Consolidated Management Report and Financial Statements

30 June 2005

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

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I. MANAGEMENT REPORT

1. Highlights of 1H05

1.1. CEO Statement

“As conveyed in our 1Q05 Earnings Announcement, 2005 will be a transformational year for Sonaecom, with significant developments of our telecom strategies to secure future growth and competitive position. We also indicated that, during 2005, this significant investment effort will increase OPEX, particularly Marketing and Sales costs, and CAPEX, and that the resulting benefits will only be visible on Turnover and EBITDA during 2006.

We believe that, despite all the regulatory deficiencies and abusive practices by the incumbent, there are already leading indicators that our strategy will produce robust growth. Unfortunately, over and above the short term impacts of our growth strategy, our financial results have been hit by two unexpected external decisions – ANACOM’s decision on Mobile Termination Rates (MTR’s) and the decision by one of our competitors to reintroduce mobile handset subsidisation in all market segments. Our competitors’ return to aggressive handset subsidisation is a commercial strategy that we feel is value destructive.

During 1H05, we have been active in the implementation of our growth strategy in our telecom businesses:

- At Optimus, we are focused on:
  - Creating new market segments and redefining the frontiers of existing segments, examples of which are the launches of Optimus Home and rede4 (recently launched “low cost” mobile service) respectively;
  - Developing existing market segments by launching a number of innovative products such as Push-Email, Mobile Messenger over the MSN platform and Push-to-Talk, and by launching a number of simpler tariff plans, closer to the values of our key market segments.
- At our Fixed business, we are focused on:
  - Growing our market position through aggressive expansion of ADSL over ULL with our Clix 2 / 4 / 8 MB offers, the launch of Clix 16 MB ADSL, continued expansion of our wholesale business and preparation of launch of our triple play offer;
  - Reposition our fixed brands, with Clix becoming the brand for the residential segment and Novis the brand for the business and wholesale segment.

We continue to battle to improve the competitive environment in the Portuguese telecoms market. Although some progress has been visible such as the improvement of ULL pricing, the PT provisioning process remains a major obstacle. In addition, structural issues remain unsolved, namely the mobile network effect and the continued dominant position of PT in sectors such as broadband and content. Until recently, our efforts to improve the competitive environment had been directed at the relevant Portuguese institutions, in order to obtain behavioural remedies. However, due to insufficient progress on this matter, in June 2005, we presented two complaints to the European Commission, one against the Portuguese State for illegal state aid to Portugal Telecom regarding the sale of the basic copper infrastructure in 2002, and the other against Portugal Telecom due to persistent abuse of dominant market position in the Portuguese broadband market.

During this semester, we are pleased to have reached a strategic partnership agreement with France Telecom (FT) under which FT has committed to provide strategic co-operation to our telecoms companies in four main areas: (i) roaming and interconnection; (ii) multimedia services; (iii) handset procurement; and (iv) preferred network partner arrangements. As a result, it has been agreed that FT will “roll-up” its participations in Optimus, Novis and Clix in exchange for a 23.7% shareholding in Sonaecom.

Finally, I would like to add that, during the semester, Sonaecom SGPS took advantage of a window of opportunity and secured a term financing facility, raising 150 million euros of debt through the issuance of 8-year privately placed bonds with local institutions, the proceeds of which will be used to fund the development of our fixed direct access broadband business (double and triple play) and for general corporate development purposes.”

Paulo Azevedo, CEO Sonaecom

1.2. Key Milestones

Important milestones were achieved in 1H05, consistent with our strategy of growth and profitability on the one hand and guaranteeing sufficient funds to finance our long term strategy and strengthening our shareholding position within our portfolio of businesses, on the other:

- 1 March, the re-launch of Optimus Home, Optimus’ fixed-mobile convergent offer, 90 days after its original launch;
- 21 March, the acquisition of Maxistar’s 2.77% shareholding in Optimus for a consideration of €18.6mn;
- 9 June, a strategic agreement with France Telecom (FT), under which FT committed to provide strategic support to Sonaecom’s telecoms companies – Optimus, Novis, Clix – for a period of three years and to “roll-up” its shareholdings in those companies of 20.18%, 43.3% and 43.3% respectively, in exchange for a stake of 23.7% in Sonaecom;
- 16 June, Strategic agreement with RTP for the provision of TV contents for Sonaecom’s planned IP/TV operations due to be launched at the end of 2005;
- 21 June, a privately placed unsecured 8-year bond issue totalling €150mn, with the purpose of raising additional funding under more favourable finance conditions to fund our fixed line business;
- 27 June, the launch of rede4, a new discount mobile operation offering the best voice and SMS rates in the market and targeting those consumers that value low prices as purchase trigger;
- During the quarter, the launch of new data services based on 2.5G technology, such as the Push e-mail service, Instant Messaging and Push-to-talk.

2. Review of Operations

2.1. Telecommunications

At the beginning of the year, we were already a very efficient organization having come through a period of significant cost savings and having focused on increasing profitability and FCF generation. We decided, at the beginning of the year, that 2005 presented opportunities to launch growth initiatives in order to secure a stronger competitive position in the Portuguese telecoms market.

2.2. Optimus

Growth Strategy

Optimus has entered a more pro-active phase of its growth strategy, targeting an increase in market share based on four pillars of action:

- Innovation and launch of new services (2.5G to 3G)
- Renewal of basic offers and brand repositioning
- Extension of Optimus' addressable market
- Aggressive migration of subscribers to 3G

Innovation and launch of new services:
Optimus has positioned itself as a leading innovator in the Portuguese mobile market, aligned with its objective of augmenting customer revenues and continuous differentiation strategy.

In this respect, Optimus was the first operator to launch Push email over a mobile device, at very competitive tariffs (€12.5 a month for 10MB of traffic), with the Qtec S100 and 9090 used as flagship handsets.

Furthermore, stimulated by the success of Microsoft Messenger over the fixed network, Optimus pioneered the launch of Mobile Messenger in partnership with Microsoft, with promotional free usage until September. In addition, it launched a "Push-to-talk" service over GPRS.

Additional investments were made in relation to mobile internet access, with the commercialization of UMTS/GPRS and UMTS/GPRS/WiFi enabled PC cards at very competitive pricing: €30 month for 120MB of traffic, shareable between various users.

Renewal of basic offers and brand repositioning:
Driven by the relatively mature stage of development of the Portuguese mobile market, Optimus proceeded with a thorough re-segmentation of its core markets which led to the repositioning of the brand.

Aligned with the new positioning, Optimus launched a number of new tariff plans, such as Total, Chat and Top, all of which closer to the core values of its target segments, namely tariff simplicity and transparency. In its first month, Chat had already captured 80 thousand customers. An underlying objective of Optimus' brand repositioning is to increase brand awareness and further differentiate it from its competitors, in relation to the most relevant market segments to Optimus' growth strategy.

Extension of Optimus' addressable market:
The main initiative launched was the offer of Optimus Home, directed at a market that traditionally belonged to fixed operators. Despite the difficulties faced to bring the product to market (see section on regulation), the product is a proven commercial success. By the end of June, Optimus Home had circa 40 thousand subscribers. Optimus Home was created as a more attractive value proposition for fixed-line customers that use only voice, circa 1.2 million homes. By the end of 2006, Optimus expects to have 130 thousand Optimus Home customers.

In June, Optimus launched "rede4", an autonomous low cost operation that uses Optimus' infrastructure and offers the most competitive pricing for voice and SMS services in the market through exclusive distribution over the internet. "rede4" follows a "no frills" philosophy, whereby significant cost savings are achieved through low spend on advertising and promotion, general marketing, distribution and customer support.

Aggressive migration of subscribers to 3G:
The recent evolution of UMTS technology and handsets allied with the superior customer experience of UMTS data services, has led Optimus to reinforce significantly its 3G offering. Optimus ended the semester with a portfolio of 10 UMTS handsets including exclusivity of LG 3G terminals. Aggressive campaigns have been launched to target new customer acquisition and to renew handsets for existing customers, namely a 2 for 1 promotional campaign with the LG U8130 handset and free initial UMTS usage in order to

stimulate customer experimentation with 3G products and services (free video-calling, navigation on the 3G Zone Portal and 100MB of 3G traffic).

As a result of the Strategic Partnership Agreement signed with France Telecom (refer to section on Corporate Governance), Optimus is in a position to benefit from Orange products, global provisioning conditions and multimedia contents and services, further enhancing the company's basic offers and customer value proposition.

Optimus estimates that, by the end of 2006, 15% to 20% of its customers will be 3G enabled and that 30% to 35% of data revenues will be non-SMS related.

There were already some positive signs at Optimus during 1H05 resulting from this strategy:

- Active users as at the end of 1H05 reached 1.72 million compared to 1.59 million at the end of 1H04, an increase of 9%.
- Higher weight of post-paid customers, representing 18% of the total subscriber base in 1H05 compared with 15% in 1H04.
- The highest level of voice traffic ever in June: total traffic in 1H05 was relatively similar to that recorded in 1H04, amounting to 1.4 billion minutes.

Distribution Channels

To support the overall growth focus and brand repositioning, Optimus implemented a "store revolution" in the beginning of May, which included increased training of front-office employees, improvement of the in-store product mix, increased cross-selling and a global optimization of processes and value chain management. In the long run, these actions are expected to have 3 main impacts: (i) increase in-store-productivity; (ii) promote cross-selling of Sonaecom's products; (iii) improve the quality of the "customer acquisition process", by reducing customer's churn and optimizing after sale assistance. In parallel, and with the same goal of improving processes, service and customer experience, Optimus has increased its direct ownership of stores from 9 to 23.

Network Investment

Optimus accelerated the pace of investment in its 3G network and reached the end of 1H05 with 50% population coverage, 80% of which delivering speeds of 384kbps. To further promote the development of mobile broadband, in May, Optimus signed an agreement with Huawei, a Chinese infrastructure manufacturer, to roll-out HSDPA on the Portuguese island of Madeira. This represents a pilot initiative designed to test the capabilities of this new technology as a means of increasing bandwidth over the UMTS network. This service, with an incremental investment of 4.5 million euros, is expected to have its technology totally deployed by the end of November, and to be commercialized by the end of 1Q06.

Traffic

Optimus continues to show a negative effect from an imbalance in the ratio of traffic terminated on other mobile networks relative to the termination of incoming traffic from other mobile networks, amounting to circa 7.7 million euros the net interconnection paid in 1H05. ANACOM's deliberation as regards mobile termination tariffs has in no way addressed the negative implications of this structural barrier to competition.

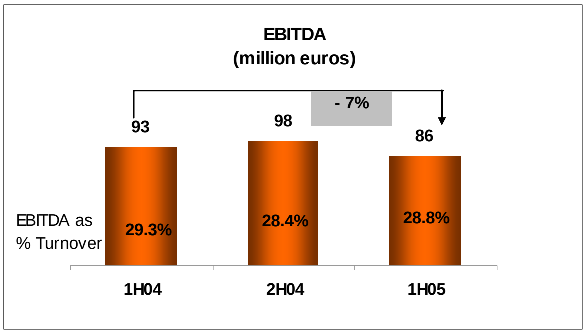
Turnover and EBITDA

Turnover in 1H05 was 6% lower than that recorded in 1H04 due to a 6% reduction in Service Revenues and a 5% reduction in Equipment sales. The 6% reduction in Service Revenues in

1H05 was due to two main reasons: (i) the decrease in mobile interconnection tariffs announced by ANACOM in December 2004 that came into effect on 7 March 2005; and (ii) the 14% reduction of incoming fixed traffic when compared with 1H04 total incoming fixed minutes.

Data revenues continued to post strong growth in 1H05 representing 10% of Service Revenues. Non-SMS related data services increased to 27% of total Data Revenues in 1H05, with GPRS traffic increasing by 40% in comparison with 1H04.

