

CONSOLIDATED MANAGEMENT REPORT AND ACCOUNTS

December 2005

SONAECON, S.G.P.S., S.A.

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I. MANAGEMENT AND CORPORATE GOVERNANCE REPORTS

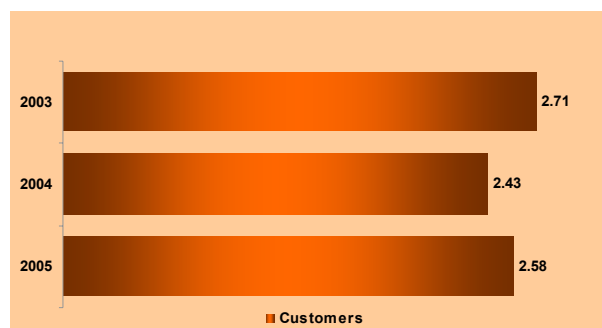
1. Full - Year Highlights

At the beginning of 2005, we set ourselves a clear objective to improve our competitive market position and to secure future profitability in both our Fixed and Mobile telecoms businesses. This commitment called for a significant investment effort that started to produce Operational growth and Pay-Back.

Customers

Our total Customer base increased significantly during 2005, growing by 6% to 2.58 million at the end of 2005, compared to 2.43 million at the end of last year. This positive performance was the result of our investment, made during 2005, in commercial activity focused on innovation and growth initiatives.

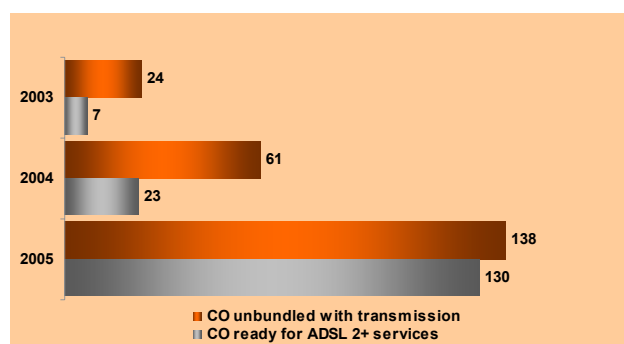
Sonaecom's Customer Base



Central Offices Unbundled

By the end of 2005, Sonaecom Fixed (SCF) had unbundled 138 central offices for SHDSL circuit interconnection, 130 of which prepared with ADSL 2+ technology, reaching 1.4 million copper local loops and covering approximately 50% of the Portuguese population.

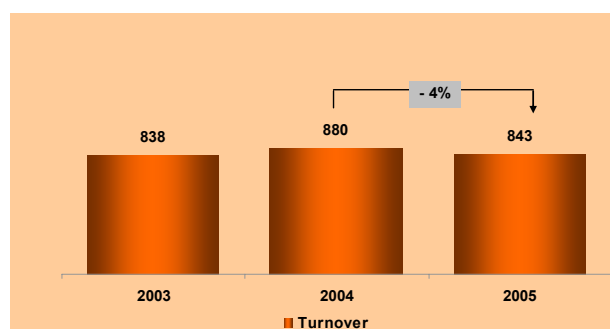
Sonaecom's Central Offices Unbundled



Revenues

Consolidated Turnover decreased by 4.2% during 2005 to 843.5 million euros, particularly due to the declining Mobile Termination Rates (MTRs) affecting Optimus' Revenues and to the loss of narrowband internet and indirect voice traffic at SCF.

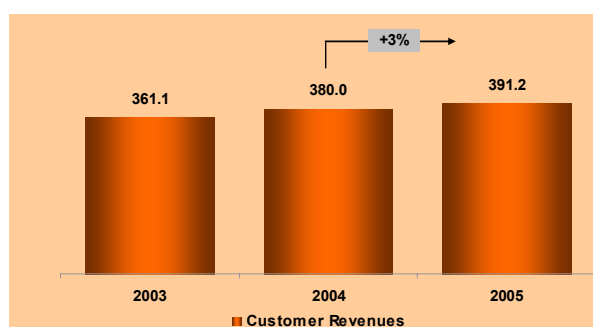
Consolidated Turnover (million euros)



Optimus' Customer Revenues

In 2005, Optimus' Customer Revenues increased by 3% when compared to 2004, as the result of the launch of new products and services during the year.

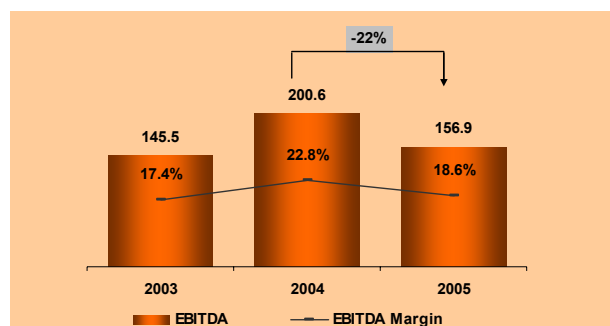
Optimus' Customer Revenues (million euros)



EBITDA Margin

Consolidated EBITDA decreased 21.8% to 156.9 million euros, generating an EBITDA margin as a percentage of Turnover of 18.6%, compared to 22.8% in 2004. This decrease was explained by our operational and commercial activity in 2005, the negative impact of MTRs and tougher competition in the telecommunications market.

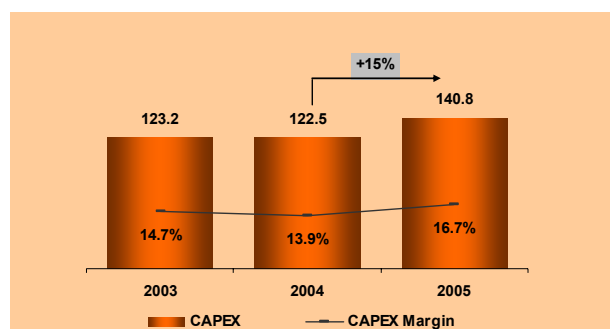
Consolidated EBITDA & EBITDA Margin (million euros)



CAPEX to Sales

In 2005, Consolidated CAPEX, excluding financial investments, amounted to 122.2 million euros, 9.9% higher than 2004 equivalent CAPEX, and represented 14.5% of Turnover in 2005. Total CAPEX, including financial investments, increased by 15% over 2004. This level of CAPEX was consistent with our stated strategy in investing for sustainable growth.

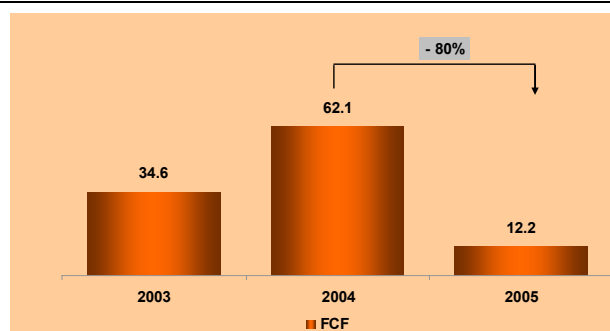
Consolidated CAPEX & CAPEX Margin (million euros)



FCF

Consolidated Levered Free Cash Flow in 2005 was 12.2 million euros, down from the 62.1 million euros in 2004, mainly explained by the lower EBITDA result, and the acquisition of Maxistar's stake in Optimus.

Consolidated FCF (million euros)



2. Letter from the Management Team

During 2005 we established a solid platform from which we believe Sonaecom can achieve a stronger future market position, enhancing future growth, profitability and shareholder value.

2005 Consolidated Results

Our strategy was built on the back of five initiatives: firstly, the significant investment in our brands with the repositioning of both our Fixed Line brands (Novis and Clix) and of our mobile brand (Optimus); secondly, the launch of new and innovative products and services at Optimus focused on Fixed-Mobile Substitution and on 3G services; thirdly, the aggressive push into Direct Access broadband voice and internet services (ADSL over the unbundled local loop); fourthly, the strengthening of our strategic partnership with France Telecom with the signing of four operating agreements and the strengthening of our shareholdings in Optimus and in SCF; and finally, the issue of a 150 million euros 8 year bond issue on favorable terms.

Performance of our companies

Our telecoms businesses achieved momentum in areas where we had identified market opportunities, particularly in the areas of Fixed-Mobile substitution and mobile data at Optimus and direct access Broadband Services (voice and internet) at SCF. This led to real growth in our underlying customer base at Optimus of 11% compared to 2004, and to a major transformation at SCF from an indirect Access reseller model to a Direct Access Broadband focused business.

At Optimus, we have grown our customer base through innovation, with the launch of new products and services, thus securing our position as the leading innovator in the Portuguese mobile market. Specifically, we have launched new products and services addressing our existing mobile market (e.g. Push-to-talk, Instant Messaging and Push e-mail), new market segments (e.g. Rede4) and opened up new mobile markets with the introduction of new Fixed-Mobile convergent products (e.g. Optimus Home and Kanguru).

At SCF, notwithstanding the regulatory and competitive hurdles encountered, we have achieved the growth targets set in July 2005, in terms of both Direct Access Broadband Customers (EOP 46.000) and Portugal Telecom Central Offices Unbundled (138), and have prepared the ground for the launch of our Triple Play Service in 2006. In addition, we have continued the expansion of our Wholesale business and the development of new functionalities for our corporate customers.

Público experienced a difficult year due to a combination of factors: (i) the continued pressure on circulation due to the success of the more modern tabloid formats; (ii) the low levels of press advertising; (iii) the significant reduction in sales of Associated Products, due to market saturation; and (iv) the higher than average level of unsold products on some Associated Product collections. Nevertheless, we have taken measures to address all of these issues, which we expect to lead to marked improvements during 2006.

SSI achieved significant organic growth during 2005, mainly driven by the positive performance at Enabler that has established itself as a leading international provider of systems integration for the retail sector, and the strong performance at WeDo that has been successful in selling its proprietary Revenue Assurance product 'RAID' to leading international telecoms operators.

Integration and Convergence

In parallel with our growth-led initiatives, we have dedicated significant time to further developing our strategy that embraces telecoms integration and convergence. In this respect, we have continued to work on further integration of our management and organizational structure and of our systems, and the Marketing & Sales and Technical teams from Optimus and SCF have combined successfully to develop and launch new convergent services. In addition, we have begun a process that aims to achieve the full integration of our fixed and mobile networks commencing with the planned integration of the two technical teams.

Investment for Growth

The objectives we set for ourselves at the beginning of 2005 to improve our competitive market position in both our Fixed and Mobile telecoms businesses, called for a combination of significant operating and commercial activity and higher investment that led to higher Operating Expenses (OPEX), mainly Marketing and Sales and Outsourcing costs, and higher Capital Investment (CAPEX) to support, in particular, the growth in Direct Broadband Access (voice and Internet) and deployment of our 3G network.

Significantly, our consolidated full year results for 2005 were affected by a number of external factors that have had material impact, in particular: (i) the programmed reduction in Mobile Termination Rates (MTRs) that failed to assure asymmetric rates in favour of the smaller operators and led to a reduction in Operator Revenues of 36 million euros and in EBITDA of 11 million euros, compared to 2004; (ii) the return to handset subsidization by our competitors, particularly during 3Q05; (iii) the 90 day delay in ANACOM's final approval of Optimus Home following its original launch, with the re-launch of the product only materialising in March 2005 and; (iv) the fact that equitable conditions to grow our Broadband business at SCF were not firmly and formally in place until September 2005.

Regulatory and Competition Hurdles

We have continued to fight for a fairer and more competitive telecommunications market, to stimulate growth, innovation and employment and to benefit consumers. To this end, in June 2005 we presented two complaints to the European Commission: the first against Portugal

Telecom for the abuse of its dominant position in the Portuguese Broadband market demanding the structural separation of the copper and cable networks; and the second against the Portuguese State for the unfair sale of the national copper network (PSTN), requesting an economic remedy. Additionally, we have taken legal action against ANACOM's decision to impose symmetric Mobile Termination Rates that clearly is detrimental to the smaller operators.

Despite the existing competitive market distortions, we are pleased with the new measures imposed by ANACOM and the Portuguese government, regarding the new conditions for local loop unbundling, particularly the reduction of the monthly fee and set-up fee, the shortening of the associated provisioning times and other measures that improved the customer activation process.

Corporate Milestones

Contributing to our long-term strategy and being fundamental to its implementation, important corporate milestones took place during 2005, the most important being: (i) the acquisition of the 2.77% stake held by Maxistar in Optimus (ii) the conclusion of a Strategic Partnership Agreement (SPA) with France Telecom (FT), that led to the signing of four operating agreements with FT and Orange and to the exchange of its shareholdings in Optimus, Novis and Clix for a 23.7% shareholding in the enlarged share capital of Sonaecom; (iii) the completion of the formal integration of Novis, Clix and KPNQwest Portugal into one single entity and; (iv) the conclusion of an 8 year 150 million euros bond issue placed in the domestic market.

Acknowledgements

We are proud of what has been achieved during 2005, which has only been possible due to the determination, speed, innovation and ambition with which the organization responded to the challenges set by management at the beginning of 2005, notwithstanding the significant operating, market and regulatory constraints we faced. The successes and progress made during 2005 are a tribute to all our officers and employees and to the time and dedication they have shown. We would like to express our warm personal appreciation and thanks to our highly dedicated and talented team, without which we could never be the company we are today - to all of you our gratitude and admiration.

Finally, just a few words in relation to our recently announced bid to acquire Portugal Telecom SGPS SA (PT). We strongly believe that our bid offers full and fair value to PT shareholders while enhancing shareholder value at Sonaecom. We are convinced that our bid, if successful, will greatly enhance competition in the Portuguese telecoms market and overall will be positive for consumers. The bid process is likely to take several months as we await the pronouncement by the Competition Authority. In the meantime, we will ensure that we continue to focus on the development of our existing businesses.

3. Leadership and Accountability

We have a clear commitment to developing and maintaining best practices in terms of Corporate Governance in the management of our businesses, in the development of processes that allow for the monitoring of risks, related party transactions and conflicts of interest by acting through our Board of Directors and appointed Committees, as described in the section below on Corporate Governance (see Section 8). In accordance with this commitment, we comply with the Corporate Governance principles of separation of competencies, namely through the existence of a Chairman and a CEO, and of power given to independent directors to influence our decision-making process and development of our strategy.

Composition of Sonaecom's Board of Directors and its Committees

	Executive	Board of Directors		Audit and Finance Committee	Nomination and Remuneration Committee
		Non-Independent	Independent		
Chairman					
Belmiro Mendes de Azevedo		√			√
Directors					
António Mendo Castel-Branco Borges			√		√
David Charles Denholm Hobley			√	√	
David Graham Shenton Bain		√		√	
Jean-François René Pontal			√	√	√
Michel Marie Alain Combes		√			
Richard Henry O'Toole			√	√	
Duarte Paulo Teixeira de Azevedo	√				√
George Christopher Lawrie	√				
Luís Filipe Campos Dias de Castro Reis	√				
Miguel Nuno Santos Almeida	√				

Board of Directors

Supervises the management of our businesses, monitors risks and helps develop the Company's goals and strategy. It is also responsible for the remuneration and other compensation policy of our employees.

Executive Committee

Manages and executes our day to day operations under formal powers of delegation from the Board of Directors. Accordingly, the Executive Committee may only decide on matters that relate to general management and not on matters that are exclusively of the competence of our Board of Directors.

Board Audit and Finance Committee

Monitors and supervises our accounting policies, financial reporting and financial transactions and evaluates risks and conflicts of interest associated with our activities on behalf of the Board. In addition, it meets directly with the Statutory External Auditors and the internal audit team and oversees Corporate Governance within our company.

Board Nomination and Remuneration Committee

Identifies candidates for appointment to our Board of Directors or Senior Management positions and supervises policy and proposals on remuneration and other compensation on behalf of our Board of Directors.

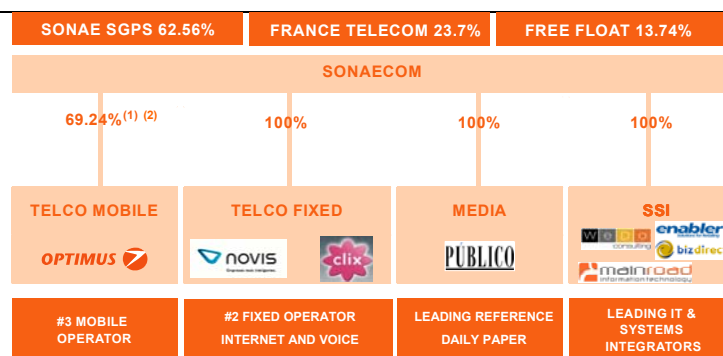
4. About Sonaecom

We are a growing entrepreneurial company, whose ambition is to be the best integrated telecommunications group in Portugal. As we continue to grow, we strive to be the company of choice for exceptional people wishing to achieve their full potential. We have generated sustained growth through our relentless pursuit of innovation, our passion for our business and our collaborators' abilities and we are proud of our position as the leading alternative telecommunications provider to PT in Portugal.

4.1. Group Structure

We are a holding company that controls and actively manages a portfolio of companies, held and managed within three main divisions: Telecoms, including Mobile and Fixed Telecommunications; Media; and Software and Systems Integration (SSI). Our two main shareholders are Sonae SGPS with a 62.56% shareholding and France Telecom (FT) with a 23.7% shareholding, both providing significant strategic support to our businesses.

Sonaecom's Shareholders and Strategic Partners



(1) 65.2% of voting rights

(2) Minority Shareholders: EDP – 25.7%; Parpública-5.04%

Mobile communications

Optimus was launched in 1998 and, after 7 years of activity, has consolidated its position as the third mobile operator with a market share of 20%. The company has been EBITDA positive since 2000, FCF positive since 2Q02 and Net Profit positive since 1Q03. At the end of 2005, it had 2.35 million subscribers.

Fixed communications

Sonaecom Fixed, with its Clix and Novis brands, has strengthened its position as the second wireline operator in Portugal, providing voice and broadband services to an increasingly direct client base. In addition, it has consolidated its position as the second largest provider of wholesale capacity after PT.

Media Division

Público is the leading daily reference newspaper in Portugal and ranks fourth among the daily press in terms of circulation, with a 13.5% market share as at 3Q05¹.

Software and Systems Integration Division (SSI)

Our SSI division, including the companies Enabler, WeDo, Bizdirect and Mainroad, was created at the end of 2002 and brings together top systems integrators specialized in the retail sector (Enabler) and telecom sector (WeDo), already with a strong foothold in international markets and with significant organic growth potential.

4.2. Network and Technology

We have set ourselves the objective of being the best integrated telecommunications Group in Portugal as regards operational excellence, managing relationships with all our stakeholders and in the creation of shareholder value. This goal is supported by our continuous investments in a leading edge network (New Generation Network), capable of delivering the best technologies and service quality.

Our Network is a distinctive competitive advantage for our organization, and represents a fundamental strategic asset for both our Telecom Divisions. We intend to continue to develop our network in order to remain at the forefront of technological change.

Mobile Network

During 2005, Optimus' technical team focused its efforts on five main goals: (i) accelerate the deployment of our UMTS network in the most technological and cost effective way; (ii) carve-out a leading position in Mobile Broadband offer; (iii) develop and implement new services and functionalities, to be able to offer our clients innovative products and services; (iv) keep

¹ Last data available

the GSM/GPRS network up-to-date and; (v) achieve an accurate and optimized network infrastructure, to obtain the best network performance possible.

We have also accelerated the roll-out of our UMTS network, with the deployment of new UMTS sites during 2005. By the end of 2005, UMTS network covered almost 50% of the population with the delivery of speeds of up to 384 Kbps, and with full UMTS coverage in Greater Lisbon, Oporto, Algarve, as well as in the main Portuguese city centres. We expect to obtain near 80% population coverage by the end of 2006.

To further promote the development of our mobile broadband offerings, and as means of increasing our UMTS network bandwidth to the end user up to 1.8Mbps, we have begun to test and roll-out a new HSDPA network on the Portuguese island of Madeira and in some sites located in Lisbon and Oporto. This technology has already been deployed, the network upgraded and pilot tests are already up-and-running with a view to its mass market commercialization during 2Q06.

The above mentioned focus has also led us to expand the coverage of our GSM/GPRS sites, as well as to improve their capacity and accessibility. For this purpose, we deployed around one hundred sites in 2005.

Fixed Network

During 2005 our network investment was stepped up and concentrated on extending our capacity, capillarity and reach. We have followed a consistent strategy for the deployment of both our access and core networks, with the aim of supporting the offer of the most technologically advanced products and services in the market in a cost effective and scalable way.

We have ended 2005 with a high capacity and high quality fibre optical network, covering more than 6,000 km across almost all the country. A Gigabit Ethernet transport technology, supported by DWDM, as an alternative to SDH, was deployed over the main stretches of the backbone network, connecting 74 of the total of 138 central offices unbundled. This ultra broadband network was carefully prepared in order to increase transmission capacity and thus cope with the growing capacity needs for circuits and broadband services, mainly IP based services (voice, internet, TV and Video), while maintaining a light operational cost base.

To complement our network footprint, we have deployed metropolitan transmission rings (MANs), over the main city centres having, at the end of 2005, 818 km of fibre ducts. With a focus on the unbundling of the local loop, by the end of 2005, the capillarity of our network was significantly extended by the unbundling of 138 PT central offices for SHDSL circuit interconnection and last mile circuits, compared with 61 at the end of 2004. With these circuits, we are capable of operating direct connections for most of our GSM and UMTS network, instead of leasing circuits from PT. As a result, we have achieved impressive reductions in the cost of operating our mobile networks.

From the 138 central offices unbundled, 130 have been prepared for ADSL 2+ and direct voice services, reaching 1.4 million copper local loops, approximately 50% of population coverage in Portugal. Given our leading edge in technology and high capacity transmission, we are able to offer extremely innovative and competitive products, such as our 16 Mbps ADSL offer, with an incremental investment confined to the dimension of the customer base.

Network Highlights at year end 2005

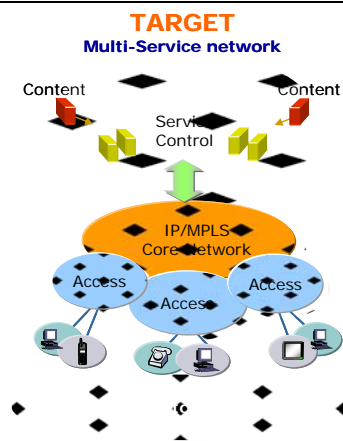
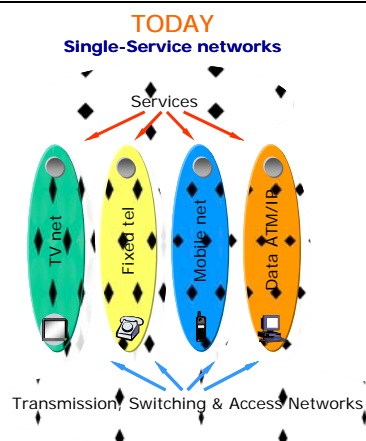
Fibre Backbone	6,168 km
Metropolitan Area Networks fiber ducts/pipes	818 km
North	301 km
South	516 km
Number of buildings/sites with fiber connections	342
Unbundled Central Offices with transmission	138
Unbundled Central Offices with ADSL 2+	130
Unbundled Central Offices full triple-play services capability	74

Innovating and Integrating Network

We are moving from a network architecture resembling a line factory, with vertically independent networks, to a fully integrated multi-service network architecture, for both our mobile and fixed businesses, based on the deployment of an extensive IP/MPLS core network, with Ethernet supported by DWDM transmission technology. This New Generation Network aims for network capacity and flexibility, while minimizing operational network costs.

Network platforms of today

Targeted convergence of network platforms



During 2005, there were developments towards the implementation of our targeted NGN and the convergence of networks, with the introduction of a new IP voice switch over our voice switching network - "Softswitching" platform – and the beginning of the planned integration of the mobile and fixed Technical teams.

4.3. An Integrated Organization

The pursuit of operating efficiencies, process improvements and cost synergies has led us to develop an integrated management and organisational structure and style with a highly developed Shared Services Division. Underlying this strategy, has been our desire to maximise our ability to develop new business opportunities, stimulate product development and catalyse cross-marketing opportunities between our fixed and mobile businesses.

Accordingly, our Group is managed by a single Executive team, structured to maximize internal synergies and represent our three divisions and the corporate centre. The Executive Committee comprises our Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Financial Officer (CFO), Chief Legal and Regulation Officer (CLRO), and the respective COOs of the main businesses - Optimus, SCF, Público and SSI.

Our Telecoms division is managed in a fully integrated manner, with the COOs of both Optimus and SCF reporting to the Group COO, while our Media and SSI divisions are run more independently, but under the direct supervision of our Group's Executive Committee.

Our Corporate Centre is very lean, comprising a total of 40 people, among them Senior Management and certain Corporate Services, namely Legal, Investor Relations, Internal Audit, Corporate Finance and Planning & Control. In addition, we have a fully integrated Shared Services Division that includes Public Relations, Customer Service, Environment Management, Accounting, Administration & Treasury, Human Resources, Facilities and IT/IS.

We are also moved towards the integration of our technical and network areas, expected to increase our Network capacity and flexibility, while minimizing operational network costs.

4.4. Operating Milestones

We achieved several important milestones during 2005 consistent with our pursuit of growth, telecoms integration, technological advancement, a solid balance sheet and towards an appropriate financing and strengthening of our shareholding position within our portfolio of businesses.

Innovation

During 2005, we developed and launched a stream of new products and services, including: (i) the commercial re-launch of Optimus Home, our fixed-mobile convergent offer on 1 March; (ii) the launch of Rede4, our low cost mobile operation on 27 June; (iii) the launch of Kanguru, our portable broadband internet offering, on 20 September; (iv) the launch of new data services, such as Push e-mail and Push-to-talk, during 1H05; (v) the offer of our 16 Mbps ADSL service of bundled voice and internet, in April and; (vi) the beginning of our Pay TV commercial pilot test, made available to a restricted number of Clix Double Play clients, from 5 December.

Corporate Structure

The completion of the formal merger of Novis, Clix and KPNQwest Portugal as of 2 December was an important step in the direction of further integration of our telecom companies and reflects the way these businesses have been managed since 1Q05. It is also consistent with the way we have reported our consolidated Fixed Telecoms results to the market under Sonaecom Fixed. Furthermore, as of July we sold our 75% shareholding in Exit, our travel online site in partnership to Sonae Turismo, for an Enterprise Value of 600 thousand euros.

Funding

During 2005, we issued 70 million euros under a Commercial Paper Programme ("CPP") with a one year term renewable over a 5 year period. Additionally, we secured a short-term overdraft facility of 20 million euros. The purpose of these two financing facilities is to back-up our short-term funding needs and those of our subsidiaries. At the end of 2005, neither of these facilities had been used.

Additionally, in order to finance the development of our fixed-line business, namely the roll-out of broadband and triple-play offers, and for general corporate development purposes, we have completed an 8-year bond issue, by private placement, totalling 150 million euros. This bond issue is unsecured, with a bullet repayment in June 2013 and was arranged by Millennium BCP Investimento.

Partnerships and Acquisitions

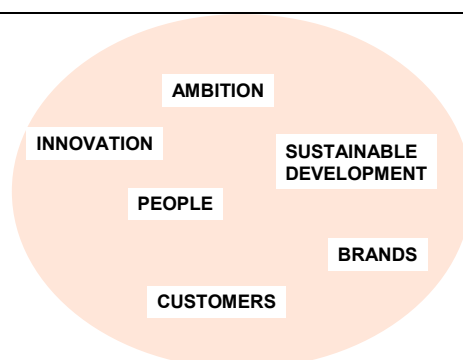
We concluded two important transactions during 2005 related to our Telecoms portfolio and shareholder structure thereof: (i) on 21 March, we announced the acquisition of Maxistar's 2.77% shareholding in Optimus taking Sonaecom's shareholding in Optimus to 49.1% (and voting rights to 55.1%); (ii) on 9 June, we announced a Strategic Partnership Agreement (SPA) with FT, under which FT committed to provide strategic co-operation to our Telecom businesses for a period of 3 years and as part of which, FT agreed to exchange its shareholdings in Optimus (20.18%), Novis (43.3%) and Clix (43.3%) for a 23.7% shareholding in an enlarged share capital of Sonaecom; (iii) on 15 November, we completed the corresponding share capital increase at Sonaecom to implement the share-for-share

exchange under the SPA, after approval by Shareholders at the Extraordinary General Meeting held on 12 September, and after receiving the approval from the Competition Authority.

5. A strategy built on six values

This year's performance and the market position we have achieved, is a product of the core competencies and the strong set of values that characterize us, targeted to better understand our customers' needs and with an underlying and prevalent commitment with our community.

Sonaecom Values



5.1. Ambition

During 2005, we continued to implement our strategy aimed at securing a stronger and more sustainable competitive position in the Portuguese telecoms market and at strengthening and growing our non-telecoms businesses. This has required the whole organisation to excel in all areas and to stretch its goals and objectives to become the best integrated communications Group in Portugal. This requires clear ambition.

Optimus – Investment for Growth

At Optimus, we targeted an increase in our market share based on five strategic cornerstones:

- 1) Aggressive migration of our subscribers to 3G, by significantly reinforcing our UMTS data services and handset offering, and by leading UMTS advertising and promotions, in order to stimulate customer experimentation and adaptation. This was supported by a significant investment in accelerating the deployment of our 3G network.
- 2) Innovation and launch of new services, aimed at securing a technological leadership and a clear market differentiation in order to stimulate customer and revenue growth.
- 3) Brand repositioning, through differentiation based on a new value system, such as vitality and passion, and the launch of new tariff plans more aligned with these core values.
- 4) Refined segmentation of the market, capable of generating value with more adjusted commercial offers to customer needs.
- 5) Introduction of Fixed-Mobile convergent products, directed at non-traditional mobile markets, belonging to fixed operators.

SCF – Investment for Growth

The growth strategy at SCF during 2005 was aimed at both transforming the business to a direct access model and at growing our wholesale business by means of five key strategic objectives:

- 1) Expansion of our direct broadband access network via the increase of the local access capillarity of the network with the unbundling of PT's copper local loops.
- 2) Increase of our direct customers based on direct voice and ADSL services, by leveraging on the investment in superior technology for the core and access networks and by developing internal systems and processes to support and manage customer acquisition and activation.
- 3) Focus on the development of services and new functionalities for the Small and Medium Enterprises (SME) and Corporate segments.
- 4) Focus on acquiring more national and international clients for our Wholesale business.
- 5) Brand repositioning, with brands enclosing a new set of value propositions, such as innovation and proximity, and being communicated aligned with the new values chosen. This resulted in the repositioning of the Novis brand to focus on the business and wholesale market and the Clix brand to focus on the residential market.

5.2. Innovation

During 2005, we pursued relentlessly the development of innovative products and services, and the use of our brand, marketing and distribution strength to exploit unexplored market needs and generate customer and revenue growth. We see innovation as one of the key pillars of our sustainability and long-term differentiation and accordingly, we will continue to be committed to exploit new technological customer solutions and new ways of communicating and distributing them, always with the customer in mind.

Mobile Momentum

Optimus and SCF have been a driving force of innovation in the Portuguese market, breaking away from established conventions. We know that the needs of our customers are never static and, for this reason, we have aligned a continuous innovation process with our Group's strategy of pursuing increased customer revenues and growth.

New Mobile Services

During 2005, Optimus launched a new generation of products, examples of which are: (i) Rede4, a low cost service based on a strong price value proposition and exclusive distribution over the Internet. A Paid Call Centre service, no subsidies, lean logistics with direct distribution and extremely low advertising costs allow for a discount of up to 55% on average price per minute compared with other comparable tariffs in the market. Associated cannibalization of Optimus subscriber base was well below business plan assumptions; (ii) Kanguru, our portable broadband internet offering, positioned as an alternative to the traditional fixed line broadband connection. The product offers a unique value proposition based on simplicity of installation and use, allied with an aggressive monthly price and specialized call centre line and web site and; (iii) Optimus Home, our fixed over GSM product aiming at the market traditionally belonging to fixed operators and launched in partnership with SCF. Its value proposition relies on the elimination of the "monthly fee", commonly charged by the incumbent for line rental, and on simple and competitive tariffs.

