



# SONAECON CONSOLIDATED ANNUAL REPORT 2006

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# MANAGEMENT REPORT

## Key figures

Highlights of the 2006 consolidated financial results and of operational metrics are provided below and are compared to previous year's results.

Million euros	2005	2005 <sup>(R)</sup>	2006	2006 <sup>(A)</sup>	y.o.y
<b>CONSOLIDATED INCOME STATEMENT</b>					
Turnover	843.5	829.7	836.0	836.0	0.8%
Optimus	627.4	627.4	610.4	610.4	-2.7%
Sonaecom Fixed	158.4	158.4	200.2	200.2	26.4%
Público	44.1	44.1	36.4	36.4	-17.5%
SSI	86.0	72.2	78.8	78.8	9.1%
EBITDA <sup>(1)</sup>	156.9	154.5	184.3	184.3	19.3%
Optimus	167.1	167.1	169.1	169.1	1.1%
Sonaecom Fixed	-14.7	-14.7	-6.2	-6.2	57.4%
Público	-1.7	-1.7	-8.8	-8.8	-
SSI	9.5	7.2	31.8	31.8	-
EBITDA Margin (%)	18.6%	18.6%	22.0%	22.0%	3.4pp
EBIT	28.7	26.6	17.8	48.7	82.9%
Net Financial Results	-13.1	-13.1	-17.4	-17.4	-32.9%
EBT	15.6	13.5	0.4	31.3	131.1%
Net Results	11.6	9.9	-4.9	26.0	163.5%
Group Share <sup>(2)</sup>	2.2	0.9	-13.9	17.0	-
<b>CAPEX AND LEVERED FREE CASH FLOW</b>					
Operating CAPEX <sup>(3)</sup>	116.6	116.4	134.1	134.1	15.2%
Operating CAPEX as % of Turnover	13.8%	14.0%	16.0%	16.0%	2pp
EBITDA-Operating CAPEX	40.3	38.1	50.3	50.3	31.9%
Total CAPEX	140.8	140.6	253.5	253.5	80.2%
Operating Cash Flow	45.4	43.6	51.3	51.3	17.5%
Levered FCF <sup>(4)</sup>	13.4	-1.3	-81.7	-81.7	-
<b>CONSOLIDATED BALANCE SHEET</b>					
Total Assets	1,451.8	1,451.8	1,720.2	1,720.2	18.5%
Tangible and Intangible Assets	652.7	652.7	661.4	661.4	1.3%
Liquidity	209.4	209.4	125.9	125.9	-39.9%
Shareholders' Funds	686.9	686.9	909.5	909.5	32.4%
Minority Interests	115.2	115.2	0.5	0.5	-99.6%
Gross Debt	461.1	461.1	464.0	464.0	0.6%
Net Debt/ EBITDA last 12 months	1.6 x	1.6 x	1.8 x	1.8 x	14.3%
Debt/(Debt + Shareholders' Funds)	40.2%	40.2%	33.8%	33.8%	-15.9%
<b>MOBILE OPERATING DATA</b>					
Customers (EOP) ('000)	2,353.2	2,353.2	2,601.9	2,601.9	10.6%
Net Additions ('000)	224.4	224.4	248.7	248.7	10.8%
Data as % Service Revenues	11.2%	11.2%	14.4%	14.4%	3.2pp
MOU <sup>(5)</sup> (min.)	114.4	114.4	115.9	115.9	1.4%
ARPU (euros)	21.9	21.9	19.7	19.7	-10.1%
% Pre-paid Customers	81.7%	81.7%	77.8%	77.8%	-3.9pp
<b>FIXED OPERATING DATA</b>					
Total Services (EOP)	271,463	271,463	346,308	346,308	27.6%
Direct Services	93,861	93,861	247,120	247,120	163.3%
Direct access as % Customer Revenues	35.9%	35.9%	65.6%	65.6%	29.6pp
Total Accesses <sup>(6)</sup>	140,660	140,660	310,338	310,338	120.6%
Unbundled Central Offices with ADSL2+	130	130	137	137	5.4%
<b>SONAECON OPERATING DATA</b>					
Employees	2,301	1,982	1,871	1,871	-5.6%
Turnover/Employee ('000 euros)	367	419	447	447	6.7%
EBITDA/Employee ('000 euros)	68	78	99	99	26.4%

(1) Includes 25.3 million euros capital gain from the sale of Enabler; (2) Net Results after Minority Interests; (3) Operating CAPEX excludes Financial Investments and Provisions for sites dismantling; (4) FCF Levered after Financial Expenses but before Capital Flows and Raising Finance related up-front Costs; includes cost of acquiring approximately 11.3 million shares of PT at average price of 9.38 euros; (5) Minutes of Use per Customer (Home is included since 4Q05); (6) Reporting criteria according to Anacom standard: ISDN services equivalent to 2 or 30 accesses depending on whether they are basic rate (BRI) or primary rate (PRI); Accesses do not include indirect voice or narrowband services and data and wholesale services; (R) Restated Values, excluding Enabler's contribution in 2H05; (A) Adjusted Values, excluding Tender Offer Costs.

Enabler was sold on 30 June 2006 and, in order to facilitate comparisons of 2006 results against the previous year, the 2005 comparative figure has been restated (2005<sup>R</sup>) to exclude Enabler's contribution to Sonaecom and to the Software and System Information Division (SSI) Consolidated Results in 2H05 (unaudited). All comparisons, when stated, are made on this "like-for-like" basis.

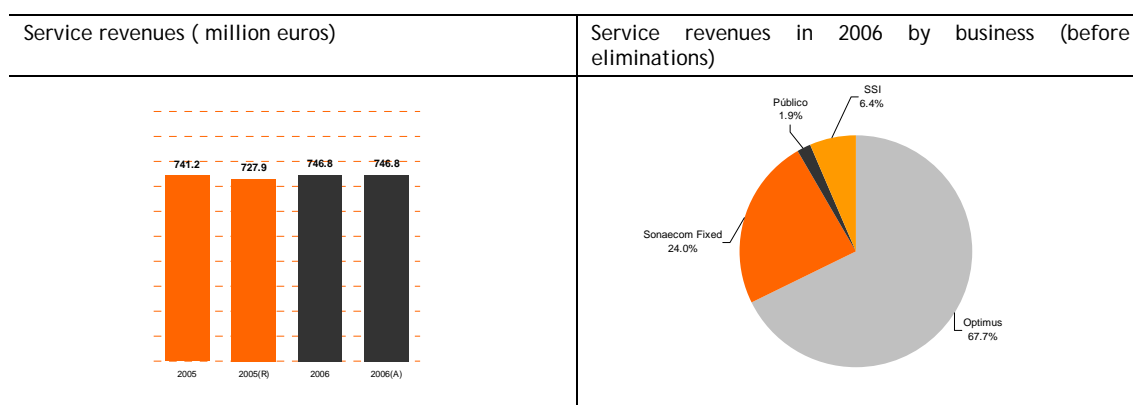
2006 full year results include costs associated with the public tender offer for Portugal Telecom (PT) and, in order to isolate these non-recurrent costs from the operational performance of the year, the 2006 figures have been restated (2006<sup>A</sup>) for comparative purposes. All comparisons, when stated, are made on this basis.

## Group highlights

2006 was a strong year for Sonaecom, with the company achieving growth in customers and customer revenues, with costs kept under control and with improved profitability reflected in improved EBITDA performance, despite the more restrictive regulatory conditions, in particular reducing mobile termination rates (MTRs).

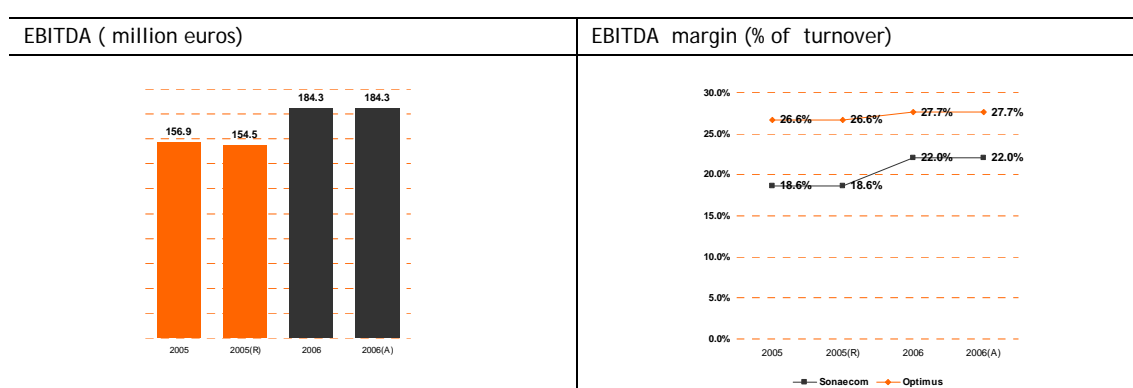
## Service Revenues

Service revenues were 2.6% higher than 2005<sup>(R)</sup>, driven by growth of the new mobile products and services and direct wireline broadband services.



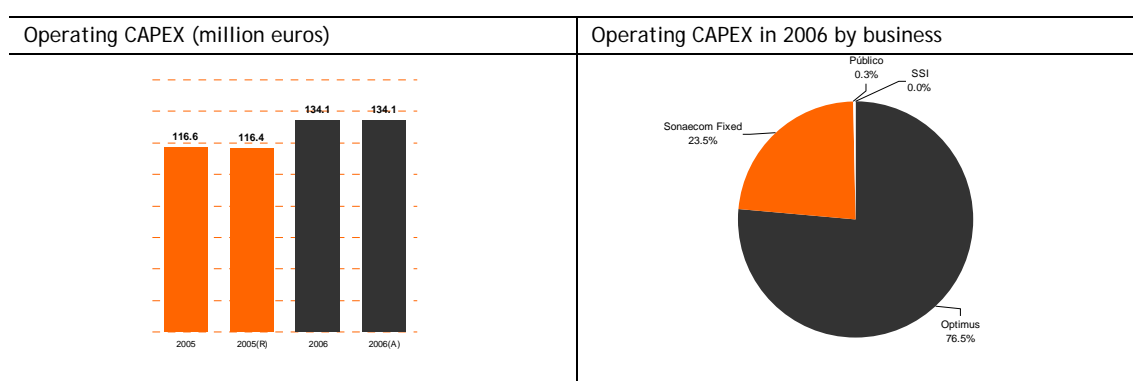
## EBITDA

EBITDA reached 184.3 million euros, up from 154.5 million euros in 2005<sup>(R)</sup>, generating an EBITDA margin of 22.0%.