Optimus' 1H05 EBITDA decreased by 7% to 85.9 million euros and generated an EBITDA margin of 28.8% compared to 29.3% in 1H04. Contributing to this result, was: (i) a 19% reduction in Roaming In Revenues, reflecting the fact that the 1H04 figure was positively affected by the European football championship; and (ii) a 16% decrease in Operator Revenues excluding Roaming In, reflecting the new MTRs and a reduction in incoming fixed minutes. Marketing costs went up by 13%, as a result not only of an additional investment in the Brand and in new Products and Services, but also of the more aggressive competitive environment. However, Total OPEX net of Marketing costs and Other Revenues went down by 5%, the outcome of a continued effort in cost optimization.



In June, Optimus reached an agreement to outsource maintenance of its national access, core, transport networks and infrastructure to Ericsson. This is a very positive move for Optimus, as it enables significant reduction in costs associated with field maintenance. In addition, circa 50 Optimus' employees, working in this area, will be transferred to Ericsson, maintaining full employee benefits.

2.3. Sonaecom Fixed

The formal merger of Novis and Clix was approved by shareholder's at the end of June 2005 and is due to become effective by the beginning of October 2005. The formal merger of Novis and KPNQwest has already become effective as of June 2005. Nevertheless, in practice Novis, Clix and KPNQwest Portugal have been managed since 4Q04 on an integrated basis as if they were a merged entity. This is consistent with the way we have been reporting our fixed businesses to the market since 1Q05.

Sonaecom Fixed activity, during the semester, reflected its strategy towards improving profitability:

- Re-segmentation of markets: Novis was chosen as the brand targeting the business and wholesale segments and Clix as the brand for the residential segment.

- Growing the customer base: Novis' operational activity, during 1H05, reflected the strategy of increasing its customers, both through direct voice and internet services based on the copper "Unbundled Local Loop" and through indirect access solutions.

- Continuous investment in the New Generation Network ("NGN"): during the semester, Sonaecom Fixed continued to invest in the NGN, with focus placed on incrementing local access capillarity primarily through local loop unbundling.

The new Novis value proposition, communicated as part of the brand re-launch, was well received by all stakeholders. New Indirect access tariff plans were launched for the business segment, directed at purely indirect access voice customers and at potential new customers within future catchment areas of not yet unbundled central offices. Novis' Wholesale division posted strong growth in the semester, increasing Turnover by 20% to 30.4 million euros when compared to 1H04. In 1H05, Novis held an 18% share of all E1 circuits in Portugal.

Clix' rebranding positioned the company as *the* "innovative residential next generation Telco in Portugal". Already perceived to be the most competitive operator in terms of speed and pricing, Clix augmented this perception by adding, in April, a 16Mbps ADSL offer to its existing 2 / 4 / 8 Mbps offers. The thrust of Clix' residential strategy has been to aggressively activate direct bundled voice plus ADSL customers, although significant difficulties have been faced in the process:

- Delays in processing paperwork related with customer requests on the part of Portugal Telecom (PT).

- Non-compliance with numerous SLAs (service level agreements) by PT, namely as regards provision of additional capacity to existing unbundled central offices and requests to unbundle new central offices.

Significant effort was made in 1H05 to improve overall activation processes and times. New information systems are being implemented and important breakthroughs have been achieved in the process between PT and alternative operators: documents may now be transferred in digitalized format to PT; the control of activation days is being improved; and the provisioning systems are being upgraded to automate significant parts of the activation process.

On 18 April, ANACOM's new deliberation as regards ULL pricing came into effect: activation costs came down from €92 to €38, the monthly charge was reduced from €11.96 to €9.72, and a reduction in provisioning time by PT, from 16 to 9 days, was imposed. All of these measures are positive actions to improve competition in the fixed sector and to support the development of broadband. Nevertheless, further significant regulatory efforts were made by the authorities to increase penalties for PT's incompliance with ULL's SLA's and to simplify the bureaucratic process of ULL, that are expected to have positive developments before the end of the year.

Indirect residential voice continued to suffer from high levels of churn, circa 8.6% in the semester, and narrowband Internet traffic maintained a negative trend driven by the market-wide migration of Internet users to broadband solutions. Both of these negative trends in revenues were not fully compensated by new revenue streams from direct access solutions, as the aforementioned delays in the ULL direct customers' activation created obstacles for Sonaecom fixed to achieve its expected activation results.

Network

By the end of 1H05, the NGN based on a soft switching platform and with a Gigabit Ethernet core, supported by DWDM[1], had been deployed and was up and running. Focus was placed on local loop unbundling and, by the end of June, Sonaecom Fixed had unbundled more than 100 PT central offices for circuit interconnection and last mile SHDSL circuits, compared to 51 at the end of 1H05, 70 of which prepared for ULL with ADSL2+ and direct voice services. The superior technology deployed on the NGN has enabled the launch of the most technologically advanced products in the market, ranging from G.SHDSL for the business market to a 16Mbps ADSL residential offer.

[1] DWDM: Dense Wavelength Division Multiplex

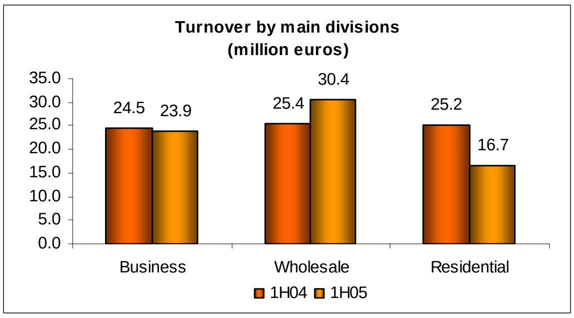
Traffic

Total traffic managed by Sonaecom fixed increased by 11% in 1H05 to 2,800 million minutes compared with 2,177 million minutes in 1H04, driven mainly by the increase of 33% of ADSL usage, notwithstanding the significant decline of indirect voice and narrowband internet traffic.

By the end of June, Sonaecom Fixed had more than 26 thousand direct voice and ADSL services activated, circa 5 thousand of which were business services and the remainder residential.

Turnover and EBITDA

Service Revenues in 1H05 reached 75.2 million euros, up marginally by 1% against 1H04, with the Business and Home (residential) divisions contributing circa 34% and 24%, respectively, as the Wholesale operations showing a strong performance and contributing for the other 42%.



Sonaecom Fixed Operating Costs reached 80.8 million euros, 9% above that of 1H04, primarily as a result of a 64% increase in Leased Lines and Network Operating costs reflecting the continued focus on to growing the direct access customer base through the unbundling of an increasing number of Portugal Telecom's Central Offices.

EBITDA in 1H05 deteriorated significantly from a positive 1.3 million euros in 1H04 to a negative 4 million euros. This deterioration was due to the continued loss of narrowband internet and indirect voice traffic that was not compensated by the increase in direct access revenues as the pace of customer acquisition in direct access was slower than expected, while related costs increased during the period.

2.4. Público

Turnover decreased by 22% in 1H05 compared with 1H04, driven mainly by a 45% reduction in Associated Product sales. The reduction in Associated Product Sales results from a combination of increased market competition in this product's category and a higher than expected level of unsold products of some Associated Products' collections. However, Publico's Newspaper sales increased by 4% in the semester to 6.3 million euros, although not sufficient to cover the evolution of the Associated Products. EBITDA deteriorated generating a loss of 0.7 million euros compared to a positive 1 million euros in 1H04. Net Results were negatively affected by our decision to recognise a 0.4 million impairment of the Deferred Tax Assets recognised in previous periods.

According to the latest available data from APCT[2], Público's market share of paid circulation as of 1Q05 increased by 6%, coming from 12.4% in 1Q04 to 13.1% in 1Q05. Notwithstanding this positive evolution, Público's average paid circulation in 1H05 decreased by circa 2,690 units to 48,707 units of paid circulation, mainly due to the shrinkage of the total newspaper market, as a result of the launch of free newspapers and the increased competition of tabloids.

In order to improve levels of circulation and underpin sales of Associated Products, Público launched a number of initiatives during the semester, including a revamp of the Sunday edition and the launch of new magazines and supplements, such as the Sunday Kids Magazine "Kulto" and the new "Pública" generalist magazine.

[2] APCT latest available data refers to Paid Circulation in 1Q05

2.5. SSI

SSI companies delivered good performance in their respective key markets. WeDo Group won an international tender to be global supplier to France Telecom with its revenue assurance product RAID and has already started to implement the system in some of the FT subsidiaries, namely in France. The RAID solution was also sold to Vimpelcom, WeDo's first Russian client with circa 26 million subscribers, and Auna, the Spanish Telecom Operator. As regards Enabler Group, new developments include the implementation of RETEK in Tesco's Turkish operations and the sale of its own software package "Target Pricing" to Sabeco in Spain, a system designed to help retailers optimize shelf pricing. Mainroad won a key account to develop IT systems and processes for the new concert and exhibition centre in Porto "Casa da Música", a project which is now circa 75% implemented and for which Bizdirect also provided IT solutions.

Consolidated Turnover at SSI grew by 7% in 1H05 to 43 million euros in comparison with 1H04 and EBITDA increased by 19% generating a margin of 12% compared to 11% in 1H04. The SSI company that most contributed to this EBITDA performance was Wedo Group, with its stand alone EBITDA improving by 51%.

3. Regulation

During 1H05, the main regulatory developments were:

- On Friday, 25 February, ANACOM finally approved Optimus Home, circa 90 days after its original launch. We believe that the decision to allow Optimus Home to launch was truly good news for the consumer and the competitive development of the market as a whole.

- As of 7 March 2005, the announced phased cuts to mobile termination rates became effective, with the goal of bringing both fixed to mobile and mobile to mobile termination rates down to 0.11 euros, by October 2006, for all Portuguese mobile operators. The following table shows the planned Portuguese termination rate cuts from March 2005 until December 2006.

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
01-Oct-2005	0.1820	0.1300	0.1300
01-Jan-06	0.1700	0.1250	0.1250
01-Apr-2006	0.1500	0.1200	0.1200
01-Jul-06	0.1300	0.1150	0.1150
01-Oct-2006	0.1100	0.1100	0.1100

The new mobile termination rates do not contemplate differentiated mobile-to-mobile rates in favour of Optimus. Across Europe, the determination of mobile termination rates has been based either on a "costing model" (long-run incremental costs) or on a benchmarking approach. In the case of Portugal, Optimus believes both of these approaches would have led to application of asymmetric mobile-to-mobile rates in favour of the smaller operator. Accordingly, we remain concerned with the continued lack of effective regulation against the mobile "Network Effect" and, in this line, have lodged a complaint to Portuguese courts against ANACOM's decision. We believe there is a strong retail pricing discrimination for different networks and high levels of mobile to mobile interconnection tariffs, being an artificial barrier to competition that benefits the largest mobile operator as a net receiver of interconnection in detriment of the smaller operators. We consider this effect to be a structural barrier to competitive development of the Portuguese mobile segment in that it is effectively leading to subsidisation of the larger operators' business by the smaller operator.

- On 18 April, ANACOM announced new conditions for local loop unbundling; namely a reduction in the monthly fee from 11.96 to 9.72 euros and in the set-up fee from circa 92 euros to 38 euros. In addition, it imposed a reduction in provisioning time by PT, from 16 to 9 days, all of which are positive actions to improve competition in the fixed sector and to support the development of broadband.

- As regards the upgrade to 2 Mbps, 4 Mbps and 8 Mbps speeds of PT's ADSL offer, Sonaecom was able to ensure that PT will not charge for any upgrades that may involve ISP migration (ANACOM's decision of 28 June 2005). However, ANACOM did not accept Sonaecom's request to prohibit PT Group from launching any retail offer within these access speeds. In this context, Sonaecom presented a complaint to the National Competition Authority, which is still under evaluation.