Optimus continued to offer new data and multimedia services, with the goal of increasing business ARPU, amongst them: (i) the launch of a push e-mail service over a mobile device, offering mobile over-the-air synchronization of email messages, agenda and contacts. The portfolio of handsets associated includes Windows Mobile 5.0 terminals and the first 3G PDA available in the Portuguese market. This service enabled Optimus to differentiate its offer from its competitors, as by the end of 2005, we continued to be its single provider in the market; (ii) Promotion of new Multimedia Messaging Services, such as the pioneer offering of Microsoft Instant Messenger by mobile phone, and the push-to-talk service, combining mobile phone and walkie-talkie functionalities without distance restrictions and; (iii) Reinforcement of the data services set, with the launch of Emo, a wide-ranging offering of free animated

images for text messages, and the direct transmission of TV channels (e.g. Euronews) and diversification of Videos on demand.

Optimus invested heavily on the reinforcement of its 3G offering, including new multimedia services for UMTS and exclusive top of the range Handsets, supported by bold and effective campaigns addressed at boosting the use of these products. This third generation focus was paced by our investment in a 3G network and further R&D efforts around an innovative UMTS access network with HSDPA technology.

In all the mobile products launched, the performance we achieved was in line with internal expectations and contributed to the increase of Optimus' subscriber base in 2005.

Revamping Optimus' Commercial offering

Aligned with Optimus' brand repositioning, we have reformulated our commercial offering with the launch of new tariffs, such as Total, Chat, Top and Duo, all of which are closer to our new values and attributes of simplicity, fairness and efficiency for consumers.

Furthermore, Optimus focus on customer loyalty led to the improvement of the existing loyalty schemes and the introduction of new advantages considered crucial to better satisfy their needs.

Fixed Momentum

At SCF, we have made substantial efforts to be aggressive and dynamic in our ADSL proposals, not only in the residential market with our Clix brand, but also in the corporate segment with our Novis brand.

Broadband Fixed Services

For the residential sector, SCF launched a new value added Broadband service offering up to 16Mbps for a bundled voice and internet service priced at 34.9€ per month. This was in addition to our existing broadband offers of 2Mbps, at 22.5€ per month. This new 16 Mbps service replaced our previously available 4 Mbps and 8Mbps offerings, providing more bandwidth at more attractive prices. Additionally, it augmented our positioning as the most competitive Portuguese operator in terms of speed and pricing, and one of the most aggressive in Europe, with the 16 Mbps service being priced at a lower value than many competitors' 2 Mbps offerings, with the absence of a "monthly fee for line rental" and the possibility of subscribing a flat monthly fee of 7€ for voice.

We have launched a commercial pilot test of our Triple Play bundled offer of Voice, Internet and TV over IP, at the end of November 2005. This pilot test addresses some of our double play residential clients, including three packages of channels with a total of 45 channels and a Home Video Service with more than 200 films available. The final packages on offer, including their prices and conditions, will be fine tuned based on the test feedback and results, before being launched on a mass market scale during 2H06. We are still in the process of completing content negotiations with global and local dealers, potentially increasing our broadcast channels on offer up to 90 channels and Video assortment to more than 1,000 films of choice.

The development of new value added services for the corporate segment has also reinforced our active presence in the business market. With the new Novis brand and value proposition, we have started offering an internet ADSL of up to 16 Mbps, matching the residential service, a Web Conference service, unique proposition in Portugal, File Sharing offer, also the only offer of the kind in Portugal and the Giga Packs for extra capacity email accounts. Also, in order to reduce the levels of churn and improve loyalty in our indirect access client base, we launched new tariff plans, intended to be simpler and more flexible, including flat fees for national calls and minimum permanency contracts with associated advantages.

Media Dynamic Delivery

During 2005, Público has continued to launch a number of new collections in books and CD's, totalling more than 20 associated products published in 2005.

In order to improve levels of circulation, Público also launched a number of initiatives during 2005, including a revamp of the Sunday edition and economy magazine, as well as the launch of new magazines and supplements, such as the Sunday Kids Magazine "Kulto" and the new "Pública" generalist magazine.

5.3. Customers

Customer satisfaction is a key component to the sustainability, growth and reputation of our business. For this reason, all our activity and culture is focused on gaining a good understanding of our customers, and their needs, concerns and preferences in order to better satisfy them.

Customer Centric

During 2005, we have continued to take great strides in this customer centric attitude by developing innovative, quality and tailor-made products and solutions, examples of which are our direct and broadband internet services, fixed-mobile convergent products and 3G services. We have, essentially, focused our efforts on areas where we saw opportunities of growth while delivering the best value for our client base.

Store Renovation

To support our customer centric strategy, Optimus implemented a '*Store Revolution*' during 2005, with the aim of improving processes and services and ultimately in enhancing customer experience in our stores. As part of this strategy, we have increased training of front-office employees, improved the in-store product mix, cross-selling and optimized overall processes and value chain management. In the long run, these actions are expected to have 3 main impacts: (i) improve the quality of the customer acquisition process, by reducing customer's churn and optimizing after sales assistance; (ii) increase in-store productivity; and (iii) promote cross-selling of all Sonaecom Group products.

Customer Base

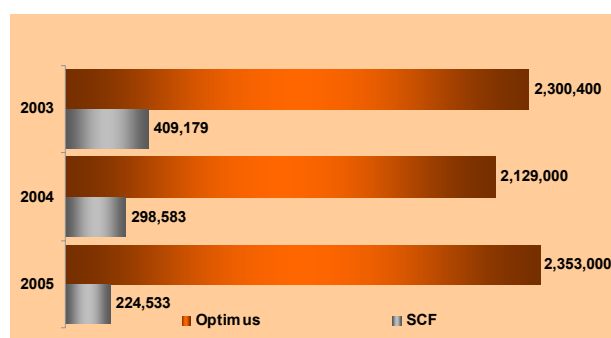
The investment by Optimus in new products and services, the revamped commercial strategy and the store renovation, all contributed to achieving growth in our customer base, which at 2005-end stood at 2.35 million customers, compared with 2.1 million customers in 2004. The intense commercial activity helped Optimus add nearly 224 thousand customers to our client base during 2005. At the end of 2005, Optimus' market share of reported subscribers was approximately 20%.

At the end of 2005, SCF had a total customer base of 224.5 thousand, including direct and indirect access lines, representing a decrease of 25% year on year. The evolution of the customer base was affected by a combination of, on the one hand, the loss of indirect voice and narrowband internet customers, and on the other, the significant increase in the number of direct access customers under the "going direct" strategy, particularly in the four month period from September to December 2005, which saw the direct access customer base almost doubling. Clix market share stood at 3.2% of the voice residential and 5.9% of internet residential and Novis market share stood at 9.6% of the Voice business and 12.1% of the Internet business, as at 3Q05.

At Público, average paid circulation dropped by 4.3%, from an average of 51,719 in the first nine months of 2004 to 49,506 copies in the same time period of 2005, due to the competitive pressures of the tabloid and free newspapers and the reduction in volume of the Daily Newspaper market. Público's circulation market share reached 13.5% in 3Q05 compared to 13.2% in 3Q04.

Our SSI companies posted another good year in their respective markets, with continued growth particularly at Enabler and WeDo. By 2005-end, the SSI division represented the sixth largest Software and Systems Integration group in Portugal by revenues. The major contribution to this success came from the strategy of internationalization and strong organic growth implemented by WeDo and Enabler in markets such as UK, Germany, Spain, Brazil, Italy and France. WeDo won a number of new leading international Telco customers, with its Revenue Assurance Product (RAID), amongst which FT (France, UK), Vodafone (Portugal), Telemar (Brazil) and Auna (Spain). At Enabler, new developments include its selection by Oracle as one of its four principal retail software integrators of Oracle Retail² software based on Retek.

Telecoms' Customer evolution



5.4. People

As at 31 December 2005, we had a total of 2,306 employees with an average age of 33 years and a total cost as at 31 December 2005 of 102.8 million euros. In order to stimulate leadership skills and develop careers, we invest continuously in the development of a "Team of Excellence" and aim to strengthen our value proposition to our employees, seeking in the process to become an attractive and prestigious employer, of which employees can feel proud of, where relationships are founded on trust, where the hard work of each individual is rewarded and where everyone has the opportunity to develop both professionally and personally. The following are the priorities we recognize in the management of human resources that allow us to achieve the process and products of excellence of which we are so proud.

Professional Development

We balance youth, experience and qualification, with a team of employees with predominantly higher education, capable of responding with professionalism, creativity and commitment to the challenges of the market. By means of contributing to internal career development in 2005, we have implemented our annual training plan, in order to fulfil our employees' skill gaps and further develop their key-competencies in relation to their own areas of interest. Within this spirit and as every year, we have supported some of our most talented employees to continue their postgraduate studies, with a great focus on MBA degrees, either in Portuguese or in foreign Universities. Furthermore, we have launched, in partnership with Portuguese Universities, a new training programme (Sonaecom Learning Centre), specifically designed to develop our employees' potential and capabilities.

Internal Performance Appraisal

Our culture encourages employees to take an active part in the planning of their individual objectives and career paths, in accordance with our corporate goals and business strategy, in order for them to develop a sense of identity and commitment to the group and its corporate objectives. To energize initiative and stimulate increasingly better performance levels, we once more carried out our annual performance appraisal system for all workers, through

² After the acquisition of Retek company by Oracle, the Retek software name was changed to Oracle retail

which we have measured each individual activity and contribution for our organization success, and assessed the premium to be attributed accordingly.

Internal Communication

For us, the existence of internal communication channels across all companies is fundamental to reinforce internal cohesion of the group, as a whole, and to create an internal perception of a single company. In this line, we have developed internal periodic magazines (e.g. Boom), as well as a single corporate Intranet for all our employees, offering a continuous update on our initiatives, activities, and job opportunities among other company data. As a complement to this project, we have implemented a new intranet tool during 2005, the Human Resources Online, allowing our managers to access, in a simple and fast way, information about their teams.

Workplace environment

The opinion of all our professionals is relevant and brings a deep knowledge to what is important developing in our Human Resources Policy. To bolster this belief, we have now applied, to all our group companies, a Satisfaction Environment Survey, the results of which are used to implement initiatives to raise our employee motivation levels and, in these cases, to monitor the impact of the action plans. Also during 2005, and in order to encourage participation, communication and sharing of information, several workgroups were created in order to propose new and better solutions for our organization.

5.5. Brands

Our company constantly reinforces the importance of making the customer a pivotal element to all the decisions taken, by making continuous efforts to identify who they are, what they need and to track and anticipate their changing preferences.

With this customer centric attitude, that drives all our strategy, we recognize the importance of our Brands as one of the strengths of our competitive advantage, by providing recognition and trust, and ultimately helping decision making. Sonaecom approached 2005 as the year of affirmation of its brand as a differentiating factor for consumers.

Corporate Identity

Corporate Identity is a key component in projecting our vision, positioning and values to all of those with whom we interact: customers, employees, shareholders, suppliers, the industry regulator and the society as a whole.

With this in mind, and following our Senior Management Summit held in July of this year, an investment in a new Corporate Identity Plan was approved. The work on the plan began in April 2005 and it is focused on two main areas: firstly, it sets out to consolidate our “Sonaecom culture”, and secondly it aims to increase the perception of our company, within the market, as an integrated operator with presence in the mobile and fixed telecom markets.

To achieve this, we will implement a new model around our corporate brand and our group's brands, namely: (i) a graphic coherence system of colours, styles and typography of our external communication tools (Logo, Letters, Fax, Memo), in line with Sonaecom's values and mission; (ii) the standardization of internal email addresses; and (iii) the development of an internal Corporate Identity Manual to be available to employees in our corporate intranet. Our internal deadline for the completion of this project is by 1H06.

Brand's Repositioning

Having invested a significant amount of time in 2004 evaluating the segmentation and positioning of both our fixed and mobile brands vis-à-vis their key consumer targets, we completed during 2005 a brand repositioning process in our telecom brands.

At Optimus, we have taken our first steps in capitalizing on our mobile brand and have introduced the brand's new communicational concept and attitude by appealing to the

consumer's involvement. The new brand embodies a lively, positive and vital colour that symbolises openness, readiness to face challenges, innovation and a dynamic attitude.

At Sonaecom Fixed, we have re-segmented the target markets for each of our fixed brands and, as a result, Novis was chosen as the brand targeting the business and wholesale segments and Clix as the brand for the residential market. At the same time, a new brand personality was adopted, in order for both brands to encapsulate the attributes of innovation, technological leadership and proximity. As a part of this strategy, Clix and Novis promoted a new image which positioned them closer to their respective consumer segments.

5.6. Sustainable Development

Our Group is fully committed to Sustainable Development and embodies, within its culture and management values, the principle of social contribution, as we recognize our role as a driving force for a fairer and more balanced society. This takes the shape in the form of a commitment to the environment and the community, respect for equal opportunities, and respect for our employees, clients, shareholders and suppliers.

Environment Aware

We are an environmentally conscious company and have established and implemented environmental policies and adapted our products, services, infrastructure and facilities in such a way as to minimize their impact on the environment.

In this respect, we continually undertake the following actions: (i) identification of environmental issues across all our facilities, activities and products and implementation of the respective environment legal requirements; (ii) implementation of several measures across our organization to audit, measure and monitor environmental performance; (iii) establishment of processes to identify new environmental legislation and to carry out all the measures needed for its compliance; (iv) publication of our environmental indicators and promotion of environmental issues, for our employees, through our intranet and email newsletters, and externally, through conferences and through our website and market communications and; (v) development of internal communication projects to increase environmental awareness and improve its control and efficiency of implementation.

During 2005, we were able to consolidate our Environmental Management System (EMS), which has been certified by an independent body (APCER³) since 2003, complying with a globally accepted reference - the ISO 14001/1999 Standard. This EMS encompasses all our subsidiaries and their facilities installed within Portugal.

Of the environment related activities carried out during 2005, we highlight: (i) implementation of action plans to guarantee compliance with rules regarding the management of electronic waste equipment and control of Ozone depletion substances; (ii) tailored training programs for areas such as logistics, procurement, infrastructure, construction, maintenance and other operational departments; (iii) environmental audits and visits to our suppliers; (iv) development of an external study, at Optimus, aimed at reducing the impacts of packaging material and providing consumers with environmental information on how to dispose of the several packaging elements; (v) maintenance of a collaboration protocol signed between Optimus and the Telecommunications Institute, with the goal of publicly making available relevant information on electromagnetic radiation in mobile communications; (vi) continuous efforts to promote the sharing of infrastructure in our telecom divisions with other operators; (vii) several changes to our logistics, namely the re-utilization of packages, new designs for the packaging boxes, definition of materials used and electronic approval of invoices.

The accompanying external audits carried out by APCER have revealed that our Environmental Management Performance is in line with the required environmental developments, and that our environmental system is well planned and effective.

³ APCER – Associação Portuguesa de Certificação

Community Cooperation

During 2005, we have been very active in the field of social cooperation and promotions, whereby we have consolidated our Volunteer Programme, reinforced our focus on education and given our support to a variety of initiatives and organizations.

Regarding our corporate voluntary schemes, we have involved all our companies in our “Smile Project” that has supported several Portuguese welfare institutions and carried out donation programmes. This programme allowed employees to complete two days of volunteer work each year to support welfare institutions.

In education, we highlight a programme developed to improve schools teaching and learning conditions, through the offer of educational material, such as computers, books, handsets with free minutes, clothes and essential goods. We have also implemented other programmes, including the *Público-Gradiva* awards, distinguishing best students, *Público na Escola*, promoting the readership of newspaper among the youngest, *Eu amo o Mil Folhas*, offering books to social institutions and prisons, and *Praia Limpa, Praia Segura*, encouraging children to maintain beaches clean during the summer.

Furthermore, we have built links with our society through institutional and commercial sponsorship agreements, the most important being: (i) at the environmental level, we have sponsored some projects of the Communications Institute and have strengthened our support to *Fundação Gil* campaigns, namely campaigns communicating recycling; (ii) we have signed several cultural deals, from which we highlight the protocol with *Fundação de Serralves* to launch art books, as well as sponsoring cultural institutions; (iii) as to health, we have sponsored a informational health portal and supported a project of science investigation; (iv) we have sponsored entrepreneurship initiatives as the *Empreendedor 2005* award, distinguishing an outstanding entrepreneurs project; and (v) supplied equipment, communications and advertising space to various non-governmental organizations, namely the *Banco alimentar contra a fome*, an institution actively fighting hunger.

Code of Conduct

Following the commitment we made in 2004, we have concluded our Code of Conduct, a set of internal guidelines that intend to guarantee the ethical and responsible behaviour of our organization, not only by guiding the relations between all our employees, but also underlying our contacts with all our stakeholders and with the overall community. It promotes and encourages the adoption of certain behaviour principles and rules regarding the relations established with our Clients, Suppliers, Competition, Public Authorities, Shareholders, Market, Community, Environment, Collaborators and Social Environment.

In our Code of Conduct, we deal with topics that range from integrity, transparency, respect, social responsibility, environmental commitment, health and safety, confidentiality and use of privileged information, to managing conflicts of interests and communicating irregularities. Our employees and suppliers, including external consultants, are required to comply with by these guidelines, and ought always to follow them in the carrying out of their activities.

Under the scope of this Code of Conduct, we have created an Ethics Committee, whose responsibility includes ensuring the clarification of doubts and reporting and dealing with situations that imply the violation of the Code.

The full version of our Code of Conduct may be found on our institutional site - www.sonae.com.

6. Regulatory Developments

Regulation continues to be a critical aspect for the growth, profitability and sustainability of our telecoms businesses. During 2005, we sustained our efforts to secure a fairer and more competitive regulatory environment for the Portuguese Telecoms market, with the aim of addressing the clear competitive distortions that remain prevalent and to prevent the continued abuse by PT of its dominant market position.

The main regulatory developments in the Mobile and Fixed Telecoms Markets during 2005 are highlighted below.

Mobile Market

1) We started implementing ANACOM's announced phased cuts to the MTRs, with the aim of bringing both fixed to mobile and mobile to mobile termination rates down to 11 euro cents per minute, for all Portuguese mobile operators. The programmed tariff cuts began in March 2005 and are due to end in October 2006.

2) We have lodged a complaint to Portuguese courts against Anacom's decision, on June 2005, to impose symmetric MTRs contrary to most precedent MTR reductions in other European markets. Our action was aimed at achieving the application of asymmetric rates in favour of the smaller operators, so that there can be a fairer and more effective regulation against TMN's practice of on-net and off-net price discrimination, with differences between on-net and off-net prices below the cost of the termination rate ("Network Effect").

3) ANACOM started its market analysis regarding the access to mobile networks by other companies, with final decision not expected to be published before March 2006.

In what regards developments for 2006, we expect ANACOM to start analysing the Wholesale tariffs charged for International Roaming and to take some measures aiming to increase its transparency and awareness next to consumers.

Fixed Market

1) On April 2005, ANACOM approved measures that improved significantly the economics underlying the local loop unbundling process, namely the decrease of the monthly fee from 11.06€ to 9.72€ per copper line, and of the set-up fee from approximately 92€ to 38€ per line. Additionally, ANACOM imposed a reduction in the provisioning time by PT for the unbundling process, from 16 to 9 days from the date of the unbundling request by alternative operators.

2) On September 2005, PT and alternative telecom operators, sponsored by the Government, reached an agreement that led to the improvement of timings, processes and related Service Level Agreements (SLAs) terms for the unbundling and activation of customers. A key element of this agreement was the change in the validation and approval process of customer documentation that previously was in the hands of PT and whose onus was transferred back to the alternative operators, thus avoiding the need for the systematic transfer of customer documentation to PT for approval as part of the unbundling process.

3) Penalties for PT's non-compliance with the Unbundling SLAs were reinforced, as of November 2005, and are expected to bring additional pressure on PT to meet its obligations.

4) PT's Wholesale line rental reference offer (ORLA) was announced on December 2005 and set the monthly fee at 10.76€, 15% lower than the value charged by PT to final customers, potentially allowing alternative carriers to present more competitive offers in the indirect voice segment.

5) On October 2005, ANACOM imposed, over alternative fixed operators, an average revenue cap from incoming calls at 0.9 cents per minute. We consider this cap to be unjustified to solve the alleged market power of the fixed operators and, accordingly, we have

started developing an impugnation action expected to be lodged to the Portuguese Courts during 1Q06.

6) On June 2005, we lodged two formal complaints with the European Commission: one against PT group for the abuse of dominant position in the broadband market, for that demanding the structural separation of the two main local loop infrastructures, cable and copper; other against the Portuguese State in relation to the sale of the basic telecom infrastructure not reflecting market conditions, for that requesting an economic remedy against PT. In early 2006, the European Commission transferred the process to the Portuguese Competition Authority, considered to have conditions to solve the complaint.

7) ANACOM launched a public consultation regarding the imposition of a flat fee for Network interconnection, to be determined based on the capacity used rather than on the minutes of traffic, in line with a “costing model approach”. A decision is expected to be reached and implemented during 1H06.

In what regards other developments for 2006, we expect the release of a reference offer on the terms and conditions of the access to PT’s concessionaire ducts, as well as further price reductions for the ULL process.

7. Business Review

The development of our range of operations across the telecoms market and our ability to identify and focus on specific growth opportunities will enable us to build on the platform established in 2005 and achieve a stronger and more sustainable position in the Portuguese telecoms market.

7.1. Sector Overview

Portuguese Telecommunications Market

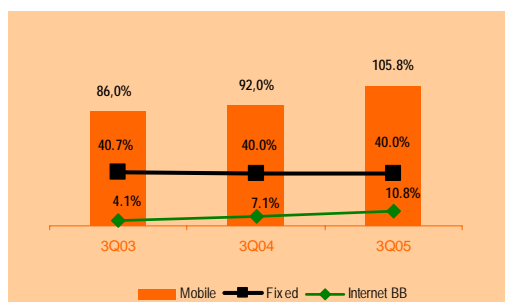
According to IDC⁴ estimates for 2005, the value of the Portuguese telecommunications market was 5.3 billion Euros in 2005, of which 58.1% was accounted for by mobile services, 24.7% by fixed voice services, 7.3% by Broadband services and the remainder by Internet Dial-up and Dedicated Lines. This value represents an increase of 5.8% in comparison with 2004, significantly above the estimated Portuguese GDP growth rate of 0.3% for 2005.

Based on ANACOM’s latest market data as at 3Q05, Mobile market penetration in Portugal, stood at 105.8% in 3Q05, above the EU average of 93.9%. Internet Broadband penetration reached 10.8% of the market, compared to 7.1% in 2004, whilst Fixed Line penetration remained flat at 40%.

During the 9 months ended 2005, the telecommunications sector generated 5.4 billion minutes per quarter, representing a decrease of 4.3% compared with the previous year, primarily driven by Internet narrowband being cannibalised by ADSL offers. With the decrease of Internet and fixed voice traffic, mobile voice traffic accounted for the majority of the sector’s minutes – 55.0% in 3Q05.

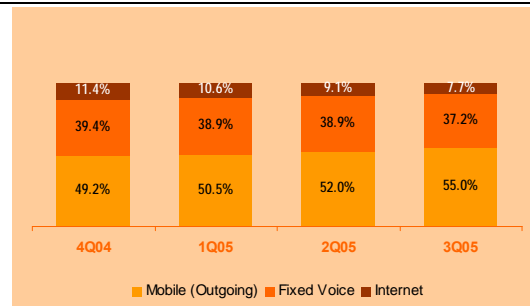
⁴ IDC – Serviços e Equipamentos de Telecomunicações em Portugal: Análise e Previsões, 2003-2009

Market Penetration Reported (% Population)



Source: Anacom

Total Sector's Minutes



Source: Anacom

Mobile Market

In the 9 months to end September 2005, total mobile subscribers increased by 7.5%, mainly driven by growth in pre-paid mobile subscribers, which represented 81.4% of total customers at the end of 3Q05. Most of this growth is explained by the launch of new discount offers such as Rede4, Uzo and Vodafone Directo.

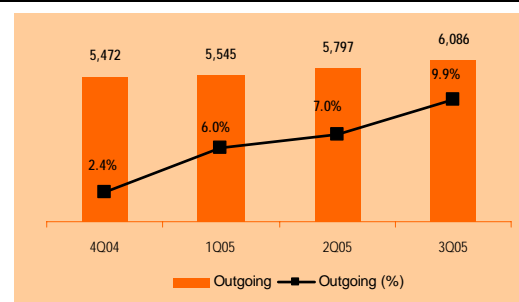
During this 9 month period the estimated total volume of mobile traffic, expressed in minutes, increased by 7.7%, with SMS usage continuing to grow above Voice traffic and registering a 57% rise when compared with the same period in 2004. The number of monthly SMS per Subscriber grew from an average 20.9 in 2004 to 29.5 in this time period.

Mobile Customers (millions)



Source: Anacom

Mobile Traffic – Outgoing & Incoming (millions)



Source: Anacom

Fixed Market

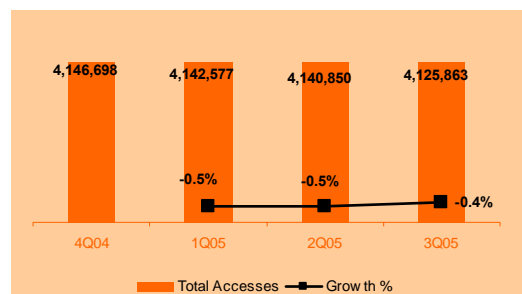
The number of Fixed Accesses and Fixed Line traffic continued to decline, primarily as a result of: (i) migration of Narrowband customers to Internet Broadband solutions (ADSL and Cable), with a 41.2% drop of Narrowband traffic during the first 9 months of 2005 compared with the same period in 2004 and; (ii) the 4.8% decrease of Voice traffic due to fixed-to-mobile substitution.

In 3Q05, alternative Fixed Line operators accounted for 26.4% of total Portuguese voice traffic, expressed in minutes, and achieved approximately 9.1% of total direct access customers. This reflected a market share gain of 3.6 percentage points and 3.1 percentage points respectively, as at 3Q05 compared with 3Q04. Nevertheless, the incumbent still has a dominant position in both these markets.

With respect to Internet customers, Broadband users grew by 51.4% in 12 months to 30 September 2005, to more than 1.1 million, mainly driven by ADSL customer growth. As at 3Q05, the Broadband market was made up of ADSL accesses accounting for 56.6% and Cable accesses accounting for 43.4% of the total. Despite all the significant efforts made by the alternative operators, PT ended 3Q05 with a dominant internet market share of 78.6% and ADSL market share of 85.4%. However, PT's market share was eroded during 2005, by

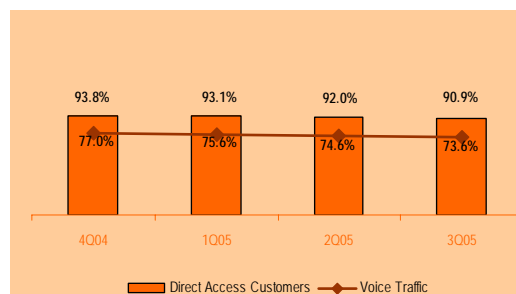
2.6 percentage points and 5.8 percentage points decrease in ADSL and cable markets, respectively.

Number of Accesses



Source: Anacom

Incumbent's Market Share



Source: Anacom

7.2. Sonaecom Group

Operational Review

Our Investment efforts focused on direct voice and broadband internet services, Fixed-Mobile convergent products and 3G services, have begun to show operational pay-back, notwithstanding their negative impact on our financial performance.

Customer Base

The total Customer base of our telecoms companies increased significantly during 2005, growing by 6% to 2.58 million at the end of 2005, compared to 2.43 million at the end of last year, driven by the positive evolution of Optimus' customer base that grew by 10.5%, and the significant increase of SCF Direct Access Customers that reached 46 thousand (Direct Access Services of 94 thousand), up from 1 thousand customers in 2004. Optimus' Customer Revenues increased by 2.9% over 2004, while SCF Direct Access Revenues were 71% higher than in 2004.

Sonaecom Consolidated Financial Highlights (million euros)

Euro Millions	2003	2004	2005	Value 2005/2004	% Var 2005/2004
Turnover	838	880	843	-37	-4%
EBITDA	146	201	157	-44	-22%
EBITDA Margin	17%	23%	19%	-4%	-18%
EBIT	16	75	29	-47	-62%
EBT	-8	57	16	-41	-73%
Net Results ⁽¹⁾	-20	39	12	-27	-70%
CAPEX	123	122	141	18	15%
FCF (levered) ⁽²⁾	35	62	12	-50	-80%

⁽¹⁾ Net Results before Minority Interest

⁽²⁾ FCF after Financial Expenses but before Capital Flows and raising finance related up-front costs and fees

Financial Review

Turnover

Consolidated Turnover of 843.4 million euros was 4.2% below that achieved in 2004. The main reasons for this reduction were threefold: (i) Optimus' Operator Revenues decreasing by approximately 20.8%, as a result of both the programmed cut in mobile termination rates as of 7 March and the continuous reduction of incoming Fixed traffic; (ii) the loss of narrowband internet and indirect voice traffic at SCF; and (iii) Público generating 21% lower Turnover, driven mainly by lower sales of Associated Products, as a result of increased market competition and market saturation. However, SCF achieved a top-line growth of 5.5% over 2004, as a result of a strong increase in Wholesale Revenues, notwithstanding the significant loss of Indirect Access Revenues. SSI posted another good performance, with Turnover growing by 4.8%, driven mainly by WeDo.

Total OPEX

In 2005, Consolidated OPEX excluding COGS and Marketing & Sales costs, decreased by 1.2% to 474.5 million euros compared to 2004, largely as a result of cost savings in Leased Lines (-20.9%) and Network Expenses (-5.3%). These savings are the result of our strategy of telecoms' integration and convergence, and in particular, as a result of the extension of our local capillarity and operating direct connections for most of our GSM and UMTS network, replacing the more expensive leased lines and circuits.

Consolidated OPEX excluding COGS increased by 1% during 2005 to 569.7 million euros, compared with 564.2 million euros in 2004. This mainly reflects: (i) significant investment made in Marketing & Sales (+13.9%) in connection with the launch of new products and services in our telecoms businesses; (ii) higher Outsourcing costs associated with the development of our ULL ADSL 2+ direct access services; and (iii) higher costs associated with the need to operate two mobile networks (GSM and UMTS). COGS increased by 8% as a result of higher equipment sales at Optimus (Handsets and Datacards) compared to 2004.

Provisions

Provisions for bad debts, stock deterioration and impairments were 51% lower than the 2004 level. This significant decrease resulted from: (i) the improvement in collections in our telecoms businesses; (ii) our success in collecting overdue amounts against which full provisions had been made (in 2005, 8.7% of our collections were related to overdue provisioned debt from previous years); and (iii) the improved stock management and stock turnover.

EBITDA

As a result of our lower Turnover and higher OPEX, and notwithstanding the lower level of Provisions, our Consolidated EBITDA decreased by 21.8% in 2005, to 156.9 million euros, generating an EBITDA margin of 18.6%. This compares with an EBITDA of 200.6 million euros and a 22.8% margin in 2004. The reduction in EBITDA was driven primarily by lower EBITDA contributions from Optimus, SCF and Público: (i) Optimus stand alone EBITDA margin in 2005 was 26.6%, on an EBITDA of 167.1 million euros, compared to an EBITDA of 190.2 million euros and a margin of 28.8% on 2004; (ii) SCF generated a negative EBITDA of 14.7 million euros compared to a positive EBITDA of 3.7 million euros in 2004; and (iii) Público recorded a negative EBITDA of 1.7 million euros, compared to a positive 2.1 million euros in 2004. However, SSI contributed with an increased EBITDA that was up by 13% over 2004.

Depreciation and Amortization

Depreciation and Amortization charges increased by 2.4% over 2004, from 125.2 million euros to 128.2 million euros, due to our higher asset base resulting primarily from the extension of our 3G network and related assets, during 2005.

Net Financial Results

Net Financial Results improved by 5.3 million euros compared to 2004, notwithstanding the higher average Gross Debt resulting from our 150 million euros bond issue completed in June 2005 and the consequent increase in interest expense. This was largely the result of the reduction in the spread under the term financing facility at Optimus as well as the significant interest income generated by the higher average cash balance of 2005.

Net Profits

Our Consolidated Net Results before Minorities decreased to 11.6 million euros from 38.8 million euros in 2004, primarily as a result of the deterioration in EBITDA. Consolidated Net Results after Minorities decreased to 2.2 million euros, compared to 18 million euros in 2004, and reflect the lower level of EBITDA and the impact on minority interests of the FT roll-up (since 1 December, 100% of SCF and 69.2% of Optimus' results have been included in our Consolidated Net Results). The improvement in Net Financial charges (-29%), and the lower Tax charge for 2005 (-78%), due to a combination of lower EBT and movements in Deferred Tax Assets, were not sufficient to compensate for the lower EBIT result. Movements in

Deferred Tax assets included: (i) the use of 10.4 million of Deferred Tax Asset at Optimus; (ii) the recognition of additional 10.5 million euros of Deferred Tax Asset benefits at Optimus; and (iii) the recognition of a 2.8 million euros impairment charge of Deferred Tax Assets at SCF.