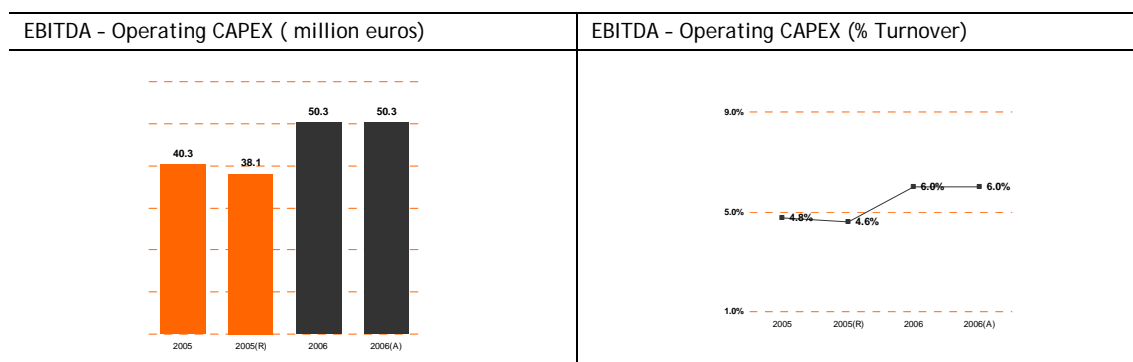
## CAPEX

Consolidated CAPEX was 253.5 million euros, including the 105.9 million euros cost of acquiring approximately 1% of PT shares during 2Q06. Operating CAPEX, excluding financial investments and provisions for sites dismantling, reached 134.1 million euros, 15.2% higher than in 2005<sup>(R)</sup>, representing 16.0% of turnover.



### EBITDA - Operating CAPEX

EBITDA - Operating CAPEX was 50.3 million euros in 2006<sup>(A)</sup>, 31.9% higher than in 2005<sup>(R)</sup>.



## Message from the CEO

Undoubtedly, 2006 was a year rich in encouraging developments, notwithstanding our failure to achieve our prime objective of taking control of PT. The main developments were the improved operating and financial performance of our telecom businesses and the corporate and organizational restructuring carried out during the year. We are also cautiously optimistic in relation to government public statements and increased competition in the fixed sector.

### A stronger Sonaecom

Our 2006 results show that Sonaecom is capable of growing despite regulatory constraints such as the decreasing and symmetric mobile termination rates (MTRs), and despite existing competitive distortions in the fixed market, with the incumbent operator enjoying a virtual monopoly position in the voice, broadband and wholesale segments, owning both the cable and copper networks and effectively controlling all premium content.

When compared to 2005<sup>(R)</sup>, turnover reached 836 million euros and EBITDA increased by 19.3%, generating an EBITDA margin of 22.0%. These results were only possible due to the growth achieved in our telecom customer base and customer revenues, offsetting both the decline in regulated telecom revenues and a difficult year in our media business.

Increased technical investment, which reached 134 million euros, excluding financial investments and provisions for sites dismantling, reinforced our network capacity and capillarity and independence from the incumbent.

### Mobile activities

2006 was an important year for Sonaecom's mobile activities, with Optimus achieving a good set of financial and operational results despite the negative impact of the programmed cuts in MTRs, and the tough competitive environment in a saturated market.

Optimus' determined focus on anticipating consumer desires and needs, together with its technological skills, have led the company to continuously increase investment in new business and growth initiatives. These include the deployment of a full scale UMTS and HSDPA network capacity, the launch of new wireless convergent and internet products, and the exploitation of new market niches such as mobile television, videophone and music downloading.

The investment in growth and profitability, initiated in 2005, has paid off as demonstrated by the growth in subscribers by 10.6%, the highest increase since 2002, the increase of data revenues, now accounting for more than 14% of service revenues, and in the positive market advances of the new mobile solutions.

### Wireline activities

As regards Sonaecom Fixed, the company identified market developments and responded quickly to the needs of both its residential and corporate customers, by exploiting high speed broadband solutions and the convergence of voice, data and image.

In 2006, Sonaecom Fixed devoted all of its efforts to transforming its business model into a fully fledged direct access business and pushing its broadband business through direct offers based on ADSL 2+ technology. At the end of 2006, the company was at the leading edge of broadband value propositions, offering up to 24Mbps for bundled voice and internet at very competitive prices and pioneering the development of IPTV, under the Clix SmarTV brand. At the end of 2006, Sonaecom Fixed had 346 thousand services and 131 thousand direct ADSL accesses, with direct access accounting for circa 72% of customer revenues in 4Q06. This represents 27.6% growth of total services and 159.1% growth of direct ADSL accesses, when compared to end of 2005.

It has become clear that our strategy to transform both the residential and business wireline activities into a direct access model was correct. I am delighted that our bold push



for unbundling, which exposed publicly the multiple hurdles the incumbent was creating to effectively block the process, has been successful. Fortunately, consumers were able to distinguish the causes of the initial blockage and, although there are still many bureaucratic hindrances in the unbundling process, have now clearly voted Clix as the best internet service in the Portuguese Broadband market. A lot of work remains to be accomplished but is only fair to restate the important work carried out by the government and ANACOM to enforce a more efficient unbundling process in defence of consumer and public interest.

#### **Media and IT activities**

At Público, 2006 was a difficult year. However, important decisions were taken to address the poor operating and financial performance, including the redesign of the newspaper and the implementation of a restructuring plan aimed at improving processes and productivity and at reducing fixed costs significantly. By the end of 2006, the restructuring plan implemented had already achieved approximately 3 million euros of annual savings in personnel costs and 1 million euros of savings in general and administrative costs, whilst at the same time preparing the launch of a “new Público”, with significantly more content. These actions are expected to materially improve Público’s performance and results as from 2007.

The SSI division achieved significant organic growth during 2006, mainly driven by the performance at WeDo which has been successful in selling its revenue assurance product, RAID, to leading international telecom operators. 2006 was also marked by the sale of the first investment to reach maturity and the start up of two new companies.

#### **Corporate developments**

Important corporate milestones were also achieved during 2006 regarding our portfolio of companies. In June 2006, we completed the sale of Enabler to one of the largest IT/IS providers worldwide, consistent with internal strategic guidelines established for the SSI division. In addition, during 2H06, Sonaecom achieved its long standing ambition to own 100% of its mobile company, Optimus, through an agreement with EDP and Parpública for a share-for-share exchange of their shareholdings in Optimus for shares in Sonaecom. As a result, we will now have greater operating and financial flexibility in managing our businesses and in further developing our integrated strategy for our telecoms.

Our public tender offer for PT, launched on 6 February 2006, was blocked at PT’s EGM on 2 March 2007 by a group of minority shareholders whose actions denied the majority of shareholders the individual choice to accept or reject our 10.5 euros per share cash offer. This conclusion to our bid was disappointing both in terms of shareholder democracy and from a Portuguese capital markets perspective and has denied shareholders of both PT and Sonaecom significant value creation that the transaction would have crystallised.

Despite having failed to achieve our main objective, we are cautiously confident that our bid for PT will have contributed to a more positive competitive environment in the overall Portuguese telecommunications market. The extensive and rigorous analysis of the telecom sector, which the competition authority undertook, clearly identified the extent and nature of competitive distortions and obstacles, and opened the way to a public debate and a number of commitments.

Firstly, it had the merit of forcing PT to propose, as a defensive plan, some measures that, if complied with and implemented, will transform the competitive landscape of the Portuguese wireline market. This includes the spin-off of PTM, its cable business with approximately 85% of Pay-TV market share, which controls premium content and is the only provider of DTH satellite television in Portugal, and the vertical separation of the copper network.

Secondly, public statements and commitments made by the government and by regulators during the course of our bid, in relation to guaranteeing true separation of the two fixed networks and development of healthy competition in access to content, should if complied

with, lead to greater regulatory pressure and discipline on PT with the aim of curbing its ability to abuse its dominant market position.

Thirdly, our bid facilitated final negotiations on the roll-up of EDP's and Parpública's shareholdings in Optimus in exchange for shares in Sonaecom giving us control of 100% of Optimus and also leading to an increase in our free float. As a result, Sonaecom has come out from this transaction strengthened and with enhanced market credibility.

However, in this respect, a word of caution is necessary, as on many occasions in the history of telecoms liberalization in Portugal, initial statements of political and regulatory intent to open up the market and increase competition have withered as a result of less than transparent involvement between PT and its more influential shareholders. Invariably, as a government's time in office comes to an end, these relationships result in policies that do not defend the public interest and an unwillingness to push for regulation in the name of the consumer. It is time for the government and regulators to deliver on their commitments and on the expectations of consumers and private enterprises.

#### **Building our future on past achievements**

I believe Sonaecom has what it takes to continue to successfully develop its business as the leading challenger to PT in the Portuguese telecommunications market and to lead the market in innovation and price competitiveness. Allied with the expected improvement in regulatory control and a fairer competitive environment, we will continue to invest for growth and strive for excellence. We will also continue to look for disruptive growth opportunities, as financial markets increasingly support our ambition and believe in our management capabilities.

I am proud of what has been achieved during 2006, which has only been possible due to the determination, innovation, ambition and hard work with which the organization responded to the challenges set by management, as well as the reputation and credibility built over the years. The success and progress made is a tribute to all our officers and employees and to the time and effort they have given.