- During the first semester, ANACOM published the results of its analysis of the broadband and local loop unbundling markets. PT companies were designated as having SMP (in as much as they are present in the market) but the corresponding obligations imposed are no more stringent than those already in existence. In the broadband market, the novelty regards the obligation of PT to ensure a wholesale offer that enables ISPs to emulate its retail offers. This obligation is to remain in place as long as ISPs are not able to independently define the access speeds of their retail offers.

- Additionally, ANACOM stated that, due to its recent interventions on PT's ADSL and ULL offers, there is no justification, at this stage, to impose the sale of PT Group's cable network. However, ANACOM indicated that this structural remedy seems more likely to have a positive effect on the market than a mere access obligation where competing ISPs would be able to use TV Cabo's network to sell their services.This decision is symptomatic of ANACOM's slow approach to competition-led market reforms, a fact that Sonaecom has frequently denounced as insufficient and as a cause for PT's increasing market share.

- On 29 April, ANACOM approved the minimum elements to be included in PT's Wholesale Line Rental Reference Offer (ORLA). This decision was disappointing, since it did not allow competing operators to issue a single bill to the final customer. These concerns were conveyed to the regulator who, after receiving PT's proposal for this offer, issued two new draft decisions (27 July) which represent an improvement over the original deliberation, namely in that ANACOM proposes a "carrot and stick" regulatory approach. For PT now to launch retail offers that bundle the monthly fee with traffic, it will have to satisfy a determined set of conditions, cumulatively:

    - The number of lines being used by Altnets under ORLA must be greater than 150 k;
    - PT will have to ask Altnets using ORLA to bill and collect their services to enable the Altnet to present a single bill to the final customer;
    - PT will have to broaden ORLA's scope so it includes ISDN accesses (currently outside the scope of ORLA).

  This draft decision thus creates a framework whereby, if PT wants to develop its own bundled retail offers (e.g. monthly fee's including traffic), then it must refrain from imposing obstacles to the development of this offer.

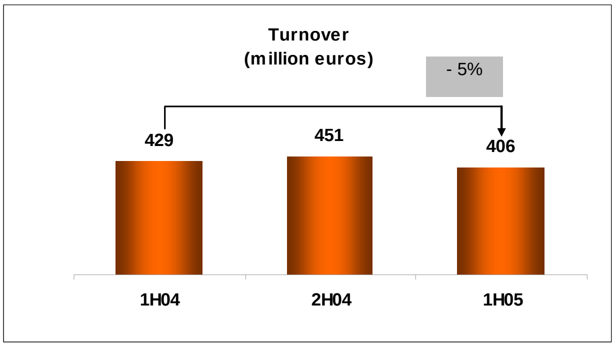
- In view of the fact that neither ANACOM nor the Portuguese Competition Authority have the appropriate legal mechanisms to allow them to implement structural remedies, on 8 June Sonaecom presented a complaint to the European Commission against Portugal Telecom for two main reasons: (i) abuse of dominant market position in the Portuguese broadband sector, primarily related with pricing of ADSL wholesale offers; and (ii) abuse of pricing, delays and non-compliance with SLAs (service level agreements) as regards the ULL reference offer. Sonaecom believes that the only solution to this persistent abuse of dominant position by the incumbent is to impose a structural remedy, namely the complete separation of ownership of the two local loop infrastructures, cable and copper. ANACOM's decision on the broadband market only reinforces this conclusion.

- In addition, we also filed a complaint to the European Commission against the Portuguese State for providing illegal State aid to Portugal Telecom, in relation to the sale of the basic telecom infrastructure. Sonaecom maintains that this process was not conducted under fair market conditions, given that a public tender was not held and that the final price was far from market value, thus PT should be required to pay the full value to the State.

4. Consolidated Financial Review

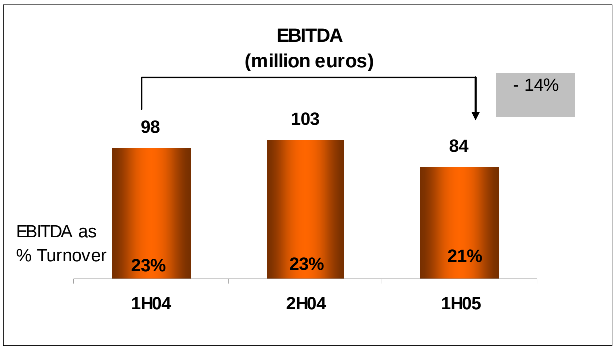
4.1. Turnover

Consolidated Turnover reached 406 million euros, 5% below that achieved in 1H04. The primary reasons for this reduction were twofold: (i) Optimus' Operator Revenues falling by circa 18%, as a result of both continuous reduction of incoming traffic from fixed operators and lower mobile termination rates as of 7 March; (ii) Público's generating 22% lower Turnover in 1H05 compared to 1H04, due to lower sales of Associated Products, mainly as a result of increased competition in Associated Products. Sonaecom Fixed Service Revenues increased marginally by 1% to 75 million euros, due to an increase in direct access revenues and the inclusion of KPNQwest Portugal as of April 2004. However, growth was constrained by the significantly lower indirect access voice revenues and the continued loss of narrowband traffic.



4.2. EBITDA

Consolidated Total OPEX (including COGS) was 322 million euros, 1% below that recorded in 1H04, notwithstanding the inclusion of costs related to KPNQwest Portugal in April04. OPEX (including COGS) represented 79% of Turnover compared to 76% in 1H04, an increase explained primarily by 3 factors: firstly, the lower level of Turnover of the group; secondly the increase of Marketing at Optimus to face the incremental competitiveness of the market; and thirdly an increase of 64% in Leased Lines and Network Operating costs at Sonaecom Fixed, associated with its effort in unbundling an increasing number of Portugal Telecom's Central Offices and increasing its direct customer base.



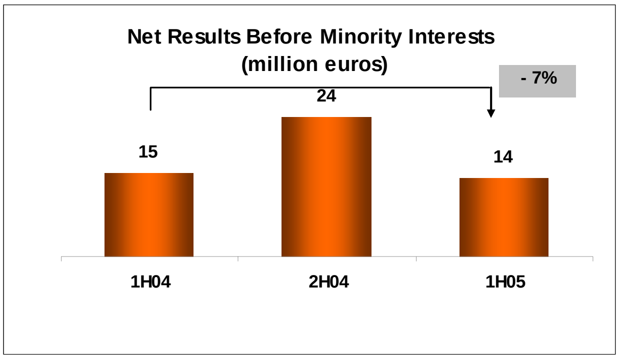
Provisions were reduced from 10.5 million euros in 1H04 to 3 million euros in 1H05, a fall of 71% primarily reflecting a significantly improved collections stock management track record at Optimus and Novis.

Consolidated EBITDA fell by 14% in 1H05 to 84 million euros, generating an EBITDA margin of 21% down from 23% in 1H04. The main contributors to this performance were Optimus, which saw its EBITDA fall by 6.7 million euros in 1H05, and Sonaecom Fixed, which generated a negative EBITDA of 4 million euros in 1H05, a decrease of 5.3 million euros. SSI continued to perform according to the Group's expectations, with an increase in EBITDA of 19% to 5.2 million euros in 1H05.

4.3. EBT

Consolidated EBT fell by 37% to 15 million euros compared to 1H04, driven principally by the decline in EBITDA notwithstanding improvements in Net Financial Results. Depreciation and Amortisation charges remained flat in comparison with 1H04 while negative Net Financial Results were reduced by circa 5 million euros, from negative 10.8 million euros to negative 5.8 million euros in 1H05. This was the result of the policy of minimizing the Net Financial Expenses, the more favourable financing conditions obtained by Optimus with the new term financing facility signed in August 2004, and the lower consolidated average level of external Gross Debt during 1H05 versus 1H04.

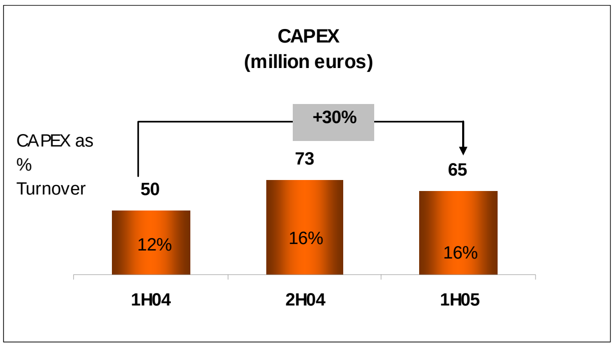
4.4. Net Results



As a consequence of the lower EBT result and movements of deferred tax, Sonaecom's Consolidated Tax charge was lower, down from 9.6 million euros in 1H04 to 1.7 million euros in 1H05. Cash taxes paid in the period were 1 million euros, the majority of which at Enabler. The movements in deferred tax include a 0.4 million impairment charge against the cumulative Deferred Tax Assets at Público.

Consolidated Net Results before Minority Interests were 13.5 million euros. Given Minority Interests of 7.7 million euros, Net Results (Group Share) were 5.8 million euros in 1H05, compared with 6 million euros in 1H04.

4.5. CAPEX

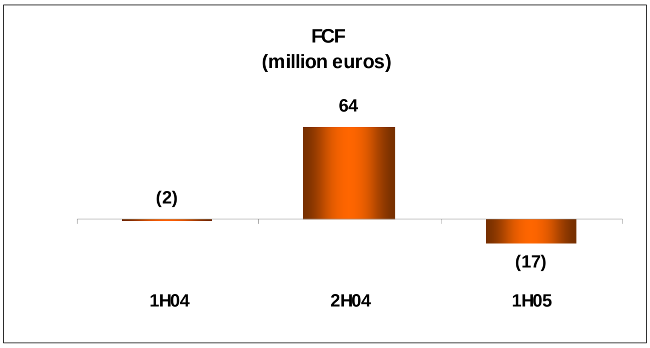


CAPEX in 1H05 increased by 15 million euros to 65 million euros, an increase of 30% in comparison with 1H04. This is consistent with Sonaecom's focus on investing for sustainable growth. Of Total CAPEX in 1H05, 26.6 million euros was invested by Optimus, with 10 million euros invested in UMTS; 12.9 million euros was invested by Sonaecom Fixed, of which 8% funded triple play and 63% ULL.

In addition to the operational CAPEX, in 1H05 Sonaecom invested 18.6 million euros in acquiring Maxistar's 2.77% stake in Optimus.

4.6. FCF

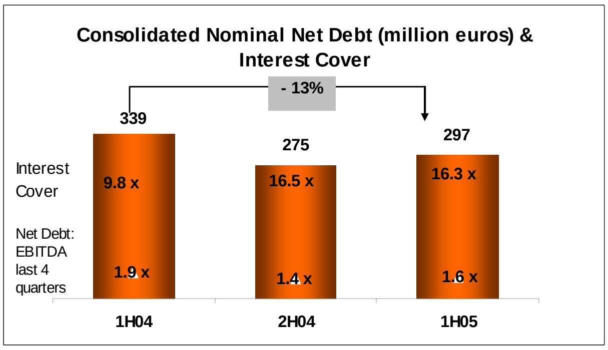
Consolidated FCF during 1H05 was negative 17.4 million euros explained by: (i) the EBITDA result; (ii) an investment in Working Capital of 35 million euros, of which 22 million euros explained by a decrease of Fixed Asset Suppliers' outstanding balance; (iii) Capex of 65 million euros; (iiii) Net Financial Flows of negative 4 million euros.