CAPEX

CAPEX in 2005, excluding the 18.6 million euros acquisition of Maxistar's stake in Optimus, amounted to 122.2 million euros, 9.9% higher than 2004 equivalent CAPEX (excluding the 11.2 million euros for the acquisition of KPNQwest Portugal) and represented 14.5% of Turnover in 2005. Total CAPEX, including financial investments, increased by 15% over 2004. This level of CAPEX was consistent with our stated growth strategy in respect of the deployment of our UMTS network and of the development of our wireline Next Generation Network, particularly investments related to our ULL broadband business. Of total CAPEX, 27% was invested in the deployment of our UMTS network, 10% was invested in our network to support ULL broadband, 2% were capitalized Triple Play development costs and other 13% were related to Information Technology (IT)/Information Systems (IS) investments.

FCF (Levered)

Consolidated FCF for 2005 was 12 million euros, down from the 62 million euros generated in 2004. The main drivers of the reduction in FCF were the lower EBITDA result and the higher Capex, including a 18.6 million euros investment in acquiring Maxistar's 2.77% stake in Optimus. Changes in Working Capital during 2005 were negligible. The main contributions to FCF were made by Optimus whose FCF increased by 39% to 75.6 million euros, and by SSI that generated 7 million euros of FCF.

Capital Structure

Consolidated Net Debt⁵ at the end of 2005, was 246.5 million euros, 9.5 million euros lower than at the end of 2004. Gross Debt increased to 455.9 million euros from 309.3 million euros in 2004. The increase in Gross Debt was due to the 150 million euros unsecured privately placed bond issue completed in June 2005. Consolidated Liquidity increased from 53.3 million euros in 2004 to 209.4 million euros in 2005, primarily due to the 146 million euros net proceeds from the bond issue that have been invested as treasury applications, and due to the FCF performance at Optimus and SSI.

Consolidated Net Debt to EBITDA (FY 2005) stood at 1.6x and Debt to Equity at 40%, at the end of 2005, compared to 1.3x and 41%, respectively, at the end of 2004. Interest Cover (EBITDA to Interest Expenses) improved from 12.4x to 12.9x, reflecting the lower interest expenses of 12.2 million euros in 2005 and notwithstanding the lower EBITDA generated.

7.3. Optimus

Operational Review

The large investment made during 2005 in commercial activity focused on innovation and growth initiatives, began to show positive results at the end of 2005 in terms of customer growth and Customer Revenues. However, Optimus' results were significantly affected by the reduction in MTRs and by the reintroduction of handset subsidies by our competitors.

Customer Base

Optimus' total subscribers increased by 10.5% to 2.35 million at the end of 2005, compared to 2.13 million at the end of 2004, with Net Additions of 224 thousand, the highest number in the last 4 years. Active Users (last 90 days), at the end of 2005, reached 1.79 million compared to 1.62 million at the end of 2004, an increase of 10.1%.

Our new products launched during 2005, namely Rede4, Home and Kanguru, were the main drivers for the growth of Customers and Active Users during 2005, and performed in line and, in some cases, above our expectations.

⁵ Accounting Net Debt under IAS 39

To support our focus on increasing the Average Revenues per User (ARPU), Optimus had a dynamic year in the Portuguese business market, in respect of which we can highlight our new mobile voice solutions, *Conta Base* and *Plano Único*, reinforcing our post-paid offers. The results of these efforts were visible in the increased weight of our post-paid customers, representing 18.3% of our total subscriber base in 2005 compared with 14.6% in 2004.

GPRS and 3G Data Usage

Optimus' results in 2005 were consistent with our target of increasing GPRS and 3G data revenues, supported by the accelerated deployment of our 3G network and the significant investment and promotion of new multimedia services and 3G handset offerings and solutions.

During 2005, GPRS traffic increased by 318%, compared to 2004, with total SMS usage increasing by 36.8% to 971.3 million messages sent and received in 2005, a monthly average of 37.6 total messages per user, and MMS messages rising by 82.6%. At the end of 2005, approximately 25% of Optimus Subscriber Net Additions were 3G enabled and in line with our target.

Traffic

In 2005, Total Mobile Traffic⁶ was 7.7% higher than that recorded in 2004. Optimus' Operator Revenues continued to be negatively affected by the market trend of fixed to mobile substitution and the continued reduction of incoming fixed traffic, which decreased by 1.1% to 185 million minutes, compared to 187 million minutes in 2004.

Optimus continued to be negatively affected by the imbalance in the ratio of traffic terminated on other mobile networks relative to the termination of incoming traffic from other mobile networks, leading to a net payment of approximately 16.3 million euros in mobile interconnection in 2005. ANACOM's deliberation as regards mobile termination tariffs has in no way addressed the negative implications of this structural barrier to competition.

Financial Review

Optimus' Financial Highlights

<i>Euro Millions</i>	2003	2004	2005	Value 2005/2004	% Var 2005/2004
Turnover	636	660	627	-32	-5%
EBITDA	147	190	167	-23	-12%
EBITDA Margin	23%	29%	27%	-2%	-8%
EBIT	48	85	58	-27	-32%
EBT	29	66	45	-21	-32%
Net Results	25	51	45	-5	-11%
CAPEX	110	104	87	-16	-16%
FCF (levered) ⁽¹⁾	53	54	76	21	39%

⁽¹⁾ FCF after Financial Expenses but before Capital Flows and raising finance related up-front costs and fees

Turnover

Turnover decreased by 4.9% compared to 2004 while Service Revenues decreased by 5.8%, mainly explained by the reduction in Operator Revenues of 20.8% to 175.9 million euros, driven by: (i) reduction in MTRs as of 7 March 2005; (ii) the lower volume of fixed traffic terminating on Optimus' mobile network and; (iii) pressure in Roaming In Revenues, due to price reductions during 2005 and less Roaming In traffic. Growth in Customers Revenues of 2.9% contributed positively but was not sufficient to fully compensate for the lower level of Operator Revenues.

Data Revenues represented 11.2% of Optimus' total Service Revenues in 2005, recording a growth of 1.7p.p compared to 2004. From total Data Revenues in 2005, SMS's represented

⁶ Total Mobile Traffic = total Incoming Traffic + total Outgoing Traffic + total Roaming Out

71% down from 80.1% in 2004, and Non-SMS related Data Services⁷ represented 29%, up from 19% in 2004.

For the full year 2005, Optimus' subscribers generated an ARPU of 21.9 euros, down from an ARPU of 24.3 euros in 2004, a 9.8% decrease mainly explained by the impact of the phased reductions in MTRs and price cuts of Roaming In.

Provisions

In 2005, our Provisions decreased by 49.3%, to 6.8 million euros, compared to 13.4 million euros in 2004. This reflects lower provisioning for Bad Debts, decreasing by 62.2%, due to improvements in billing and collections.

EBITDA

EBITDA in 2005 reached 167.1 million euros, down 12.1% from 2004, generating an EBITDA margin of 26.6%, compared to a 28.8% margin in 2004. The main contributor to this performance was the margin lost as a result of the lower MTRs which had an impact of approximately 11 million euros on EBITDA in 2005. Total OPEX excluding COGS and Marketing & Sales Costs fell by 3%, compared to 2004, the outcome of a continued effort in cost optimization with significant savings in Leased Lines (-16.1%) and Maintenance (-9.4%). Total OPEX increased by 2.1% compared to 2004, as a result our dynamic commercial effort and the more competitive mobile market. In particular, Marketing & Sales costs, including subsidization, increased by 20% in 2005, as a result of significant commercial activity supporting new products and services, and due to the increase of subsidization by 66%, due to the reintroduction of handset subsidies by our competitors, particularly in the second half of 2005.

FCF

FCF at Optimus improved significantly, increasing 39% to 75.6 million euros, notwithstanding EBITDA evolution, mainly as a result of a lower CAPEX level, down 16.4 million euros, and the fact that the 2004 FCF was affected by the payment of 39 million euros regarding the acquisition of Oniway assets in 2002.

The majority of investments made during 2005 were related to: (i) the roll out of the UMTS network (37.8 million euros); (ii) the improvement of our overall quality and capacity of the GSM/GPRS network (24.7 million euros); and (iii) Information Technology improvements, including investment in integrating our billing system (17.1 million euros).

7.4. Sonaecom Fixed

Operational Review

SCF's results during 2005 reflect the strategy we implemented in 2H04 and reiterated at the beginning of 2005, to refocus the business away from an indirect business particularly in the residential market, to a direct access business, through a strategy of expanding aggressively our ADSL broadband services over ULL. This strategy began to bear fruit in 4Q05, with SCF's total customer base growing once again, and with revenues from Direct Access customers surpassing those generated by Indirect Access customers for the first time.

Customers' base

At the end of 2005, SCF's Total Services stood at 271.5 thousand, from 301 thousand services at the end of 2004. Direct Access Services increased by 88.5 thousand to 94 thousand, at year end 2005. However, the increase of our direct access customers was not sufficient to compensate the combined loss of indirect voice and narrowband internet customers that decreased by 42% to 162.7 thousand customers. The decrease of our customer base has been reversed in the 4Q05 by the higher number of direct services acquired, with SCF's total services increasing by 6% compared to 4Q04.

⁷ Non-SMS related Data Services = MMS + WAP + UMTS + GPRS + Other Data Revenues

Our push to increase the rate of customer activation of direct bundled voice plus ADSL internet customers faced significant difficulties during 2005, namely related with delays created by PT in the customer activation process, and with the provisioning of additional capacity to existing unbundled central offices. At the end of 2005, our ADSL activation process was taking an average of 40 days to be completed for 85% of the customers in the activation pipeline, improving from a provisioning time of nearly 3 to 5 months in the beginning of 2005, a timing that we intend to improve significantly during 2006.

Significant efforts were made during 2005 to improve our overall activation processes and timings, with the internal implementation of new information systems supporting the activation throughput, mainly with the automation of significant parts of the process and the improvement of its control. Additionally, a new Government-sponsored agreement was reached between telecom operators and PT in September, covering the unbundling process and speeding up all the activation processes. As a result, SCF increased its average monthly ULL activations throughout 2005, from an average of 6 thousand activations per month, from April until August, to approximately 15 thousand activations from September onwards.

Central Offices Unbundled

By the end of 2005, SCF had unbundled 138 PT central offices for SHDSL circuit interconnection, 130 of which prepared for ULL with ADSL 2+ and direct voice services. Accordingly, SCF ended 2005 covering approximately 50% of population, reaching up to 1.4 million copper lines. According to ANACOM's market data, as at December 2005, SCF consolidated its leadership in the direct access market among Alternative Operators, owning 77% of the total unbundled local loops in the market with 55,600 active unbundled local loops. During 4Q05, SCF unbundled more than 80% of the total unbundled local loops in the market.

Financial Review

SCF Financial Highlights

<i>Euro Millions</i>	2003	2004	2005	Value 2005/2004	% Var 2005/2004
Turnover	113	150	158	8	6%
EBITDA	-8	4	-15	-18	n.a.
EBITDA Margin	-7%	2%	-9%	-12%	n.a.
EBIT	-27	-12	-30	-17	-142%
EBT	-29	-14	-32	-18	-135%
Net Results	-34	-15	-35	-20	-138%
CAPEX	10	26	27	1	3%
FCF (levered) ⁽¹⁾	-9	-6	-35	-29	-478%

⁽¹⁾ FCF after Financial Expenses but before Capital Flows and raising finance related up-front costs and fees

Turnover

Turnover in 2005 was 158.4 million euros, up 5.5% over 2004, driven mainly by higher Wholesale revenues, including leased lines and traffic wholesale, which represented 50% of the Service Revenues. Revenues from Direct Access and Indirect Access Services represented 23% and 27% of Turnover, respectively. However, it is important to note that in 4Q05 Direct Access revenues surpassed Indirect Access revenues for the first time.

EBITDA

For the full year, SCF generated an EBITDA loss of 14.7 million euros, down from a positive level of 3.7 million euros in 2004. This performance was affected by the significant reduction in our indirect voice and narrowband internet revenues and by the cost of the commercial and operating effort associated with the development of our direct access strategy.

SCF OPEX excluding Marketing & Sales costs reached 158.2 million euros, 15.5% higher than that of 2004, primarily as a result of: (i) Outsourcing costs increasing by 53%, reflecting higher Customer Service and ULL Installer Costs; and (ii) Leased Lines costs increasing by 41.2% due to the higher level of Wholesale activity in 2005. Marketing & Sales costs increased by 52%, as a result of higher investment in advertising and higher level of commissions paid.

FCF

FCF at SCF decreased from a negative 6 million euros in 2004 to negative 34.7 million euros in 2005, mainly as a result of the EBITDA losses posted in 2005.

During 2005, SCF CAPEX was 26.9 million euros, in line with the levels invested in 2004, of which 14.5 million were allocated primarily to our ULL strategy, 2.7 million were allocated to the development of our Triple Play Offer and 1.5 million euros were invested in Information System improvements and implementations.

7.5. Público

Operational Review

According to the latest available market data, Público's average paid circulation dropped by 4.3%, from an average level of 51,719 in the period January to September 2004, to 49,506 from January to September 2005. This decrease was a result of the tougher competitive pressure from the tabloid newspapers and free Newspapers, as well as the reduction in the size of the Daily newspaper market by 5.7%, year on year. Nevertheless, Público's market share of paid circulation increased during 2005, reaching 13.5% in 3Q05 compared to 13.2% in 3Q04.

Financial Review

Público Financial Highlights

<i>Euro Millions</i>	2003	2004	2005	Value 2005/2004	% Var 2005/2004
Turnover	52.3	55.5	44.6	-10.9	-20%
EBITDA	0.5	2.1	-1.7	-3.8	n.a.
EBITDA Margin	1%	4%	-4%	-8%	n.a.
EBIT	-1.4	0.2	-2.9	-3.2	n.a.
EBT	-0.2	0.1	-3.2	-3.2	n.a.
Net Results	-0.8	0.0	-3.2	-3.2	n.a.
CAPEX	0.4	0.8	0.9	0.1	8%
FCF (levered) ⁽¹⁾	2.6	1.1	-3.9	-5.1	n.a.

⁽¹⁾ FCF after Financial Expenses but before Capital Flows and raising finance related up-front costs and fees

Turnover

In 2005, Turnover decreased 21% to 44.1 million euros, compared to 2004, as a result of the decrease in Associated Products Sales of 45%, explained by market saturation and more aggressive competition. A total of 2.6 million units of Associated Products were sold in 2005 compared to 5 million in 2004, generating revenues of 13.7 million euros and 25.1 million euros, in 2005 and 2004, respectively.

Newspaper Sales rose by 5% compared to 2004, as a result of a price increase on all Público's editions. Advertising Sales decreased by 3% against 2004, reflecting the lower level of advertising invested in newspapers. To further enhance Advertising Revenues, Público has been focusing in extending its addressable market and current audience, by reaching other readers on the back of the new magazines launched.

EBITDA

Mainly as a result of our Turnover performance, EBITDA deteriorated, generating a loss of 1.7 million euros down from a positive 2.1 million euros in 2004. To underpin Turnover and address the poorer financial performance of 2005, Público restructured its commercial activity during 2H05, with a new sales team focused on pushing revenues in a more proactive way.

FCF

During 2005, Público generated negative FCF of 3.9 million euros, decreasing from a positive 1.1 million euros generated in 2004, mainly as a result of 2005 EBITDA performance.

7.6. Software and Systems Integration

Operational Review

Our SSI companies posted another positive performance in 2005 in their respective key markets, continuing the strategy of organic growth primarily in international markets.

WeDo Group won an international tender to be global supplier to France Telecom in the implementation of its flagship Revenue Assurance Product (RAID) and has already started to implement the system in some of the FT subsidiaries, namely in France and in UK. The proprietary RAID product was also sold to Vimpelcom, WeDo's first Russian client, ERA, a Polish Mobile Operator, Telemar, a Brazilian fixed Operator, Auna, the Spanish Telecom Operator and to mobile players in UK and in Thailand, representing the Group's first international presence in UK and Asian markets.

Regarding Enabler Group, it was named by Oracle as one of its four principal retail software integrators of "Oracle Retail"⁸, software based on Retek, in tier one customers. Additionally, Enabler won a contract for the implementation of Oracle Retail in Tesco's Japanese and Turkish operations during 2005.

Mainroad won a key account to develop IT systems and processes for the new concert and exhibition centre in Oporto "Casa da Música", a project that was fully implemented in 2005 and for which Bizdirect also provided IT solutions. Bizdirect also continued to support the roll-out of pilot projects in the Ministries of Health and Agriculture, Rural Development and Fisheries under the Portuguese Public e-procurement programme.

Financial Review

SSI Financial Highlights

<i>Euro Millions</i>	2003	2004	2005	Value 2005/2004	% Var 2005/2004
Turnover	79.2	82.0	86.0	4.0	5%
EBITDA	6.1	8.4	9.5	1.1	13%
EBITDA Margin	8%	10%	11%	1%	7%
EBIT	1.8	5.6	6.1	0.5	9%
EBT	1.4	5.4	6.5	1.1	21%
Net Results	0.1	4.0	5.2	1.2	30%
CAPEX	2.4	2.2	0.7	-1.4	-67%
FCF (levered) ⁽¹⁾	-10.3	7.3	7.1	-0.2	-3%

⁽¹⁾ FCF after Financial Expenses but before Capital Flows and raising finance related up-front costs and fees

Turnover

Consolidated Turnover reached 86 million euros in 2005, up 4.8% over 2004 value, mainly as a result of WeDo's strong performance, increasing its turnover by 19.3%, year on year.

It is also important to highlight that, during 2005, both Enabler and WeDo extended and consolidated their international presence. For each one of the companies, the percentage of Turnover generated in international markets grew from 67% and 23% in 2004, to 72% and 30% in 2005, respectively.

EBITDA

EBITDA increased by 13% to 9.5 million euros, generating a margin of 11% compared to 10.3% in 2004. Enabler and WeDo accounted for 84% of total SSI EBITDA, with WeDo being the company that most contributed to this yearly growth, with its stand alone EBITDA improving by 63%.

FCF

⁸ After acquisition of Retek company by Oracle, the Retek software name was changed to Oracle Retail

During 2005, SSI generated positive FCF of 7.1 million euros, slightly below the 7.3 million achieved in 2004.

7.7. Going Forward

Our aim for 2006 is to build on the platform established during 2005 for our telecoms businesses, to continue the push for organic growth of our SSI businesses, and to improve performance at Público.

We expect to continue to benefit from the investment strategy implemented during 2005, namely in mobile data, 3G services and fixed broadband services (voice and internet). We also plan to launch Triple Play service during 2H06. In addition, we will invest further in the development of our 3G network and in the extension of our transmission network to support both our fixed and mobile businesses.

We anticipate that, our 2006 results will be negatively affected by a number of known factors: the continued progressive cuts in MTRs that will negatively affect Operator Revenues at Optimus; the cost of operating two mobile networks; higher customer acquisition costs at SCF associated with the growth of our Double-Play broadband business (voice and internet) and the launch of our Triple-Play offer; and from the expected poor economic climate that will continue to hold back consumer confidence and consumer spending.

7.8. Proposal for the Application of Results

Our Consolidated Net results as at 31 December 2005 were positive at 2,156,198 euros. Our Individual Accounts presented Net Results of 8,894,369.58 euros. The Board of Directors proposes that the Net Results in the Individual Accounts be transferred to Legal Reserves in an amount of 447,718.48 euros, and an amount of 8,449,651.10 euros be transferred to Accumulated Results.

7.9. Subsequent Events

The following events, whose took place after 31 December 2005 but before the approval of the full year accounts by the Board, should be noted:

1. Public Tender Offer for Portugal Telecom

On 6 February 2006, we announced a Public Tender Offer for the acquisition of all the outstanding ordinary share capital and class A shares of Portugal Telecom SGPS SA (PT) and convertible bonds, at a price of 9.5 euros for each ordinary share and each class A share and 5,000 euros for each convertible bond. We also announced a Public Tender Offer for the outstanding minority shareholdings in PT Multimedia SGPS SA (PTM) as required by the Portuguese Securities Code. Our offer for PT is subject to the satisfaction of following conditions: (i) the non-opposition from the Portuguese Competition Authority; (ii) the formal registration of our Public Tender Offer with the Portuguese Securities Market Commission (CMVM); (iii) the acquisition of at least 50.01% of the share capital of PT and; (iv) amendment of PT's articles of association (v) to remove the voting limitations on a shareholder that acquires more than 10% of the share capital of PT; (vi) to remove the prohibition on a telecommunications operator acquiring more than 10% of the share capital of PT; and (vii) to remove or amend the special approval rights of the PT "golden shares" held by the Portuguese government or, alternatively, the waiver by the Portuguese government of the use of the special approval rights of the PT "golden shares" in connection with or approval of the reorganization of PT's businesses proposed by Sonaecom.

Our main strategic objectives behind the offer for PT are: (i) to stimulate competition in the Portuguese telecoms sector by committing to sell one of the two fixed access networks currently held by PT with the objective of introducing a new and significant competitor in the

fixed voice, broadband and TV markets; (ii) to provide clear leadership supported by a clear international strategy focused on economic and management control of international assets; (iii) to access operating agreements with international mobile operators to ensure higher roaming revenues and enhanced bargaining power for the procurement of handsets, content and applications; (iv) to strengthen the combined company's management capabilities and competitiveness and to provide a strong and stable shareholder base.

We believe our offer is attractive for PT shareholders and if successful, will enhance shareholder value at Sonaecom and will bring broad benefits to the Portuguese telecoms market as a whole and will benefit consumers. During the bid process, we will continue to focus our efforts on developing our existing businesses.

2. Admission to trade of Sonaecom shares

Following the share capital increase of Soanecom referred in section 8.13, the resulting shares were admitted to trade at Eurolist by Euronext, Euronext Lisbon regulated market, at 7 March 2006.

7.10. Acknowledgements

We would like to thank our Statutory External Auditor for the valuable advice and help given during 2005. We would also like to express our gratitude to our suppliers, banks and other associates of our Group for the confidence they have placed in us. Our Executive Committee would like to thank the Non-Executive Directors for their work and valuable advice. Finally, we express our gratitude to all our staff who have worked tirelessly to ensure our continuing success and whose efforts are clearly visible in the results we have achieved.

8. Corporate Governance

8.1. Declaration of Compliance

As at 31 December 2005, Sonaecom was compliant with all the CMVM Recommendations on Corporate Governance with the exception of: Recommendation IV-8, which recommends that the remuneration of all members of the Board of Directors should be disclosed on an individual basis; Recommendation II-2, that recommends that the period for blocking of shares prior to a Shareholders' General Meeting should be reduced to 5 days, that postal voting be permitted without restrictions and that postal voting bulletins be made available; and Recommendation IV-10, that recommends that stock incentive plans should be approved by the Shareholders' General Meeting.

However, we anticipate that, after our Annual General Meeting due to be held on 5 April 2006, Sonaecom should be compliant with all CMVM Recommendations on Corporate Governance except for Recommendation IV-8.

We expect to be compliant with Recommendation II-2 as, at the Annual General Meeting, the Board will propose an amendment to the Articles of Association that would reduce the time period for blocking of shares, required to attend a Shareholders' General Meeting, from 8 to 5 working days. In addition, the Board will propose the elimination of all restrictions on the right to vote by correspondence and will make the necessary voting forms available to all shareholders on our website.

We also expect to fully comply with Recommendation IV-10, as the Board will submit our Deferred Performance Bonus Plan (DPBP) for approval at the coming Annual General Meeting.

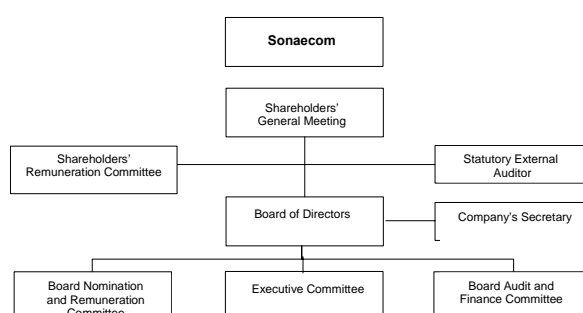
As regards Recommendation IV-8, we accept and agree that the remuneration and other compensation of our Board of Directors should be disclosed in a clear and transparent manner that allows for a clear understanding of the level and composition of Directors'

remuneration and other compensation. However, we consider that individual disclosure for the Chairman and the CEO, together with separate averages for their remaining Non-Executive and Executives Directors is sufficient to assess each of the 4 main components of our Board. Disclosure of the individual figures for every member of the Board of Directors is not current general practice in Portugal and we believe is of marginal additional benefit for shareholders and the financial community. This view is consistent with the recent report by the Portuguese Institute of Corporate Governance.

8.2. Governing Bodies Composition and Structure

Our corporate governance structure sets out clearly the roles, duties and responsibilities of our different Governing Bodies and the rules and the decision making processes we follow

Sonaecom's Governing Bodies



Shareholders' General Meeting

Composition

Our Shareholders' General Meetings may only be attended by Shareholders with the right to vote based on shares they own or equivalent subscription rights, which, in the eight days prior to the General Meeting, have:

- (i) registered the shares in their name, in our share register, if they are registered shares or;
- (ii) registered the shares in their name in our share register or alternatively deposited them with a financial intermediary, if they are bearer shares or;
- (iii) entered the shares in an electronic shareholding account in their names (at the Stock Market Authority and at our Company), if the shares are kept in electronic (non-titled) form.

In the case of a deposit with a financial intermediary or the entry referred to in iii), we require written confirmation from the respective institution and this letter must be received by us at least eight days before our General Meeting is held.

As explained in 8.1 above, a proposal will be made at the coming Annual General Meeting to reduce the share blocking period from 8 to 5 days.

Each group of five hundred shares corresponds to one vote and, accordingly, shareholders have as many votes as the integer number resulting from dividing the number of shares owned by five hundred.

Limitations to Voting Rights

No Shareholders have special voting rights. Our Board of Directors is unaware of any special voting rights or Shareholder agreements and the Company has no measures in place which could compromise the success of a public tender offer or the free transaction of shares.

Shareholder Representation

Shareholders may attend a Shareholders' General Meeting in person or by representation. Individual Shareholders may be represented by their spouse, ascendant, descendant, a member of our Board of Directors or another Shareholder, by means of a letter addressed to the Chairman of the Board of the Shareholders' General Meeting, indicating the name and address of the representative nominated, as well as the date of the meeting. Corporate Shareholders may be represented at our Shareholders' General Meetings by a person designated by means of a letter addressed to the Chairman of the Board of our Shareholders' General Meetings. The authenticity of these letters is subject to the scrutiny by the Chairman of our Board of the Shareholders' General Meeting.

Postal Voting

Postal voting is allowed for amendments to the Articles of Association and for the election of members of our Statutory Governing Bodies. Voting bulletins must be received at least 3 days before the Shareholders' General Meeting at the Company's Head Office and must be addressed to the Chairman of the Board of the Shareholder's General Meeting. The Chairman of the Board of the Shareholders' General Meeting is responsible for verifying that written voting papers comply with all the requirements and for ensuring that confidentiality is kept. Electronic voting is not yet contemplated under our Articles of Association.

As explained in 8.1 above, a proposal will be made to the coming Annual General Meeting that all restrictions on postal voting should be removed.

Shareholders' General Meetings and Quorum

Our Shareholders' General Meetings are operated through a Board elected by our Shareholders for a four-year mandate, comprised of a Chairman, Vice-Chairman and a Secretary. The current mandate is from 2004 until 2007.

Board of the Shareholders' General Meeting

Chairman:.....Luzia Gomes Ferreira
Vice-Chairman:.....João Mendonça Silva
Secretary:.....Filipa Santos Carvalho

Shareholders' General Meetings are convened and conducted by the Chairman or, in his or her absence, by the Vice-Chairman. Shareholders' General Meetings are held in two possible circumstances: (i) in ordinary session, at a date set by law for the Shareholders' Annual General Meeting; (ii) in extraordinary session, whenever our Board of Directors or Statutory Statutory External Auditor deem necessary or at the request of Shareholders, representing the legally required minimum percentage of our Company's share capital (currently 5%). During 2005, there were two Shareholders' General Meetings, one held in an ordinary session with 82.3% of share capital represented, and the other held in an extraordinary session, with 81.9% of share capital represented.

The proposals for discussion and decision at our Shareholders' General Meetings, as well as other information necessary for the meetings, are made available to our Shareholders at our Head Office, and are posted on our website - www.sonae.com -, at least 15 days before the respective meeting.

Board of Directors

Composition

Under our Articles of Association, the Board of Directors may consist of an odd number of members – three, five, seven, nine or eleven members, elected at the Shareholder's General Meeting. The Board mandate is of four years, with the possibility of re-election. The current Board mandate covers the period 2004 to 2007. The Board of Directors shall elect its Chairman.

Currently, our Board of Directors has 11 members, including Executive members and Non-Executive members. Three of our Non-Executive Directors are independent, in that they are not associated with special interest groups related to the Company nor to its reference shareholder, in accordance with the criteria established by CMVM Regulation no. 7/2001 for Independent Directors. Furthermore, and according to CMVM Regulation no. 10/2005, there are no circumstances that might affect these Directors' analysis or decision making capabilities. These Independent Directors exercise an important influence over the decision-making process and the development of company strategy and policy and, as such, the Board of Directors exhibits a clear balance between the number of Non-Executive Directors that represent reference shareholders and the number of Independent Non-Executive Directors.

Role

The Board of Directors is responsible for assuring the management of our business, monitoring risks, managing conflicts of interests and developing our organization's goals and strategy. Our Articles of Association permit the Board to delegate day to day company business, duties and responsibilities, as considered appropriate, to an Executive Committee (as described in more detail under the Executive Committee section below). In order to improve the operational efficiency of the Board and meet best practice in Corporate Governance, our Board has created 2 Board Committees, a Board Audit and Finance Committee and a Board Nomination and Remuneration Committee.

Aligned with Corporate Governance best practice, a self assessment of our Board was carried out in 2005, with the help of an independent external consultant. The assessment was designed to evaluate corporate governance at the board level and to review how the Board and the Board Committees function, as a whole and in terms of individual contributions. The conclusions were discussed by the Board and actions to achieve further improvement have been agreed.

Qualifications, Experience and Responsibilities of Individual Directors

A description of the qualifications, experience and responsibilities of each member of our Board of Directors, can be found in section 8.15 Complimentary Information.

Other Offices held by our Directors

Information on other offices held by each of the members of our Board of Directors can be found in section 8.15 Complimentary Information.

Board Meetings and Quorum

Our Board of Directors meets at least four times a year, as stipulated by our Articles of Association, and whenever our Chairman or two of our Board members call a meeting. During 2005, there were six Board meetings. The quorum for any Board Meeting requires that the majority of Directors are present or represented by proxy and decisions are taken by a majority of votes cast. During 2005, the attendance rate at our Board meetings was 93.9%.

Our Non-Executive Directors (NED) also hold separate meetings to assess their ability to exercise their role in the Board and make suggestions to improvements in Board procedures and corporate governance. During 2005, there was one NED meeting and attendance was 100%.

Executive Committee

SONAECOM EXECUTIVE TEAM						
CEO	Mobile & Fixed	Mobile	CFO	Legal & Regulation	Fixed	Media/SSI
Paulo Azevedo	Luis Reis	Miguel Almeida	Chris Lawrie	António Lobo Xavier	Pedro Carlos	Cláudia Azevedo
•Group CEO •SSI •Media	•COO •CEO Fixed/Mobile •Human Resources •IT/IS •Technical •Internal Communication	•Mobile •Customer Service	•CFO •M&A •Planning and Control •Internal Audit •Accounting •Finance •Treasury •Investor Relations	•Legal •Regulation •Public Relations •Fiscal Planning	•COO Fixed	•COO SSI •COO Media •COO Miao

Composition

Under our Articles of Association, our Executive Committee is selected from the members of the Board of Directors. Our CEO, CFO and the COO's of our 2 main business units, Optimus and SCF, integrate the Executive Committee. Our Executive Committee meetings are also attended by the other members of our Executive management team, being the Advisor to the Board of Directors and those responsible for the Fixed and Media/SSI businesses, who are identified in the diagram above.