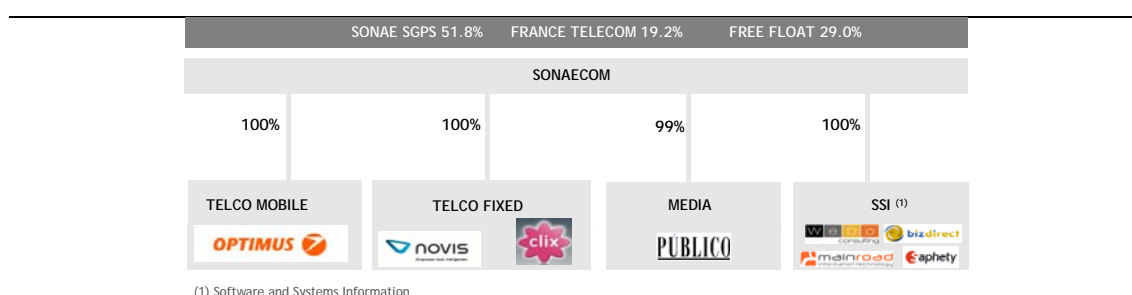
## 1. About Sonaecom

Sonaecom is a growing entrepreneurial company, whose ambition is to be the best integrated telecommunications group in Portugal and the company of choice for exceptional people to work and discover their full potential.

### 1.1. Corporate profile

Sonaecom is a holding company that controls and actively manages a portfolio of companies, divided into 4 business units, with two main shareholders, Sonae SGPS and France Telecom, both providing significant strategic support to the business.

Sonaecom's ownership structure



#### Mobile communication services

Sonaecom's mobile activities are carried out by Optimus, launched in 1998, and, since October 2006, 100% owned by Sonaecom after the share-for-share exchange of minority shareholder stakes, held by EDP and Parpública, for shares in Sonaecom.

Optimus offers a broad range of mobile communications services to residential and corporate customers in Portugal, including traditional voice, data, a large range of mobile solutions and roaming services, as well as wholesale services to third parties. With its innovative convergent fixed-mobile products Optimus Home and Kanguru, and its low cost offer brand Rede4, Optimus has consolidated its market position in Portugal, with 2.6 million subscribers and a market share of 20%, at the end of 2006.

Optimus benefits from Sonaecom's strategic cooperation with France Telecom, which is formalized under a Strategic Partnership Agreement covering areas such as roaming, multimedia services, handset procurement and international traffic termination.

#### Wireline communication services

Sonaecom's wireline activities are carried out by its wholly owned subsidiary Sonaecom Fixed<sup>1</sup>, which is better known through its two brands, Clix that targets residential customers, and Novis that targets the business and wholesale markets.

Sonaecom Fixed has strengthened its position as the leading altnet operator in Portugal, providing voice and internet services to its residential, SME and corporate client bases, as well as providing voice and data capacity and connectivity services to telecommunications operators around the globe.

#### Media

Sonaecom's presence in the Media sector is carried out through its subsidiary Público, a reference newspaper in Portugal which was launched in 1992. The newspaper ranks third in terms of paid circulation, with a 12.9% market share at September 2006, and third in advertising, at the end of 2006.

<sup>1</sup> Novis Telecom S.A

### Software and system information services

These activities of the Sonaecom Group are carried out by the SSI division, created at the end of 2002 that brings together companies such as WeDo, Bizdirect, Mainroad and Saphety.

WeDo is a provider of systems integration products and consultancy, specialized in the telecom sector, with competencies in areas such as Revenue Assurance, Relationship Management and Business Intelligence, and a strong foothold in international markets, with offices in Portugal, Spain, Germany, United Kingdom, France and Brazil. Mainroad is a leading player in information technology, with competencies in areas such as IT outsourcing, IT management, Data Centre, Help Desk and Business Continuity. Bizdirect, with BPI and AITEC as minority shareholders, is a reference player in providing eSourcing and eProcurement to commercial business solutions, based on an electronic platform, and multi-offer hardware solutions, based on partnerships with blue chip IT players. Saphety, a company recently carved out from Sonaecom Fixed, is a provider of trusted services, such as electronic invoice and secure messaging.

## 1.2. Governing bodies

Sonaecom is committed to complying with best practices in Corporate Governance both in terms of leading international benchmarks and Portuguese Corporate Governance regulations and practices. These practices are responsible for the development of clearly defined sets of rules, duties and responsibilities for its different governing bodies and for their respective decision making processes. This has led to improved performance and compliance, increased transparency, improved internal controls and better reporting.

### Composition of Board of Directors and appointed Committees

Sonaecom complies with the Corporate Governance principles of separation of responsibilities, namely through the separation of the roles of Chairman of the Board of Directors and the CEO, and of power given to independent Non-Executive Directors to influence the decision-making process and development of the Group's strategy.

Sonaecom's Board of Directors and appointed Committees

	Executive <sup>(1)</sup>	Non-Executive <sup>(2)</sup>		Audit and Finance Committee	Nomination and Remuneration Committee
		Independent <sup>(3)</sup>	Non-Independent		
CHAIRMAN					
Belmiro Mendes Azevedo					
DIRECTORS <sup>(4)</sup>					
António Sampaio e Mello					
David Charles Denholm Hobley					
Gervais Gilles Pellisser					
Jean-François René Pontal					
Duarte Paulo Teixeira de Azevedo (CEO)					
George Christopher Lawrie					
Luís Filipe Campos Dias Reis					
Maria Cláudia Teixeira de Azevedo					
Miguel Nuno Santos Almeida					

(1) Executive Directors = members of the Board of Directors and Executive Committee, with executive management responsibilities; (2) Non-Executive Directors = members of the Board of Directors, without executive management responsibilities; (3) Independent Non-Executive Directors = directors not associated with any specific interest groups in the Company or Groups which are, under any circumstance, capable of affecting their objectiveness; (4) On 13 December 2006, Loyola de Palacio del Valle Lersundi, who was an Independent Non-Executive Director since 5 July 2006, died and her place on the Board has still not yet been filled.

### Board of Directors

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

### Executive Committee

Manages and executes Sonaecom's day to day operations under formal delegated powers from the Board of Directors. In accordance with these delegated powers, the Executive

Committee may only decide on matters that relate to general management and not on matters that are exclusively the competence of the Board of Directors.

#### Executive Management Team and their roles

CEO	Mobile & Fixed	Mobile	CFO	Legal & Regulation	Fixed	Media/SSI
Paulo Azevedo	Luís Reis	Miguel Almeida	Chris Lawrie	António Lobo Xavier <sup>(1)</sup>	Pedro Carlos <sup>(1)</sup>	Cláudia Azevedo
Group CEO	Group COO	COO Mobile	Group CFO	Legal	COO Fixed	COO SSI
SSI	CEO Fixed/Mobile	Customer Service	Corporate Finance	Regulation		COO Media
Media	Human Resources		Planning&Control	Public Relations		
	IT/IS		Internal Audit	Fiscal Planning		
	Technical		Accounting&Finance			
			Treasury			
			Investor Relations			

<sup>(1)</sup> Advisor to the Board of Directors.

The Executive Committee meetings are also attended by the other members of the Executive Management Team, being the Advisors to the Board of Directors.

#### Board Audit and Finance Committee

Monitors and supervises the Group's accounting policies, financial reporting and financial transactions and evaluates risks and conflicts of interest 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 Sonaecom.

#### Board Nomination and Remuneration Committee

Identifies candidates for appointment to the Board of Directors or Senior Management positions and supervises policy and proposals on remuneration and other compensation. Also, reviews succession and contingency planning on behalf of the Board of Directors.

### 1.3. Strategy and success factors

Sonaecom's 2006 results and the market position achieved in its telecom businesses in particular, is the result of the Group's core competencies that guide its strategy and actions and drive it to improve performance.

#### **Ambition**

Sonaecom strives to generate sustainable growth and superior economic value, through the relentless pursuit of innovative solutions and the use of its marketing and distribution strength, targeted to better satisfy its customer needs and revolutionize the market. It is with this mission in mind, which is understood and shared by all its employees, that the Group builds its future and earns the trust of its shareholders.

During 2006, operating priorities were focused on the same cornerstones of growth selected in the previous year at the Group's telecom businesses: Optimus strategy was aimed at obtaining more value from voice and data, growing market share and broadening market boundaries through a focus on innovation; Sonaecom Fixed strategy was focused on transforming the business into a direct access model and growing the wholesale activities. At the same time, Sonaecom strived to secure a stronger market position of its non-telecom businesses with continued internationalisation at SSI through WeDo and the significant restructuring plan implemented at Público.

These strategic priorities have required the whole organization to excel in all areas and to stretch its goals and objectives while adapting them to market demands. This has demanded dedication, ambition, perseverance and a clear commitment to achieving results.

#### **Innovation**

Innovation is seen as one of the key pillars of the Group's sustainability and long-term differentiation and, accordingly, Sonaecom continuously explores and examines new

business opportunities that can generate value. For Sonaecom, innovation is much more than simply creating new products and services: it entails screening the market and the consumers, analysing and anticipating their needs and, based on the technologies available and on creativity, offering an attractive, unique and value enhancing proposition.

During 2006, Sonaecom took great strides in innovation, with products and solutions that were new for the market and unexpected by competitors. Examples of this entrepreneurial spirit are products developed by Optimus such as Kanguru, its wireless internet product over HSDPA technology, and by Sonaecom Fixed, such as its direct broadband double and triple play services, based on ADSL 2+ technology and high capacity transmission, offering up to 24 Mbps for bundled voice, internet and IPTV services.

Innovation is embedded in Sonaecom's 'DNA' and forms an integral part of its culture and the behaviour and attitudes of all its employees, constantly challenging its internal processes and developing its external relations.

### Customer orientation

Sonaecom constantly reinforces the importance of making the customer a pivotal element in all decisions taken, by making continuous efforts to identify who they are, what they need and to track and anticipate their changing preferences. That is why the Group permanently questions customers, listening to their opinions, explanations and suggestions, as well as allocating a specific retention team, to both wireline and mobile products, in order to anticipate possible customer churn and retain their loyalty.

