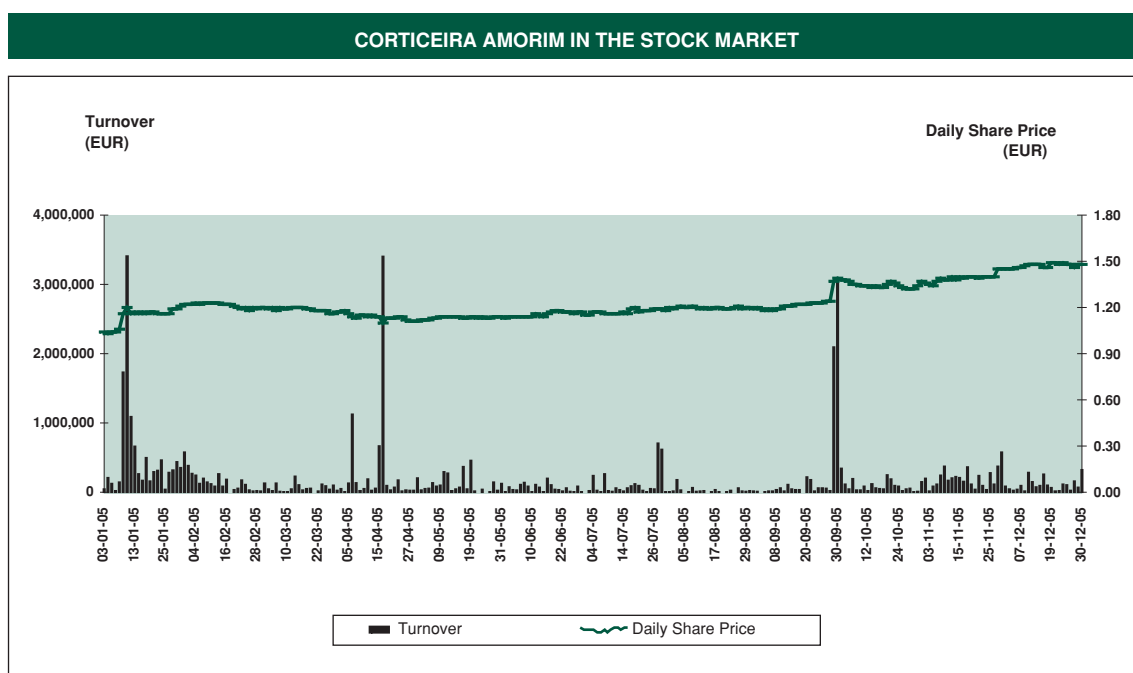
Thus, for the heading CORTICEIRA AMORIM, the year is marked by an excellent performance, always moving upwards, both in terms of valuation and in terms of liquidity and volume of transactions.

The maximum share price reached during the period in question was 1.50 euros per share, on 30 December; the minimum was 1.03 euros and occurred during the sessions of 4 and 5 January. The transaction average in the year was 1.23 euros per share.

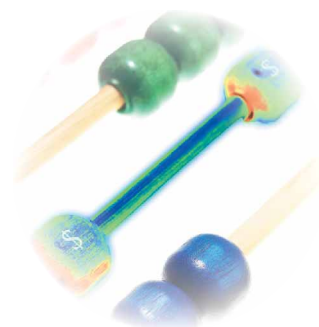
The graph below shows the evolution of the CORTICEIRA AMORIM quotations and quantities traded throughout the last financial years.

	2005	2004	2003	2002
<b>No. of shares traded</b>	35,132,019	22,716,018	21,617,313	12,657,227
<b>Quotations:</b>				
Maximum	1.50	1.30	1.15	0.90
Average	1.23	1.17	0.74	0.84
Minimum	1.03	1.05	0.64	0.78
Trading Frequency	100%	99.6%	99.2%	99.2%

Source: Euronext Lisbon



Source: Euronext



When compared to 2004, 2H05 registered a quite satisfactory activity, fully recovering from 1H05.

Sales for the year increased 0.3% to 428M€, slightly above 426.8M€ registered in the previous year, but comparing positively from a -3.1% first half shortfall.

Representing about 50% of total turnover, recovery was especially strong in the cork stoppers Business Unit (BU), bringing consolidated sales to a full-year positive figures. Higher volume, market share gains, namely in the Northern Hemisphere and a USD not hurting sales like in 1H05, are the key reasons behind a good second half for this BU. Sales for the year increased 4.1% to 239.7 M€. The impact of the newly acquired Equipar Unit in consolidated sales was immaterial due to the fact that the main priority was fully integration of its activity in the value chain of the BU.

Flooring Sales reached 113M€, a 2.5% gain from 2004 figures. Noteworthy the performance of non-cork flooring and as well as cork flooring sales in the US and Russian markets; German and Benelux still represent around 50% of total flooring market for CORTICEIRA AMORIM.

Cork Composite BU sales were negatively impacted by a decline in the industrial segment. However, this was, partially compensated by an increase in sales to the value chain of CORTICEIRA AMORIM. As a result, sales declined 10% to 58.8M€.

Sales for the Cork rubber BU were negatively affected by a higher than expected decrease in the US automotive gasket market. Higher sales, namely in the acoustic and industrial segments, more than offset this fall. Sales totalled 27.4M€, slightly above 2004 (+0.6%).

Insulation BU sales augmented 13.6% to 7.5M€, driven by a 25% increase in Black Agglomerate, its most important product.

Raw Material BU sales to other BU's represented 85% of its total sales. During 2005, the strategy was to move away from external clients, which led, in turn, to a negative impact of 3.7M€ in consolidated sales.

Consolidated Gross Margin improved from 47.7% to 49.1%. Higher Gross margins, both in Raw Materials and Cork Stoppers Business Units were due to lower prices in the 2004 cork acquisition campaign. Gross Margins in the Flooring and Cork Rubber Business Units suffered from a less favourable mix of products sold.

Operating Costs in line with the sales trend, representing a 0.8% increase to 180.9 M€. A special note to the 5.0M€ negative impact in staff costs due to charges related with on-going restructuring, a 3.2M€ increase when compared to 2004. Fixed Assets depreciation increased by approximately 0.9M€. Due to a sharp increase in fuel prices and high demand for all kinds of transportation services, CORTICEIRA AMORIM export driven activity costs were adversely affected during 2005. On the positive side, the current year allowed for higher gains derived from the sale of non-operating assets.

EBIT reached 26.8M€, 6.2% higher than 2004. EBITDA totalled 49.5M€ up 5.2%. Variations in interest rates and bank debt equalized each other. Interest costs levelled at 7.4M€.

Profit before tax posted an 8.4% increase, reaching 19.4M€.

When compared to last year net profit increased 3.9% to 15.747M€, despite higher tax burden and minority interests.

#### Audited Indicators as of December, 31

(Thousand euros)

	4T05	4T04	Variation	12M05	12M04	Variation
Sales	99,822	93,995	+6.20%	428,010	426,809	+0.28%
Gross Margin – Value	48,914	49,764	-1.71%	207,749	204,763	+1.46%
%	1) 49.42	50.05	-0.63 p.p.	49.09	47.69	+1.40 p.p.
Operating Costs	2) 42,539	46,027	-7.58%	180,937	179,511	+0.79%
EBITDA	12,240	8,645	+41.58%	49,510	47,069	+5.19%
EBIT	6,375	3,737	+70.59%	26,812	25,252	+6.18%
Net Income	4,406	3,345	+31.72%	15,747	15,160	+3.87%
Earnings per share	3) 0.0338	0.0256	+32.03%	0.1207	0.1161	+3.96%
EBITDA/Net Interest (x)	6.49	5.82	+0.67 x	6.66	6.21	+0.45 x
Equity /Net Assets	-	-	-	40.04%	38.24%	+1.8 p.p.
Net Bank Debt	-	-	-	218,683	219,530	-0.39%

1) Gross Margin / Production

2) Includes financial costs and revenues other than interest, and extraordinary intems (POC)

3) Net Income / Average outstanding shares (euros/share)



## balance

### CONSOLIDATED BALANCE SHEET



Total Assets stood at 550M€, about 17M€ higher than end 2004. This was mainly due to a 13M€ increase in the customer line, which in turn, was caused by worsening collection conditions, as well as higher sales for the 4Q05 versus 4Q04, about 6M€. The integration of Equipar Unit explains the rest of the variance.

Remaining assets lines suffered no significant changes.

Bank debt restructuring is the main line to be explained on the liabilities side. Two medium term bank loans were negotiated with new and better conditions, allowing for an improvement in the short- term / long-term ratio. In the end, this ratio improved from 35% to 54%. Gross bank debt stood at 227M€. The expected debt reduction did not materialize due to the following factors:

- Bank debt coming from Equipar;
- Distribution of dividends;
- Capex;
- Unlike 2004, the maintenance of the working capital levels.

No major variation in other liabilities lines. Total liabilities of 330M€ remained at the same level of last year.

Minority Interests were impacted by the entrance of Equipar in the balance sheet, in addition to the usual minority interests in the results of non-fully owned subsidiaries.

Total Equity reached 220.2M€, and was affected by the profit of the year, in addition to the distribution of dividends and the said increase in Minority Interests.

Equity to Assets ratio increased to 40%, underlying the financial strength of CORTICEIRA AMORIM balance sheet.



# outlook

## ECONOMIC OUTLOOK FOR 2006



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### GLOBAL ECONOMIC OUTLOOK

The year has started with favourable economic prospects. Forecasts point to a world growth rate of about 4.3%, in line with what was seen in 2005, and to an increase in world trade. The economic expansion will gradually extend to the European economies, ensuring EMU will grow near its long-term potential. The United States should slowdown slightly compared to 2005, while Japan is expected to show a growth similar to the one seen last year, around 2.0%. Developing economies, in particular the ones referred to as BRICs should perform strongly, strengthening the new relation of economic powers worldwide. In spite of projections pointing to a moderate uptrend in energy prices, inflation pressures should diminish globally. Some of the external imbalances characterizing the recent past economic context, namely the US external deficit and the Japanese and Chinese surplus, will get worse. A new and meaningful rise in crude prices, an abrupt FX adjustment, probably affecting the US dollar, and a large increase in long-term interest rates or the adjustment of markets like real state, are all negative factors that must be taken into account in assessing the risks to the central scenario described above. Successful Doha Round negotiations and advances in reforming the agriculture sector worldwide will add a positive spin to the outlook.

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### EURO AREA

The Euro Zone should perform better than last year, with external demand (the main engine of growth), providing support, but also benefiting from strengthening corporate investment. Rising economic confidence and more dynamic capital markets will provide a background as the year unfolds. Employment creation will translate into gradual improvements at the consumption level. The pre-announced VAT increase in Germany in 2007 should lead to purchases, mainly of durable goods, being brought forward to the last quarter of 2006. Growth will still be uneven between different Member States - Germany should lead, with France and Spain performing more modestly due to their higher dependency on credit. Italy, in turn, should stagnate in 2006. The ECB should keep with the tightening policy initiated at the end of 2005, diminishing the spread to US rates. Inflation should print above the target level of 2.0%. Unemployment may trend downward moderately, expectations pointing to a rate of 8.4%. Forecasts show a consolidation of the EMU's budget deficit around 2.8%. Public consumption should grow by 1.8%. The lack of structural reforms and a highly dependable economy on external demand make EMU vulnerable to external shocks such as an abrupt rise in crude prices or a rapid strengthening of the Euro.

## UNITED STATES

The US economy is project to grow slightly less than in 2005, probably around 3.4%. Domestic demand will still be the engine of growth though at a lower pace than before. All of its components, consumption in particular, will reflect more moderation, a trend in place since 2004. Net external demand, estimated to subtract 0.2% to GDP growth, will still perform favourably if compared to its more negative contribution in the two previous years. Unemployment should be stable around 5.0% and inflation show moderation at 2.5%. The federal government's financial position should worsen to a deficit of about 3.1% of total output. The Federal Reserve should follow a more moderate tightening bias, making further decisions to hike rates more dependable on the lagging effects on hard economic data. Contrary to before, there is not unanimity on its future policy decisions but keeping rates steady in the second half of the year cannot and should not be rule out.

## PORTUGAL

Portugal should grow less than 1.0% in 2006. Structural problems will be accompanied by cyclical weakness. Net external demand is forecasted to contribute positively to growth, thus marking a change to previous years. Positive economic prospects regarding Germany should make up for a more soft contribution from Spanish demand, thus supporting the external sector of the economy. Internal demand should slowdown (0.7% vs. 1.1% in 2005), reflecting a lack of momentum in private consumption. Unfavourable labour market conditions and higher interest rates couple with high household indebtedness will have a negative impact. Having declined strongly in 2005, fixed investment should recover moderately (0.2%). Still, both items should reflect the move forward of consumption occurred in the first half of 2005 in anticipation of the VAT increase. Public consumption will be hampered by the general policy of expenditure curbing and the goal of balancing the budget until 2008. The commitment to fiscal consolidation rules out any fiscal stimulus precisely when the economy would need it the most. Rising interest rates coupled with higher public indebtedness will raise the debt service. The characteristics of Portuguese exports expose the economy to significant pressures making a downward adjustment to salaries and an increase in unemployment rate to near 7.7% expectable. Higher energy costs should press inflation upwards resulting in an average increase of prices of 2.5%. A high output gap will only marginally compensate for this. The current account gap should stabilize around 9.4% of GDP in 2006, reflecting a slowdown in imports.

## operating activities

### RAW MATERIALS



A strategy of sustained and continuous purchase of reproduction cork will be followed in 2006, with the intention of minimizing pressure to obtain the quantity needed, obeying the parameters of quality and price considered most suitable for the activity of CORTICEIRA AMORIM'S Business Units.

The decrease in the purchasing price of cork noted in 2005 naturally leads to favourable prospects in the evolution of costs, which will compensate for eventual adjustments in the prices of the final applications in the different Business Units.

The centralisation of the production of discs in the industrial units in the South of Portugal will be finalised in 2006, thus offering the prospect of increased industrial efficiency.

## CORK STOPPERS



In 2006 the main operators in the wine markets, namely multinationals and large domestic companies should maintain the emphasis on reduction of costs, which will naturally continue to have an impact on the activity of the Business Unit. Having as an objective the strengthening of these clients' quota, the focus of the Business Unit will fall on increasing the efficiency of the operations and matching levels of service to the demands of the market, including cooperation with the client in developing technical solutions.

From February 2006, the Business Unit will hold 100% of Equipar, with the acquisition of the remaining 50%. This acquisition fits into the restructuring plan that aims at the specialisation of the production units, which will be concluded in the second half of 2006. The impact of implementing this plan, especially on operating costs, will only be seen in part in 2006 and in its entirety in the following years.

Among the objectives assumed in the strategic and operational plan for 2006, the following stand out:

- growth of sales in Natural Cork, Neutrocork® and Champagne stoppers;
- leadership in the main markets and clients, with special emphasis on multinational and large domestic clients, exploring opportunities of partnerships and/or acquisition of distributors;
- improvement in the mix of products sold as an important means of increasing margins and reducing operating costs;
- technical development of the current range of products and the launching of new products;
- clear differentiation, in respect of the competition's offer, in respect of the range of products, technical and sensorial performance and service to clients;
- specialisation of production units and consequent rationalisation of the industrial structure;
- efficiency in the cost of distribution;
- optimisation of levels of service and logistics, with the aim of reducing capital employed.

## FLOOR AND WALL COVERINGS



The broad lines of orientation and the objectives established in the Business Units' strategic and operational plan for 2006 are, mainly:

- to improve the margin of contribution of the different business segments of this Business Unit;
- to consolidate the diversified and higher added value offer, complementing the cork covering products,

which constitute the core business of the Business Unit, with the commercialisation of non cork floor coverings;

- to pursue the strategy of reducing geographical risk, by strengthening activity in high-potential growth markets;
- to increase efficiency by greater standardisation of the offer of products and services by different segments, not discounting the enhancement of added value in the offer and service to the client.

In terms of new products and services to be presented to the market, the presentation of the Wicanders® Xtreme WRT® at the Domotex trade fair and the new Ambience wall covering collection at the Heimtextil fair, both in January 2006, should be highlighted.

Xtreme WRT®, the new high resistance varnish launched at the end of 2005, is considered one of the most revolutionary in the cork coverings market. Despite its toughness and resistance, Xtreme WRT® gives the flooring a softness and naturalness, which have the visual and sensorial qualities required for a modern, natural and easily maintained floor.

The new Ambience collection, which will be available from March 2006, was intended to develop the cork wall coverings market and, at the same time, offer a varied and diversified choice to the market.

Because of the macro-economic situation and the increase in competition, the traditional markets, namely Germany, Benelux and Scandinavia, will maintain a less favourable evolution but one which, following the example of what has been occurring, will be countered through the offer of quality products with a high technical performance and attractive visuals, as well as through the continuation of growth in high-potential markets.

## COMPOSITE CORK



The lines of strategic orientation, which have been drawn up, are aimed at the consolidation of the contribution of the Business Unit to the CORTICEIRA AMORIM's net consolidated results. This will happen largely through an increase in activity. The principal challenges are the consolidation of world leadership in the main segments of the market and the development of new opportunities to use cork.

The proposal of value leading to the desired increase in profitability and productivity will be achieved through competitive and global positioning in all technical applications of cork, accompanied by simultaneous initiatives to optimize industrial processes and support to the business, in order to ensure the prosecution of the objectives that have been defined. Also to be highlighted: some of the effects of the rationalization of costs begun in 2005 will only be seen from 2006.

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## CORK RUBBER



For 2006, a slight increase in sales of cork rubber and recycled rubber is predicted.

With the aim of matching resources to the level of activity and development of new business opportunities, an important restructuring, initiated in the last quarter of 2005, will end in 2006, with the consequent effects to be seen in part in 2006, and in their entirety in following years.

Capital Employed will decrease in 2006, as a result of the optimization of stock and the level of investment, which is expected to be less than the depreciations of the financial year.

