

# **Consolidated Management Report and Accounts**

SEPTEMBER 2005

**SONAECOM, S.G.P.S., S.A.**

# **MANAGEMENT REPORT**

### CEO Statement

“During 3Q05 our investment efforts, focused on direct voice and broadband internet services, Fixed-Mobile convergent products and 3G services, have begun to show some positive signs: Optimus has been able to grow its customer base during the quarter by 7% against last year, with an increase in Customer Revenues, while at Sonaecom Fixed (SCF) we have seen a significant improvement in the level of broadband customer activations, particularly in September. There were also some encouraging developments at SSI, during the quarter, particularly with Wedo strengthening its international image and presence.

Despite these positive developments, our financial performance has deteriorated, compared to last year, in line with our expectations and with guidance given at the beginning of the year. The main factors affecting our profitability (MTR's, higher SACs and the complex ULL process), are likely to evolve in different ways in the future:

- ULL activations will accelerate, as approximately 85% of all processes are running smoothly as of 1 of September;
- Unit SACs are expected to decrease in the last quarter;
- The negative effect of ANACOM's decision on MTRs, which we judge to be extremely negative for late entrants, will accelerate and we do not expect any court decisions on our appeal in the short term.

Importantly, at the Extraordinary General Meeting held on 12 September, Sonaecom shareholders approved the proposed share capital increase that will allow us to implement the Strategic Partnership Agreement with France Telecom, as a result of which the latter will have a 23.7% shareholding in Sonaecom. This will now open up the way for Optimus and SCF to take advantage of the operating agreements signed with France Telecom, that include roaming & interconnection, handset sourcing, multi-media and preferred network partnership.

Regulation and Competition continue to be key issues in the Portuguese telecommunications market, as structural distortions remain unresolved: the 'Mobile Network Effect', the incumbent's monopoly position in respect of the two critical access networks and fair access to premium content. Our complaints presented to the European Commission, in June of this year, continue their natural course and we are confident that ultimately they will lead to appropriate measures being taken. However, we are pleased with the new measures imposed by the Regulator and Government, pursuant to which PT and alternative operators have signed an agreement that will facilitate more efficient and fair unbundling and activation processes and rules. The agreement became effective on 1 September 2005 and we are confident that it will allow for some competition in the fixed line broadband market until the most important structural decisions are taken”.

***Paulo Azevedo, CEO Sonaecom***

## Consolidated Financial Highlights:

| <i>Euro Millions</i>                | 3Q04 | 1Q05 | 2Q05 | 3Q05 | % chg<br>3Q05/3Q04 | % chg<br>3Q05/2Q05 |
|-------------------------------------|------|------|------|------|--------------------|--------------------|
| <b>Turnover</b>                     | 233  | 197  | 209  | 222  | -5%                | 6%                 |
| <b>EBITDA</b>                       | 58   | 44   | 40   | 42   | -29%               | 5%                 |
| <i>EBITDA Margin</i>                | 25%  | 22%  | 19%  | 19%  | -25%               | -1%                |
| <b>EBIT</b>                         | 28   | 12   | 9    | 10   | -64%               | 15%                |
| <b>EBT</b>                          | 23   | 10   | 6    | 6    | -72%               | 12%                |
| <b>Net Results <sup>(1)</sup></b>   | 16   | 9    | 4    | 5    | -69%               | 12%                |
| <b>CAPEX</b>                        | 23   | 41   | 23   | 29   | 28%                | 25%                |
| <b>FCF (levered) <sup>(2)</sup></b> | 52   | -18  | 0    | 19   | -64%               | n.a.               |

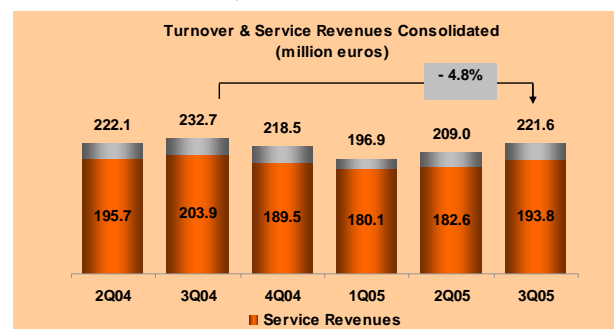
<sup>(1)</sup> Net Results before Minority Interest

<sup>(2)</sup> FCF after Financial Expenses but before Capital Flows and financing related up-front costs and fees

## CONSOLIDATED FINANCIALS

### Turnover

Consolidated Turnover decreased by 5% to 221.6 million euros in 3Q05, compared with 232.7 million euros in 3Q04. The main drivers of this reduction were: (i) Optimus' Operator Revenues<sup>1</sup>



decreasing by 22.2% or 14.1 million euros, due to the further cut in mobile termination rates (MTRs), as of 1 July 2005, and the continuing fall of incoming Fixed traffic; (ii) Público's Turnover falling by 25% or 3.4 million euros from 3Q04, driven mainly by lower Associated Product Sales as a result of increased market competition and saturation.

However, Turnover at Sonaecom Fixed (SCF) increased by 11%, compared to

3Q04, due to strong growth in Wholesale Revenues, while Turnover at SSI was up 5%, driven primarily by Wedo.

### Total OPEX

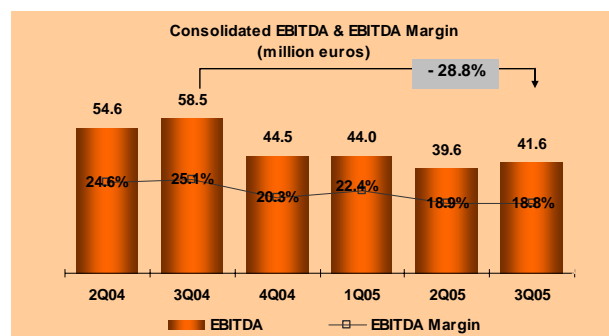
Consolidated OPEX (including COGS) was 4% above the 3Q04 level and represented 81.1% of Turnover compared to 73.9% in 3Q04. This increase in costs was driven primarily by: (i) increased COGS (+23%), which include the impact of higher number of handsets sold; (ii) higher Outsourcing Costs (+31.3%), reflecting increased Customer Service Costs and ULL Installer Costs related to the unbundling process; and (iii) higher Marketing & Sales Costs at Optimus (+11%) and at SCF (+69%), reflecting the higher commercial activity during the quarter.

In 3Q05, Provisions were 2.5 million euros, 22% below the 3Q04 level, resulting from the improvement in collections and stock management across the Group, with the bigger impact coming from the Telecom Businesses.

<sup>1</sup> Operator Revenues includes Roaming In Revenues

## EBITDA

As consequence of the lower Turnover and higher OPEX, and notwithstanding the lower level of Provisions, EBITDA dropped by 28.8% to 41.6 million euros, generating an EBITDA margin of 19% compared to 25% in 3Q04, but similar to the level achieved in 2Q05.



Optimus' stand-alone EBITDA margin in the quarter was 26.8%, on an EBITDA of 44.8 million euros, which compare to an EBITDA of 57.7 million euros and a margin of 32.5% in 3Q04. SCF generated a negative EBITDA of 4.3 million euros, resulting from the combination of its strategic push to accelerate the development of its direct access broadband business and the

continuing deterioration of indirect voice and narrowband Internet businesses. Público recorded a negative EBITDA of 1.1 million euros, compared with a positive 0.6 million euros in 3Q04, reflecting the competitive pressures being felt in respect of newspaper circulation, the significantly lower sales of Associated Products and the negative seasonality impact on advertising sales. SSI's EBITDA was up 31% on 3Q04, reaching 2.3 million euros and generated a margin of 11%.

## Net Results

Earnings before Tax were 6.4 million euros. The 3Q05 Tax charge was 1.5 million euros, compared to 7 million euros in 3Q04. This reduction in the Tax charge was due primarily to Deferred Tax Assets movements: (i) the recognition of a 1.6 million euros impairment charge of Deferred Tax Asset at SCF; (ii) the recognition of 4.2 million euros of Deferred Tax Asset benefits at Optimus; and (iii) the lower level of EBT at Optimus. Cash taxes, in the quarter, stood at 0.3 million euros, compared to 0.5 million euros in 3Q04.

Consolidated Net Results before Minorities were 4.9 million euros in 3Q05, a reduction of 69% on 3Q04. The EBITDA performance was the main explanation for this result, as Depreciation & Amortization charges were only 2% above 3Q04 levels and Net Financial Results were 0.8 million euros better than those incurred in the same quarter of 2004. Net Income (Group Share) was 1.5 million euros compared to 7.3 million euros in 3Q04.

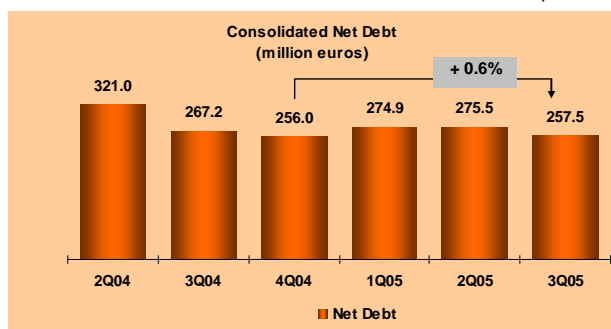
## FCF

Consolidated Levered Free Cash Flow (FCF) in the quarter was 19 million euros, down from 52 million euros in 3Q04. The main factors impacting the 3Q05 FCF compared to 3Q04 were: (i) the lower level of EBITDA generated in 3Q05; (ii) higher CAPEX; and (iii) the fact that the 3Q04 FCF included the recovery of 22.7 million euros of VAT payment made in 2Q04, associated with the sale of Optimus' mobile towers to a wholly owned subsidiary, Optimus Towering.

CAPEX in 3Q05 was 28.9 million euros, 28% more than in 3Q04, reflecting the higher growth related investment in the 3G network and in ULL. Of total CAPEX in 3Q05, 76.8% was invested by Optimus, of which 9.8 millions in the deployment of UMTS, and 6.2 million euros was invested by SCF, of which circa 54% in ULL and 14% representing capitalized Triple Play development costs.

## Capital Structure

Consolidated Net Debt<sup>2</sup> at the end of 3Q05, stood at 258 million euros, 2 million euros higher than at the end of 4Q04, including a higher level of Gross Debt of 457 million euros, compared to 309 million euros in 4Q04. The increase in Gross Debt was due to the 150 million euros unsecured privately placed bond issue completed in June 2005. Consolidated Liquidity increased from 53 million euros in 4Q04 to 200 million euros in 3Q05, primarily as the result of: (i) the net proceeds of 146 million euros, from the bond issue that have been invested as treasury applications, at Euribor plus 20 basis points; and (ii) due to FCF performance at Optimus and SSI, notwithstanding the 18.6 million euros acquisition of Maxistar's 2.77% stake in Optimus.



Nominal Net Debt<sup>3</sup> to Annualized EBITDA (last 4 quarters) stood at 1.6x and Debt to Equity at 52%, at the end of 3Q05, compared to 1.4x and 43% respectively, at the end of 4Q04. Interest Cover (EBITDA to Interest Expenses) decreased from 16.9x to 11.9x, down 29%, notwithstanding marginally lower interest expenses.

## Sonaecom SGPS Liquidity

Sonaecom SGPS holding company Liquidity increased, by 108 million euros to 185 million, since December 2004, as a result of the following main movements: (i) Sonaecom subsidiaries increasing their treasury applications with Sonaecom by 36.8 million euros, to a total of 56.4 million euros; (ii) the 146 million net proceeds from the privately placed bond issue; (iii) the 18.6 million euros outflow for the acquisition from Maxistar of its 2.77% stake in Optimus; and (iv) the conversion of treasury applications with SCF, totalling 56.3 million euros, into Shareholder Loans. Net Debt at Sonaecom SGPS<sup>4</sup> stood at 17.8 million euros at the end of 3Q05.

## REVIEW OF OPERATIONS

### Optimus

Overall performance at Optimus in the 3Q05, showed some positive signs resulting from the increased commercial effort:

- Subscribers evolved favourably and rose by 7% to 2.27 million at the end of 3Q05, compared to 2.11 million at the end of 3Q04. When compared to 2Q05, subscribers increased by 91.8 thousand, the highest quarterly Net Additions achieved during the year.
- In 3Q05, Total Voice Traffic was 7.6% higher than that recorded in 3Q04.
- Rede4, the low cost mobile service launched in June and Home, performed in line with expectations.

<sup>2</sup> Accounting Net Debt under IAS 39

<sup>3</sup> Nominal Net Debt = Accounting Net Debt + Up Front fees

<sup>4</sup> Net Debt = Bank Debt + Treasury Applications from Subsidiaries – Treasury Applications at Subsidiaries – Other Cash

- Data revenues represented 11.5% of Service Revenues in the quarter, compared to 9.3% in 3Q04 and 10.2% in 2Q05, due to a up-take of GPRS services and as a result of Optimus' focus on 3G offerings. During 3Q05, circa 25% of Optimus' Subscriber Gross additions were 3G enabled.
- Customer Revenues rose by 3% to 101 million euros, from 98 million euros in 3Q04, driven by the higher subscriber base at the end of the period, more post-paid clients and, consequently, higher Monthly Fees and Voice Communications.

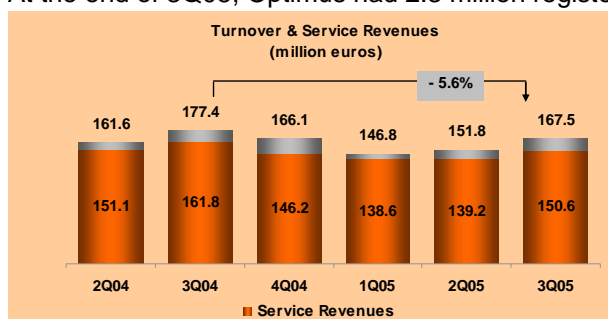
Optimus' 3Q05 operational activity was consistent with its growth strategy:

- Launch of a new product offer, Kanguru, a portable broadband internet offering, positioned as an alternative to the traditional fixed line connection. It targets all laptop users, business and residential, for indoor or outdoor locations. Kanguru's unique value proposition is based on simplicity of installation and total mobility, allied with an aggressive monthly price of 29.9€. Optimus invested circa 3 million euros on the development and promotion of this new product.
- New campaigns to reinforce Optimus' 3G handset portfolio and multimedia services, including Outdoors, TV and Radio Advertising and promotions of competitively priced 3G handsets.
- New campaign promoting Optimus Home, which required an investment of circa 2.5 million euros. Furthermore, a new commercial approach was adopted, with the use of Telemarketing as an additional distribution channel.

In 3Q05, Optimus stuck to its strategy to lead in Mobile Broadband, increasing the pace of its UMTS network roll-out. By the end of the quarter, Optimus had full UMTS coverage in Greater Lisbon, Oporto and Algarve, as well as in the main Portuguese city centres, representing total population coverage of circa 50%. Optimus is committed to offer high quality, state of the art 3G communications to its clients and expects to obtain circa 80% population coverage by the end of 2006.

Turnover was down 5.6%, compared to 3Q04. Service Revenues in 3Q05 were 6.9% lower than that recorded in 3Q04, primarily due to the reduction in Operator Revenues of 22.2% to 49.2 million euros, driven by: (i) lower MTRs that were reduced further as of 1 July 2005 (see section on Regulation); and (ii) the lower volume of fixed traffic terminating on Optimus' mobile network, decreasing 11.2% when compared with total incoming fixed minutes in 3Q04, as a result of the continuing trend of fixed to mobile substitution.

At the end of 3Q05, Optimus had 2.3 million registered subscribers that generated an ARPU of 23 euros, down from an ARPU of 26.1 in 3Q04, a 12% decrease mainly explained by lower Operator Revenues, due to the impact of the phased reductions in MTRs.



Non-SMS related Data Services<sup>5</sup> grew by 62%, representing 29% of Total Data Revenues in the quarter, with GPRS traffic increasing threefold when compared to 3Q04.

Optimus OPEX (excluding COGS) was in line with 3Q04, including a 11% increase in Marketing expenses in the quarter. EBITDA in the quarter was 44.8 million euros, down 22.3% from 3Q04, generating an EBITDA margin of 26.8%.

### Sonaecom Fixed (SCF)

SCF performance, during 3Q05, was affected by the combined loss of indirect voice and narrowband internet traffic, albeit at a slower pace, and investment in the development of its direct access strategy:

- By the end of September, SCF had unbundled 126 PT central offices for SHDSL circuit interconnection, 96 of which prepared for ULL with ADSL 2+ and direct voice services. Accordingly, SCF is in line with its target of covering circa 50% of population, with 130 unbundled central offices, by the end of 2005.
- The total number of direct access services increased significantly, from 4,200 at the end of 3Q04 to 49,000 at the end of 3Q05. SCF completed 22,500 direct service activations in 3Q05, a much higher activation rate when compared to the previous two quarters.
- The quarter saw continued loss of indirect voice and narrowband internet traffic, down 51% and 30% respectively since 3Q04. Nevertheless, the loss of Indirect Services in 3Q05 was lower than the loss in previous quarters of 2005 and was partially compensated by the direct services acquired in the quarter.
- Wholesale Revenues grew by 56%, increasing by 8.4 million euros to 23 million euros in 3Q05, when compared with 14.5 million euros in 3Q04.

Notwithstanding the growth achieved in the direct customer base, SCF continued to face difficulties with the ULL process during the quarter primarily due to delays, created by Portugal Telecom (PT), in the provisioning of additional capacity to the unbundled central offices, and with the customer activation process. These delays led to unexpected OPEX and CAPEX in the quarter, driven by our attempt to pre-empt PT's continued obstructions and invest in up-front excess capacity, as the resulting additional cost is lower than that of having direct clients in the pipeline waiting to be activated.

However, a new agreement reached between alternative telecom operators and PT, effective as of 1 September 2005 and covering unbundling and activation processes (see Regulation section), had an immediate positive impact in September: SCF increased the average monthly ULL activations by circa 60%, from an average of 6,300 service activations in July and August, to circa

<sup>5</sup> Non-SMS related Data Services = MMS + WAP + UMTS + GPRS + Other Data Revenues



10,000 service activations in September. This breakthrough is expected to improve significantly the direct activation process from the fourth quarter onwards.

SCF continued to develop its Triple Play Offer, although it is still facing a number of hurdles: (i) delays in negotiating content with PT, which owns exclusive rights for SIC's thematic channels and exerts indirect control on Sport TV content; and (ii) the stated delays in the development of our Double Play (voice plus internet) business, which will be used as a platform to launch Triple Play. Significant time and effort is being invested to guarantee the acquisition of the required content and positive developments are expected in the ULL processes after the agreement reached with PT.

Service Revenues in 3Q05 were 41.8 million euros, up 11% against 3Q04, driven mainly by higher Wholesale revenues, which represented 55% of the Services Revenues. Revenues from Direct Access and Indirect Access Services represented 21% and 24% of Service Revenues, respectively.

In 3Q05, Operating Costs at SCF increased by 24.7% compared with 3Q04, primarily due to: (i) Outsourcing costs increasing by 66%, reflecting higher Customer Service, Network and ULL Installer Costs; (ii) Marketing costs increasing 69%, due to higher investment in advertising and commissions; and (iii) Interconnection increasing 26%, due to higher Wholesale traffic in the quarter.