To support this customer centric attitude, Sonaecom implemented several new projects in 2006, above and beyond the continuous investment in new products and services, of which we can highlight:

- (i) Optimus' brand repositioning, reflected in a new brand line, *Experimenta*; this new positioning embodies the concept of forward looking, with the need for a constant reinvention; proximity to the consumers, with a strong presence in customers lives; dynamism, leading market innovation; and surprise, with a continuous challenge of the market status quo;
- (ii) Optimus' further development of its store extranet ("360") in order to maximize service efficiency at the store level, by allowing immediate web scoring and activation, electronic contract form availability and many customer operations to be performed in just a few seconds in any exclusive store in the country;
- (iii) Launch of a mobile tariff simulator, in association with all other Portuguese mobile operators, available in Optimus' stores and website; the purpose of this service is to clarify and help customers' purchase decisions by proposing, for each type of consumer profile, the most appropriate tariff plan to minimize monthly billing costs and provide an estimated monthly invoice;
- (iv) Creation of a RAID user Group by WeDo, comprised mainly of telecom service providers from Europe, Latin America and Asia, that allows the promotion of WeDo's software application RAID through the exchange of experiences of usage and discussions about present and future developments of the product.

### Employee orientation

Sonaecom recognizes and values the importance of its employees to the competitiveness and success of the organization. In this sense, it aims to continuously invest in their career development, to reward their hard work, to welcome their ideas and initiatives, to incentive their personal development and help maintain a healthy work environment and balance.

This orientation is the driver of various internal projects aimed at promoting employee satisfaction, developing employees' skills and improving the workplace environment.

Examples of such projects are Sonaecom Learning Centre, a structured programme of internal training targeting different career stages and competency needs; IntraSonaecom a single corporate intranet tool for all Sonaecom's employees; Human resources online, allowing the online access to centralized HR information; internal monthly magazines such as BOOM, covering internal department organization and achievements; Satisfaction environment surveys, to monitor employee motivation levels and other different initiatives available to Sonaecom employees which promote internal cohesion and interaction.

### Integration

The quest for operating efficiencies and cost synergies has led Sonaecom to develop an integrated management and organizational structure, with a highly developed Shared Services Division and a very lean Corporate Centre. Underlying this strategy has been Sonaecom's desire to maximize the ability of developing new business opportunities and stimulate joint product development and cross-marketing between the Company's wireline and mobile operations.

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Sonaecom's organizational structure and headcount as at 31 December 2006

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TOTAL SONAECOM GROUP 1,871			
CORPORATE CENTRE 26 Senior Management, Planning&Control, IR, Internal Audit			
SHARED SERVICES 776 Legal, PR, Regulation, Customer Service, HR, Financial&Accounting, Environment, Facilities, Technical, IT			
OPTIMUS 295	SCF 172	MEDIA 266	SSI 336

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In order to maximize internal synergies, Sonaecom is managed by a single executive team, comprising not only the Group's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, but also the Chief Operating Officers of each one of Sonaecom's business units - Optimus, Sonaecom Fixed, Público and SSI.

Furthermore, Sonaecom aims to implement a fully integrated multi-service network, for both the mobile and wireline businesses, to enhance network capacity and flexibility while minimizing operational costs. During 2006, further steps were taken towards this New Generation Network based on a convergence of networks, with a step up of the deployment of an IP/MPLS core network with Ethernet supported by DWDM transmission technology, and with the integration of both Optimus and Sonaecom Fixed technical teams, involving 220 employees from Optimus and 110 employees from Sonaecom Fixed.

### 1.4. Corporate developments

During 2006 Sonaecom achieved a number of important corporate milestones consistent with the pursuit of growth, value creation and portfolio consolidation.

#### EDP and Parpública Roll-Up

On 28 July and 14 August 2006 agreements were reached with EDP and Parpública for the share-for-share exchange of their respective shareholdings in Optimus of 25.72% and 5.04% for 58.3 million and 11.42 million new Sonaecom ordinary shares, respectively, representing stakes in Sonaecom of 15.9% and 3.1%. As a result, Sonaecom's share capital increased by 69.72 million euros, from 296.5 million euros to 366.2 million euros, through the issue of 69.72 million new shares with a share premium of 275.7 million euros. As a result of these operations, Sonaecom shareholder funds increased by 345.4 million euros.

Following these agreements and after the notary deed, Sonaecom has, since October 2006, controlled 100% of Optimus and accounted for 100% of its results in the consolidated



accounts. As a result, Sonaecom will be able to achieve greater operating and financial efficiencies and flexibility.

#### **Sale of Enabler**

On 1 June 2006, Sonaecom, together with all other minority shareholders in Retailbox BV, signed a Sale & Purchase agreement for the sale of 100% of Enabler to Wipro, one of the largest product engineering and support service providers worldwide. On 30 June 2006, the Sale & Purchase Agreement was completed and the respective notary deed was executed, with the consequent exclusion of the company from the Sonaecom and SSI consolidated accounts from that date.

The consideration for this sale included an up-front cash payment on completion as well as an earn-out based on the achievement of certain agreed financial targets over a 2 year period, implying a minimum 1.4X EV/Sales and generating a total capital gain of approximately 25.3m euros in Sonaecom's and SSI's consolidated accounts.

#### **Public tender offer for Portugal Telecom**

On 6 February 2006, Sonaecom submitted a preliminary tender offer for 100% of PT's share capital with a minimum acceptance of at least 50.01% of the outstanding share capital. The consideration offered was 9.5 euros in cash for each share and 5 thousand euros in cash for each convertible bond, conditioned upon a 2005 dividend distribution of 0.385 euros per share.

The offer was based on estimated mobile synergies that Sonaecom believed it could extract from the proposed combination of TMN and Optimus' operations through OPEX and CAPEX savings. The Group believed the offer to be well balanced, as it addressed the objectives of all major constituents: (i) PT shareholders, by proposing a full and fair all cash offer; (ii) Competition Authority and consumers, by offering a way to transform overnight the competitive landscape of the wireline and content markets, where PT currently has market shares of between 80% to 90%; (iii) the Portuguese state, by offering to act as a strong Portuguese controlling shareholder in a strategic national asset, providing alternatives for the existing 'golden share'; and (iv) Employees, by offering long term employment opportunities and career development through clear leadership and a focused growth strategy.

Sonaecom's stated strategy for the enlarged Sonaecom/PT was clear and based on five main strategic pillars: (i) strengthening PT's competitiveness within a more competitive Portuguese telecoms market; (ii) reorienting PT's international strategy into a more cohesive portfolio of controlled investments; (iii) implementing a clear commercial, technological and international partnership strategy; (iv) establishing a strong and stable shareholder leadership; and (v) adopting best practices in corporate governance.

The bid to acquire control of PT went through a long chain of events, the most important of which are highlighted below:

- (i) On 17 May 2006, the Competition Authority announced that it would make an in-depth investigation of the Offer and, at the Competition Authorities' request, Sonaecom submitted a proposal of solutions aimed at addressing the competition issues raised;
- (ii) On 24 May 2006, Sonaecom announced the acquisition of 11.3 million shares representing just over 1% of PT share capital, purchased at an average price of 9.38 euros per share. This financial investment of 105.9 million euros was held in order to reach the minimum threshold required to obtain the right to information, established under Portuguese Company Law, in particular access to PT's share register and list of shareholders;
- (iii) On 27 September 2006, the Competition Authority announced its preliminary decision regarding Sonaecom's proposed public tender offer for PT, opening a consultation



period to all the interested parties. On 5 December 2006, it announced its second preliminary decision based on the opinions received.

- (iv) On 22 December 2006, the Competition Authority announced its final decision, disclosing the commitments to be undertaken by Sonaecom to allow its bid for PT to proceed. This was an important step forward in the bid process, clearing the way for Sonaecom to integrate TMN and Optimus should the bid be successful. However, the conditions laid out by Competition Authority were significantly more onerous than originally expected, with a substantial negative impact on the NPV of the combined mobile business plan.

### 1.5. Group milestones

A summary of the most important milestones achieved by Sonaecom and its companies during 2006 is provided below.

January	February	March
<ul style="list-style-type: none"> <li>Optimus launched sms2know, a pioneering messaging service designed for businesses and institutions. This innovation allows the client to share information with subscribers to any mobile telephone network through a 100% web based application.</li> <li>Rede4 launched a free portability service that allows customers to join rede4 keeping their old mobile phone number (TMN, Vodafone, Optimus).</li> <li>WeDo Consulting obtained the renewal of their ISO 9001:2000 Certification, for the fourth consecutive year, related to quality management standards.</li> <li>After opening offices in São Paulo, Düsseldorf and London, WeDo opened a new office in Paris, whose aim is to centralize all operations in the French market.</li> <li>Mainroad launched a new integrated Outsourcing IT solution, which enables companies to adopt an incremental approach, outsourcing their IT functions gradually.</li> </ul>	<ul style="list-style-type: none"> <li>Sonaecom launched a Take Over Bid for Portugal Telecom.</li> <li>WeDo Consulting announced the launch of a new version of RAID - Revenue Assurance Solution, RAID 3.1. This more powerful model allows data to be integrated from different systems and the application of business rules to detect failures and inconsistencies.</li> </ul>	<ul style="list-style-type: none"> <li>Optimus portal zone re-launched esoteric channel.</li> <li>Optimus celebrated partnership with Ericsson for construction of an entirely IP-based network.</li> <li>Optimus pioneered the launch of Direct-Push E-mail on Windows Mobile phones/PDAs.</li> <li>Novis and Clix achieved 80% of unbundled clients, capturing 8 out of every 10 clients that chose to connect to the infrastructure of a new operator, thus leaving PT.</li> <li>WeDo Consulting announced the new version of ICS (Integrated Collections Service), a highly flexible and easily configurable solution to automate and continuously improve credit control and collections operations.</li> <li>WeDo Consulting initiated expansion in Latin America with a partnership for the Chilean market.</li> </ul>