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## INSULATION CORK



The ecological characteristics of the products and their technical performance, namely in the area of thermal and acoustic insulation, will continue to underpin the market's receptivity to the products of this Business Unit.

The implementation of a cluster group of initiatives and actions in line with the global strategy will make it possible to achieve the objectives of profitable growth in the majority of products and to optimize the capital invested in the business.

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## RESULTS



During the second half of 2006, the full effect of the on-going restructuring project will be noticed, mainly, in the industrial efficiency of the Cork Stoppers BU. The cost structure of the Cork Rubber BU will be reduced during the first half of 2006. Raw Material BU will be positively affected by the decrease registered in the cork prices during the 2005 campaign. Cost will be positively impacted by the reduction in staff cost by the said restructurings. On the negative side, transportation cost will suffer an increase that has affected part of 2005.

In summary: a small increase in activity and a better industrial efficiency will be partially offset by increases in operating costs. Net profits increase for 2006 are expected to be soft.



## appropriation

### APPROPRIATION OF NET RESULTS

Bearing in mind that the individual net result presented at the end of 2005 is negative to the value of € 776,788.33 (seven hundred seventy six thousand, seven hundred eighty eight euros and thirty three cents), the existence of distributable reserves to the value of € 6,650,000.00 (six million six hundred and fifty thousand euros), the Board of Directors

#### Proposes:

1. That the shareholders decide to approve that above-mentioned negative net result of € 776,788.83 (seven hundred seventy six thousand, seven hundred eighty eight euros and thirty-three cents), be recorded as "Retained Earnings".
2. That € 6,650,000.00 (six million six hundred and fifty thousand euros), part of the value in the "Free Reserve" account, be distributed as dividends corresponding to € 0.05 (five cents) per share.



## stock

### TREASURY STOCK

In accordance with paragraph d) of article 66 of the Portuguese Companies Act (Código das Sociedades Comerciais), it is announced that the company acquired in the Stock Exchange, during 2005, 60,00 of treasury stock, representing 0.045% of its share capital, for the average unit price of € 1.1997 and the total price of € 71,982.27.

During the same period, the company divested itself of 54,500 treasury stock, representing 0.041% of its share capital, at the average unit price of € 1.2403 and the global price of € 67,594.23.

At the end of the financial year, 2,535,857 of treasury stock, representing 1.91% of its share capital, remained in the portfolio.

# XIII

## events

### SIGNIFICANT EVENTS AFTER DECEMBER 2005

After December 31, 2005, and up to the date of the present report, it was released as a Relevant Fact the acquisition of 50% of Equipar - Participações Integradas, S.G.P.S., Lda. CORTICEIRA AMORIM stake is now, indirectly, 100%.

# XIII

## close

### COSE OF THE REPORT

The Board of Directors would like to take advantage of this opportunity to express their gratitude to:

- the Shareholders and Investors, for the unfailing trust they have demonstrated;
- the Credit Institutions, for their important cooperation;
- the Auditor, for the high standard and rigour of his work.

To all our Staff, whose willingness and dedication have so greatly contributed to the development and growth of the companies that constitute CORTICEIRA AMORIM, we hereby express our deepest gratitude.

Mozelos, 24 February 2006

The Board of Directors of CORTICEIRA AMORIM, S.G.P.S., S.A.

## CORPORATE GOVERNANCE





# information about the corporate governance structure and practices

## Introduction

In 1999 the Board of the Commission of the Security Market (*CMVM - Comissão de Mercado de Valores Mobiliários*) approved the first package of recommendations concerning the governance of quoted companies, that set out to improve mechanisms to protect investors in the security markets. In December 2001 they approved their reformulation as well as the transformation of some of the recommendations into binding obligations, in the terms proposed by regulation no. 7/2001 of the CMVM. Regulation no. 11/2003 was approved at the end of 2003, and introduced some important alterations, namely in the content of the annual report on the company governance structure and practices that had been implemented.

In November 2005, after a process of public consultation, CMVM Regulation no. 10/2005 was approved, establishing an important set of alterations, whose its main objectives were to reinforce the auditing system within the company, extend transparency and adapt intermediate information to International Accounting Standards/International Financial Reporting Standards terms of reference.

CORTICEIRA AMORIM welcomed the initial recommendations, as well as subsequent reflections and consequent alterations to the applicable framework of regulations, as an opportune and pertinent contribution whose adoption will favour all entities, private or collective, whose interests are involved in the company activity, having made a critical analysis of its position in the matter of company governance in the light of these recommendations, giving due consideration to the effective advantages of their total implementation and the circumstances in which it operates.

With attention to the latest alterations introduced by CMVM Regulation no. 10/2005 and the project to alter the Portuguese Companies' Act (*Código das Sociedades Comerciais*) in the matters of structure and company governance, a process of profound reflection is underway, which, in the light of these alterations to the legislation, aims to review and improve the standards and internal procedures of company governance, guaranteeing their efficiency in safeguarding the respective interests. The subjects under consideration include those which concern the encouragement of the active exercise of the right to vote by Shareholders (Recommendation no. 2), the autonomisation and attribution of competences in evaluating structure and company governance to a commission specifically created for that purpose (Recommendation no. 6), new ways of disseminating information and reporting the activity of the Compensation Committee (Recommendation no. 8-A) and definition of a concrete policy for communicating irregularities (Recommendation no. 10).

The present Report has thus been drawn up in accordance with the provisions of no. 1, article 1 of CMVM Regulation no. 11/2003, incorporating the alterations introduced by CMVM Regulation no. 10/2005.

## CHAPTER O: DECLARATION OF COMPLIANCE

The analysis carried out makes it possible to state that CORTICEIRA AMORIM shows a good degree of adoption of the Recommendations issued by the CMVM on the Governance of Companies, as may be inferred from the explanations presented in the following notes:

### “I Disclosure of information

1. The company must ensure the existence of permanent contact with the market, respecting the principle of equality of shareholders and preventing asymmetries in access to information by the Investors. To such an effect the company must create an investor relations office.”

### RECOMMENDATION FULLY ADOPTED.

CORTICEIRA AMORIM has a Department of Investor Relations, described in paragraph 8 of Chapter 1, which guarantees complete fulfilment of this recommendation.

### “II Exercise of the Right to Vote and Shareholders' Proxy

2. The active exercise of the right to vote must not be restricted, either directly, namely by correspondence, or by proxy. Considered, for this purpose, as restrictions on the active exercise of the right to vote, are:
  - a) the imposition of a period of antecedence greater than 5 working days before the deposit or blocking of shares for participation in a Annual General Meeting;
  - b) any statutory restriction on the vote by correspondence;
  - c) the imposition of a period of antecedence greater than 5 working days for reception of the declaration of the vote issued by correspondence;
  - d) the non-existence of voting papers available to the shareholders for exercising the vote by correspondence”.

### RECOMMENDATION PARTIALLY ADOPTED.

In accordance with the company statutes, in the Annual General Meetings the Shareholders' vote by correspondence is admitted only in specific situations (in the alteration of the company statutes and in the election of members of the Board of Directors).

In these cases, the reception of the vote declaration must occur within five working days before the holding of the Annual General Meeting, thus adopting the period of time proposed by the Recommendation.

A model for exercising the right to vote by correspondence, in compliance with the regulation, is available at company headquarters.

The blocking of shares for participation in the Annual General Meeting must be carried out for a period not less than twenty days.

### “III Company Rules

3. The company must create a internal control system for the effective detection of risks linked to the company's activity, to safeguard its assets, benefiting the transparency of its company governance”.

### RECOMMENDATION FULLY ADOPTED.

CORTICEIRA AMORIM has at its disposal a manual of internal control procedures, drawn up in collaboration with PricewaterhouseCoopers, that clearly defines responsibilities and procedures in order to prevent and reduce situations of risk. Furthermore, the organic units considered necessary to reduce risk and improve the quality and integrity of the information disseminated to the market have been created, as described in paragraph 3 of Chapter 1.

“4. The measures to be adopted in order to prevent successful public acquisition offers must respect the interests of the company and its shareholders. Restrictive clauses, namely, whose effect is automatically to cause an erosion in the assets of the company in the case of transition of control or a change in the composition of the Board of Directors, thus prejudicing the free transmissibility of shares and free evaluation by shareholders of the performance of the members of the Board of Directors, are considered to be contrary to these interests.”

**RECOMMENDATION FULLY ADOPTED.**

To the best of CORTICEIRA AMORIM's knowledge, there are no limits to the voting rights, restrictions on the transmissibility of shares, special shareholders' rights and para-social agreements.

**“IV Administrative Body**

5. The Board of Directors must be composed of a plurality of members who exercise effective direction in respect of the management of the company and those responsible for it.

5-A. The Board of Directors must include sufficient non-executive administrators whose role is to continuously monitor and assess the management of the company by the executive members.

Members of other boards may carry out a complementary role or, at most, substitute role, if the respective auditing competences are equivalent and exercised in fact”.

**RECOMMENDATION FULLY ADOPTED.**

The Board of Directors, the body which is responsible for effective direction in managing the company, is made up of seven members, four of whom are not executives and three of whom have executive functions, thus proving the existence of an adequate number of non-executive directors.

“6. Among the non-executive members of the board of directors must be included a sufficient number of independent members. When there is only one non-executive director this person must also be independent. Independent members of other boards may carry out a complementary role or, at most, a substitute role, if the respective auditing competences are equivalent and in fact exercised.”

**RECOMMENDATION NOT ADOPTED.**

In the meeting of the General Assembly, held 31 March 2005, the board members were elected for the mandate of three years in course (2005-2007). No independent director was part of this.

It is important to mention that, at the date of the election referred to above, the CMVM recommendation in force at that date was fully adopted, in respect of the existence of independent members in the board of directors, namely through the nomination of Dr José Fernando Maia de Araújo e Silva, member of the Board of Directors with executive functions not associated with any other interest group. Nevertheless, given the alteration to the Recommendation, in November 2005, the non-adoption of the same is noted, insofar as the above mentioned director exercises executive functions.

“7. The Board of Directors must create internal control committees with attribution of competences in evaluating of company structures and governance.”

**RECOMMENDATION NOT ADOPTED.**

CORTICEIRA AMORIM does not have committees as set out in the terms of this recommendation, although the Board of Directors shows all interest in adopting and implementing the rules of company governance which best harmonise with the transparency of the stock market and with the confidence of those who have interests in the company, namely through participation in its share capital.

To this end, the Board of Directors periodically promotes reflection on these matters, both encouraging comparison of those which are considered best practice, with the policies and measures actually applied in the Company, and through its determination to match company practice to the evolving circumstances in which it operates.

“8. The remuneration of members of the Board of Directors must be structured in such a way as to permit the aligning of their interests with the interests of the company, and must be the object of annual divulgation in individual terms.”

**RECOMMENDATION PARTIALLY ADOPTED.**

CORTICEIRA AMORIM makes known the remuneration received by the members of the Board of Directors, identifying the remunerations received by the group of executive members, as well as those received by the group of non-executive members. The company considers that this level of detail is an adequate response to the interests and transparency that the Recommendation is intended to safeguard and so the remuneration received by individual members of the Board of Directors is not made known.

“8-A. A declaration on the remunerations policy of the board members must be submitted for the scrutiny of the Annual General Shareholders Meeting.”

**RECOMMENDATION NOT ADOPTED.**

The remunerations committee will not submit for the scrutiny of the next Annual General Meeting, to be held 31 March 2006, a declaration on the remunerations policy of board members, in the terms suggested by the Recommendation.

“9. The members of the Remunerations Committee or equivalent must be independent in relation to the members of the administrative body.”

**RECOMMENDATION PARTIALLY ADOPTED.**

Since the Remunerations Committee has been elected in the Shareholders' Annual General Meeting, it is believed that the effective possibility and capacity that the respective members would have, for the duration of their respective mandate, to carry out independently the functions that were attributed to them, that is, in pursuance of the interests of CORTICEIRA AMORIM, have been duly assessed. However, in the light of the concept of independence defined in the Recommendations, one of the members of this committee does not fulfil the condition of independent person in relation to the Board.

“10. The proposal submitted to the Annual General Meeting in respect of the approval of plans to attribute shares, and/or options for share acquisition or based on variations in the price of the shares, to members of the Board of Directors and/or workers must be submitted to the general assembly. The proposal must contain all the elements necessary for a correct assessment of the plan. The regulation of the plan, if it is already available, must accompany the proposal or, if it has not yet have been drawn up, the general conditions which it must obey.”

**RECOMMENDATION FULLY ADOPTED.**

Although this specific situation has not yet arisen in CORTICEIRA AMORIM, it is the policy of the company to facilitate all elements relevant for an adequate and well founded appreciation of the proposals presented for discussion and deliberation in the Shareholders' General Assembly.

“10-A. The company must adopt a policy of communicating irregularities which have allegedly occurred in the company, with the following elements: indication of the means whereby the communication of irregular practices may be done internally, including the persons entitled to receive communications, indication of the treatment to be given to the communications, including confidential treatment, if so desired by the person making the declaration. The general lines of this policy must be disseminated in the Corporate Governance Report.

#### RECOMMENDATION NOT ADOPTED.

CORTICEIRA AMORIM does not have a policy of communicating irregularities in the terms of this Recommendation.

However, given the interests that this subject seeks to safeguard, the Board of Directors is giving due thought to the means most suitable for such communications, in order to assure the protection of data and workers, as well as the attribution of competences for receiving communications and overseeing the policy to be implemented.

#### “V Institutional Investors

11. Institutional investors must take account of their responsibilities in respect of a diligent, efficient and critical use of the rights inherent to the assets which they hold or whose management is entrusted to them, namely in respect of entitlement to information and the right to vote.”

#### RECOMMENDATION NOT APPLICABLE TO CORTICEIRA AMORIM.

### CHAPTER I - DISSEMINATION OF INFORMATION

#### 1. Information regarding the distribution of competencies between the various bodies and departments of the company within the framework of the company decision-making process.

The Board of Directors of CORTICEIRA AMORIM is responsible for the effective control in directing the activity of the company, being the body competent to take decisions of a strategic nature.

In addition to the members who constitute the Board of Directors, meetings of this body include the presence of their Adviser. The role of Adviser to the Board of Directors was created in 2001, and has to date been carried out by Mr Américo Ferreira de Amorim.

The Board of Directors of CORTICEIRA AMORIM is made up of four non-executive members and three executive members. In addition to the decision-making referred to in the first paragraph of this paragraph, in its meetings the Board of Directors scrutinises the most important aspects of the company's activity, including the relevant matters which have been decided, or simply analysed by the Executive Board.

Board of Directors			Adviser to the Board of Directors
Executive Directors	António Rios de Amorim José Fernando Maia de Araújo e Silva Nuno Filipe Vilela Barroca de Oliveira	Chairman Member Member	
Non-executive Directors	José Américo Amorim Coelho Joaquim Ferreira de Amorim Luísa Alexandra Ramos Amorim Rui Miguel Duarte Alegre	Vice-Chairman Member Member Member	Américo Ferreira de Amorim

CORTICEIRA AMORIM's operating activity is structured in six Business Units (BU):

Adopting a management model based on the concept of Strategic-Operational Holding, the Business Units are co-ordinated by the Executive Board of CORTICEIRA AMORIM, which consists of the Chairman of the Board of CORTICEIRA AMORIM and the Presidents of the Boards of the principal Business Units (Cork Stoppers and Floor and Wall Covering), which has wide-ranging powers of management, with the exception of those powers reserved law or by statute for the Board of Directors.

The Executive Commission is made up of three members, being constituted, on 31 December 2005, by:

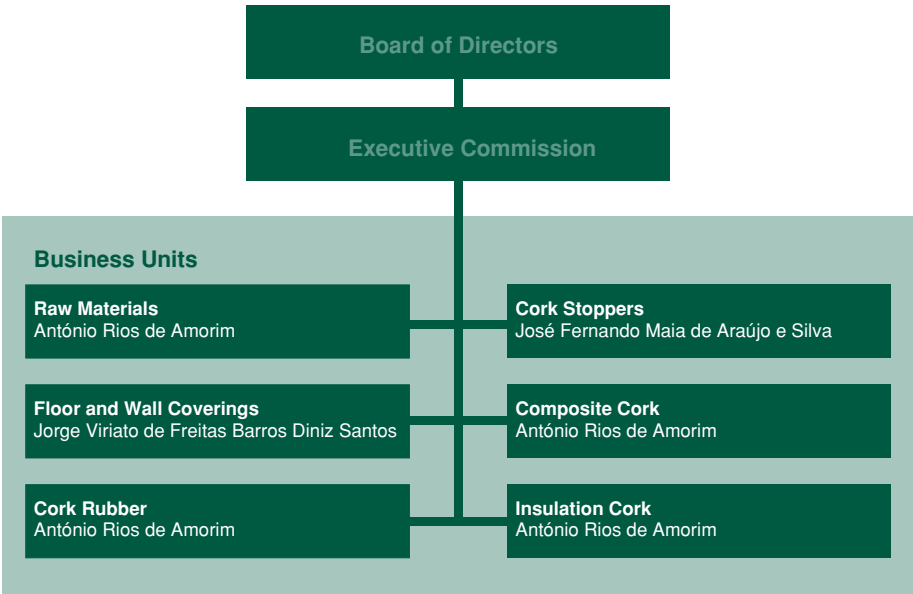
- António Rios de Amorim (Chairman);
- José Fernando Maia de Araújo e Silva;
- Jorge Viriato de Freitas Barros Diniz Santos.

The strategic alignment of the whole organisation is powered by the use of the balanced scorecard methodology, in CORTICEIRA AMORIM and in its Business Units. In this context, approval of the strategic objectives, strategic initiatives and priority actions of CORTICEIRA AMORIM and each Business Unit falls to the Board of Directors of CORTICEIRA AMORIM.