FCF at SCF deteriorated from positive 1.3 million euros in 3Q04 to negative 12.1 million euros in 3Q05, explained by EBITDA posting losses of 4.3 million euros, down from a positive level of 0.4 million euros, and an additional 4.5 million euros of CAPEX in the quarter when compared to 3Q04.

## **Público**

During 3Q05, Turnover decreased by 24.9% to 10.4 million euros, compared to 3Q04, and EBITDA deteriorated, from a positive 0.6 million euros in 3Q04 to a loss of 1.1 million euros. The main drivers of this performance are explained by: (i) decrease in Associated Product Sales by 51% in the quarter, when compared with 3Q04, explained by market saturation; and (ii) the higher level of unsolds of certain Associated Product collections, which led to significantly lower margins for Associated Products.

Newspaper Sales rose by 4% in comparison with 3Q04, mainly due to the price increase on all Público's editions, as of January 2005, and by the additional price increase on Sundays, as of May 2005, due to the inclusion of magazine Kultó in the Newspaper. However, the price effect was not sufficient to compensate the evolution of the other revenue streams. Advertising Revenues remained subdued, affected by the lower volumes posted during the summer months, and were marginally down compared to 3Q04.

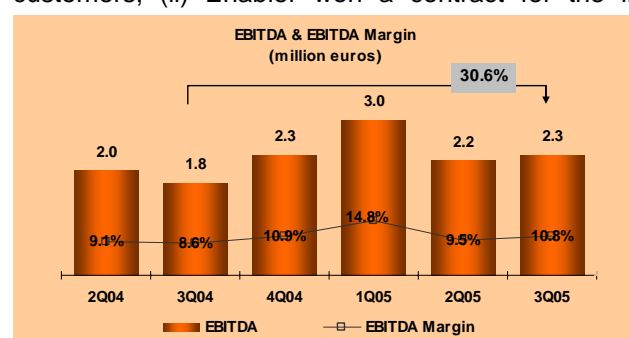
According to the latest available market data, Público's average paid circulation dropped 5.5%, from an average level of 51,528 in 2Q04 to 48,676 copies in 2Q05, due to the competitive pressures of the tabloid newspapers and the reduction in size of the Daily Newspaper market by 4.7% year on year. Accordingly, Público's circulation market share decreased to 13.3% in 2Q05 compared to 13.5% in 2Q04. Nevertheless, advertising market share was not impacted by circulation performance, reaching 15.3% in the 3Q05, compared to 13.7% in 3Q04.

In order to address the poorer performance of the last quarters, Público has been focusing on extending its addressable market, in order to reach other readers than its current audience, and in restructuring its commercial activity, with a new sales team focused on pushing revenues in a more proactive way.

## SSI

SSI companies posted another positive performance in the quarter, with Turnover increasing by 4.6% in 3Q05 and EBITDA improving 30.7% to 2.3 million euros compared with 3Q04.

SSI achieved important new developments in 3Q05: (i) Enabler Group was named by Oracle as one of its four retail software integrators of "Oracle Retail"<sup>6</sup>, software based on Retek, in tier one customers; (ii) Enabler won a contract for the implementation of Oracle Retail in Tesco's Japanese operations; and (ii) Wedo Group won accounts with a big mobile player in the UK and in Thailand, to implement its flagship Revenue Assurance Product (RAID), representing the Group's first international presence in UK and Asian markets.



## REGULATORY GROUP HIGHLIGHTS

### Mobile Market

During 3Q05, the main regulatory developments were:

- As of 1 July 2005, a new cut to the MTRs became effective for all the Portuguese mobile operators, in accordance to ANACOM's decision on MTRs in February 2005. The following table summarises the reduction in MTRs implemented by Optimus this year:

| Amounts in Euros | Fixed to Mobile | International Mobile | Mobile to Mobile |
|------------------|-----------------|----------------------|------------------|
| Previous Rate    | 0.2779          | 0.1870               | 0.1870           |
| 07-Mar-05        | 0.2050          | 0.1400               | 0.1400           |
| 01-Jul-05        | 0.1950          | 0.1350               | 0.1350           |

- On 23 August 2005, a new regulation of Portability was approved, under which the Operator requesting portability for a customer number will no longer need to send any documentation to the Operator owner, whose original number is being subject to portability, as a pre-condition to its effective transfer.

<sup>6</sup> After acquisition of Retek company by Oracle, the Retek software name was changed to Oracle Retail

## **Fixed Market**

- On 1 September 2005, an agreement between PT and the alternative telecom operators in the market was reached, under which there will no longer exist obligations for the systematic transfer of documents requiring authorisations for requests addressed by PT's wholesale offers, such as Pre-selection, the Wholesale Line Rental Reference Offer (ORLA) and the Wholesale Offer for the Local Loop Unbundling (ORALL). In this sense, the activation processes involving PT and other operators will no longer depend on documentation validation by PT and are expected to run more efficiently.

The Operator requesting the service will be responsible for correctly gathering all the documentation needed and to present it to the other Operator, whenever it is needed.

- ANACOM launched a public consultation regarding the processes included in PT's ORALL, particularly the existing obstacles to its deployment, with the ultimate goal of reinforcing the current penalties for PT's non-compliance with the Unbundling Service Level Agreements (SLA's).
- ANACOM launched a public consultation regarding the imposition of a flat fee for Network Interconnection. The interconnection prices, currently charged per minute by PT, are likely to be determined based on the capacity of the network used, in line with a "costing model" approach. We expect that some decision will be taken before the end of 2005, with consequent positive impacts on costs for alternative Operators.
- ANACOM's decision on the terms and conditions of the access to concessionaire ducts is still pending. Notwithstanding this, the Portuguese Courts rejected PT's appeal against the access of other operators to its ducts, a very positive sign as to future developments and decisions.
- The legal obligation of PT to migrate ADSL clients, from one Internet Service Provider (ISP) to another, anytime the transfer request is made and independently of the transfer approval by the ISP owner of the client, was approved.

## **FT Roll-UP**

On the 12 September, shareholders at Sonaecom's Extraordinary General Meeting (EGM) approved a capital increase for the implementation of the FT roll-up, giving FT a 23.7% shareholding in Sonaecom's enlarged share capital. As a result, Sonaecom's share capital will be increased by 70.3 million euros, from 226.3 million euros to 296.5 million euros, by issuing 70.3 million new shares, with a share premium of 242.5 million euros. As a result, Sonaecom's Shareholders' Funds will increase by 312.7 million euros.

The final completion of this capital increase is dependent on deliberation and agreement by the Portuguese Competition Authority and the Issuance of the Share Capital Notary Deed, due to take place in November. The new shares will have to be registered with the CMVM and subsequent admission for listing is expected to take place in 1Q06.

## **CORPORATE GOVERNANCE**

There were no significant changes in the period that deserve mention and the guidelines set in the 2004 Management Report remain unchanged.

## OUTLOOK

We will continue to focus on growth opportunities in fixed-mobile substitution and 3G services at Optimus, and in direct access broadband services at SCF, and are cautiously encouraged by the underlying positive results at Optimus and by the recent improvements in the ULL customer activation process. However, the OPEX and CAPEX incurred with unbundling PT central offices have been, and will continue to be, higher than planned, and are expected to impact the near-term evolution of SCF's EBITDA and FCF.

At Público, we have reviewed the strategy for the Advertising and Associated product areas and have changed the commercial team and we believe we have taken actions that should allow us to show positive improvements in the coming quarters. At SSI, we will continue to support efforts by Enabler and WeDo to expand internationally.

# **CONSOLIDATED FINANCIAL STATEMENTS**

SONAECON, S.G.P.S., S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET FOR THE PERIODS ENDED AT 30 SEPTEMBER 2005 AND 2004 AND FOR THE YEAR ENDED AT 31 DECEMBER 2004

(Amounts expressed in Euro)

| ASSETS  | Notes                   | September 2005       | September 2004       | December 2004        |
|---|-------------------------|----------------------|----------------------|----------------------|
| <b>NON CURRENT ASSETS:</b>                                |                         |                      |                      |                      |
| Tangible assets   | 1.c), 1.h) and 5        | 464.464.469          | 455.106.068          | 482.808.381          |
| Intangible assets   | 1.d), 1.e) and 6        | 174.123.297          | 194.144.914          | 183.943.968          |
| Goodwill  | 1.f) and 7              | 41.509.013           | 31.483.668           | 31.614.130           |
| Investments in associated companies                       | 1.b) and 3              | 685.669              | 661.186              | 685.669              |
| Investments available for sale                            | 1.g) and 8              | 1.207.320            | 5.968.586            | 1.207.320            |
| Other non current debtors                                 |                         | 3.549.055            | 3.788.925            | 3.506.749            |
| Deferred tax assets                                       | 1.q) and 9              | 66.628.069           | 70.346.737           | 68.693.940           |
| Other non current assets                                  | 1.s), 1.t), 1.x) and 10 | 2.771.526            | 21.014.190           | 4.872.217            |
| Total non current assets                                  |                         | 754.938.418          | 782.514.275          | 777.332.374          |
| <b>CURRENT ASSETS:</b>                                    |                         |                      |                      |                      |
| Inventories   | 1.j)                    | 17.413.739           | 9.850.371            | 12.827.545           |
| Trade debtors   | 1.k)                    | 140.890.234          | 150.080.724          | 152.682.416          |
| Other current debtors                                     | 1.k)                    | 19.967.647           | 22.079.263           | 11.339.437           |
| Other current assets                                      | 1.s), 1.t) and 1.x)     | 53.459.273           | 60.890.446           | 51.149.794           |
| Investments recorded at fair value through profit or loss | 1.g) and 11             | 1.590.505            | -                    | -                    |
| Cash and cash equivalents                                 | 1.l) and 12             | 199.788.612          | 40.901.359           | 53.265.132           |
| Total current assets                                      |                         | 433.110.010          | 283.802.162          | 281.264.324          |
| <b>Total assets</b>                                       |                         | <b>1.188.048.428</b> | <b>1.066.316.437</b> | <b>1.058.596.698</b> |
| <b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>                |                         |                      |                      |                      |
| <b>SHAREHOLDERS' FUNDS:</b>                               |                         |                      |                      |                      |
| Share capital   |                         | 226.250.000          | 226.250.000          | 226.250.000          |
| Reserves  | 1.u)                    | 30.775.676           | 12.623.637           | 12.356.470           |
| Consolidated net income/(loss) for the period             |                         | 7.344.883            | 13.414.292           | 18.048.373           |
|   |                         | 264.370.559          | 252.287.930          | 256.654.843          |
| Minority interests  |                         | 184.694.254          | 179.791.845          | 183.919.719          |
| Total Shareholders' Funds                                 |                         | 449.064.813          | 432.079.775          | 440.574.562          |
| <b>LIABILITIES:</b>                                       |                         |                      |                      |                      |
| <b>NON CURRENT LIABILITIES:</b>                           |                         |                      |                      |                      |
| Medium and long-term loans - net of short-term portion    | 1.m), 1.n) and 13       | 454.787.156          | 324.458.200          | 305.138.566          |
| Other non current creditors                               |                         | 5.144.642            | -                    | 3.425.011            |
| Other non current financial liabilities                   | 14                      | 3.408.617            | 3.668.549            | 3.953.358            |
| Provisions for other liabilities and charges              | 1.p) and 15             | 2.322.388            | 4.504.026            | 4.292.249            |
| Other non current liabilities                             | 1.s), 1.t) and 1.x)     | 8.057.983            | 9.888.399            | 9.794.878            |
| Total non current liabilities                             |                         | 473.720.786          | 342.519.173          | 326.604.062          |
| <b>CURRENT LIABILITIES:</b>                               |                         |                      |                      |                      |
| Short-term loans and other loans                          | 1.m), 1.n) and 13       | 805.519              | 1.638.337            | 2.508.344            |
| Trade creditors   |                         | 123.857.131          | 157.162.403          | 153.049.344          |
| Other current financial liabilities                       | 16                      | 3.098.590            | 3.207.763            | 4.070.891            |
| Other creditors   |                         | 18.823.960           | 19.202.835           | 17.612.868           |
| Other current liabilities                                 | 1.s), 1.t) and 1.x)     | 118.677.629          | 110.506.152          | 114.176.627          |
| Total current liabilities                                 |                         | 265.262.829          | 291.717.490          | 291.418.074          |
| <b>Total Shareholders' Funds and liabilities</b>          |                         | <b>1.188.048.428</b> | <b>1.066.316.437</b> | <b>1.058.596.698</b> |

The notes are an integral part of the consolidated financial statements at 30 September 2005 and 2004.

The Chief Accountant

The Board

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT BY NATURE

FOR THE QUARTERS AND PERIODS ENDED AT 30 SEPTEMBER 2005 AND 2004 AND FOR THE YEAR ENDED AT 31 DECEMBER 2004

(Amounts expressed in Euro)

|  | Notes                        | September 2005       | July to<br>September 2005<br>(Not audited) | September 2004       | July to<br>September 2004<br>(Not audited) | December 2004        |
|--|------------------------------|----------------------|--|----------------------|--|----------------------|
| Operating revenues:                      |                              |                      |  |                      |  |                      |
| Sales                                    |                              | 70.977.829           | 27.732.090                                 | 79.085.841           | 28.815.236                                 | 108.049.977          |
| Services rendered                        |                              | 556.471.114          | 193.830.510                                | 582.595.169          | 203.923.677                                | 772.109.042          |
| Other operating revenues                 |                              | 4.536.509            | 2.203.852                                  | 4.145.570            | 874.002                                    | 6.967.530            |
| Total operating revenues                 |                              | <u>631.985.452</u>   | <u>223.766.452</u>                         | <u>665.826.580</u>   | <u>233.612.915</u>                         | <u>887.126.549</u>   |
| Operating costs:                         |                              |                      |  |                      |  |                      |
| Cost of sales                            |                              | (78.329.251)         | (33.295.974)                               | (76.367.862)         | (27.091.406)                               | (106.436.514)        |
| External supplies and services           | 17                           | (334.826.720)        | (118.243.202)                              | (339.590.988)        | (117.659.918)                              | (454.292.910)        |
| Staff expenses                           |                              | (77.996.498)         | (25.181.623)                               | (70.624.969)         | (24.441.560)                               | (96.374.442)         |
| Depreciation and amortisation            | 5, 6 and 7                   | (94.042.558)         | (31.518.939)                               | (93.471.409)         | (30.758.443)                               | (125.197.734)        |
| Provisions and impairment losses         | 1.p), 1.w) and 15            | (5.501.717)          | (2.477.757)                                | (13.711.499)         | (3.183.132)                                | (15.851.501)         |
| Other operating costs                    | 1.w)                         | (10.124.348)         | (2.972.694)                                | (9.377.161)          | (2.776.233)                                | (13.557.654)         |
| Total operating costs                    |                              | <u>(600.821.092)</u> | <u>(213.690.189)</u>                       | <u>(603.143.888)</u> | <u>(205.910.691)</u>                       | <u>(811.710.755)</u> |
| <b>Net operating income/(expenses)</b>   |                              | <b>31.164.360</b>    | <b>10.076.263</b>                          | <b>62.682.692</b>    | <b>27.702.224</b>                          | <b>75.415.794</b>    |
| Gains and losses in associated companies | 18                           | -                    | -  | (37.285)             | 26.902                                     | (10.473)             |
| Other net financial income/(expenses)    | 1.n), 1.o), 1.v), 1.w and 18 | <u>(9.486.117)</u>   | <u>(3.679.459)</u>                         | <u>(15.241.081)</u>  | <u>(4.497.176)</u>                         | <u>(18.421.429)</u>  |
| <b>Current income/(loss)</b>             |                              | <b>21.678.243</b>    | <b>6.396.804</b>                           | <b>47.404.325</b>    | <b>23.231.949</b>                          | <b>56.983.892</b>    |
| Income taxation                          | 1.q), 9 and 19               | <u>(3.199.888)</u>   | <u>(1.451.767)</u>                         | <u>(16.704.027)</u>  | <u>(7.088.929)</u>                         | <u>(18.151.692)</u>  |
| <b>Consolidated net income/(loss)</b>    |                              | <b>18.478.355</b>    | <b>4.945.037</b>                           | <b>30.700.298</b>    | <b>16.143.020</b>                          | <b>38.832.200</b>    |
| Attributed to:                           |                              |                      |  |                      |  |                      |
| Shareholders of parent company           |                              | <b>7.344.883</b>     | <b>1.542.173</b>                           | <b>13.414.292</b>    | <b>7.267.123</b>                           | <b>18.048.373</b>    |
| Minority interests                       |                              | 11.133.472           | 3.402.864                                  | 17.286.005           | 8.875.895                                  | 20.783.827           |
| Earnings per share                       |                              |                      |  |                      |  |                      |
| Including discontinued operations        |                              |                      |  |                      |  |                      |
| Basic                                    |                              | 0,03                 | 0,01                                       | 0,06                 | 0,03                                       | 0,08                 |
| Diluted                                  |                              | 0,03                 | 0,01                                       | 0,06                 | 0,03                                       | 0,08                 |
| Excluding discontinued operations        |                              |                      |  |                      |  |                      |
| Basic                                    |                              | 0,03                 | 0,01                                       | 0,06                 | 0,03                                       | 0,08                 |
| Diluted                                  |                              | 0,03                 | 0,01                                       | 0,06                 | 0,03                                       | 0,08                 |

The notes are an integral part of the consolidated financial statements at 30 September 2005 and 2004.