The following are the main factors impacting the FCF result during 1H05 compared to 1H04: (i) the acquisition by Sonaecom of Maxistar's 2.77% stake in Optimus for 18.6 million euros; (ii) the negative FCF of circa 13 million euros at Sonaecom Fixed; (iii) Optimus' positive FCF generation of 17 million euros in 1H05 compared to 2 million euros of FCF in 1H04, the latter resulting from the 28 million euros of VAT payment made in 2Q04 (recovered by the end of 2004), related to the sale of Optimus' mobile towers to its wholly owned subsidiary, Optimus Towering.

4.7. Capital Structure

Sonaecom's Consolidated Gross Debt[3], as at 30 June 2005, stood at 456 million euros. Consolidated Liquidity increased by 91.4 million euros to 180 million euros. The increase in Liquidity was due primarily to the 150 million euros privately placed bond issue completed in June of this year, (see Section 4.8 below), but also reflects the negative FCF generated by the Group in the first semester.



Consolidated Nominal Net Debt decreased by 13% in 1H05, compared with 1H04, to 297 million euros, driven mainly by the group's FCF evolution. Nominal Debt to Equity, at the end of 1H05, was 52:48 compared with 51:49 in 1H04. Net Debt to annualised EBITDA (last 4 quarters) improved from 1.9x in 1H04 to 1.6x in 1H05, while Interest Cover improved from 9.8x in 1H04 to 16.3x in 1H05, as a result of a larger decrease in interest payments relatively to the EBITDA in the semester.

Sonaecom SGPS holding company liquidity increased by circa 83 million euros in the 1H05 to 159.4 million euros, as a result of three main movements: firstly, the conversion of treasury applications with Sonaecom Fixed totalling 49 million euros into Shareholder Loans; secondly the funding of the acquisition of Maxistar's 2.77% holding in Optimus for 18.6 million euros; and thirdly due to the 145 million net proceeds from the privately placed bond issue.

Net Debt at Sonaecom SGPS (net of treasury applications placed at subsidiaries and other cash) was negative 19 million euros as at 30 June 2005.

[3] Gross debt = Nominal Gross Debt – Up-Front costs under IAS 39

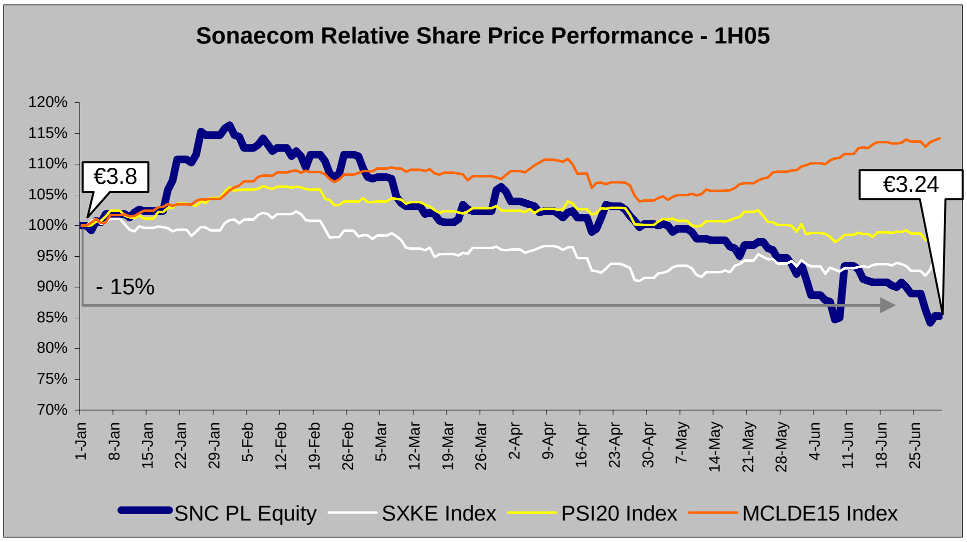
4.8. Financing

On 28 January, Sonaecom SGPS signed a contract with a Portuguese financial institution for the arrangement of a 70 million euros Commercial Paper Programme ("CPP") with a one year term renewable over a 5 year period. In addition, Sonaecom secured a short-term overdraft facility of 20 million euros. Both these facilities will provide Sonaecom SGPS with back-up credit capacity to support its short-term funding needs and those of its subsidiaries that are unable to raise non-recourse funding at this stage. As at 30 June, neither of these facilities had been used.

On 21 June, Sonaecom announced that it had completed an 8-year bond issue, by private placement, totalling 150 million euros. The bond issue is unsecured, with a bullet repayment in June 2013 and was arranged by Millennium BCP Investimento. The proceeds of the issue are to be used to finance the further development of the fixed-line business, namely the roll-out of broadband and triple-play offers, and for general corporate development purposes.

5. Share Price Performance

Sonaecom's share price experienced significant volatility during 1H05 with a loss in value of 15% compared with end 2004 to 3.24 euros per share. The following chart reflects relative performance against the main Portuguese Stock Index (PSI20) and two leading European Indices, the DJ Euro Stoxx Telecoms and MS Small Cap Europe Local. In addition, indicated below are our key events or announcements made during the semester which impacted share price. The price evolution reflects the market's reaction to: (i) the increased competitiveness in the Portuguese mobile telecoms market; (ii) anticipated deterioration in results at Sonaecom Fixed as a result of increased investment for broadband expansion; and (iii) to the unfavourable economic environment felt in Portugal, exacerbated by the recent increase of VAT rates and the expected impact over consumer behaviour.



Key events and announcements:

28 February	FY2004 Consolidated Results Announcement
21 March	Acquisition of Maxistar's 2.77% stake in Optimus
28 April	1Q05 Consolidated Results Announcement
8 June	Complaints lodged with the European Commission
9 June	Announcement of SPA with FT and "roll-up" of FT stakes in

	operating companies in exchange for 23.7% stake in Sonaecom
21 June	Announcement of €150 million bond private placement
27 June	Launch of rede4

The average daily volume traded during 1H05 was 406 thousand shares, which represents circa 1% of the company's free-float (which in turn represents 17.54% of share capital).

During 1H05, Sonaecom participated in a number of investor conferences and organised various management road-shows, both in Portugal and in Europe:

	Location	Event	Host
January	Copenhagen, Oslo, Helsinki, Stockholm	Roadshow	BPI
January	Milan	Roadshow	Santander
February	Small & Mid Caps Conference Madrid	Presentation	Santander
March	Lisbon	Roadshow	Millennium bcp
March	Paris	Roadshow	UBS
April	ESN Small & Mid Caps Conference London	Presentation	CaixaBI
May	London	Roadshow	Espírito Santo
May	Iberian Day	Investor Meetings	UBS
June	TMT Conference	Presentation	Merril Lynch
June	Portugal Reverse Roadshow	Presentation	UBS
June	Iberian Small & Mid Caps Conference Madrid	Investor Meetings	BPI
June	XI Santander Telecoms Conference Marbella	Presentation	Santander

6. Corporate Governance – Principal Changes in 1H05

A complete Corporate Governance Report is included in Sonaecom's Full Year 2004 Management Report and Accounts that can be obtained from our website (www.sonae.com).

Highlighted below are the main developments that occurred during 1H05 in respect of corporate governance issues:

Strategic Partnerships

On 9th June, Sonaecom announced that a Strategic Partnership Agreement ("SPA") had been reached with France Telecom (FT) under which both parties decided to enhance their existing strategic relationship. Under this agreement, FT has committed to provide strategic support to Sonaecom telecoms companies for a period of three years and agreed to "roll-up" its shareholdings in Sonaecom's Telecoms Companies in exchange for shares in Sonaecom. The purpose and general scope of the SPA is to implement cooperation between the FT Group and Sonaecom in the following key areas:

- Roaming and interconnection: Optimus is accepted as a member of the Orange Open Seamless Alliance (for Orange affiliates);
- Multimedia services: Optimus has access to Orange Multimedia products and services;
- Handset procurement: Optimus has access to FT's mobile device procurement programme;
- Network (international and national links): FT and Sonaecom agree to act as preferred partners for network issues.

As a result of the SPA, Sonaecom's Telecoms Companies will see the benefit of the relationship with the FT Group enhanced particularly due to the commitments made by FT regarding the critical areas mentioned above, FT benefiting from platform sharing and seamless international services for Orange's customers. The initial duration of the SPA announced today is three years, renewable by mutual agreement between both parties.

Reinforcing the strategic nature of FT's relationship with Sonaecom and as a condition for the SPA, FT and Sonaecom agreed that all necessary acts should be carried out to allow FT to "roll-up" its shareholdings in Optimus, Novis and Clix, in exchange for a 23.7% shareholding in the enlarged share capital of Sonaecom. Completion of the aforementioned capital increase and "roll-up" of participations is subject to Shareholder approval and is expected to be completed before the end of 2005. As a result of this agreement and subject to the approval by shareholders at the Extraordinary General Meeting, Sonae SGPS shareholding in Sonaecom will be diluted from 82.46% to 62.92%.

Board of Directors

In January 2005, Sonae SGPS announced that António Casanova, previously an Executive Director at Sonaecom with responsibility for the mobile business, had been invited to become an Executive Board Member of Sonae Sierra.

As a result, the structure of the executive management team of Sonaecom underwent the following changes:

- Luís Reis, Executive Director at Sonaecom and previously responsible for the fixed business, also assumed responsibility for the mobile business;
- Miguel Almeida, previously Executive Director at Optimus, became COO of the mobile business and Executive Director of Sonaecom;
- Pedro Carlos, Executive Director at Novis, became COO of the fixed business.

On 26 April, the co-option of Miguel Almeida to the Board of Sonaecom was approved in the Board Meeting. As of this date, the Board of Sonaecom is composed of the following members:

- Belmiro Mendes de Azevedo (Chairman)
- António Castelo Branco Borges (Independent, Non-Executive)
- David Graham Shenton Bain (Non-Executive)
- Jean-François René Pontal (Independent, Non-Executive)
- Richard Henry O'Toole (Independent, Non-Executive)
- Duarte Paulo Teixeira de Azevedo (CEO)
- George Christopher Lawrie (CFO)
- Luís Filipe Campos Dias de Castro Reis (COO)
- Miguel Nuno Santos Almeida (Executive Director)

7. Outlook

Sonaecom is faced today with an opportunity to grow its telecoms businesses and to carve-out a stronger and more sustainable market position in the Portuguese telecoms market. This is reflected in our decision to invest for growth during 2005 aimed at strengthening our core brands and developing particular market opportunities, such as fixed-mobile substitution, ultra broadband and the launch of triple play.

This will result in Sonaecom increasing its spending in network development, in marketing expenses and in customer acquisition costs, while the benefits on Revenues and EBITDA will begin to be visible from 2006 onwards. As indicated recently by Optimus in its press conference held on 7July 2005, additional financial pressure will arise from the continued cuts in MTRs and from the increased competition in the mobile market, as a result of our competitor's decision to aggressively subsidise handsets.

8. Acknowledgements

We would like to thank the Statutory Auditor for the valuable advice and help given during the semester. We would also like to express our gratitude to our suppliers, banks and other associates of the Group for the confidence they have placed in us. The Executive Committee would also like to thank the Non-Executive Directors for their work and valuable advice. Finally, we express our gratitude to all Sonaecom Group staff who has worked tirelessly to ensure our continuing success and whose efforts are clearly visible in the results we have achieved.