Role

The Executive Committee may only deliberate on matters that relate to general management and not on matters that are exclusively of the competence of the Board of Directors. The Executive Committee is conferred the powers and responsibility to manage and execute our day to day operations except:

- (i) to appoint the Chairman of our Board;
- (ii) to co-opt a substitute to replace a member of our Board;
- (iii) to convene Shareholders' General Meetings;
- (iv) to approve our Annual Report and Accounts;
- (v) to grant any pledge, guarantees or charges over our assets, if those are in excess of an accumulated value of 500,000 euros in any financial year;
- (vi) to decide to change our registered office or to approve any share capital increases;
- (vii) to decide on mergers, de-mergers, modifications to our corporate format and any other projects relating to our association with other legal entities to form new companies;
- (viii) to approve our Business Plan and Annual Budget;
- (ix) to define the key features of personnel compensation policies, including stock incentive plans and variable compensation plans applicable to Senior Directors (above Level XIV), in areas that do not require decisions from the Shareholders' Remuneration Committee ("Comissão de Vencimentos") or deliberations at Shareholder General Meetings;
- (x) to define or change major accounting policies of any company included in the consolidation perimeter of the Group;
- (xi) to approve our quarterly Accounts and half year Report and Accounts;
- (xii) to sell, acquire directly or by long term lease or transact, in any other way, investments classified as tangible fixed assets where the individual transaction value is in excess of 1,000,000 euros, unless covered by our Annual Budget or Business Plan duly approved by our Board;
- (xiii) to purchase or subscribe for new shares in the share capital of any subsidiary companies where the accumulated amount exceeds 5,000,000 euros in any financial year, unless covered by our Annual Budget or Business Plan duly approved by our Board;
- (xiv) to invest in any other companies or in other financial assets when the accumulated value is in excess of 1,000,000 euros in any financial year, unless covered by our Annual Budget or Business Plan duly approved by our Board;
- (xv) to make any other financial investments which exceeds the accumulated amount of 1,000,000 euros in any financial year, unless covered by our Annual Budget or Business Plan duly approved by our Board;
- (xvi) to dispose of assets or make other divestments, if such transaction has a significant effect on our operating results (defined as equal or greater than 5%) or affects the jobs of more than 100 employees, unless covered by our Annual Budget the Business Plan duly approved by our Board.

To ensure that our Board of Directors is kept well informed by our Executive Committee, all significant decisions taken by the Executive Committee are systematically extracted from the minutes of their meetings and are reported, in writing, to our Board of Directors.

Executive Committee Meetings and Quorum

Our Executive Committee currently meets at least twice every month and, whenever its Chairman or a majority of its members calls a meeting. There were 22 meetings of the Executive Committee in 2005. The quorum for any Executive Committee requires that a majority of members are present or represented by proxy. Decisions require unanimous approval otherwise the Executive Committee must submit the matter under consideration to our Board of Directors for decision.

Board Audit and Finance Committee

Composition

Our Board Audit and Finance Committee ("BAFC") consists of four members who are appointed by and from among the members of the Board. The Committee is currently composed of 4 Non-Executive Directors, 2 of whom are independent, and is chaired by an independent Non-Executive Director.

Role

The BAFC operates under Terms of Reference approved by the Board and is responsible for monitoring and auditing our financial reporting processes, reviewing accounting policies and for evaluating risk associated with our activities on behalf of the Board, and additionally for overseeing Corporate Governance within our Company. The BAFC also meets directly with our Statutory External Auditors and the internal audit team. In particular, the duties of the BAFC are:

- (i) to review the Company's annual and interim financial statements and reports to the market, and reports its findings to the Board, before these documents are approved or signed by the Board;
- (ii) to advise the Board on its reports to shareholders and financial markets to be included in the Company's Annual and Half-year Accounts and in the Quarterly Earnings Announcements;
- (iii) to advise the Board on the adequacy and appropriateness of internal information provided by the Executive Committee, including systems and standards on internal business controls applied by the Executive Committee;
- (iv) to advise the Board on the appointment of, the assignments to and the remuneration of the Statutory External Auditor and also on the appointment of the Internal Audit Manager;
- (v) to review the scope of the Internal Audit Function and its relation to the scope of the External Audit and discuss with the Statutory External Auditor and Internal Auditor Manager their intermediate and year-end reports, as well as their reports on internal control, and advise the Board thereon.

Our BAFC reports on a regular basis to our Board of Directors concerning the work accomplished, results obtained and concerns identified, thus ensuring the effectiveness of their work.

BAFC Meetings and Quorum

The BAFC meets at least 5 times a year and whenever the Chairman, our Board of Directors, our Executive Committee or, exceptionally, our Statutory External Auditor believe a meeting is necessary. During 2005, the Committee met 5 times and the attendance rate was 93.8%. Between meetings, the BAFC follows projects and monitors activity by regular conference calls.

Board Nomination and Remuneration Committee

Composition

Our Board Nomination and Remuneration Committee ("BNRC") consists of four members, namely the Chairman of our Board of Directors, our CEO, and two independent Non-Executive Directors.

Role

The BNRC operates under Terms of Reference, approved by our Board, and is responsible for identifying candidates for appointment to our Board of Directors or Senior Management positions within our Group and for supervising the preparation of proposals on remuneration and other compensation on behalf of our Board of Directors. The BNRC reports to the Board, whenever it is necessary, and liaises with our Shareholders' Remuneration Committee ("Comissão de Vencimentos") to obtain their approval, on behalf of our Shareholders, for the remuneration and other compensation of our Board of Directors and other Statutory Governing Bodies. The BNRC may receive assistance from external entities, which ensure absolute confidentiality in relation to all the information obtained.

BNRC Meetings

The BNRC meets at least once a year and, whenever the Chairman or the Board of Directors deem necessary. There was one formal BNRC meeting in 2005 and the attendance record was 100%.

Statutory External Auditor

Composition

Our Statutory External Auditor is Deloitte & Associados, SROC, S. A. represented by Jorge Manuel Araújo de Beja Neves, who may be substituted, if required, by António Marques Dias.

Role

Our Statutory External Auditor is responsible for auditing the management of the company, for supervising the compliance with the law and the Articles of Association and for verifying the accounts and all our financial documents.

Shareholders' Remuneration Committee

Composition

Our Shareholders' Remuneration Committee ("Comissão de Vencimentos") comprises Shareholders' appointed by our Shareholders General Meeting, under a four year mandate, currently 2004 to 2007.

Shareholders' Remuneration Committee

Sonae SGPS, S.A represented by.....José Manuel Trindade Neves Adelino ⁽¹⁾
Sonae Investments, BV, represented by..... Bruno Walter Lehmann ⁽²⁾
Efanor Investimentos, SGPS, SA represented byJosé Manuel Trindade Neves Adelino

(1) Professor at a Lisbon Business School

(2) Country Manager – Egon Zehnder Portugal

Role

This Committee is responsible for approving the remuneration and other compensation of members of our Board of Directors and of our other Statutory Governing Bodies, on behalf of our Shareholders.

The representatives serving on the Shareholders' Remuneration Committee do not hold any office in our Company and are independent of our Board of Directors. Their professional qualifications and experience allow them to carry out their responsibilities effectively and rigorously.

Shareholders Remuneration Committee Meetings

This Committee meets at least once a year. There were 3 meetings during 2005 and the attendance record was 100%.

Company Secretary

Composition

Our company Secretary is Filipa Santos Carvalho who may be substituted, if required, by Vera Lopes Pereira.

Role

Our Company Secretary is responsible for: (i) keeping the formal minutes books and attendance lists at Shareholders' General Meetings; (ii) forwarding the legal documentation to convene Shareholders' General Meetings; (iii) supervising the preparation of supporting documentation for our Shareholders' General Meeting and meetings of our Board of Directors and preparing the respective minutes; (iv) responding to Shareholders' requests for information within the scope of the law; (v) legal registration of any act or resolution of our Company's Statutory Governing Bodies.

8.3. Group Remuneration and other Compensation Policy

We believe that the initiative and commitment of our staff to the organization are the cornerstones that support our activities and performance. To energize initiative and sharpen commitment, during 2005 we once again carried out our well established annual performance appraisal process for all employees, through which we have measured each individual's activity, performance and contribution to our organization's success, and assessed the variable remuneration and other compensation to be attributed accordingly.

Description of Components

The remuneration policy for all our employees includes two basic components: (i) a "Fixed Remuneration", which is paid as an Annual Salary (salaries are paid 14 times per annum in Portugal) and; (ii) a "Performance Bonus", which is paid in the first quarter of the following year. In addition, a discretionary third component may be awarded on 31 March of the following year, in the form of deferred compensation under our "Deferred Performance Bonus Plan" ("Sonaecom DPBP" or "DPBP"). Our DPBP is described in more detail in the following section.

Levels of Responsibility and Rewards

Annual remuneration and other compensation packages are defined as a function of each employee's level of responsibility and are reviewed annually. Each employee is classified under a "Sonaecom Group Level" grid, designed using Hay's international model for classification of corporate functions to facilitate market comparisons as well as to help to promote internal equity.

Performance Bonus Assessment Rules

The Performance Bonus is aimed at rewarding the achievement of certain pre-defined annual objectives, which are linked to both "Key Performance Indicators of our Business Activity (Business KPIs)" and "Personal KPI's". The target amounts attributed are based on a percentage of our employees' Fixed Remuneration, which range between 50% and 80%, depending on the employees' Sonaecom Group Level. Business KPIs which include economic and financial indicators based on approved budgets, share price performance, individual business unit performance as well as the performance of our Group as a whole, derive 70% of the Performance Bonus and are normally objective indicators. The remaining 30% of the Performance Bonus is derived from Personal KPI's, which are a mix of objective and subjective indicators. Actual amounts paid are based on the real performance achieved or assessed and normally represent anything from 0% to 120% of the target amount attributed.

8.4. Deferred Performance Bonus Plan

Our Deferred Performance Bonus Plan ("DPBP") is aimed at enhancing our employees' loyalty, aligning them with shareholders, and increasing their awareness of the importance of

their performance on the overall success of our organization, as reflected by our share price evolution.

Description of Plan

In addition to the Fixed Remuneration and the Performance Bonus, our more senior employees (Sonaecom Group Levels 9 and above) are eligible to participate in our Deferred Performance Bonus Plan ("DPBP"). The DPBP is a discretionary deferred compensation plan, which is equity based, and has a three year deferral period between the award date and the date when the benefit vests. The values awarded are derived from the Performance Bonuses actually paid for the same "performance year".

In June 2000, at the time of our IPO, the first DPBP was established with share options only, at an exercise price of 10 euros per share (The "IPO Plan"). The IPO Plan terminated in 2003. Five other DPBPs have been awarded to date between 31 March 2001 (the 2000 Plan) and 31 March 2005 (the 2004 Plan).

As the DPBP is share based, our Board of Directors has decided that the regulation should be presented to Shareholders for approval at the next Annual General meeting due to be held on 5 April 2006, in order to comply with best practice in corporate governance.

Implementation procedures

In the past, employees' participating in the DPBP were given the alternative of choosing between share options (our "Sonaecom Share Options Plans") or shares (our "Sonaecom Share Plans"). As from the awards made in March 2004 (relating to 2003 performance – the "2003 Plan"), all participants are attributed shares.

All our employees at Level 9⁹, or higher, are eligible to participate in our DPBP, as long as their entry date is before 31 December of the previous year (Deferred Performance Bonus Plans are awarded in March each year, in respect of performance during the previous financial year).

DPBP assessment

The value awarded is determined by applying the following ranges to the actual Performance Bonuses paid, according to employee level in our Group (see footnote):

Level 9	Up to 60%
Level 10 & 11	Up to 70%
Level 12	Up to 80%
Level 13 & 14	Up to 90%
Level 15 and higher	Up to 100%

For our most senior employees with Levels 16 and above, awards under the DPBP also include an amount linked to Sonae SGPS shares (our "Sonae SGPS Share Plans"), which can represent up to 40% of the total value awarded each year, depending on the employee Level. In these cases, our BNRC has the option to pay the cash equivalent at the vesting date, in lieu of shares. This share linkage was introduced to promote cooperation, maximize synergies and promote the exchange of knowledge between our Company and Sonae SGPS, our main reference shareholder.

For the DPBPs based on options, the underlying value of each share option is determined by using the 'Black-Scholes Option Pricing Model'. The number of share options awarded is computed by dividing the value of the DPBP awarded by the share option value. The Share Options can be exercised as from the vesting date, which is the third anniversary of the award

⁹ Sonaecom Group Levels are attributed according to Hay's international model for classification of corporate functions. Sonaecom has defined internally that Managers with levels equal to or higher than 14 are "Top Managers" and those with levels equal to or higher than 15 may be Executive Committee members of Sonaecom Group companies.

date, during a pre-determined exercise period of 12 months. The exercise price for the options is equal to the average share price in the month prior to the award date.

For the DPBPs based on shares, the number of shares to be awarded is calculated by dividing the value of the DPBP awarded by the average share price in the month prior to the award date. The shares vested are transferred to the beneficiaries on the third anniversary of the award date at zero cost or, in the case of Sonae SGPS shares, a cash equivalent value at that date may be paid.

Summary of Shares and Options under the DPBP – Sonaecom's Share Plans

During 2005, our Sonaecom Share Plans outstanding can be summarised as follows:

Sonaecom Share Plans outstanding during 2005

	Share price at award date*	Vesting period		Exercise period		At 31 December 2005	
		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	01-Apr-04	31-Mar-05	-	-
2001 Plan	3.014	31-Mar-02	31-Mar-05	01-Apr-05	31-Mar-06	38	198,302
2002 Plan	1.694	31-Mar-03	31-Mar-06	01-Apr-06	31-Mar-07	113	1,851,312
2003 Plan	-	-	-	-	-	-	-
2004 Plan	-	-	-	-	-	-	-
Sonaecom Shares							
2001 Plan	3.014	31-Mar-02	31-Mar-05	-	-	-	-
2002 Plan	1.694	31-Mar-03	31-Mar-06	-	-	212	1,265,574
2003 Plan	3.190	31-Mar-04	31-Mar-07	-	-	363	1,209,010
2004 Plan	3.960	31-Mar-05	31-Mar-08	-	-	387	1,074,556

* Average share price in the month prior to the award date.

The number of awarded, unvested, vested, cancelled or lapsed and exercisable options and shares under our DPBP for 2005 ending 31 December 2005, are shown in the following table:

Sonaecom's options and shares under the DPBP

	Sonaecom options		Sonaecom shares		Total
	Aggregate number of participants	Number of options	Aggregate number of participants	Number of shares	Corres- ponding shares
Outstanding at 31.12.2004					
Exercisable	25	65,940	-	-	65,940
Unvested	209	2,613,429	856	3,456,261	6,069,690
Total	234	2,679,369	856	3,456,261	6,135,630
Movements in the year					
Awarded	-	-	403	1,110,243	1,110,243
Vested	(66)	(386,647)	(254)	(839,434)	(1,226,081)
Exercisable	66	386,647	-	-	386,647
Exercised	(28)	(188,345)	-	-	(188,345)
Cancelled/Lapsed	(55)	(441,410)	(43)	(177,930)	(619,340)
Outstanding at 31.12.2005					
Exercisable	38	198,302	-	-	198,302
Unvested	113	1,851,312	962	3,549,140	5,400,452
Total	151	2,049,614	962	3,549,140	5,598,754

Summary of Shares and Options under the DPBP – Sonae SGPS Share Plans

The Sonae SGPS Share Plans are similar to our Sonaecom Share Plans, except that there is an option to pay the cash equivalent value at the vesting date rather than transfer actual shares at zero cost.

Under the DPBP, five annual plans have been awarded to date between 31 March 2001 (the 2000 Plan) and 31 March 2005 (the 2004 Plan).

Our Sonae SGPS Share Plans outstanding during 2005 can be summarised as follows:

Sonae SGPS Share Plans outstanding during 2005

	Share price at award date	Vesting period		At 31 December 2005	
		Award date	Vesting date	Aggregate number of participants	Number of shares
Sonae SGPS Shares					
2001 Plan	0.92	31-Mar-02	31-Mar-05	-	-
2002 Plan	0.36	31-Mar-03	31-Mar-06	11	797,998
2003 Plan	0.93	31-Mar-04	31-Mar-07	12	357,447
2004 Plan	1.17	31-Mar-05	31-Mar-08	13	355,920

The number of awarded, unvested or vested, and cancelled, lapsed or adjusted Sonae SGPS shares under the DPBP for 2005 ended 31 December 2005, are shown in the following table:

Sonae SGPS shares under the DPBP

	Sonae SGPS shares	
	Aggregate number of participants	Number of shares
Outstanding at 31.12.2004		
Unvested	34	1,045,572
Movements in the year		
Awarded	13	267,106
Vested	(10)	(201,875)
Cancelled/Lapsed/Adjusted *	(1)	5,434
Split's impact of Sonae Indústria		395,128
Outstanding at 31.12.2005		
Unvested	36	1,511,365

* The adjustments are made for dividends paid and for share capital changes.

The Board of Directors can decide that the adjustment to the number of shares attributed to each participant as a consequence of the demerger-merger and merger of Sonae SGPS, SA, Sonae Indústria, SGPS, SA (extinguished company) and Sonae 3P – Panels, Pulp and Paper, SGPS, SA (now designated as Sonae Indústria, SGPS, SA), may be through the delivery of additional Sonae SGPS shares, as an alternative to delivering the Sonae Indústria SGPS shares that resulted from this transaction.

DPBP Hedging Agreements

We have signed agreements to cover the execution and hedging all of our DPBP and related obligations. The hedging of Sonae SGPS shares is done through their previous acquisition and maintenance in portfolio, until their vesting date. In turn, we have entered into mirror agreements with our subsidiaries to pass on the corresponding commitments to each one of them.

The effect of these agreements is that our liability, related to the Sonaecom Shares Plans under the DPBP, is capped at a maximum share price of 2.25 euros per share (plus interest that accrues on payments that are deferred), for the 2001 Plan, the 2002 Plan and the 2003 Plan and share prices of 3.14 euros and 3.22 euros (plus interest that accrues on payments that are deferred), for the 2004 and 2005 Plans. Taking into account these hedging arrangements, our total liability as at 31 December 2005 was 13,935,617 euros, which is included under “Other Liabilities” in our accounts.

DPBP accounting impact

The cost of our DPBP is recognised in our accounts over the respective deferral period of each annual plan. As at 31 December 2005, 12 million euros had been expensed as a cost (4.8 million euros during 2005 and 7.1 million euros in previous years, including 0.7 and 2.3 millions related with the DPBP vested during 2004 and 2005, respectively) and the remaining 5.1 million euros has not yet been expensed and has been accounted for as a "Other Costs".

8.5. Directors' Remuneration and Other Compensation

Our Directors' remuneration and other compensation policy is aimed at remunerating in a fair, efficient and competitive manner, taking into consideration the individual responsibilities and performance of each Director, both at a subsidiary company level and at a Sonaecom Group level.

Our Shareholders' Remuneration Committee is responsible for the approval of the remuneration and other compensation of the Board of Directors, including both Executive and Non-Executive Directors. The composition and functioning of the Shareholders' Remuneration Committee is described in section 8.2 above.

Executive Directors

Remuneration and compensation proposals for our Executive Directors (excluding the CEO) are based on proposals made by our CEO, which are prepared taking into account: (i) market comparables; (ii) other Sonae SGPS comparables; and (iii) individual appraisals of each Executive Director.

Our Executive Directors remuneration and other compensation includes Fixed Remuneration and a Performance Bonus, and they also benefit from compensation under our DPBP, as described in Section 8.3 and 8.4 above.

CEO and Non-Executive Directors

Remuneration and other compensation for the CEO and remuneration for the Non-Executive Directors are based on proposals made by the Sonaecom Chairman. For the CEO, the methodology used is the same as for the Executive Directors. Non-Executive Directors do not receive Performance Bonuses nor do they participate in the Sonaecom DPBP.

For each Non-Executive Director, Fixed Remuneration assumes an agreed commitment of time during 2005, including the preparation and attendance of at least 5 Board Meetings each year. In addition, the members of the Board Committees benefit from an additional 10% of Fixed Remuneration. In the case of the Chairman of the BAFC the Fixed Remuneration is further increased by 5%. These additional amounts reflect the increased time commitment and responsibility involved.

With the resignation of any members of the Board, is our Group policy to pay the compensations that are legally required, or to negotiate, for each situation, a value considered to be the most fair and appropriate for the parts involved.

Directors' Remuneration and Other Compensation Attributed

The Remuneration and other compensation of our Directors, including Fixed Remuneration and Performance Bonuses (both computed on an accruals basis), was as follows during 2005 and 2004:

Directors' Remuneration and other Compensation – Fixed Remuneration Performance Bonuses

Amounts in euros	2005			2004		
	Fixed Remuneration	Performance Bonus	Total	Fixed Remuneration	Performance Bonus	Total
Individual breakdown						
Chairman (Non-Executive)	50,000	-	50,000	50,000	-	50,000
CEO (Executive)	340,801	199,100	539,901	324,285	264,450	588,735
Average of the remaining 3 Executive Directors ⁽¹⁾	211,369	92,063	303,432	205,231	128,043	333,274
Average of the remaining 6 Non-Executive Directors (4 in 2004) ⁽²⁾	24,252	-	24,252	34,141	-	34,141
Aggregate						
Executive Directors (4)	974,907	475,288	1,450,194	939,978	648,579	1,588,557
Non-Executive Directors (7 and 5 in 2005 and 2004, respectively)	195,515	-	195,515	186,563	-	186,563
	1,170,422	475,288	1,645,709	1,126,541	648,579	1,775,120

(1) Maximum Individual Remuneration in 2005 represented 117% of average and minimum 88% of average.

(2) Maximum Individual Remuneration in 2005 represented 186% of average and minimum 0% of average, as one Non-Executive Director was not remunerated.

Our Non-Executive Directors do not receive Performance Bonuses. The Performance Bonuses of our Executive Directors in the table above represents the best estimates of the values of their Performance Bonuses for performance during 2005. The final values will only be determined and paid at the end of March 2006, after real performance has been fully assessed and after the resulting bonuses have been approved by the Board Nomination and Remuneration Committee, on behalf of our Board of Directors, and by the Shareholders' Remuneration Committee, on behalf of the Shareholders.

Directors' Participation in the DPBP

In addition to the values shown above, our Executive Directors have been awarded compensation under the Sonaecom DPBP. Our Non-Executive Directors do not participate in our Deferred Performance Bonus Plan.

The shares and options awarded to Executive Directors as part of our DPBP, up to 31 December 2005, that vested, were exercised or remain unvested during 2005, can be summarized as follows:

Directors' Remuneration and Compensation – Participation in the Sonaecom DBPP

	Vested		Unvested			
	Plan 2000 (1)	Plan 2001 (2)	Plan 2002	Plan 2003	Plan 2004	Total
Award date	31/Mar/01	31/Mar/02	31/Mar/03	31/Mar/04	31/Mar/05	
Vesting date and Beginning of the exercise period (for options)	31/Mar/04	31/Mar/05	31/Mar/06	31/Mar/07	31/Mar/08	
Sonaecom share price:						
At award date*	6.265	3.014	1.694	3.190	3.960	-
At vesting date	3.05	4.01	-	-	-	-
At 31 December 2005	-	-	3.66	3.66	3.66	-
Sonaecom options:						
Strike price*	6.265	3.014	1.694	-	-	-
Value at award date	2.192	1.273	0.601	-	-	-
Value at 31 December 2005	-	-	2.072	-	-	-
Sonae SGPS share price:						
At award date	1.12	0.92	0.36	0.93	1.17	-
At vesting date (2)	0.93	1.20	-	-	-	-
At 31 December 2005	-	-	1.18	1.18	1.18	-
CEO (Executive)						
Number of Sonaecom shares	14,092	36,828	71,547	44,577	39,878	156,002
Number of Sonaecom options	-	-	-	-	-	-
Number of Sonae SGPS shares	52,552	83,105	314,068	142,639	123,880	580,587
Value at award date	147,145	185,000	234,265	274,855	302,856	811,976
Value at vesting date	91,854	247,406	-	-	-	-
Value at 31 December 2005	-	-	632,462	331,466	292,132	1,256,060
Average of the remaining Executive Directors						
Number of the remaining Executive Directors	2	2	2	3	3	
Number of Sonaecom shares	7,259	19,839	38,959	21,998	20,032	80,989
Number of Sonaecom options	-	-	-	-	-	-
Number of Sonae SGPS shares	13,454	23,870	91,047	29,052	32,278	152,377
Value at award date	60,542	81,755	98,773	97,193	117,092	313,058
Value at vesting date	34,650	108,198	-	-	-	-
Value at 31 December 2005	-	-	250,024	114,796	111,405	476,224
Total of the remaining Executive Directors						
Number of Sonaecom shares	14,517	39,678	77,917	65,995	60,096	204,008
Number of Sonaecom options	-	-	-	-	-	-
Number of Sonae SGPS shares	26,907	47,740	182,094	87,157	96,833	366,084
Value at award date	121,085	163,510	197,545	291,580	351,275	840,400
Value at vesting date	69,300	216,397	-	-	-	-
Value at 31 December 2005	-	-	500,047	344,387	334,214	1,178,648
Total						
Number of Sonaecom shares	28,609	76,506	149,464	110,572	99,974	360,010
Number of Sonaecom options	-	-	-	-	-	-
Number of Sonae SGPS shares	79,459	130,845	496,162	229,796	220,713	946,671
Value at award date	268,229	350,966	431,810	566,435	654,131	1,652,377
Value at vesting date	161,154	463,803	-	-	-	-
Value at 31 December 2005	-	-	1,132,509	675,853	626,346	2,434,708

* Average share price in the month prior to the award date.

(1) Vested on 31 March 2004. In the case of Sonae SGPS shares, the cash equivalent value was paid, rather than actual shares being transferred at zero cost.

(2) Vested on 31 March 2005. The transfer of the Sonae SGPS' shares was completed on 6 May 2005, rather than on 31 March 2005.

Directors' Participation in the Sonaecom DPBP Accounting Impacts

The total accumulated costs of all DPBP awarded to Executive Directors, up to 31 December 2005, have been or will be expensed, as follows:

Directors' Participation in the Sonaecom DPBP Accounting Impacts

Plan	Deferral period	Value		Annual expense							
		At award date	At 31-Dec-05 (1)	2001	2002	2003	2004	2005	2006	2007	2008
2000	2001 - 2004	268,229	161,154	40,289	53,718	53,718	13,430	-	-	-	-
2001	2002 - 2005	350,966	463,803	-	115,951	154,601	154,601	38,650	-	-	-
2002	2003 - 2006	431,810	1,132,509	-	-	283,127	377,503	377,503	94,376	-	-
2003	2004 - 2007	566,435	675,853	-	-	-	168,963	225,284	225,284	56,321	-
2004	2005 - 2008	654,131	626,346	-	-	-	-	156,587	208,782	208,782	52,196
		2,271,572	3,059,665	40,289	169,669	491,446	714,497	798,024	528,442	265,103	52,196

(1) Total liabilities at current market price (using the Black Scholes option pricing model for options), net of benefits of hedging operations, except for the 2000 and 2001 plans, which vested on 31 March 2004 and 2005 and are, at those dates, net of benefits of hedging.

8.6. Statutory External Auditor - Fees

During 2005 and 2004, Sonaecom Group paid the following fees to the Statutory External Auditor, Deloitte and their network of companies:

Statutory External Auditor - Fees

	2005		2004	
Audit	212,254	62%	201,633	29%
Other Compliance & Assurance Services	5,130	1%	5,976	1%
Tax Consultancy Services	35,517	10%	46,474	7%
Other Services	90,961	26%	442,186	64%
Total	343,862	100%	696,269	100%

In accordance with the recommendation made by our Board Audit and Finance Committee and in line with our expectations, the percentage of non-audit fees in 2005 fell significantly to 37% (71% in 2004).

Our Risk Management Policy (see Section 8.13), which is supervised by our Board Audit and Finance Committee, monitors the non-audit services requested from our Statutory External Auditor and their respective network of companies, in order to ensure that auditor independence is not compromised. Annual fees paid by Sonaecom Group to the Deloitte Group represented less than 1% of their total global fees in Portugal. In addition, an 'Independence Letter' is obtained each year from Deloitte confirming that they meet international guidelines on auditor independence.

8.7. Sonaecom on the Stock Exchange

Share Performance

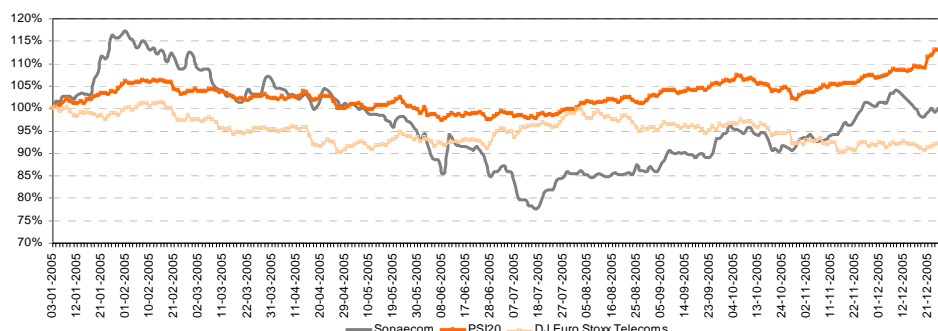
During 2005, our share price performance on the Portuguese stock exchange, Euronext Lisbon, experienced a certain amount of volatility, ending the year at a market price of 3.66 euros per share, 3.7% below the closing price of 3.80 euros per share at 31 December 2004. During 2005 our share price hit a low of 2.90 euros per share on 13 July and 18 July and a high of 4.45 euros per share on 27 January.

Our share price evolution reflects the market's reaction to: (i) Roll-up of FT stake in Optimus, Clix and Novis; (ii) our investment effort to achieve innovation and growth in both our fixed and mobile businesses; (iii) Expected launch of Triple Play; (iv) Low earnings visibility due to

regulatory constraints from declining MTR's and the potential entrance of Mobile Virtual Network Operators (MVNO's); and (v) difficult economic outlook for Portugal.

Regarding the market performance and compared with the end of 2004, the European Stock Telecommunications index (DJ Euro Stoxx Telecoms) has ended 2005 falling by 6.9% and, among the companies comparable to Sonaecom, Portugal Telecom (PT) fell by 6%. The Portuguese Stock Index (PSI20) ended 2005 with a gain of 13.4%.

Sonaecom relative performance in 2005



Our average daily trading volume during 2005 was 320 thousand shares and our company's market capitalization by the end of the year amounted to approximately 1 billion euros.

Earnings Announcement

During 2005, we have announced our Group results on a quarterly basis, followed by earnings conference calls, during which Management commented on the most relevant aspects of our Group performance and answered questions posted by the financial community.

2005 Sonaecom Results Announcements

Date	
28 February	FY2004 Consolidated Results Announcement
28 April	1Q05 Consolidated Results Announcement
28 July	2Q05 Consolidated Results Announcement
27 October	3Q05 Consolidated Results Announcement

8.8. Investor Relations Department

Our Investor Relations Department ("IRD") is responsible for managing our relationship with the financial community - current and potential investors, analysts and market authorities - with the goal of enhancing their knowledge and understanding of our group, our strategy and positioning within the market in which we operate, with relevant, timely and reliable information. This commitment encompasses quarterly reporting, and issuing announcements to the market whenever necessary, to disclose or clarify any relevant facts or events that could influence our share price.

In order to communicate more effectively and guarantee the quality of information provided, our IRD organizes road-shows, one-on-one meetings with financial analysts and investors, and participates in numerous conferences. Additionally, we encourage direct contact with the market through our email address – investor.relations@sonae.com – by telephone - +351 93 100 2270 and via our institutional site – www.sonae.com. Our site has company information, financial data, relevant news, corporate governance policies and data, and other up-to-date sources of market information.

Our Investor Relations Officer is Patrícia Mendes and our formal representative for equity market relations (“Representante para as Relações com o mercado”) is David Bain, who can be reached via the Investor Relations Department or through his personal email - david.bain@sonae.com.