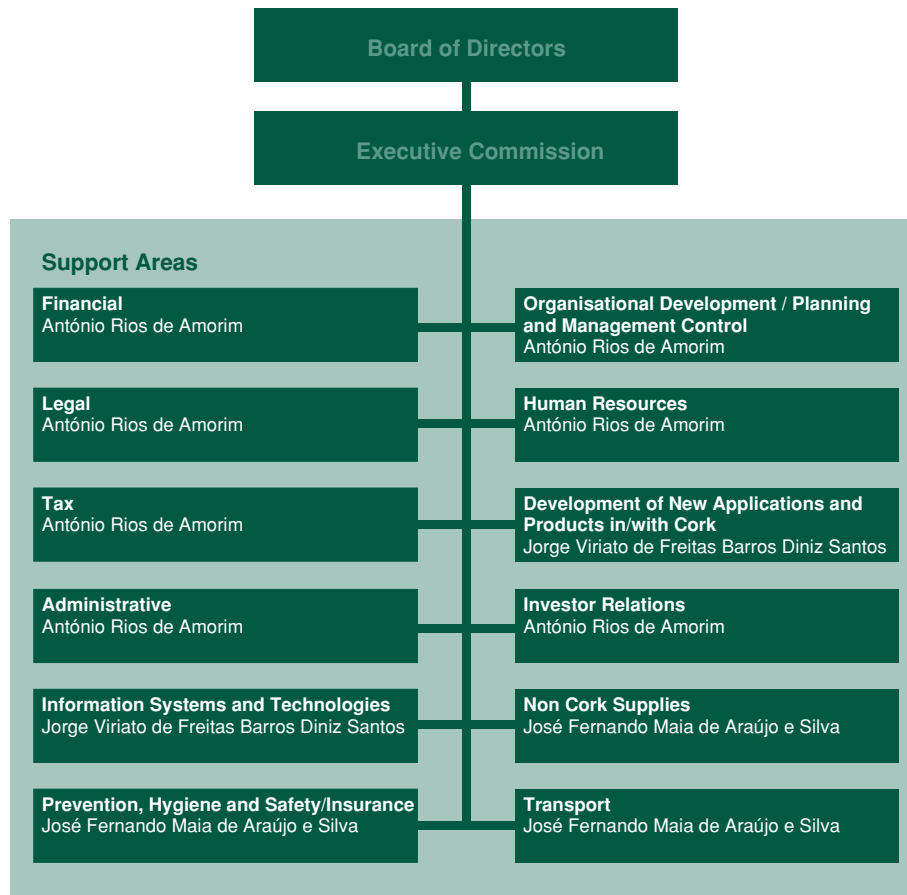
Each member of the Executive Commission of CORTICEIRA AMORIM is further responsible for permanently accompanying at least one Business Unit. Periodically there is a rotation of the executive directors in respect of the Business Units which they accompany, as a mean to promote a better alignment of the company's strategies with the respective alignment at the level of the Business Units.

This interaction between the Executive Commission of CORTICEIRA AMORIM and the Business Units allows regular monitoring of the goals defined for the strategic objectives, strategic initiatives and respective priority actions, in co-ordination with the Managing Directors of each Business Unit, but safeguarding the principal of its management autonomy.

The following scheme demonstrates how the management structure of the business is organised, indicating the member of the Executive Commission responsible for accompanying each Business Unit.



The support areas, reporting to the Executive Commission, are directed towards monitoring and co-ordinating the activity of the Business Units and their respective functional areas. While in two of these areas - internal audit and control of investments and disinvestment - the monitoring is done by the director Dr. Nuno Filipe Vilela Barroca de Oliveira, in the remaining areas monitoring is carried out by members of the Executive Commission, as shown in the following diagram:



## 2. Specific committees created in the company.

CORTICEIRA AMORIM does not have committees as set out in the terms of this Recommendation, although the Board of Directors shows all interest in adopting and implementing the rules of corporate governance which best harmonise with the transparency of the stock market and with the confidence of those who have interests in the company, namely through participation in its share capital.

## 3. System of risk control implemented in the company.

At the level of the Board of Directors and the Executive Commission, the main objective consists of the integrated vision of those factors considered critical, because of the possible yield and/or associated risks, for the creation of sustained value for the company and the Shareholder.

At an operating level, because of the specific characteristics of CORTICEIRA AMORIM'S operating activity, two critical factors have been identified, namely the market and business risks and the raw material factor (cork).

### Market risk and business risk in operating activities:

The management of the market and business risks begins by being assured by the five Business Units that intervene in the market of CORTICEIRA AMORIM end products, that is, Cork Stoppers, Floor and Wall Coverings, Composite Cork, Cork Rubber and Insulation Cork.

In the strategic planning of these Business Units, supported by the balanced scorecard methodology, the key factors for the creation of value have been identified, following a multi-perspective logic that encompasses finance, market/Clients, processes and infrastructure.

Following this logic, strategic objectives and respective goals are defined, as well as the initiatives to be developed in order to achieve them.

The methodology adopted makes it possible to strengthen the alignment between the delineated strategy and the operational planning, where priority actions to be developed in order to reduce risk and create sustained value are defined for a shorter period. The processes which permit the systematic monitoring of these actions are implemented in the Business Units, and are subject to periodic monitoring and monthly evaluation at the headquarters of the Business Unit's Board of Directors.

#### **The raw material factor (cork):**

Aware of how critical this factor is, cutting across all of the Business Units, the management of purchasing, storage and preparation of the single variable common to all of CORTICEIRA AMORIM's activities, which is the raw material (cork), has been brought together in one autonomous Business Unit, thus making possible:

- specialisation of a team dedicated exclusively to the raw material;
- making the most of synergies and the integration of processing of all the kinds of raw material (cork) transformed in the remaining units;
- management of the raw materials from a multinational perspective;
- reinforcement of presence in producer countries;
- maintaining a historical register of production, updating records of cork-producing forest units;
- reinforcement of the dialogue with production, promoting forest certification, enhancing the technical quality of the product and development of partnerships in the areas of research & development applied to the forest;
- preparing, discussing and deciding within the Board of Directors the direction and pluriannual supplies policy to be developed;
- ensuring the mix of raw materials best suited to the needs of the end products market;
- ensuring the stability of this variable, critical for CORTICEIRA AMORIM's activity, over the course of time.

Within the dependency of the Board of Directors, accompanied by the Executive Commission or an executive director, are Support Areas that act decisively in managing critical factors, including risk prevention and detection. The Financial, Organisational Development/Planning and Management Control and Internal Auditing Areas intervene in this sphere.

#### **Finance:**

Because it is one of the most internationalised Portuguese companies, in addition to managing liquidity and interest rate risks, CORTICEIRA AMORIM pays special attention to managing exchange rate risk.

While responsible for prevention, monitoring and management of the above mentioned risks, the Financial Area has as its principal objectives to support the definition and implementation of global strategies at the financial level, and to co-ordinate the financial management of the different Business Units.

#### **Organisational Development/Planning and Management Control and Area of Internal Audit:**

Within the dependency of the Executive Commission, these two support area work together to reduce the functioning risks of the Organisation. Their two main functions are to assess and

review the internal control systems, aiming both to optimise resources and safeguard assets, and to scrutinise the activities carried out, allowing management a reasonable level of certainty that business targets will be met.

#### **4. Description of the stock market behaviour of the shares.**

As described in Paragraph VI B) of the Consolidated Management Report.

#### **5. Information about the policy of distributing dividends adopted by the company.**

In each financial year, CORTICEIRA AMORIM gives due consideration, in the light of the context of its activity, to the proposal for application of results of the financial year to be submitted for the approval of the Annual General Meeting.

Given the exceptional results obtained in 2001, the strategic and operational restructuring in progress and the unfavourable macroeconomic framework of the company's activity, it was proposed and deliberated in the Annual General Meeting of Shareholders not to award dividends for the financial years 2001, 2002 and 2003, thus prioritising the need to reinforce the financial balance of the Company.

With respect to the financial year of 2004, given the net results obtained and the significant reduction of the company's indebtedness, the Annual General Meeting of Shareholders held on 30 March 2005 approved the distribution of an illiquid dividend of € 0.035 per share.

With respect to the financial year under consideration, given the net results obtained, which rise to 15.7 million euros, and the consistency observed in the company's financial balance, the Board of Directors will propose to the Shareholders' Annual General Meeting the distribution of a gross dividend per share of 0.05 euros.

#### **6. Plans to award shares and plans to award options to acquire shares adopted or in force during the financial year.**

In respect of the financial year 2003, CORTICEIRA AMORIM did not adopt nor has in force any plan to award shares or to award options to acquire shares.

#### **7. Business and operations carried out between the Company and members of its Board of Directors and Auditors, and stakeholders or directors of Companies with which there is a dominating or group relationship.**

No significant operations or business were carried out in the terms set out in this paragraph.

#### **8. Market and Investor relations.**

CORTICEIRA AMORIM ensures the existence of permanent contact with the Market, respecting the principle of equality of shareholders and preventing asymmetries in access to information by the Investors.

Thus, the Department of Market Relations, supervised by CORTICEIRA AMORIM'S Representative for Market Relations, performs the following duties, namely:

- periodic dissemination of analysis of the evolution of the company's activity and the results obtained, including the co-ordination and preparation of their twice-yearly public presentation delivered in the company headquarters (in person or through audio-conferencing);
- dissemination of relevant facts;
- dissemination of communiqués about main stakeholders;
- reception and centralisation of all questions formulated by the investors and the explanations made available;
- participation in conferences and meetings with investors and analysts.

The Department may be reached at telephone number +351 22 747 54 00, by fax +351 22 747 54 07 or through the email address corticeira.amorim@amorim.com.

CORTICEIRA AMORIM has been using the information technology at its disposal for the periodic dissemination of economic and financial information, namely the reports analysing the evolution of the activity and results obtained, as well as in response to specific questions raised by the Investors.

In conformity with the stipulations of CMVM Regulation no. 11/2003, CORTICEIRA AMORIM makes available on its website [www.amorim.com/cortica.html](http://www.amorim.com/cortica.html) a vast array of information about its company structure, its activity and the evolution of its business.

The role of Representative for CORTICEIRA AMORIM's Investor Relations is carried out by Dr. Cristina Rios de Amorim Baptista.

Of the actions carried out in 2005, regarding contact with investors, the following should be highlighted:

- Participation in various international events, such as the *ESN Small and Mid Cap Conference* (London, April), the *UBS Portugal reverse road show* (Oporto, June), the *Paris Midcap Events* conference (Paris, September), the *Espírito Santo Iberian Event* conference (Madrid, November) and the *ESN Small & Mid Cap Conference* (London, December);
- Road show held in November, in Madrid, which permitted an interesting approach to important institutional investors;
- Presentation of the activity and half-yearly results, through an audio-conference, thus promoting interaction in the dissemination of that information;
- One-to-one meetings held by invitation in investment bank premises;
- Meetings in company premises, with various investors and teams of analysts, who were shown the main industrial units.

#### 9. Composition of the remunerations committee or equivalent body.

CORTICEIRA AMORIM'S Remunerations Committee is composed of a Chairman and two Board Members, positions occupied as of 31 December 2005 by:

President - Cristina Rios de Amorim Baptista (directly related up to the third degree to two of the members of the Board of Directors);  
Member - José Manuel Ferreira Rios;  
Member - not occupied, because of the death of the holder of this position, José Manuel de Jesus Araújo Faria.

#### 10. Amount of the annual remuneration of the auditor and other individual and collective persons belonging to the same network, supported by the company and/or by collective persons in a dominating or group relationship.

Service	Value (thousand euros)	%
Legal reviewing of accounts	352	84.6%
Other services to guarantee trustworthiness	12	2.9%
Tax consultancy	0	0.0%
Other services	52	12.5%
<b>Total</b>	<b>416</b>	<b>100%</b>

The heading “Other services” essentially comprises support for the implementation of administrative mechanisms for the fulfilment of formalities established by law. As far as these services are concerned, these entities do not assume leadership of the subjacent projects, which is always taken on by the appropriate department of CORTICEIRA AMORIM, therefore there can be no question as to the independent functioning of the same.

## **CHAPTER II - EXERCISE OF THE RIGHT TO VOTE AND SHAREHOLDERS' PROXY**

CORTICEIRA AMORIM encourages participation by the Shareholders in the Annual General Meetings of the company, namely by making available, as stipulated in the Portuguese Companies' Act (*Código das Sociedades Comerciais*), the information required by law for consultation prior to the holding of the General Meeting, with the intention of making available to the Shareholder the information required to make decisions on the matters placed on the agenda for each General Meeting, whether this decision is expressed by the Shareholder himself, by correspondence or by proxy. In order to facilitate this access, in accordance with the Regulations of the CMVM, such information is also available on the website [www.amorim.com/cortica.html](http://www.amorim.com/cortica.html).

In relation to the process of representation, the Presiding Committee of the General Meeting checks the validity and compliance of the proxy documents presented, in accordance with what is stipulated by Law and by the company's statutes.

### **1. Statutory rules on the exercise of the right to vote.**

CORTICEIRA AMORIM actively encourages Shareholders to exercise their right to vote in the General Meetings of the company, whether by direct vote, by correspondence or by proxy, namely by clarifying the legal procedures necessary for the right to vote to be exercised.

As established in the company statutes, in the General Meetings the Shareholders' vote by correspondence is admitted in the alteration of the company statutes and in the election of members of the Board of Directors.

### **2. Existence of a model for exercising the right to vote by correspondence.**

In situations in which this mode of voting is allowed, as set out in the preceding paragraph, CORTICEIRA AMORIM makes available in its headquarters to Shareholders a model for exercising the right to vote by correspondence.

### **3. Possibility and exercise of the right to vote by electronic means.**

The statutes of CORTICEIRA AMORIM do not allow voting by electronic means. This limitation has not yet been altered because it is believed that the technical conditions that would make it possible to assure verification of the authenticity of the vote declarations and guarantee the integrity and confidentiality of their content do not exist.

### **4. Period of antecedence required for deposit or blocking of shares for participation in the Annual General Meeting.**

The period of antecedence established by the statutes of CORTICEIRA AMORIM is twenty days before the date designated for the Annual General Meeting.

### **5. Minimum interval between the reception of the declaration of vote by correspondence and the date when the Annual General Meeting is held.**

In the cases in which voting by correspondence is permitted, as established by no.1 above, the reception of the vote declaration must occur within five working days prior to the date when the General Assembly is held.

### **6. Number of shares to which one vote corresponds.**

One vote corresponds to every group of one thousand shares.

## CHAPTER III - COMPANY REGULATIONS

### 1. Existence, at the level of the internal organisation, of specific rules destined to regulate situations of conflict of interests between the members of the Board of Directors and the company.

Although there are no formal codes of conduct or internal regulations that correspond directly to this note, CORTICEIRA AMORIM considers that the principles of good business practice are part of the entrepreneurial values upheld by both the members of the company boards and by the other employees.

### 2. Internal measures adopted to control risk in the company's activity.

In accordance with the provisions of paragraph no. 3 of Chapter 1 of this Report.

### 3. Measures that may interfere with the success of public acquisition offers.

To the best of CORTICEIRA AMORIM's knowledge, there are no limits to the voting rights, restrictions on the transmissibility of shares, special shareholders' rights and para-social agreements.

## CHAPTER IV - ADMINISTRATIVE BODY

### 1. Composition and characterisation of the Administrative Body.

The Board of Directors of CORTICEIRA AMORIM is composed of the Chairman, Vice-Chairman and five Board Members. As of 31 December 2005, these duties are carried out by:

#### Executive Members:

<b>Chairman:</b>	António Rios Amorim
<b>Vice-Chairman:</b>	José Fernando Maia de Araújo e Silva
<b>Member:</b>	Nuno Filipe Vilela Barroca de Oliveira

#### Non-executive Members:

<b>Vice-Chairman:</b>	José Américo Amorim Coelho
<b>Member:</b>	Joaquim Ferreira de Amorim
<b>Member:</b>	Rui Miguel Duarte Alegre
<b>Member:</b>	Luísa Alexandra Ramos Amorim

In the Shareholders' General Meeting, held on 31 March 2005, the Board Members including the Board of Directors of the company, were elected for a mandate of three years. It should be stated that, on this date, the CMVM recommendation concerning the existence of independent members in the administrative body was fully adopted, concretely through the nomination of Dr José Fernando Maia de Araújo e Silva, member of the Board of Directors with executive functions not associated with any specific interest groups. Nevertheless, given the alterations introduced by CMVM Regulation no. 10/2005, since that director carries out executive duties, there is non independence of the non-executive members, because they fit into at least one of the categories listed under no. 2 of article 1 of CMVM Regulation no. 11/2003.

The members of the Board of Directors of CORTICEIRA AMORIM, in post, carry out the following duties in other companies:

#### António Rios de Amorim (Chairman):

Chairman of the Board of Directors and Executive Commission of CORTICEIRA AMORIM since March 2001. He was Delegated Director of Amorim & Irmãos (1996-2001), Administrator of Sociedade Figueira-Praia (1993-2006), responsible for operations in Amorim - Empreendimentos Imobiliários - which promoted the Torres de Lisboa and Arrábida Shopping projects (1993-1995), Executive Administrator of Amorim Hotéis, SA, with responsibility for developing the Ibis and Novotel chains in Portugal. He was awarded as degree in Commerce by the Faculty of Commerce and Social Sciences of the University of Birmingham (1989), and attended *The Executive Program in Business Administration: Managing the Enterprise* - Columbia University Graduate School of Business (1992)

and Managerial Skills for International Business - INSEAD (2001). He was an associate of the European Round Table of Industrialists - the only Portuguese entrepreneur to belong to this association (1991-1995). President of the Portuguese Cork Association (from 2002) and of the Confédération Européenne du Liège (since 2003). In February of 2006 he was honoured, by His Excellency the President of the Republic, with the title of *Comenda de Grande-Oficial da Ordem de Mérito Agrícola, Comercial e Industrial*.