Maia, 26 July 2005

The Board of Directors,

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira Azevedo

António Castelo Branco Borges

Miguel Nuno Santos Almeida

David Graham Shenton Bain

Jean-François René Pontal

George Christopher Lawrie

Luis Filipe Campos Dias de Castro Reis

Richard Henry O'Toole

Appendix in accordance with article 447 of Código das Sociedades Comerciais

Shares held by the Board of Directors and respective transactions during 2005

		Additions		Reductions		Balance at 30.06.2005
	Date	Quantity	Medium value €	Quantity	Medium value €	Quantity
BOARD OF DIRECTORS						
Belmiro Mendes de Azevedo						
Efanor Investimentos, SGPS, SA (1)						49.999.997
Imparfin, SGPS, SA (3)						150.000
Sonae, SGPS, SA (4)						14.901
Sonaecom, SGPS, SA						75.537
Duarte Paulo Teixeira de Azevedo						
Efanor Investimentos, SGPS, SA (1)						1
Imparfin, SGPS, SA (3)						150.000
Sonae, SGPS, SA (4)						360.591
Shares attributed under the Deferred Performance Bonus Plan	09.05.2005	83.105				
Sonaecom, SGPS, SA						315.795
Shares attributed under the Deferred Performance Bonus Plan	01.04.2005	36.828				
António Castelo Branco Borges						
Sonae, SGPS, SA (4)						2.593
Sonaecom, SGPS, SA						3.000
David Graham Shenton Bain						
Sonae, SGPS, SA (4)						3.518
Sonaecom, SGPS, SA						15.000
George Christopher Lawrie						
Sonae, SGPS, SA (4)						106.000
Sonaecom, SGPS, SA						208.000
Luís Filipe Campos Dias de Castro Reis						
Sonae, SGPS, SA (4)						
Shares attributed under the Deferred Performance Bonus Plan	09.05.2005	33.994				
Sale	18.05.2005			33.994	1,18	
Sonaecom, SGPS, SA						
Shares attributed under the Deferred Performance Bonus Plan	01.04.2005	23.434				
Sale	18.05.2005			6.964	3,65	
Sale	18.05.2005			16.470	3,66	
Richard Henry O'Toole						
Sonaecom, SGPS, SA						3.000
Miguel Nuno Santos Almeida						
Sonae, SGPS, SA (4)						
Shares attributed under the Deferred Performance Bonus Plan	09.05.2005	13.746				
Sale	20.05.2005			13.746	1,2	
Sonaecom, SGPS, SA						18.903
Shares attributed under the Deferred Performance Bonus Plan	01.04.2005	16.244				

Notes:

		Additions		Reductions		Balance at 30.06.2005
	Date	Quantity	Medium value €	Quantity	Medium value €	Quantity
(1) Efanor Investimentos, SGPS, SA						
Sonae, SGPS, SA						949.983.715
Pareuro, BV (2)						20.000
Sonaecom, SGPS, SA						1.000
(2) Pareuro, BV						
Sonae, SGPS, SA						108.820.695
(3) Imparfin, SGPS, SA						
Sonae, SGPS, SA						4.105.273
(4) Sonae, SGPS, SA						
Sonaecom, SGPS, SA						39.362.998

Appendix in accordance with article 448 of Código das Sociedades Comerciais

	Number of shares as of 30 June 2005
Efanor Investimentos, SGPS, SA	
Sonae, SGPS, SA	949.983.715
Pareuro, BV	20.000
Sonaecom, SGPS, SA	1.000
Pareuro, BV	
Sonae, SGPS, SA	108.820.695
Sonae, SGPS, SA	
Sonaecom, SGPS, SA	39.362.998
Sonae Investments, BV	40
Sonae Investments, BV	
Sonaecom, SGPS, SA	147.211.738

QUALIFYING HOLDINGS

In compliance with sub-paragraph d), of nr 1, of the article 9 of the Securities Market Regulation Board (Regulamento da CMVM) nr 04/2004, we declare the Qualifying Holdings as of 30 June

Shareholder	Number of shares	% Voting rights
Sonae Investments, BV	147.211.738	65,07%
Sonae, SGPS, SA	39.362.998	17,40%
Duarte Paulo Teixeira de Azevedo [1, 3]	315.795	0,14%
Belmiro Mendes de Azevedo [1, 3]	75.537	0,03%
Ângelo Gabriel Ribeirinho dos Santos Paupério [1, 2]	60.070	0,03%
Maria Cláudia Teixeira de Azevedo [3]	13.654	0,01%
Álvaro Carmona e Costa Portela [1]	5.000	0,00%
Efanor Investimentos, SGPS, SA	1.000	0,00%
Total	187.045.792	82,67%

(1) Member of the Board of Directors of Sonae, SGPS, SA

(2) Member of the Board of Directors of Sonae Investments, BV

(3) Member of the Board of Directors of Efanor Investimentos, SGPS, SA

II. CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEET FOR THE SEMESTERS ENDED AT 30 JUNE 2005 AND 2004 AND FOR THE YEAR ENDED AT 31 DECEMBER 2004

(Amounts expressed in Euro)

ASSETS	Notes	June 2005	June 2004	December 2004
NON CURRENT ASSETS:				
Tangible assets	1.c), 1.h) and 5	467.709.957	464.502.884	482.808.381
Intangible assets	1.d), 1.e) and 6	176.440.583	193.650.196	183.943.968
Goodwill	1.f) and 7	41.157.983	31.483.668	31.614.130
Investments in associated companies	1.b) and 3	685.668	661.185	685.669
Investments available for sale	1.g) and 8	1.207.320	5.968.587	1.207.320
Other non current debtors		2.855.471	3.770.213	3.506.749
Deferred tax assets	1.q) and 9	67.802.268	76.906.024	68.693.940
Other non current assets	1.s), 1.t), 1.x) and 10	3.285.415	22.196.470	4.872.217
Total non current assets		761.144.665	799.139.227	777.332.374
CURRENT ASSETS:				
Inventories	1.j)	19.719.168	11.077.356	12.827.545
Trade debtors	1.k)	134.126.842	142.518.798	152.682.416
Other current debtors	1.k)	19.499.243	45.998.496	11.339.437
Other current assets	1.s), 1.t) and 1.x)	59.028.604	66.970.677	51.149.794
Investments recorded at fair value through profit or loss	1.g) and 11	1.276.884	-	-
Cash and cash equivalents	1.l) and 12	180.131.703	88.743.851	53.265.132
Total current assets		413.782.444	355.309.178	281.264.324
Total assets		**1.174.927.109**	**1.154.448.405**	**1.058.596.698**
SHAREHOLDERS' FUNDS AND LIABILITIES				
SHAREHOLDERS' FUNDS:				
Share capital		226.250.000	226.250.000	226.250.000
Reserves	1.u)	30.524.473	13.009.202	12.356.470
Consolidated net income/(loss) for the period		5.802.710	6.147.169	18.048.373
		262.577.183	245.406.371	256.654.843
Minority interests		180.744.451	171.112.886	183.919.719
Total Shareholders' Funds		443.321.634	416.519.257	440.574.562
LIABILITIES:				
NON CURRENT LIABILITIES:				
Medium and long-term loans - net of short-term portion	1.m), 1.n) and 13	453.218.212	400.000.000	305.138.566
Other non current creditors		3.426.585	308.475	3.425.011
Other non current financial liabilities	14	2.526.480	3.769.587	3.953.358
Provisions for other liabilities and charges	1.p) and 15	2.848.832	5.006.776	4.292.249
Other non current liabilities	1.s), 1.t) and 1.x)	7.798.412	8.745.401	9.794.878
Total non current liabilities		469.818.521	417.830.239	326.604.062
CURRENT LIABILITIES:				
Short-term loans and other loans	1.m), 1.n) and 13	780.677	26.070.516	2.508.344
Trade creditors		127.568.953	146.230.917	153.049.344
Other current financial liabilities	16	3.153.122	3.388.201	4.070.891
Other creditors		21.511.793	26.181.263	17.612.868
Other current liabilities	1.s), 1.t) and 1.x)	108.772.409	118.228.012	114.176.627
Total current liabilities		261.786.954	320.098.909	291.418.074
Total Shareholders' Funds and liabilities		**1.174.927.109**	**1.154.448.405**	**1.058.596.698**

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

The Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

The Board

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira de Azevedo

António Castelo Branco Borges

Miguel Nuno Santos Almeida

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT BY NATURE

FOR THE QUARTERS AND SEMESTERS ENDED AT 30 JUNE 2005 AND 2004 AND FOR THE YEAR ENDED AT 31 DECEMBER 2004

(Amounts expressed in Euro)

	Notes	June 2005	April to June 2005 (Not audited)	June 2004	April to June 2004 (Not audited)	December 2004
Operating revenues:						
Sales		43.245.739	26.445.159	50.270.605	26.399.856	108.049.977
Services rendered		362.640.604	182.574.749	378.671.492	195.690.052	772.109.042
Other operating revenues		2.332.657	1.037.897	3.271.568	873.346	6.967.530
Total operating revenues		408.219.000	210.057.805	432.213.665	222.963.254	887.126.549
Operating costs:						
Cost of sales		(45.033.277)	(27.333.626)	(49.276.456)	(26.227.390)	(106.436.514)
External supplies and services	17	(216.583.518)	(111.065.467)	(221.931.070)	(110.253.099)	(454.292.910)
Staff expenses		(52.814.875)	(26.462.101)	(46.183.409)	(23.161.619)	(96.374.442)
Depreciation and amortisation	5, 6 and 7	(62.523.619)	(30.847.154)	(62.712.966)	(30.371.538)	(125.197.734)
Provisions and impairment losses	1.p), 1.w) and 15	(3.023.960)	(1.319.259)	(10.528.367)	(5.183.614)	(15.851.501)
Other operating costs	1.w)	(7.151.654)	(4.273.802)	(6.600.928)	(3.548.231)	(13.557.654)
Total operating costs		(387.130.903)	(201.301.409)	(397.233.196)	(198.745.491)	(811.710.755)
Net operating income/(expenses)		**21.088.097**	**8.756.396**	**34.980.469**	**24.217.763**	**75.415.794**
Gains and losses in associated companies	18	-	-	(64.187)	34.530	(10.473)
Other net financial income/(expenses)	1.n), 1.o), 1.v), 1.w and 18	(5.806.658)	(3.040.772)	(10.743.905)	(5.717.098)	(18.421.429)
Current income/(loss)		**15.281.439**	**5.715.624**	**24.172.377**	**18.535.195**	**56.983.892**
Income taxation	1.q), 9 and 19	(1.748.121)	(1.314.216)	(9.615.098)	(6.307.008)	(18.151.692)
Consolidated net income/(loss)		**13.533.318**	**4.401.408**	**14.557.279**	**12.228.187**	**38.832.200**
Atribbuted to:						
Shareholders of parent company		**5.802.710**	**1.154.848**	**6.147.169**	**5.912.080**	**18.048.373**
Minority interests		7.730.608	3.246.560	8.410.110	6.316.107	20.783.827
Earnings per share						
Including descontinued operations						
Basic		0,03	0,01	0,03	0,03	0,08
Diluted		0,03	0,01	0,03	0,03	0,08
Excluding descontinued operations						
Basic		0,03	0,01	0,03	0,03	0,08
Diluted		0,03	0,01	0,03	0,03	0,08

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

The Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

The Board

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira de Azevedo

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

CONSOLIDATED MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE SEMESTERS ENDED AT 30 JUNE 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 semester ended 30 June 2005	-	-	-	-	-	-	-	-	5.802.710	5.802.710
Premium and reserves to cover losses	-	-	(78.641.576)	78.641.576	-	-	-	-	-	-
Hedging reserves (Swaps)	-	-	-	-	-	61.021	61.021	-	-	61.021
Adjustments in foreign currency translation reserves and others	-	-	-	58.609	-	-	58.609	-	-	58.609
Balance at 30 June 2005	226.250.000	114.360	257.177.965	(105.078.819)	(121.380.899)	(308.134)	30.524.473	-	5.802.710	262.577.183
Minority interests										
Balance at 31 December 2004	-	-	-	-	-	-	-	183.919.719	-	183.919.719
Hedging reserves (Swaps)	-	-	-	-	-	-	-	63.353	-	63.353
Minority interests on results	-	-	-	-	-	-	-	7.730.608	-	7.730.608
Minority changes and others (*)	-	-	-	-	-	-	-	(10.969.229)	-	(10.969.229)
Balance at 30 June 2005	-	-	-	-	-	-	-	180.744.451	-	180.744.451
Total	226.250.000	114.360	257.177.965	(105.078.819)	(121.380.899)	(308.134)	30.524.473	180.744.451	5.802.710	443.321.634

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 semester ended 30 June 2004	-	-	-	-	-	-	-	-	6.147.169	6.147.169
Hedging reserves (Swaps)	-	-	-	-	-	185.875	185.875	-	-	185.875
Adjustments in foreign currency translation reserves and others	-	-	-	460.398	-	-	460.398	-	-	460.398
Balance at 30 June 2004	226.250.000	114.360	335.819.541	(201.287.965)	(121.380.899)	(255.835)	13.009.202	-	6.147.169	245.406.371
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)	-	-	-	-	-	-	-	(296.844)	-	(296.844)
Minority interests on results	-	-	-	-	-	-	-	8.410.110	-	8.410.110
Minority changes and others	-	-	-	-	-	-	-	(395.521)	-	(395.521)
Balance at 30 June 2004	-	-	-	-	-	-	-	171.112.886	-	171.112.886
Total	226.250.000	114.360	335.819.541	(201.287.965)	(121.380.899)	(255.835)	13.009.202	171.112.886	6.147.169	416.519.257

(*) 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 shareolder.