The Chief Accountant

The Board

SONAECON, S.G.P.S., S.A. AND SUBSIDIARIES

CONSOLIDATED MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE PERIODS ENDED AT 30 SEPTEMBER 2005 AND 2004

(Amounts expressed in Euro)

|   | 2005          |                |               |                |                                   |                  |                |                    |                   |              |
|---|---------------|----------------|---------------|----------------|-----------------------------------|------------------|----------------|--------------------|-------------------|--------------|
|   | Reserves      |                |               |                |                                   |                  |                |                    |                   |              |
|   | Share capital | Legal reserves | Share premium | Other reserves | Initial adjustments for IAS /IFRS | Hedging reserves | Total reserves | Minority Interests | Net income/(loss) | Total        |
| Balance at 31 December 2004   | 226.250.000   | 114.360        | 335.819.541   | (201.827.377)  | (121.380.899)                     | (369.155)        | 12.356.470     | -                  | 18.048.373        | 256.654.843  |
| Appropriation of consolidated result of 2004                          | -             | -              | -             | 18.048.373     | -                                 | -                | 18.048.373     | -                  | (18.048.373)      | -            |
| Consolidated net income/(loss) for the period ended 30 September 2005 | -             | -              | -             | -              | -                                 | -                | -              | -                  | 7.344.883         | 7.344.883    |
| Premium and reserves to cover losses                                  | -             | -              | (78.641.576)  | 78.641.576     | -                                 | -                | -              | -                  | -                 | -            |
| Hedging reserves (Swaps)  | -             | -              | -             | -              | -                                 | 330.212          | 330.212        | -                  | -                 | 330.212      |
| Adjustments in foreign currency translation reserves and others       | -             | -              | -             | 40.621         | -                                 | -                | 40.621         | -                  | -                 | 40.621       |
| Balance at 30 September 2005  | 226.250.000   | 114.360        | 257.177.965   | (105.096.807)  | (121.380.899)                     | (38.943)         | 30.775.676     | -                  | 7.344.883         | 264.370.559  |
| Minority interests  |               |                |               |                |                                   |                  |                |                    |                   |              |
| Balance at 31 December 2004   | -             | -              | -             | -              | -                                 | -                | -              | 183.919.719        | -                 | 183.919.719  |
| Hedging reserves (Swaps)  | -             | -              | -             | -              | -                                 | -                | -              | 365.956            | -                 | 365.956      |
| Minority interests on results   | -             | -              | -             | -              | -                                 | -                | -              | 11.133.472         | -                 | 11.133.472   |
| Minority changes and others (*)                                       | -             | -              | -             | -              | -                                 | -                | -              | (10.724.893)       | -                 | (10.724.893) |
| Balance at 30 September 2005  | -             | -              | -             | -              | -                                 | -                | -              | 184.694.254        | -                 | 184.694.254  |
| Total   | 226.250.000   | 114.360        | 257.177.965   | (105.096.807)  | (121.380.899)                     | (38.943)         | 30.775.676     | 184.694.254        | 7.344.883         | 449.064.813  |
|   | 2004          |                |               |                |                                   |                  |                |                    |                   |              |
|   | Reserves      |                |               |                |                                   |                  |                |                    |                   |              |
|   | Share capital | Legal reserves | Share premium | Other reserves | Initial adjustments for IAS /IFRS | Hedging reserves | Total reserves | Minority Interests | Net inome/(loss)  | Total        |
| Balance at 31 December 2003   | 226.250.000   | 114.360        | 335.819.541   | (182.577.529)  | (121.380.899)                     | (441.710)        | 31.533.763     | -                  | (19.170.834)      | 238.612.929  |
| Appropriation of consolidated result of 2003                          | -             | -              | -             | (19.170.834)   | -                                 | -                | (19.170.834)   | -                  | 19.170.834        | -            |
| Consolidated net income/(loss) for the period ended 30 September 2004 | -             | -              | -             | -              | -                                 | -                | -              | -                  | 13.414.292        | 13.414.292   |
| Hedging reserves (Swaps)  | -             | -              | -             | -              | -                                 | 19.999           | 19.999         | -                  | -                 | 19.999       |
| Adjustments in foreign currency translation reserves and others       | -             | -              | -             | 240.709        | -                                 | -                | 240.709        | -                  | -                 | 240.709      |
| Balance at 30 September 2004  | 226.250.000   | 114.360        | 335.819.541   | (201.507.654)  | (121.380.899)                     | (421.711)        | 12.623.637     | -                  | 13.414.292        | 252.287.930  |
| Minority interests  |               |                |               |                |                                   |                  |                |                    |                   |              |
| Balance at 31 December 2003   | -             | -              | -             | -              | -                                 | -                | -              | 164.420.927        | -                 | 164.420.927  |
| New companies   | -             | -              | -             | -              | -                                 | -                | -              | (2.458.744)        | -                 | (2.458.744)  |
| Supplementary capital made by minorities                              | -             | -              | -             | -              | -                                 | -                | -              | 1.432.958          | -                 | 1.432.958    |
| Hedging reserves (Swaps)  | -             | -              | -             | -              | -                                 | -                | -              | (489.309)          | -                 | (489.309)    |
| Minority interests on results   | -             | -              | -             | -              | -                                 | -                | -              | 17.286.005         | -                 | 17.286.005   |
| Minority changes and others   | -             | -              | -             | -              | -                                 | -                | -              | (399.992)          | -                 | (399.992)    |
| Balance at 30 September 2004  | -             | -              | -             | -              | -                                 | -                | -              | 179.791.845        | -                 | 179.791.845  |
| Total   | 226.250.000   | 114.360        | 335.819.541   | (201.507.654)  | (121.380.899)                     | (421.711)        | 12.623.637     | 179.791.845        | 13.414.292        | 432.079.775  |

(\*) Includes Euro 7,667,332 related to the 2.77% Optimus acquisition to a minority shareholder and Euro 2,344,350 related to the acquisition of supplementary capital made to that subsidiary by the same shareholder.

The notes are an integral part of the consolidated financial statements at 30 September 2005 and 2004.



SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE PERIODS ENDED AS AT 30 SEPTEMBER 2005 AND 2004

(Amounts expressed in Euro)

|  | September 2005       | September 2004       |
|--|----------------------|----------------------|
| Operational results before amortisations, depreciations and provisions | 130.708.635          | 169.865.600          |
| Working capital variation  | (19.087.941)         | (40.620.873)         |
| <b>Cash flows from operating activities</b>                            | <b>111.620.694</b>   | <b>129.244.727</b>   |
| Net financial investment   | (20.558.747)         | (8.979.978)          |
| Investments at fair value through profit and loss                      | (1.344.089)          | -                    |
| Net tangible and intangible assets investment                          | (81.570.253)         | (57.535.959)         |
| <b>Cash flow from investing activities</b>                             | <b>(103.473.089)</b> | <b>(66.515.937)</b>  |
| Receipts from:   |                      |                      |
| Loans obtained   | 146.088.445          | 43.552.787           |
| Interest and similar income  | 3.912.985            | 2.466.726            |
| Payments for:  |                      |                      |
| Loans obtained repaid  | -                    | (196.946.598)        |
| Interest and similar income  | (10.525.632)         | (18.486.336)         |
| <b>Cash flow from financing activities</b>                             | <b>139.475.798</b>   | <b>(169.413.421)</b> |
| <b>Net cash flows</b>  | <b>147.623.403</b>   | <b>(106.684.631)</b> |
| Cash and cash equivalents at the beginning of the period               | 51.429.738           | 147.585.990          |
| Cash and cash equivalents at end of the period                         | 199.053.141          | 40.901.359           |

The notes are an integral part of the Sonaecom consolidated financial statements at 30 September 2005 and 2004.

The Chief Accountant

The Board of Directors

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

FOR THE PERIODS ENDED AS AT 30 SEPTEMBER 2005 AND 2004

(Amounts expressed in Euro)

**1 - Description of cash and cash equivalents components:**

|                                  | <b>2005</b>        | <b>2004</b>       |
|----------------------------------|--------------------|-------------------|
| Cash in hand                     | 516.370            | 297.492           |
| Cash at bank                     | 7.172.736          | 9.702.828         |
| Treasury applications            | 192.099.506        | 30.901.039        |
| Overdrafts                       | (735.471)          | (725.587)         |
| <b>Cash and cash equivalents</b> | <b>199.053.141</b> | <b>40.175.772</b> |
| Overdrafts                       | 735.471            | 725.587           |
| <b>Cash assets</b>               | <b>199.788.612</b> | <b>40.901.359</b> |

**2 - Acquisitions of financial investments**

|                                  |                   |
|----------------------------------|-------------------|
| OPTIMUS - Acquisition of 2,77%   | 18.607.151        |
| ENABLER PT - Acquisition of 1,2% | 298.000           |
| RETAILBOX - Acquisition of 7%    | 1.653.596         |
|                                  | <b>20.558.747</b> |

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## ***Notes to the consolidated financial statements at 30 September 2005 and 2004***

(Amounts expressed in Euro)

SONAECOM, S.G.P.S., S.A. (hereinafter referred to as “the Company” or “Sonaecom”) was established on 6 June 1988 under the name Sonae – Tecnologias de Informação, S.A. and has its head office at Lugar de Espido, Via Norte, Maia – Portugal. It is the parent company of the group of companies listed in Notes 2 and 3 (“the Group”).

Pargeste, S.G.P.S., S.A.’s subsidiaries in the communications and information technology area were transferred to the Company through a demerger-merger process, executed by public deed dated 30 September 1997.

On 3 November 1999 the Company’s share capital was increased, its articles of association were modified and its name was changed to Sonae.com, S.G.P.S., S.A.. Since then the Company’s corporate object has been the management of investments in other companies. Also on 3 November 1999, the company’s share capital was re-denominated to Euro, being represented by one hundred and fifty million shares with a nominal value of 1 Euro each.

On 1 June 2000, the company carried out a Combined Share Offer, involving the following:

- A Retail Share Offer of 5,430,000 shares, representing 3.62% of the share capital, made in the domestic market and aimed at: (i) employees of the Sonae Group; (ii) customers of the companies controlled by Sonaecom; and (iii) the general public.
- An Institutional Offering for sale of 26,048,261 shares, representing 17.37% of the share capital, aimed at domestic and foreign institutional investors.

In addition to the Combined Share Offer, the Company’s share capital was increased under the terms explained below. The new shares were fully subscribed for and paid up by Sonae, S.G.P.S., S.A. (a shareholder of Sonaecom, hereinafter referred to as Sonae). The capital increase was subscribed for and paid up on the date the price of the Combined Share Offer was determined, and paid up in cash, 31,000,000 new ordinary shares of 1 Euro each being issued. The subscription price for the new shares was the same as that fixed for the sale of shares in the aforementioned Combined Share Offer, which was Euro 10.

In addition, Sonae sold 4,721,739 Sonaecom shares under an option granted to the banks leading the Institutional Offer for Sale and 1,507,865 shares to Sonae Group managers and to the former owners of the companies acquired by Sonaecom.

By decision of the Shareholders’ General Meeting held on 17 June 2002, Sonaecom’s share capital was increased from Euro 181,000,000 to Euro 226,250,000 by public subscription reserved for the existing shareholders, 45,250,000 new shares of 1 Euro each having been fully subscribed for and paid up at the price of Euro 2.25 per share.

On 30 April 2003 the Company’s name was changed, by public deed, to SONAECOM, S.G.P.S., S.A..

The Group's business consists essentially of:

- Mobile telecommunications operations;
- Fixed telecommunications operations and Internet;
- Multimedia;
- Information systems consultancy.

The Group operates, essentially, in Portugal, with some subsidiaries (Information systems companies) in Brazil, United Kingdom, Holland and Germany.

Since 1 January 2001 all Group companies based in the Euro zone have adopted the Euro as their base currency for processing, systems and accounting.

The consolidated financial statements are also presented in Euro and the transactions in foreign currencies are included in accordance with the accounting policies detailed below.

## **1. Basis of presentation**

The accompanying consolidated financial statements have been prepared on a going concern basis, based on the accounting records of the companies included in the consolidation (Notes 2 and 3) in accordance with International Financial Reporting Standards ("IAS/IFRS") issued by the International Accounting Standards Board ("IASB"). Sonaecom adopted "IAS/ IFRS" for the first time according to SIC 8 (First time adoption of IAS) on 1 January 2003.

Certain accounting principles and policies used in the preparation of the attached consolidated financial statements, prepared in accordance with IAS/IFRS, differ from those used to prepare consolidated financial statements in accordance with generally accepted accounting principles in Portugal, namely the non-recognition of intangible assets and deferred costs relating to subscriber acquisition costs, start-up expenses, research and development expenses and the write-back of goodwill as an asset which, as from 1 January 2001, was recorded directly under the caption of "Other reserves".

Sonaecom adopted, in advance and with effect from 1 January 2004, IFRS 2 – "Share – Based Payments", related to the recognition of shares and share options plans.

Sonaecom decided to adopt, with effect from 1 January 2004, IFRS 3 – "Business Combinations", and accordingly has stopped the amortisation of goodwill generated in relation to the acquisition of financial investments and has performed the necessary impairment tests pursuant to the new version of IAS 36.

Lastly, on 31 December 2004, Sonaecom changed the accounting treatment of costs relating to up-front fees of arranging and setting-up of bank financings. These costs are now treated as a deduction from the nominal debt and are expensed over the term of the financing, based on the effective interest rate ("amortised cost"), in accordance with the terms of IAS 18 and 39 (Note 13).

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

### **Main accounting policies**

The main accounting policies used in the preparation of the attached consolidated financial statements were as follows:

#### **a) Investments in Group companies**

Investments in companies in which the Group has direct or indirect voting rights at Shareholders’ General Meetings, in excess of 50%, or in which it has control over the financial and operating policies (definition of control used by the Group) were fully consolidated in the attached consolidated financial statements. Third party participations in the shareholders’ equity and net results of those companies are reflected separately in the consolidated balance sheet and in the consolidated statement of profit and loss, respectively, under the caption “Minority interests”.

When losses attributable to minority shareholders exceed minority interests in shareholders’ funds of the subsidiaries, the Group absorbs the excess together with any additional losses, except where the minority shareholders have the obligation and are able to cover those losses. If subsidiaries subsequently report profits, the Group appropriates all the profits until the amount of the minority interests in the losses absorbed by the Group is recovered.

When acquiring subsidiaries, the purchase method is used. The results of subsidiaries bought or sold during the year are included in the statement of profit and loss as from the date of acquisition or up to the date of sale. Intra Group transactions, balances and dividends are eliminated.

The fully consolidated companies are listed in Note 2.

#### **b) Investments in associated companies**

Investments in associated companies (generally investments representing between 20% and 50% of a company’s share capital) are recorded using the equity method.

In accordance with the equity method, investments are adjusted annually by an amount corresponding to the Group’s share of the net results of associated companies, against a corresponding entry to gain or loss for the year, and by the amount of dividends received, as well as by other changes in the equity of the associated companies, which are recorded by corresponding entry to the caption “Other reserves”.

An assessment of the investments in associated companies is performed annually, with the aim of detecting possible impairment situations.

When the Group’s share of accumulated losses of an associated company exceeds the book value of the investment, the investment is recorded at nil value, except when the Group has assumed commitments to the associated company, in which case a provision is recorded for that purpose under the caption “Provisions for other liabilities and charges”.

Investments in associated companies are listed in Note 3.

**c) Tangible assets**

Tangible assets are recorded at cost less accumulated depreciation and less estimated accumulated impairment losses.

Depreciation is provided on a straight-line monthly basis as from the date the assets are brought into use, by corresponding charge to the statement of profit and loss caption “Depreciation and amortisation”.

Impairment losses detected in the market value of tangible assets are recorded in the year in which they arise, by corresponding charge to the caption “Other operating costs” of the statement of profit and loss.

The annual depreciation rates used correspond to the estimated useful life of the assets, which are as follows:

|                           | <u>Years of useful life</u> |
|---------------------------|-----------------------------|
| Buildings                 | 50                          |
| Other constructions       | 10-20                       |
| Network                   | 10-20                       |
| Other plant and machinery | 8                           |
| Vehicles                  | 4                           |
| Fixtures and fittings     | 3-10                        |
| Tools                     | 5-8                         |
| Other tangible assets     | 4-8                         |

Current maintenance and repair costs of fixed assets are recorded as costs in the year in which they occur. Improvements of significant amount, which increase the estimated useful life of the assets, are capitalised and depreciated in accordance with the remaining estimated useful life of the corresponding assets.

Work in progress corresponds to fixed assets still in the construction/development stage which are recorded at cost. These assets are depreciated as from the moment they are completed or they are in condition to be used.

During the period ended 30 September 2005, the Group has made a reassessment of the useful life of certain assets recorded under Tangible assets, with a prospective application (Note 5).

#### **d) Intangible assets**

Intangible assets are recorded at cost less accumulated amortisation and less estimated impairment losses. Intangible assets are only recognised if it is likely that they will bring future economic benefit to the Group, if the Group controls them and if their value can be reasonably measured.

Intangible assets correspond, essentially, to software (excluding that included in tangible assets – telecommunication sites' software), industrial property and costs incurred with the mobile network operator licenses (GSM and UMTS) and the fixed network operator licenses.

Amortisation is provided on a straight-line monthly basis, over the estimated useful life of the assets (three to six years) as from the month in which the corresponding expenses are incurred. Mobile and fixed network operator licences are amortised over the period for which they were granted (15 years). The UMTS license is being amortised for an 11 year period, which corresponds to the period between the commercial launch date and the maturity of the license.

Amortisation for the period is recorded in the statement of profit and loss under the caption "Depreciation and amortisation".

During the period ended 30 September 2005, the Group has made a reassessment of the useful life of certain assets recorded under Intangible assets, with a prospective application (Note 6).

#### **e) Brands and patents**

Brands and patents are recorded at acquisition cost and are amortised on a straight-line basis over their respective estimated useful life.

#### **f) Goodwill**

Differences between the cost of investments in subsidiaries and associated companies and the amount attributed to the fair value of their identifiable assets and liabilities at the time of their acquisition, when positive, are recorded under the caption "Goodwill", and, when negative, after a reapreciation of its calculation, are recorded directly in the statement of profit and loss. Until 1 January 2004, "Goodwill" was amortised over the estimated period of recovery of the investments, usually ten years, and the amortisation was recorded in the statement of profit and loss under the caption "Depreciation and amortisation". Since 1 January 2004 and in accordance with the IFRS 3 – "Business Combinations", the Group has stopped the amortization of the "Goodwill". Impairment losses of goodwill are recorded in the statement of profit and loss for the period under the caption "Other operating costs".

When acquiring further stakes in financial investment already held by the Group, an amount of Goodwill is registered equal to the difference between the cost of acquisition of such financial investments and the proportionate amount of the shareholders funds of the acquired company.



## **g) Investments**

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

### **a) 'Financial assets at fair value through profit or loss'**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

### **b) 'Loans and receivables'**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

### **c) 'Held-to-maturity investments'**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

### **d) 'Available-for-sale financial assets'**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

#### **h) Finance leases**

The lease contracts are classified as (i) financial leases, if, in substance, all risks and rewards associated with the possession of the leased asset are transferred by the lease contract and as (ii) operational leases, if, in substance, there is no transfer of risks and rewards associated with the possession of the leased asset.

The lease contracts are classified as financial or operational in accordance with the substance and not with the form of the respective contracts.

Fixed assets acquired under finance lease contracts and the related liabilities are recorded in accordance with the financial method. Under this method the tangible assets, the corresponding accumulated depreciation and liabilities are recorded in accordance with the contractual financial plan at fair value or, if less, at present value of payments. In addition, interest included in lease payments and depreciation of the tangible assets is recognised as expenses in the statement of profit and loss for the year to which they relate.

#### **i) Operational leasing (long term rentals)**

Leases are classified as financial whenever the terms of the respective contract indicate that a substantial transfer of risks and costs to the Company has occurred. All other leases are classified as Operational leasing.

Assets under long term rental contracts are recorded in accordance with the operational lease method. In accordance with this method, the rents paid are recognised as an expense, over the rental period.

#### **j) Inventories**

Inventories are stated at their acquisition cost net of eventual impairment losses.

Accumulated inventory impairment losses reflect the difference between the acquisition cost and the realisable value of inventories, as well as the estimated impairment losses due to low turnover, obsolescence and deterioration (Note 15).

#### **k) Trade and other current debtors**

Trade debtors and other current debtors are recorded at their nominal value less impairment losses, reflecting their net realisable value.

#### **l) Cash and cash equivalents**

Amounts included under the caption “Cash and cash equivalents” correspond to amounts held in cash, demand and term bank deposits and other treasury applications where the risk of any change in value is insignificant.

#### **m) Loans**

Loans are recorded as liabilities at their fair value. Any expenses incurred in setting up loans are recorded as an “amortised cost” and recognised as a deduction to the nominal debt during the period of the financing and based on the effective interest rate method.

#### **n) Financial expenses relating to loans obtained**

Financial expenses relating to loans obtained are generally recognised as expenses at the time they are incurred. Financial expenses relating to loans obtained directly for the acquisition, construction or production of fixed assets are capitalised as part of the cost of the assets. These expenses are capitalised starting from the time of preparation for the construction or development of the asset. The capitalization is interrupted when the assets are operating or at the end of the production or construction phases or when the associated project is suspended.