Date of first appointment to the Board of Directors: 29 March 1990

Date of first appointment as Chairman of the Board of Directors: 31 March 2001

Date of end of mandate: 31 December 2007

#### Positions held in other companies:

Company	Position
<b>Group CORTICEIRA AMORIM</b>	
Amorim Florestal - Indústria, Comércio e Exploração, SA	Chairman of the Board of Directors
Amorim Florestal Espanha, SL	Chairman of the Board of Directors
Amorim & Irmãos IV, SA	Chairman of the Board of Directors
Amorim & Irmãos, SA	Chairman of the Board of Directors
Amorim & Irmãos, SGPS, SA	Chairman of the Board of Directors
Amorim & Irmãos VI, SA	Chairman of the Board of Directors
Amorim Florestal - Espanha, SA	Member of the Board of Directors
Amorim Industrial Solutions - Indústria de Cortiça e Borracha I, SA	Vice-Chairman of the Board of Directors
Amorim Industrial Solutions - Indústria de Cortiça e Borracha II, SA	Vice-Chairman of the Board of Directors
Amorim Industrial Solutions - SGPS, SA	Vice-Chairman of the Board of Directors
Amorim Isolamentos, SA	Member of the Board of Directors
Amorim Isolamentos II, Lda	Manager
Amorim Revestimentos, SA	Vice-Chairman of the Board of Directors
Corticeira Amorim - Indústria, SA	Vice-Chairman of the Board of Directors
Equipar - Participações Integradas, Lda	Manager
Equipar - Indústria de Cortiça, SA	Chairman of the Board of Directors
Equipar - Rolha Natural, SA	Chairman of the Board of Directors
Inter Champanhe - Fabricante de Rolhas de Champanhe, SA	Chairman of the Board of Directors
Korken Schiesser GmbH	Manager
<b>Other Companies</b>	
Afaprom - Sociedade Agro-Florestal, SA	Member of the Board of Directors
Amorim, SGPS, SA	Member of the Board of Directors
Amorim Capital, SGPS, SA	Member of the Board of Directors
Amorim Desenvolvimento, SGPS, SA	Member of the Board of Directors
Amorim - Investimentos e Participações, SGPS, SA	Member of the Board of Directors
Amorim - Serviços e Gestão, SA	Chairman of the Compensation Committee
Amorim - Viagens e Turismo, SA	Member of the Board of Directors
Cimorim - Sociedade Agro-Florestal, SA	Member of the Board of Directors
Corpóreo - Compra e Venda de Imóveis, SA	Member of the Board of Directors
Interfamília II, SGPS, SA	Member of the Board of Directors
Interfamília III, SGPS, SA	Member of the Board of Directors
Luxor, SGPS, SA	Member of the Board of Directors
Resiféria - Construções Urbanas, SA	Member of the Board of Directors
S21 - Sociedade de Investimento Imobiliário, SA	Member of the Board of Directors
Seguro e Pensões GERE, SGPS, SA	Member of the Supervisory Board
<b>Other Bodies</b>	
Associação Portuguesa da Cortiça	Chairman of the Board of Directors
Confédération Européenne du Liège	Chairman of the Board of Directors

#### José Américo Amorim Coelho (Vice-Chairman):

He studied in the Faculty of Economics of Oporto University (1974-1976). He is Vice-Chairman of the Board of Directors of CORTICEIRA AMORIM, non-executive from September 2005. Up to this date he was Vice-Chairman of the Executive Board of the company, with responsibility for permanently accompanying the Composite Cork, Rubber and Insulation Cork Business Units and joint responsibility for accompanying the Raw Materials Business Unit. In the last 27 years he has been executive director of various affiliates of the company. His leadership of the Composite Cork Business Unit (1982-1992) and the Floor and Wall Coverings Business Unit (1992-2002) stand out.

Date of first appointment to the Board of Directors: 9 October 1987

Date of end of mandate: 31 December 2007

#### Positions held in other companies:

Company	Position
<b>Group CORTICEIRA AMORIM</b>	
Amorim Belgium Natural Coverings NV	Director
Amorim Flooring Austria Gesmgh	Manager
Amorim Florestal - Indústria, Comércio e Exploração, SA	Vice-Chairman of the Board of Directors
Amorim Florestal Espanha, SA	Chairman of the Board of Directors
Amorim & Irmãos, SA	Vice-Chairman of the Board of Directors
Amorim & Irmãos, SGPS, SA	Member of the Board of Directors
Amorim Industrial Solutions - Inc	Chairman of the Board of Directors
Amorim Industrial Solutions - Indústria de Cortiça e Borracha I, SA	Chairman of the Board of Directors
Amorim Industrial Solutions - Indústria de Cortiça e Borracha II, SA	Chairman of the Board of Directors
Amorim Industrial Solutions - SGPS, SA	Chairman of the Board of Directors
Amorim Isolamentos, SA	Chairman of the Board of Directors
Amorim Isolamentos II, Lda	Manager
Amorim Revestimentos, SA	Member of the Board of Directors
Amorim (UK) Limited	Director
Comatral - Compagnie Marocaine de Transformation du Liège, SA	Director
Corticeira Amorim France, SAS	Chairman of the Board of Directors
Corticeira Amorim - Indústria, SA	Chairman of the Board of Directors
Dom Korkowy, Sp. Zo. O.	Administrator
Inter Champanhe - Fabricante de Rolhas de Champanhe, SA	Vice-Chairman of the Board of Directors
<b>Other Companies</b>	
Amorim Capital, SGPS, SA	Member of the Board of Directors
Amorim Desenvolvimento, SGPS, SA	Member of the Board of Directors
Amorim - Entertainment e Gaming International, SGPS, SA	Member of the Board of Directors
Amorim - Investimentos e Participações, SGPS, SA	Second Vice-Chairman of the Board of Directors
Amorim Participações Mobiliárias, SGPS, SA	Chairman of the Board of Directors
Amorim Trading - Comércio de Importação e Exportação, SA	Member of the Board of Directors
Amorim Turismo, SGPS, SA	Member of the Board of Directors
Amorim - Viagens e Turismo, SA	Member of the Board of Directors
Interfamília II, SGPS, SA	Member of the Board of Directors
Interfamília III, SGPS, SA	Member of the Board of Directors
Soamco - Investimentos, Lda	Manager
Sociedade Figueira Praia, SA	Member of the Compensation Committee

#### Joaquim Ferreira de Amorim (Member):

Entrepreneur and company director. He belongs to the third generation of the Amorim Family and has around fifty years of professional activity in the area of cork in the Group. He joined the management team which undertook the verticalisation of the cork business in the 1060's, and in the 80s and 90s, he invested in the internationalisation of the business, taking CORTICEIRA AMORIM to world leadership in the cork sector.

Date of first appointment to the Board of Directors: 9 October 1987

Date of end of mandate: 31 December 2007

#### Positions held in other companies:

Company	Position
<b>Group CORTICEIRA AMORIM</b>	
Amorim & Irmãos, SGPS, SA	Vice-Chairman of the Board of Directors
Amorim & Irmãos, SA	Member of the Board of Directors
Moraga - Comércio e Serviços, SA	Chairman of the Board of Directors
S.A.M. Clignet & Cie	Chairman of the Supervisory Board
<b>Other companies</b>	
Amorim - Investimentos e Participações, SGPS, SA	First Vice-Chairman of the Board of Directors
Amorim Capital, SGPS, SA	Member of the Board of Directors
Amorim Desenvolvimento, SGPS, SA	Member of the Board of Directors
Amorim - Entertainment e Gaming Internacional, SGPS, SA	Member of the Board of Directors
Amorim Turismo, SGPS, SA	Vice-Chairman of the Board of Directors
Ancarin Investimentos Imobiliários e Financeiros, SA	Chairman of the Board of Directors
Casa de Mozelos Gestão de Imóveis, SA	Chairman of the Board of Directors
Famolin Sociedade Financeira e Mobiliária, SGPS, SA	Chairman of the Board of Directors
Interfamília II, SGPS, SA	Member of the Board of Directors
Interfamília III, SGPS, SA	Member of the Board of Directors
Interfamília VI, SGPS, SA	Chairman of the Board of Directors
Investife - Investimentos Imobiliários e Financeiros, SA	Chairman of the Board of Directors
Norbrasin, Investimentos Imobiliários, SA	Chairman of the Board of Directors
Resinfe - Investimentos e Promoção Imobiliária, SA	Member of the Board of Directors
Return - Investimentos Hoteleiros e Jogo, SA	Member of the Board of Directors
Sociedade Agrícola Triflor, SA	Chairman of the Board of Directors
Sociedade Figueira Praia, SA	Director
Telepri - Telecomunicações privadas, SGPS, SA	Vice-Chairman of the Board of Directors
Vatrya - Consultadoria e Marketing, Lda	Manager

**Rui Miguel Duarte Alegre (Member):**

He studied Business Science at ISLA; was Director and Chairman of the Executive Board of Amorim Imobiliária, from 2005. He was Executive Director of Amorim Imobiliária, Amorim Turismo and Amorim Desenvolvimento, between 1998 and 2005. He carried out executive functions in CORTICEIRA AMORIM between 1995 and 1997. Director of Amorim - Investimentos e Participações since 1999.

Date of first appointment to the Board of Directors: 9 September 1996

Date of end of mandate: 31 December 2007

**Positions held in other companies:**

Company	Position
<b>Group CORTICEIRA AMORIM</b>	
Amorim & Irmãos, SA	Member of the Compensation Committee
<b>Other Companies</b>	
Amorim Broking - Investimentos e Participações Financeiras, SA	Chairman of the Board of Directors
Amorim Broking, SGPS, SA	Member of the Board of Directors
Amorim Capital, SGPS, SA	Member of the Board of Directors
Amorim Corporate Solutions, SGPS, SA	Chairman of the Board of Directors
Amorim Desenvolvimento, SGPS, SA	Member of the Board of Directors
Amorim Financial, SGPS, SA	Member of the Board of Directors
Amorim Imobiliária, SGPS, SA	Member of the Board of Directors
Amorim - Investimentos e Participações, SGPS, SA	Member of the Board of Directors
Amorim Projectos, SGPS, SA	Member of the Board of Directors
Amorim Residential and Development, SGPS, SA	Chairman of the Board of Directors
Amorim Retail, SGPS, SA	Chairman of the Board of Directors
Amorim - Serviços e Gestão, SA	Member of the Board of Directors
Amorim Trading - Comércio de Importação e Exportação, SA	Member of the Board of Directors
Amorim - Viagens e Turismo, SA	Member of the Board of Directors
Aplicação Urbana II - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação Urbana V - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação Urbana VI - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação VII - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação Urbana VIII - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação Urbana IX - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação Urbana XI - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação Urbana XII - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação Urbana XIV - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação Urbana XV - Investimento Imobiliário, SA	Chairman of the Board of Directors
Aplicação Urbana XVI - Investimento Imobiliário, SA	Chairman of the Board of Directors
Caribbean Seafood - Trading e Marketing, SA	Chairman of the Board of Directors
Dolce Vita Miraflores - Exploração de Centros Comerciais, SA	Chairman of the Board of Directors
Dolce Vita Tejo - Investimentos Imobiliários, SA	Chairman of the Board of Directors
Em Comunidade - Serviços de Telemática, SA	Chairman of the Board of Directors
Empresa Mixta Granmar, SA	Member of the Board of Directors
Encostarrávida - Investimento Imobiliário, SA	Member of the Board of Directors
Escritórios da Arrábida - Investimento Imobiliário, SA	Member of the Board of Directors
Escritórios do Tejo - Empreendimentos Imobiliários, SA	Chairman of the Board of Directors
Espaçosescritórios - Exploração de Escritórios, SA	Chairman of the Board of Directors
Espaço Urbano - Investimentos Imobiliários, SA	Vice-Chairman of the Board of Directors
ESPE - Empresa de Serviços de Engenharia Electrotécnica, Lda	Manager
Estúdios Imobiliária - Gestão e Investimento, SA	Vice-Chairman of the Board of Directors
FCP SAD	Member of the Board of Directors
GCC Antas - Gestão de Centros Comerciais, SA	Member of the Board of Directors
GCC Coimbra - Gestão de Centros Comerciais, SA	Member of the Board of Directors
GCC Douro - Gestão de Centros Comerciais, SA	Member of the Board of Directors
GCC Miraflores - Gestão de Centros Comerciais, SA	Member of the Board of Directors
Habimoselos - Sociedade de Construções, Lda	Manager
Highgrove - Clubes Residenciais, SA	Chairman of the Board of Directors
Highgrove Arrábida - Club Residencial, SA	Member of the Board of Directors
Highgrove Inglesinhos - Club Residencial, SA	Member of the Board of Directors
Highgrove - Investimentos e Participações, SGPS, SA	Chairman of the Board of Directors
Imolisboa - Projectos Imobiliários, SA	Vice-Chairman of the Board of Directors
Imovalor - Sociedade de Investimentos Imobiliários, SA	Chairman of the Board of Directors
Imovalorgest - Gestão de Património Imobiliário, SA	Chairman of the Board of Directors
Inogi - Inovação e Gestão de Investimentos Imobiliários, SA	Chairman of the Board of Directors
Interfamília I, SGPS, SA	Member of the Board of Directors
Interfamília II, SGPS, SA	Member of the Board of Directors

Company	Position
Lagoa da Vela - Empreendimentos Imobiliários e Turísticos Desportivos, SA	Chairman of the Board of Directors
Larry Smith, SA	Chairman of the Board of Directors
Monucontrol - Sociedade Imobiliária do Monumental, SA	Chairman of the Board of Directors
Morate - Investimentos Imobiliários, SA	Chairman of the Board of Directors
Morus - Sociedade de Gestão Imobiliária, SA	Chairman of the Board of Directors
Negócios Sintra - Gestão Imobiliária, SA	Chairman of the Board of Directors
Novantas - Comércio Imobiliário, SA	Chairman of the Board of Directors
Novantas II - Comércio Imobiliário, SA	Chairman of the Board of Directors
OSI - Organização e Sistemas Informáticos, Lda	Manager
Paisagem Verde - Investimento Imobiliário, SA	Chairman of the Board of Directors
Portal das Flores - Serviços e Comércio, Lda	Manager
Quinta Nova de N.º Sr.º do Carmo - Sociedade Agrícola e Comercial, Lda	Manager
Recato da Madeira - Investimentos Financeiros e Gestão, SA	Member of the Board of Directors
Retailgeste - Sociedade de Gestão Imobiliária, SA	Chairman of the Board of Directors
Sportsforum - Desenvolvimento Imobiliário, SA	Chairman of the Board of Directors
Studio Residence Ibéria	Chairman of the Board of Directors
Vertente Financeira, SGPS, SA	Member of the Board of Directors

#### **José Fernando Maia de Araújo e Silva (Member):**

Graduate in Economics from the Faculty of Economics of the University of Oporto (1974). Executive Director of CORTICEIRA AMORIM since 2002. He was Vice-Chairman of Sonae Indústria (1999-2002) and member of the Board of Directors of Spred (1998-1999), Sonae Participações Financeiras (1996-1998) and Tafisa (1993-1995). Responsible for the financial co-ordination and control of management of the industrial area of the Sonae Group (1989-1990) and the financial co-ordination of Sonae Investimentos (1991-1993). He was Director of Soserfin (1987-1988) and Director of the international department of the BESCL (1984-1986). He began his professional activity in the Faculty of Economics of the University of Oporto as a lecturer in various subjects (1975-1983). Also in this Faculty he was responsible for the subject of International Financial Management (1987-1988) in the postgraduate course for Financial Analysts. Since 1991, he has been a guest lecturer at the Catholic University of Portugal, where he is responsible for the subject of International Financial Management, in the Management course.

Date of first appointment to the Board of Directors: 16 September 2002

Date of end of mandate: 31 December 2007

#### **Positions held in other companies:**

Company	Position
<b>Group CORTICEIRA AMORIM</b>	
Amorim Revestimentos, SA	Chairman of the Board of Directors
Amorim & Irmãos, SGPS, SA	Member of the Board of Directors
Amorim & Irmãos, SA	Member of the Board of Directors
Amorim Florestal - Indústria, Comércio e Exploração, SA	Member of the Board of Directors
Amorim Industrial Solutions - Indústria de Cortiça e Borracha I, SA	Member of the Board of Directors
Amorim Industrial Solutions - Indústria de Cortiça e Borracha II, SA	Member of the Board of Directors
Amorim Industrial Solutions, SGPS, SA	Member of the Board of Directors
Amorim Isolamentos, SA	Member of the Board of Directors
Amorim Isolamentos II, Lda	Manager
Champcork - Rolhas de Champanhe, SA	Chairman of the Board of Directors
Corticeira Amorim - Indústria, SA	Member of the Board of Directors
Portocork Internacional, SA	Chairman of the Board of Directors

#### **Nuno Filipe Vilela Barroca de Oliveira (Member):**

He graduated in Company Administration and Management from the Catholic University of Portugal. Non-executive director of CORTICEIRA AMORIM, from March 2003 until September 2005, he then proceeded to carry out executive functions from that date. Non-executive director of various companies in the Amorim Group (from 2000) and executive director of Barrancarnes (2000-2005). After a year in the commercial area of Møre Codfish (Norway), he took part in the Comett programme and held an internship in Merrill Lynch (London), then

began his professional activity in the Banco Comercial Português Group, where, for three years, he collaborated in the areas of Studies and Planning, International Area and Investment Funds.

Date of first appointment to the Board of Directors: 28 March 2003

Date of end of mandate: 31 December 2007

**Positions held in other companies:**

Company	Position
<b>Other Companies</b>	
Amorim - Investimentos e Participações, SGPS, SA	Member of the Compensation Committee
Amorim - Serviços e Gestão, SA	Member of the Compensation Committee
Natureza, SGPS, SA	Member of the Board of Directors

**Luísa Alexandra Ramos Amorim (Member):**

Degree (DESE) in Marketing from ISAG. Director of Amorim - Investimentos e Participações (since 2002). Executive Director of Natureza, S.G.P.S., S.A. (since 2002) and Director of Marketing of J. W. Burmester (2000-2002). She began her professional activity in the Amorim Group as Assistant in Hotel Management in Amorim Hotéis e Serviços and the Sociedade Figueira Praia (1996-1997), having collaborated in different business areas of the Group, in Portugal and abroad, between 1998 and 2000.