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

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

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE SEMESTERS ENDED AS AT 30 JUNE 2005 AND 2004

(Amounts expressed in Euro)

	June 2005	June 2004
Operational results before amortisations, depreciations and provisions	86.635.676	108.221.802
Working capital variation	(15.625.610)	(68.039.541)
Cash flows from operating activities	**71.010.066**	**40.182.261**
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	(62.483.291)	(30.568.255)
Cash flow from investing activities	**(84.386.127)**	**(39.548.233)**
Receipts from:		
Loans obtained	145.902.945	40.767.787
Interest and similar income	1.715.229	1.609.000
Payments for:		
Loans obtained repaid	-	(96.917.049)
Interest and similar income	(5.772.255)	(7.514.548)
Cash flow from financing activities	**141.845.919**	**(62.054.810)**
Net cash flows	**128.469.858**	**(61.420.782)**
Cash and cash equivalents at the beginning of the period	51.554.271	147.585.990
Cash and cash equivalents at end of the period	180.024.129	86.165.208

The notes are an integral part of the Sonaecom consolidated financial statements.

The Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

The Board of Directors

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira Azevedo

António Castelo Branco Borges

Miguel Nuno Santos Almeida

David Graham Shenton Bain

George Christopher Lawrie

Jean-François René Pontal

Luís Filipe Campos Dias de Castro Reis

Richard Henry O'Toole

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

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

FOR THE SEMESTERS ENDED AS AT 30 JUNE 2005 AND 2004

(Amounts expressed in Euro)

1 - Description of cash and cash equivalents components:

	2005	2004
Cash in hand	292.384	249.980
Cash at bank	7.515.826	10.663.563
Treasury applications	172.323.493	77.830.308
Overdrafts	(107.574)	(2.578.643)
Cash and cash equivalents	**180.024.129**	**86.165.208**
Overdrafts	107.574	2.578.643
Cash assets	**180.131.703**	**88.743.851**

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
	20.558.747

Notes to the consolidated financial statements

Notes to the consolidated financial statements at 30 June 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).

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:

	Years of useful life
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 semester ended 30 June 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 semester ended 30 June 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

In accordance with IAS 39, the financial instruments may be classified as follows:

- "Investments held-to-maturity" – non-derivative financial assets with fixed or variable repayments, with a pre-determined maturity which the Board of Directors intends to retain until their respective maturity date;

- "Investments at fair value through profit or loss" – financial assets or liabilities that are held with the purpose of obtaining short-term capital gains, all derivative instruments that are not part of hedge operations and all those, at the moment of acquisition, are designated as such by the Board of Directors of the Group;

- "Loans and receivables" – non-derivative financial assets with a fixed or variable repayment, which are not quoted instruments, on markets with reasonable liquidity and that are not registered as "Investments at fair value through profit or loss" or as "Investments available for sale";

- "Investments available for sale" – non-derivative financial assets that are designated as available for sale or those that do not fit into any of the previous categories.

"Investments held-to-maturity" are registered as non-current investments, except if their maturity falls within less than 12 months of the balance sheet date. "Investments at fair value through profit or loss" are registered as current investments. "Investments available for sale" are registered as non-current investments.

All purchases and sales of these investments are recognised at the date of signature of the respective contracts, regardless of the specific payment dates.

Investments are initially recorded at their acquisition value, which is the amount paid at the acquisition date, which corresponds to the respective fair value at that date, including transaction costs.

After the initial recognition, the "Investments at fair value through profit or loss" and the "Investments available for sale" are revaluated at their respective fair value, with reference to their market value at the balance sheet date, without deduction of any transaction costs that may arise on the sale.

Gains and losses derived from changes in the fair value of "Investments available for sale" are recognised in Shareholders' Funds, under the heading "Fair value reserve". At the moment these investments are sold or disposed off in any other way, or whenever the fair value of the investment is lower than the respective acquisition cost (such situation is considered result in an impairment loss), the cumulative gain or loss is registered in the Profit and loss statement.

Gains and losses derived from changes in the fair value of "Investments at fair value through profit or loss" are registered in the Profit and loss statement, in the caption "Other financial results".

“Investments held-to-maturity” are registered at amortised cost, calculated using the effective interest rate, net of capital repayments and interest received.

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” (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:

	2005		**2004**	
	30.06.05	Average	30.06.04	Average
Pounds Sterling	1.48324	1.45814	1.49087	1.48508
Brazilian Real	0.35101	0.30319	0.26428	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 responsabilities 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 beig recorded against “Provisions”, instead of Shareholders’ funds.

On December 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 June 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 June 2005 and 2004, are as follows:

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

* Sonaecom effective participation

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held 2005 Direct	2005 Effective*	2004 Direct	2004 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 (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held 2005 Direct	2005 Effective*	2004 Direct	2004 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	100%	100%	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%	99.89%	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 June 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:

				Percentage of share capital held				Book value	
				2005		2004			
Company (Commercial brand)	**Head office**	**Main activity**	**Shareholder**	**Direct**	**Effective***	**Direct**	**Effective***	**2005**	**2004**
Associated companies:									
Net Mall, S.G.P.S., S.A. ("Net Mall")	Maia	Management of shareholdings.	Sonae.Com Sistemas de Informação	50%	50%	50%	50%	(a)	(a)
Sociedade Independente de Radiodifusão Sonora, S.A. ("S.I.R.S." using the brand name "Rádio Nova")	Oporto	Sound broadcasting. Radio station.	Público	45%	45%	45%	45%	(a)	(a)
Unipress – Centro Gráfico, Lda. ("Unipress")	V.N.Gaia	Trade and industry of graphic design and publishing	Público	40%	40%	40%	40%	685,668	661,185
Global S – Centro Comercial, Lda.	Matosinhos	Information technology services to promote and manage multimedia stores. Operation of shopping centres (Global Shop).	Global S	2.4%	0.8%	2.4%	0.8%	(b)	(b)
			Global S 24	97.5%	15.8%	97.5%	15.8%	(b)	(b)
Global S, S.G.P.S., S.A. ("Global S" using the brand name "Global Shop")	Matosinhos	Management of shareholdings.	Net Mall	64.7%	32.4%	64.7%	32.4%	(b)	(b)
Global S – Tecnologias de Informação, Lda.	Matosinhos	Development, production, commercialisation, training and services in the area of information technology, communications and security.	Global S	75%	24.3%	75%	24.3%	(b)	(b)
Global S 24, S.G.P.S., S.A.	Matosinhos	Management of shareholdings.	Global S	50%	16.2%	50%	16.2%	(b)	(b)
								685,668	661,185

* 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 semester ended 30 June 2005 the following changes occurred in the composition of the Group:

4. a) Acquisitions

Purchaser	Subsidiary	Date	% acquired	Current % Shareholding
Sonae Telecom	Optimus	Mar-05	2.77%	49.06%
Retailbox	Enabler	Apr-05	1.2%	98.5%
Sonaetelecom BV	Retailbox	May-05	7%	71%

As a result of the above mentioned acquisitions, additional Goodwill of Euro 9,549,208 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

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.

5. Tangible Assets

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

	2005									2004
	Land	Buildings and other constructions	Plant and machinery	Vehicles	Fixtures and fittings	Tools	Other tangible assets	Work in progress	Total	Total
Gross assets										
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
Additions	-	368,221	4,288,727	51,653	414,181	1,450	186,125	31,456,212	36,766,569	30,484,886
Disposals	-	(140,367)	(304,279)	(43,145)	(1,251,277)	-	(15,915)	(962,719)	(2,717,702)	(12,480,878)
Transfers and write-offs	-	6,987,548	23,472,549	7,663	8,130,178	-	9,880	(36,695,305)	1,912,513	(721,761)
Closing balance	1,391,593	178,724,674	645,401,090	146,460	127,034,094	1,205,131	3,000,646	2,955,933	959,859,621	863,102,741

	2005									2004
	Land	Buildings and other constructions	Plant and machinery	Vehicles	Fixtures and fittings	Tools	Other tangible assets	Work in progress	Total	Total
Accumulated depreciation and impairment losses										
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
New companies	-	-	-	-	-	-	-	-	-	5,095,739
Depreciation for the semester	-	8,225,495	30,913,418	5,328	8,757,727	22,698	281,834	-	48,206,500	49,304,243
Impairment losses in the semester	-	-	-	-	-	-	-	-	-	(229,788)
Disposals	-	(34,032)	(174,205)	(6,685)	(1,206,449)	-	(15,915)	-	(1,437,286)	(3,193,785)
Transfers and write-offs	-	114,253	(15,164,460)	3,099	19,371,031	(3,219)	(30,114)	-	4,290,590	(657,980)
Closing balance	-	79,317,133	319,538,520	111,656	89,899,953	1,160,461	2,121,941	-	492,149,664	398,599,857
Net amount	1,391,593	99,407,541	325,862,570	34,804	37,134,141	44,670	878,705	2,955,933	467,709,957	464,502,884

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 first semester of 2005 (Note 1.c)) has generated a reduction of circa Euro 1.1 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 12,814,095 and Euro 9,909,416 as of 30 June 2005 and as of 30 June 2004, respectively and their net book value as of those dates amounted to Euro 6,278,593 and Euro 6,415,592, respectively.

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

	2005	**2004**
Development of mobile network	1,227,571	22,215,993
Development of fixed network	1,288,307	2,246,065
Information systems	220,733	1,519,466
Others projects in progress	219,322	125,388
	2,955,933	26,106,912

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

	2005	**2004**
Technical investments	22,450,524	23,760,573
Investments in information systems	3,836,754	4,994,861
	26,287,278	28,755,434

6. Intangible assets

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

	2005					2004
	Brands and patents	Software	Others	Intangible assets in progress	Total	Total
Gross assets:						
Opening balance	145,655,058	159,789,572	638,200	6,141,825	312,224,655	303,591,822
Additions	45,145	68,398	-	5,823,604	5,937,147	8,010,305
Disposals	(21,000)	(198,168)	(441,464)	(278,516)	(939,148)	(22,717)
Transfers, and write-offs	165	3,924,334	-	(7,086,146)	(3,161,647)	(2,402,760)
Closing balance	145,679,368	163,584,136	196,736	4,600,767	314,061,007	309,176,650

	2005					2004
	Brands and patents	Software	Others	Intangible assets in progress	Total	Total
Accumulated amortisation and impairment losses						
Opening balance	5,186,364	122,823,729	270,594	-	128,280,687	102,151,435
Amortisation in the semester	6,460,146	7,824,114	32,859	-	14,317,119	13,408,723
Disposals	-	(53,520)	(171,682)	-	(225,202)	(7,205)
Transfers and write-offs	56,762	(4,775,538)	(33,404)	-	(4,752,180)	(26,499)
Closing balance	11,703,272	125,818,785	98,367	-	137,620,424	115,526,454
Net amount	133,976,096	37,765,351	98,369	4,600,767	176,440,583	193,650,196

As at 30 June 2005 and 2004, the Group has recorded under the heading "Intangible assets" an amount of Euro 141,616,417 and Euro 156,160,334, respectively, that correspond to investments net of depreciations made in the development of the UMTS network, including Euro 94,509,075 related to the license and Euro 31,578,947 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 first semester of 2005 (Note 1.d)) has generated a reduction of circa Euro 2.8 million in depreciation charges compared to the amount that would have resulted from previous estimated useful lives.