April	May	June
<ul style="list-style-type: none"> <li>Optimus extended its HSDPA commercial offer to the Continent and introduces the new Kanguru Xpress, a new version of its successful Kanguru over HSDPA, with an increase in speed from 384Kbps to about 1.8 Mbps.</li> <li>Optimus became the national mobile operator with the largest number of 3G roaming agreements, expanding its Third Generation coverage to a total of 29 destinations.</li> <li>Novis launched flat tariffs for professionals and companies, with unlimited calls to the National Fixed Network during office hours (every working day from 9h to 21h) by paying a fixed monthly fee of 14 euros per month.</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition of 11.3 million PT shares, in order to reach the minimum threshold required to obtain the right to information.</li> <li>Optimus launched Optimus A, a unique and exclusive integrated offer for the high traffic clients segment.</li> <li>WeDo Consulting brought together the largest worldwide telecommunications operators in Lisbon, for the first WeDo RAID User Group 2006. The aim of this User Group is to be a forum for sharing knowledge and experiences about revenue assurance.</li> <li>WeDo Consulting was nominated for the World Billing Award, the most prestigious telecommunications award, in the category of "Best Revenue Assurance Project".</li> <li>Mainroad received the highest distinction attributed to Microsoft partners, for its competencies and capabilities in the Security area.</li> </ul>	<ul style="list-style-type: none"> <li>Sale of Enabler to Wipro, one of the largest IT/IS service providers worldwide.</li> <li>Sonaecom renews environmental certification.</li> <li>Optimus launched Low Cost, a roaming service that reduces its roaming tariffs by 50%.</li> <li>Optimus provided a SMS solution for teachers that allow them to find out, via SMS, about the definitive lists of the placed and non-placed candidates for the following academic year.</li> <li>Optimus launched information and entertainment services about the football world cup 2006.</li> <li>From 15th to 30th June, Optimus clients were able to talk at Zero Cents after the first minute, at any time, any hour and on any day of the week.</li> <li>Rede4, Sonaecom's discount mobile network, celebrated its 1<sup>st</sup> anniversary.</li> <li>WeDo develops Innovative portal for mobile phones at Oi Brasil.</li> <li>Bizproducts is nominated a Microsoft certified partner, with the competency of providing technical or consultancy services related to Microsoft systems, or providing advice in connection with the acquisition of Microsoft technologies.</li> <li>WeDo strengthened its position in Eastern Europe, with the largest fixed operator in Poland, implementing its Revenue Assurance solution to improve critical business processes.</li> </ul>

July	August	September
<ul style="list-style-type: none"> <li>▪ Agreement for EDP roll-up, exchanging 25.7% shareholding in Optimus for 58.3 million shares in Sonaecom.</li> <li>▪ Clix launched its 20Mbps ADSL broadband Offer.</li> <li>▪ Optimus launched first HSDPA mobile phone - the Zone 3.5G Samsung Z560, able to reach maximum speeds of 1.8Mbps.</li> <li>▪ Novis market share grew 57% in broadband for micro companies, ending the first quarter of the year with an 8% market share.</li> <li>▪ Novis launches eFax, a simple, convenient and secure way of receiving and sending faxes via e-mail.</li> <li>▪ Optimus extended 3.5G coverage to more than 190 cities and villages.</li> <li>▪ Optimus launched a campaign whereby Clients could communicate for 1 cent, be it voice, video call, SMS or MMS, in the evenings during August, to other Optimus clients or fixed numbers.</li> <li>▪ Optimus adjusted the positioning of Optimus' brand promise: "Experimenta", with the goal of boosting Experiences.</li> <li>▪ Optimus was leader in GPRS and 3G international coverage. GPRS coverage extends across 80 countries and 3.5G service is available on the mobile networks of 55 foreign operators.</li> <li>▪ Optimus launched specific tariff plans for young people, Limo and Limo+, group tariff plans with the most advantageous rates in the market.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Agreement for Parpública roll-up, exchanging 5.04% shareholding in Optimus for 11.4 million shares in Sonaecom.</li> <li>▪ Optimus launched Optimus Music Store, which allows the complete download of CD quality songs by synchronizing a file between the mobile phone and PC.</li> <li>▪ Optimus updated its "Live TV" channels, offering a total of 19 channels.</li> <li>▪ Optimus repeated its great open air cinema event in Portugal, Optimus Open Air, the world's largest open air cinema.</li> <li>▪ Optimus received applications from over 7,000 candidates to participate in a communication experience consisting of talking to strangers, answering calls, replying to SMS or MMS messages and answering video calls.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Competition Authority: first preliminary decision.</li> <li>▪ Capital increase approval by Sonaecom's shareholders at Extraordinary General Meeting.</li> <li>▪ Optimus launched the challenge of finding a new way of expressing the Experience concept in 30 Lisbon and Porto buses, by having them painted by graffiti artists.</li> <li>▪ Optimus launched speeds up to 3.6Mbps and new USB modem within its wireless Broadband kanguru range.</li> <li>▪ Optimus launched Mobi-ticket, a new service to provide tickets for shows by SMS.</li> <li>▪ Since "Optimus Experience" was launched, on 6 September, the 50 experimenters exchanged, on average, about 5,500 SMS per day.</li> </ul>

October	November	December
<ul style="list-style-type: none"> <li>▪ Share capital increased by 69.7 million shares, to accommodate the roll-up of EDP and Parpública.</li> <li>▪ Optimus launched a new balance management service - known as "Extra Balance" - targeting clients that need extra balance, but are not able to top up their card immediately, that credits mobile phones with 2.50 euros.</li> <li>▪ Clix Smartv offers channels for immigrants, providing four foreign language channels specifically destined for the Chinese, Russian, Rumanian and Ukrainian communities.</li> <li>▪ Optimus was pioneer in the launch of a new mobile TV application, whereby clients may use functionalities of traditional TV.</li> <li>▪ Optimus launched Kanguru fixo, an internet access geographically restricted to a certain area, with speeds up to 3.6Mbps and monthly fees from 22.5 euros.</li> <li>▪ Clix presented its new homepage with a renovated look, new content and greater ease of navigation.</li> <li>▪ Optimus reduced prices of Limo and Limo + tariffs, to reinforce the competitiveness of its offer aimed at young people.</li> <li>▪ WeDo announced RAID 3.2, adding an important number of functionalities to the previous version's user interface.</li> <li>▪ WeDo Consulting announced new office in Barcelona, its second in the Spanish market, in line with the pursuit of WeDo's internationalization strategy.</li> <li>▪ Mainroad announced a new service, Mainroad 2'Fast Recovery, which enables companies to continue operating their systems after a disaster that compromises their main data centre.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Novis launched ebackup for the corporate market, which through a computer application guarantees, in an automatic and transparent way, security copies of the information to be protected.</li> <li>▪ Optimus launched mega Christmas Campaign offering its clients access to the best mobile phones in the market, featuring the most recent technologies.</li> <li>▪ Clix launched ADSL up to 24Mbps, replacing the existing 20Mbps offer, and replacing the 4Mbps offer for a 12Mbps offer, at the same prices of 34.9 euros and 29.9 euros, respectively.</li> <li>▪ Clix SmarTV with exclusive Aljazeera English.</li> <li>▪ Optimus launched promotion "duplicate yourself!" whereby clients' expenditure on voice calls and video calls to Optimus and fixed numbers during December is given back in double in January.</li> <li>▪ WeDo announced its new iDeal solution, designed for multimedia content partner's management, mobile applications, video systems or ASP applications.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Competition Authority: second preliminary decision and consultation period.</li> <li>▪ Competition Authority: final decision.</li> <li>▪ Sonaecom submits Tender Offer prospectus to CMVM.</li> <li>▪ Optimus launched new Portal zone in 2.5G, 3G and 3.5G versions.</li> <li>▪ Optimus breaks absolute traffic records of SMS and voice traffic for the 3<sup>rd</sup> consecutive year, on the 24<sup>th</sup> December 2006.</li> <li>▪ WeDo announced RAID 4.0, with a new integrated billing control model.</li> </ul>

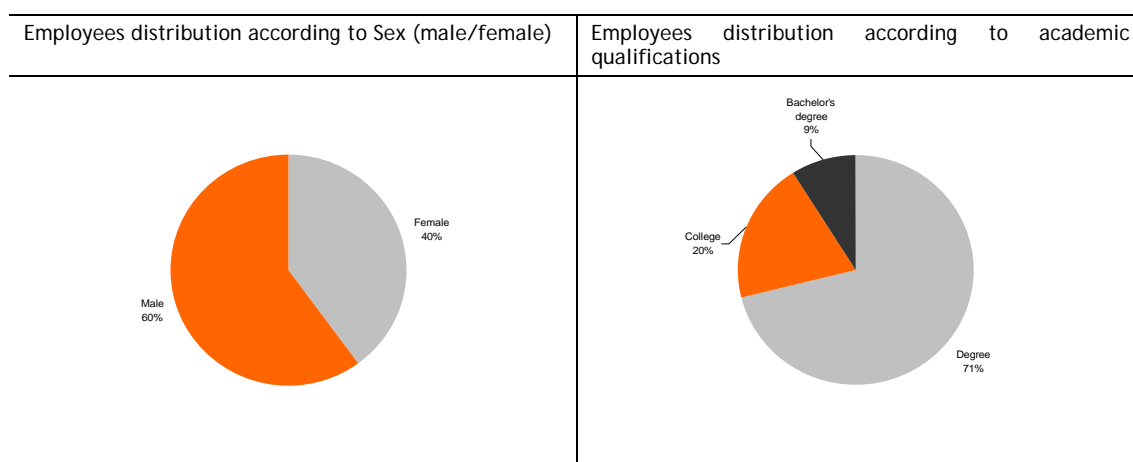
## 2. Human resources

In a sector that is constantly changing, Sonaecom's human resources team aims to mobilize, enhance and develop the skills of each employee with programmes to motivate and retain staff. This is vital for the proper functioning of the company.

### Sonaecom employees

As at 31 December 2006, Sonaecom had a total of 1,871 employees with an average age of 33 years and generating a total cost of 98.3 million euros excluding severance costs at Público, representing 11.8% of consolidated Turnover.