Date of first appointment to the Board of Directors: 28 March 2003

Date of end of mandate: 31 December 2007

**Positions held in other companies:**

Company	Position
<b>Other Companies</b>	
Amorim - Investimentos e Participações, SGPS, SA	Member of the Board of Directors

**2. Other bodies with management competence.**

Adopting a management model based on the concept of Strategic-Operational-Holding, the Business Units are co-ordinated by the Executive Commission of CORTICEIRA AMORIM, made up of the Chairman of the Board of Directors of CORTICEIRA AMORIM and by the chairman of the Boards of Directors of the two main Business Units (Cork Stoppers and Floor and Wall Coverings). The Executive Board possesses wide-ranging powers of management, with the exception of those powers reserved law or by statute for the Board of Directors.

The Executive Commission is made up of three members, being constituted, on 31 December 2005, by:

- António Rios de Amorim (Chairman);
- José Fernando Maia de Araújo e Silva;
- Jorge Viriato de Freitas Barros Diniz Santos.

The Activity of this Commission makes it possible to drive internal control systems, introducing continuous evaluations and implement actions intended to improve the levels of performance of the business, as well as contribute to more effective detection of risks linked to the activity, as presented in paragraphs 1 and 3 of Chapter 1 of the present Report.

### **3. Exercise of functions by the administrative body of the company.**

The Board of Directors of CORTICEIRA AMORIM is responsible for the effective control in directing the activity of the company, being the body competent to take decisions of a strategic nature.

There is no specific delimitation of competences between the Chairman of the Board of Directors and the Executive Commission, apart from that deriving from Law. Currently, the role of Chairman of these two organisms is carried out by the same person, although this is through choice, not imposed by law or statute.

The Executive Commission is prohibited from making decisions which, in legal terms, cannot be delegated by the Board of Directors, namely, the co-opting of administrators, the request for the convocation of general meetings, annual reports and accounts, to stand bail or give personal or real guarantees on behalf of the company, change headquarters, increase capital, mergers, demergers and transformations of companies.

The conditions of procedures, decision-making procedures, interaction and reporting are guaranteed, so that the Board of Directors is at all times informed of relevant matters, and decisions taken by the Executive Commission. No list has been drawn up of conflicts of interest between exercising the role of company director and any other roles carried out in other companies or organisations, just as no limit has been set for the number of positions that may be accumulated.

### **4. Remuneration policy.**

The remuneration of the Administration is structured in such a way as to promote the alignment of the board members' interests with the company's interests, on a fixed basis, with a variable component which derives from the results of the activity carried out and the economic and financial situation of the Company.

### **5. Remuneration received by the group of members of the administrative body.**

The group of members of the Board of Directors who, in the terms of paragraph 1 of Chapter IV of the present Report, carry out executive duties, received remunerations amounting to 753,000 euros, (639 thousand euros of fixed remuneration and 114 thousand variable remuneration), for the performance of duties either in the administrative body of CORTICEIRA AMORIM or in the administrative bodies of associated or affiliated companies that constitute that company. The non-executive members of this body are not remunerated.

### **6. Description of general lines of policy of communicating irregularities that have allegedly occurred in the company.**

CORTICEIRA AMORIM does not have a formal policy for communicating irregularities in terms of the CMVM recommendation. However, giving due consideration to the importance of the interests which this matter seeks to safeguard, the Board of Directors is giving due thought to the means most suitable for such communications, in order to ensure the protection of data and workers, as well as the attribution of competences for receiving communications and overseeing this practice.



## **CORTICEIRA AMORIM, S.G.P.S., S.A.**

### **Holding company (Sociedade Gestora de Participações Sociais)**

#### **Information for the year ended as of 31st December 2005**

### **1. - CORTICEIRA AMORIM, S.G.P.S., S.A. SHARES HELD AND/OR TRADED BY THE BOARD MEMBERS**

As established by article 447 of the Portuguese Companies Act, it is stated that:

- i) The Board Member Mr José Américo Amorim Coelho held on 1<sup>st</sup> January 122,073 shares of Corticeira Amorim, S.G.P.S., S.A.. In the stock exchange session of 30 September 2005 he sold 101,734 shares at the average calculated price of 1.40 euros. Having not acquired in the year of 2005 any Company share, on 31<sup>st</sup> December 2005, he held 20,339 Corticeira Amorim, S.G.P.S., S.A. shares.
- ii) The Board Member Mr Rui Miguel Duarte Alegre continues to hold 666 company shares; he did not trade any share during 2005;
- iii) The remaining Board Members do not own, nor have traded any company share capital.

### **2 - STOCKHOLDERS HOLDING MORE THAN 10% OF THE SHARES**

In compliance with article no. 448 of the Portuguese Companies Act it is stated that at 31<sup>st</sup> December 2005, Amorim Capital - Sociedade Gestora de Participações Sociais, S.A., holds 90,162,161 shares of CORTICEIRA AMORIM, S.G.P.S., S.A., corresponding to 67.791% of the shares and 69.109% of the voting rights.

### **3 - MAJOR STOCKHOLDERS**

Major stockholders, as of 31<sup>st</sup> December 2005:

<b>Stockholders</b>	<b>Number of Shares</b>	<b>Percentage of voting rights</b>
Amorim Capital - Sociedade Gestora de Participações Sociais, S.A.	90,162,161	69.109%
Luxor - Sociedade Gestora de Participações Sociais, S.A.	3,069,230	2.352%
Millennium BCP - Investimentos - Fundos Mobiliários, S.A.(*)	3,468,197	2.658%
Portus Securities - Sociedade Corretora, Lda.	8,500,000	6.515%
<i>Directamente</i>	<i>7,500,000</i>	<i>5.749%</i>
<i>Via Accionista/Gestor</i>	<i>1,000,000</i>	<i>0.766%</i>
Deutsche Bank AG	7,000,000	5.365%

(\*) Company previously denominated AF - Investimentos - Fundos Mobiliários, S.A., and in representation of the funds managed by it.

As of 31<sup>st</sup> December 2005, Amorim Investimentos e Participações, S.G.P.S., S.A., has an indirect financial stake in CORTICEIRA AMORIM, S.G.P.S., S.A., of 90,162,161 shares which correspond to 69.109% of the voting rights. The above mentioned indirect stake is held through Amorim Capital - Sociedade Gestora de Participações, S.A..

As of 31<sup>st</sup> December 2005, 100% of Amorim - Investimentos e Participações, S.G.P.S., S.A., is held by Interfamília II, S.G.P.S., S.A..

It should be mentioned that on 31<sup>st</sup> December 2005 the Company possessed 2,535,857 shares of treasury stock.

Mozelos, 24 February 2006

The Board of Directors

## CONSOLIDATED FINANCIAL STATEMENTS





## a) CONSOLIDATED BALANCE SHEET

Thousand euros

Assets	Notes	December 2005 IFRS	December 2004 IFRS	December 2004 POC
Property, plant and equipment	VI	170,387	172,063	157,036
Investment property		2,282	2,393	2,393
Goodwill	VII	13,618	13,140	29,053
Investments in associates		296	1,012	590
Intangible assets	VI	31	51	4,040
Other financial assets		937	1,097	1,991
Deferred tax assets	VIII	12,787	12,940	12,116
Other non current assets		596	614	0
<b>Non-current assets</b>		<b>200,934</b>	<b>203,311</b>	<b>207,219</b>
Inventories	IX	205,346	204,045	204,559
Trade receivables	X	100,230	87,305	88,251
Current tax assets	XI	23,550	21,161	20,391
Other current assets	XII	11,173	9,008	9,633
Cash and cash equivalents		8,666	8,306	8,339
<b>Current assets</b>		<b>348,965</b>	<b>329,825</b>	<b>331,173</b>
<b>Total Assets</b>		<b>549,899</b>	<b>533,136</b>	<b>538,392</b>
<b>Equity</b>				
Share capital	XIII	133,000	133,000	133,000
Own shares	XIII	-2,402	-2,366	-2,366
Other reserves	XIII	62,085	49,916	63,664
Net Income		15,747	15,160	10,032
Minority interest		11,753	8,146	8,164
<b>Equity</b>		<b>220,183</b>	<b>203,856</b>	<b>212,494</b>
<b>Liabilities</b>				
Interest-bearing loans	XIV	122,324	81,595	78,938
Other borrowings and creditors	XV	5,734	12,126	14,571
Provisions	XXI	4,836	4,499	5,005
Deferred tax liabilities	VIII	4,532	4,997	1,438
<b>Non-current liabilities</b>		<b>137,426</b>	<b>103,217</b>	<b>99,952</b>
Interest-bearing loans	XIV	105,024	146,241	146,106
Trade payables		41,418	37,299	40,076
Other borrowings and creditors	XV	36,373	33,357	31,381
Tax liabilities		9,474	9,167	8,383
<b>Current liabilities</b>		<b>192,290</b>	<b>226,064</b>	<b>225,946</b>
<b>Total Liabilities and Equity</b>		<b>549,899</b>	<b>533,136</b>	<b>538,392</b>

**b) EARNINGS STATEMENT**  
**I. OF THE YEAR**

Thousand euros

	Notes	12M2005 IFRS	12M2004 IFRS	12M2004 POC
Sales	V	428,010	426,809	429,477
Costs of goods sold and materials consumed		215,456	224,643	227,791
Change in manufactured inventories		-4,805	2,597	2,573
<b>Gross Margin</b>		<b>207,749</b>	<b>204,763</b>	<b>204,259</b>
		49.1%	47.7%	47.3%
Third party supplies and services		69,764	68,560	63,148
Staff costs	XVI	93,808	91,105	90,016
Depreciation	VI	22,698	21,817	28,680
Impairments of assets		936	1,118	1,567
Other gains (+) and cost (-)	XVII	6,269	3,088	-908
<b>EBIT</b>		<b>26,812</b>	<b>25,251</b>	<b>19,940</b>
Net interest	XVIII	-7,429	-7,495	-7,915
Share of (loss)/profit of associates		1	133	82
Extraordinary results				692
<b>Profit before tax</b>		<b>19,384</b>	<b>17,889</b>	<b>12,799</b>
Income tax	VIII	2,865	2,135	2,165
<b>Profit after tax</b>		<b>16,519</b>	<b>15,754</b>	<b>10,634</b>
Minority interest		773	594	602
<b>Net Income</b> attributable to the equity holders of Corticeira Amorim		<b>15,747</b>	<b>15,160</b>	<b>10,032</b>
<b>Earnings per share - Basic and Diluted</b> (euros per share)		<b>0.121</b>	<b>0.116</b>	<b>0.077</b>

	4Q2005 IFRS	4Q2004 IFRS	4Q2004 POC
Sales	99,822	93,995	94,735
Costs of goods sold and materials consumed	50,068	49,672	51,746
Change in manufactured inventories	-839	5,441	5,417
<b>Gross Margin</b>	<b>48,915</b>	<b>49,764</b>	<b>48,406</b>
	49.4%	50.0%	48.3%
Third party supplies and services	17,062	21,317	16,271
Staff costs	23,758	23,040	23,462
Depreciation	5,868	4,909	7,083
Impairments of assets	-335	-172	511
Other gains (+) and cost (-)	3,814	3,065	1,388
<b>EBIT</b>	<b>6,376</b>	<b>3,737</b>	<b>2,467</b>
Net interest	-1,887	-1,401	-1,857
Share of (loss)/profit of associates	-11	51	0
Extraordinary results			1,082
<b>Profit before tax</b>	<b>4,478</b>	<b>2,387</b>	<b>58</b>
Income tax	-176	-856	-547
<b>Profit after tax</b>	<b>4,654</b>	<b>3,243</b>	<b>605</b>
Minority interest	248	-103	-103
<b>Net Income</b> attributable to the equity holders of Corticeira Amorim	<b>4,406</b>	<b>3,346</b>	<b>1,790</b>
<b>Earnings per share - Basic and Diluted (euros per share)</b>	<b>0.034</b>	<b>0.026</b>	<b>0.018</b>

## BY FUNCTION

Thousand euros

	12M2005 IFRS	12M2004 IFRS
Sales	428,010	426,809
Cost of Sales	306,565	306,539
<b>Gross margin</b>	<b>121,445</b>	<b>120,270</b>
Marketing and Sales Costs	32,581	31,415
Distribution	22,462	22,916
Support Areas	32,402	30,868
Other Operating Gains (+) and Losses (-)	-7,188	-9,820
<b>Operating Results</b>	<b>26,812</b>	<b>25,251</b>
Net Interest	-7,429	-7,495
Gains (Losses) in Associates	1	133
<b>Profit before Tax</b>	<b>19,384</b>	<b>17,889</b>
Income Tax	2,865	2,135
<b>Profit after Tax</b>	<b>16,519</b>	<b>15,754</b>
Extraordinary Results		
Minority Interest	773	594
<b>Net Income</b> attributable to the equity holders of Corticeira Amorim	<b>15,747</b>	<b>15,160</b>
<b>Net Profit per Share - Basic and Diluted</b> - euros per share	<b>0.121</b>	<b>0.116</b>

## c) CONSOLIDATED CASH FLOW STATEMENT

Thousand euros

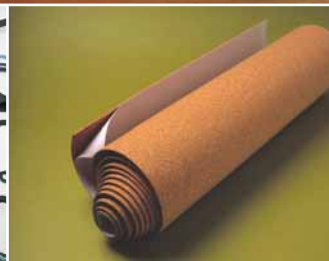
CASH FLOW STATEMENT				
OPERATING ACTIVITIES:		December 2005	December 2004	
Collections from customers	+	461,776	460,547	
Payments to suppliers	-	- 361,204	- 311,689	
Payments to employees	-	- 93,190	- 91,810	
<b>Operational cash flow</b>		<b>7,382</b>	<b>57,048</b>	
Payments/collections - income tax	+	- 1,672	- 940	
Other collections/payments related with operational activities	+	25,895	16,940	
<b>Cash flow before extraordinary items</b>		<b>+</b>	<b>31,605</b>	<b>73,048</b>
<b>INVESTMENT ACTIVITIES:</b>				
Collections due to:				
Tangible assets		3,545	1,194	
Investment property		334	0	
Dividends		0	26	
Investment subsidies		726	2,260	3,480
Payments due to:				
Tangible assets		- 17,227	- 15,540	
Financial investments		- 948	- 373	- 15,913
<b>Cash flow from investments</b>		<b>- 13,570</b>	<b>- 12,433</b>	
<b>FINANCIAL ACTIVITIES:</b>				
Payments due to:				
Loans		- 6,078	- 51,041	
Interests and similar expenses		- 7,775	- 8,181	
Dividends		- 4,928	- 104	
Acquisition of treasury stock		- 4	- 126	- 59,452
<b>Cash flow from financing</b>		<b>- 18,785</b>	<b>- 59,452</b>	
<b>Change in cash</b>		<b>- 749</b>	<b>1,163</b>	
<b>Exchange rate effect</b>		<b>454</b>	<b>-28</b>	
<b>Perimeter effect</b>		<b>654</b>	<b>-14</b>	
<b>Cash at beginning</b>		<b>8,306</b>	<b>7,185</b>	
<b>Cash at end</b>		<b>8,666</b>	<b>8,306</b>	

# d) CHANGES IN EQUITY CONSOLIDATED STATEMENT

Thousand euros

	Balance Beginning	New cies	Appropriation of N-1 profit	Dividends	Net Profit N	Increases	Decreases	Translation Differences	Change in Consolidation Method	End Balance
<b>December 31<sup>st</sup>, 2005</b>										
<b>Equity:</b>										
Share Capital	133,000	-	-	-	-	-	-	-	-	133,000
Treasury Stock - Face Value	-2,530	-	-	-	-	-60	55	-	-	-2,535
Treasury Stock - Discounts and Premiums	164	-	-	-	-	-12	-18	-	-	134
Paid-in Capital	38,893	-	-	-	-	-	-	-	-	38,893
IFRS Transition Adjustments	-14,271	-	-	-	-	-	1,406	-155	-	-13,020
Hedge Accounting	-41	-	-	-	-	76	-17	-	-	18
Reserves										
Legal Reserve	6,538	-	907	-	-	-	-	-	-	7,445
Other Reserves	19,799	-	14,253	-4,564	-	-1,437	-	-	-	28,051
Translation Difference	-1,003	-	-	-	-	-	-	1,701	-	698
	180,549	0	15,160	-4,564	0	-1,433	1,426	1,546	0	192,684
<b>Net Profit for the Year</b>	15,160	-	-15,160	-	15,747	-	-	-	-	15,747
<b>Minority interests</b>	8,146	1,322	0	-245	773	-	-	1,244	512	11,752
<b>Total Equity</b>	203,856	1,322	0	-4,809	16,520	-1,433	1,426	2,790	512	220,184
<b>December 31<sup>st</sup>, 2005</b>										
<b>Equity:</b>										
Share Capital	133,000	-	-	-	-	-	-	-	-	133,000
Treasury Stock - Face Value	-2,450	-	-	-	-	-933	853	-	-	-2,530
Treasury Stock - Discounts and Premiums	501	-	-	-	-	-168	-169	-	-	164
Paid-in Capital	38,893	-	-	-	-	-	-	-	-	38,893
IFRS Transition Adjustments	-14,355	-	-	-	-	-	-	84	-	-14,271
Hedge Accounting	0	-	-	-	-	-	-41	-	-	-41
Reserves										
Legal Reserve	6,538	-	-	-	-	-	-	-	-	6,538
Other Reserves	19,407	-	-	-	-	392	-	-	-	19,799
Translation Difference	-	-	-	-	-	-	-	-1,003	-	-1,003
	181,534	0	0	0	0	-709	644	-919	0	180,549
<b>Net Profit for the Year</b>	-	-	-	-	15,160	-	-	-	-	15,160
<b>Minority interests</b>	7,282	498	-	-104	594	-	-134	10	-	8,146
<b>Total Equity</b>	188,816	498	0	-104	15,754	-709	510	-910	0	203,855

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS







## INTRODUCTION

05

At the beginning of 1991, Corticeira Amorim, S.A. was transformed into CORTICEIRA AMORIM, S.G.P.S., S.A., the holding company for the cork business sector of the Amorim Group. In this report, CORTICEIRA AMORIM will be the designation of CORTICEIRA AMORIM, S.G.P.S., S.A., and in some cases the designation of CORTICEIRA AMORIM, S.G.P.S., S.A. together with all of its subsidiaries.