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

	2005	2004
Intangible assets:		
UMTS License (1)	-	132,453,751
Network development studies – UMTS (1) and GPRS (2), including capitalised financial costs (Note 1. n))	-	24,736,379
Information systems	4,459,425	-
Others	141,342	-
	4,600,767	157,190,130

(1) Universal Mobile Telecommunications Service
(2) General Packet Radio System

Intangible assets include interest and other financial expenses incurred, directly related to the construction of certain items of work in progress. At 30 June 2005 and 2004 such expenses amounted to Euro 12,186,531 and Euro 14,264,206, respectively. The amount capitalised on the semesters ended at 30 June 2005 and 2004 were Euro 184,021 and Euro 2,898,172, respectively. An interest capitalization rate of 3.015% was used in 2005 (4.625% in 2004), which corresponds to the average interest rate supported by the Group.

7. Goodwill

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

	2005	2004
Gross Assets:		
Opening balance	31,614,130	59,851,238
Increase of participations (Note 4)	9,549,208	-
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	41,157,983	31,483,668
Accumulated amortisation and impairment losses:		
Opening balance	-	32,910,650
Companies no longer consolidated	-	(319,748)
Transfers, disposals and write-offs	-	(32,590,902)
Closing balance	-	-
Net amount	41,157,983	31,483,668

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 June 2005 and 2004 was made up as follows:

	June 2005					June 2004
	Date of acquisition	Gross Amount as of 30.06.05	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	-
		73,748,885	64,205,032	(32,590,902)	41,157,983	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 June 2005 and 2004, this caption included investments classified as available for sale and was made up as follows:

	2005			2004		
	Gross amount	Accumulated impairment losses (Note 15)	Net amount	Gross amount	Accumulated impairment losses (Note 15)	Net amount
Investimento Directo	-	-	-	6,761,267	(2,000,000)	4,761,267
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
Non current investments held for sale	3,892,795	2,685,475	1,207,320	10,654,062	(4,685,475)	5,968,587

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 June 2005 and 2004, in the amount of Euro 67,802,268 and Euro 76,906,024, 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 semesters ended 30 June 2005 and 2004 were as follows:

	2005	2004
Opening balance	**68,693,940**	**84,626,227**
New Companies (KPNQwest)	-	817,707
Impact on results:		
Tax losses carried forward	(5,897,227)	(7,162,538)
Adjustments of estimated taxable income of prior year	541,419	1,479,394
Movements in provisions not deductible for tax purposes	71,829	-
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)	4,400,000	-
Write-off of the deferred tax assets recorded in previous years, due to impairments (Clixgest in 2004)	-	(2,840,848)
Others	(7,693)	(7,183)
Sub-total of the impact on results (Note 19)	**(891,672)**	**(8,531,175)**
Impact on reserves:		
Others	-	(6,735)
Closing balance	**67,802,268**	**76,906,024**

The heading Tax losses carried forward is composed mainly by the movements in the subsidiaries Optimus (Euro 6,463,811 and Euro 8,106,703, both negative, on 30 June 2005 and 2004, respectively) and Novis (Euro 979,644 and Euro 1,141,372, positive, on 30 June 2005 and 2004, respectively).

At 30 June 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 June 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 June 2005 were as follows:

	Optimus	We Do	Novis	Público	Total	Limit date to be used
Originated in 1999	16,403,475	-	4,389,749	-	20,793,224	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	-	-	9,846,650	208,883	10,055,533	2011
	107,107,200	6,663,585	260,300,430	5,187,547	379,258,762	

At 30 June 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 taxe assets were recorded)	98,439,085
Temporary differences (mainly provisions not accepted for tax purposes)	25,865,447
Adjustments on conversion to IAS/IFRS	7,426,953
Temporary difference between the tax and accounting value of assets	4,182,739
	135,914,224

During the semester ended 30 June 2005, the effective rate used for calculating the deferred tax assets was 5.8% and could be summarized as follows:

Earning before taxes	**15,281,439**
Deferred taxes (27.5%)	(4,202,396)
Deferred taxes not recognised in individual accounts and/or resulting from consolidation adjustments	2,697,476
Adjustments to taxable income of the prior year	541,419
Provisions not deductible for tax purposes	71,829
Deferred taxes recorded in the semester	**(891,672)**
Effective tax rate	**5.8%**

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 June 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
FINANCIAL ASSETS:						
Loans granted to companies recorded under the equity method:						
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
Other loans granted:						
S.E.S.I.	24,316	(24,316)	-	24,316	(24,316)	-
	24,316	(24,316)	-	24,316	(24,316)	-
NON FINANCIAL ASSETS:						
Expenses capitalised on bank loans	-	-	-	16,024,540	-	16,024,540
Deferred Performance Bonus Plans (Notes 1. x) and 24)	3,285,415	-	3,285,415	3,664,290	-	3,664,290
Maxistar – Comunicações Pessoais, S.A.	-	-	-	1,550,000	-	1,550,000
	3,285,415	-	3,285,415	21,238,830	-	21,238,830
	4,272,371	**(986,956)**	**3,285,415**	**22,220,786**	**(24,316)**	**22,196,470**

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 semester ended 30 June 2005, this provision was transfered 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 semester ended 30 June 2005, 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)	(67,205)	-
Balance at closing of the period	1,276,884	-

As at 30 June 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 June 2005 and 2004, the detail of cash and cash equivalents was as follows:

	2005	2004
Cash	292,384	249,980
Bank deposits repayable on demand	7,515,826	10,663,563
Treasury applications	172,323,493	77,830,308
Cash and cash equivalents	180,131,703	88,743,851
Bank overdrafts (Note 13)	(107,574)	(2,578,643)
	180,024,129	86,165,208

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

	2005	2004
Funds placed with Sonae:		
Sonaecom	143,450,004	42,015,004
Bank term deposits:		
Sonaecom	13,250,000	-
Optimus	10,550,000	32,930,000
Novis	1,970,000	-
WEDO Brasil	839,996	544,786
Enabler	633,493	590,518
Público	500,000	1,000,000
Mainroad	320,000	400,000
Digitmarket	300,000	-
Other	510,000	350,000
	172,323,493	**77,830,308**

13. Loans

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

a) Bond Issues

					2005		2004	
					Amount outstanding		Amount outstanding	
Subsidiary	Issue denomination	Limit	Maturity	Type of reimbursement	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					(4,035,938)		

b) Bank Loans

					2005		2004	
					Amount outstanding		Amount outstanding	
Subsidiary	Lender	Limit	Maturity	Type of reimbursement	Short term	Medium and Long term	Short term	Medium and Long term
Optimus	European Investment Bank (a)	324,458,200	June 2009	30%-June 08 70%-June 09	-	324,458,200	-	224,458,200
Optimus	Revolving Credit Facility (syndicate)	125,541,800	June 2009	Final	-	-	-	-
Optimus	Term Loan (syndicate)	175,541,800	-	-	-	-	-	175,541,800
					-	**324,458,200**	**-**	**400,000,000**
	Costs associated with setting-up the financing					(17,204,050)		
	SUB-TOTAL					**453,218,212**		

c) Other loans and bank overdrafts

Subsidiary	Lender	Type	2005	2004
Novis	CGD	Short term bank facilities	-	22,200,000
Novis	BCP		-	739,194
Various	Various	Bank overdrafts	107,574	2,578,643
Optimus		Fair value of swaps	673,103	552,679
			780,677	26,070,516

(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.

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 June 2005, the repayment schedule of Optimus’ medium and long term loans and bonds was as follows:

Maturity Year	**Euro**
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 June 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	Sep-05	Euribor 3m	2.64%	(66,929)
Optimus	European Investment Bank	50,000,000	Dec-05	Euribor 3m	2.77%	(165,718)
Optimus	European Investment Bank	55,000,000	Dec-07	Euribor 3m	3.68%(a)	(440,456)
		155,000,000				**(673,103)**

(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 transfered 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 June 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:

	2005	2004
Fixed assets suppliers – leasing	852,918	1,917,166
Clix (France Telecom)	1,673,562	1,852,421
	2,526,480	3,769,587

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

	Lease payments	Present value of lease payments
2006	3,924,449	3,820,015
2007	190,489	186,025
	4,114,938	4,006,040
Interest	(108,898)	-
	4,006,040	4,006,040
Short term liability (Note 16)	-	(3,153,122)
	4,006,040	852,918

15. Provisions and accumulated impairment losses

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

Heading	Opening balance	Transfers	Increases	Utilisation	Decreases	Closing balance
Accumulated impairment losses on accounts receivable	67,363,508	-	2,261,427	(2,567,666)	(98,674)	66,958,595
Accumulated impairment losses on inventories	4,565,764	-	578,801	-	(35,177)	5,109,388
Accumulated impairment losses on investments available for sale (Note 8)	2,685,477	-	-	-	-	2,685,477
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)	183,732	(87,509)	(577,000)	2,848,832
	78,931,314	-	3,023,960	(2,655,175)	(710,851)	78,589,248

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 semester ended 30 June 2005, these provisions were transfered 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 June 2005, this caption includes the amount of Euro 3,153,122 (Euro 1,971,166, 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 semesters ended 30 June 2005 and 2004 are made up as follows:

	2005	2004
Interconnection costs	90,831,819	107,166,503
Rental of circuits	14,505,434	20,002,977
Commissions	24,381,367	23,836,392
Advertising and publicity	19,144,379	15,209,666
Other supplies and services	67,720,519	55,715,532
	216,583,518	221,931,070

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 semesters ended 30 June 2005 and 2004 are made up as follows:

	2005	2004
Financial results related to associated companies:		
Losses on associated companies	-	(64,187)
	-	(64,187)
Other financial results:		
Interest expenses	(5,122,470)	(7,371,716)
Interest income	1,556,968	1,397,894
Adjustments to fair value on Investments at fair value through profit and loss (Note 11)	(67,205)	-
Foreign exchange losses	(118,124)	(151,283)
Foreign exchange gains	410,748	183,829
Other financial expenses	(2,466,575)	(4,806,629)
	(5,806,658)	(10,743,905)
	(5,806,658)	(10,808,092)

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 semesters ended 30 June 2005 and 2004 are made up as follows:

	2005	2004
Current tax	(856,449)	(1,083,923)
Deferred tax (Note 9)	(891,672)	(8,531,175)
	(1,748,121)	(9,615,098)

20. Related parties

During the semestre ended 30 June 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 June 2005 were as follows:

Balances:	Accounts receivable	Accounts payable	Treasury applications	Loans obtained
Sonae	53,285	(3,294)	143,450,004	-
Modelo Continente Hipermercados, S.A.	3,134,338	(451,296)	-	-
France Telecom	1,544,396	(4,135,112)	-	1,673,562
	4,732,019	(4,589,702)	143,450,004	1,673,562