Investor Relation Events during 2005

Month	Hosted by	Event
Jan	BPI/Santander	Roadshow - Scandinavia; Roadshow - Milan
Feb	Santander	Small&Mid Cap Conference - Madrid
Mar	BCP/UBS	FY2004 Results Roadshow - Lisbon; FY2004 Results Roadshow - Paris
April	Caixa	ESN Small&Mid Caps Conference - London
May	BES/UBS	1Q05 Results Roadshow - London; Iberian Day - London
June	ML/UBS/BPI/SCH	TMT Conference-London; Roadshow-Porto; Small&Mid Cap Conference - Madrid; Telecom conference - Marbella
Sept	BPI	Euronext Small & Mid Cap Event - Paris
Oct	JPM	Iberian Telco Tour
Nov	BPI/BES/BCP	Roadshow - London, Edinburgh, Zurich; Iberian Conference; Roadshow - Lisbon

8.9. Share Dealing Regulation

In October 2004, our Board approved formal guidelines regarding Share Dealing by Sonaecom Directors and “Relevant Employees”. The agreed scope of coverage, including the meaning of Directors and Relevant Employees, within our Group, is the following:

- (i) Members of the Board of Directors of Sonaecom SGPS;
- (ii) Members of the Board of Directors of all other Sonaecom Group companies;
- (iii) Our Group Employees working in areas that tend to have access to Price Sensitive Information (PSI), which includes: Planning & Control, Treasury & Finance, Investor Relations and Accounting & Administration.

These rules will also apply to “Connected Persons” of Directors and Relevant Employees.

These guidelines, summarised below, are based on current practice in the UK for listed companies as set out in “Chapter 16 – Directors” of the UK Listing Rules issued by the UK Listing Authority, with the exception of the notification rules, which are based on the CMVM regulations currently applying in Portugal.

- (i) Directors and Relevant Employees of Sonaecom should not deal for short-term purposes (ie. should not “trade”);
- (ii) Directors and Relevant Employees of Sonaecom should always obtain formal clearance (in writing) from a second designated officer to deal in securities of Sonaecom;
- (iii) Dealings in Sonaecom shares will be prohibited under the following circumstances:
 - a. In a “Close Period” being the period before (but not after) an Earnings Announcement, where the close period is defined as 2 months for year-end Earnings Announcements and 1 month for the half-year and other quarters;
 - b. When any matter exists which represents unpublished Price Sensitive Information (PSI);
 - c. Any other period that the Director responsible for clearance believes may result in dealing in breach of these guidelines;
 - d. However, there is an “exceptional personal financial circumstances” clause allowing sales but not purchases.

Clear internal procedures have been established and communicated regarding implementation of these share dealing guidelines. The “designated officer” for Directors is the Chairman of our Board Audit and Finance Committee, Richard O’Toole, who is an Independent Non-Executive Director.

The CMVM notification rules require notification from: (a) Directors of Sonaecom SGPS; (b) Directors of companies that control Sonaecom SGPS; (c) companies controlled by any of the

above Directors; or (d) persons who act on behalf of any of the Directors or companies above. The notification has to be made to Sonaecom SGPS within the 7 working days following the dealing in shares or initial listing of shares and Sonaecom SGPS must inform the CMVM immediately after receiving this information.

The notification must include: (a) the legal form of the acquisition or disposal and the respective date; (b) the number of shares involved and the number of shares held after the transaction; and (c) the price.

8.10. Material Non-Operational Transactions with Related Parties

No material non-operational transactions were made during the year with our Officers or Governing Bodies, including Members of our Board of Directors and our Statutory External Auditor, owners of qualified shareholdings or with controlling or Group companies, with the exception of the agreement signed with Sonae Investments BV and Sonae SGPS, relating to the hedging of our Deferred Performance Bonus Plan as described below. In the course of our normal treasury management, we invest our excess liquidity as treasury applications with Sonae SGPS, at Euribor flat, with the exception of the excess liquidity from our bond issue that is earning a rate of Euribor plus 20 basis points.

On 16 December 2003, 30 July 2004 and 2 August 2005, our company Sonaecom SGPS signed agreements with Sonae Investments and Sonae SGPS to cover the execution and hedging of our DPBP (Deferred Performance Bonus Plan) and related obligations. In turn, we have entered into mirror agreements with our subsidiaries to pass on the corresponding commitments.

8.11. Whistle Blowing Policy

Aligned with our corporate values and culture of ambition, responsibility, excellence and achievement, during 2005 we have implemented a policy and process for communicating internal irregularities, which ensures the implementation of procedures to efficiently and fairly respond to alleged irregularities reported, namely:

(i) For anyone to communicate any irregularity believed or known to have taken place by any of our members of staff, he/she must address a letter or an e-mail containing a summary description of the facts to our Ethics Committee. The identity of the whistle blower will be kept anonymous, if explicitly requested;

(ii) The letter will be analysed by our Ethics Committee and, if the committee finds grounds for the irregularity reported, measures will be taken, as deemed appropriate;

It is the responsibility of our Executive Committee to review and evaluate the efficiency with which our policy for communicating irregularities is applied. By successfully implementing these procedures and by making efforts to solve alleged irregularities, we aim to involve all our employees in the creation of a healthy and balanced work environment.

8.12. Code of Conduct

Our Code of Conduct is described in section 5.6. of our Management Report.

8.13. Risk Management

We are committed to developing and maintaining best practice in Risk Management and believe this to be one of the foundations of sound Corporate Governance as a way to protect and enhance the value of our Company. Accordingly, Risk Management forms an integral

part of our management processes and is embodied in our corporate culture at all levels of our organization.

Internal Risk Management Policies

Our management and monitoring of the Group's main risks is achieved through different approaches, including:

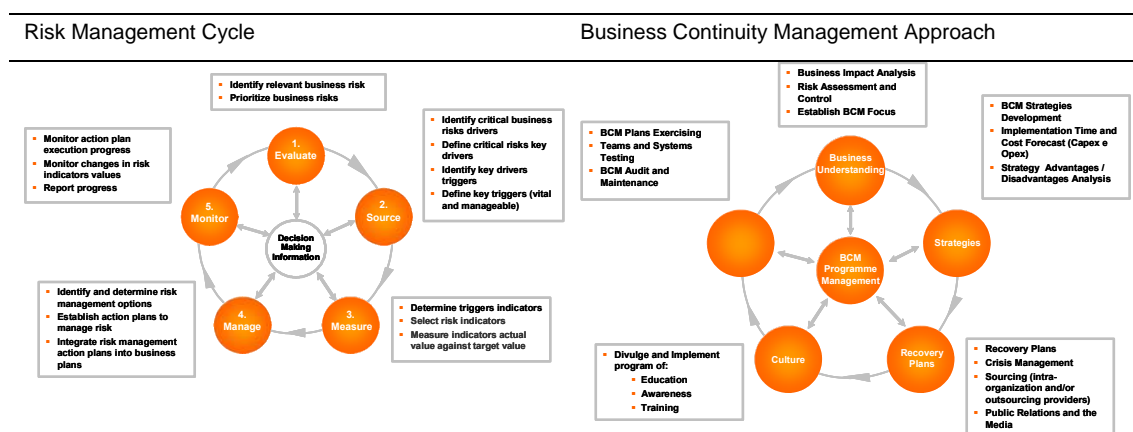
(i) Aligning our Risk Management Cycle with our Strategic Planning Cycle, which applies to all our subsidiaries, this allow us to prioritize and identify critical risks that might compromise performance and goals, to take actions to manage those risks within defined levels, which we then follow up by constant monitoring and by implementing corrective measures;

(ii) Implementing an internal Business Continuity Management, whereby we intent to reduce the risk of business interruption caused by disasters or technical and operating failures. This project involves 5 main stages: (a) business understanding; (b) devising recovery strategies; (c) developing and implementing recovery plans; (d) deployment a culture of Business Continuity Management and; (e) testing, maintaining and auditing recovery plans;

(iii) Continuous internal diagnosis and tests in relation to the physical safety of our critical facilities (e.g. data centres, call centres), using Business Continuity Management to assess and correct potential risks;

(iv) Paying close attention to safety risks involving processes and systems where the probability of occurrence is high.

The following pictures illustrate the main phases included in our Risk Management processes and policy that apply to all our portfolio of businesses.



Actions undertaken

Throughout the year, our goal of Risk Management was targeted in the Telecom businesses, raised by the need to adapt internal risk processes to the new reality as we sought synergies between both our mobile and fixed units, as well as to the growth initiatives launched in the wireline business. Multidisciplinary teams were created to diagnose, monitor and mitigate the risks raised by these transformations.

We have also been very active in the implementation of a disaster recovery project covering systems supporting critical activities in our mobile business. This project aims to recover, within a defined period of time, our applications that are critical to operating our mobile services. Some other actions undertaken, under business continuity management, included the mitigation of risks driven by energy failure, temperature oscillations and fire detection and extinction.

On a quarterly basis, our Internal Audit Team reported a summary of all the relevant findings to our Board Audit and Finance Committee and Executive Committee. This reporting process was improved with more emphasis given to follow up monitoring.

8.14. Share Capital increase and Changes in Governing Bodies

Share Capital Increase

Following the capital increase approval by Sonaecom's Shareholders at Extraordinary General Meeting held on the 12 September, and the execution of the Notary Deed on 15 November, on the 15 November 2005, our Company's share capital was increased from 226.3 million euros to 296.5 million euros, through the issue of 70.3 million new ordinary shares, each a nominal value of 1 euro with a corresponding share premium of 242.5 million euros. This share capital increase was fully subscribed by FT, as part of the "roll-up" described above. This share capital increase was subscribed by France Telecom by means of the contribution of their respective shareholdings in Optimus (20.18%), Novis (43.33%) and Clix (43.33%), together with their pro-rata share of shareholder loans and supplementary capital.

Board of Directors

In January 2005, Sonae SGPS announced that António Casanova, previously our Executive Director with responsibility for the mobile business, had been invited to become an Executive Board Member of Sonae Sierra and would leave our Company at the end of March 2005. At a Board Meeting on 26 April 2005, based on a proposal from our BNRC, our Board of Directors co-opted Miguel Nuno Santos Almeida to replace him on our Board.

At the Extraordinary General Meeting held on 12 September, the Articles of Association were amended to increase maximum size of our Board from 9 to 11 members. At the same meeting, Shareholders approved the appointment of Michel Combes and David Hobley and ratified the co-option of Miguel Almeida.

8.15. Complementary Information

Qualifications, Experience and Responsibilities of the Members of our Board of Directors

Belmiro Mendes de Azevedo

Birth Date: 17 February 1938

Academic and Professional Qualifications: Degree in Industrial-orientated Chemical Engineering from the Faculty of Engineering of Porto University; PMD from Harvard Business School; attended Financial Management Programme of Stanford University.

Professional Experience: Chairman of the Board of Directors of Sonae SGPS; Member of the European Round Table of Industrialists; Member of the International Advisory Board of Harvard Business School; Member of the Board of Cotec Portugal.

Responsibilities at Sonaecom: Chairman of the Board of Directors; Chairman of the Board Nomination and Remuneration Committee.

Duarte Paulo Teixeira de Azevedo

Birth Date: 31 December 1965

Academic and Professional Qualifications: Degree in Chemical Engineering from the École Polytechnique Federal de Lausanne and MBA from the Higher Institute of Business Studies of Porto University.

Professional experience: Chairman of the Board of Directors of Optimus and Novis. Executive Director of Sonae SGPS; Non-Executive Director of Sonae Indústria.

Responsibilities at Sonaecom: Chairman of Sonaecom's Executive Committee; Member of the Board Nomination and Remuneration Committee.

Luís Filipe Campos Dias de Castro Reis

Birth Date: 29 January 1962

Academic and Professional Qualifications: Degree in Medicine from the Faculty of Medicine of Coimbra University, MBA in Business Management from the Higher Institute of Business Studies of Porto University, Doctorate in Economics from the Complutense University in Madrid, attended SEP - Stanford Executive Program at Stanford University.

Professional experience: Executive Director of Optimus. Chairman of the Executive Committee of Novis, Non-Executive Director of Sonaecom Sistemas de Informação. Executive Director of Modelo Continente, Chairman of Banco Universo and Marketing Director of Sonae Distribuição.

Responsibilities at Sonaecom: Executive Director of Sonaecom

George Christopher Lawrie

Birth Date: 13 October 1957

Academic and Professional Qualifications: Degree with distinction in Business Studies and Finance from Thames University, in England.

Professional experience: Non-Executive Director of Optimus and WeDo. Advisor to the Board of Directors and to the Executive Committee of Sonaecom; worked in investment banking in the areas of M&A, general advisory, equity capital markets and debt financing (covering Southern Europe); Director at Credit Suisse First Boston in its European Telecoms Group, Director at BZW; worked in Schrodgers in the banking and corporate financing sections.

Responsibilities at Sonaecom: Executive Director and CFO of Sonaecom.

Miguel Nuno Santos Almeida

Birth Date: 15 March 1967

Academic and Professional Qualifications: Degree in Mechanical Engineering from the Faculty of Engineering of Porto University. MBA in Marketing from the INSEAD, Fontainebleau.

Professional experience: Executive Director of Optimus responsible for the areas of Marketing & Sales; Non-Executive Director of WeDo. Marketing Director of Modelo Continente.

Responsibilities at Sonaecom: Executive Director of Sonaecom

David Charles Denholm Hobley

Birth Date: 9 December 1946

Academic and Professional Qualifications: Fellow of the Institute of Chartered Accountants of England and Wales.

Professional experience: Managing Director of SG Warburg and SBC Warburg; Managing Director of Deutsche Bank AG, London (now a consultant to Deutsche Bank); Independent Non-Executive Director of Orange SA and

certain other Orange Group companies.

Responsibilities at Sonaecom: Non-Executive Director of Sonaecom; Member of the Board Audit and Finance Committee.

David Graham Shenton Bain

Birth Date: 13 November 1949

Academic and Professional Qualifications: Degree in Economics from Bristol University. He is a Fellow of the Institute of Chartered Accountants of England and Wales.

Professional experience: CFO of Efanor Investimentos. Non-Executive Director of Optimus, CFO of Sonaecom, Inparsa and Sonae SGPS. He has previously been CFO of the Auto-Sueco Group and CEO and CFO the port wine companies of the Taylor / Fonseca Group.

Responsibilities at Sonaecom: Non-Executive Director of Sonaecom. Member of the Board Audit and Finance Committee.

Michel Marie Alain Combes

Birth Date: 29 March 1962

Academic and Professional Qualifications: Degree in Engineering. Graduate from the École Polytechnique and from the École Nationale Supérieure des Télécommunications.

Professional experience: Executive Vice-President of the Nouvelles Frontières Group; CEO of Assystem; CEO of GlobeCast; Deputy Vice-President of TeleDiffusion de France.

Responsibilities at Sonaecom: Non-Executive Director of Sonaecom.

António Mendo Castel-Branco Borges

Birth Date: 18 November 1949

Academic and Professional Qualifications: Degree from Lisbon Technical University, MA and PhD in Economics from Stanford University in California.

Professional experience: Executive Vice-Chairman of Goldman Sachs International. Dean at INSEAD, Vice-Governor of the Bank of Portugal, member of the Monetary Committee for the European Community, and Chairman of the Monetary Policy Sub-committee of the European Committee of Central Bank Governors.

Responsibilities at Sonaecom: Non-Executive Director of Sonaecom; Member of the Board Nomination and Remuneration Committee.

Jean-François René Pontal

Birth Date: 17 April 1943

Academic and Professional Qualifications: Degree in Engineering from the Centre d'Études Supérieures des Techniques Industrielles, in France.

Professional experience: CEO of the Spanish branch of Carrefour - PRYCA; Member of the Board of Directors of Carrefour; Group Executive Vice-President in charge of Mass Market Products & Services of France Telecom and CEO of Orange.

Responsibilities at Sonaecom: Non-Executive Director of Sonaecom; Member of the Board Nomination and Remuneration Committee and of the Board Audit and Finance Committee.

Richard Henry O'Toole

Birth Date: 26 April 1947

Academic and Professional Qualifications: B.Sc. and M.Sc. Degrees in Chemistry from the National University of Ireland.

Professional experience: Managing Director, Goldman Sachs; Non-Executive Director, Hutchison Europe Limited. Advisor and consultant to various private and public sector companies on trade, competition and regulatory issues; Special Assistant at the Office of the Executive Director of the OECD International Energy Agency, Paris; European Political Correspondent, Department of Foreign Affairs, Dublin; Deputy Permanent Representative, Mission of Ireland to the UN and Specialised Agencies, Geneva; Chief of Staff, European Commission, Brussels; Executive Director, Technologies Division, GPA Group plc, Shannon; Assistant Director General of the World Trade Organisation (WTO), Geneva; Head of Global Government Affairs, ABB Limited, Zurich; Non-Executive Director of Esat Telecom plc, Dublin.

Responsibilities at Sonaecom: Non-Executive Director; Chairman of the Board Audit and Finance Committee.

Other Offices held by members of our Board of Directors

Belmiro Mendes de Azevedo

Does not hold any office in any company in which Sonaecom is a shareholder

Other Offices held

Efanor Investimentos, SGPS, S.S. (Chairman of the Board of Directors, Executive)
Modelo Continente, SGPS, S.A. (Chairman of the Board of Directors, non-Executive)
Praça Foz - Sociedade Imobiliária, S.A. (Chairman of the Board of Directors, Executive)
Setimanale - SGPS, S.A. (Chairman of the Board of Directors, Executive)
Sonae SGPS, S.A. (Chairman of the Board of Directors, Executive)
Sonae Capital, SGPS, S.A. (Chairman of the Board of Directors, non-Executive)
Sonae Sierra- SGPS, S.A. (Chairman of the Board of Directors, non-Executive)
Sonae Indústria - SGPS, S.A. (Chairman of the Board of Directors, non-Executive)

Duarte Paulo Teixeira de Azevedo**Offices held in companies in which Sonaecom is a shareholder**

Enabler - Informática, S.A. (Chairman of the Board of Directors)
Novis Telecom, S.A. (Chairman of the Board of Directors)
Optimus – Telecomunicações, S.A. (Chairman of the Board of Directors)
Público Comunicação Social, S.A. (Member of the General Council)
Sonae Matrix Multimédia, SGPS, S.A. (Chairman of the Board of Directors)
Sonae Telecom, SGPS, S.A. (Chairman of the Board of Directors)
Sonaecom – Sistemas de Informação, SGPS, S.A. (Chairman of the Board of Directors)
WeDo Consulting - Sistemas de Informação, S.A. (Chairman of the Board of Directors)

Other Offices held

Efanor Investimentos, SGPS, S.A. (Member of the Board of Directors, Non-Executive)
Glunz, A.G. (Member of the Board of Directors, Non-Executive)
Imparfin, SGPS, S.A. (Member of the Board of Directors, Non-Executive)
Migracom - SGPS, S.A. (Chairman of the Board of Directors, Non-Executive)
Praça Foz - Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
Sonae SGPS S.A. (Member of the Board of Directors, Executive)
Sonae Indústria, SGPS, S.A. (Member of the Board of Directors, Non-Executive)
Tableros de Fibras, S..A. (Chairman of the Board of Directors, Non-Executive)

Luís Filipe Campos Dias de Castro Reis**Offices held in companies in which Sonaecom is a shareholder**

Enabler – Informática, S.A. (Member of the Board of Directors, Non-Executive)
Novis Telecom, S.A. (Member of the Board of Directors, Executive)
Optimus – Telecomunicações S.A. (Member of the Board of Directors, Non-Executive)
Optimus Towering – Gestão de Torres de Telecomunicações, S.A. (Chairman of the Board of Directors, Executive)
Público – Comunicação Social, S.A. (Member of the General Council)
Sonae Matrix Multimédia, SGPS, S.A. (Member of the Board of Directors, Executive)
Sonae Telecom, SGPS, S.A. (Member of the Board of Directors)
Sonaecom - Sistemas de Informação, SGPS, S.A. (Member of the Board of Directors, Executive)
WeDo Consulting – Sistemas de Informação, S.A. (Member of the Board of Directors)

George Christopher Lawrie**Offices held in companies in which Sonaecom is a shareholder**

Sonae Matrix Multimédia, SGPS, S.A. (Member of the Board of Director, Non-Executive)
Optimus Telecomunicações, S.A. (Member of the Board of Directors, Non-Executive)
WeDo Consulting - Sistemas de Informação, S.A. (Member of the Board of Directors, Non-Executive)

Other offices held

Does not hold any office in any other company

Miguel Nuno Santos Almeida

Offices held in companies in which Sonaecom is a shareholder

Optimus – Telecomunicações, S.A. (Member of the Board of Directors, Executive)
Optimus Towering – Gestão de Torres de Telecomunicações, S.A. (Member of the Board of Directors, Executive)
Per-Mar, Sociedade de Construções, S.A. (Member of the Board of Directors, Executive)
We Do Consulting – Sistemas de Informação, S.A. (Member of the Board of Directors, Non-Executive)
Sonaecom, SGPS, S.A. (Member of the Board of Directors, Non-Executive)

Other offices held

Does not hold any office in any other company

David Charles Denholm Hobley

Does not hold any office in any company of which Sonaecom is a shareholder

Offices held

Egyptian Company for Mobile Services SA (Member of the Board of Directors)
Mobinil SA (Member of the Board of Directors)
Nectar Capital LLC (Member of the Board of Directors)
Orange SA, (Member of the Board of Directors)
Orange Global Limited, (Member of the Board of Directors)
Orange Brand Services Limited (Member of the Board of Directors)
Orange Romania SA (Member of the Board of Directors)
Telit Plc, (Member of the Board of Directors)
Westgate Nominees Hall Limited (Member of the Board of Directors)
Deutsche Bank, Consultant)

David Graham Shenton Bain

Offices held in companies in which Sonaecom is a shareholder

Retailbox, BV (Company Director, Non-Executive)
Sonaecom, BV (Company Director, Non-Executive)

Other Offices held

Antiquimo- Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
BA Capital SGPS, S.A. (Member of the Board of Directors, Non-Executive)
Casa Agrícola de Ambrães, S.A. (Member of the Board of Directors, Non-Executive)
Efanor – Serviços de Apoio à Gestão, S.A. (Member of the Board of Directors, Executive)
Imoequip – Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
Imoespido – Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
Imopincel – Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
Imosoalho – Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
Lamiré – Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
Linhacom SGPS, S.A. (Member of the Board of Directors, Non-Executive)
Magnoimo – Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
Migracom – SGPS, S.A. (Member of the Board of Directors, Non-Executive)
Pareuro, BV (Company Director, Executive)
Plantimo – Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
Prosa – Produtos e Serviços Agrícolas, SA (Member of the Board of Directors, Non-Executive)
Realejo – Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)
Setimanale SGPS, S.A. (Member of the Board of Directors, Non-Executive)
Total Share SGPS, S.A. (Member of the Board of Directors, Non-Executive)
Vistas da Foz – Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)

Michel Marie Alain Combes

Does not hold any office in any company in which Sonaecom is a shareholder

Other Offices held

Pagesjaunes (Chairman of the Board of Directors)
Assystem (Member of the Supervisory Board)
Procapital (Member of the Supervisory Board)
Liberty TV (Member of the Board of Directors)

António Mendo Castel-Branco Borges

Does not hold any office in any company in which Sonaecom is a shareholder

Other Offices held

Banco Santander de Negócios Portugal, S.A. (Chairman of the Statutory Fiscal Board)
Goldman Sachs International (Vice-Chairman of the Board of Directors, Executive)
Jerónimo Martins, SGPS, S.A. (Member of the Board of Directors, Non-Executive)
CNP Assurances (Member of the Supervisory Board)
Caixa Seguros (Member of the Board of Directors, non-Executive)
Scor (Member of the Supervisory Board)
Heidrick & Struggles (Member of the Board of Directors, Non-Executive)

Jean-François René Pontal

Does not hold any office in any company in which Sonaecom is a shareholder

Other Offices held

Ing Direct, France (Member of the Advisory Board)
Investcom, Dubai (Member of the Board of Directors, Non-Executive)
South Wing, Spain (Member of the Board of Directors, Non-Executive)

Richard Henry O'Toole

Does not hold any office in any company in which Sonaecom is a shareholder

Other Offices held

Goldman Sachs International, United Kingdom (Managing Director, Executive)
Hutchison Europe Limited, United Kingdom (Member of the Board of Directors, non-Executive)

Article 447, 448 and Qualified Holdings

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 31.12.2005
	Date	Quantity	Medium value €	Quantity	Medium value €	Quantity
BOARD OF DIRECTORS						
Belmiro Mendes de Azevedo						
Efanor Investimentos, SGPS, SA (1)						49,999,997
Sonae, SGPS, SA (4)						14,901
Rights of demerger-merger (*)						14,901
Separation of rights	28.12.2005	14,901	0.00			
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	0.00			
Rights of demerger-merger (*)						360,591
Separation of rights	28.12.2005	360,591	0.00			
Sonaecom, SGPS, SA						315,795
Shares attributed under the Deferred Performance Bonus Plan	01.04.2005	36,828	0.00			
António Castelo Branco Borges						
Sonae, SGPS, SA (4)						2,593
Rights of demerger-merger (*)						2,593
Separation of rights	28.12.2005	2,593	0.00			
Sonaecom, SGPS, SA						3,000
David Graham Shenton Bain						
Sonae, SGPS, SA (4)						3,518
Rights of demerger-merger (*)						3,518
Separation of rights	28.12.2005	3,518	0.00			
Sonaecom, SGPS, SA						15,000
George Christopher Lawrie						
Sonae, SGPS, SA (4)						-
Sale	08.10.2005			106,000	1.41	
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	0.00			
Sale	18.05.2005			33,994	1.18	
Sonaecom, SGPS, SA						-
Shares attributed under the Deferred Performance Bonus Plan	01.04.2005	23,434	0.00			
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	0.00			
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	0.00			

Appendix in accordance with article 447 of Código das Sociedades Comerciais

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

Notes:

	Date	Additions		Reductions		Balance at 31.12.2005
		Quantity	Medium value €	Quantity	Medium value €	Quantity
(1) Efanor Investimentos, SGPS, SA						
Sonae, SGPS, SA (4)						658,804,410
Sale	18.07.2005			291,179,305	1.14	
Rights of demerger-merger (*)						658,804,410
Separation of rights	28.12.2005	658,804,410	0.00			
Pareuro, BV (2)						20,000
Sonaecom, SGPS, SA						1,000
(2) Pareuro, BV						
Sonae, SGPS, SA (4)						400,000,000
Acquisition	18.07.2005	291,179,305	1.14			
Rights of demerger-merger (*)						400,000,000
Separation of rights	28.12.2005	400,000,000	0.00			
(3) Imparfin, SGPS, SA						
Sonae, SGPS, SA (4)						4,105,273
Rights of demerger-merger (*)						4,105,273
Separation of rights	28.12.2005	4,105,273	0.00			
(4) Sonae, SGPS, SA						
Sonaecom, SGPS, SA						39,362,998
Sonae Investments, BV (5)						40
(5) Sonae Investments, BV						
Sonaecom, SGPS, SA						146,133,648

(*) Rights obtained in the operation of the demerger-merger and merger of Sonae, SGPS, SA, Sonae Indústria, SA, (extinguished society) and the Sonae 3P - Panels, Pulp and Paper, SGPS, SA (renamed Sonae Indústria, SGPS, SA) recorded in the individual current accounts of each shareholders at 2 January 2006.

These rights were converted into Sonae Indústria, SGPS, SA shares at 20 January 2006, as followed:

Belmiro Mendes de Azevedo	1,010
Duarte Paulo Teixeira Azevedo	24,446
António Castelo Branco Borges	175
David Graham Shenton Bain	238
Efanor Investimentos, SGPS, SA	44,664,706
Pareuro, BV	27,118,645
Imparfin	278,323

**Appendix in accordance with article 448 of Código das
Sociedades Comerciais**

	Number of shares as of 31 December 2005
Efanor Investimentos, SGPS, SA	
Sonae, SGPS, SA	658,804,410
Pareuro, BV	20,000
Sonaecom, SGPS, SA	1,000
Pareuro, BV	
Sonae, SGPS, SA	400,000,000
Sonae, SGPS, SA	
Sonaecom, SGPS, SA	39,362,998
Sonae Investments, BV	40
Sonae Investments, BV	
Sonaecom, SGPS, SA	146,133,648
Wirefree Services Belgium, S.A.	
Sonaecom, SGPS, SA	51,533,076
Atlas Services Belgium, S.A.	
Sonaecom, SGPS, SA	18,743,792

QUALIFYING HOLDINGS

In compliance with sub-paragraph e), of nr 1, of the article 8 of the Securities Market Regulation Board (Regulamento da CMVM) nr 04/2004, we declare the Qualifying Holdings as of 31 December 2005:

Shareholder	Number of shares	% Voting rights
Sonae Investments, BV	146,133,648	49.28%
Wirefree Services Belgium, S.A.	51,533,076	17.38%
Sonae, SGPS, SA	39,362,998	13.27%
Atlas Services Belgium, S.A.	18,743,792	6.32%
Duarte Paulo Teixeira de Azevedo ^{1, 3}	315,795	0.11%
Belmiro Mendes de Azevedo ^{1, 3}	75,537	0.03%
Ângelo Gabriel Ribeirinho dos Santos Paupério ^{1, 2}	60,070	0.02%
Maria Cláudia Teixeira de Azevedo ³	13,654	0.00%
Álvaro Carmona e Costa Portela ¹	5,000	0.00%
Efanor Investimentos, SGPS, SA	1,000	0.00%
Total	<u>256,244,570</u>	<u>86.42%</u>

(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

9. Appendix

9.1. Glossary

3G	Term used to describe a mobile communication system generation coming after the second generation (2G) GSM cellular network. It is an evolution in communications based on circuit switching to high-speed mobile broadband networks, whereby data is transmitted over packages.
ADSL	Asymmetric Digital Subscriber Line – is the asymmetric transmission technology that became widely used within the Xdsl family. An ADSL connection provides a high-speed downstream channel (receiving) (more than 1,5 Mbits/s) and a lower speed upstream channel (sending) (16 to 640Kbits/s), apart from the regular telephone service in the low frequency range. It is a modern technology that converts the existing twisted-pair telephone lines into high-speed digital lines for, for instance, a fast internet access.
ATM	Asynchronous Transfer Mode – communication protocol allowing the asynchronous operation, which technology allows the transportation of several types of information (data, voice and video) in a standalone network infrastructure, chosen to support broadband ISDN.
Backbone	Set of circuits, mostly high-speed circuits, forming the main segments of a communications network to which the secondary segments are connected.
BSC	Base Station Controller – the BSC is responsible for managing the radio resources of one or several BTS's in all its aspects. The BSC is also the connection between the mobile station and the MSC.
Central Offices	Local phone exchanges (held in Portugal by PT), used to perform local loop unbundling.
DWDM	Dense Wavelength Division Multiplexing – a fundamental technology for evolution of the current transmission. This system allows combining several wavelengths in a light signal to be transmitted in just one optical fibre.
FWA	Fixed Wireless Access – Radio fixed-access technology allowing operators to supply to their customers direct connection to their telecommunications network through a fixed radio connection from the premises of the latter to the local operator station, instead of a copper wire or optical fibre connection.
Gigabit Ethernet	Data transmission through Ethernet technology with a speed up to 1000 MBPS. Ethernet refers to the type of cable and access mode to a network. It is the most commonly used local network in companies. It supports several communication speeds, according to the used Ethernet standard.
GPRS	General Packet Radio Service – GSM system evolution, based on package switching, allowing for a transmission at a speed up to 115 Kbps.
GSM	Global Standard for Mobile Communications – standard used in 2G digital mobile communications systems, which specifies how data through the spectrum is codified and transferred.
HSDPA	High-Speed Downlink Packet Access over W-CDMA networks – technology improving UMTS data transfer rate, therefore being also referred to as being of the third and a half generation (3.5G)
HSUPA	High-Speed Uplink Packet Access over W-CDMA networks – a technology, similar to HSDPA but regarding sending of information from the mobile terminal to the network (“upload”), which improves the UMTS data transfer rate. The Uplink transfer rate is expected to be lower than the Downlink one at short-medium term.
IP/MPLS	Internet Protocol – packet switching protocol used to route and convey information in the internet.
ISP	Internet Service Provider – Internet access supplier.
Kbps	Digital information transmission speed measuring unit which corresponds to 1024 in thousand of bits per second.
MAN	Metropolitan Area Network – high-speed communication network of a metropolitan area, supported over optical fibre cable.