Sonaecom balances 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.



### Team of excellence

Sonaecom strives for excellence in all of its actions, in the belief that this strengthens courage and stimulates creativity. Within this spirit, Sonaecom invests continuously in the development of a "team of excellence", one that is determined and persevering, by stimulating their leadership skills, through proper and continuous training, rewarding their hard work, with a remuneration aligned with performance, and by helping them develop their careers within the company in an open, honest and results-oriented company.

The Group aims to strengthen its value proposition to its employees, seeking in the process, to become an attractive and prestigious employer, of which employees can feel proud of and in which each individual is aware of his contribution.

### Training as strategy

In order to contribute to internal career development during 2006, Sonaecom implemented different internal training plans to fulfil employees' skill gaps. The following are worthy of mention:

- (i) Sonaecom Learning Centre, a structured programme of internal training targeting different career stages and competency needs. To develop training programmes, Sonaecom's top managers, in partnership with Portuguese universities, decide on the final format and content for the sessions.

Since its launch in 2005, Sonaecom has completed 19 training sessions totalling 25,600 training hours, attended by 450 employees.

In the short term, the focus of the programme will be on conducting specific training sessions for core areas of the organization, such as innovation, marketing and new technologies. In addition, Sonaecom is working on broadening the scope of these

sessions and targeting its commercial agents as a way to strengthen their commercial skills.

- (ii) *Academia Novis* (Novis School) and *Escola de Negócios Optimus* (Optimus Business School), targeting Sonaecom's telecom sales teams allocated to the business segment, and *Escola de vendas Optimus* (Optimus sales school), targeted at Optimus' sales teams. Both projects aim to create the best sales force in the telecom sector by focusing on 4 key areas: recruitment, training, motivation and evaluation.

This specific training is considered a powerful management tool, helping towards creating a more effective and productive commercial team and, consequently, an increase in revenues. It also enables Sonaecom to keep and motivate its commercial team, as well as to building closer relationships with its commercial partners.

As regards recruitment, Sonaecom provides its commercial agents with the human resources believed to have a suitable profile, already trained about its products and services and with basic sales techniques. In relation to training, Sonaecom makes available different modules to its sales team, such as initial training, coaching to store managers, sales techniques, behavioural training, among others. By developing and expanding its sales team skills, Sonaecom aims to stimulate their motivation, guarantee certain customer service standards and, ultimately, improve performance levels. Based on the feedback from the sales team, and by evaluating opportunities for improvement, the training sessions are adapted to internal goals and needs.

- (iii) The financing of postgraduate studies, particularly MBA degrees, either in Portuguese or foreign Universities, allowing the most talented employees to continue their studies and further develop their key competencies.
- (iv) Continuous training sessions are carried out, led by Sonaecom managers or by external trainers, and to which all relevant employees are asked to attend. Each year, a scheduled programme is circulated within the organization and each department is encouraged to allocate a percentage of its budget based on its participation.

#### **Internal performance appraisal**

To energize initiative and sharpen commitment of its employees, a performance bonus is paid, aimed at rewarding the achievement of certain pre-defined annual objectives, linked to both "key performance indicators of Sonaecom's business activity" and "personal key performance indicators". Sonaecom's culture encourages employees to take an active role in the planning of their "personal key performance indicators" for the year, in accordance with the company's goals and strategy.

During 2006, Sonaecom once again carried out its annual performance appraisal process, through which each individual's performance and contribution to the organization's success is measured and assessed, and the variable remuneration to be awarded is calculated.

#### **Workplace environment**

The opinions of Sonaecom's staff are extremely relevant and allow a better understanding of what is important to change and implement in the organization. For the third consecutive year, an internal attitude survey was carried out in the Sonaecom Group, in which more than 73% of the employees took part. Various critical factors were evaluated such as job motivation and level of satisfaction in relation to direct management, team groups, job descriptions, professional development and remuneration packages. The results obtained were discussed by Sonaecom's Executive Committee and shared with Sonaecom's employees.

**Internal communication**

To strengthen employee bonding and their sense of belonging to the Group, Sonaecom has developed the following communication tools:

- (i) Internal magazines such as BOOM published on a monthly basis and covering the company's main achievements, activities and initiatives; Eco-Report, also published monthly and covering the Group's environment achievements, as well as discussing environmental issues;
- (ii) Corporate intranet, IntraSonaecom, communicating relevant information to Sonaecom's employees, concerning new products, internal initiatives, corporate results, job opportunities and other relevant themes;
- (iii) Daily Media clipping with all press releases and media clips related to the telecom sector and the Sonaecom Group;
- (iv) Human resources online, an intranet tool launched in 2005, which allows employees to access, in a simple and fast way, information about their remuneration package, vacations, absences, training and internal evaluation.



### 3. Business overview

#### 3.1. Sonaecom Group

Sonaecom's ability to identify and focus on specific growth opportunities across the telecoms market is reflected in its full year 2006 results that showed solid growth and profitability improvements in the telecom businesses during the year.

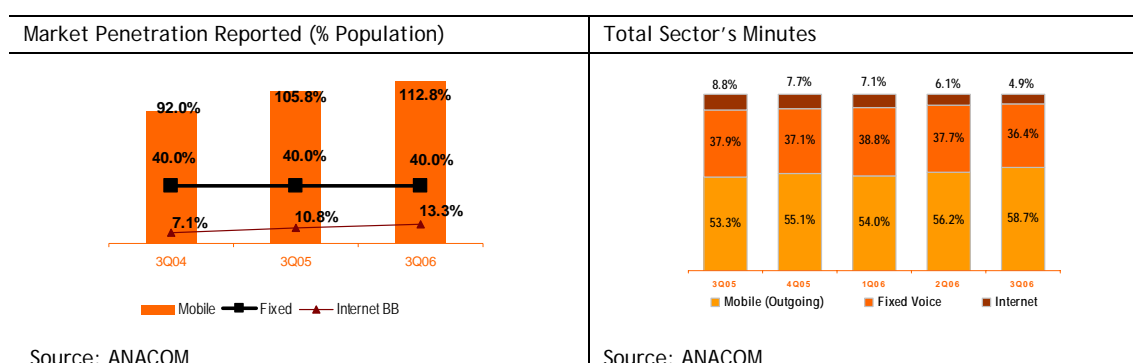
#### Portuguese telecom market

According to ANACOM<sup>2</sup>, the value of the Portuguese telecommunications market was 7.3 billion Euros in 2005<sup>3</sup>, similar to the previous year. The telecommunications sector contribution to Portuguese GDP and national employment has also been stable during the past years, accounting for 5.2% of GDP and 0.3% of national employment, in 2005.

However, although total market growth has been stable, the trend has not been uniform for all types of services. Of the total market of 7.3 billion euros in 2005, 37.3% was accounted for by mobile services, a 1.6pp increase from 2004; 35.5% by wireline services, an increase of 0.8pp compared to 2004, driven by leased lines and data services which offset the fall in fixed telephony services by 5.7%; 6.4% by cable network services; and the remainder by other services and revenues<sup>4</sup>, which declined by 2.9pp compared to 2004, mainly explained by the MTRs decrease.

Based on ANACOM's latest market data as at 3Q06, mobile market penetration in Portugal stood at 112.8%, up from 108% at the end of 2005, above the EU average of 100.4% in 2Q06. Internet broadband penetration reached 13.3% of the market, compared to 11.4% at the end of 2005 and below the EU average of 16.5% in 2Q06, and the wireline penetration remained flat at around 40%, 10pp below the EU average.

During the 9 months to end September 2006, the telecommunications sector generated 5.3 billion minutes per quarter, a fall of 2.0% compared with the previous year, primarily driven by Internet Narrowband being cannibalised by ADSL offers which fell by 44.9% and accounted for only 5.1% of the total minutes. It should also be noted that the growth in outgoing mobile minutes of 7.4% more than offset the decrease of 4.7% in fixed voice traffic which means that total voice traffic, although the mix is now different, continued to grow.



<sup>2</sup> In ANACOM "Statistical Yearbook - 2005" (last published data)

<sup>3</sup> Latest data available

<sup>4</sup> Other Services and Revenues includes Videoconference services, Mobile and Terrestrial maritime service, Telex service, Telegraphic service, paging, among others and includes Other Revenues like Interconnection.