Transactions:	Sales and services rendered	Supplies and services received	Interest and similar income	Interest and similar expense
Sonae	165,680	(82,293)	294,244	-
Modelo Continente Hipermercados, S.A.	3,584,367	(577,499)	-	-
France Telecom	1,901,052	(4,717,055)	-	35,246
	5,651,099	(5,376,847)	294,244	35,246

21. Guarantees provided to third parties

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

Company	Beneficiary	Description	2005	2004
Optimus	European Investment Bank	Loan	324,458,200	224,458,200
Optimus	ABN AMRO Bank, NV, BCP Investimento and European Investment Bank	Pledge of 66.67% (in 2003 was 51%) of the shares of Optimus in guarantee of a loan to that subsidiary.	-	130,361,725
Optimus	ANACOM (a)	UMTS License	2,493,989	2,493,989
Optimus	Direcção de Contribuições e Impostos (Portuguese tax authorities)	Process of appeal in relation to a VAT claim	580,000	-
Optimus and Novis	Hewlett Packard	Finance lease contracts	513,074	1,344,524
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	-
Novis, Clix, Público and Optimus	Governo Civil de Lisboa (Lisboa District Civil)	Guarantee the fulfilment of legal obligations associated with a public contest launched	181,895	235,109
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	120,303	-
Novis	Câmara Municipal de Coimbra (Coimbra Municipality)	Performance bond - works	101,403	-
Novis	Câmara Municipal de Lisboa (Lisboa Municipality)	Performance bond - works	100,575	195,363
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	-
Various	Others		481,493	583,520
			330,293,989	360,801,873

(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 June 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 June 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 June 2005 and 2004 can be summarised as follows:

	Mobile Network		Fixed Network and Internet		Multimedia		Information Systems		Other		Sub-total		Eliminations		Total	
	June 2004	June 2005	June 2004	June 2005	June 2004	June 2005	June 2004	June 2005	June 2004	June 2005	June 2004	June 2005	June 2004	June 2005	June 2004	June 2005
Revenues:																
Sales and services rendered	316.029.028	298.575.059	74.791.319	75.212.412	29.100.474	22.820.821	40.431.556	43.167.830	3.995.650	4.706.383	464.348.027	444.482.506	(35.405.930)	(38.596.163)	428.942.097	405.886.343
Other operating revenues	7.330.217	12.489.224	1.668.992	1.649.877	93.336	279.392	820.148	703.200	767.302	826.471	10.679.996	15.948.165	(7.408.427)	(13.615.508)	3.271.568	2.332.657
Total revenues	323.359.245	311.064.283	76.460.311	76.862.289	29.193.810	23.100.213	41.251.704	43.871.030	4.762.952	5.532.854	475.028.022	460.430.670	(42.814.357)	(52.211.670)	432.213.665	408.219.000
Depreciation and amortisation	(52.773.334)	(54.142.401)	(7.905.676)	(6.871.461)	(965.683)	(676.738)	(1.425.516)	(1.127.301)	(312.913)	(180.180)	(63.383.122)	(62.998.081)	670.155	474.462	(62.712.966)	(62.523.619)
Net operating income/(loss) for the segment	39.808.451	31.740.044	(6.629.889)	(10.908.523)	60.484	(1.425.692)	2.924.785	4.036.237	(1.421.366)	(1.875.569)	34.742.465	21.566.497	238.004	(478.400)	34.980.469	21.088.097
Net interests	(6.119.299)	(4.425.716)	(407.510)	(783.911)	(127.506)	(106.978)	(179.915)	79.842	733.264	1.678.538	(6.100.966)	(3.558.225)	118.647	(7.277)	(5.982.319)	(3.565.502)
Gains and losses in associated companies	(50.000)	-	-	-	-	-	-	-	4.740.606	-	4.690.606	-	(4.754.793)	-	(64.187)	-
Other financial results	(4.574.105)	(2.220.661)	(147.792)	(164.727)	40.502	(8.237)	57.952	346.356	(9.017.226)	(4.694.039)	(13.640.669)	(6.741.309)	8.879.083	4.500.153	(4.761.586)	(2.241.156)
Income taxation	(6.730.995)	(1.674.019)	(1.719.574)	950.547	(175.803)	(15.847)	(980.399)	(1.004.601)	(8.327)	(7.150)	(9.615.098)	(1.751.070)	1	2.949	(9.615.098)	(1.748.121)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(8.410.110)	(7.730.608)	(8.410.110)	(7.730.608)
Net income/(loss) for the period	22.334.052	23.419.648	(8.904.766)	(10.906.614)	(202.323)	(1.556.754)	1.822.424	3.457.833	(4.973.049)	(4.898.220)	10.076.338	9.515.893	(3.929.168)	(3.713.183)	6.147.169	5.802.710
Assets:																
Fixed assets and Goodwill	576.444.931	563.042.840	83.010.525	85.416.186	3.745.071	2.573.200	23.694.962	16.174.538	3.719.631	2.493.325	690.615.120	669.700.089	(978.371)	15.608.433	689.636.748	685.308.523
Inventories	9.626.342	17.999.894	316.210	523.492	1.131.342	1.078.259	-	117.466	3.462	57	11.077.356	19.719.168	-	-	11.077.356	19.719.168
Financial investments and other non current asse	96.782.847	69.061.768	24.059.440	17.486.085	2.556.115	2.687.468	2.084.447	1.633.440	842.189.005	916.517.907	967.671.854	1.007.386.668	(858.169.375)	(931.550.525)	109.502.479	75.836.143
Other current assets of the segment	248.475.970	200.393.624	47.920.052	50.639.172	11.228.197	9.899.016	35.964.296	36.129.631	73.532.896	170.321.729	417.121.411	467.383.172	(72.889.589)	(73.319.897)	344.231.822	394.063.275
	931.330.090	850.498.126	155.306.227	154.064.935	18.660.725	16.237.943	61.743.705	54.055.075	919.444.994	1.089.333.018	2.086.485.741	2.164.189.097	(932.037.336)	(989.261.988)	1.154.448.405	1.174.927.109
Liabilities:																
Liabilities of the segment (excluding minority interests)	636.416.848	504.053.585	108.564.847	126.911.037	29.832.815	20.732.776	42.050.510	35.114.908	183.215.100	234.086.343	1.000.080.120	920.898.649	(262.150.972)	(189.293.174)	737.929.148	731.605.475
	636.416.848	504.053.585	108.564.847	126.911.037	29.832.815	20.732.776	42.050.510	35.114.908	183.215.100	234.086.343	1.000.080.120	920.898.649	(262.150.972)	(189.293.174)	737.929.148	731.605.475

23. Earnings per share

Earnings per share, basic and diluted, are calculated by dividing the consolidated net income of the semester (Euro 5,802,710 in 2005 and Euro 6,147,169 in 2004) by the average number of shares outstanding during the semesters ending 30 June 2005 and 2004 (226,250,000).

24. Deferred Performance Bonus Plans

In 30 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 June 2005 can be summarized as follows:

		Vesting Period		Exercise Period		At 30 June 2005	
	Share price at award date*	Award date	Vesting date	From	To	Aggregate number of participants	Number of options/ 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	117	1,890,682
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	-	-	221	1,303,118
2003 Plan	3.190	31-Mar-04	31-Mar-07	-	-	378	1,247,156
2004 Plan	3.960	31-Mar-05	31-Mar-08	-	-	403	1,110,243
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	267,106

* 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 13,533,563. This value is reflected in the captions “Other non current liabilities” (Euro 7,798,412) and “Other current liabilities” (Euro 5,735,151), 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 semester ended as at 30 June 2005, are as follows:

	Values
Costs recognised on previous years	7,061,703
Costs recognised in the semester	2,384,435
Cost of plans vested on previous years	(746,998)
Cost of plans vested in the semester	(2,344,437)
Other non current and current assets (Deferred costs not yet recognised)	7,168,860
Other non current and current liabilities (Total cost of the Plans)	13,533,563

25. Others matters

(i) As of 30 June 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, this dispute had already been examined by the Court, but no formal decision had yet been taken.

(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. Until the end of 2005, the Board of Directors of Sonaecom will propose, to its shareholders, the approval of the correspondent capital increase.

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. 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 26 July 2005.

LIMITED REVIEW REPORT PREPARED BY AN AUDITOR REGISTERED AT THE CMVM ON THE CONSOLIDATED HALF YEAR INFORMATION

(Translation of a report originally issued in Portuguese)

Introduction

1. Pursuant to article 246 of the Securities Market Code ("*Código do Mercado de Valores Mobiliários*") we hereby present our Limited Review Report on the consolidated financial information of SONAECOM, S.G.P.S., S.A. ("the Company") and subsidiaries for the half year ended 30 June 2005, included: in the consolidated Directors' Report, in the consolidated balance sheet (which reflect a total of 1,174,927,109 Euro and a total shareholders' equity, including minority interests, of 443,321,634 Euro, including a consolidated profit of 5,802,710 Euro), in the consolidated profit and loss account by nature, in the consolidated cash flow statement and in the consolidated statement of changes in equity for the half year then ended and the corresponding notes.

2. The amounts in the financial statements, as well the others included in the additional financial information were obtained from the accounting records of the Company and its subsidiaries.

Responsibilities

3. The Company's Board of Directors is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated results of their operations and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with the International Financial Reporting Standards ("IAS/IFRS") issued by IASB and adopted by the European Union, and that is complete, true, up-to-date, clear, objective and licit, as required by the Securities Market Code; (iii) adopting adequate accounting policies and criteria; (iv) the maintenance of appropriate internal control systems; and (v) informing on any significant facts that have influenced the operations, financial position or results of the companies included in the consolidation.

4. Our responsibility is to verify the financial information included in the documents of account referred to above, namely if, in all material respects, the information is complete, true, up-to-date, clear, objective and licit, as required by the Securities Market Code, and issuing a professional and independent moderate assurance report on that financial information based on our work.

Scope

5. Our work was performed with the objective of obtaining moderate assurance as to whether the financial information referred to above is free of material misstatement. Our work was based on the Technical Review/Audit Standards and Directives issued by the Portuguese Institute of Statutory Auditors ("Normas Técnicas e Directrizes de Revisão / Auditoria da Ordem dos Revisores Oficiais de Contas"), was planned in accordance with that objective and consisted mainly of enquiries and analytical review procedures to determine: (i) the reliability of the assertions included in the financial information; (ii) the adequacy of the accounting policies adopted considering the circumstances and their consistent application; (iii) the applicability, or otherwise, of the going concern concept; (iv) the presentation of the financial information; and (v) if, in all material respects, the consolidated financial information is complete, truthful, timely, clear, objective and licit as required by the Securities Market Code.

6. Our work also included verifying the consistency of the consolidated financial information disclosed in the consolidated Directors' Report with the other documents of account referred to above.

7. We believe that our work provides a reasonable basis for issuing this limited review report on the half year consolidated financial information.

Conclusion

8. Based on our work, which was performed with the objective of obtaining moderate assurance, nothing came to our attention that leads us to believe that the consolidated financial information of SONAECOM, S.G.P.S., S.A. for the half year ended 30 June 2005 is not free of material misstatement that affects its conformity with International Financial Reporting Standards ("IAS/IFRS") published by IASB and adopted by the European Union, and that, in accordance with the definitions set forth in the technical standards and directives referred to in paragraph 5 above, it is not complete, true, up-to-date, clear, objective and licit.

Oporto, 26 July 2005

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

In accordance with article 250, no.3 the Securities and Exchange Commission (CMVM) has authorized Sonaecom not to publish the individual accounts. The latter may be viewed, together with all other Company accounts, at the Company's head offices, in accordance with the Commercial Law Code (Código das Sociedades Comerciais).