CORTICEIRA AMORIM, directly or indirectly, holds no interest in land properties used to grow and explore cork tree. Cork tree is the source of cork, the main raw material used by CORTICEIRA AMORIM production units. Cork acquisition is made in an open market, with multiple agents, both in the demand side as in the supply side.

CORTICEIRA AMORIM is mainly engaged in the acquisition and transformation of cork into a numerous set of cork and cork related products, which are distributed worldwide through its network of sales company.

CORTICEIRA AMORIM is a Portuguese company with a registered head office in Mozelos, Santa Maria da Feira. Its share capital amounts to 133 millions euros, and is represented by 133 millions shares, which are publicly traded in the Euronext Lisboa - Sociedade Gestora de Mercados Regulamentados, S.A..

These financial statements were approved in the Board Meeting of February 24, 2006.

Except when mentioned, all monetary values are stated in thousand euros (Thousand euros = K euros = K€).

Some figures of the following notes may present very small differences not only when compared with the total sum of the parts, but also when compared with figures published in other parts of this report. These differences are due to rounding aspects of the automatic treatment of the data collected.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

#### **a. Basis of presentation**

Consolidated statements were prepared based on a going concern basis and using the records as stated in the companies' books, which adopted Portuguese general accepted accounting principles. Accounting adjustments and reclassifications were made in order to comply with accounting policies followed by the IFRS, as adopted by the European Union (IAS - International Accounting Standards and the IFRS - International Financial Reporting Standards) and legal for use as of January 1, 2005. The transition date from the local GAAP was January 1, 2004. For comparison purposes 2004 and all of its interim consolidated financial statements were re-expressed into the IAS / IFRS principles.

#### **b. Consolidation**

##### **Group companies**

Group companies, often designated as subsidiaries, are entities over which CORTICEIRA AMORIM has a shareholding of more than one half of its voting rights, or has the power to govern its management, namely its financial and operating policies.

Group companies are consolidated line by line, being the position of third-party interests in the shareholding of those companies stated in the balance sheet in the "Minority Interests" account. Date of first consolidation or de-consolidation is, in general, the beginning or the end of the quarter when the conditions for that purpose are fulfilled.

Losses for the period that are attributable to Minority Interests will be debited to the Minority Interest account until its balance equals to zero, being all subsequent losses fully attributed to CORTICEIRA AMORIM. In subsequent reversal of losses, all profits will be attributed to CORTICEIRA AMORIM up to the full recovery of prior losses appropriated. Afterwards the usual appropriation of results between CORTICEIRA AMORIM and third-party interests will be reassumed.

In the rare case where the minority part has the obligation to share its portion for the losses after its balance sheet account is cancelled, a receivable will be recorded in the consolidated Balance sheet.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

### Equity companies

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill. Future impairments of goodwill will be adjusted against the carrying amount of investments. The Group's share of its associates post-acquisition profits or losses is recognised in the income statement, in the "Gain/(losses) in associates" account, and its share of post-acquisition movements in reserves is recognised in reserves. The carrying amount is also adjusted by dividends received. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the group does not recognise further losses, unless it has incurred obligation on behalf of the associate, in this case the liabilities will be recorded in a "Provisions" account.

### c. Foreign currency translation

Consolidated financial statements are presented in thousands of euros. Euro is the legal currency of CORTICEIRA AMORIM, S.G.P.S., S.A., and is the currency in which two thirds of its business is made and so Euro is considered to be its functional and presentation currency.

Assets and liabilities denominated in foreign currency are translated to euros using year-end exchange rates. Net exchange differences arising from the different rates used in transactions and the rate used in its settlements is recorded in the income statement.

Assets and liabilities from non-euro subsidiaries are translated at the balance sheet date exchange rate, being its costs and gains from the income statement translated at the average exchange rate for the period / year.

Exchange differences arising from the said different exchange rates used in the translation of non-euro financial statements was registered in an Equity account, "cumulative translation differences". As allowed by the IFRS 1, 22, a), the carried amount of this account, as of December 31, 2003, was cancelled and, consequently, included in the "Reserves" account as of January 1, 2004.

At this date, exchange rates as of December 31, 2003 were considered to be the initial exchange rate to be used in the translation of all asset, liability and equity account as of December 31, 2003, of all non-euro subsidiaries.

#### **d. Tangible Fixed Assets**

Tangible fixed assets are originally their respective historical cost (including attributable expenses) or production cost, including, whenever applicable, interest costs incurred throughout the respective construction or start-up period, which are capitalised until the asset begins operating.

As part of the allocation of the fair value to the identifiable assets and liabilities in an acquisition process (IFRS 3), land and buildings of the subsidiaries as of January 1, 1991, were revalued by independent experts. Same procedure was followed for companies acquired later than that date. As of December 31, 2005, net impact of the referred revaluation amounted to 17 million euros, of which 14.6 million refers to land.

Under IFRS 1, 16, and as of January 1, 2004, some of the relevant industrial equipment, fully, or in the near-term, depreciated, and of which is expected a medium or long term use, was subject to a revaluation process. Impact in the fixed assets account was 14.4 million euros.

Depreciation is calculated on the straight-line basis, over the following years, which represent a reasonable estimate of the useful lives:

##### **Number of years**

Buildings	20 to 50
Plant machinery	6 to 10
Motor vehicles	4 to 7
Office equipment	4 to 8

Depreciation is charged since the financial year in which the asset is brought into use. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Current maintenance on repair expenses are charged to the actual income statement in which they occurred. Cost of operations that can extend the useful expected life of an asset, or from which are expected higher and significative future benefits, are capitalized.

An asset's carrying amount is written down to its recoverable amount and charged to the income statement if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses and disposals are included in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to reserves.

**e. Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. If positive, will be included as an asset in the “goodwill” account, if it refers to a subsidiary; if it refers to an associate it will be included in the amount of the cost of acquisition. If negative, it will be registered as a gain for the period. Goodwill will be tested annually for impairment; impairment losses will be charged to the income statement and, consequently, its carrying amount adjusted.

**f. Inventories**

Inventories are valued at the lower of acquisition cost or production cost and net realisable value. Acquisition cost includes direct and indirect expenses incurred in order to have those inventories at its present condition and place. Where the net realisable value is lower than production cost, an adjustment is made to reduce inventories to this lower value. This adjustment will be reversed or reduced whenever the impairment situation no longer takes place.

Year-end quantities are determined based on the accounting records, which are confirmed by the physical inventory taking. Raw materials, consumables and by-products are valued at weighted average cost, and finished goods and work-in-progress at the average production cost which includes direct costs and indirect costs incurred in production.

**g. Trade receivables**

Trade receivables are registered initially at cost, adjusted for any subsequent impairment losses which will be charged to the income statement.

Medium and long term receivables will be measured at amortised cost using the effective interest rate of CORTICEIRA AMORIM for similar periods.

**h. Cash and cash equivalents**

Cash includes cash in hand, deposits held at call in banks, time deposits and other no-risk short term investments with original maturities of three months or less. Bank overdrafts are recorded within the interest bearing loans line in the current liabilities on the balance sheet.

**i. Interest bearing loans**

Includes interest bearing loans amounts. Any costs attributable to the lender, will be deducted to the loan amount and charged, during its life, using the effective interest rate.

Interests are usually charged to the income statement as they occur. Interests arising from loans related with capital expenditure for periods longer than 12 months will be capitalised and charged to the specific asset under construction. Capitalisation will cease when the project is complete or suspended.

#### **j. Income taxes - current and deferred**

Except for companies included in groups of fiscal consolidation, income tax is calculated separately for each subsidiary, on the basis of its net result for the period adjusted according to tax legislation.

In the consolidated financial statements differences between the tax due for the current period and prior periods and the tax already paid or to be paid by each of the group companies are registered whenever it is likely that, on an individual company basis, a deferred tax will have to be paid or to be recovered in the foreseeable future (liability method).

#### **k. Employee benefits**

CORTICEIRA AMORIM Portuguese employees benefit, generally, from defined contribution plan that is complementary to the national welfare plan.

Employees from foreign subsidiaries (about 25% of total CORTICEIRA AMORIM) or are covered exclusively by local national welfare plans or benefit from complementary plans, being it defined contribution plans or defined benefit plans.

As for the defined contribution plans, contributions are recognised as employee benefit expense when they are due. The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation, less the fair value of plan assets, as calculated annually by pension fund experts.

CORTICEIRA AMORIM recognises a liability and an expense for bonuses attributable to a large number of directors. These benefits are based on estimations that take in account the accomplishment of both individual goals and a pre-established CORTICEIRA AMORIM level of profits.

#### **l. Provisions**

Provisions are recognised when CORTICEIRA AMORIM has a present legal or constructive obligation as a result of past events, when it is more likely than not an outflow of resources will be required to settle the obligation and when a reliable estimation is possible.

Provisions are not recognised for future operating losses. Restructuring provisions are recognised with a formal detail plan and when third parties affected are informed.

### **m. Revenue recognition**

Revenue comprises the value of the consideration received or receivable for the sale of goods and finished products. Revenue is shown, net of value-added tax, returns, rebates, and discounts, including cash-discounts. Revenue is also adjusted by any prior period's sales corrections.

Services rendered are immaterial and, generally, are refunds of costs related with finished product sales.

Sales revenue is recognised when the significant risk and rewards of ownership of the goods are transferred to the buyer and its amount can be reliably measured. Revenue receivable after one year will be discounted to its fair value.

### **n. Government grants**

Grants received are related generally with fixed assets expenditure. No-repayable grants are present in the balance sheet as deferred income, and recognised as income on a systematic basis over the useful life of the related asset. Repayable interest bearing grants are presented as interests bearing debt; if no-interest bearing, they are presented as "Other borrowings". Medium and long term no-interest bearing repayable grants are presented with its net present value, using an interest discount rate similar to CORTICEIRA AMORIM interest bearing debt for same period.

### **o. Leasing**

When a contract indicates that the significant risks and rewards of the ownership of the asset are transferred to CORTICEIRA AMORIM, leasing contracts will be considered as financial leases.

All other leasing contracts are treated as operating leases. Payments made under operating leases are charged to the income statement.

### **p. Derivative financial instruments**

CORTICEIRA AMORIM uses derivatives financial instruments as forward and spot exchange rate contracts, options and swaps; these are intended to hedge its business financial risks and are not used for speculative purposes. CORTICEIRA AMORIM accounts for these instruments as hedge accounting, following all its standards. Dealing is carried out by a central treasury department (dealing room) on behalf of the subsidiaries, under policies approved by the Board of Directors.

Derivatives are initially recorded at cost and subsequently re-measured at their fair value.

The method of recognising is as follows:

■ **Fair value hedge**

Changes in the fair value of derivatives that qualify as fair value hedges and that are expected to be highly effective, are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

■ **Cash flow hedge**

Changes in the fair value of derivatives that qualify as cash flow edges and that are expected to be highly effective, are recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

■ **Net investment hedge**

For the moment, CORTICEIRA AMORIM is not considering any foreign exchange hedge over its net investments in foreign units (subsidiaries).

CORTICEIRA AMORIM has fully identified the nature of its activities' risk exposure and documents entirely and formally each hedge; uses its information system to guarantee that each edge is supported by a description of: risk policy, purpose and strategy, classification, description of risk, identity of the instrument and of the risk item, description of initial measurement and future efficiency, identification of the possible derivative portion which will be excluded from the efficiency test. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, or the forecasted transaction no longer remains highly provable or simply is abandoned, or the decision to consider the transaction as a hedge, the company will de-recognised the instrument.



# COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

# 05

COMPANY		HEAD OFFICE	COUNTRY	2005
<b>Raw Materials</b>				
Amorim Florestal Espanha, S.A.		San Roque Cádiz	SPAIN	100%
Amorim Florestal - Indústria, Comércio e Exploração, S.A.		Vale de Cortiças - Abrantes	PORTUGAL	100%
Amorim Florestal Catalunya, SL		Cassa de la Selva Girona	SPAIN	100%
Amorim & Irmãos VII, SRL		Tempio Pausania	ITALY	100%
Amorim & Irmãos, S.A. (Matérias Primas)	(a)	Ponte Sôr	PORTUGAL	100%
Cork Consulting		Tabarka	TUNISIA	50%
Amorim & Irmãos - IV, S.A.		Alcântara	SPAIN	100%
Cork International, SARL		Tabarka	TUNISIA	66%
Comatral - C. de Marocaine de Transf. du Liège, S.A.		Skhirat	MOROCCO	100%
Société Fabrique Liège de Tabarka, S.A.	(j)	Tabarka	TUNISIA	49%
SIBL - Société Industrielle Bois Liège		Jijel	ALGERIA	51%
Société Nouvelle du Liège, S.A. (SNL)		Tabarka	TUNISIA	100%
Société Tunisienne d'Industrie Bouchonnière	(i)	Tabarka	TUNISIA	45%
Amorim Florestal España, SL		San Roque Cádiz	SPAIN	100%
<b>Cork Stoppers</b>				
Amorim Benelux, BV - A&I	(b)	Tholen	NETHERLANDS	88%
Auscork Holding, GmbH		Viena	AUSTRIA	100%
Amorim Cork South Africa		Cape Town	SOUTH AFRICA	100%
Amorim France, S.A.S.		Champfleury	FRANCE	100%
Amorim & Irmãos, S.G.P.S., S.A.		Santa Maria Lamas	PORTUGAL	100%
Amorim & Irmãos, S.A.	(a)	Santa Maria Lamas	PORTUGAL	100%
Aplifin - Aplicações Financeiras, S.A.		Mozelos - Sta. Maria da Feira	PORTUGAL	100%
Amorim Argentina, S.A.		Tapiales - Provincia de Buenos Aires	ARGENTINA	100%
Chamcork - Rolhas de Champanhe, S.A.	(m)	Santa Maria de Lamas	PORTUGAL	100%
M. Clignet & Cie		Bezannes	FRANCE	100%
Carl Ed. Meyer Korken		Delmenhorst	GERMANY	100%
Indústria Corchera, S.A.	(j)	Santiago	CHILE	49%
Amorim Cork Austrália, Pty Ltd		Vic	AUSTRALIA	100%
Equipar - Indústria de Cortiça, S.A.	(h)	Coruche	PORTUGAL	50%
Equipar, Participações Integradas, S.G.P.S., Lda.	(h)	Coruche	PORTUGAL	50%
Equipar - Rolha Natural, S.A.	(h)	Coruche	PORTUGAL	50%
Amorim Cork América, Inc.		California	UNITED STATES	100%
FP Cork, Inc.		California	UNITED STATES	100%
Hungarocork, Amorim, RT		Budapest	HUNGARY	100%
Inter Champanhe - Fabricante de Rolhas de Champanhe, S.A.		Montijo	PORTUGAL	100%
Amorim Cork Itália, SPA		Conegliano	ITALY	70%
Amorim Cork Deutschland GmbH & Co KG		Mainzer	GERMANY	100%
KHB - Kork Handels Beteiligung, GMBH		Delmenhorst	GERMANY	100%
Korken Schiesser Ges.M.B.H.		Viena	AUSTRIA	69%
Oenorope	(l)	Marselha	FRANCE	100%
Portocork Internacional, S.A.	(m)	Santa Maria Lamas	PORTUGAL	100%
Portocork América, Inc.		California	UNITED STATES	100%
S.C.I. Friedland		Céret	FRANCE	100%
Vasconcelos & Lyncke, S.A.	(m)	Santa Maria de Lamas	PORTUGAL	100%
Victor y Amorim, SI	(g)	Navarrete - La Rioja	SPAIN	50%
<b>Floor an Wall Coverings</b>				
Amorim Benelux, BV - AR	(b)	Tholen	NETHERLANDS	88%
Amorim Cork GmbH		Delmenhorst	GERMANY	100%
Amorim Cork Distribution Netherlands BV		Tholen	NETHERLANDS	100%
Amorim Revestimentos, S.A.		Lourosa	PORTUGAL	100%
Amorim Wood Supplies, GmbH		Bremen	GERMANY	100%
Corticeira Amorim - France SAS - AR	(c)	Lavardac	FRANCE	100%
Amorim Revestimientos, S.A.		Barcelona	SPAIN	100%
Amorim Deutschland, GmbH & Co. KG - AR	(d)	Delmenhorst	GERMANY	100%
Dom Korkowy, Sp. Zo. O.	(j)	Krakow	POLAND	50%
Amorim Flooring North America Inc		Hanover - Maryland	UNITED STATES	100%
Amorim Flooring Austria GesmbH - AR	(f)	Viena	AUSTRIA	100%
Amorim Flooring Nordic A/s		Greve	DENMARK	100%
Amorim Flooring (Switzerland) AG		Zug	SWITZERLAND	100%