Mega / Mbps	Digital information transmission speed measuring unit which corresponds to 1024 kbps...
MMS	Multimedia Messaging Service – multimedia messaging service combining text, image and sound operating in GPRS and 3G networks.
MSC	Mobile Switching Centres – control and switching centres, being the key component of a GSM network, acting as a connection / interconnection node between the cellular network and all the other types of network.
B-Nodes	Base transmission element of an UMTS network.
ULL Reference Offer	Unbundling Local Loop Reference Offer- it regulates the unbundling of the local loop. This offer enables alternative operators to provide direct access offers (voice, Internet broadband and video services) to their customers based on PT Comunicações' copper access network.
Wholesale Line Rental Reference Offer	Regulates the wholesale offer in connection with the creation of a single bill to indirect access customers. It enables any provider of pre-selection services and/or ADSL services to bill and collect PT's monthly fee directly from their customers.
PCMCIA	Personal Computer Memory Card International Association (or PC Card) - peripheral standard format. There are PCMCIA models that can be used to connect a mobile telephone to a portable computer allowing for data and fax transmission.
PSTN	Public Switched Telephone Network –a set of telecommunications infrastructures allowing analogical connections between terminal points, to support a wide range of telecommunications services, such as telephone and video conference.
RNC	Radio Network Controller – a device to distribute radio frequencies, allowing each operator to have the functional control of its network including the use of frequencies that have been allocated to him.
SDH	Synchronous Digital Hierarchy – hierarchic specification of high-speed digital signal interfaces transmitted in optical fibre. The allowed synchronic signal allows direct access to its tributaries, avoiding therefore processing by several multiplex levels. One of the main characteristics of a SDH network is to deliver a wide range of services through information recovery and protection mechanisms.
SHDSL	Symmetric High-Bit-Rate Digital Subscriber Line – allows for a bidirectional communication with speeds from 192 kbits to 2.31 megabits using a twisted pair copper wire (in other words, a common telephone cable), even in great distances.
SMS	Short Messaging Service – service to Exchange short messages, common in mobile networks.
SOFTSWITCHING	Switching terminals, using VoIP technology, allowing not only a greater flexibility in the offer of products but also a greater capacity per cost unit.
TRIPLE PLAY	Integrated voice, internet and television offer
ULL	Unbundling of the Local Loop – choice for access network consisting in unbundling the local loop, allowing other licensed operators to use the local loop pertaining to the incumbent operator, for service rendering.
UMTS	Universal Mobile Telecommunications System – one of the 3rd generation mobile communication systems used, namely in Europe, integrating a larger family (IMT-2000).
VoIP	Voice over IP – technology allowing converting analogue audio signals into digital signals, subject of being transmitted through the internet and gain converted into analogue signals. The combination, in just one channel, of voice and data, encourages the creation of communication services with possibilities that go far beyond the so called telephony.
DWDM	Dense Wave Division Multiplexing – a technique allowing increasing the transmission rate of an optical fibre, through transmission in more than one wavelength (to which corresponds a certain colour).

Maia, 7 March 2006

The Board of Directors,

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira Azevedo

António Castelo Branco Borges

Michel Marie Alain Combes

David Charles Denholm Hobley

David Graham Shenton Bain

George Christopher Lawrie

Jean-François René Pontal

Luís Filipe Campos Dias de Castro Reis

Miguel Nuno Santos Almeida

Richard Henry O'Toole

II. CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euro)

<u>ASSETS</u>	<u>Notes</u>	<u>December 2005</u>	<u>December 2004</u>
NON CURRENT ASSETS:			
Tangible assets	1.c), 1.h) and 5	477.432.375	482.808.381
Intangible assets	1.d), 1.e) and 6	175.275.138	183.943.968
Goodwill	1.f) and 7	285.468.452	31.614.130
Investments in associated companies	1.b) and 3	685.661	685.669
Investments available for sale	1.g) and 8	1.207.320	1.207.320
Other non current debtors	9	1.903.493	3.506.749
Deferred tax assets	1.p) and 10	66.239.165	68.693.940
Other non current assets	1.r), 1.s), 1.w) and 11	1.952.890	4.872.217
Total non current assets		<u>1.010.164.494</u>	<u>777.332.374</u>
CURRENT ASSETS:			
Inventories	1.i) and 12	23.212.665	12.827.545
Trade debtors	1.j) and 13	143.573.014	152.682.416
Other current debtors	1.j) and 14	20.660.299	11.339.437
Other current assets	1.r), 1.s), 1.w) and 15	43.439.057	51.149.794
Investments recorded at fair value through profit or loss	1.g) and 16	1.321.690	-
Cash and cash equivalents	1.k) and 17	209.414.711	53.265.132
Total current assets		<u>441.621.436</u>	<u>281.264.324</u>
Total assets		<u>1.451.785.930</u>	<u>1.058.596.698</u>
<u>SHAREHOLDERS' FUNDS AND LIABILITIES</u>			
SHAREHOLDERS' FUNDS:			
Share capital	18	296.526.868	226.250.000
Reserves	1.t)	273.093.218	12.356.470
Consolidated net income/(loss) for the year		<u>2.156.198</u>	<u>18.048.373</u>
		<u>571.776.284</u>	<u>256.654.843</u>
Minority interests	19	115.163.114	183.919.719
Total Shareholders' Funds		<u>686.939.398</u>	<u>440.574.562</u>
LIABILITIES:			
NON CURRENT LIABILITIES:			
Medium and long-term loans - net of short-term portion	1. l), 1.m), 1.n) and 20	455.863.338	305.138.566
Other non current creditors	21	9.698.642	3.425.011
Other non current financial liabilities	22	1.886.588	3.953.358
Provisions for other liabilities and charges	1.o) and 23	5.092.476	4.292.249
Other non current liabilities	1.r), 1.s), 1.w) and 24	8.077.712	9.794.878
Total non current liabilities		<u>480.618.756</u>	<u>326.604.062</u>
CURRENT LIABILITIES:			
Short-term loans and other loans	1.l), 1.m), 17 and 20	54.420	2.508.344
Trade creditors	25	143.303.460	153.049.344
Other current financial liabilities	22 and 26	3.257.037	4.070.891
Other creditors	27	18.798.148	17.612.868
Other current liabilities	1.r), 1.s), 1.w) and 28	118.814.711	114.176.627
Total current liabilities		<u>284.227.776</u>	<u>291.418.074</u>
Total Shareholders' Funds and liabilities		<u>1.451.785.930</u>	<u>1.058.596.698</u>

The notes are an integral part of the consolidated financial statements at 31 December 2005 and 2004.

The Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

The Board of Directors

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira de Azevedo

António Mendo Castel-Branco Borges

David Charles Denholm Hobley

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Miguel Nuno Santos Almeida

Richard Henry O'Toole

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT BY NATURE

FOR THE YEARS AND QUARTERS ENDED AT 31 DECEMBER 2005 AND 2004

(Amounts expressed in Euro)

	Notes	December 2005	September to December 2005 (Not audited)	December 2004	September to December 2004 (Not audited)
Operating revenues:					
Sales	29	102.297.934	31.320.105	108.049.977	28.964.136
Services rendered	29	741.162.926	184.691.812	772.109.042	189.513.872
Other operating revenues	30	5.826.910	1.290.401	6.967.530	2.821.960
Total operating revenues		849.287.770	217.302.318	887.126.549	221.299.968
Operating costs:					
Cost of sales	12	(114.924.806)	(36.595.555)	(106.436.514)	(30.068.652)
External supplies and services	31	(454.823.366)	(119.957.668)	(454.292.910)	(114.701.923)
Staff expenses		(102.848.384)	(24.809.736)	(96.374.442)	(25.749.474)
Depreciation and amortisation	5 and 6	(128.222.823)	(34.180.265)	(125.197.734)	(31.726.324)
Provisions and impairment losses	1.o), 1.v) and 23	(7.770.367)	(2.268.650)	(15.851.501)	(2.140.002)
Other operating costs	1.v) and 32	(12.044.965)	(3.675.617)	(13.557.654)	(4.180.493)
Total operating costs		(820.634.711)	(221.487.491)	(811.710.755)	(208.566.867)
Net operating income/(expenses)		28.653.059	(4.185.173)	75.415.794	12.733.101
Gains and losses in associated companies	33	-	-	(10.473)	26.812
Other net financial income/(expenses)	1.m), 1.n), 1.u), 1.v and 33	(13.090.758)	(3.604.641)	(18.421.429)	(3.180.348)
Current income/(loss)		15.562.301	(7.789.814)	56.983.890	9.579.563
Income taxation	1.p), 10 and 34	(4.008.288)	(349.964)	(18.151.692)	(1.447.665)
Consolidated net income/(loss)		11.554.013	(8.139.778)	38.832.198	8.131.898
Attributed to:					
Shareholders of parent company		2.156.198	(6.036.269)	18.048.373	4.634.079
Minority interests		9.397.815	(2.103.509)	20.783.827	3.497.820
Earnings per share					
Including discontinued operations					
Basic		0,01	(0,02)	0,08	0,02
Diluted		0,01	(0,02)	0,08	0,02
Excluding discontinued operations					
Basic		0,01	(0,02)	0,08	0,02
Diluted		0,01	(0,02)	0,08	0,02

The notes are an integral part of the consolidated financial statements at 31 December 2005 and 2004.

The Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

The Board of Directors

Belmiro Mendes de Azevedo

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

CONSOLIDATED CHANGES IN SHAREHOLDERS' FUNDS

FOR THE YEARS ENDED AT 31 DECEMBER 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)	-
Capital increase including share premium	70.276.868	-	242.455.195	-	-	-	242.455.195	-	-	312.732.063
Consolidated net income/(loss) for the year ended 31 December 2005	-	-	-	-	-	-	-	-	2.156.198	2.156.198
Utilization of some Premium and other reserves to cover accumulated losses	-	-	(78.641.576)	78.641.576	-	-	-	-	-	-
Hedging reserves (Swaps)	-	-	-	-	-	369.155	369.155	-	-	369.155
Adjustments in foreign currency translation reserves and others	-	-	-	(135.975)	-	-	(135.975)	-	-	(135.975)
Balance at 31 December 2005	296.526.868	114.360	499.633.160	(105.273.403)	(121.380.899)	-	273.093.218	-	2.156.198	571.776.284
<u>Minority interests</u>										
Balance at 31 December 2004	-	-	-	-	-	-	-	183.919.719	-	183.919.719
Hedging reserves (Swaps)	-	-	-	-	-	-	-	390.218	-	390.218
Minority interests on results	-	-	-	-	-	-	-	9.397.815	-	9.397.815
Acquisition of minority interests	-	-	-	-	-	-	-	(78.041.891)	-	(78.041.891)
Other changes	-	-	-	-	-	-	-	(502.747)	-	(502.747)
Balance at 31 December 2005	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	115.163.114	-	115.163.114
Total	296.526.868	114.360	499.633.160	(105.273.403)	(121.380.899)	-	273.093.218	115.163.114	2.156.198	686.939.398
2004										
	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 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 year ended 31 December 2004	-	-	-	-	-	-	-	-	18.048.373	18.048.373
Acquisition of minority interests	-	-	-	(270.071)	-	-	(270.071)	-	-	(270.071)
Hedging reserves (Swaps)	-	-	-	-	-	72.555	72.555	-	-	72.555
Adjustments in foreign currency translation reserves and others	-	-	-	191.057	-	-	191.057	-	-	191.057
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
<u>Minority interests</u>										
Balance at 31 December 2003	-	-	-	-	-	-	-	164.420.927	-	164.420.927
New companies	-	-	-	-	-	-	-	(2.462.691)	-	(2.462.691)
Supplementary capital dotations performed by minorities	-	-	-	-	-	-	-	2.750.793	-	2.750.793
Hedging reserves (Swaps)	-	-	-	-	-	-	-	(428.328)	-	(428.328)
Minority interests on results	-	-	-	-	-	-	-	20.783.827	-	20.783.827
Minority changes and others	-	-	-	-	-	-	-	(1.144.809)	-	(1.144.809)
Balance at 31 December 2004	-	-	-	-	-	-	-	183.919.719	-	183.919.719
Total	226.250.000	114.360	335.819.541	(201.827.377)	(121.380.899)	(369.155)	12.356.470	183.919.719	18.048.373	440.574.562

The notes are an integral part of the consolidated financial statements at 31 December 2005 and 2004.

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED AT 31 DECEMBER 2005 AND 2004
(Amounts expressed in Euro)

	<u>31 December 2005</u>	<u>31 December 2004</u>	
Operating activities			
Receipts from trade debtors	866.614.376	876.422.217	
Payments to trade creditors	(584.931.783)	(566.545.359)	
Payments to employees	(110.930.750)	(105.827.611)	
Cash flows from operating activities	<u>170.751.843</u>	<u>204.049.247</u>	
Payments/receipts relating to income taxes, net	(2.828.404)	(1.401.698)	
Other payments/receipts relating to operating activities, net	(23.173.570)	855.586	
Cash flows from operating activities (1)	<u>144.749.869</u>	<u>203.503.135</u>	203.503.135
Investing activities			
Receipts from:			
Investments	1.100.294	3.481.561	
Tangible assets	3.544.972	4.495.504	
Intangible assets	127.087	220.351	
Interest and similar income	4.788.684	2.704.609	
Others	170.682	-	10.902.025
Payments for:			
Loans granted	(2.500)	-	
Investments	(23.143.389)	(12.447.747)	
Tangible assets	(88.430.440)	(95.608.198)	
Intangible assets	(16.976.406)	(29.271.613)	
Others	-	-	(137.327.558)
Cash flows from investing activities (2)	<u>(118.821.016)</u>	<u>(126.425.533)</u>	
Financing activities			
Receipts from:			
Loans obtained	-	100.000.000	
Bond Loans	145.950.000	-	100.000.000
Payments for:			
Loans obtained repaid	(105.805)	(245.274.747)	
Interest and similar expenses	(13.724.744)	(21.445.136)	
Dividends to minority interests	(554.193)	-	(266.719.883)
Cash flows from financing activities (3)	<u>131.565.258</u>	<u>(166.719.883)</u>	
Net cash Flows (4)=(1)+(2)+(3)	<u>157.494.111</u>	<u>(89.642.281)</u>	
Effect of the foreign exchanges	336.443	-	
Cash and cash equivalents at the beginning of the year	<u>(51.529.737)</u>	<u>(141.196.552)</u>	
Cash and cash equivalents at end of the year	<u><u>209.360.291</u></u>	<u><u>51.554.271</u></u>	

The notes are an integral part of the consolidated financial statements at 31 December 2005 and 2004

Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

The Board of Directors

Belmiro Mendes de Azevedo
Duarte Paulo Teixeira de Azevedo
António Mendo Castel-Branco Borges
David Charles Denholm Hobley
David Graham Shenton Bain
George Christopher Lawrie
Jean-François René Pontal
Luís Filipe Campos Dias de Castro Reis
Michel Marie Alain Combes
Miguel Nuno Santos Almeida
Richard Henry O'Toole

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED AT 31 DECEMBER 2005 AND 2004
(Amounts expressed in Euro)

	<u>2005</u>	<u>2004</u>
1 - Acquisition or sale of subsidiaries or other businesses		
Subsidiaries		
a) Acquisitions		
Jaua, S.G.P.S., S.A.	-	3.289.549
Noriema, S.G.P.S., S.A.	-	7.830.517
Enabler & Retail Consult	-	150.000
Enabler Uk	-	739.685
Enabler - Informática, S.A.	298.000	-
Retailbox BV	1.653.596	-
Optimus - Telecomunicações, S.A	16.262.801	-
Others	-	4.996
b) Amount of other assets and liabilities acquired (sold)		
Acquisition of shares of Sonae SGPS	1.344.089	-
Shares - Supplementary capital - Optimus - Telecomunicações, S.A.	2.344.350	-
Loans - Jaua, S.G.P.S., S.A.	-	1.683.000
c) Payments of acquisitions from previous years		
Jaua, S.G.P.S., S.A. (*)	537.780	-
Noriema, S.G.P.S., S.A. (*)	702.773	-
d) Amount to be paid related to financial investments acquisition		
Jaua, S.G.P.S., S.A. (*)	-	541.875
Noriema, S.G.P.S., S.A. (*)	-	708.125
	<u>23.143.389</u>	<u>12.447.747</u>
(*) The amount paid was less than the acquisition value by Euro 9,447.		
e) Sales		
Exit Travel – Agência de Viagens e Turismo Online, S.A.	450.000	-
Investimento Directo, S.A. (**)	650.294	4.774.116
Retailbox BV	-	104.661
The amounts referred with (**) were parcial received.		
f) Amounts of cash and cash equivalents in the acquired subsidiary		
KPNQwest Portugal - Telecomunicações, Lda.	-	1.967.240
Jaua, S.G.P.S., S.A.	-	18.829
Noriema, S.G.P.S., S.A.	-	1.284.415
g) Amounts of other assets and liabilities acquired (sold)		
Acquisitions		
KPNQwest Portugal - Telecomunicações, Lda.		
Fixed assets	-	1.582.796
Debtors - short term	-	3.961.920
Creditors - short term	-	3.590.240
2 - Details of cash and cash equivalents		
Cash in hand	464.835	291.776
Cash at bank	8.843.760	7.791.039
Treasury applications	200.106.116	45.182.317
Overdrafts	(54.420)	(1.710.861)
Cash and cash equivalents	<u>209.360.291</u>	<u>51.554.271</u>
Overdrafts	54.420	1.710.861
Cash assets	209.414.711	53.265.132
The difference between Cash and cash equivalents at 31 December 2004 and Cash and cash equivalents at the beginning of the year ended at 31 December 2005 relates to the change of the consolidation perimeter, and can be shown as follows:		
Cash and cash equivalents at 31 December 2004		51.554.271
Changes on the consolidation perimeter:		
Exit Travel – Agência de Viagens e Turismo Online, S.A.		(24.534)
Cash and cash equivalents at the beginning of the year ended on 31 December 2005		51.529.737
3 - Description of non monetary financing activities		
a) Bank credit granted and not used	227.641.176	125.969.205
b) Purchase of company through the issue of shares	Not applicable	Not applicable
c) Conversion of loans into shares	Not applicable	Not applicable

4 - Cash flow by segments

Activity	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Net cash flows
Mobile network	164.973.936	(81.372.185)	(10.853.042)	72.748.709
Fixed network and Internet	(5.259.543)	(19.935.367)	(180.929)	(25.375.839)
Multimedia	(1.080.153)	(717.628)	(26.022)	(1.823.803)
Information Systems	(4.611.482)	(468.115)	(156.250)	(5.235.847)
Others	(7.928.173)	(17.672.437)	142.781.501	117.180.891
	<u>146.094.585</u>	<u>(120.165.732)</u>	<u>131.565.258</u>	<u>157.494.111</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements at 31 December 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..

By decision of the Shareholders' General Meeting held on 12 September 2005, Sonaecom's share capital was increased in Euro 70,276,868, from Euro 226,250,000 to Euro 296,526,868, by the issuance of 70,276,868 new shares of 1 Euro each and with a share premium of Euro 242,455,195, entirely subscribed by France Telecom. The corresponding public deed was executed on 15 November 2005.

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 consultancy companies) in Brazil, United Kingdom, Holland, Germany and France.

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.

Finally, 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 20).

Main accounting policies

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

a) Investments in Group companies

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

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

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

The fully consolidated companies are listed in Note 2.

b) Investments in associated companies

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

In accordance with the equity method, investments are adjusted annually by an amount corresponding to the Group’s share of the net results of associated companies, against a corresponding entry to gain or loss for the year, and by the amount of dividends received, as well as by other changes in the equity of the associated companies, which are recorded by corresponding entry to the caption ‘Other reserves’. An assessment of the investments in associated companies is performed annually, with the aim of detecting possible impairment situations.

When the Group’s share of accumulated losses of an associated company exceeds the book value of the investment, the investment is recorded at nil value, except when the Group has assumed

commitments to the associated company, in which case a provision is recorded for that purpose under the caption 'Provisions for other liabilities and charges'.

Investments in associated companies are listed in Note 3.

c) Tangible assets

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

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

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

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

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

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

The estimated costs of the mandatory dismantling and removal of tangible assets, that the Group incurs, are capitalised and amortised according to the 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 year ended 31 December 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 on a straight-line basis for an 11 year period, which corresponds to the period between the commercial launch date and the maturity date of the license.

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

During the year ended 31 December 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'.

In subsequent acquisitions of financial investments 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 proportional amount of the shareholders funds of the acquired company.

g) Investments

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

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial investments arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are recorded as current assets, except when its maturity is greater than twelve months from the balance sheet date, situations when they are classified as non-current assets. Loans and receivables are included in the caption 'other debtors' in the balance sheet.

c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

d) Available-for-sale financial assets

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

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

Realised and unrealised gains and losses arising from changes in the fair value of financial assets classified at fair value through profit or loss are recognised in the income statement. Realised and

unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

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

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

h) Financial and operational leases

The lease contracts are classified as financial leases, if, in substance, all risks and rewards associated with the possession of the leased asset are transferred by the lease contract or as 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.

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.

i) 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 12).

j) 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.

k) 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.

l) Loans

Loans are recorded as liabilities and measured at "amortised cost". Any expenses incurred in setting up loans are recorded as a deduction to the nominal debt and recognised during the period of the financing, based on the effective interest rate method.

m) 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.

n) 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.

o) 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.

p) Income tax

Income tax for the year is determined based on the taxable results of the 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 10).

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 all other situations, deferred taxes are always registered in the profit and loss statement.

q) 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.

r) Accrual 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.

The captions of 'Other non current assets', 'Other current assets', 'Other non current liabilities' and 'Other current liabilities' include 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 latest ones will be included in the results of such periods that they relate to.

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 rewards 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 amount 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.

s) 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 10 and 23).

t) 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.

u) Foreign currency

All assets and liabilities expressed in foreign currency were translated 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 translated 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 the translation into Euro of the accounts of foreign subsidiaries and associated companies:

	2005		2004	
	31.12.05	Average	31.12.04	Average
Pounds Sterling	1.45921	1.46264	1.41824	1.47459
Brazilian Real	0.36443	0.33279	0.27665	0.27526

v) 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 selling price and the value of

use. Net selling 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.

w) Deferred Performance Bonus Plans

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

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

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

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

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

The plans that are settled by the delivery of shares of Sonae S.G.P.S., S.A. are recorded under ‘Provisions’, pro-rata to the respective vesting periods. When those responsibilities are covered by an hedging contract, the accounting treatment is as described above with the effects of such contracts being recorded against ‘Provisions’, instead of Shareholders’ funds.

On 2003, the Group signed hedging contracts, as a result of which, the responsibilities for delivering the Sonaecom and Sonae S.G.P.S., S.A. shares under Sonaecom’s Deferred Performance Bonus Plans were substituted by fixed amounts payable on the vesting date of each plan. At 31 December 2005, all plans were hedged and, the total impact of the Deferred Performance Bonus Plans is recorded in the balance sheet in the captions ‘Other current and non

current assets' and 'Other current and non current liabilities'. In the profit and loss statement, the impact is recorded under the caption 'Staff expenses'.

x) 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 31 December 2005 and 2004, are as follows:

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held			
				2005		2004	
				Direct	Effective*	Direct	Effective*
Parent company: SONAECON, S.G.P.S., S.A. ("Sonaecom")	Maia	Management of shareholdings.	-	-	-	-	-
Subsidiaries: Clixgest – Internet e Conteúdos, S.A. ("Clixgest" using the brand name "Clix") (a)	Maia	All activities relating to information and multi- media technologies, namely Internet, contents and electronic commerce.	Sonae Matrix	-	-	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%	71.23%	97.3%	66.25%
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%	71.22%	99.99%	66.24%
Enabler & Retail Consult, GmbH (Enabler Germany)	Germany	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	85%	60.55%	85%	56.31%
Enabler UK, Limited ("Enabler UK")	United Kingdom	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	100%	71.23%	100%	66.25%
Enabler FR, ("Enabler FR")	France	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	100%	71.23%	-	-
Exit Travel – Agência de Viagens e Turismo Online, S.A. ("Exit")	Maia	Internet travel, tourism and leisure agency.	Sonaecom	(Sold)		75%	75%
Jaua, S.G.P.S., S.A. (Jaua) (b)	Lisbon	Management of shareholdings.	Novis	-	-	100%	56.67%
KPNQwest Portugal - Telecomunicações, Lda ("KPNQwest") (b)	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		2004	
				Direct	Effective*	Direct	Effective*
Mainroad – Serviços em Tecnologias de Informação, S.A. (“Mainroad”)	Maia	Rendering of consultancy services in IT areas.	Novis	-	-	100%	56.67%
			Sonae.com Sistemas de Informação	100%	100%	-	-
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”) (b)	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%
			Público	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	58.33%	58.33%	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%
			Sonaecom	20.18%	20.18%	-	-
Per-Mar – Sociedade de Construções, S.A. (“Per-Mar”)	Maia	Purchase, sale, renting and operation of property and commercial establishments.	Optimus	100%	69.24%	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	(Liquidated)		100%	99.99%
Retailbox BV (“Retailbox”)	Amsterdam	Management of shareholdings.	Sonaetelecom BV	64%	72.32%	68.09%	68.09%
Optimus Towering – Exploração de Torres de Telecomunicações, S.A. (“Optimus Towering”)	Maia	Implementation, installation and exploitation of towers and other sites for the placement of telecommunications equipment.	Optimus	100%	69.24%	100%	46.29%

* Sonaecom effective participation

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held			
				2005		2004	
				Direct	Effective*	Direct	Effective*
Sonae Matrix Multimédia, S.G.P.S., S.A. ("Sonae Matrix")	Maia	Management of shareholdings in the area of multimedia trade.	Sonaecom	100%	100%	100%	100%
Sonae Telecom, S.G.P.S., S.A. ("Sonae Telecom")	Maia	Management of shareholdings in the area of mobile telecommunications.	Sonaecom	100%	100%	100%	100%
Sonae.com - Sistemas de Informação, S.G.P.S., S.A. ("Sonae.com Sistemas de Informação")	Maia	Management of shareholdings in the area of corporate ventures and joint ventures.	Sonaecom	100%	100%	100%	100%
Sonaetelecom BV	Amsterdam	Management of shareholdings.	Sonaecom	100%	100%	100%	100%
We Do Consulting – Sistemas de Informação, S.A. ("We Do")	Maia	Rendering of consultancy services in the area of software, including systems integration.	Sonae.com Sistemas de Informação	95.47%	95.47%	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%	95.36%	99.89%	99.89%
XS – Comunicação, Informação e Lazer, S.A. ("XS" using the brand name "Xis") (c)	Maia	Editing, composition and publication of periodical and non-periodical material, through the magazine Xis.	Público	-	-	100%	99.99%

* Sonaecom effective participation

(a) On 2 December 2005, Clix merged into Novis. This merger produced accounting effects from 1 January 2005.

(b) 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.

(c) On 2 December 2005, XS merged into Público. This merger produced accounting effects from 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). Although, at 31 December 2004, Sonaecom only controls 46.29% of the shares in Optimus (69.24% in 2005), it has 52.34% of the voting rights in that subsidiary (65.20% in 2005).

3. Investments in associated companies

At 31 December 2005 and 2004, this caption included investments in associated companies, which head offices, main activities, shareholders, percentage of share capital held and book value was as follows:

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held				Book value	
				2005		2004		2005	2004
				Direct	Effective*	Direct	Effective*		
Associated companies:									
Net Mall, S.G.P.S., S.A. ("Net Mall")	Maia	Management of shareholdings.	Sonae.Com Sistemas de Informação	39.51%	39.51%	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%	685,661	685,669
Global S – Centro Comercial, Lda.	Matosinhos	Information technology services to promote and manage multimedia stores.	Global S	19.2%	4.9%	2.4%	0.8%	(b)	(b)
		Operation of shopping centres (Global Shop).	Global S 24	80.8%	10.3%	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%	25.6%	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	(Liquidated)		75%	24.3%	-	(b)
Global S 24, S.G.P.S., S.A.	Matosinhos	Management of shareholdings.	Global S	50%	12.8%	50%	16.2%	(b)	(b)
								685,661	685,669

* Sonaecom effective participation

(a) Investment recorded at a nil book value..

(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 year ended 31 December 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%
Sonae.com SI	We Do	Sep-05	3.53%	94.56%
Sonae.com SI	We Do	Oct-05	0.71%	95.27%
Sonae.com SI	We Do	Nov-05	0.2%	95.47%
Sonaecom	Optimus	Nov-05	20.18%	20.18%
Sonaecom	Clix	Nov-05	43.33%	-
Sonaecom	Novis	Nov-05	43.33%	58.33%

As a result of the above mentioned acquisitions, additional Goodwill of Euro 253,901,129 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 42).

On 9 June 2005, a strategic partnership agreement was signed between Sonaecom and France Telecom. As part of this agreement, France Telecom committed to provide strategic support to Optimus, Novis and Clix, for a period of 3 years, and to exchange its shareholdings in those companies for a 23.7% stake in Sonaecom. As foreseen in this agreement, the shareholders of Sonaecom approved, on 12 September 2005, a share capital increase of Euro 70,276,868, from Euro 226,250,000 to Euro 296,526,868, by the issuance of 70,276,868 new shares of 1 Euro each and with a share premium of Euro 242,455,195, entirely subscribed by France Telecom. The corresponding public deed was executed on 15 November 2005. This share capital increase was paid-up in kind, by the rendering of the shareholdings in Optimus (20.18%), Novis (43.33%) and Clix (43.33%), above mentioned.

4. b) Internal transactions

Purchaser	Seller	Subsidiary	Date	% acquired	Current % Shareholding
We Do	Sonae.com SI	We Do	Sep-05	8.97%	-
Sonae.com SI	Novis	Mainroad	Nov-05	100%	100%
Público	Público.pt	M3G	Dec-05	100%	100%
Retailbox	Sonaetelecom BV	Retailbox	Dec-05	7%	11.5%

In accordance with its Deferred Performance Bonus Plan, We Do acquired own shares from Sonae.com SI, in an amount of Euro 1,507,094, and attributed all those shares to its employees.

During the year ended on 31 December 2005, the following mergers took place:

- a) On 1 June 2005, execution of the public deed of the merger 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.;
- b) On 2 December 2005, execution of the public deed of the merger of Clixgest – Internet e Conteúdos, S.A. into Novis Telecom, S.A.;
- c) On 2 December 2005, execution of the public deed of the merger of XS – Comunicação, Informação e Lazer, S.A. into Público – Comunicação Social, S.A..

All the above subsidiaries were included in the consolidation in accordance with the full consolidation method.