## Consolidated income statement

Million euros					
CONSOLIDATED INCOME STATEMENT					
	2005	2005 <sup>(R)</sup>	2006	2006 <sup>(A)</sup>	y.o.y
<b>Turnover</b>	<b>843.5</b>	<b>829.7</b>	<b>836.0</b>	<b>836.0</b>	<b>0.8%</b>
Optimus	627.4	627.4	610.4	610.4	-2.7%
Sonaecom Fixed	158.4	158.4	200.2	200.2	26.4%
Público	44.1	44.1	36.4	36.4	-17.5%
SSI	86.0	72.2	78.8	78.8	9.1%
Other & Eliminations	-72.4	-72.4	-89.7	-89.7	-23.8%
<b>Other Revenues</b>	<b>5.8</b>	<b>5.0</b>	<b>32.0</b>	<b>32.0</b>	<b>-</b>
<b>Operating Costs</b>	<b>684.6</b>	<b>672.4</b>	<b>673.1</b>	<b>673.1</b>	<b>0.1%</b>
COGS	114.9	114.6	102.1	102.1	-10.9%
Network Costs <sup>(1)</sup>	253.3	253.3	256.0	256.0	1.1%
Personnel Costs	102.8	96.0	102.5	102.5	6.8%
Marketing & Sales	95.2	95.0	94.1	94.1	-1.0%
Outsourcing Services <sup>(2)</sup>	60.1	57.6	60.9	60.9	5.7%
General & Administrative Expenses	46.3	43.8	46.3	46.3	5.7%
Other Operating Costs	12.0	12.0	11.1	11.1	-7.2%
Provisions and Impairment Losses	7.8	7.8	10.6	10.6	36.6%
<b>EBITDA <sup>(3)</sup></b>	<b>156.9</b>	<b>154.5</b>	<b>184.3</b>	<b>184.3</b>	<b>19.3%</b>
<b>EBITDA Margin (%)</b>	<b>18.6%</b>	<b>18.6%</b>	<b>22.0%</b>	<b>22.0%</b>	<b>3.4pp</b>
Optimus	167.1	167.1	169.1	169.1	1.1%
Sonaecom Fixed	-14.7	-14.7	-6.2	-6.2	57.4%
Público	-1.7	-1.7	-8.8	-8.8	-
SSI	9.5	7.2	31.8	31.8	-
Other & Eliminations	-3.4	-3.5	-1.5	-1.5	57.3%
Tender Offer Costs	0.0	0.0	30.9	0.0	-
Depreciation & Amortization	128.2	127.9	135.7	135.7	6.1%
<b>EBIT</b>	<b>28.7</b>	<b>26.6</b>	<b>17.8</b>	<b>48.7</b>	<b>82.9%</b>
<b>Net Financial Results</b>	<b>-13.1</b>	<b>-13.1</b>	<b>-17.4</b>	<b>-17.4</b>	<b>-32.9%</b>
Financial Income	4.8	4.7	6.0	6.0	27.2%
Financial Expenses	17.9	17.8	23.4	23.4	31.4%
<b>EBT</b>	<b>15.6</b>	<b>13.5</b>	<b>0.4</b>	<b>31.3</b>	<b>131.1%</b>
Taxes	4.0	3.7	5.3	5.3	43.9%
<b>Net Results</b>	<b>11.6</b>	<b>9.9</b>	<b>-4.9</b>	<b>26.0</b>	<b>163.5%</b>
Group Share	2.2	0.9	-13.9	17.0	-
Attributable to Minority Interests	9.4	9.0	9.0	9.0	0.6%

(1) Network Costs = Interconnection plus Leased Lines plus Content plus Other Network Operating Costs; (2) Outsourcing Services = Customer Services plus Consultants plus Subcontracts; (3) Includes 25.3 million euros capital gain from the sale of Enabler; (R) Restated to exclude Enabler's contribution in 2H05; (A) Adjusted to exclude Tender Offer Costs.

### Turnover

Consolidated turnover reached 836.0 million euros in 2006<sup>(A)</sup>, 0.8% above 2005<sup>(R)</sup>, notwithstanding the negative impact of the declining MTRs and the continuing fall of incoming fixed traffic at Optimus. Service revenues increased by 2.6% to 746.8 million euros compared to 2005<sup>(R)</sup>, with the main contributions for this positive performance coming from: (i) 26.4% higher turnover at Sonaecom Fixed driven by strong growth in both operator revenues of 27.6% and in customer revenues of 23.6%, the former driven by the increase of voice traffic and leased lines, and the latter mainly explained by the strong performance of the direct access business; and (ii) 3.7% increase in Optimus' customer revenues, partially offsetting the negative impact of lower MTRs on operator revenues.

### Other revenues

Other revenues, excluded from turnover, reached 32 million euros in the year. These relate to revenues not generated by Sonaecom's current business, including a 25.3 million euros capital gain from the sale of Enabler in June 2006.

### Operating costs

Notwithstanding the growth in revenues, costs were kept to a similar level to 2005. Total operating costs excluding COGS totalled 571.0 million euros in 2006<sup>(A)</sup>, 2.3% higher than in 2005<sup>(R)</sup>, and represented 76.5% of service revenues, compared to 76.7% in 2005<sup>(R)</sup>, reflecting the Group's focus on cost containment despite the continuous investment in mobile innovation and direct access wireline services. Cost savings were mainly achieved in the following areas: (i) 14.3% lower network maintenance costs compared to 2005<sup>(R)</sup>, mainly as

result of Optimus' price renegotiation completed in January 2006 for its network outsourcing services; partially offsetting other network costs in the year, namely the higher energy and rental costs associated with the extension of the Optimus 3G network, and the higher maintenance costs related to the Sonaecom Fixed network capillarity expansion; and (ii) lower marketing & sales costs by 1.0% compared to 2005<sup>(R)</sup>, driven by Optimus' lower investment effort in the year and despite Sonaecom Fixed's active promotion of its direct broadband solutions.

Personnel costs were up by 6.8% compared to 2005<sup>(R)</sup>, as a result of the restructuring programme implemented at Público and the related severance costs recognized in the year. Outsourcing services increased by 5.7% to 60.9 million euros, driven by Sonaecom Fixed's significant growth of ULL direct access services requiring more customer activation support services in comparison to 2005.

Provisions and impairment losses increased to 10.6 million euros in 2006 from 7.8 million euros in 2005<sup>(R)</sup>, due to higher provisions for bad debt and other risks in the telecom businesses and despite a 43.6% reduction in provisions for inventories due to improvements in stock management at Optimus.

#### EBITDA

Consolidated EBITDA totalled 184.3 million euros in 2006<sup>(A)</sup> generating a margin of 22.0%, compared to an EBITDA of 154.5 million euros and a margin of 18.6% in 2005<sup>(R)</sup>, including the 25.3 million euros capital gain from the sale of Enabler. Excluding the impact of the capital gain and notwithstanding the significant negative effect of the declining MTRs, EBITDA would have increased by 3.0% to 159.0 million euros compared to 2005<sup>(R)</sup>, driven by higher EBITDA contributions from Optimus and Sonaecom Fixed: (i) Optimus generated an EBITDA of 169.1 million euros, compared to 167.1 million euros in 2005<sup>(R)</sup>, reflecting the results of investments made on convergent products and mobile internet access; and (ii) Sonaecom Fixed EBITDA improved by 8.5 million euros, from negative EBITDA of 14.7 million euros in 2005<sup>(R)</sup> to a negative EBITDA of 6.2 million euros in 2006, reaching EBITDA break-even as from 3Q06 as the investment in ADSL2+ broadband services over ULL began to show tangible results.

#### Net profit

Depreciation and amortization charges increased by 6.1% in 2006<sup>(A)</sup>, from 127.9 million euros in 2005<sup>(R)</sup> to 135.7 million euros, as a result of higher net investment made during the year in the extension of Optimus' UMTS/HSDPA network and the extension of Sonaecom Fixed access network capillarity.

Net financial charges increased by 32.9% to 17.4 million euros in 2006<sup>(A)</sup>, compared to 13.1 million euros in 2005<sup>(R)</sup>, explained primarily by: (i) higher financial expenses by 31.4% to 23.4 million euros due to higher average cost of debt of 3.69% in 2006<sup>(A)</sup>, compared to 3.04%, in 2005<sup>(R)</sup>; and (ii) higher net debt due to the use of funds to acquire 1% of PT's share capital.

Taxes in 2006<sup>(A)</sup> showed a charge of 5.3 million euros, compared to 3.7 million euros in 2005<sup>(R)</sup>. The 2006 charge comprises a current tax cash charge of 1.2 million euros compared to 1.3 million in 2005<sup>(R)</sup> and movements in deferred tax assets, generating a net charge of 4.1 million euros compared to a net charge of 2.4 millions in 2005<sup>(R)</sup>.

Due to the improved EBITDA result in 2006<sup>(A)</sup>, net results before minorities were 26.0 million euros, up from 9.9 million euros in 2005<sup>(R)</sup>. Excluding the capital gain from the sale of Enabler, net results before minorities would have decreased to 0.7 million euros, mainly explained by the higher depreciation charges and higher net financial charges in the year compared to 2005<sup>(R)</sup>. The group's share of net results of 17 million euros reflect the impact on minority interests of the share-for-share exchange agreements with EDP and Parpública, reached during 3Q06, and the roll-up agreement reached with France Telecom during 4Q05.

### Tender offer costs

Costs associated with Sonaecom's public tender offer for PT, incurred during 2006, totalled 30.9 million euros, accounted for in tender offer costs, of which 22.4 million euros related to external consultants and advisors costs and 8.5 million euros to financial costs related to the bank guarantee.

Including the tender offer costs, Sonaecom's net income before minorities was negative 4.9 million euros.

### **Consolidated balance sheet**

Million euros			
CONSOLIDATED BALANCE SHEET	2005	2006	y.o.y
<b>Total Net Assets</b>	<b>1,451.8</b>	<b>1,720.2</b>	<b>18.5%</b>
Non Current Assets	1,010.2	1,343.6	33.0%
Tangible and Intangible Assets	652.7	661.4	1.3%
Goodwill	285.5	506.9	77.6%
Investments	1.9	113.1	-
Deferred Tax Assets	66.2	61.8	-6.7%
Others	3.9	0.3	-91.0%
Current Assets	441.6	376.6	-14.7%
Trade Debtors	143.6	152.0	5.9%
Liquidity	209.4	125.9	-39.9%
Others	88.6	98.7	11.4%
<b>Shareholders' Funds</b>	<b>686.9</b>	<b>909.5</b>	<b>32.4%</b>
Group Share	571.8	909.0	59.0%
Minority Interests	115.2	0.5	-99.6%
<b>Total Liabilities</b>	<b>764.8</b>	<b>810.7</b>	<b>6.0%</b>
Non Current Liabilities	480.6	486.1	1.1%
Bank Loans	455.9	460.6	1.0%
Provisions for Other Liabilities and Charges	5.1	20.1	-
Others	19.7	5.4	-72.5%
Current Liabilities	284.2	324.6	14.2%
Bank Loans	0.1	0.1	38.9%
Trade Creditors	143.3	162.7	13.5%
Others	140.9	161.9	14.9%
Operating CAPEX <sup>(1)</sup>	116.6	134.1	15.0%
Operating CAPEX as % of Turnover	13.8%	16.0%	2.2pp
Total CAPEX	140.8	253.5	80.0%
EBITDA - Operating CAPEX	40.3	50.3	24.8%
Operating Cash Flow	45.4	51.3	13.0%
FCF <sup>(2)</sup>	13.4	-81.7	-
Gross Debt	461.1	464.0	0.6%
Net Debt	251.6	338.1	34.3%
Net Debt/ EBITDA last 12 months	1.6 x	1.8 x	0.2x
EBITDA/Interest Expenses <sup>(3)</sup>	12.9 x	10.6 x	-2.3x
Debt/(Debt + Shareholders' Funds)	40.2%	33.8%	-6.4pp

(1) Operating CAPEX excludes Financial Investments and Provisions for sites dismantling; (2) FCF Levered after Financial Expenses but before Capital Flows and Financing related up-front Costs; includes cost of acquiring approximately 11.3 million shares of PT at average price of 9.38 euros; (3) Interest Cover.