<b>Composite Cork</b>				
Amorim Benelux, BV - CAI	(b)	Tholen	NETHERLANDS	88%
Corticeira Amorim - France SAS - CAI	(c)	Lavardac	FRANCE	100%
Corticeira Amorim Indústria, S.A.		Mozelos - Sta. Maria da Feira	PORTUGAL	100%
Amorim Deutschland, GmbH & Co. KG - CAI	(d)	Delmenhorst	GERMANY	100%
Drauvil Europea, SL		San Vicente Alcantara	SPAIN	100%
Amorim Industrial Solutions Inc. - CAI	(e)	Trevor Wisconsin	UNITED STATES	100%
Amorim Flooring Austria GesmbH - CAI	(f)	Viena	AUSTRIA	100%
<b>Cork Rubber</b>				
Amorim (UK) Ltd.		Horsham West Sussex	UNITED KINGDOM	100%
Amorim Industrial Solutions - Indústria de Cortiça e Borracha II, S.A.		Mozelos - Sta. Maria da Feira	PORTUGAL	100%
Amorim Industrial Solutions - Indústria de Cortiça e Borracha I, S.A.		Corroios	PORTUGAL	100%
Amorim Industrial Solutions Inc. - BOR	(e)	Trevor Wisconsin	UNITED STATES	100%
Samorim (Joint Stock Company Samorim)	(i)	Samara	RUSSIAN FEDERATION	50%
Amorim Industrial Solutions, S.G.P.S., S.A.		Mozelos - Sta. Maria da Feira	PORTUGAL	100%
<b>Insulating Cork</b>				
Amorim Isolamentos II, Lda.		Mozelos - Sta. Maria da Feira	PORTUGAL	80%
Amorim Isolamentos, S.A.		Mozelos - Sta. Maria da Feira	PORTUGAL	80%
<b>Holding - Other</b>				
Corticeira Amorim, S.G.P.S., S.A.		Mozelos - Sta. Maria da Feira	PORTUGAL	100%
Ginpar, S.A. (Générale d' Investissements et Participation)		Skhirat	MOROCCO	100%
Labcork - Laboratório Central do Grupo Amorim, Lda.		Mozelos - Sta. Maria da Feira	PORTUGAL	100%
Moraga - Comércio e Serviços, S.A.		Funchal - Madeira	PORTUGAL	100%
Sopac - Sociedade Portuguesa de Aglomerados de Cortiça, Lda.		Montijo	PORTUGAL	100%
Vatrya - Serviços de Consultadoria, Lda.		Funchal - Madeira	PORTUGAL	100%

- (a) The company belongs simultaneously to Cork Stoppers BU (Salgueiro, ex-Manuel Pereira de Sousa, ex-Raro, ex-Amorim & Irmãos II, ex-Amorim Plus and ex-Interchampanhe) and Raw Materials BU (Ponte Sôr Unit, Coruche and ex-Discork).
- (b) One single company: Amorim Benelux, BV.
- (c) One single company: CORTICEIRA AMORIM - France SAS.
- (d) One single company: Amorim Deutschland, GmbH & Co. KG.
- (e) One single company: Amorim Industrial Solutions, Inc.
- (f) One single company: Amorim Flooring Austria GesmbH.
- (g) Previous consolidation method was the Equity Method. After January 2005 it consolidates according to the line-by-line method due to the fact that CORTICEIRA AMORIM, SGPS, SA controls the operations of the company.
- (h) Equipar group was acquired in the beginning of 2005. CORTICEIRA AMORIM controls the operations of the company.
- (i) Equity method consolidation.
- (j) CORTICEIRA AMORIM controls the operations of the company - line-by-line consolidation method.
- (l) Acquired at the end of 2005. Line-by-line consolidation method.
- (m) As of December 31, 2005, Champcork - Rolhas de Champanhe, S.A., Portocork Internacional, S.A., and Vasconcelos & Lyncke, S.A., were merged into Amorim & Irmãos, S.A.. Simultaneously was set-up Champcork - Rolhas de Champanhe, S.A. and Portocork Internacional, S.A..



## IV EXCHANGE RATES USED IN CONSOLIDATION

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EXCHANGE RATE CONSOLIDATION - DECEMBER 31, 2005		Year End	Average
Argentine Peso	ARS	3.58752	3.63416
Australian Dollar	AUD	1.6109	1.63196
Brazilian Real	BRL	2.744	3.03575
Canadian Dollar	CAD	1.3725	1.50873
Swiss Franc	CHF	1.5551	1.54828
Chilean Peso	CLP	608.53	696.795
Danish Krone	DKK	7.4605	7.45185
Algerian Dinar	DZD	86.065	89.3688
Euro	EUR	1.000	1.000
Pound Sterling	GBP	0.6853	0.6838
Forint	HUF	252.87	248.054
Yen	JPY	138.9	136.849
Moroccan Dirham	MAD	10.9152	11.0061
Metical	MZM	27.972,00	28.089,40
Norwegian Krone	NOK	7.985	8.0092
Zloty	PLN	3.86	4.02302
Ruble	RUB	34.0325	35.1865
Swedish Kronor	SEK	9.3885	9.28219
Tunisian Dinar	TND	1.6066	1.61023
US Dollar	USD	1.1797	1.24409
Rand	ZAR	7.4642	7.91834



## V SEGMENT REPORT

CORTICEIRA AMORIM is organised in the following Business Units (BU):

- Cork Stoppers
- Raw Materials
- Floor and Wall Coverings
- Composite Cork
- Cork Rubber
- Insulation Cork

For purposes of this Report, the Business approach was selected as the primary segment. This is consistent with the formal organization and evaluation of business. The following table shows the main indicators of the said units, and, whenever possible, the reconciliation with the consolidated indicators (values in thousand EUR):

	Raw Materials		Cork Stoppers		Floor & Wall Coverings		Composite Cork		Cork Rubber		Insulation Cork		Holding		Adjustments		Consolidated	
	12M04	12M05	12M04	12M05	12M04	12M05	12M04	12M05	12M04	12M05	12M04	12M05	12M04	12M05	12M04	12M05	12M04	12M05
Trade Sales	18,738	15,068	225,523	232,878	107,537	110,349	44,256	38,813	25,850	24,505	5,792	6,385	N/M	N/M			426,809	428,010
Other BU Sales	101,887	35,432	4,664	6,836	2,721	2,624	21,331	19,957	1,385	2,896	842	1,155	N/M	N/M	-133,129	-129,583		
<b>Total Sales</b>	<b>120,624</b>	<b>110,560</b>	<b>230,188</b>	<b>239,713</b>	<b>110,258</b>	<b>112,973</b>	<b>65,588</b>	<b>58,770</b>	<b>27,235</b>	<b>27,402</b>	<b>6,635</b>	<b>7,540</b>	<b>-590</b>	<b>635</b>	<b>-133,129</b>	<b>-129,583</b>	<b>426,809</b>	<b>428,010</b>
<b>EBIT(i)</b>	<b>4,920</b>	<b>8,932</b>	<b>10,586</b>	<b>10,620</b>	<b>8,268</b>	<b>8,381</b>	<b>5,358</b>	<b>4,870</b>	<b>-1,194</b>	<b>-4,127</b>	<b>256</b>	<b>921</b>	<b>-2,267</b>	<b>-2,122</b>	<b>-675</b>	<b>-661</b>	<b>25,252</b>	<b>26,812</b>
<b>Assets</b>	<b>159,591</b>	<b>153,368</b>	<b>203,226</b>	<b>221,452</b>	<b>87,422</b>	<b>91,913</b>	<b>49,861</b>	<b>51,470</b>	<b>27,231</b>	<b>27,571</b>	<b>3,673</b>	<b>9,891</b>	<b>N/M</b>	<b>N/M</b>	<b>-3,868</b>	<b>-5,766</b>	<b>533,136</b>	<b>549,899</b>
<b>Liabilities (ii)</b>	<b>27,785</b>	<b>26,832</b>	<b>38,832</b>	<b>45,539</b>	<b>17,889</b>	<b>19,741</b>	<b>10,064</b>	<b>10,761</b>	<b>9,263</b>	<b>11,617</b>	<b>2,080</b>	<b>2,881</b>	<b>N/M</b>	<b>N/M</b>	<b>223,368</b>	<b>212,345</b>	<b>329,281</b>	<b>329,716</b>
<b>Capex</b>	<b>2,510</b>	<b>2,197</b>	<b>6,620</b>	<b>6,091</b>	<b>3,325</b>	<b>4,778</b>	<b>1,548</b>	<b>1,322</b>	<b>1,083</b>	<b>1,248</b>	<b>320</b>	<b>319</b>	<b>7</b>	<b>147</b>	<b>-</b>	<b>-</b>	<b>15,413</b>	<b>16,102</b>
<b>Year Depreciation</b>	<b>-3,713</b>	<b>-3,810</b>	<b>-7,542</b>	<b>-8,817</b>	<b>-5,314</b>	<b>-4,749</b>	<b>-2,624</b>	<b>-2,907</b>	<b>-2,177</b>	<b>-2,006</b>	<b>-405</b>	<b>-349</b>	<b>-42</b>	<b>-60</b>	<b>-</b>	<b>-</b>	<b>-21,817</b>	<b>-22,698</b>
<b>Non-cash cost (iii)</b>	<b>-482</b>	<b>-39</b>	<b>-835</b>	<b>-471</b>	<b>519</b>	<b>-661</b>	<b>-166</b>	<b>-133</b>	<b>16</b>	<b>78</b>	<b>93</b>	<b>30</b>	<b>-9</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-863</b>	<b>-1,195</b>
<b>Gains/Losses in associated companies</b>	<b>-</b>	<b>2</b>	<b>129</b>	<b>-1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>133</b>	<b>1</b>

(i) Adjustments = eliminations inter-BU and amounts not allocated to BU.

(ii) EBIT = Profit before interests, minorities and income tax.

(iii) Provisions were considered the only relevant material cot.

The decision to report EBIT figures allows a better comparison of the different BU performances, disregarding the different financial situations of each BU. This is also coherent with the existing Corporate Departments, as the Financial Department is responsible for the bank negotiations, being the tax planning the responsibility of the Holding Company.

Cork Stoppers BU main product is the different kinds of existing cork stoppers. The main markets are the bottling countries, from the traditional ones like France, Italy, Germany, Spain and Portugal, to the new markets like USA, Australia, Chile, South Africa and Argentina.

Raw Materials BU is, by far, the most integrated in the production cycle of CORTICEIRA AMORIM, with 80% of its sales to others BU, specially to Cork Stoppers BU. Main products are bark and discs.

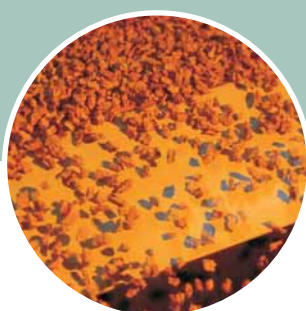
The remaining BU produce and sell a vast number of cork products made from cork stoppers waste. Main products are cork floor tiles, cork rubber for the automotive industry and antivibratic systems, black agglomerates for insulation and acoustic purposes, technical agglomerates for civil construction and shoe industry, as well as granulates for agglomerated, technical and champagne cork stoppers.

Major markets for flooring and insulation products are in Europe and for cork rubber products the USA. Major production sites are in Portugal, where most of the invested capital is located. Products are distributed in practically all major markets through a fully owned network of sales companies. About 70% of total consolidated sales are achieved through these companies.

## Sales by markets (values in thousand EUR):

Markets	2005	2004
European Union	263,164	259,852
<i>From which: Portugal</i>	<i>34,937</i>	<i>42,172</i>
Other European countries	17,315	16,069
United States	73,259	67,186
Other American countries	27,147	29,210
Australasia	35,940	41,449
Africa	10,952	12,982
Others	233	62
	<b>428,010</b>	<b>426,809</b>

Capex was concentrated in Portugal. Assets in foreign subsidiaries totalize 149 million euros, and are mostly composed by inventories in sales companies.



## VI TANGIBLE AND INTANGIBLE FIXED ASSETS

Thousand euros

	Land and Buildings	Plant Equipment	Other	Advances and In-progress	Tangible Fixed Assets	Intangible Fixed Assets
<b>December 2004</b>						
Gross Value	207,184	222,672	42,101	5,328	477,285	0
Depreciation and impairments	-109,235	-152,106	-34,607	-	-295,948	0
INITIAL BALANCE	97,949	70,566	7,494	5,328	181,337	0
IN COMPANIES	64	2	334	-	400	-
INCREASE	2,240	6,173	1,467	5,428	15,308	105
PERIOD DEPRECIATION AND IMPAIRMENTS	-6,186	-11,508	-3,656	-	-21,350	-54
SALES AND OTHER DECREASES	-986	-1,541	-398	-	-2,925	-
TRANSFERS AND RECLASSIFICATIONS	2,343	449	1,298	-3,883	209	-
TRANSLATION DIFFERENCES	-169	-213	-91	-18	-491	-
OUT COMPANIES	-262	-99	-56	-6	-423	-
				0		
Gross Value	209,711	224,075	42,758	6,849	483,393	105
Depreciation and impairments	-114,717	-160,246	-36,366	-	-311,330	-54
CLOSING BALANCE	94,993	63,829	6,392	6,849	172,063	51
<b>December 2005</b>						
Gross Value	209,711	224,075	42,758	6,849	483,393	105
Depreciation and impairments	-114,717	-160,246	-36,366	-	-311,330	-54
INITIAL BALANCE	94,993	63,829	6,392	6,849	172,063	51
IN COMPANIES	1,595	2,274	81	-	3,950	-
INCREASE	1,642	6,021	1,231	7,199	16,093	9
PERIOD DEPRECIATION AND IMPAIRMENTS	-6,751	-13,397	-2,467	-	-22,615	-29
SALES AND OTHER DECREASES	-731	-1,642	-213	-	-2,586	-
TRANSFERS AND RECLASSIFICATIONS	1,541	7,230	-579	-6,986	1,206	-
TRANSLATION DIFFERENCES	762	158	56	-	976	-
OUT COMPANIES	517	508	161	114	1,300	0
Gross Value	216,257	235,828	40,469	7,176	499,729	114
Depreciation and impairments	-122,688	-170,848	-35,807	-	-329,342	-83
CLOSING BALANCE	93,568	64,981	4,662	7,176	170,387	31



## VII GOODWILL

	Opening	Increases	Translation Differences	Closing
Raw material BU	3,775	314	1	4,090
Cork Stoppers BU	5,741	164	-	5,905
Flooring BU	3,624	-	-	3,624
<b>Goodwill</b>	<b>13,140</b>	<b>478</b>	<b>1</b>	<b>13,618</b>

As of December 31, 2005, Goodwill was tested for impairment purposes using the “discounted cash flow” method and a discount rate of 7%. No evidence of impairment was found.



## VIII INCOME TAX

The differences between the tax due for the current period and prior periods and the tax already paid or to be paid of said periods is registered as “deferred tax” in the consolidated income statement, according to note II j), and amounts to K€ -1,100 (2004: K€ 604).

On the Balance sheet this effect amounts to K€ 12,787 (31/12/2004: K€ 12,940) as Deferred tax asset, and to K€ 4,532 (31/12/2004: K€ 4,977) as Deferred tax liability.

It is conviction of the Board that, according to its business plan, the amounts registered in deferred tax assets will be recovered as for the tax carry forward losses concerns.

	Dec-05	Dec-04
Related with Fixed Tangible Assets	-	343
Related with Intangible Fixed Assets cancelled	834	856
Related with Inventories	424	421
Related with Customers and Debtors impairments	179	
Related with Tax Losses	11,350	11,321
<b>Deferred Tax Assets</b>	<b>12,787</b>	<b>12,940</b>
Related with Fixed Tangible Assets	3,317	4,099
Related with Inventories	924	792
Other	292	106
<b>Deferred Tax Liabilities</b>	<b>4,532</b>	<b>4,997</b>
Current Income Tax	-1,765	-2,740
Deferred Income Tax	-1,100	604
<b>Income Tax</b>	<b>-2,865</b>	<b>-2,136</b>

Following chart explains the effective income tax rate, from the original income tax rate of most of Portuguese companies:

Income Tax Conciliation	
Income Tax - Legal	27.50%
Effect arising from non-taxed profit, from reduced income-taxes and from tax losses with no Deferred Tax Assets (DTA)	-6.44%
Effect arising from the recognition of DTA related with prior tax losses	-10.75%
Effect due to prior years corrections	2.58%
Effect due to complementary taxation	1.25%
Effect arising from current losses that did not generated DTA (due to impossibility or due to prudence)	1.76%
Other effects	-1.13%
Income tax - effective (1)	14.78%

(1) Income Tax / PBT

CORTICEIRA AMORIM and a large group of its Portuguese subsidiaries are taxed since January 1, 2001, as a group special regime for tax purposes (RETGS), as according to article 63, of the income tax code (CIRC). The option for this special regime is renewable every five years.

In the following chart tax losses amounts and its time limits for utilisation are presented:

	2006	2007	2008	2009	2010 and further	TOTAL
RETGS		20,502				20,502
Other Portuguese companies	2,350		2,021	463	9,391	14,225
Foreign companies		866		400	4,047	5,313
<b>Non utilized tax losses</b>	<b>2,350</b>	<b>21,368</b>	<b>2,021</b>	<b>863</b>	<b>13,438</b>	<b>40,040</b>

According to law, tax declarations for CORTICEIRA AMORIM and its Portuguese subsidiaries are subject of revision and possible correction from tax authorities generally during the next four years.

No material effects in the financial statements as of December 31, 2005, are expected by the Board of CORTICEIRA AMORIM and its subsidiaries from the revisions of tax declarations that will be held by the tax authorities.



## IX INVENTORIES

	Dec-05	Dec-04
Goods	11,251	10,422
Finished and semi-finished goods	87,445	88,714
By-products	161	258
Work in progress	8,867	8,010
Raw materials	100,814	99,459
Advances	289	284
Impairments	-3,482	-3,102
<b>Inventories</b>	<b>205,346</b>	<b>204,045</b>



## X TRADE RECEIVABLES

	Dec-05	Dec-04
Gross amount	111,413	98,643
Impairments	-11,184	-11,338
<b>Trade receivables</b>	<b>100,230</b>	<b>87,305</b>



## XI RECOVERABLE TAXES

	Dec-05	Dec-04
Value added tax	21,208	16,010
Other taxes	2,343	5,151
<b>Recoverable taxes</b>	<b>23,550</b>	<b>21,161</b>



## XII OTHER ASSETS

05

	Dec-05	Dec-04
Advances to suppliers	3,535	1,418
Deferred assets	4,013	1,633
Hedge accounting assets	73	1,308
Other	3,553	4,649
<b>Other current assets</b>	<b>11,173</b>	<b>9,008</b>



## XIII CAPITAL AND RESERVES

### ■ Share Capital

As of December 31, 2005, the share capital is represented by 133,000,000 ordinary registered shares, conferring dividends, with a par value of 1 Euro.