#### **o) Derivatives**

The Group only uses derivatives in the management of its financial risks to hedge against such risks. The Group does not use derivatives for trading (speculation) purposes.

The cash flow hedges used by the Group are related to interest rate swap operations to hedge against interest rate risks on loans obtained. The amounts, interest payment dates and repayment dates of the underlying interest rate swaps are identical in all respects to the conditions established for the contracted loans. Changes in the fair value of cash flow hedges are recorded in assets or liabilities, against the corresponding entry under the caption “Hedging reserves” in shareholders’ funds.

In the cases where the hedge instrument is not effective, the amounts derived from the adjustments to fair value are recorded directly in the profit and loss statement.

#### **p) Provisions and contingencies**

Provisions are recognised when, and only when, the Group has a present obligation (either legal or implicit) resulting from a past event, the resolution of which is likely to involve the disbursement of funds by an amount that can be reasonably estimated. Provisions are reviewed at the balance sheet date and adjusted to reflect the best estimate at that date.

Provisions for restructurings are only registered if the Group has a detailed plan and if that plan was already communicated to the parties involved.

Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes, provided that the possibility of a cash outflow affecting future economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements but are disclosed in the notes when future economic benefits are likely to occur.

#### **q) Income tax**

Income tax for the year is determined based on the taxable results of companies included in the consolidation and takes into consideration deferred taxation.

Current income tax is determined based on the taxable results of the companies included in the consolidation, in accordance with tax regulations in force in the location of the head office of each Group company.

Deferred taxes are calculated using the liability method and reflect the timing differences between the amount of assets and liabilities for accounting purposes and the respective amounts for tax purposes.

Deferred tax assets are only recognised when there is reasonable expectation that sufficient taxable profits will arise in the future to allow such deferred tax assets to be used. At the end of each year a review is made of the recorded and unrecorded deferred tax assets and they are reduced whenever their realisation ceases to be probable, or recorded if it is probable that taxable profits will be generated in the future to enable them to be recovered (Note 9).

Deferred taxes are calculated with the tax rate that is expected to be in effect at the time the asset or liability is used.

Whenever deferred taxes derive from assets or liabilities directly registered in Shareholders' funds, its recording is also made in Shareholders' funds. In any other situation, deferred taxes are always registered in the profit and loss statement.

#### **r) Government subsidies**

Subsidies awarded to finance personnel training are recognised as income during the period where the Company incurs the associated costs and are included in the profit and loss statement as a deduction to such costs.

Subsidies awarded to finance investments in tangible assets are registered as deferred income and are included in the profit and loss statement over the estimated useful life of the corresponding assets.

#### **s) Accruals basis and revenue recognition**

Expenses and income are recorded in the year to which they relate, regardless of their date of payment or receipt. Estimated amounts are used where actual amounts are not known.

Expenses and income relating to the current period, where payment and receipt will occur in future periods, as well as payments and receipts in the current period but which relate to future periods, the amounts corresponding to each period being included in such periods, are reflected in the captions of “Other non current assets”, “Other current assets”, “Other non current liabilities” and “Other current liabilities”.

Revenue from telecommunications services is recognised in the period in which it occurs. Such services are invoiced on a monthly basis. Revenues not yet invoiced, from the last invoicing cycle to the end of the month, are estimated and recorded based on actual traffic. Differences between the estimated and actual amounts, which are usually not material, are recorded in the following period.

Sales revenues are recognised in the consolidated profit and loss statement when the significant risks and benefits associated with ownership of the assets are transferred to the buyer and the amount of the corresponding revenue can be reasonably quantified. Sales are recognised net of taxes and discounts.

The income related to pre-paid cards is recognised whenever the minutes are used. At the end of each period the minutes still to be used are estimated and the value of income associated with those minutes is deferred.

Non-current financial assets and liabilities are recorded at fair value and, in each period, the financial actualisation to the fair value is recorded in the statement of profit and loss under the caption “Financial results”.

Dividends are recognised when the right of the shareholders to receive such amounts is appropriately established and communicated.

#### **t) Balance sheet classification**

Assets and liabilities due in more than one year from the date of the balance sheet are classified, respectively, as non-current assets and non-current liabilities.

In addition, considering their nature, the deferred tax assets and the provisions for other liabilities and charges, are classified as non current assets and liabilities (Notes 9 and 15).

#### **u) Legal reserve**

Portuguese commercial legislation requires that at least 5% of annual net profit must be appropriated to a legal reserve, until the reserve reaches at least 20% of the share capital. This reserve is not distributable, except in the case of liquidation of the company, but may be used to absorb losses, after all the other reserves are exhausted, or to increase the share capital.

#### **v) Foreign currency**

All assets and liabilities expressed in foreign currency were converted into Euro using the exchange rates in force on the balance sheet date.

Favourable and unfavourable foreign exchange differences resulting from changes in the rates in force at transaction date and those in force at the date of collection, payment or at the balance sheet date are recorded as income and expenses in the consolidated profit and loss statement of the year.

Entities operating abroad with organisational, economic and financial autonomy are treated as foreign entities.

Assets and liabilities in the financial statements of foreign entities are converted into Euro using the rates of exchange in force on the balance sheet date and expenses and income in such financial statements are converted into Euro using the average rates of exchange for the period. The resulting exchange differences are recorded in the shareholders' funds caption "Other reserves".

Goodwill and adjustments to fair value generated in acquisitions of foreign entities reporting in a functional currency other than Euro are converted into Euro using the exchange rates prevailing on the balance sheet date.

The following rates were used for conversion into Euro of the accounts of foreign subsidiaries and associated companies:

|                 | <b>2005</b>     |                | <b>2004</b>     |                |
|-----------------|-----------------|----------------|-----------------|----------------|
|                 | <u>30.09.05</u> | <u>Average</u> | <u>30.09.04</u> | <u>Average</u> |
| Pounds Sterling | 1.46638         | 1.45992        | 1.45603         | 1.48606        |
| Brazilian Real  | 0.37441         | 0.31947        | 0.28281         | 0.27475        |

#### **w) Assets impairment**

Impairment tests are performed at the date of each balance sheet and whenever an event or change of circumstances indicates that the recorded value of an asset may not be recoverable. Whenever the book value of an asset is greater than the amount recoverable, an impairment loss is recognised and recorded in the statement of profit and loss under the caption “Other operating costs”, in the case of fixed assets and goodwill, under the caption “Financial expenses” in the case of financial investments and under the caption “Provisions and impairment losses”, in relation to the other assets. The amount recoverable is the greater of the net sales price and the value of use. Net sales price is the amount obtainable upon sale of an asset in a transaction within the capability of the parties involved, less the costs directly related to the sale. The value of use is the present value of the estimated future cash flows expected to result from the continued use of the asset and its sale at the end of its useful life. The recoverable value is estimated for each asset individually or, if this is not possible, for the cash-generating unit to which the asset belongs.

#### **x) Deferred Performance Bonus Plans**

As from 1 January 2004, Sonaecom has opted for early adoption of IFRS 2 – “Share-based Payments”, which relates to the Accounting Treatment of Share and Share Options Plans.

Under IFRS 2, when the settlement of plans established by the Group involves the delivery of Sonaecom’s own shares, the estimated responsibility is recorded, as a credit entry, under the caption “Other reserves”, within the heading “Shareholders’ funds” and is charged as an expense under the caption “Staff expenses” in the profit and loss statement.

The quantification of this responsibility is based on fair value and responsibility is recognised over the vesting period of each plan (from the award date of the plan until its vesting or settlement date). The total responsibility, at any point of time, is calculated based on the proportion of the vesting period that has “elapsed” up to the respective accounting date.

When the responsibilities associated with any plan are covered by a hedging contract, i.e., when those responsibilities are replaced by a fixed amount payable to a third party and when Sonaecom is no longer the party that will deliver the Sonaecom shares, at the settlement date of each plan, the above accounting treatment is subject to the following changes:

- a) The total gross fixed amounts payable to third parties are recorded in the balance sheet as either “Other non current liabilities” or “Other current liabilities”;
- b) The part of this responsibility that has not yet been recognised in the profit and loss statement (the “unelapsed” proportion of the cost of each plan) is deferred and is recorded, in the balance sheet as either “Other non current assets” or “Other current assets”;
- c) The net effect of the entries in (a) and (b) above eliminate the original entry to “Shareholders’ funds”;
- d) In the profit and loss account statement, the “elapsed” proportion continues to be charged as an expense under the caption “Staff expenses”.

The plans that are settled by the delivery of shares of Sonae S.G.P.S.,S.A. are recorded under “Provisions”, pro-rata to the respective vesting periods. When these responsibilities are covered

by hedging contract, the accounting treatment is as described above with the effects of such contracts being recorded against “Provisions”, instead of Shareholders’ funds.

On 2003, the Group signed hedging contracts, as a result of which, the responsibilities for delivering the Sonaecom and Sonae S.G.P.S., S.A. shares under Sonaecom’s Deferred Performance Bonus Plans were substituted by fixed amounts payable on the vesting date of each plan. At 30 September 2005, all plans were hedged and, the total impact of the Deferred Performance Bonus Plans is recorded in the balance sheet as “Other current and non current assets” and “Other current and non current liabilities”. In the profit and loss account, the impact is recorded under the caption “Staff expenses”.

#### **y) Subsequent events**

Events occurring after the date of the balance sheet which provide additional information about conditions prevailing at the time of the balance sheet (adjusting events) are reflected in the consolidated financial statements. Events occurring after the balance sheet date that provide information on post-balance sheet conditions (non adjusting events), when material, are disclosed in the notes to the consolidated financial statements.



## 2. Companies included in the consolidation

Group companies included in the consolidation, their head offices, main activity, shareholders and percentage of share capital held at 30 September 2005 and 2004, are as follows:

| Company<br>(Commercial brand)  | Head office                    | Main activity   | Shareholder                            | Percentage of share capital held |            |        |            |
|--|--------------------------------|---|--|----------------------------------|------------|--------|------------|
|  |                                |   |  | 2005                             |            | 2004   |            |
|  |                                |   |  | Direct                           | Effective* | Direct | Effective* |
| Parent company:<br>SONAECON, S.G.P.S.,<br>S.A. ("Sonaecom")  | Maia                           | Management of<br>shareholdings.   | -                                      | -                                | -          | -      | -          |
| Subsidiaries:<br>Clixgest – Internet e<br>Conteúdos, S.A.<br>("Clixgest" using the<br>brand name "Clix") | Maia                           | All activities relating to<br>information and multi-<br>media technologies, namely<br>Internet, contents and<br>electronic commerce.                          | Sonae Matrix                           | 56.67%                           | 56.67%     | 56.67% | 56.67%     |
| Digitmarket – Sistemas<br>de Informação, S.A.<br>("Digitmarket" using the<br>brand name "Bizdirect")     | Maia                           | Development of<br>management platforms and<br>commercialisation of<br>products, services and<br>information, with the<br>internet as its main support.        | Sonae.com<br>Sistemas de<br>Informação | 75.1%                            | 75.1%      | 75.1%  | 75.1%      |
| Enabler – Informática,<br>S.A. ("Enabler")   | Maia                           | Rendering of services<br>relating to the development,<br>commercialisation and<br>implementation of software<br>solutions.                                    | Retailbox                              | 98.5%                            | 74.4%      | 100%   | 70%        |
| Enabler Brasil, Ltda.<br>("Enabler Brasil")  | Curitiba-<br>Paraná,<br>Brazil | Commercialisation of<br>software developed by the<br>companies or by third<br>parties; provision of<br>technical consultancy<br>services relating to software | Enabler                                | 99.99%                           | 74.39%     | 99.99% | 69.99%     |
| Enabler & Retail Consult,<br>GmbH<br>(Enabler Germany)   | Germany                        | Rendering of services in the<br>area of development,<br>commercialisation and<br>implementation of software<br>solutions.                                     | Enabler                                | 85%                              | 63.24%     | 85%    | 59.5%      |
| Enabler UK, Limited<br>("Enabler UK")  | United<br>Kingdom              | Rendering of services in the<br>area of development,<br>commercialisation and<br>implementation of software<br>solutions.                                     | Enabler                                | 100%                             | 74.4%      | 85%    | 59.5%      |
| Exit Travel – Agência de<br>Viagens e Turismo<br>Online, S.A. ("Exit")                                   | Maia                           | Internet travel, tourism and<br>leisure agency.   | Sonaecom                               | (Sold)                           |            | 75%    | 75%        |
| Jaua, S.G.P.S, S.A.<br>(Jaua) (a)  | Lisbon                         | Management of<br>shareholdings.   | Novis                                  | -                                | -          | 100%   | 56.67%     |
| KPNQwest Portugal -<br>Telecomunicações, Lda<br>("KPNQwest") (a)   | Lisbon                         | Supply of internet access.  | Jaua                                   | -                                | -          | 51%    | 28.9%      |
|  |                                |   | Noriema                                | -                                | -          | 49%    | 27.77%     |

\* Sonaecom effective participation

| Company<br>(Commercial brand)   | Head office | Main activity  | Shareholder     | Percentage of share capital held |            |        |            |
|---|-------------|--|-----------------|----------------------------------|------------|--------|------------|
|   |             |  |                 | 2005                             |            | 2004   |            |
|   |             |  |                 | Direct                           | Effective* | Direct | Effective* |
| Mainroad – Serviços em Tecnologias de Informação, S.A. (“Mainroad”)                               | Maia        | Rendering of consultancy services in IT areas.   | Novis           | 100%                             | 56.67%     | 100%   | 56.67%     |
| Miauger – Organização e Gestão de Leilões Electrónicos, S.A. (“Miauger”)                          | Maia        | Organisation and management of electronic auctions of products and services on-line.   | Sonaecom        | 100%                             | 100%       | 100%   | 100%       |
| Noriema, S.G.P.S.,S.A. (“Noriema”) (a)  | Lisbon      | Management of shareholdings.   | Novis           | -                                | -          | 100%   | 56.67%     |
| M3G – Edições Digitais, S.A. (“M3G”)  | Lisbon      | Digital publishing, electronic publishing and production of Internet contents.   | Público.pt      | 100%                             | 99.99%     | 100%   | 99.99%     |
| Novis Telecom, S.A. (“Novis”)   | Maia        | Installation, maintenance and operation of information processing and telecommunications equipment, network management and supply of value-added information and services. | Sonaecom        | 15%                              | 15%        | 15%    | 15%        |
|   |             |  | Sonae Matrix    | 41.67%                           | 41.67%     | 41.67% | 41.67%     |
| Optimus – Telecomunicações, S.A. (“Optimus”)  | Maia        | Rendering of mobile telecommunications services and the establishment, management and operation of telecommunications networks.  | Sonae Telecom   | 49.06%                           | 49.06%     | 46.29% | 46.29%     |
| Per-Mar – Sociedade de Construções, S.A. (“Per-Mar”)  | Maia        | Purchase, sale, renting and operation of property and commercial establishments.   | Optimus         | 100%                             | 49.06%     | 100%   | 46.29%     |
| Público – Comunicação Social, S.A. (“Público”)  | Oporto      | Editing, composition and publication of periodical and non-periodical material.  | Sonaetelecom BV | 99.99%                           | 99.99%     | 99.99% | 99.99%     |
| Público.pt – Serviços Digitais Multimédia, S.A. (“Público.pt”)                                    | Maia        | Dissemination of goods and services in electronic format, dissemination of multimedia information and promotion of trade in a digital environment.                         | Público         | 100%                             | 99.99%     | 100%   | 99.99%     |
| Retailbox BV (“Retailbox”)  | Amsterdam   | Management of shareholdings.   | Sonaetelecom BV | 71%                              | 75.53%     | 70%    | 70%        |
| Optimus Towering – Exploração de Torres de Telecomunicações, S.A. (“Optimus Towering” ex “Situs”) | Maia        | Implementation, installation and exploitation of towers and other sites for the placement of telecommunications equipment.   | Optimus         | 100%                             | 49.06%     | 100%   | 46.29%     |

\* Sonaecom effective participation

| Company<br>(Commercial brand)   | Head office    | Main activity   | Shareholder                      | Percentage of share capital held |            |        |            |
|---|----------------|---|----------------------------------|----------------------------------|------------|--------|------------|
|   |                |   |                                  | 2005                             |            | 2004   |            |
|   |                |   |                                  | Direct                           | Effective* | Direct | Effective* |
| Sonae Matrix Multimédia, S.G.P.S., S.A. ("Sonae Matrix")                                | Maia           | Management of shareholdings in the area of multimedia trade.  | Sonaecom                         | 100%                             | 100%       | 100%   | 100%       |
| Sonae Telecom, S.G.P.S., S.A. ("Sonae Telecom")   | Maia           | Management of shareholdings in the area of mobile telecommunications.                                     | Sonaecom                         | 100%                             | 100%       | 100%   | 100%       |
| Sonae.com - Sistemas de Informação, S.G.P.S., S.A. ("Sonae.com Sistemas de Informação") | Maia           | Management of shareholdings in the area of corporate ventures and joint ventures.                         | Sonaecom                         | 100%                             | 100%       | 100%   | 100%       |
| Sonaetelecom BV   | Amsterdam      | Management of shareholdings.  | Sonaecom                         | 100%                             | 100%       | 100%   | 100%       |
| We Do Consulting – Sistemas de Informação, S.A. ("We Do")                               | Maia           | Rendering of consultancy services in the area of software, including systems integration.                 | Sonae.com Sistemas de Informação | 94.56%                           | 94.56%     | 100%   | 100%       |
| Wedo do Brasil Soluções Informáticas, Ltda.   | Rio de Janeiro | Commercialisation of software and hardware. Rendering of consultancy and technical assistance.            | We Do                            | 99.89%                           | 94.46%     | 99.89% | 99.89%     |
| XS – Comunicação, Informação e Lazer, S.A. ("XS" using the brand name "Xis")            | Maia           | Editing, composition and publication of periodical and non-periodical material, through the magazine Xis. | Público                          | 100%                             | 99.99%     | 100%   | 99.99%     |

\* Sonaecom effective participation

(a) These companies were included under the full consolidation method as from 1 April 2004 and were merged into Novis at 1 June 2005, with accounting effects on 1 January 2005 .

All the above companies were included in the consolidation in accordance with the full consolidation method under the terms of IAS 27 (majority of voting rights, through the ownership of shares in the companies). Under the articles of association of Optimus, Sonaecom has 55.11% of the voting rights, although it has a participation of only 49.06%.