4. c) Supplementary Capital

Shareholder	Subsidiary	Date	Amount	% Shareholding
Optimus	Optimus Towering	Jan-05	5,050,000	100%
Optimus	Optimus Towering	Feb-05	(1,200,000)	100%
Optimus	Optimus Towering	Mar-05	2,000,000	100%
Sonaecom	Sonae Telecom	Mar-05	18,607,151	100%
Optimus	Optimus Towering	Apr-05	2,900,000	100%
Optimus	Optimus Towering	May-05	(1,600,000)	100%
Optimus	Optimus Towering	Jun-05	(2,550,000)	100%
Optimus	Optimus Towering	Jul-05	(2,250,000)	100%
Optimus	Optimus Towering	Aug-05	(1,850,000)	100%
Optimus	Optimus Towering	Sep-05	(2,600,000)	100%
Optimus	Optimus Towering	Oct-05	300,000	100%
Sonae.com SI	Mainroad	Nov-05	1,700,000	100%
Optimus	Optimus Towering	Nov-05	(1,500,000)	100%
Sonaecom	Novis	Nov-05	18,000,000	100%
Público	Público.pt	Nov-05	320,000	100%
Sonaetelecom BV	Público	Nov-05	3,710,499	99.99%
Optimus	Optimus Towering	Dec-05	(1,850,000)	100%
Sonae.com SI	Mainroad	Dec-05	3,400,000	100%
Sonaecom	Sonae.com SI	Dec-05	13,100,000	100%

4. d) Companies liquidated

Shareholder	Subsidiary	Date	% Shareholding
Público	Público.pt	Dec-05	100%

4. e) Capital increases

<u>Shareholder</u>	<u>Subsidiary</u>	<u>Date</u>	<u>Amount</u>	<u>Current % Shareholding</u>
Sonae.com SI	Net Mall	Oct-05	2,150,030	39.51%

4. f) Capital reductions

<u>Shareholder</u>	<u>Subsidiary</u>	<u>Date</u>	<u>Amount</u>	<u>% Shareholding</u>
Sonae.com SI	Net Mall	Oct-05	2,150,030	39.51%
Sonaetelecom BV	Público	Dec-05	1,950,000	99.99%

4. g) Sales

<u>Seller</u>	<u>Subsidiary</u>	<u>Date</u>	<u>% sold</u>	<u>% Shareholding</u>
Sonaecom	Exit	Jul-05	75%	-
Retailbox	Retailbox*	Oct-05	1.5%	11.5%

* Own shares

4. h) Incorporations

<u>Shareholder</u>	<u>Subsidiary</u>	<u>Date</u>	<u>Capital</u>	<u>% Shareholding</u>
Enabler	Enabler FR	Dec-05	37,000	100%

5. Tangible Assets

The movement in tangible assets and corresponding accumulated depreciation and impairment losses in the years ended 31 December 2005 and 2004 was as follows:

	Land	Buildings and other constructions	Plant and machinery	Vehicles	Fixtures and fittings	Tools	Other Tangible assets	Work in progress	Total
GROSS ASSETS:									
Balance at 31December 2003	1,391,593	154,974,769	550,394,743	211,986	101,042,052	1,166,385	2,046,875	27,884,034	839,112,437
New companies	-	-	10,390	-	6,048,429	-	652,734	-	6,711,553
Companies no longer consolidated	-	-	-	-	-	-	-	-	-
Additions	-	510,508	4,966,097	331,930	617,862	2,272	122,458	73,150,182	79,701,309
Disposals	-	(278,982)	(3,978,449)	(420,305)	(5,107,109)	(5,548)	(176)	(8,388,636)	(18,179,205)
Transfers and write- offs	-	16,302,977	66,551,312	6,678	17,139,778	40,572	(1,335)	(83,487,835)	16,552,147
Balance at 31December 2004	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
New companies	-	-	-	-	-	-	-	-	-
Companies no longer consolidated	-	-	-	-	(5,201)	(1,176)	-	-	(6,377)
Additions	-	4,220,336	7,433,749	191,783	1,193,797	2,647	362,176	87,219,617	100,624,105
Disposals	-	(1,031,543)	(1,784,224)	(173,757)	(5,885,486)	(134,499)	(15,915)	(479,751)	(9,505,175)
Transfers and write- offs	-	19,104,121	46,353,184	20,470	17,419,054	(23,741)	(397,664)	(83,983,167)	(1,507,743)
Balance at 31December 2005	1,391,593	193,802,186	669,946,802	168,785	132,463,176	1,046,912	2,769,153	11,914,444	1,013,503,051
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:									
Balance at 31December 2003	-	55,705,401	246,263,629	117,438	44,143,553	1,050,238	1,001,169	-	348,281,428
New Companies	-	-	-	-	4,791,676	-	304,063	-	5,095,739
Depreciation for the year	-	15,710,699	60,555,427	21,130	22,209,620	88,364	581,490	-	99,166,730
Impairment losses in the year	-	-	-	-	(229,788)	-	-	-	(229,788)
Disposals	-	(161,183)	(2,644,193)	(28,654)	(5,021,579)	(2,945)	(175)	-	(7,858,729)
Transfers and write- offs	-	(243,500)	(211,096)	-	(2,915,838)	5,325	(411)	-	(3,365,520)
Balance at 31December 2004	-	71,011,417	303,963,767	109,914	62,977,644	1,140,982	1,886,136	-	441,089,860
Companies no longer consolidated	-	-	-	-	(3,619)	(1,127)	-	-	(4,746)
Depreciation for the year	-	18,656,935	63,378,912	13,824	17,077,042	30,957	433,835	-	99,591,505
Disposals	-	(166,317)	(963,323)	(24,230)	(5,412,062)	(129,073)	(15,915)	-	(6,710,920)
Transfers and write- offs	-	(93,772)	(16,018,473)	3,405	18,420,280	(31,736)	(174,727)	-	2,104,977
Balance at 31December 2005	-	89,408,263	350,360,883	102,913	93,059,285	1,010,003	2,129,329	-	536,070,676
Net amount	1,391,593	104,393,923	319,585,919	65,872	39,403,891	36,909	639,824	11,914,444	477,432,375

The additions to Fixed assets in the year 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 year of 2005 (Note 1.c)) has generated a reduction of circa Euro 7.4 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 11,680,247 and Euro 12,811,241 as of 31 December 2005 and 2004, respectively and their net book value as of those dates amounted to Euro 7,152,026 and Euro 7,764,739, respectively.

Tangible assets in progress at 31 December 2005 and 2004 were made up as follows:

	2005	2004
Development of mobile network	7,897,191	7,342,426
Development of fixed network	3,213,590	1,428,604
Information systems	511,849	-
Other projects in progress	291,814	386,715
	<u>11,914,444</u>	<u>9,157,745</u>

At 31 December 2005 and 2004, the amounts of commitments to third parties relating to investments to be made were as follows:

	2005	2004
Technical investments	18,786,011	16,427,226
Investments in information systems	7,527,281	2,223,612
	<u>26,313,292</u>	<u>18,650,838</u>

6. Intangible assets

The movement in Intangible assets and corresponding accumulated amortisation and impairment losses in the years ended 31 December 2005 and 2004 was as follows:

	Brands and patents	Software	Others	Intangible assets in progress	Total
GROSS ASSETS:					
Balance at 31December 2003	4,291,030	142,247,942	-	157,052,850	303,591,822
Additions	236,306	690,305	55,809	30,311,082	31,293,502
Disposals	-	(18,082)	-	(210,640)	(228,722)
Transfers and write-offs	141,127,722	16,869,407	582,391	(181,011,467)	(22,431,947)
Balance at 31December 2004	145,655,058	159,789,572	638,200	6,141,825	312,224,655
Companies no longer consolidated	(16,890)	(479,586)	-	-	(496,476)
Additions	1,617,851	957,057	-	14,976,524	17,551,432
Disposals	(21,000)	(140,080)	(638,200)	(111,344)	(910,624)
Transfers and write-offs	(79,852)	12,298,942	-	(13,921,661)	(1,702,571)
Balance at 31December 2005	147,155,167	172,425,905	-	7,085,344	326,666,416
ACCUMULATED DEPRECIATION AND IMPAIMENT LOSSES:					
Balance at 31December 2003	3,811,437	98,339,998	-	-	102,151,435
Amortisation for the year	1,386,804	24,492,102	152,098	-	26,031,004
Disposals	-	(8,371)	-	-	(8,371)
Transfers and write-offs	(11,877)	-	118,496	-	106,619
Balance at 31December 2004	5,186,364	122,823,729	270,594	-	128,280,687
Companies no longer consolidated	(12,578)	(477,918)	-	-	(490,496)
Amortisation for the year	13,277,865	15,263,349	90,104	-	28,631,318
Disposals	-	(25,022)	(302,837)	-	(327,859)
Transfers and write-offs	32,290	(4,676,801)	(57,861)	-	(4,702,372)
Balance at 31December 2005	18,483,941	132,907,337	-	-	151,391,278
Net amount	128,671,226	39,518,568	-	7,085,344	175,275,138

As at 31 December 2005 and 2004, the Group has recorded under the heading 'Intangible assets' an amount of Euro 127,774,219 and Euro 140,551,641, respectively, that correspond to investments net of depreciations made in the development of the UMTS network, including Euro 90,008,643 (amount of Euro 99,760,000 in 2004) related to the license and Euro 30,075,188 (amount of Euro 32,694,084 in 2004) 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 year of 2005 (Note 1.d)) has generated a reduction of circa Euro 6.4 million in depreciation charges compared to the amount that would have resulted from previous estimated useful lives.

The intangible assets in progress, at 31 December 2005 and 2004, were mainly composed by software development.

Intangible and tangible assets include interest and other financial expenses incurred, directly related to the construction of certain items of work in progress. At 31 December 2005 and 2004 such expenses amounted to Euro 12,453,601 and Euro 12,102,510 respectively. The amount capitalised on the years ended 31 December 2005 and 2004 were Euro 351,091 and Euro 742,300, respectively. An interest capitalization rate of 2.965% was used in 2005 (4.106% in 2004), which corresponds to the average interest rate supported by the Group.

7. Goodwill

At 31 December 2005 and 2004, the movements occurred in goodwill and corresponding accumulated amortisation and impairment losses were as follows:

	2005	2004
Gross Assets:		
Opening balance	31,614,130	59,851,238
Increase of participations (Note 4. a))	253,901,129	-
New companies	-	4,736,688
Companies no longer consolidated	-	(319,748)
Additions	-	-
Transfers, disposals and write-offs	(46,807)	(32,654,048)
Closing balance	285,468,452	31,614,130
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 value	<u>285,468,452</u>	<u>31,614,130</u>

In accordance with IFRS 3, the Group suspended the amortization of the 'Goodwill' as from 1 January 2004. The amount of Euro 32,590,902, included in the caption 'Transfers, disposals and write-offs', corresponds to the reclassification of accumulated amortisations of Goodwill to its gross value.

Goodwill at 31 December 2005 and 2004 was made up as follows:

	2005		2004
	Date of acquisition	Net Book Value	Net Book Value
Sonaecom / SRD	Jan-98	2,960	2,960
Novis / IPG	May-99	3,221,708	3,221,708
Optimus / Per-Mar	Dec-99	47,253	47,253
Sonae Telecom BV / Público	Apr-00	20,000,000	20,000,000
Público / SIRS	Apr-00	72,820	72,820
Sonaecom / Enabler	Jun-00	946,696	946,696
Novis / IPG	Jun-00	723,694	723,694
WeDo / Sidra	Jan-01	923,108	923,108
WeDo / Sidra	Jan-01	7,981	7,981
Novis / IPG (a)	May-01	292,628	292,628
Novis / IPG (a)	May-02	332,532	332,532
Enabler / Enabler UK	Jul-03	356,001	356,001
Optimus / Optimus Towering	Oct-03	10,713	10,713
Enabler / Enabler DE	Jan-04	71,647	71,647
Sonaetelecom BV / Retailbox	Feb-04	1,141,333	1,182,785
Novis / Noriema	Apr-04	2,090,054	2,092,375
Novis / Jaua	Apr-04	1,121,554	1,124,588
Enabler / Enabler UK	Apr-04	48,067	48,067
Enabler / Enabler UK	Dec-04	156,574	156,574
Sonae Telecom SGPS/ Optimus	Mar-05	8,595,469	-
Retailbox/ Enabler	Apr-05	94,567	-
Sonaetelecom BV/ Retailbox	Apr-05	859,172	-
Sonae.com SI/ WeDo	Sep-05	351,030	-
Sonae.com SI/ WeDo	Oct-05	93,517	-
Sonae.com SI/ WeDo	Nov-05	17,079	-
Sonaecom/ Optimus	Nov-05	156,485,670	-
Sonaecom/ Novis	Nov-05	76,120,306	-
Sonaecom/ Clix	Nov-05	11,284,319	-
		<u>285,468,452</u>	<u>31,614,130</u>

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 31 December 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 23)	Net amount	Gross amount	Accumulated impairment losses (Note 23)	Net amount
Despegar.com	2,539,229	(2,539,229)	-	2,539,229	(2,539,229)	-
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
Investments held for sale	3,892,797	(2,685,477)	1,207,320	3,892,797	(2,685,477)	1,207,320

9. Other non current debtors

At 31 December 2005 and 2004, the Other non current debtors caption relates to amounts receivable resulting from the sale of certain fixed assets by the subsidiary Optimus and from the disposal of Investimento Directo in 2004. The reimbursement plan is as follows:

	2005	2004
2006	-	1,640,581
2007	961,169	942,322
2008	942,324	923,846
	1,903,493	3,506,749

10. Deferred tax assets

Deferred tax assets at 31 December 2005 and 2004, in the amount of Euro 66,239,165 and Euro 68,693,940, 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 years ended 31 December 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Opening balance	68,693,940	84,626,227
New companies (KPNQwest)	-	829,362
Impact on results		
Tax losses carried forward	(15,001,873)	(12,340,243)
Adjustments of estimated taxable income of prior year	541,419	42,251
Movements in provisions not deductible for tax purposes and on tax benefits	4,712,598	(1,241,609)
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)	10,100,000	-
Write-off the deferred tax assets recorded in previous years, due to impairments (Clixgest in 2004 ; KPN and Novis in 2005)	(2,721,213)	(2,840,847)
Others	(7,693)	(381,201)
Sub-total (Note 34)	(2,376,762)	(16,761,649)
Impact on reserves		
Others	(78,013)	-
Closing balance	<u>66,239,165</u>	<u>68,693,940</u>

The heading Tax losses carried forward is composed mainly by the movements in the subsidiaries Optimus (utilisations of circa Euro 14,914,822 and Euro 14,217,664, on 31 December 2005 and 2004, respectively) and Novis (recognition of an amount of Euro 2,096,879 on 31 December 2004).

At 31 December 2005 and 2004 assessments were made of the deferred taxes to be recognised. Potential deferred tax assets were recorded to the extent that 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 31 December 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 31 December 2005 were as follows:

	Optimus	We Do	Público	Total	Limit date to be used	2004
Originated in 1999	-	-	-	-	2005	19,292,907
Originated in 2000	-	-	-	-	2006	57,578,515
Originated in 2001	-	1,800,391	1,932,328	3,732,719	2007	114,019,526
Originated in 2002	34,632,571	3,300,611	3,729,977	41,663,159	2008	114,375,433
Originated in 2003	17,588,992	1,171,479	997,108	19,757,579	2009	47,473,111
Originated in 2004	-	316,186	56,872	373,058	2010	15,575,033
Originated in 2005	-	1,032,650	12,497,791	13,530,441	2011	-
	<u>52,221,563</u>	<u>7,621,317</u>	<u>19,214,076</u>	<u>79,056,956</u>		<u>368,314,525</u>

At 31 December 2005, the Group has other situations where potential deferred tax assets could result but they were not recognised since it was not expected sufficient taxable profits in the future to cover those losses:

	<u>2005</u>	<u>2004</u>
Tax losses (including those from companies referred to in the table above, in relation to which no deferred tax assets were recorded)	99,221,325	85,905,735
Temporary differences (mainly provisions not accepted for tax purposes)	23,558,505	23,813,141
Adjustments on conversion to IAS/IFRS	10,774,552	11,536,360
Temporary differences between the tax and accounting value of assets	-	8,582,739
	<u>133,554,382</u>	<u>129,837,975</u>

During the year ended 31 December 2005 and 2004, the effective rate used for calculating the income tax was 25.8% and 31.8%, respectively, and could be summarized as follows:

	<u>2005</u>	<u>2004</u>
Earning before taxes	15,562,301	56,983,892
Income tax rate (27.5%)	(4,279,633)	(15,670,570)
Deferred taxes not recognised in individual accounts and resulting from consolidation adjustments	(13,768,804)	(8,888,745)
Write-off of deferred tax assets recorded in previous years	(2,721,213)	(2,840,847)
Deferred taxes not recognised in previous years	10,100,000	8,652,000
Adjustments to taxable income of the current year	5,975,322	2,744,398
Adjustments to taxable income of the prior year	541,419	409,321
Provisions not deductible for tax purposes	144,621	(2,557,249)
Income taxation recorded in the year (Note 34)	(4,008,288)	(18,151,692)
Effective tax rate	25.8%	31.8%

Portuguese Tax Authorities could review the income tax returns of the Company and of its subsidiaries for a period of four years (ten years for Social Security till 31 December 2000 and five years after that date) or six years when tax losses have been generated. Consequently, tax returns of each year, since the year 2000 are still subject to such review.

The Board of Directors believe that any correction that may arise as a result of such review would not produce a significant impact in the attached financial statements.

11. Other non current assets

At 31 December 2005 and 2004 this caption was made up as follows:

	2005			2004		
	Gross amount	Accumulated impairment losses (Note 23)	Net amount	Gross amount	Accumulated impairment losses (Note 23)	Net amount
FINANCIAL ASSETS:						
Loans granted to companies recorded Under the equity method:						
Rádio Nova	118,500	(118,500)	-	118,502	-	118,502
Net Mall	-	-	-	841,640	-	841,640
	118,500	(118,500)	-	960,142	-	960,142
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:						
Deferred Performance Bonus Plan (Notes 1.w) e 39)	1,952,890	-	1,952,890	2,362,075	-	2,362,075
Maxistar – Comunicações Pessoais, S.A.	-	-	-	1,550,000	-	1,550,000
	1,952,890	-	1,952,890	3,912,075	-	3,912,075
	2,095,706	(142,816)	1,952,890	4,896,533	(24,316)	4,872,217

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 these 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 year ended 31 December 2005, that provision was transferred from the caption 'Provisions for other liabilities and charges' to 'Impairment losses' under 'Other non current assets'.

On 12 October 2005, the associated company Netmall increased its share capital, through the conversion of shareholder loans. As a result of this operation, the loan that Sonaecom had outstanding to Netmall, which was fully provisioned, was transferred to the heading 'Investments in associated companies'.

12. Inventories

At 31 December 2005 and 2004 this caption was made up as follows:

	2005	2004
Raw materials	1,683,078	2,034,124
Merchandise	28,663,836	15,359,185
	30,346,914	17,393,309
Accumulated impairment losses on inventories (Note 23)	(7,134,249)	(4,565,764)
	<u>23,212,665</u>	<u>12,827,545</u>

The cost of goods sold in the years ended 31 December 2005 and 2004 amounted to Euro 114,924,806 and Euro 106,436,514, respectively, and was determined as follows:

	2005	2004
Opening inventories	17,393,309	13,202,422
New companies	-	105,932
Purchases	129,978,684	114,824,158
Inventory adjustments	(2,100,273)	(4,302,689)
Closing inventories	(30,346,914)	(17,393,309)
	<u>114,924,806</u>	<u>106,436,514</u>

The amounts recorded under the caption 'Inventory adjustments' at 31 December 2005 and 2004 essentially correspond to the transfer of telecommunications terminals from the caption 'Inventories' to the caption 'Tangible assets', under rental contracts signed with customers by the subsidiaries Optimus and Novis.

13. Trade debtors

At 31 December 2005 and 2004 this caption was made up as follows:

	2005	2004
Current accounts:		
Mobile network	108,055,898	121,103,804
Fixed network	18,296,513	13,757,447
Information systems	10,677,941	8,863,945
Internet and multimedia	6,511,863	8,926,421
	<u>143,542,215</u>	<u>152,651,617</u>
Bills receivable	30,799	30,799
Doubtful debtors	64,481,439	67,229,825
	<u>208,054,453</u>	<u>219,912,241</u>
Accumulated impairment losses in accounts receivable (Note 23)	(64,481,439)	(67,229,825)
	<u>143,573,014</u>	<u>152,682,416</u>

The Group's exposure to credit risk is mainly related to accounts receivable arising from its operational activity. The amounts included in the balance sheet are net of cumulative doubtful

debtors impairment losses that were estimated by the Group, taking into account its past experience and an assessment of the current macroeconomic environment. The Board of Directors believes that the book value of the accounts receivable does not differ significantly from its fair value.

14. Other current debtors

At 31 December 2005 and 2004 this caption was made up as follows:

	2005	2004
Other debtors	11,496,313	6,114,076
State and other public entities	9,001,020	4,545,808
Advances to suppliers	586,958	813,236
Accumulated impairment losses in accounts receivable (Note 23)	(423,992)	(133,683)
	<u>20,660,299</u>	<u>11,339,437</u>

At 31 December 2005 and 2004 the caption 'Other debtors' correspond essentially to accounts receivables from the subsidiary Optimus, in the amounts of Euro 9,262,690 and Euro 3,315,092, and the amounts of Euro 133,412 and Euro 626,794, respectively, related to accounts receivables by Novis. At 31 December 2005 and 2004, this caption also includes the amount of Euro 679,412 and 650,294, respectively, related to the disposal of Investimento Directo.

15. Other current assets

At 31 December 2005 and 2004 this caption was made up as follows:

	2005	2004
Invoices to be issued to clients for services rendered	23,205,323	21,362,011
Invoices to be issued to operators	7,475,316	13,334,045
Specialised work paid in advance	4,531,345	5,280,918
Deferred Performance Bonus Plans (Notes 1. w) and 39)	3,179,279	3,300,745
Other costs paid in advance	1,190,842	2,086,118
Rappel to be received (annual quantity discounts)	1,559,347	1,849,458
Prepaid rents	1,135,868	1,264,762
Maintenance contracts paid in advance	-	264,138
Other accrued income	1,161,737	2,407,599
	<u>43,439,057</u>	<u>51,149,794</u>

16. Investments recorded at fair value through profit and loss

During the years ended 31 December 2005 and 2004, the movements in this heading were as follows:

	2005	2004
Balance at the beginning of the year	-	-
Acquisitions in the year	1,344,089	-
Increases/reductions to fair value (Note 33)	(22,399)	-
Balance at closing of the year	<u>1,321,690</u>	<u>-</u>

As at 31 December 2005, 'Investments recorded 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.

17. Cash and cash equivalents

At 31 December 2005 and 2004, the detail of cash and cash equivalents was as follows:

	2005	2004
Cash	464,835	291,776
Bank deposits repayable on demand	8,843,760	7,791,039
Treasury applications	200,106,116	45,182,317
Cash and cash equivalents	209,414,711	53,265,132
Bank overdrafts (Note 20)	(54,420)	(1,710,861)
	<u>209,360,291</u>	<u>51,554,271</u>

At 31 December 2005 and 2004, the heading 'Treasury applications' had the following breakdown:

	2005	2004
<u>Funds placed with Sonae:</u>		
Sonaecom	172,473,004	35,350,004
<u>Treasury applications in Altitude:</u>		
Sonae.com S.I.	150,000	-
<u>Bank term deposits:</u>		
Optimus	23,825,000	5,450,000
WEDO Brasil	1,425,635	490,381
Mainroad	940,000	150,000
Enabler	637,477	591,932
Digitmarket	180,000	100,000
Matrix	140,000	-
Sonaecom	-	2,650,000
Others	335,000	400,000
	<u>200,106,116</u>	<u>45,182,317</u>

During the year ended on 31 December 2005, the bank term deposits referred to above have earned interest at market rates, between 1.55% and 3.05%.

18. Share capital

At 31 December 2005 and 2004 the share capital of Sonaecom was comprised by 296,526,868 and 226,250,000, respectively, ordinary bearer shares of 1 Euro each, respectively. At those dates, the shareholder structure was as follows:

	2005		2004	
	Number of shares	%	Number of shares	%
Sonae Investments BV	146,133,648	49.28%	147,211,738	65.07%
Wirefree Services Belgium, S.A.	51,533,076	17.38%	-	-
Shares traded on the Portuguese Stock Exchange ("Free float")	40,752,354	13.74%	39,674,264	17.53%
Sonae	39,362,998	13.28%	39,362,998	17.40%
Atlas Services Belgium, S.A.	18,743,792	6.32%	-	-
Efanor Investimentos, S.G.P.S., S.A	1,000	0.00%	1,000	0.00%
	<u>296,526,868</u>	<u>100.00%</u>	<u>226,250,000</u>	<u>100.00%</u>

19. Minority interests

Minority interests at 31 December 2005 and 2004 are made up as follows:

	2005	2004
Optimus and Optimus Towering	111,996,080	171,822,533
Enabler and subsidiaries	4,018,556	3,350,216
Digitmarket	321,707	300,053
Retailbox	(1,112,438)	101,618
Novis, Jaua and Noriema	-	6,406,672
Mainroad	-	2,409,425
Clix	-	(400,940)
Others	(60,791)	(69,858)
	<u>115,163,114</u>	<u>183,919,719</u>

20. Loans

At 31 December 2005 and 2004, the heading Loans had the following breakdown:

a) Medium and long-term loans - net of short-term portion

Subsidiary	Issue denomination	Limit	Maturity	Type of reimbursement	Amount outstanding	
					2005	2004
Sonaecom SGPS	‘Obrigações Sonaecom SGPS 2005’	-	June 2013	Final	150,000,000	-
	Costs associated with setting-up the financing	-	-	-	(3,732,811)	-
					146,267,189	-
Optimus	European Investment Bank (a)	324,458,200	June 2009	30% - Jun 08 70% - Jun 09	324,458,200	324,458,200
	Revolving credit facility (syndicate)	125,541,800	June 2009	Final	-	-
	Costs associated with setting-up the financing	-	-	-	(15,078,463)	(19,319,634)
	Fair value of swaps	-	-	-	216,412	-
					309,596,149	305,138,566
					455,863,338	305,138,566

(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.

b) Short-term loans and other loans

Subsidiary	Lender	Type	2005	2004
Various	Various	Bank overdrafts	54,420	1,710,861
Optimus	-	Fair values of swaps	-	797,483
			54,420	2,508,344

During the year ended 31 December 2005, the amounts related to fair value of swaps were reclassified from Current to Non current liabilities.

These loans bear interest at market rates, indexed to the Euribor of the respective term and were all contracted in Euro. The spread applicable to the long term financings is 87.5 basis points in the case of the “Sonaecom SGPS 2005” Bonds and, currently, 55 basis points in the Optimus syndicated loan (in this case, the spread may vary based on the level of Net Debt to EBITDA of that subsidiary).

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

As at 31 December 2005, the repayment Schedule of medium and long term loans and bonds was as follows:

Maturity year	2005	2004
2008	97,337,460	97,337,460
2009	227,120,740	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 limits, 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 31 December 2005:

Subsidiary	Hedged loan	Notional Amount	Expiry date	Base rate	Fixed rate contracted	Fair value of the derivative transaction
Optimus	European Investment Bank	55,000,000	Dec-07	Euribor 3m	3.68% (a)	(216,412)
		55,000,000				(216,412)

(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.

The fair value of derivatives that are not considered as hedges for the purposes of IAS 39 or that are not sufficiently effective in that coverage (in accordance with the conditions stipulated in that rule), are recognised under Debts to financial institutions. Changes in the fair value of such derivatives are recognised directly in the profit and loss statement of the period.

21. Other non current creditors

At 31 December 2005 and 2004 this caption was made up of accounts payable to fixed asset suppliers that are due in more than one year, in the amounts of Euro 9,698,642 and Euro 3,425,011, respectively.

22. Other non current financial liabilities

At 31 December 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	1,886,588	2,350,517
Clix (France Telecom)	-	1,602,841
	1,886,588	3,953,358

At 31 December 2005, accounts payable to fixed assets suppliers related to leasing contracts are due as follows:

	2005		2004	
	Lease payments	Present value of lease payments	Lease payments	Present value of lease payments
2005	-	-	4,236,313	4,070,891
2006	3,409,142	3,257,037	2,200,366	2,164,493
2007	926,654	860,008	190,489	186,024
2008	593,516	562,411	-	-
2009	385,583	378,551	-	-
2010	87,002	85,618	-	-
	5,401,897	5,143,625	6,627,168	6,421,408
Interest	(258,272)	-	(205,760)	-
	5,143,625	5,143,625	6,421,408	6,421,408
Short term liability (Note 26)	-	(3,257,037)	-	(4,070,891)
	5,143,625	1,886,588	6,421,408	2,350,517

23. Provisions and accumulated impairment losses

The movements in provisions and accumulated impairment losses in the year ended 31 December 2005 were as follows:

Heading	Opening balance	Transfers	Increases	Companies no longer consolidated	Utilisation	Decreases	Closing balance
Accumulated impairment losses on accounts receivable (Notes 13 and 14)	67,363,508	-	4,600,864	(8,296)	(6,960,745)	(89,900)	64,905,431
Accumulated impairment losses on inventories (Note 12)	4,565,764	-	2,891,801	-	(288,138)	(35,178)	7,134,249
Accumulated impairment losses on investments available for sale (Note 8)	2,685,477	-	-	-	-	-	2,685,477
Accumulated impairment losses on other non current assets and associated companies investments (Notes 3, 5 and 11)	24,316	962,640	-	-	-	-	986,956
Provisions for other liabilities and charges	4,292,249	(962,640)	3,160,762	(1,995)	(743,663)	(652,237)	5,092,476
	78,931,314	-	10,653,427	(10,291)	(7,992,546)	(777,315)	80,804,589

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 Rádio Nova/SIRS and the financial investment held on Net Mall. During the year ended 31 December 2005, those provisions were transferred from the heading 'Provisions for other liabilities and charges' to 'Impairment losses in other non current assets' (Notes 3 and 11).

Increase of 'Provisions for other liabilities and charges' includes the amount of Euro 2,883,060 that is associated with the dismantling of sites, as foreseen under rule IAS 16 (Note 1.c.)). As such, the total amount included under increase of provisions and of impairment losses, registered against a corresponding entry in the profit and loss statement, corresponds to Euro 7,770,367.

The heading utilisation refers, essentially, to the use of provisions in the subsidiary Optimus, which was registered against an entry in costumers' current accounts.

24. Other non-current liabilities

This caption, in the amounts of Euro 8,077,712 and Euro 9,794,878, respectively at 31 December 2005 and 2004, corresponds to the medium and long term amount associated with the Deferred Performance Bonus Plans of the Group (Note 39).

25. Trade creditors

At 31 December 2005 and 2004 this caption was made up as follows:

	2005	2004
Suppliers - current account	101,635,809	115,421,318
Suppliers – bills payable	-	467,519
Suppliers - invoices pending approval	10,123,946	2,590,238
Fixed assets suppliers	31,543,705	34,570,269
	143,303,460	153,049,344

26. Other current financial liabilities

At 31 December 2005, this caption includes the amount of Euro 3,257,037 (Euro 4,070,891, in 2004) related to the short term portion of lease contracts (Note 22).

27. Other creditors

At 31 December 2005 and 2004 this caption was made up as follows:

	2005	2004
State and other public entities	14,825,863	11,049,202
Other creditors	3,972,285	6,563,666
	18,798,148	17,612,868

At 31 December 2005 and 2004, the caption 'State and other public entities' related essentially to Taxes payables (Value Added Tax, Corporate Income Tax Social Security contributions and withholdings of Personal Income Tax) from the following subsidiaries:

	2005	2004
Optimus	7,750,448	2,278,163
Público	1,234,193	984,788
Enabler	1,163,139	1,391,359
WeDo	1,057,467	1,695,048
Novis	803,770	1,213,148
Others	2,856,846	3,486,696
	<u>14,865,863</u>	<u>11,049,202</u>

28. Other current liabilities

At 31 December 2005 and 2004 this caption was made up as follows:

	2005	2004
Accrued expenses:		
Personnel costs	25,853,907	26,015,260
Invoices to be issued by operators	25,558,684	28,251,622
Commissions	13,722,331	9,011,992
Advertising and promotion	6,483,903	4,307,844
Deferred Performance Bonus Plan (Note 39)	5,857,905	2,182,651
Specialised work	4,701,786	5,799,197
Other external supplies and services	2,623,025	5,926,939
Rappel discounts (annual quantity discounts)	2,398,264	1,389,230
Maintenance and repairs	1,479,588	1,945,592
Accrued financial expenses	566,825	1,024,523
Other accrued expenses	6,251,157	4,870,534
	<u>95,497,375</u>	<u>90,725,384</u>
Deferred income:		
Customer advance payments	22,657,875	20,704,206
Other deferred income	659,461	2,747,037
	<u>23,317,336</u>	<u>23,451,243</u>
	<u>118,814,711</u>	<u>114,176,627</u>

The heading 'Customer advance payments' is associated, mainly, with the recharges of mobile phones and the acquisition of pre-paid minutes which were not yet used, by the customers of the subsidiary Optimus.

29. Sales and services rendered

At 31 December 2005 and 2004 the caption 'Sales and services rendered' was made up as follows:

	2005	2004
Mobile network	621,560,876	637,332,138
Fixed network and Internet	120,938,557	130,144,223
Multimedia	44,128,922	54,528,769
Information Systems	56,327,310	55,062,798
Other	505,195	3,091,091
	<u>843,460,860</u>	<u>880,159,019</u>

30. Other operating revenues

At 31 December 2005 and 2004 the caption 'Other operating revenues' was made up as follows:

	2005	2004
Supplementary income	3,076,111	2,822,705
Operating subsidies	418,971	877,602
Other	2,331,828	3,267,223
	<u>5,826,910</u>	<u>6,967,530</u>

The caption 'Supplementary income' includes, essentially, expenses with telecommunications infrastructures shared by Novis and Optimus, which are first recorded as a cost and then invoiced to the corresponding partner operators. The heading 'Other' includes, mainly, capital gains generated by the sale of tangible assets.

31. External supplies and services

'External supplies and services' for the years ended 31 December 2005 and 2004 are made up as follows:

	2005	2004
Interconnection costs	200,004,733	216,971,013
Commissions	53,293,199	48,266,357
Advertising and publicity	41,684,858	34,970,428
Leased lines	19,099,963	17,521,128
Other supplies and services	140,740,613	136,563,984
	<u>454,823,366</u>	<u>454,292,910</u>

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

32. Other operating costs

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

	2005	2004
Taxes	10,855,196	11,753,891
Others	1,189,769	1,803,763
	<u>12,044,965</u>	<u>13,557,654</u>

The caption 'Taxes' at 31 December 2005 and 2004 includes essentially the fees paid by the subsidiary Optimus to ANACOM, calculated based on the number of its active costumers. This obligation is included in the terms of the GSM operator license granted to that subsidiary.