The Board of CORTICEIRA AMORIM is authorised to raise the share capital, one or more times, respecting the conditions of the commercial law, up to € 250,000,000.

### ■ Treasury stock

During 2005, CORTICEIRA AMORIM bought 60,000 of its own shares, representing 0.045% of its share capital, at an average unit price of € 1.1997 and a total amount of € 71,982.27. During 2004, 933,409 shares were bought, representing 0.701% of its share capital, at an average unit price of € 1.1796 and a total amount of € 1,101,052.62.

During 2005, CORTICEIRA AMORIM sold 54,500 of its own shares, representing 0.041% of its share capital, at an average unit price of € 1.2403, and a total amount of € 67,594.23. During 2004, 853,470 shares were sold, representing 0.642% of its share capital, at an average unit price of € 1.1428 and a total amount of € 975,336.46. Sales during 2005 were responsible for an average unit gain of € 0.569 and a total gain of € 31,016.77. During 2004 average unit gain was € 0.342 and total gain was € 291,637.76.

At year-end 2005, treasury stock was 2,535,857 in volume (2004: 2,530,357), representing 1.9071% of its share capital (2004: 1.9025%).

### ■ Dividends

In the Shareholders' General Meeting of March 31, 2005, a dividend totalling € 4,655,000.00 (four million, six hundred and fifty five thousand euros), corresponding to a € 0.035 (three and half cents of euro) per share was approved. Payment was made at April, 29.

During 2004 no dividend was paid.

	Dec-05	Dec-04
Dividend approved (2005: € 0.035 per share; 2004: 0)	4,655	0
Treasury stock dividend	91	0
<b>Dividend paid</b>	<b>4,564</b>	<b>0</b>



## XIV INTEREST BEARING DEBT

As of December 31, 2005, maturity of non-current interest bearing debt was as follows:

Between 2007/1/1 and 2007/31/12	3,311
Between 2008/1/1 and 2008/31/12	654
Between 2009/1/1 and 2009/31/12	40,619
After 2010/1/1	77,740
<b>Total</b>	<b>122,324</b>

At the balance sheet date 91% of total interest bearing debt was denominated in euros; the remaining was mainly USD debt.

Non-current and current interest bearing debt carries floating interest rates, with spreads from 0.17% to 1.0%. Around 132 million euros from a total of 182 million euros negotiated with Portuguese financial institutions are subjected to a stamp tax duty of 0.5% to 0.6% over the utilised amount, and of 4% of total interest paid. The remaining 50 million euros under "special commercial paper contract" five years maturity, fully utilised as of December 31, 2005, are stamp tax exempt capital and interest, due to a more favourable tax regime.

At the balance sheet date, there was a swap interest rate contract, maturity within first half 2006, with a notional value of 10 million euros and a fixed interest rate of 2.5675%.

At the same date, two subsidiaries had a four million euros loan mortgage guarantee.

Non-utilised loan facilities amounted to 117 million euros as of December 31, 2005.



## XV OTHER LOANS AND CREDITORS

05

	Dec-05	Dec-04
Non interest bearing grants	5,079	10,502
Other	655	1,624
<b>Other loans and creditors - non current</b>	<b>5,734</b>	<b>12,126</b>
Non interest bearing grants	3,292	3,296
Deferred costs	15,420	14,619
Deferred gains - grants	11,237	11,282
Hedge accounting - deferred liabilities	774	200
Other	5,651	3,959
<b>Other loans and creditors - current</b>	<b>36,373</b>	<b>33,357</b>

	Non-reimbursable grants	Reimbursable grants
<b>Beginning balance</b>	<b>11,282</b>	<b>13,798</b>
Received	726	1,492
Transferred	3,199	-3,199
Recognition	-3,970	-
Depreciation	-	-3,296
Net present value of MLT-effect	-	-425
<b>Ending balance</b>	<b>11,237</b>	<b>8,371</b>



## XVI STAFF COSTS

	2005	2004
Board remuneration	751	753
Employees remuneration	69,554	70,660
Social Security and other	16,393	15,921
Severance costs (1)	4,990	2,303
Other	2,121	1,468
<b>Staff costs</b>	<b>93,808</b>	<b>91,105</b>
<b>Average number of employees</b>	<b>4,126</b>	<b>4,261</b>
<b>End number of employees</b>	<b>3,880</b>	<b>4,059</b>



## XVII OTHER OPERATING GAINS AND LOSSES

	2005	2004
Indirect taxes	-1,571	-1,320
Provisions (1)	-259	255
Net exchange differences	162	107
Gains (losses) in disposal of assets	1,094	-265
Badwill (Equipar)	822	0
Subsidies - operating	606	91
Subsidies - equipment	3,970	2,998
Other	1,445	1,223
<b>Other operating gains (+) and losses (-)</b>	<b>6,269</b>	<b>3,088</b>

(1) Cork Rubber BU provision of 833 was recorded in accordance with its substance; thus, it was booked as a severance cost.

Gains (losses) in disposal of assets for 2005 are mainly due to the sale of a piece of land in Morocco.



## XVIII NET INTEREST

	2005	2004
Interest costs - bank loans	7,009	7,369
Interest costs - commercial paper	146	-
Interest costs - delayed payments	115	-
Stamp tax - interest	20	29
Stamp tax - capital	57	59
Interest costs - other	304	343
	<u>7,651</u>	<u>7,800</u>
Interest gains - bank deposits	-61	-102
Interest gains - delayed payments	-105	-3
Interest gains - other	-56	-200
	<u>-222</u>	<u>-305</u>
<b>Net interest</b>	<b>7,429</b>	<b>7,495</b>



## ■ Equipar - Participações Integradas, S.G.P.S., Lda.

CORTICEIRA AMORIM, through its subsidiary Amorim & Irmãos S.A., has acquired a 50% stake in CSG - Equipar S.G.P.S., Lda., which, in turn, fully owns two industrial companies named Equipar - Indústria de Cortiça, S.A. and Equipar - Rolha Natural, S.A. (hereinafter referred to as "Grupo Equipar").

Grupo Equipar Investment Characteristics:

- Located in the industrial section of Monte da Barca, in the town of Coruche, it features 17.500 m2 of built area, out of total area of 110.000 m2.
- Grupo Equipar owns advanced production assets for the manufacturing of both natural and technical cork stoppers, key segments of the product mix that present high value added characteristics. Physical location also represents an important business advantage, since the unit is not only located in the heart of major cork forest areas, but it is also adjoining our own Coruche unit. Combined, both factors allow us to expect the creation of important logistic synergies.
- The acquisition, representing a 50% stake valued at Euro 500 000, was made from Equipar, S.G.P.S., S.A.. This company retains property of the remaining 50% stake in CSG Equipar, S.G.P.S., Lda.. Equipar, S.G.P.S., S.A. shareholders currently include approximately 70 cork farm owners with properties in the regions of Alentejo and Ribatejo (Portugal).
- This acquisition allows CORTICEIRA AMORIM to significantly strengthen its industrial asset base, namely in the high-growth production areas of natural whole cork stoppers, granules and namely in technical stoppers.

During 2005, Equipar implemented the anti-TCA system developed by CORTICEIRA AMORIM, allowing its customers to have access to a higher quality of products, namely in the technical and sensorial aspects.

Fair value of the assets and liabilities acquired (consolidated non-audited values for the three companies):

	2005-01-01
Non current assets	5,045
Inventories	5,701
Current assets	12,287
<b>Assets</b>	<b>17,333</b>
Equity	2,645
Liabilities	14,688
<b>Liabilities + Equity</b>	<b>17,333</b>

The following adjustments were made in order to register the fair value:

Intangible assets	-13
Inventories	-955
Deferred tax assets	-82

Effects of the entrance of Equipar in the consolidation of CORTICEIRA AMORIM:

	Consolidation without Equipar	Equipar	Adjustments to consolidation due to the entrance of Equipar	Total Consolidated
Sales	430,367	10,012	-12,369(a)	-428,010
Net profit	15,377	-903	1,273(b)	15,747
Acquisition (50%)	500			
Fair value (50%)	1,322			
<b>Badwill</b>	<b>822</b>			

(a) Sales from (8,848) and to Equipar (3,521) of other CORTICEIRA AMORIM subsidiaries

(b) Badwill 822 and Minority Interests 451

Cash and cash equivalents paid	-500
Cash and cash equivalents acquired	440
Cash and cash equivalents net	-60

#### ■ Other acquisitions with no material effect

One hundred percent of Oenorope in France (Cork Stoppers BU) and 45% of Société Tunisienne d'Industrie Bouchonnière in Tunisia (Raw Materials BU) were acquired during 2005. The amount was € 100,000 and TND 578,000, respectively.



## RELATED-PARTY TRANSACTIONS

CORTICEIRA AMORIM consolidates indirectly in AMORIM - INVESTIMENTOS E PARTICIPAÇÕES, S.G.P.S., S.A. (AIP) with head-office at Mozelos (Santa Maria da Feira, Portugal), Amorim Group holding company.

As of December 31, 2005, indirect stake of AIP in CORTICEIRA AMORIM was 69.11% of the voting rights.

CORTICEIRA AMORIM related party transactions are, in general, due to the rendering of services through some of AIP subsidiaries (Amorim Serviços e Gestão, S.A., Amorim Viagens e Turismo, S.A., OSI - Organização e Sistemas Informáticos, Lda.).

	Dec-05	Dec-04
Sales	38	0
Services rendered	1,504	1,381
Other revenue	206	194

Balances at year-end 2005 and 2004 are those resulting from the usual payment terms (from 30 to 60 days) and so are considered to be immaterial.

Services rendered from related-parties are based on the “cost plus” basis ranging from 2% to 5%.



## XXI

### GUARANTEES, CONTINGENCIES AND COMMITMENTS

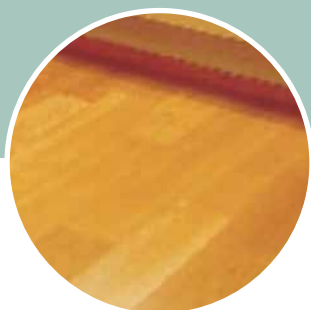
During its operating activities CORTICEIRA AMORIM issued in favour of third-parties guarantees amounting to K€ 226,010 (2004: k€ 208,280).

Beneficiary	Amount	Purpose
Government agencies	18,354	Capex grants/subsidies
Value added tax agency	7,013	VAT refund
Tax authority	5,913	Tax lawsuits
Banks	186,926	Loans guarantees
Other	7,804	Miscellaneous guarantees

The total amount of k€ 3,324 recorded as “provisions” is considered to be adequate to face any tax lawsuit effect.

As of December 31, 2005, future expenditure resulting from long-term motor vehicle rentals totals K€ 1,315, and for computer hardware and software totals K€ 680.

Commitments related with fixed assets suppliers are no recorded and amount to K€ 7,761.



## XXII

### EXCHANGE RATE CONTRACTS

As of December 31, 2005, a total of K€ 9,419 of forward contracts concerning currencies used in CORTICEIRA AMORIM transactions were in place. From that total, the USD represents 61%, ZAR 34%, and GBP 4%.

At the same date, there were USD option contracts, with a total nominal amount of K€ 33,205.

There was an interest rate swap with notional value of k€ 10,000, maturity in the first half 2006.



## XXIII

### AUDITOR'S FEES

PricewaterhouseCoopers auditor's remuneration for the group of subsidiaries and for CORTICEIRA AMORIM was K€ 352 (2004: K€ 327).



Conciliation for Equity, Net result and Minority Interests is as follow:

Thousand euros

	Share Capital and Reserves	Minority Interests	Net Result	Total Equity
<b>01-01-2004</b>				
<b>Local GAAP</b>	195,889	7,290	0	203,179
Goodwill Impairment	-19,814	0	0	-19,814
Expensed Net Assets (a)	-4,973	0	0	-4,973
Fixed Assets Revaluation	10,467	0	0	10,467
Other	-35	-8	0	-43
<b>IFRS</b>	181,534	7,282	0	188,816
<b>31-12-2004</b>				
<b>Local GAAP</b>	194,298	8,164	10,032	212,494
Goodwill not Amortized	-19,814	0	4,318	-15,496
Cancelled Amort./Expensed Net Assets	-4,973	0	1,837	-3,136
Depreciation of Fixed Assets Revalued	10,467	0	-1,431	9,036
Other	571	-18	404	957
<b>IFRS</b>	180,549	8,146	15,160	203,855

(a) Intangible Assets (local GAAP)

Goodwill decrease derives from the proper impairment tests (IFRS 1, B2 g) iii), being 7.2 million the Goodwill associated with 20 subsidiaries, all of which with a net value of Goodwill below 1 million. It was considered not worth justifying the test, in a cost/benefice point of view. Decreases in Intangible Fixed Assets are justified by the fact that these assets did not meet the requirements for recognition as stated in IAS 8. The remaining is associated with assets and liabilities that were subject, formally or operationally to merge into other CORTICEIRA AMORIM activities, resulting in future difficult and complex impairment tests. Therefore, the corresponding Goodwill was cancelled. Increase in Fixed assets is due to revaluations of certain plant machinery, with material value, fully or in the near term fully depreciated and from which is expected a medium or long-term utilization. This revaluation was justified by the use of clause 16 of IFRS 1.

As stated in b) of clause 21, IFRS, debtor balance of equity account "Translation Differences" amounting to 5.3 million euros was transferred to "Reserves".

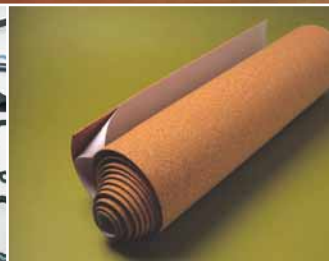
In the transition process to IFRS, there were several reclassifications of balances in sub-accounts of main accounts, like inventories, customers, suppliers, tax and other accounts, resulting in minor differences between local GAAP accounts and IFRS accounts, which are not the result of changes in accounting policies.

Mozelos, February 24, 2006

The Board of CORTICEIRA AMORIM, S.G.P.S., S.A.



## AUDITOR'S REPORT





**Report and Opinion  
of the Statutory Auditors**

**(Free Translation from the original in Portuguese)**

To the Shareholders

1 In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the Directors' Report and the corresponding Consolidated Financial Statements **Corticeira Amorim, SGPS, SA** with respect to the year ended 31 December 2005.

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

3 As a consequence of our work, we have issued the attached Statutory Audit report. Furthermore we have considered the Statutory Auditors' Report sent to the Board of Directors in which the audit procedures undertaken are described, as required by Article 451º of the Commercial Companies Code.

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

- i) the Consolidated Balance Sheet, the Consolidated Statements of Income by nature and by functions, the consolidated statement of changes in equity, the Consolidated Cash Flow Statements, and the Notes to the accounts present adequately the financial position and the results of the company and its subsidiaries;
- ii) the accounting policies and valuation methods applied are appropriate;
- iii) the Report of the Board of Directors is sufficiently clear as to the evolution of the business and the position of the company and highlights the more significant aspects.

Corticeira Amorim, SGPS, SA

5 On this basis, and taking into account the information obtained from Board of Directors and the company's employees, together with the conclusions in the statutory auditor's report on the accounts, we are of the opinion that:

- i) the Report of the Board of Directors be approved;
- ii) the Consolidated Financial Statements be approved.

Porto, 13 March 2006

The Statutory Auditor

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

José Pereira Alves, R.O.C.

## Report of Statutory Auditors and Audit Report on Consolidated Financial Statements

(Free Translation from the original in Portuguese)

### Introduction

1 In accordance with the Portuguese Securities Market legislation ("Código dos Valores Mobiliários") we present the statutory report and the audit report on the consolidated financial statements of **Corticeira Amorim, SGPS, SA**, comprising the consolidated balance sheet as at 31 December 2005, (which shows total assets of Euros 549.899 thousand, total of minority interests of Euros 11.753 thousand and total shareholder's equity of Euros 220.183 thousand, including a net profit of Euros 15.747 thousand), the consolidated statements of income by nature and by functions, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and the corresponding notes to the accounts.

### Responsibilities

2 It is the responsibility of the Company's Management: (i) to prepare consolidated financial statements which present fairly, in all material respects, the financial position of the company and its subsidiaries, and the consolidated results of their operations and their cash flows; (ii) to prepare consolidated financial statements applying the International Financial Reporting Standards (IFRS) as adopted in the UE and the principles requested by the Portuguese Security Market legislation; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain adequate systems of internal accounting controls; and (v) to disclose any relevant fact that has influenced the activity of the company and its subsidiaries, its financial position or results.

3 Our responsibility is to verify the consolidated financial information presented on these documents, in particular if it is complete, true, actual, comprehensible, objective and lawful, in accordance with Portuguese Security Market legislation with the objective of expressing an independent and professional opinion on this information based on our audit.

Corticeira Amorim, SGPS, SA

## Scope

4 We conducted our examination in accordance with the Standards and Technical Recommendations approved by the Institute of Statutory Auditors which require that we plan and perform the examination to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Accordingly, our examination included: (i) verification that the subsidiary's financial statements have been examined and for the cases where such an examination was not carried out, verification, on a test basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements, and assessing the reasonableness of the estimates, based on the judgments and criteria of Management, used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations and of the use of the equity method; (iii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) evaluating the overall presentation of the consolidated financial statements; and (vi) verification of the completeness, truth, actuality, comprehensiveness, objectivity and lawfulness of the information presented, in accordance with the Portuguese Securities Market legislation.

5 Our audit also included the verification of the consistency of the consolidated Management Report with the information contained in the financial statements

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

## Opinion

7 In our opinion, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of **Corticeira Amorim, SGPS, SA** as at 31 December 2005 and the consolidated results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards (IFRS) as adopted in the UE and the information there included is complete, true, actual, comprehensible, objective and lawful.

Porto, 13 March 2006

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

José Pereira Alves, R.O.C.



## **CORTICEIRA AMORIM, S.G.P.S., S.A.**

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