### 3. Investments in associated companies

At 30 September 2005 and 2004, this caption included investments in associated companies, which head offices, main activities, shareholders, percentage of share capital held and book value was as follows:

| Company<br>(Commercial<br>brand)   | Head office | Main activity   | Shareholder                            | Percentage of share capital held |            |        |            | Book value     |                |
|--|-------------|---|--|----------------------------------|------------|--------|------------|----------------|----------------|
|  |             |   |  | 2005                             | 2004       | 2005   | 2004       | 2005           | 2004           |
|  |             |   |  | Direct                           | Effective* | Direct | Effective* |                |                |
| <b>Associated companies:</b>   |             |   |  |                                  |            |        |            |                |                |
| Net Mall,<br>S.G.P.S., S.A.<br>("Net Mall")  | Maia        | Management of<br>shareholdings.   | Sonae.Com<br>Sistemas de<br>Informação | 50%                              | 50%        | 50%    | 50%        | (a)            | (a)            |
| Sociedade<br>Independente de<br>Radiodifusão<br>Sonora, S.A.<br>("S.I.R.S.")<br>using the brand<br>name "Rádio<br>Nova") | Oporto      | Sound<br>broadcasting.<br>Radio station.  | Público                                | 45%                              | 45%        | 45%    | 45%        | (a)            | (a)            |
| Unipress –<br>Centro Gráfico,<br>Lda.<br>("Unipress")  | V.N.Gaia    | Trade and industry<br>of graphic design<br>and publishing   | Público                                | 40%                              | 40%        | 40%    | 40%        | 685,669        | 661,186        |
| Global S –<br>Centro<br>Comercial, Lda.  | Matosinhos  | Information<br>technology<br>services to promote<br>and manage<br>multimedia stores.  | Global S                               | 2.4%                             | 0.8%       | 2.4%   | 0.8%       | (b)            | (b)            |
|  |             | Operation of<br>shopping centres<br>(Global Shop).  | Global S 24                            | 97.5%                            | 15.8%      | 97.5%  | 15.8%      | (b)            | (b)            |
| Global S,<br>S.G.P.S., S.A.<br>("Global S")<br>using the brand<br>name "Global<br>Shop")                                 | Matosinhos  | Management of<br>shareholdings.   | Net Mall                               | 64.7%                            | 32.4%      | 64.7%  | 32.4%      | (b)            | (b)            |
| Global S –<br>Tecnologias de<br>Informação,<br>Lda.  | Matosinhos  | Development,<br>production,<br>commercialisation,<br>training and<br>services in the area<br>of information<br>technology,<br>communications<br>and security. | Global S                               | 75%                              | 24.3%      | 75%    | 24.3%      | (b)            | (b)            |
| Global S 24,<br>S.G.P.S., S.A.   | Matosinhos  | Management of<br>shareholdings.   | Global S                               | 50%                              | 16.2%      | 50%    | 16.2%      | (b)            | (b)            |
|  |             |   |  |                                  |            |        |            | <u>685,669</u> | <u>661,186</u> |

\* Sonaecom effective participation

(a) A full provision has been made against the holding cost of these companies.

(b) In 2005 and 2004, the investments in the Global S group of companies held by Net Mall had a nil book value.

The associated companies were included in the consolidated financial statements in accordance with the equity method, as explained in Note 1. b).

#### 4. Changes in the Group

During the period ended 30 September 2005 the following changes occurred in the composition of the Group:

##### 4. a) Acquisitions

| <u>Purchaser</u> | <u>Subsidiary</u> | <u>Date</u> | <u>% acquired</u> | <u>Current % Shareholding</u> |
|------------------|-------------------|-------------|-------------------|-------------------------------|
| Sonae Telecom    | Optimus           | Mar-05      | 2.77%             | 49.06%                        |
| Retailbox        | Enabler           | Apr-05      | 1.2%              | 98.5%                         |
| Sonaetelecom BV  | Retailbox         | May-05      | 7%                | 71%                           |
| Sonae.com SI     | We Do             | Sep-05      | 3.53%             | 94.56%                        |

As a result of the above mentioned acquisitions, additional Goodwill of Euro 9,900,238 was recorded (Note 7).

Subsequent to the legal process between Maxistar and Optimus' shareholders, Sonae Telecom acquired Maxistar's 2.77% shareholding in Optimus, for an amount of Euro 18,607,151, which led to Maxistar making the indemnity payment to Optimus' shareholders due as the result of the legal process (Note 25).

##### 4. b) Internal transactions

| <u>Purchaser</u> | <u>Seller</u> | <u>Subsidiary</u> | <u>Date</u> | <u>% acquired</u> | <u>Current % Shareholding</u> |
|------------------|---------------|-------------------|-------------|-------------------|-------------------------------|
| We Do            | Sonae.com SI  | We Do             | Sep-05      | 8.97%             | -                             |

The public deed of the merger by incorporation of KPNQwest Portugal – Telecomunicações, Lda, Noriema, S.G.P.S.,S.A. and Jaua, S.G.P.S.,S.A. into Novis Telecom, S.A. was executed on 1 June 2005. All these subsidiaries were included in the consolidation under the full consolidation method.

Additionally, the Shareholders General Meeting of the respective companies have already approved the merger by incorporation of Clixgest – Internet e Conteúdos, S.A. into Novis Telecom, S.A.. The formal registration of this merger is still pending but the merger will be considered, for accounting purposes, as effective from 1 January 2005.

According to a Deferred Performance Bonus Plan, We Do acquired own shares to Sonae.com SI, amounted to Euro 1,507,094, and gave all the shares to its employees.

#### 4. c) Sales

| <u>Seller</u> | <u>Subsidiary</u> | <u>Date</u> | <u>% sold</u> | <u>Current % Shareholding</u> |
|---------------|-------------------|-------------|---------------|-------------------------------|
| Sonaecom      | Exit              | Jul-05      | 75%           | -                             |

#### 5. Tangible Assets

The movement in tangible assets and corresponding accumulated depreciation and impairment losses in the periods ended 30 September 2005 and 2004 was as follows:

|   | <u>2005</u> |                                   |                     |           |                       |           |                       |                  |             | <u>2004</u>  |
|---|-------------|-----------------------------------|---------------------|-----------|-----------------------|-----------|-----------------------|------------------|-------------|--------------|
|   | Land        | Buildings and other constructions | Plant and machinery | Vehicles  | Fixtures and fittings | Tools     | Other tangible assets | Work in progress | Total       | Total        |
| <b>Gross assets</b>                                   |             |                                   |                     |           |                       |           |                       |                  |             |              |
| Opening balance                                       | 1,391,593   | 171,509,272                       | 617,944,093         | 130,289   | 119,741,012           | 1,203,681 | 2,820,556             | 9,157,745        | 923,898,241 | 839,112,437  |
| New companies   | -           | -                                 | -                   | -         | -                     | -         | -                     | -                | -           | 6,708,057    |
| Companies no longer consolidated                      | -           | -                                 | -                   | -         | (5,201)               | (1,176)   | -                     | -                | (6,377)     | -            |
| Additions   | -           | 510,506                           | 6,415,685           | 139,442   | 795,756               | 1,450     | 187,320               | 52,738,692       | 60,788,851  | 51,912,800   |
| Disposals   | -           | (919,303)                         | (2,051,856)         | (113,825) | (2,641,966)           | (134,499) | (15,915)              | (1,310,020)      | (7,187,384) | (19,084,456) |
| Transfers and write-offs                              | -           | 11,299,472                        | 33,616,984          | 12,787    | 11,100,298            | (24,787)  | (398,195)             | (55,138,342)     | 468,217     | (1,559,083)  |
| Closing balance                                       | 1,391,593   | 182,399,947                       | 655,924,906         | 168,693   | 128,989,899           | 1,044,669 | 2,593,766             | 5,448,075        | 977,961,548 | 877,089,755  |
|   |             |                                   |                     |           |                       |           |                       |                  |             |              |
|   | <u>2005</u> |                                   |                     |           |                       |           |                       |                  |             | <u>2004</u>  |
|   | Land        | Buildings and other constructions | Plant and machinery | Vehicles  | Fixtures and fittings | Tools     | Other tangible assets | Work in progress | Total       | Total        |
| <b>Accumulated depreciation and impairment losses</b> |             |                                   |                     |           |                       |           |                       |                  |             |              |
| Opening balance                                       | -           | 71,011,417                        | 303,963,767         | 109,914   | 62,977,644            | 1,140,982 | 1,886,136             | -                | 441,089,860 | 348,281,428  |
| Companies no longer consolidated                      | -           | -                                 | -                   | -         | (3,619)               | (1,127)   | -                     | -                | (4,746)     | 5,095,739    |
| New companies   | -           | -                                 | -                   | -         | -                     | -         | -                     | -                | -           | -            |
| Depreciation for the period                           | -           | 12,661,723                        | 46,956,043          | 8,155     | 12,725,650            | 27,075    | 343,146               | -                | 72,721,792  | 74,157,675   |
| Impairment losses in the period                       | -           | -                                 | -                   | -         | -                     | -         | -                     | -                | -           | (229,788)    |
| Disposals   | -           | (96,277)                          | (846,261)           | (23,489)  | (2,502,754)           | (129,073) | (15,915)              | -                | (3,613,769) | (3,265,003)  |
| Transfers and write-offs                              | -           | 94,266                            | (15,154,118)        | 2,548     | 18,632,946            | (32,069)  | (239,631)             | -                | 3,303,942   | (2,056,364)  |
| Closing balance                                       | -           | 83,671,129                        | 334,919,431         | 97,128    | 91,829,867            | 1,005,788 | 1,973,736             | -                | 513,497,079 | 421,983,687  |
| Net amount  | 1,391,593   | 98,728,818                        | 321,005,475         | 71,565    | 37,160,032            | 38,881    | 620,030               | 5,488,075        | 464,464,469 | 455,106,068  |

The additions to Fixed assets in the period include: assets associated with the UMTS operation (Universal Mobile Telecommunications Service); ULL assets (unbundling of the local loop); and assets related with the Triple Play project.

The heading 'Transfers and write-offs' in 'Accumulated depreciation' includes circa Euro 15 million that are associated with the reclassification of cumulative depreciation between the headings 'Plant and machinery' and 'Fixtures and fittings'.

The reassessment of the useful life of certain assets performed during the period ended at 30 September 2005 (Note 1.c)) has generated a reduction of circa Euro 5.7 million in depreciation charges compared to the amount that would have resulted from previous estimated useful lives.

The acquisition cost of Tangible assets held by the Group under finance lease contracts amounted to Euro 14,483,194 and Euro 9,909,416 as of 30 September 2005 and 2004, respectively and their net book value as of those dates amounted to Euro 5,510,914 and Euro 5,798,835, respectively.

Tangible assets in progress at 30 September 2005 and 2004 were made up as follows:

|                               | <b>2005</b>      | <b>2004</b>       |
|-------------------------------|------------------|-------------------|
| Development of mobile network | 2,099,935        | 26,880,203        |
| Development of fixed network  | 2,214,895        | 1,108,536         |
| Information systems           | 1,004,571        | 3,454,499         |
| Others projects in progress   | 128,674          | 160,875           |
|                               | <u>5,448,075</u> | <u>31,604,113</u> |

At 30 September 2005 and 2004, the amounts of commitments to third parties relating to investments to be made was as follows:

|                                    | <b>2005</b>       | <b>2004</b>       |
|------------------------------------|-------------------|-------------------|
| Technical investments              | 20,593,284        | 25,671,221        |
| Investments in information systems | 6,438,551         | 3,609,236         |
|                                    | <u>27,031,835</u> | <u>29,280,457</u> |

## 6. Intangible assets

The movement in Intangible assets and corresponding accumulated amortisation and impairment losses in the period ended 30 September 2005 and 2004 was as follows:

|   | 2005                  |                   |               |                                     |                    | 2004               |
|---|-----------------------|-------------------|---------------|-------------------------------------|--------------------|--------------------|
|   | Brands and<br>patents | Software          | Others        | Intangible<br>assets in<br>progress | Total              | Total              |
| <b>Gross assets:</b>                                      |                       |                   |               |                                     |                    |                    |
| Opening balance   | 145,655,058           | 159,789,572       | 638,200       | 6,141,825                           | 312,224,655        | 303,591,822        |
| Companies no longer consolidated                          | (16,890)              | (479,586)         | -             | -                                   | (496,476)          | -                  |
| Additions   | 87,661                | 113,174           | -             | 10,108,011                          | 10,308,846         | 15,498,660         |
| Disposals   | (21,000)              | (116,622)         | (441,464)     | (276,094)                           | (855,180)          | (69,493)           |
| Transfers, and write-offs                                 | 217                   | 6,110,490         | -             | (9,011,811)                         | (2,901,104)        | (3,289,887)        |
| Closing balance   | 145,705,046           | 165,417,028       | 196,736       | 6,961,931                           | 318,280,741        | 315,731,102        |
|   |                       |                   |               |                                     |                    |                    |
|   | 2005                  |                   |               |                                     |                    | 2004               |
|   | Brands and<br>patents | Software          | Others        | Intangible<br>assets in<br>progress | Total              | Total              |
| <b>Accumulated amortisation and<br/>impairment losses</b> |                       |                   |               |                                     |                    |                    |
| Opening balance   | 5,186,364             | 122,823,729       | 270,594       | -                                   | 128,280,687        | 102,151,435        |
| Companies no longer consolidated                          | (12,578)              | (477,917)         | -             | -                                   | (490,495)          | -                  |
| Amortisation in the period                                | 9,688,329             | 11,558,728        | 73,709        | -                                   | 21,320,766         | 19,313,732         |
| Disposals   | -                     | (56,105)          | (171,682)     | -                                   | (222,787)          | (8,371)            |
| Transfers and write-offs                                  | 43,047                | (4,710,912)       | (57,862)      | -                                   | (4,725,727)        | 129,392            |
| Closing balance   | 14,905,162            | 129,137,523       | 114,759       | -                                   | 144,157,444        | 121,586,188        |
| <b>Net amount</b>   | <b>130,799,884</b>    | <b>36,279,505</b> | <b>81,977</b> | <b>6,961,931</b>                    | <b>174,123,297</b> | <b>194,144,914</b> |

As at 30 September 2005 and 2004, the Group has recorded under the heading “Intangible assets” an amount of Euro 130,968,575 and Euro 156,530,784, respectively, that correspond to investments net of depreciations made in the development of the UMTS network, including Euro 92,258,859 related to the license and Euro 30,827,067 related to the agreement reached in 2002 between Oni Way and the other three mobile telecommunication operators in Portugal with UMTS licenses.

The reassessment of the useful life of certain assets performed during the period ended at 30 September 2005 (Note 1.d)) has generated a reduction of circa Euro 4.5 million in depreciation charges compared to the amount that would have resulted from previous estimated useful lives.



Intangible assets in progress at 30 September 2005 and 2004 are made up as follows:

|  | <u>2005</u>      | <u>2004</u>        |
|--|------------------|--------------------|
| Intangible assets:   |                  |                    |
| UMTS License (1)   | -                | 132,453,751        |
| Network development studies – UMTS (1) and GPRS (2),<br>including capitalised financial costs (Note 1. n)) | -                | 24,824,566         |
| Information systems  | 6,885,978        | 3,128,148          |
| Others   | 75,953           | -                  |
|  | <u>6,961,931</u> | <u>160,406,465</u> |

(1) Universal Mobile Telecommunications Service

(2) General Packet Radio System

Intangible and tangible assets include interest and other financial expenses incurred, directly related to the construction of certain items of work in progress. At 30 September 2005 and 2004 such expenses amounted to Euro 12,344,873 and Euro 11,934,148, respectively. The amount capitalised on the periods ended at 30 September 2005 and 2004 were Euro 242,363 and Euro 568,114, respectively. An interest capitalization rate of 3.055% was used in 2005 (4.588% in 2004), which corresponds to the average interest rate supported by the Group.

## 7. Goodwill

At 30 September 2005 and 2004, the movements occurred in goodwill and corresponding accumulated amortisation and impairment losses were as follows:

|  | <u>2005</u>       | <u>2004</u>       |
|--|-------------------|-------------------|
| <b>Gross Assets:</b>                                       |                   |                   |
| Opening balance  | 31,614,130        | 59,851,238        |
| Increase of participations (Note 4)                        | 9,900,238         | -                 |
| New companies  | -                 | 3,288,610         |
| Companies no longer consolidated                           | -                 | (319,748)         |
| Additions  | -                 | 1,256,964         |
| Transfers and write-offs                                   | (5,355)           | (32,593,396)      |
| Closing balance  | <u>41,509,013</u> | <u>31,483,668</u> |
| <b>Accumulated amortisation<br/>and impairment losses:</b> |                   |                   |
| Opening balance  | -                 | 32,910,650        |
| Companies no longer consolidated                           | -                 | (319,748)         |
| Transfers, disposals and write-offs                        | -                 | (32,590,902)      |
| Closing balance  | <u>-</u>          | <u>-</u>          |
| <b>Net amount</b>  | <u>41,509,013</u> | <u>31,483,668</u> |

In accordance with IFRS 3, the Group suspended the amortization of the “Goodwill” as from 1 January 2004. The accumulated amortisation of Goodwill, of Euro 32,590,902 has been deducted from the gross value of Goodwill in accordance with the new IFRS rule that requires Goodwill to be presented at its net value.

Goodwill at 30 September 2005 and 2004 was made up as follows:

| September 2005              |                             |                               |  |                | September 2004 |            |
|-----------------------------|-----------------------------|-------------------------------|--|----------------|----------------|------------|
| Date of acquisition         | Gross Amount as of 30.09.05 | Gross Amount as of 31.12.2004 | Accumulated depreciation and impairment losses | Net Book Value | Net Book Value |            |
| Sonaecom / SRD              | Jan-98                      | 11,996                        | 11,996   | (9,036)        | 2,960          | 2,960      |
| Novis / IPG                 | May-99                      | 6,040,703                     | 6,040,703                                      | (2,818,995)    | 3,221,708      | 3,221,708  |
| Optimus / Per-Mar           | Dec-99                      | 78,755                        | 78,755   | (31,502)       | 47,253         | 47,253     |
| Sonae BV / Público          | Apr-00                      | 45,977,115                    | 45,977,115                                     | (25,977,115)   | 20,000,000     | 20,000,000 |
| Harpa / Público.pt          | Apr-00                      | 450,015                       | 450,015  | (450,015)      | -              | -          |
| Público / SIRS              | Apr-00                      | 116,510                       | 116,510  | (43,690)       | 72,820         | 72,820     |
| Sonaecom / Enabler          | Jun-00                      | 1,456,456                     | 1,456,456                                      | (509,760)      | 946,696        | 946,696    |
| Novis / IPG                 | Jun-00                      | 1,127,837                     | 1,127,837                                      | (404,143)      | 723,694        | 723,694    |
| Miauger / Lotes             | Dec-00                      | 1,234,943                     | 1,234,943                                      | (1,234,943)    | -              | -          |
| WeDo / Sidra                | Jan-01                      | 1,318,726                     | 1,318,726                                      | (395,618)      | 923,108        | 923,108    |
| WeDo / Sidra                | Jan-01                      | 12,470                        | 12,470   | (4,489)        | 7,981          | 7,981      |
| Novis / IPG (a)             | May-01                      | 399,038                       | 399,038  | (106,410)      | 292,628        | 292,628    |
| Público / M3G               | Jul-01                      | 269,936                       | 269,936  | (269,936)      | -              | -          |
| Novis / IPG (a)             | May-02                      | 399,038                       | 399,038  | (66,506)       | 332,532        | 332,532    |
| Matrix / Miauger            | Jul-02                      | 249,732                       | 249,732  | (249,732)      | -              | -          |
| Enabler / Enabler UK        | Jul-03                      | 374,738                       | 374,738  | (18,737)       | 356,001        | 356,001    |
| Optimus / Optimus Towering  | Oct-03                      | 10,988                        | 10,988   | (275)          | 10,713         | 10,713     |
| Enabler / Enabler DE        | Jan-04                      | 71,647                        | 71,647   | -              | 71,647         | 71,647     |
| Sonaetelecom BV / Retailbox | Feb-04                      | 1,182,785                     | 1,182,785                                      | -              | 1,182,785      | 1,208,897  |
| Novis / Noriema             | Apr-04                      | 2,090,054                     | 2,092,375                                      | -              | 2,090,054      | 2,092,375  |
| Novis / Jaua                | Apr-04                      | 1,121,554                     | 1,124,588                                      | -              | 1,121,554      | 1,124,588  |
| Enabler / Enabler UK        | Apr-04                      | 48,067                        | 48,067   | -              | 48,067         | 48,067     |
| Enabler / Enabler UK        | Dec-04                      | 156,574                       | 156,574  | -              | 156,574        | -          |
| Sonae Telecom SGPS/ Optimus | Mar-05                      | 8,595,469                     | -  | -              | 8,595,469      | -          |
| Retailbox/Enabler           | Apr-05                      | 94,567                        | -  | -              | 94,567         | -          |
| Sonaetelecom BV/ Retailbox  | Apr-05                      | 859,172                       | -  | -              | 859,172        | -          |
| Sonae.com SI/ We Do         | Sep-05                      | 351,030                       | -  | -              | 351,030        | -          |
|                             |                             | 74,099,915                    | 64,205,032                                     | (32,590,902)   | 41,509,013     | 31,483,668 |

SRD – Sonae Rede de Dados (currently Novis)  
IPG – IP Global (company merged into Novis)

(a) – In 2001 and 2002 Novis made additional payments of Euro 399,038 each year, under the contract to purchase IP Global.