33. Financial results

Net financial results for the years ended 31 December 2005 and 2004 are made up as follows:

	2005	2004
Financial results related to associated companies:		
Losses on associated companies	-	(35,001)
Gains on associated companies	-	24,528
	<u>-</u>	<u>(10,473)</u>
Other financial results:		
Interest expense	(12,179,189)	(16,154,919)
Interest income	4,234,357	2,419,333
Adjustments to fair value on investments recorded at fair value through profit and loss (Note 16)	(22,399)	-
Foreign exchange losses	(193,898)	(211,047)
Foreign exchange gains	444,029	373,629
Other financial results	<u>(5,373,658)</u>	<u>(4,848,425)</u>
	<u>(13,090,758)</u>	<u>(18,421,429)</u>
	<u>(13,090,758)</u>	<u>(18,431,902)</u>

'Interest income' includes, mainly, interest earned on the treasury applications granted to Sonae and on bank deposits (Note 17).

34. Income taxation

Income taxes recognised during the years ended 31 December 2005 and 2004 are made up as follows (costs/gains):

	2005	2004
Current tax	(1,631,526)	(1,390,043)
Deferred tax (Note 10)	(2,376,762)	(16,761,649)
	<u>(4,008,288)</u>	<u>(18,151,692)</u>

35. Related parties

During the year ended 31 December 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 31 December 2005 were as follows:

Balances:	Accounts receivable	Accounts payable	Treasury applications	Loans obtained
Sonae	129,601	(15,851)	172,473,004	-
Modelo Continente Hipermercados, S.A.	5,856,858	(369,011)	-	-
France Telecom	626,857	(1,291,704)	-	-
Sonae Investments BV	-	(11,684,019)	-	-
	<u>6,613,316</u>	<u>(13,360,585)</u>	<u>172,473,004</u>	<u>-</u>

Transactions:	Sales and services rendered	Supplies and services received	Interest income/ (expenses)	Supplementary income
Sonae	325,718	178,685	2,506,875	16,951
Modelo Continente Hipermercados, S.A.	18,255,836	1,380,866	-	397,650
France Telecom	4,545,622	8,665,168	(59,013)	-
	<u>23,127,176</u>	<u>10,224,719</u>	<u>2,447,862</u>	<u>414,601</u>

36. Guarantees provided to third parties

Guarantees provided to third parties at 31 December 2005 and 2004 are as follows:

Company	Beneficiary	Description	2005	2004
Optimus	European Investment Bank	Loan	324,458,200	324,458,200
Optimus	ANACOM	UMTS License	2,493,989	2,493,989
Optimus and Público	Direcção de Contribuições e Impostos (Portuguese tax authorities)	VAT - Liquidation	598,000	-
Novis	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
Optimus and Novis	Hewlett Packard	Finance lease and services provider contracts	227,652	793,993
Novis	ANACOM	Fixed Network License	-	648,437
Clixgest	Direcção de Contribuições e Impostos (Portuguese tax authorities)	VAT Reimbursements	-	598,000
Público	Fazenda Pública do Porto (Oporto Public Treasury)	Tax process nº3190/98	209,493	209,493
We Do	API (Portuguese Investment Agency)	Application to PRIME subsidies	184,004	184,004
Optimus and Novis	Direcção Geral do Tesouro (Portuguese tax authorities)	IRC – Withholding tax on payments to non-residents	164,000	-
Novis	Governo Civil de Santarém (Santarém District Civil)	Guarantee the fulfilment of legal obligations associated with a public contest launched	119,703	119,703
Novis	Câmara Municipal de Coimbra (Coimbra Municipality)	Performance bond - works	101,403	32,200
Optimus	Governo Civil de Lisboa (Lisbon District Civil)	Guarantee the fulfilment of legal obligations	98,195	210,640
Novis	Câmara Municipal de Lisboa (Lisbon Municipality)	Performance bond - works	90,060	103,709
Exit	Direcção Geral do Turismo (Portuguese tourism authorities)	Guarantee the fulfilment of legal obligations included in references c), d) and e) of point 2 of article 41.º from Decree-Law 209/97 of 13 August	-	99,760
Novis	Câmara Municipal de Braga (Braga Municipality)	Performance bond - works	45,416	45,416
Novis	Câmara Municipal de Elvas (Elvas Municipality)	Performance bond - works	28,142	28,142
Various	EDP	Supplies of electricity	19,813	27,278
Novis	Governo Civil do Porto (Oporto District Civil)	Guarantee the fulfilment of legal obligations associated with a public contest launched	-	14,262
Various	Others		510,003	331,123
			<u>329,947,455</u>	<u>330,669,860</u>

37. Information by business segment

The following business segments were identified for the years ending 31 December 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.

Inter-segment transactions at 31 December 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 31 December 2005 and 2004 can be summarised as follows:

	Mobile Network		Fixed Network and Internet		Multimedia		Information Systems		Other		Sub-total		Eliminations		Total	
	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004
Revenues:																
Sales and services rendered	627,446,576	659,574,510	158,379,403	150,060,251	44,592,024	55,490,031	85,971,727	82,003,771	7,002,486	7,791,357	923,392,216	954,919,920 #	(79,931,356)	(74,760,902)	843,460,860	880,159,019
Other operating revenues	25,905,852	13,735,584	3,781,391	3,485,328	620,941	220,113	2,256,717	1,830,665	1,635,692	1,521,834	34,200,593	20,793,524 #	(28,373,683)	(13,825,994)	5,826,910	6,967,530
Total revenues	653,352,428	673,310,094	162,160,795	153,545,579	45,212,965	55,710,144	88,228,444	83,834,436	8,638,178	9,313,191	957,592,810	975,713,444	(108,305,039)	(88,586,896)	849,287,770	887,126,549
Depreciation and amortisation	(109,225,533)	(105,373,006)	(14,997,108)	(15,959,303)	(1,241,942)	(1,871,978)	(3,339,008)	(2,813,835)	(349,797)	(519,342)	(129,153,389)	(126,537,463) #	930,567	1,339,730	(128,222,823)	(125,197,734)
Net operating income/(loss) for the segment	57,921,727	84,779,824	(29,658,960)	(12,241,189)	(2,934,550)	242,695	6,117,771	(408,233)	(2,636,017)	(3,739,550)	28,809,972	68,633,547 #	(156,912)	6,782,247	28,653,059	75,415,794
Net interests	(8,337,246)	(14,242,085)	(1,807,203)	(943,795)	(222,923)	(202,815)	78,041	(328,907)	2,368,045	1,777,234	(7,921,286)	(13,940,368) #	(23,546)	204,782	(7,944,832)	(13,735,586)
Gains and losses in associated companies	-	(20,814)	-	-	-	-	-	-	-	5,881,821	-	5,861,007 #	-	(5,871,480)	-	(10,473)
Other financial results	(4,697,870)	(4,278,283)	(267,726)	(6,325,368)	(12,189)	21,334	330,192	139,134	10,344,260	(18,946,061)	5,696,667	(29,389,244) #	(10,842,593)	24,703,401	(5,145,926)	(4,685,843)
Income taxation	164,480	(15,695,909)	(2,782,533)	(1,000,615)	(23,946)	(29,556)	(1,357,261)	(1,413,511)	(9,030)	(12,100)	(4,008,288)	(18,151,691) #	-	(1)	(4,008,288)	(18,151,692)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	- #	(9,397,815)	(20,783,827)	(9,397,815)	(20,783,827)
Consolidated net income/(loss) for the year attributable to the Shareholders of Parent Company	45,051,090	50,542,733	(34,516,421)	(20,510,967)	(3,193,607)	31,658	5,168,744	(2,011,516)	10,067,259	(15,038,656)	22,577,065	13,013,252 #	(20,420,866)	5,035,122	2,156,198	18,048,373
Assets:																
Fixed assets and Goodwill	568,406,533	594,366,751	90,953,090	79,508,423	2,522,680	2,646,551	15,445,740	17,143,346	2,362,447	2,522,964	679,690,490	696,188,036 #	258,485,475	2,178,443	938,175,965	698,366,479
Inventories	19,336,398	10,428,863	2,184,074	340,105	1,638,078	2,058,520	54,114	-	-	57	23,212,665	12,827,545 #	-	-	23,212,665	12,827,545
Financial investments and other non current assets	69,229,618	70,072,781	327,785	15,621,235	2,660,407	2,677,338	1,778,884	1,927,686	1,267,792,006	820,508,864	1,341,788,700	910,807,904 #	(1,269,800,171)	(831,842,009)	71,988,529	78,965,895
Other current assets of the segment	251,780,949	189,103,114	51,134,360	44,028,555	8,982,717	9,570,479	37,429,539	33,033,180	191,394,369	90,985,694	540,721,935	366,721,022 #	(122,313,164)	(98,284,243)	418,408,771	268,436,779
	908,753,499	863,971,509	144,599,309	139,498,318	15,803,883	16,952,888	54,708,277	52,104,212	1,461,548,822	914,017,579	2,585,413,789	1,986,544,506 #	(1,133,627,860)	(927,947,808)	1,451,785,930	1,058,596,698
Liabilities:																
Liabilities of the segment (excluding minority interests)	540,004,412	541,070,996	123,040,309	101,437,350	18,223,876	19,890,962	31,242,195	36,721,257	276,908,764	72,510,305	989,419,557	771,630,870 #	(224,573,025)	(153,608,734)	764,846,532	618,022,136
	540,004,412	541,070,996	123,040,309	101,437,350	18,223,876	19,890,962	31,242,195	36,721,257	276,908,764	72,510,305	989,419,557	771,630,870 #	(224,573,025)	(153,608,734)	764,846,532	618,022,136

38. Earnings per share

Earnings per share, basic and diluted, are calculated by dividing the consolidated net income of the year (Euro 2,156,198 in 2005 and Euro 18,048,373 in 2004) by the average number of shares outstanding during the years ending 31 December 2005 and 2004 (296,526,868 shares during two months in 2005 and 226,250,000 during ten months of 2005 and 2004).

39. Deferred Performance Bonus Plans

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

The Sonaecom plans outstanding at 31 December 2005 can be summarized as follows:

	Share price at award date*	Vesting Period		Exercise Period		At 31 December 2005	
		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	38	198,302
2002 Plan	1.694	31-Mar-03	31-Mar-06	1-Apr-06	31-Mar-07	113	1,851,312
2003 Plan	-	-	-	-	-	-	-
2004 Plan	-	-	-	-	-	-	-
Sonaecom Shares							
2001 Plan	3.014	31-Mar-02	31-Mar-05	-	-	-	-
2002 Plan	1.694	31-Mar-03	31-Mar-06	-	-	212	1,265,574
2003 Plan	3.190	31-Mar-04	31-Mar-07	-	-	363	1,209,010
2004 Plan	3.960	31-Mar-05	31-Mar-08	-	-	387	1,074,556
Sonae SGPS Shares							
2001 Plan	0.92	31-Mar-02	31-Mar-05	-	-	-	-
2002 Plan	0.36	31-Mar-03	31-Mar-06	-	-	11	797,998
2003 Plan	0.93	31-Mar-04	31-Mar-07	-	-	12	357,447
2004 Plan	1.17	31-Mar-05	31-Mar-08	-	-	13	355,920

* 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 13,935,617. This value is reflected in the captions 'Other non current liabilities' (Euro 8,077,712) and 'Other current liabilities' (Euro 5,857,905), 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 year ended as at 31 December 2005, are as follows:

	Amount
Costs recognised on previous years	7,061,703
Costs recognised in the year	4,832,062
Cost of plans from subsidiary Exit (no longer consolidated)	(8,882)
Cost of plans vested on previous years	(746,998)
Cost of plans vested in the year	(2,334,437)
Other non current and current assets (Deferred costs not yet recognised)	5,132,169
Other non current and current liabilities (Total cost of the Plans)	<u>13,935,617</u>

40. Remuneration attributed to the members of the Board of Directors of the parent company

The Fixed Remuneration and Performance Bonus attributed to the members of the Board of Directors of Sonaecom, by the companies included in the consolidation, during the years ended 31 December 2005 and 2004, calculated on an accruals basis, amounted to Euro 1,645,709 and Euro 1,775,120, respectively. In addition, members of the Board of Directors of Sonaecom are awarded deferred compensation under the Sonaecom Deferred Performance Bonus Plan, as described in the Note 39 above.

Full details on the participation of the Board of Directors in the Sonaecom Deferred Performance Bonus Plan are disclosed in the Consolidated Management Report.

41. Average number of employees

During the years ending 31 December 2005 and 2004 the companies included in the consolidation employed an average number of 2,344 and 2,438 employees, respectively.

42. Others matters

(i) As of 31 December 2005, accounts receivable from customers and payable to suppliers include Euro 37,177,291 and Euro 29,913,608, respectively, and 'Other current assets' and 'Other current liabilities' include Euro 411,649 and Euro 6,856,200, respectively, resulting from a dispute between the subsidiary Optimus and the operator TMN – Telecomunicações Móveis Nacionais, S.A., in relation to interconnection tariffs, already recorded on the year ended 31 December 2001. The Company has considered the most penalising tariffs in the consolidated financial statements. At the time of this report, the court had already finished the judgement phase but the final decision is not known yet.

(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 over term the decisions of the Arbitration Court) to be upheld.

43. 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 Optimus, and the Board of Directors of Sonaecom, believes that a substantial change in circumstances has occurred since these commitments were first made, and as such, believes that the original commitments should be renegotiated with the Regulator and the Government. Accordingly, discussions have been opened with ANACOM regarding this issue but no conclusions have yet been reached. As a consequence, it is the understanding of the Board of Directors of Optimus 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.

44. Subsequent events

On 6 and 7 February 2006, Sonae and Sonaecom presented the preliminary announcements for the launch of a general tender offer for acquisition of the whole shares representing the share capital of Portugal Telecom SGPS, S.A. (PT) and of PT – Multimédia – Serviços de Telecomunicações, SGPS, S.A., at the nominal price of Euro 9.5 and Euro 9.03, respectively, and of the convertible bonds issued by the first, pursuant to a resolution adopted on November 29, 2001, with a principal amount of Euro 5,000 each, having appointed as the financial intermediary and provider of assistance services in relation to the offer, Banco Santander de Negócios Portugal, S.A.. Considering certain assumptions, we estimate that the amount involved in the operations above referred could ascend to, approximately, 12,000 million Euros.

The referred offers are dependent on the legalities, approvals and authorisations required in accordance with the law, namely the absence of objection from the Portuguese Competition Authority. However its success is especially associated with the decisions of the current shareholders, including the Portuguese State.

Following the preliminaries announcements, Sonae and Sonaecom made public that the launch of the offer will be made by Sonaecom, directly and/or by special purpose vehicles incorporated for those purposes. The financing for the acquisition is secured with Santander Group and is subject to a repayment schedule with a maturity of up to 7 years. Depending on the success of the general tender offer, and if necessary, a share capital increase is envisaged at Sonaecom for a maximum amount of up to 1,500 million Euro. Finally, Sonaecom has also secured the funds to refinance the current outstanding debt at PT Group, if that becomes necessary or convenient.

Therefore, in case of success of the referred general tender offer for acquisition, the future business activity of the Company will be affected by that fact.

These consolidated financial statements were approved and authorized for publication by the Board of Directors on 7 March 2006.

These financial statements are a translation of financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards (IAS/IFRS) and the format and disclosures required by those Standards, some of which may not conform to or be required by generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

LEGAL CERTIFICATION OF ACCOUNTS
AND AUDIT REPORT

CONSOLIDATED ACCOUNTS

(Translation of a report originally issued in Portuguese)

Introduction

1. In compliance with the applicable legislation we hereby present our Legal Certification of Accounts and Audit Report on the consolidated financial information contained in the Management Report and on the accompanying consolidated financial statements for the year ended 31 December 2005 of SONAE COM, S.G.P.S., S.A. ("the Company") and subsidiaries, which comprise the consolidated balance sheet as of 31 December 2005, that reflects a total of 1,451,785,930 Euros and shareholders' funds of 686,939,398 Euros, including a net profit of 2,156,198 Euros, the consolidated statements of profit and loss, of cash flows and of changes in equity for the year then ended and the corresponding notes.

Responsibilities

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

Scope

4. Our examination was performed in accordance with the Technical Review/Audit Standards (*“Normas Técnicas e as Directrizes de Revisão/Auditoria”*) issued by the Portuguese Institute of Statutory Auditors (*“Ordem dos Revisores Oficiais de Contas”*), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Such an examination includes verifying, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the significant estimates, based on judgements and criteria defined by the Company’s Board of Directors, used in their preparation. Such an examination also includes: verification of the consolidation procedures used, the application of the equity method, as well as verifying that the financial statements of the companies included in the consolidation have been appropriately examined; assessing the adequacy of the accounting principles used and their uniform application and disclosure, taking into consideration the circumstances; the verification of the applicability of the going concern concept; the adequacy of the overall presentation of the consolidated financial statements; and assessment that, in all material respects, the information is complete, true, up-to-date, clear, objective and licit. Our examination also included verifying that the information included in the consolidated Management Report is consistent with the other consolidated documents of account. We believe that our examination provides a reasonable basis for expressing our opinion.

Opinion

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above, present fairly, in all material respects, the consolidated financial position of SONAE COM, S.G.P.S., S.A. and subsidiaries as of 31 December 2005, the consolidated results of its operations and their consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IAS/IFRS), issued by the International Accounting Standards Board (IASB) and adopted by the European Union, and the information contained therein is, in terms of the definitions included in the technical standards and review recommendations referred to in paragraph 4 above, complete, true, up-to-date, clear, objective and licit.

Porto, 07 March 2006

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

REPORT AND OPINION OF THE STATUTORY AUDITOR
CONSOLIDATED FINANCIAL STATEMENTS

(Translation of a report originally issued in Portuguese)

To the Shareholders of
SONAECON, S.G.P.S., S.A.

In compliance with the applicable legislation and our mandate we hereby submit our Report and Opinion which covers our work and the consolidated documents of account of SONAECON, S.G.P.S., S.A. (“Company”) for the year ended 31 December 2005, which are the responsibility of Company’s Board of Directors.

We accompanied, in the adequate time and with the appropriated scope the evolution of the operations of the Company and its principal subsidiaries and affiliated companies, the writing up of their accounting records and their compliance with the requirements of current legislation and their articles of association, having obtained from the Board of Directors and personnel of the Company and its principal subsidiaries and affiliated companies, all the information and explanations required.

In performing our work, we examined the consolidated Balance sheet as of 31 December 2005, the consolidated Statements of profit and loss by nature, of cash flows and of changes in equity for the year then ended and the accompanying notes. Additionally, we examined the consolidated Directors’ Report for 2005, prepared by the Company’s Board of Directors. As a consequence of our legal examination, we have issued the Legal Certification of Accounts on the consolidated financial statements, which does not include any qualification and the Annual Fiscalization Report.

Considering the above, in our opinion the consolidated financial statements referred to above and the consolidated Directors’ Report, are in accordance with the accounting, legal and statutory requirements and so can be approved by the Shareholders’ General Meeting.

We wish to thank to the Board of Directors and personnel of the Company and its associated companies for the assistance provided to us.

Porto, 7 March 2006

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

SONAE COM, SGPS, S.A.

(sociedade aberta)

Sede: Lugar do Espido, Via Norte, Maia

Pessoa Colectiva: 502 028 351

Capital Social. €296.526.868,00

Matrícula na CRC Maia n.º 45 466

I hereby certify, according to minutes number thirty-three, that in the Shareholders General Meeting held on the fifth day of April of two thousand and six, the following proposals were approved:

a) “We propose that the Individual Management Report and Accounts of Sonaecom, SGPS, SA for the year ending 31 December 2005 are approved as presented.”

b) “We propose that the Consolidated Management Report and Accounts of Sonaecom, SGPS, SA for the year ended 31 December 2005 are approved as presented.”

c) “As reported in the Company’s Individual Management Report and Financial Statements for the year ended 31 December 2005, Sonaecom generated a Net Result of eight million eight hundred and ninety four thousand three hundred and sixty nine euros and fifty eight cents (€ 8.894.369,58).

According to the law and the Company’s Articles of Association, it is hereby proposed that four hundred forty four thousand seven hundred eighteen euros and forty eight cents (€ 444.718,48) be transferred to Legal Reserve and eight million four hundred and forty nine thousand and six hundred and fifty one euros and ten cents (€ 8.449.651,10) be transferred to Retained Earnings.”

d) “We propose a vote to express our appreciation of the work performed by the Board of Directors and by the Statutory External Auditor during the year ended 31 December 2005 and to confirm our continuing confidence in them.”

e) “Following the resignation of David Graham Shenton Bain from the Board of Directors of Sonaecom, SGPS, SA, it is proposed that Maria Cláudia Teixeira de Azevedo, married, born in Cedofeita, Porto, residing at Rua Padre Luís Cabral, 399, 4º, Porto, should be appointed to the Board of Directors for the remainder of the current Board mandate (2004/2007).

It is further proposed that: she shall provide a guarantee (stand bond) for her responsibilities as a Director, for an amount of five thousand euros, either by cash deposit, or through depositing shares, or under an insurance policy; she shall be authorised to hold positions on the Board of Directors of companies in which Sonae, SGPS, SA holds a controlling interest; and she shall be remunerated under terms to be approved by the Shareholders’ Remuneration Committee.”

f) “We propose that composition of the Shareholders’ Remuneration Committee should be changed for the remainder of their current mandate (2004/2007), to include the following shareholders:

SONAE SGPS, S.A., represented by José Manuel Trindade Neves Adelino

SONAE INVESTMENTS, BV, represented by Bruno Walter Lehmann”.

g) “We hereby propose that the General Conditions applicable to the Company’s deferred share based plan for employees and Executive Directors should be approved.

The General Conditions that currently apply to the “Sonaecom Medium and Long Term Incentive Plan” (formerly called the “Sonaecom Deferred Performance Bonus Plan”), are attached as an Appendix to this proposal. These have already been approved by the Shareholders’ Remuneration Committee (“Comissão de Vencimentos”), in terms of their application to the Company’s Executive Directors.

We furthermore propose that the Board of Directors, either acting directly or through delegation of powers to the Board Nomination and Remuneration Committee, should be granted the necessary powers to execute the plan, and additionally, to amend the plan, provided that the strategic intent, alignment and framework remain substantially unchanged. Any amendments that will apply to the Executive Directors of the Company will be subject to the approval of the Shareholders’ Remuneration Committee.”

h) “The Compensation Policy to be applied to our Statutory Corporate Officers and Governing Bodies, which we hereby propose, is based upon the understanding that initiative, effort and commitment are the essential foundations for delivering good performance. That is why we should aim to assess and measure each individual’s activity, performance and contribution to our organization’s success on an annual basis, and then use this information to decide the variable remuneration and other compensation to be attributed to each individual.

Executive Board Members

We propose that the compensation policy for the Executive Members of our Board (EDs) should follow the policy adopted for all Sonaecom senior managers, which includes three components: (i) a “Fixed Base Remuneration”, which is paid as an Annual Salary (salaries are paid 14 times per annum in Portugal), (ii) an “Annual Performance Bonus”, which is paid during the first quarter of the following year, and (iii) a discretionary third component, attributable on 31 March of the following year, in the form of deferred compensation under our “Deferred Performance Bonus Plan” (as from 2006, this will be renamed as our “Medium and Long Term Incentive Plan”), which becomes payable on the third anniversary of the attribution date.

(i) Individual compensation packages will be defined as a function of the level of responsibility of each ED and will be reviewed annually. Each ED is attributed a Sonaecom Job Grade. Either “*Group Senior Executive*” or “*Senior Executive*” normally applies to Sonaecom’s EDs. Sonaecom Job Grades are applied in a similar way across all Sonae Group companies and are related to Hay’s international model for the classification of corporate functions, thereby facilitating market comparisons, as well as helping to promote internal equity. The compensation packages to be awarded to EDs will be benchmarked using market surveys of the compensation of Portuguese and European top executives, with the aim of setting fixed

remuneration close to the median and total compensation close to the third quartile in comparable circumstances;

(ii) Annual Performance Bonuses will be aimed at rewarding the achievement of certain pre-defined annual objectives, which are linked to both “Key Performance Indicators of Business Activity (Business KPIs)” and “Personal KPI’s”. The target amounts attributed will be based on a percentage of the Fixed Base Remuneration, which will range between 40% and 80%, depending on the ED’s Sonaecom Job Grade. Business KPIs, which include economic and financial indicators will be based on approved budgets, share price performance, individual business unit performance as well as the performance of our Group as a whole, will derive 70% of the Annual Performance Bonus and are objective indicators. The remaining 30% of the Annual Performance Bonus will derive from Personal KPI’s, which are a mix of objective and subjective indicators. Actual amounts paid will be based on the real performance achieved or assessed and can represent anything from 0% to 120% of the target amount attributed;

(iii) The “Deferred Performance Bonus Plan” (as from 2006, the “Medium Term Incentive Plan”) will be aimed at enhancing ED’s loyalty, aligning them with shareholders, and increasing their awareness of the importance of their performance on the overall success of our organization, including the future evolution of our share price and of the Total Share Return delivered to our shareholders. The terms under which EDs will participate in the “Deferred Performance Bonus Plan” (as from 2006, the “Medium and Long Term Incentive Plan”) are similar to those that will apply to all other eligible employees of the Company. Currently, the initial values attributed are derived from the amounts of the Annual Performance Bonuses actually paid. For Executive Directors, this normally represents 100% of the Annual Performance Bonus paid. These values are converted into equivalent shares and are, thereby linked to Total Share Return achieved during the 3 year deferral (or vesting) period. This linkage is based on Sonaecom shares but for the most senior managers, including Executive Directors, a component, representing up to 40% of the overall value, is linked to Sonae, SGPS shares. At the vesting date, payment is made by delivering shares free of cost, although an option to pay an equivalent cash value also exists. The current Plan is explained in more detail in the 2005 Annual Report submitted to this Shareholders’ General Meeting under Agenda Point 2 and also in the Proposal submitted under Agenda Point 7. Ways of improving the Medium and Long Term Incentive Plan for 2006 and future years are being sought, and we propose that flexibility should be allowed to incorporate changes, provided that the strategic intent, alignment and framework remain unchanged.

Non-Executive Board Members

We propose that the remuneration of our Non-Executive Members of our Board (NEDs) should continue to follow current practice at Sonaecom: (1) Only fixed remuneration is payable, as no variable remuneration or other compensation is payable to NEDs; (2) for internal NEDs, remuneration paid at Sonaecom is derived from their overall Sonae Group compensation, allocated in proportion to estimated time dedicated to Sonaecom as NEDs; (3) For all external

NEDs a fixed basic remuneration is payable, based on benchmarking to the market. This is increased by 10% for those NEDs serving on Board Committees and by an additional 10% for Chairmanship of a Board Committee.

Statutory External Auditor

We propose that the Statutory External Auditor of our Company should be remunerated in accordance with normal fee levels for similar services, benchmarked against the market, and negotiated on an annual basis, under the supervision of our Board Audit & Finance Committee.

We furthermore propose that the Compensation Policy hereby proposed is applied for the current mandate of our Statutory Corporate Officers and Governing Bodies, which corresponds to the four-year period 2004-2007".

i) "We propose that it is approved the purchase, over the next eighteen months and up to the limit set out in paragraph 2 of article 317 of the Portuguese Companies Code, own shares, either through the stock exchange or over the counter, if the seller is a company directly or indirectly controlled by the Company, for a price per share not lower than the average share price in the ten-day period prior to the date of purchase, less 50%, and not higher than the average share price in the ten-day period prior to the date of purchase, plus 10%, and to grant the Board of Directors powers to decide if and when such purchases should be made.

The own shares should be purchased exclusively for the purpose of being delivered to participants, including Executive Members of the Board of Directors and employees, under the terms of the Sonaecom Medium Term Incentive Plan."

j) "We propose that, under the terms of Paragraph 2 of Article 325-B of the Portuguese Companies Code, companies directly or indirectly controlled by the Company (as defined in Article 486 of the same Code) should be authorized to purchase and hold shares issued by the Company. Such shares may be purchased, through the stock exchange, over the next 18 months and up to the limit permitted by law, for a price per share not lower than the average share price in the ten-day period prior to the date of purchase, less 50%, and not higher than the average share price in the ten-day period prior to the date of purchase, plus 10% and to grant the Board of Directors powers to decide if and when such purchases should be made.

The own shares should be purchased exclusively for the purpose of being delivered to participants, including Executive Members of the Board of Directors and employees, under the terms of the Sonaecom Medium Term Incentive Plan."

l) "It is proposed that Article 17.º, n.º 2, Article 21.º, n.º 1 (removal of n.º 2 and 3 and alteration of n.º 4 to n.º 2) and Article 23.º n.º 3 and 4 of the Company's Articles of Association, should be amended as follows:

ARTICLE 17

Number One: (...)

Number Two: A substitute will be elected to the Board of Directors in the case of permanent incapacity or unavailability of the member of the Board elected under the special provisions of

Article 10 and Article 11.

ARTICLE 21

Number one: The Shareholders' General Meeting is only composed of Shareholders who own shares, or subscription rights that replace them, with voting rights, which, in the five business days prior to the General Meeting, have provided the Company with evidence of their ownership, according to the general terms of the law.

Number two: (former nº 4)

Number three: (eliminated)

Number four: (eliminated)

ARTICLE 23

Number one: (...)

Number two: (...)

Number three: As long as the Company is considered to be a "publicly quoted company", shareholders are allowed to vote in writing, regarding any of the issues stated in the terms and conditions of the notice convening the General Meeting

Number four: Written voting papers shall only be considered valid, if they are received at the Company's registered office at least three days before the date of the Shareholders' General Meeting. The voting papers must be sent by registered post and addressed to the Chairman of the Board of the Shareholders' General Meeting. This does not dispense with the necessity of complying with the procedures set out in Article 21, paragraphs one and two, in order to register as a valid shareholder for the General Meeting.

Number five: (...)

Number six: (...)

Number seven: (...)

Number eight: (...)

Number nine: (...)

Number ten: (...)

It is also proposed that the powers required to execute all necessary steps to implement this amendment, should be granted and delegated to any Member of the Board of Directors including the powers to individually sign the deed or other necessary documents."

m) "Conditional upon the success of the General Tender Offer, it is proposed that Article 5º n.º 3 of the Company's Articles of Association should be amended, as follows:

ARTICLE 5

Number one: (...)

Number two: (...)

Number Three: The share capital can be increased by resolution of the Board of Directors, in one or more stages, up to one thousand five-hundred million euros. The resolution will also determine, in legal terms, the conditions of subscription, including any deferment of payment, as

well as the categories of shares to be issued, which must be based on those already existing at the time.

It is also proposed that the powers required to execute all necessary steps to implement this amendment, should be granted and delegated to any Member of the Board of Directors including the powers to individually sign the deed or other necessary documents.”

n) “We propose that the shareholders should approve the decisions relating to the General Tender Offer for the acquisition of all outstanding ordinary shares representing the share capital of Portugal Telecom, SGPS, S.A. and the convertible bonds issued pursuant to a resolution adopted on 29 November 2001, and General Tender Offer for the acquisition of all outstanding ordinary shares representing the share capital of PT Multimedia – Serviços de Telecomunicações e Multimedia, SGPS, S.A., which were approved by the Board of Directors of the Company, at the Board Meeting held on 6 February 2006, including:

- (i) the launching of a General Tender Offer over the shares and convertible bonds issued pursuant to a resolution adopted on 29 November 2001 of Portugal Telecom, SGPS, S.A., by Sonaecom under the terms and conditions contained in the preliminary announcement;
- (ii) the launching of a General Tender Offer over the shares of PT Multimedia - Serviços de Telecomunicações e Multimedia, SGPS, S.A. by Sonaecom, under the terms and conditions contained in the preliminary announcement.”

I furthermore certify that:

1 – The proposal mentioned above under paragraph c) was approved by the majority of the votes cast, with the vote against of the shareholder António Alfredo Branco Ferreira, holder of 0,00151% of the share capital of the company, corresponding to nine votes;

2 - The proposal mentioned above under paragraph d) was approved unanimously with the abstention of the shareholder António Alfredo Branco Ferreira, holder of 0,00151% of the share capital of the company, corresponding to nine votes;

3 - The proposals mentioned above under paragraphs g) and h) were approved by the majority of the votes cast, with the vote against of the shareholders Northern Trust Company and State St. D Trust Client Omnibus A OM 01, respectively the holders of 0,00202% of the share capital, corresponding to 12 votes, and 0,0028% of the share capital, corresponding to 16 votes;

4 – The remaining proposals were unanimously approved.

The Chairman of the Board of the Shareholders General Meeting

Luzia Gomes Ferreira

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).