## 8. Investments available for sale

At 30 September 2005 and 2004, this caption included investments classified as available for sale and was made up as follows:

|  | 2005             |   |                  | 2004              |   |                  |
|--|------------------|---|------------------|-------------------|---|------------------|
|  | Gross<br>amount  | Accumulated<br>impairment<br>losses (Note 15) | Net<br>amount    | Gross<br>amount   | Accumulated<br>impairment<br>losses (Note 15) | Net<br>amount    |
| Investimento Directo   | -                | -   | -                | 6,761,266         | (2,000,000)                                   | 4,761,266        |
| Despegar.com   | 2,539,227        | (2,539,227)                                   | -                | 2,539,227         | (2,539,227)                                   | -                |
| Altitude, SGPS, S.A.   | 1,000,000        | -   | 1,000,000        | 1,000,000         | -   | 1,000,000        |
| Lusa – Agência de Notícias de Portugal, S.A.                                     | 197,344          | -   | 197,344          | 197,344           | -   | 197,344          |
| SESI – Sociedade de Ensino Superior e Investigação, S.A.                         | 146,248          | (146,248)                                     | -                | 146,248           | (146,248)                                     | -                |
| NP – Notícias Portugal, Cooperativa de Utentes de Serviços de Informação, C.R.L. | 7,482            | -   | 7,482            | 7,482             | -   | 7,482            |
| Others   | 2,494            | -   | 2,494            | 2,494             | -   | 2,494            |
| <b>Non current investments held for sale</b>                                     | <b>3,892,795</b> | <b>2,685,475</b>                              | <b>1,207,320</b> | <b>10,654,061</b> | <b>(4,685,475)</b>                            | <b>5,968,586</b> |

The public deed in relation to the sale of subsidiary Investimento Directo was completed on 27 December 2004, for an amount of Euro 4,700,000 (being at a similar value to the accounting value of that investment at date of exclusion). Part of the sale price (namely Euro 1,329,706) is still to be received, of which Euro 650,294 is registered under the heading Other current debtors and Euro 679,412 is registered under Other non-current debtors (amount to be received in December 2006).

## 9. Deferred tax assets

Deferred tax assets at 30 September 2005 and 2004, in the amount of Euro 66,628,069 and Euro 70,346,737, respectively, result mainly from timing differences relating to tax losses carried forward and non tax deductible provisions.

The movements in deferred tax assets in the periods ended 30 September 2005 and 2004 were as follows:

|   | <u>2005</u>              | <u>2004</u>              |
|---|--------------------------|--------------------------|
| <b>Opening balance</b>  | <b>68,693,940</b>        | <b>84,626,227</b>        |
| New Companies (KPNQwest)  | -                        | 817,707                  |
| <b>Impact on results:</b>   |                          |                          |
| Tax losses carried forward  | (11,082,726)             | (13,721,825)             |
| Adjustments of estimated taxable income of prior year   | 541,419                  | 1,479,394                |
| Movements in provisions not deductible for tax purposes   | 1,084,851                | -                        |
| Recognition of deferred taxes, not recorded in previous years, as, at that time, the existence of future taxable profits to use them was considered to be uncertain (Optimus) | 8,100,000                | -                        |
| Write-off of the deferred tax assets recorded in previous years, due to impairments (Clixgest in 2004 and KPN in 2005)  | (623,709)                | (2,840,848)              |
| Others  | (7,693)                  | (7,183)                  |
| <b>Sub-total of the impact on results (Note 19)</b>   | <b>(1,987,858)</b>       | <b>(14,272,755)</b>      |
| <b>Impact on reserves:</b>  |                          |                          |
| Others  | 78,013                   | (6,735)                  |
| <b>Closing balance</b>  | <b><u>66,628,069</u></b> | <b><u>70,346,737</u></b> |

The heading Tax losses carried forward is composed mainly by the movements in the subsidiaries Optimus (circa Euro 9,990,000 and Euro 13,857,000, both negative, on 30 September 2005 and 2004, respectively) and Novis (Euro 1,946,000 positive, on 30 September 2004).

At 30 September 2005 and 2004 evaluations were made of the deferred taxes to be recognised, resulting from IAS/IFRS conversion adjustments. Potential deferred tax assets were recorded to the extent that expected future taxable profits were expected to be generated against which the tax losses and deductible tax differences could be used. These assessments were made based on the business plans of the group companies involved, periodically reviewed and updated, and on tax planning opportunities available or identified.

At 30 September 2005 and 2004, a corporate tax rate of 27.5% was used to calculate the deferred tax assets.

In accordance with the tax returns and other information prepared by the companies that have registered deferred tax assets, the tax losses carried forward at 30 September 2005 were as follows:

|                    | Optimus            | We Do            | Novis              | Público          | Total              | Limit date to be used |
|--------------------|--------------------|------------------|--------------------|------------------|--------------------|-----------------------|
| Originated in 1999 | 12,723,343         | -                | 4,389,749          | -                | 17,113,092         | 2005                  |
| Originated in 2000 | 4,906,216          | -                | 52,672,299         | -                | 61,578,515         | 2006                  |
| Originated in 2001 | 26,865,919         | 1,800,391        | 83,420,888         | 1,932,328        | 114,019,526        | 2007                  |
| Originated in 2002 | 36,863,620         | 3,300,611        | 71,576,002         | 2,635,200        | 114,375,433        | 2008                  |
| Originated in 2003 | 22,067,970         | 1,171,479        | 23,822,526         | 411,136          | 47,473,111         | 2009                  |
| Originated in 2004 | -                  | 391,104          | 14,572,316         | -                | 14,963,420         | 2010                  |
| Originated in 2005 | -                  | -                | 24,370,391         | 1,976,328        | 26,346,719         | 2011                  |
|                    | <u>103,427,068</u> | <u>6,663,585</u> | <u>274,824,171</u> | <u>6,954,992</u> | <u>395,869,816</u> |                       |

At 30 September 2005, the Group has other situations where potential deferred tax assets could result but were not recognised in the accounts because it was not expected sufficient taxable profits in the future to cover that losses:

|   |                    |
|---|--------------------|
| Tax losses (including those from companies referred to in the table above, in relation to which no deferred tax assets were recorded) | 103,875,456        |
| Temporary differences (mainly provisions not accepted for tax purposes)   | 25,616,037         |
| Adjustments on conversion to IAS/IFRS   | 6,263,890          |
| Temporary difference between the tax and accounting value of assets   | 482,739            |
|   | <u>136,238,123</u> |

During the period ended 30 September 2005, the effective rate used for calculating the deferred tax assets was 9.17% and could be summarized as follows:

|  |                    |
|--|--------------------|
| <b>Earning before taxes</b>  | <b>21,678,243</b>  |
| Deferred taxes (27.5%)   | (5,961,517)        |
| Deferred taxes not recognised in individual accounts and/or resulting from consolidation adjustments | 2,347,389          |
| Adjustments to taxable income of the prior year  | 541,419            |
| Provisions not deductible for tax purposes   | 1,084,851          |
| <b>Deferred taxes recorded in the period</b>   | <b>(2,987,858)</b> |
| <b>Effective tax rate</b>  | <b>9.17%</b>       |

In accordance with current tax legislation in Portugal, the Tax Authorities may review the Company's tax returns, as well as those of subsidiary companies, during the subsequent four years (ten years for Social Security contributions up to 31 December 2000 and five years after that date) or six years in the case of companies that has tax losses carried forward. Therefore, the tax returns for each of the financial years since 1999 could still be subject to review.

## 10. Other non current assets

At 30 September 2005 and 2004 this caption was mainly composed of loans and advances to Group companies, as follows:

|   | 2005             |   |                  | 2004              |   |                   |
|---|------------------|---|------------------|-------------------|---|-------------------|
|   | Gross amount     | Accumulated impairment losses (Note 15) | Net amount       | Gross amount      | Accumulated impairment losses (Note 15) | Net amount        |
| <b>FINANCIAL ASSETS:</b>  |                  |   |                  |                   |   |                   |
| <b>Loans granted to companies recorded under the equity method:</b> |                  |   |                  |                   |   |                   |
| Rádio Nova  | 118,500          | (118,500)                               | -                | 118,500           | -                                       | 118,500           |
| Net Mall  | 844,140          | (844,140)                               | -                | 839,140           | -                                       | 839,140           |
|   | 962,640          | (962,640)                               | -                | 957,640           | -                                       | 957,640           |
| <b>Other loans granted:</b>   |                  |   |                  |                   |   |                   |
| S.E.S.I.  | 24,316           | (24,316)                                | -                | 24,316            | (24,316)                                | -                 |
|   | 24,316           | (24,316)                                | -                | 24,316            | (24,316)                                | -                 |
| <b>NON FINANCIAL ASSETS:</b>  |                  |   |                  |                   |   |                   |
| Expenses capitalised on bank loans                                  | -                | -                                       | -                | 15,307,712        | -                                       | 15,307,712        |
| Deferred Performance Bonus Plans (Notes 1. x) and 24)               | 2,771,526        | -                                       | 2,771,526        | 3,198,838         | -                                       | 3,198,838         |
| Maxistar – Comunicações Pessoais, S.A.                              | -                | -                                       | -                | 1,550,000         | -                                       | 1,550,000         |
|   | 2,771,526        | -                                       | 2,771,526        | 20,056,550        | -                                       | 20,056,550        |
|   | <b>3,758,482</b> | <b>(986,956)</b>                        | <b>2,771,526</b> | <b>21,038,506</b> | <b>(24,316)</b>                         | <b>21,014,190</b> |

The loans granted are recorded at their nominal value and are subject periodically to impairment tests.

The associated companies Net Mall and Rádio Nova/SIRS are included in the consolidation under the equity method. Since the proportion of the Group in the accumulated losses of these companies is greater than the recorded value of the investment, and due to the fact that the Group committed itself in relation to the associated companies, a provision for other liabilities and charges was recorded, which covers the potential losses that could arise from the non recoverability of these loans. During the period ended at 30 September 2005, this provision was transferred from the caption 'Provisions for other liabilities and charges' to 'Impairment losses' under 'Other non current assets'.

The 'Expenses capitalised on bank loans' refer to up-front bank fees, legal and consultancy expenses paid in the setting up of bank loans (Note 13). On 31 December 2004, Sonaecom has changed the accounting treatment of costs derived from the arranging and setting-up of bank financings, which are now recognised as a deduction from the nominal debt and are expensed over the term of the financing, based on the effective interest rate ("amortised cost") (Note 1. m).

## 11. Investments at fair value through profit and loss

During the period ended at 30 September 2005 and 2004, the movements in this heading were as follows:

|  | 2005      | 2004 |
|--|-----------|------|
| Balance at the beginning of the period       | -         | -    |
| Acquisitions in the period                   | 1,344,089 | -    |
| Increases/reductions to fair value (Note 18) | 246,416   | -    |
| Balance at closing of the period             | 1,590,505 | -    |

As at 30 September 2005, 'Investments at fair value through profit and loss' correspond to 1,120,074 shares of Sonae, S.G.P.S., S.A. acquired to fulfil future obligations under the Deferred Performance Bonus Plan.

## 12. Cash and cash equivalents

At 30 September 2005 and 2004, the detail of cash and cash equivalents was as follows:

|                                   | 2005        | 2004       |
|-----------------------------------|-------------|------------|
| Cash                              | 516,370     | 297,492    |
| Bank deposits repayable on demand | 7,172,736   | 9,702,828  |
| Treasury applications             | 192,099,506 | 30,901,039 |
| Cash and cash equivalents         | 199,788,612 | 40,901,359 |
| Bank overdrafts (Note 13)         | (735,471)   | (725,587)  |
|                                   | 199,053,141 | 40,175,772 |

At 30 September 2005 and 2004, the heading Treasury applications had the following breakdown:

|                                 | 2005        | 2004       |
|---------------------------------|-------------|------------|
| <u>Funds placed with Sonae:</u> |             |            |
| Sonaecom                        | 181,100,004 | 22,705,004 |
| <u>Bank term deposits:</u>      |             |            |
| Optimus                         | 8,780,000   | 4,850,000  |
| Mainroad                        | 740,000     | 400,000    |
| Enabler                         | 634,502     | 589,282    |
| Digitmarket                     | 250,000     | 200,000    |
| Sonaecom                        | 70,000      | -          |
| Novis                           | -           | 1,000,000  |
| We Do                           | -           | 300,000    |
| We Do Brasil                    | -           | 576,753    |
| Público                         | -           | 100,000    |
| Other                           | 525,000     | 180,000    |
|                                 | 192,099,506 | 30,901,039 |

### 13. Loans

At 30 September 2005 and 2004, the heading Loans had the following breakdown:

#### a) Bond Issues

| Subsidiary                                     | Issue denomination              | Limit | Maturity  | Type of reimbursement | 2005               |                      | 2004               |                      |
|--|---------------------------------|-------|-----------|-----------------------|--------------------|----------------------|--------------------|----------------------|
|  |                                 |       |           |                       | Amount outstanding |                      | Amount outstanding |                      |
|  |                                 |       |           |                       | Short term         | Medium and Long term | Short term         | Medium and Long term |
| Sonaecom SGPS                                  | "Obrigações Sonaecom SGPS 2005" | -     | June 2013 | Final                 | -                  | 150,000,000          | -                  | -                    |
|  |                                 |       |           |                       | -                  | 150,000,000          | -                  | -                    |
| Costs associated with setting-up the financing |                                 |       |           |                       | (3,909,375)        |                      |                    |                      |

#### b) Bank Loans

| Subsidiary                                     | Lender                                | Limit       | Maturity  | Type of reimbursement      | 2005               |                      | 2004               |                      |
|--|---------------------------------------|-------------|-----------|----------------------------|--------------------|----------------------|--------------------|----------------------|
|  |                                       |             |           |                            | Amount outstanding |                      | Amount outstanding |                      |
|  |                                       |             |           |                            | Short term         | Medium and Long term | Short term         | Medium and Long term |
| Optimus  | European Investment Bank              | 324,458,200 | June 2009 | 30%-June 08<br>70%-June 09 | -                  | 324,458,200          | -                  | 324,458,200          |
| Optimus  | Revolving Credit Facility (syndicate) | 125,541,800 | June 2009 | Final                      | -                  | -                    | -                  | -                    |
|  |                                       |             |           |                            | -                  | 324,458,200          | -                  | 324,458,200          |
| Costs associated with setting-up the financing |                                       |             |           |                            | (16,123,257)       |                      |                    |                      |
| Optimus  | Fair value of swaps                   |             |           |                            |                    | 361,588              |                    | -                    |
| SUB-TOTAL                                      |                                       |             |           |                            | 454,787,156        |                      | 324,458,200        |                      |

(a) As a guarantee of the EIB loans, the banks participating in the Optimus syndicated credit facility have issued bank guarantee in favour of the EIB.

#### c) Other loans and bank overdrafts

| Subsidiary | Lender  | Type                | 2005    | 2004      |
|------------|---------|---------------------|---------|-----------|
| Various    | Various | Bank overdrafts     | 735,471 | 725,587   |
| Optimus    | -       | Fair value of swaps | -       | 911,020   |
| -          | Various | Others              | 70,048  | 1,730     |
|            |         |                     | 805,519 | 1,638,337 |

During the period ended at 30 September 2005, the amounts related to fair value of swaps were reclassified from Current to Non Current liabilities.

These loans bear interest at market rates, indexed to the Euribor of the respective term and were all contracted in Euro. The spread applicable to the long term financings is 87.5 basis points in the case of the "Sonaecom SGPS 2005" Bonds and, currently, 55 basis points in the Optimus



syndicated loan (in this case, the spread may vary based on the level of Net Debt to EBITDA of that subsidiary).

All of the above loans are unsecured and the fulfilment of the obligations under these loans is exclusively guaranteed by the underlying activities and the companies respective cash flows.

As at 30 September 2005, the repayment schedule of Optimus' medium and long term loans and bonds was as follows:

| <b>Maturity Year</b> | <b>Euro</b> |
|----------------------|-------------|
| 2008                 | 97,337,460  |
| 2009                 | 227,120,740 |
| 2013                 | 150,000,000 |

### **Interest Rate Risk**

Group only uses derivatives and similar transactions as hedges for interest rate risks considered as relevant. To hedge interest rate risk, three main principles are respected in all instruments selected and used:

- For each derivative or instrument used for hedging a specific transaction, the dates in which interest payments are made should be exactly the same as those in the facility / transaction which is being hedged;
- Perfect match between the base rates: the base rate used in the derivative or instrument should be exactly the same as the one in the facility / transaction which is being hedged;
- At the start of a deal, the maximum cost of debt associated to a facility is known and limited, even in the scenario of an extreme increase or decrease of the market interest rates, and an effort is made so that level is compliant to the company's business plan acceptable cost of funds.

All of Sonaecom's borrowings are currently at variable rates and, as such, interest rate swaps and other derivatives are used as cash flow hedges of future interest payments. Interest rate swaps have the economic effect of converting the respective borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The following interest rate hedging instruments were outstanding as at 30 September 2005:

| Subsidiary | Hedged loan              | Notional Amount    | Expiry date | Base rate  | Fixed rate contracted | Fair value of the derivative transaction |
|------------|--------------------------|--------------------|-------------|------------|-----------------------|--|
| Optimus    | European Investment Bank | 50,000,000         | Dec-05      | Euribor 3m | 2.77%                 | (79,379)                                 |
| Optimus    | European Investment Bank | 55,000,000         | Dec-07      | Euribor 3m | 3.68% (a)             | (282,209)                                |
|            |                          | <b>105,000,000</b> |             |            |                       | <b>(361,588)</b>                         |

(a) This rate corresponds to the cap (maximum rate) contracted and effective until March 2006. The rate effectively paid corresponds to the simple average of the 2 year swap rates verified during the period (2.468% in the last period of exchange).

Derivative counterparties are limited to highly rated financial institutions and it is Group policy to give preference to financial institutions that form part of its financing transactions.

In assessing the fair value of the derivatives, the Company uses certain methods, such as option pricing models and estimated discounted value of future cash flows, and makes assumptions that are based on market conditions prevailing at each balance sheet date. Dealer quotes for the specific or similar instruments are used as a benchmark for the assessment.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in shareholders funds and in Loans. Amounts deferred in shareholders funds are then transferred to the income statement and classified as revenue or expense in the same periods during which the hedged forecasted transaction affects the profit and loss statement.

#### 14. Other non current financial liabilities

At September 2005 and 2004, this caption was made up of accounts payable to fixed assets suppliers related to leasing contracts that are due in more than one year and loans by minority shareholders to some subsidiaries, as follows:

|                                  | <u>2005</u>      | <u>2004</u>      |
|----------------------------------|------------------|------------------|
| Fixed assets suppliers – leasing | 1,735,055        | 1,305,268        |
| Clix (France Telecom)            | <u>1,673,562</u> | <u>2,363,281</u> |
|                                  | <u>3,408,617</u> | <u>3,668,549</u> |

At 30 September 2005, accounts payable to fixed assets suppliers related to leasing contracts are due as follows:

|                                | <u>Lease payments</u> | <u>Present value of<br/>lease payments</u> |
|--------------------------------|-----------------------|--|
| 2005                           | 901,970               | 864,579                                    |
| 2006                           | 2,755,814             | 2,616,105                                  |
| 2007                           | 611,575               | 558,451                                    |
| 2008 and follows               | <u>821,519</u>        | <u>794,510</u>                             |
|                                | 5,090,878             | 4,833,645                                  |
| Interest                       | <u>(257,233)</u>      | -  |
|                                | 4,833,645             | 4,833,645                                  |
| Short term liability (Note 16) | <u>-</u>              | <u>(3,098,590)</u>                         |
|                                | <u>4,833,645</u>      | <u>1,735,055</u>                           |

## 15. Provisions and accumulated impairment losses

The movements in provisions and accumulated impairment losses in the period ended 30 September 2005 were as follows:

| Heading  | Opening balance | Transfers | Increases | Utilisation | Decreases | Closing balance |
|--|-----------------|-----------|-----------|-------------|-----------|-----------------|
| Accumulated impairment losses on accounts receivable                     | 67,363,508      | -         | 4,004,151 | (4,732,940) | (107,029) | 66,527,690      |
| Accumulated impairment losses on inventories                             | 4,565,764       | -         | 1,258,801 | (89,115)    | (35,178)  | 5,700,272       |
| Accumulated impairment losses on investments available for sale (Note 8) | 2,685,475       | -         | -         | -           | -         | 2,685,475       |
| Accumulated impairment losses on other non current assets (Note 10)      | 24,316          | 962,640   | -         | -           | -         | 986,956         |
| Provisions for other liabilities and charges                             | 4,292,249       | (962,640) | 238,765   | (666,589)   | (579,397) | 2,322,388       |
|  | 78,931,312      | -         | 5,501,717 | (5,488,644) | (721,604) | 78,222,781      |

The amount of Euro 962,640 included in 'Transfers' is associated with provisions that cover potential losses in the realisable value of loans granted to Net Mall and Rádio Nova/SIRS. During the period ended 30 September 2005, these provisions were transferred from the heading Provisions for other liabilities and charges to Impairment losses in other non current assets (Note 10).

## 16. Other current financial liabilities

At 30 September 2005, this caption includes the amount of Euro 3,098,590 (Euro 3,207,763, in 2004) related to the short term part of lease contracts (Note 14).

## 17 . External supplies and services

Third party supplies and services for the periods ended 30 September 2005 and 2004 are made up as follows:

|                             | 2005               | 2004               |
|-----------------------------|--------------------|--------------------|
| Interconnection costs       | 148,740,393        | 168,367,491        |
| Rental of circuits          | 14,818,866         | 27,510,305         |
| Commissions                 | 38,948,553         | 43,090,561         |
| Advertising and publicity   | 29,317,868         | 22,927,970         |
| Other supplies and services | 103,001,040        | 77,694,661         |
|                             | <u>334,826,720</u> | <u>339,590,988</u> |

The caption “Other supplies and services” includes, essentially, specialised services, rents, products relating to the newspaper, consultancy and maintenance and repairs.

## 18. Financial results

Net financial results for the periods ended 30 September 2005 and 2004 are made up as follows:

|  | 2005               | 2004                |
|--|--------------------|---------------------|
| <b>Financial results related to associated companies:</b>                                |                    |                     |
| Losses on associated companies   | -                  | (37,285)            |
|  | <u>-</u>           | <u>(37,285)</u>     |
| <b>Other financial results:</b>  |                    |                     |
| Interest expenses  | (8,625,538)        | (13,529,414)        |
| Interest income  | 2,695,582          | 2,029,141           |
| Adjustments to fair value on Investments at fair value through profit and loss (Note 11) | 246,416            | -                   |
| Foreign exchange losses  | (162,038)          | (332,393)           |
| Foreign exchange gains   | 455,074            | 255,072             |
| Other financial expenses   | (4,095,613)        | (3,663,487)         |
|  | <u>(9,486,117)</u> | <u>(15,241,081)</u> |
|  | <u>(9,486,117)</u> | <u>(15,278,366)</u> |

Interest income includes, mainly, interest earned on the treasury applications granted to Sonae and on bank deposits (Note 12).

## 19. Income taxation

Income taxes recognised during the periods ended 30 September 2005 and 2004 are made up as follows (costs/gains):

|                       | 2005               | 2004                |
|-----------------------|--------------------|---------------------|
| Current tax           | (1,212,030)        | (2,431,272)         |
| Deferred tax (Note 9) | (1,987,858)        | (14,272,755)        |
|                       | <u>(3,199,888)</u> | <u>(16,704,027)</u> |

## 20. Related parties

During the period ended 30 September 2005, the balances and transactions with related parties mainly relate to the normal operational activity of the Group (providing communications and consultancy services) and to the granting and obtaining loans.

The balances and more significant transactions with related parties as at 30 September 2005 were as follows:

| <b>Balances:</b>     | <b>Accounts receivable</b>         | <b>Accounts payable</b>               | <b>Treasury applications</b>       | <b>Loans obtained</b>               |
|----------------------|------------------------------------|---------------------------------------|------------------------------------|-------------------------------------|
| Sonae                | 40,207                             | (15,851)                              | 181,100,004                        | -                                   |
| Modelo Continente    |                                    |                                       |                                    |                                     |
| Hipermercados, S.A.  | 2,866,563                          | (97,982)                              | -                                  | -                                   |
| France Telecom       | 1,136,139                          | (3,286,577)                           | -                                  | 1,673,562                           |
|                      | <u>4,042,909</u>                   | <u>(3,400,410)</u>                    | <u>181,100,004</u>                 | <u>1,673,562</u>                    |
| <b>Transactions:</b> | <b>Sales and services rendered</b> | <b>Supplies and services received</b> | <b>Interest and similar income</b> | <b>Interest and similar expense</b> |
| Sonae                | 255,267                            | (132,307)                             | 1,233,896                          | -                                   |
| Modelo Continente    |                                    |                                       |                                    |                                     |
| Hipermercados, S.A.  | 7,160,016                          | (976,882)                             | -                                  | -                                   |
| France Telecom       | 3,537,176                          | (6,457,129)                           | -                                  | 51,053                              |
|                      | <u>10,952,459</u>                  | <u>(7,566,318)</u>                    | <u>1,233,896</u>                   | <u>51,053</u>                       |

## 21. Guarantees provided to third parties

Guarantees provided to third parties at 30 September 2005 and 2004 are as follows:

| Company                          | Beneficiary   | Description   | 2005               | 2004               |
|----------------------------------|---|---|--------------------|--------------------|
| Optimus                          | European Investment Bank  | Loan  | 324,458,200        | 324,458,200        |
| Optimus                          | ANACOM (a)  | UMTS License  | 2,493,989          | 2,493,989          |
| Optimus and Novis                | Hewlett Packard   | Finance lease contracts   | 694,597            | 1,006,328          |
| Optimus                          | Direcção de Contribuições e Impostos (Portuguese tax authorities) | Process of appeal in relation to a VAT claim  | 580,000            | -                  |
| Novis                            | ANACOM (a)  | Fixed Network License   | -                  | 648,437            |
| Clixgest                         | Direcção de Contribuições e Impostos (Portuguese tax authorities) | VAT Reimbursements  | 327,871            | -                  |
| Público                          | Tribunal de Trabalho de Lisboa(Lisbon Labour Court)               | Execution action nº199A/92  | 271,511            | 271,511            |
| Público                          | Fazenda Pública do Porto (Oporto Public Treasury)                 | Tax process nº3190/98   | 209,495            | 209,495            |
| We Do                            | API (Portuguese Investment Agency)                                | Application to PRIME subsidies  | 184,004            | 184,004            |
| Optimus                          | Direcção Geral do Tesouro (Portuguese tax authorities)            | IRC – Withholding tax on payments to non-residents  | 125,000            | -                  |
| Novis                            | Governo Civil de Santarém (Santarém District Civil)               | Guarantee the fulfilment of legal obligations associated with a public contest launched   | 119,703            | 119,703            |
| Novis                            | Câmara Municipal de Lisboa (Lisboa Municipality)                  | Performance bond - works  | 105,905            | 106,361            |
| Novis                            | Câmara Municipal de Coimbra (Coimbra Municipality)                | Performance bond - works  | 101,403            | 15,303             |
| Novis, Clix, Público and Optimus | Governo Civil de Lisboa (Lisboa District Civil)                   | Guarantee the fulfilment of legal obligations associated with a public contest launched   | 98,795             | 211,240            |
| Exit                             | Direcção Geral do Turismo (Portuguese tourism authorities)        | Guarantee the fulfilment of legal obligations included in references c), d) and e) of point 2 of article 41.º from Decree-Law 209/97 of 13 August | -                  | 99,760             |
| Novis                            | Câmara Municipal de Braga (Braga Municipality)                    | Performance bond - works  | 45,416             | 45,416             |
| Various                          | Others  |   | 584,669            | 330,655            |
|                                  |   |   | <u>330,400,554</u> | <u>330,200,402</u> |

(a) Autoridade Nacional de Comunicações (formerly “ICP – Instituto de Comunicações de Portugal”)

## **22. Information by business segment**

The following business segments were identified for the periods ending 30 September 2005 and 2004:

- Mobile network
- Fixed network and Internet
- Multimedia
- Information systems

The remaining activities of the Group and corporate services have been classified as unallocated under the caption “Others”.

Inter-segment transactions at 30 September 2005 and 2004 were eliminated in the consolidation process.

Due to the immateriality of the assets and transactions of the Group outside Portugal, segment information by geographical markets is not presented.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties and are mainly related to interconnection, interest on treasury applications and management fees.

Overall information by business segment at 30 September 2005 and 2004 can be summarised as follows:



|   | Mobile Net work |                | Fixed Network and Internet |                | Multimedia     |                | Information Systems |                | Other          |                | Sub-total      |                | Eliminations   |                |
|---|-----------------|----------------|----------------------------|----------------|----------------|----------------|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|   | September 2004  | September 2005 | September 2004             | September 2005 | September 2004 | September 2005 | September 2004      | September 2005 | September 2004 | September 2005 | September 2004 | September 2005 | September 2004 | September 2005 |
| Revenues:   |                 |                |                            |                |                |                |                     |                |                |                |                |                |                |                |
| Sales and services rendered                               | 493.452.493     | 466.064.780    | 112.485.749                | 117.006.229    | 42.983.308     | 33.249.058     | 60.893.865          | 64.573.724     | 6.682.250      | 5.362.713      | 716.497.664    | 686.256.503    | (54.816.654)   | (58.807)       |
| Other operating revenues                                  | 10.657.444      | 19.518.582     | 2.332.481                  | 2.724.592      | 171.007        | 393.090        | 1.111.865           | 1.279.698      | 1.147.038      | 1.266.442      | 15.419.835     | 25.182.404     | (11.274.265)   | (20.645)       |
| Total revenues  | 504.109.937     | 485.583.361    | 114.818.230                | 119.730.820    | 43.154.315     | 33.642.148     | 62.005.729          | 65.853.422     | 7.829.288      | 6.629.155      | 731.917.499    | 711.438.907    | (66.090.919)   | (79.453)       |
| Depreciation and amortisation                             | (78.431.132)    | (81.178.979)   | (12.054.369)               | (10.558.725)   | (1.438.008)    | (983.167)      | (2.164.282)         | (1.757.556)    | (419.196)      | (264.068)      | (94.506.987)   | (94.742.495)   | 1.035.578      | 699            |
| Net operating income/(loss) for the segment               | 71.828.207      | 49.515.455     | (10.364.995)               | (18.875.992)   | 232.929        | (2.850.897)    | 3.947.639           | 5.707.973      | (1.867.099)    | (2.201.899)    | 63.776.682     | 31.294.640     | (1.093.990)    | (130)          |
| Net interests   | (11.895.126)    | (6.451.980)    | (635.203)                  | (1.272.959)    | (164.381)      | (164.923)      | (248.709)           | 56.832         | 1.258.498      | 1.916.183      | (11.684.921)   | (5.916.847)    | 184.648        | (13)           |
| Gains and losses in associated companies                  | (20.814)        | -              | -                          | -              | -              | -              | -                   | -              | 7.450.234      | -              | 7.429.420      | -              | (7.466.705)    | -              |
| Other financial results                                   | (3.560.140)     | (3.641.049)    | (245.641)                  | (226.771)      | 32.419         | (11.267)       | 214.056             | 352.130        | (9.020.439)    | (512.416)      | (12.579.745)   | (4.039.374)    | 8.838.936      | 483            |
| Income taxation   | (14.162.035)    | (1.422.989)    | (974.681)                  | (667.715)      | (363.304)      | (20.064)       | (1.186.560)         | (1.082.430)    | (13.492)       | (6.632)        | (16.700.072)   | (3.199.821)    | (3.955)        |                |
| Minority interests  | -               | -              | -                          | -              | -              | -              | -                   | -              | -              | -              | -              | -              | (17.286.005)   | (11.133)       |
| Net income/(loss) for the period                          | 42.190.093      | 37.999.436     | (12.220.520)               | (21.043.438)   | (262.337)      | (3.047.152)    | 2.726.426           | 5.034.516      | (2.192.298)    | (804.764)      | 30.241.364     | 18.138.599     | (16.827.072)   | (10.793)       |
| Assets:   |                 |                |                            |                |                |                |                     |                |                |                |                |                |                |                |
| Fixed assets and Goodwill                                 | 571.100.804     | 555.940.211    | 80.749.380                 | 87.782.127     | 3.184.848      | 2.518.441      | 23.198.065          | 16.991.093     | 3.620.417      | 2.426.015      | 681.853.513    | 665.657.888    | (1.118.863)    | 14.438         |
| Inventories   | 8.177.596       | 15.346.936     | 327.497                    | 1.021.868      | 1.342.949      | 1.023.299      | -                   | 21.580         | 2.329          | 57             | 9.850.371      | 17.413.739     | (0)            | -              |
| Financial investments and other non current assets        | 88.439.961      | 68.967.171     | 24.821.661                 | 15.785.565     | 2.360.523      | 2.676.482      | 2.171.846           | 1.736.989      | 845.751.839    | 917.043.831    | 963.545.830    | 1.006.210.037  | (861.766.205)  | (931.368)      |
| Other current assets of the segment                       | 208.123.504     | 239.071.003    | 44.532.148                 | 47.915.653     | 10.018.662     | 8.700.915      | 32.200.511          | 36.001.264     | 81.459.977     | 199.072.071    | 376.334.803    | 530.760.906    | (102.383.011)  | (115.064)      |
|   | 875.841.865     | 879.325.322    | 150.430.687                | 152.505.213    | 16.906.982     | 14.919.136     | 57.570.422          | 54.750.926     | 930.834.562    | 1.118.541.974  | 2.031.584.517  | 2.220.042.570  | (965.268.080)  | (1.031.994)    |
| Liabilities:  |                 |                |                            |                |                |                |                     |                |                |                |                |                |                |                |
| Liabilities of the segment (excluding minority interests) | 561.430.923     | 517.707.268    | 107.005.588                | 135.488.138    | 28.139.054     | 20.904.366     | 39.674.779          | 34.376.414     | 192.042.169    | 259.269.925    | 928.292.512    | 967.746.111    | (294.055.849)  | (228.762)      |
|   | 561.430.923     | 517.707.268    | 107.005.588                | 135.488.138    | 28.139.054     | 20.904.366     | 39.674.779          | 34.376.414     | 192.042.169    | 259.269.925    | 928.292.512    | 967.746.111    | (294.055.849)  | (228.762)      |

## 23. Earnings per share

Earnings per share, basic and diluted, are calculated by dividing the consolidated net income of the period (Euro 7,344,883 in 2005 and Euro 13,414,292 in 2004) by the average number of shares outstanding during the periods ending 30 September 2005 and 2004 (226,250,000).

## 24. Deferred Performance Bonus Plans

In June 2000, Sonaecom Group created a discretionary Deferred Performance Bonus Plan for more senior employee, based on Sonaecom options and shares and Sonae S.G.P.S.,S.A. shares. The vesting occurs three years after the award of each plan, assuming that the employees are still employed by the Group. In some annual plans, beneficiaries can chose between options or shares. Options are valued using the Black Scholes options pricing Model.

The Sonaecom plans outstanding at 30 September 2005 can be summarized as follows:

|                   |                                  | Vesting Period |                 | Exercise Period |           | At 30 September 2005                   |                                 |
|-------------------|----------------------------------|----------------|-----------------|-----------------|-----------|--|---------------------------------|
|                   | Share price<br>at award<br>date* | Award<br>date  | Vesting<br>Date | From            | To        | Aggregate<br>number of<br>participants | Number of<br>options/<br>shares |
| Sonaecom Options  |                                  |                |                 |                 |           |  |                                 |
| 2000 Plan         | 6.265                            | 31-Mar-01      | 31-Mar-04       | 1-Apr-04        | 31-Mar-05 | -                                      | -                               |
| 2001 Plan         | 3.014                            | 31-Mar-02      | 31-Mar-05       | 1-Apr-05        | 31-Mar-06 | 66                                     | 386,647                         |
| 2002 Plan         | 1.694                            | 31-Mar-03      | 31-Mar-06       | 1-Apr-06        | 31-Mar-07 | 114                                    | 1,860,582                       |
| 2003 Plan         | -                                | -              | -               | -               | -         | -                                      | -                               |
| 2004 Plan         | -                                | -              | -               | -               | -         | -                                      | -                               |
| Sonaecom Shares   |                                  |                |                 |                 |           |  |                                 |
| 2000 Plan         | 6.265                            | 31-Mar-01      | 31-Mar-04       | -               | -         | -                                      | -                               |
| 2001 Plan         | 3.014                            | 31-Mar-02      | 31-Mar-05       | -               | -         | -                                      | -                               |
| 2002 Plan         | 1.694                            | 31-Mar-03      | 31-Mar-06       | -               | -         | 214                                    | 1,277,923                       |
| 2003 Plan         | 3.190                            | 31-Mar-04      | 31-Mar-07       | -               | -         | 367                                    | 1,224,151                       |
| 2004 Plan         | 3.960                            | 31-Mar-05      | 31-Mar-08       | -               | -         | 392                                    | 1,088,334                       |
| Sonae SGPS Shares |                                  |                |                 |                 |           |  |                                 |
| 2000 Plan         | 1.12                             | 31-Mar-01      | 31-Mar-04       | -               | -         | -                                      | -                               |
| 2001 Plan         | 0.92                             | 31-Mar-02      | 31-Mar-05       | -               | -         | -                                      | -                               |
| 2002 Plan         | 0.36                             | 31-Mar-03      | 31-Mar-06       | -               | -         | 11                                     | 589,211                         |
| 2003 Plan         | 0.93                             | 31-Mar-04      | 31-Mar-07       | -               | -         | 12                                     | 263,924                         |
| 2004 Plan         | 1.17                             | 31-Mar-05      | 31-Mar-08       | -               | -         | 13                                     | 262,796                         |

\* Average share price in the month prior to the award date, except for Sonae SGPS shares, priced on the award date.

Sonaecom signed agreements to cover the execution and hedging of its Deferred Performance Bonus Plans and related obligations. The agreement means that Sonaecom's liabilities are limited

to a maximum of Euro 13,839,852. This value is reflected in the captions “Other non current liabilities” (Euro 8,057,983) and “Other current liabilities” (Euro 5,781,869), for long term and short-term obligations, respectively.

Sonaecom has entered into mirror agreements with its subsidiaries to pass on the corresponding liabilities to each subsidiary.

The costs of the Option and Share Plans are recognised in the accounts over the period between the award and the vesting date of those shares and options. The costs recognised on previous years and in the period ended as at 30 September 2005, are as follows:

|  | <u>Values</u>     |
|--|-------------------|
| Costs recognised on previous years                                       | 7,061,703         |
| Costs recognised in the period   | 3,598,535         |
| Cost of plans from subsidiary Exit (no longer consolidated)              | (8,882)           |
| Cost of plans vested on previous years                                   | (746,998)         |
| Cost of plans vested in the period                                       | (2,344,437)       |
| Other non current and current assets (Deferred costs not yet recognised) | <u>6,269,931</u>  |
| Other non current and current liabilities (Total cost of the Plans)      | <u>13,839,852</u> |

## 25. Others matters

(i) As of 30 September 2005, accounts receivable from customers and payable to suppliers include Euro 37,177,291 and Euro 29,913,608, respectively, and “Other current liabilities” and “Other current assets” include Euro 347,411 and Euro 6,856,200, respectively, resulting from a dispute between the subsidiary Optimus and the operator TMN – Telecomunicações Móveis Nacionais, S.A., in relation to interconnection tariffs, already recorded on the year ended 31 December 2001. The Company has considered the most penalising tariffs in the consolidated financial statements. At the time of this report, the Court had already considered acceptable the arguments invoked by Optimus but this is not the final decision.

(ii) In the Arbitration Court proceeding imposed to resolve the conflict between Maxistar and the other shareholders of Optimus - for breach of a clause of the Shareholders’ Agreement, Maxistar was condemned to pay an indemnity of Euro 2,344,350 plus legal interest calculated until the date of payment or, alternatively, to subject itself to a purchase option over its participation in Optimus at 70% of its actual value. Maxistar has appealed against the decision of the Arbitration Court but that appeal was already rejected in the lower courts.

As a way to execute the amounts due to be paid by Maxistar, and after having informed Maxistar of their preference for the payment in cash, some shareholders have proposed an execution action. Although the process of appeal against the decision of the Arbitration Court has not terminated Maxistar paid those shareholders, as a way of avoiding the execution, a total amount of Euro 4,068,048 (capital plus interest), of which Euro 2,183,899 was paid to Sonaecom.

The Sonaecom’s management does not expect Maxistar’s appeal (to overterm the decisions of the Arbitration Court) to be upheld.

(iii) On 9 June 2005, Sonaecom reached a strategic partnership agreement with France Telecom (FT), under which FT has committed to provide strategic support to Optimus, Novis and Clix, for a period of three years and agreed to "roll-up" its shareholdings in these companies in exchange for a 23.7% shareholding in the enlarged share capital of Sonaecom. According to this, shareholders at Sonaecom's Extraordinary General Meeting (EGM), on the 12 September, approved a capital increase by Euro 70,276,868, from Euro 226,250,000 to Euro 296,526,868, through the issuance of 70,276,868 new shares, with nominal value of Euro 1 each, and a share premium of Euro 242,455,194, fully subscribed by France Telecom.

## **26. Commitments associated to "Information Society"**

At the time Optimus was awarded its UMTS license, it committed to contribute to the promotion and development of the information society in Portugal, under the conditions contained in its formal bid documents. Although Optimus has already made investments in this respect, the Board of Directors of Sonaecom believes that a substantial change in circumstances has occurred since these commitments were first made, and as such, believes that the original commitments should be renegotiated with the Regulator and the Government. Accordingly, discussions have been opened with ANACOM regarding this issue but no conclusions have yet been reached. As a consequence, it is the understanding of the Board of Directors of Sonaecom that, as of today, it is not possible to accurately quantify these commitments under the UMTS license and that such quantification will only be possible once the Regulator has taken a formal position on the subject. As soon as that happens, the resulting obligations will be recorded in tangible assets, as an additional cost of the UMTS license, and will be amortised over the remaining period of the license.

These consolidated financial statements were approved and authorized for publication by the Board of Directors on 25 October 2005.

# **INDIVIDUAL FINANCIAL STATEMENTS**

SEPTEMBER 2005

SONAECOM, S.G.P.S., S.A.

BALANCE SHEET AT 30 SEPTEMBER 2005 AND PRO-FORMA

AT 30 SEPTEMBER 2004 AND 31 DECEMBER 2004

(Amounts expressed in Euro)

| ASSETS   | September 2005<br>(Unaudited) | Pro-forma<br>September 2004<br>(Unaudited) | Pro-forma<br>December 2004<br>(Unaudited) |
|--|-------------------------------|--|---|
| NON CURRENT ASSETS:                                    |                               |  |   |
| Tangible assets  | 170.961                       | 219.756                                    | 207.995                                   |
| Intangible assets                                      | 110.319                       | 21.587                                     | 17.550                                    |
| Investments in group companies                         | 129.057.226                   | 125.466.828                                | 125.466.828                               |
| Other non current assets                               | 370.464.691                   | 300.729.595                                | 296.781.892                               |
| Total non current assets                               | 499.803.197                   | 426.437.766                                | 422.474.265                               |
| CURRENT ASSETS:  |                               |  |   |
| Other current debtors                                  | 2.606.736                     | 2.959.901                                  | 7.445.519                                 |
| Other current assets                                   | 4.223.599                     | 6.706.810                                  | 1.157.727                                 |
| Investments at fair value through profit or loss       | 1.590.505                     | -  | -   |
| Cash and cash equivalents                              | 184.821.017                   | 67.340.350                                 | 76.659.767                                |
| Total current assets                                   | 193.241.857                   | 77.007.061                                 | 85.263.013                                |
| <b>Total Assets</b>                                    | <b>693.045.054</b>            | <b>503.444.827</b>                         | <b>507.737.278</b>                        |
| <b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>             |                               |  |   |
| SHAREHOLDERS' FUNDS:                                   |                               |  |   |
| Share capital  | 226.250.000                   | 226.250.000                                | 226.250.000                               |
| Reserves   | 257.262.100                   | 260.893.167                                | 260.906.489                               |
| Net income/(loss) for the period                       | 985.255                       | (4.415.016)                                | (3.644.389)                               |
| Total Shareholders' Funds                              | 484.497.355                   | 482.728.151                                | 483.512.100                               |
| LIABILITIES:   |                               |  |   |
| NON CURRENT LIABILITIES:                               |                               |  |   |
| Medium and long-term loans - net of short-term portion | 146.090.625                   | -  | -   |
| Provisions for other liabilities and charges           | 54.772                        | 7.774                                      | 54.772                                    |
| Other non current liabilities                          | 1.355.860                     | 1.353.188                                  | 1.353.188                                 |
| Total non current liabilities                          | 147.501.257                   | 1.360.962                                  | 1.407.960                                 |
| CURRENT LIABILITIES:                                   |                               |  |   |
| Short-term loans and other loans                       | 56.490.777                    | 16.475.000                                 | 19.690.000                                |
| Other creditors  | 262.100                       | 388.309                                    | 1.278.450                                 |
| Other current liabilities                              | 4.293.565                     | 2.492.405                                  | 1.848.768                                 |
| Total current liabilities                              | 61.046.442                    | 19.355.714                                 | 22.817.218                                |
| <b>Total Shareholders' Funds and liabilities</b>       | <b>693.045.054</b>            | <b>503.444.827</b>                         | <b>507.737.278</b>                        |

The Chief Accountant

The Board

SONAECOM, S.G.P.S., S.A.

PROFIT AND LOSS ACCOUNT BY NATURE

FOR THE PERIOD AND THE QUARTER ENDED AT 30 SEPTEMBER 2005 AND PRO-FORMA

FOR THE PERIOD AND THE QUARTER ENDED AT 30 SEPTEMBER 2004

AND FOR THE YEAR ENDED AT 31 DECEMBER 2004

(Amounts expressed in Euro)

|  | <b>September<br/>2005</b> | <b>July to<br/>September 2005</b> | <b>Pró-forma<br/>September<br/>2004</b> | <b>Pró-forma<br/>July to<br/>September 2004</b> | <b>Pró-forma<br/>December<br/>2004</b> |
|--|---------------------------|-----------------------------------|---|---|--|
|  | (Unaudited)               | (Unaudited)                       | (Unaudited)                             | (Unaudited)                                     | (Unaudited)                            |
| Operating revenues:                                |                           |                                   |   |   |  |
| Services rendered                                  | 4.473.844                 | 1.577.294                         | 4.007.424                               | 1.559.886                                       | 4.211.912                              |
| Other operating revenues                           | 1.011.071                 | 340.069                           | 979.000                                 | 322.192   | 1.242.791                              |
| Total operating revenues                           | <u>5.484.915</u>          | <u>1.917.363</u>                  | <u>4.986.424</u>                        | <u>1.882.078</u>                                | <u>5.454.703</u>                       |
| Operating costs:                                   |                           |                                   |   |   |  |
| External supplies and services                     | (4.208.904)               | (1.288.341)                       | (2.600.091)                             | (896.041)                                       | (2.371.057)                            |
| Staff expenses                                     | (3.103.191)               | (1.128.879)                       | (2.897.175)                             | (1.017.581)                                     | (4.155.664)                            |
| Depreciation and amortisation                      | (66.574)                  | (22.988)                          | (58.311)                                | (19.548)  | (77.650)                               |
| Provisions and impairment losses                   | (21.690)                  | -                                 | (260.460)                               | -   | (307.458)                              |
| Other operating costs                              | (10.809)                  | (4.906)                           | (15.706)                                | (7.696)   | (17.794)                               |
| Total operating costs                              | <u>(7.411.168)</u>        | <u>(2.445.114)</u>                | <u>(5.831.743)</u>                      | <u>(1.940.866)</u>                              | <u>(6.929.623)</u>                     |
| <b>Net operating income/(expenses)</b>             | <b>(1.926.253)</b>        | <b>(527.751)</b>                  | <b>(845.319)</b>                        | <b>(58.788)</b>                                 | <b>(1.474.920)</b>                     |
| Gains and losses in group and associated companies | -                         | -                                 | (9.000.000)                             | -   | -                                      |
| Other net financial income/(expenses)              | 2.917.147                 | 763.217                           | 5.436.970                               | 1.944.919                                       | (2.160.550)                            |
| <b>Current income/(loss)</b>                       | <b>990.894</b>            | <b>235.466</b>                    | <b>(4.408.349)</b>                      | <b>1.886.131</b>                                | <b>(3.635.470)</b>                     |
| Income taxation                                    | (5.639)                   | (1.879)                           | (6.667)                                 | (2.880)   | (8.919)                                |
| <b>Net income/(loss) after taxes</b>               | <b><u>985.255</u></b>     | <b><u>233.587</u></b>             | <b><u>(4.415.016)</u></b>               | <b><u>1.883.251</u></b>                         | <b><u>(3.644.389)</u></b>              |
| Earnings per share                                 |                           |                                   |   |   |  |
| Including discontinued operations                  |                           |                                   |   |   |  |
| Basic  | 0,00                      | 0,00                              | (0,02)                                  | 0,01  | (0,02)                                 |
| Diluted  | 0,00                      | 0,00                              | (0,02)                                  | 0,01  | (0,02)                                 |
| Excluding discontinued operations                  |                           |                                   |   |   |  |
| Basic  | 0,00                      | 0,00                              | (0,02)                                  | 0,01  | (0,02)                                 |
| Diluted  | 0,00                      | 0,00                              | (0,02)                                  | 0,01  | (0,02)                                 |

The Chief Accountant

The Board

SONAECOM, S.G.P.S., S.A.

MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE PERIOD ENDED AT 30 SEPTEMBER 2005 AND

PRO-FORMA FOR THE PERIOD ENDED AT 30 SEPTEMBER 2004

(Amounts expressed in Euro)

|  | 2005               |                |                    |                  |                                  |                     |                    |                    |                    |
|--|--------------------|----------------|--------------------|------------------|----------------------------------|---------------------|--------------------|--------------------|--------------------|
|  | Reserves           |                |                    |                  |                                  |                     |                    |                    |                    |
|  | Share capital      | Legal reserves | Share premium      | Other reserves   | Initial adjustments for IAS/IFRS | Accumulated Results | Total reserves     | Net income/(loss)  | Total              |
| Balance at 31 December 2004 POC                                | 226.250.000        | 114.360        | 335.819.541        | 1.329.131        | -                                | (76.244.924)        | 261.018.108        | (3.725.780)        | 483.542.328        |
| Adjustments in the conversion to IAS/IFRS (accumulated impact) | -                  | -              | -                  | -                | (111.619)                        | -                   | (111.619)          | 81.391             | (30.228)           |
| Restated balance at 31 December 2004                           | 226.250.000        | 114.360        | 335.819.541        | 1.329.131        | (111.619)                        | (76.244.924)        | 260.906.489        | (3.644.389)        | 483.512.100        |
| Appropriation of the result of 2004                            | -                  | -              | -                  | -                | -                                | (3.644.389)         | (3.644.389)        | 3.644.389          | -                  |
| Net Income for the period ended at 30 September 2005           | -                  | -              | -                  | -                | -                                | -                   | -                  | 985.255            | 985.255            |
| Utilization of Share premium and reserves                      | -                  | -              | (78.641.575)       | (1.329.131)      | -                                | 79.970.706          | -                  | -                  | -                  |
| Balance at 30 September 2005                                   | <u>226.250.000</u> | <u>114.360</u> | <u>257.177.966</u> | <u>-</u>         | <u>(111.619)</u>                 | <u>81.393</u>       | <u>257.262.100</u> | <u>985.255</u>     | <u>484.497.355</u> |
|  |                    |                |                    |                  |                                  |                     |                    |                    |                    |
|  | 2004               |                |                    |                  |                                  |                     |                    |                    |                    |
|  | Reserves           |                |                    |                  |                                  |                     |                    |                    |                    |
|  | Share capital      | Legal reserves | Share premium      | Other reserves   | Initial adjustments for IAS/IFRS | Accumulated Results | Total reserves     | Net income/(loss)  | Total              |
| Balance at 31 December 2003 POC                                | 226.250.000        | 114.360        | 335.819.541        | 1.329.131        | -                                | (53.174.552)        | 284.088.480        | (23.070.372)       | 487.268.108        |
| Adjustments in the conversion to IAS/IFRS (accumulated impact) | -                  | -              | -                  | -                | (198.716)                        | -                   | (198.716)          | 73.775             | (124.941)          |
| Restated balance at 31 December 2003                           | 226.250.000        | 114.360        | 335.819.541        | 1.329.131        | (198.716)                        | (53.174.552)        | 283.889.764        | (22.996.597)       | 487.143.167        |
| Appropriation of the result of 2003                            | -                  | -              | -                  | -                | -                                | (22.996.597)        | (22.996.597)       | 22.996.597         | -                  |
| Net Income for the period ended at 30 September 2004           | -                  | -              | -                  | -                | -                                | -                   | -                  | (4.415.016)        | (4.415.016)        |
| Balance at 30 September 2004                                   | <u>226.250.000</u> | <u>114.360</u> | <u>335.819.541</u> | <u>1.329.131</u> | <u>(198.716)</u>                 | <u>(76.171.149)</u> | <u>260.893.167</u> | <u>(4.415.016)</u> | <u>482.728.151</u> |

The notes are an integral part of the financial statements at 30 June 2005 and 2004.



***Cash Flow Statements***  
***for the periods ended as at 30 September 2005 and 2004***

|   | 30 September 2005   | 30 September 2004   |
|---|---------------------|---------------------|
| <b>Operating activities</b>                                   |                     |                     |
| Payments to trade creditors                                   | (1,634,433)         | (1,027,266)         |
| Payments to employees   | (2,898,067)         | (2,402,328)         |
| <b>Cash flows from operating activities</b>                   | <b>(4,532,500)</b>  | <b>(3,429,594)</b>  |
| Payments/receipts relating to income taxes, net               | 202,264             | 349,283             |
| Other payments/receipts relating to operating activities, net | 6,411,677           | 4,583,336           |
|   | <b>2,081,441</b>    | <b>1,503,025</b>    |
| <b>Cash flows from operating activities ( 1 )</b>             | <b>2,081,441</b>    | <b>1,503,025</b>    |
| <b>Investing activities</b>                                   |                     |                     |
| Receipts from:  |                     |                     |
| Investments   | -                   | -                   |
| Tangible assets   | -                   | -                   |
| Intangible assets   | -                   | -                   |
| Interest and similar income                                   | 4,598,135           | 4,458,790           |
|   | -                   | -                   |
|   | 4,598,135           | 4,458,790           |
| Payments from:  |                     |                     |
| Investments   | (19,951,240)        | (4,040,395)         |
| Tangible assets   | (2,228)             | (13,725)            |
| Intangible assets   | (119,923)           | (713)               |
| Others  | (60,678,779)        | (4,596,872)         |
|   | (80,752,170)        | (8,651,705)         |
| <b>Cash flows from investing activities ( 2 )</b>             | <b>(76,154,035)</b> | <b>(4,192,915)</b>  |
| <b>Financing activities</b>                                   |                     |                     |
| Receipts from:  |                     |                     |
| Loans obtained  | 415,940,624         | 225,911,752         |
| Payments from:  |                     |                     |
| Loans obtained  | (233,065,000)       | (235,906,750)       |
| Interest and similar expenses                                 | (657,557)           | (473,201)           |
|   | (233,722,557)       | (236,379,951)       |
| <b>Cash flows from financing activities ( 3 )</b>             | <b>182,218,067</b>  | <b>(10,468,199)</b> |
| Net cash flows ( 4 )=( 1 )+( 2 )+( 3 )                        | <b>108,145,473</b>  | <b>(13,158,089)</b> |
| Cash and cash equivalents at the beginning of the period      | <b>76,659,767</b>   | <b>80,498,439</b>   |
| Cash and cash equivalents at end of the period                | <b>184,805,240</b>  | <b>67,340,350</b>   |

The Chief Accountant

The Board