### Capital structure

Consolidated Gross Debt at the end of December 2006 stood at 464.0 million euros, similar to the level in December 2005. Consolidated liquidity decreased by 83.5 million euros to 125.9 million euros, compared to 209.4 million euros at the end of 2005, reflecting the 105.9 million euros cash outflow related to the acquisition of approximately 1% in PT and the proceeds from the sale of Enabler during 2Q06. Consolidated Net Debt as at year end 2006 stood at 338.1 million euros, an increase of 86.5 million euros compared to 2005.

At the end of 2006 and compared to end 2005, Net Debt to annualised EBITDA deteriorated marginally to 1.8x from 1.6x, explained mainly by the decrease of liquidity in the year. Interest cover deteriorated to 10.6x, from 12.9x, as a result of a higher cost of debt in 2006, while Debt to Equity improved to 33.8% from 40.2%, due to the capital increase following the roll-up to Sonaecom level, of the respective minority shareholdings in Optimus held by EDP and Parpública.

Net Debt at Sonaecom SGPS stood at 142.4 million euros at the end of 2006, reflecting a total cash position of 91.0 million euros, external debt of 146.6 million euros and treasury applications made by subsidiaries with Sonaecom of 86.8 million euros.

#### CAPEX

Consolidated CAPEX was 253.5 million euros in 2006, including the 105.9 million euros cost of acquiring approximately 11.3 million shares of PT at an average price of 9.38 euros per share in May 2006. Operating CAPEX, excluding financial investments and provisions for sites dismantling, reached 134.1 million euros, 15.0% higher than in 2005, representing 16.0% of Turnover. This level of operating CAPEX was consistent with Sonaecom's stated growth strategy and reflected investment related to the deployment of the UMTS and HSDPA network, and to wireline investments related with expanding direct coverage and capacity during 2006.

The breakdown of total operating CAPEX was: 41.7% invested in the deployment of UMTS/HSDPA network, 17.6% related to GSM network maintenance, 17.5% related to Information Technology/Information Systems investments, 13.0% in the network to support direct broadband and 3.2% capitalized Triple Play development costs.

#### Other balance sheet items

Gross tangible and intangible assets were 1,475 million euros at the end of 2006, compared to 1,340 million euros in 2005 and cumulative depreciation and amortization totalled 813 million euros, compared to 687 million euros in 2005. Goodwill reached 506.9 million euros in 2006, compared to 285.5 million euros in 2005, mainly reflecting goodwill generated in respect of the roll up of the minority shareholdings of EDP and Parpública in Optimus. Shareholders' funds increased by 222.6 million euros in 2006 to 909.5 million euros, reflecting the issue of 69.7 million new ordinary shares with a nominal value of one euro each and a share premium of 275.7 million euros, in order to implement the roll-up of EDP and Parpública. Total investments reached 113.1 million euros, compared to 1.9 million euros in 2005, including the 1% shareholding in PT valued at 111.1 million euros, on a marked-to-market basis.

#### FCF

Million euros

LEVERED FREE CASH FLOW	2005	2005 <sup>(R)</sup>	2006	y.o.y
EBITDA-Operating CAPEX	40.3	38.1	50.3	31.9%
Change in WC	3.0	3.0	-10.4	-
Non Cash Items & Other	2.2	2.5	11.4	-
Operating Cash Flow	45.4	43.6	51.3	17.5%
Financial Investments	-21.3	-21.3	-107.2	-
Tender Offer Costs	0.0	0.0	-12.5	-
Financial results	-9.0	-8.7	-12.1	-38.7%
Income taxes	-1.6	-1.3	-1.2	7.1%
FCF <sup>(1)</sup>	13.4	12.3	-81.7	-

(1) Includes cost of acquiring approximately 11.3 million shares of PT at average price of 9.38 euros; (R) Restated to exclude Enabler's contribution in 2H05.

Consolidated FCF in 2006 was negative 81.7 million euros, compared to a positive 12.3 million euros in 2005<sup>(R)</sup>, primarily as a result of the 105.9 million euros investment in acquiring PT shares. Excluding this investment and cash outflows in relation to the tender offer, FCF for the year would have been 36.7 million euros. Operating cash flow was 51.3 million euros in 2006, 17.5% higher than in 2005<sup>(R)</sup>, mainly due to higher EBITDA achieved in the year and notwithstanding the deterioration in working capital and a higher operating CAPEX.

#### Proposal for the application of results

Sonaecom consolidated accounts presented a negative net result of 13,883,168 euros and a net result of 8,864,184.69 euros for Sonaecom's Individual Accounts, as at 31 December 2006. The Board of Directors proposes that the net results in the Individual Accounts be transferred to legal reserves in an amount of 443,209.23 euros and an amount of 8,420,975.46 euros be transferred to other reserves.

### 3.2. Optimus

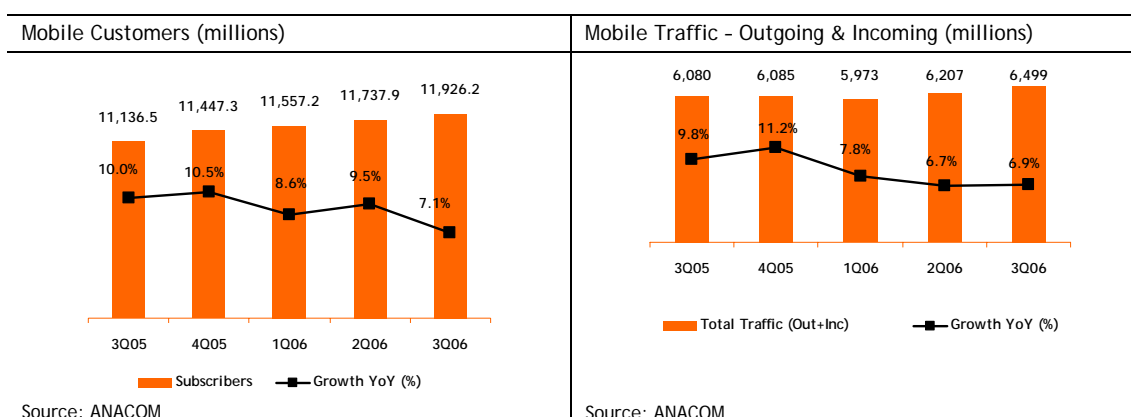
Optimus achieved solid growth in its subscriber base and customer revenues, as a result of its focus on innovation and growth initiatives, partially compensating the lower operator revenues resulting from the decrease in MTRs and lower incoming traffic from wireline operators.

#### Mobile telecom market

In the 9 months to end September 2006<sup>5</sup>, total mobile subscribers increased by 7.1% mainly due to the growth of pre-paid customers by 5.5% and to the growth in post-paid subscribers by 14.0%, the former representing 19.8% of total subscribers compared to 18.6% in the previous year.

During this 9 month period, total volume of mobile traffic, expressed in minutes, increased by 7.4%, with SMS usage continuing to grow above voice traffic and registering a 209.5% rise when compared with the same period in 2005. Monthly average number of calls and minutes per subscriber declined, while the average duration of a call increased, indicating that shorter calls were replaced by SMS usage. The number of monthly SMS per subscriber grew from an average 48.5 in 3Q05 to 94.4 in 3Q06.

Due to the reductions on roaming tariffs, both roaming in and roaming out voice traffic increased above both subscribers' growth and domestic outgoing traffic, by 14.3% and 32.6% respectively.



#### Mobile regulatory developments

On 1 October 2006, the programmed reduction in MTRs, in accordance with ANACOM's decision in February 2005, culminated with the final reduction of mobile to mobile and fixed to mobile to 0.11 euros per minute. For Optimus, Fixed to Mobile termination rates decreased by 35.3%, down from 0.17 euros per minute in 1 January 2006; Mobile to Mobile and International Mobile termination rates decreased by 12.0%, down from 0.125 euros per minute.

On 5 April 2006, a reduction of the Spectrum fees charged during 2006 was announced, from 2.64 euros per mobile card in 2005, to 2.38 euros. Furthermore, the EU Commission has announced a complex proposal for reducing EU mobile roaming charges, looking to address both retail and wholesale roaming charges, and reductions are expected to be implemented by 2H07.

#### 2006 Strategy

During 2006, Optimus' operating priorities were focused on the same cornerstones of growth as those targeted during the previous year. Optimus' strategy was aimed at obtaining more value from voice and data, growing market share and broadening market boundaries, through focusing on innovation, promotion of wireless internet products, over

<sup>5</sup> Latest available data

UMTS and HSDPA technology, segmentation and launch of Fixed-Mobile convergent products.

#### Growth initiatives

During 2006, Optimus' growth initiatives included:

- (i) Strengthening of the Kanguru product range, Optimus' portable internet product based on HSDPA technology, with the launch of Kanguru Xpress with speeds up to 3.6 Mbps; Kanguru light, targeted at internet soft users and speeds up to 640 Kbps; and Kanguru Fixo, targeted at in-building desktop usage;
- (ii) Focus on young consumer segments, supported by the launch of new tariff plans such as Limo, new services such as Chat plans and specific promotional campaigns;
- (iii) Focus on high end residential consumers, with the launch of Optimus A, a complete and innovative value proposition;
- (iv) Extension of the commercial partnership with Microsoft, significantly enlarging the portfolio of handsets providing mobile synchronization of email messages, including the first 3.5G windows PDA available in the Portuguese market;
- (v) Partnerships with new mobile Service Operators, aimed at generating market growth with the development of new mobile offers, namely with The Phone House and with Worten;
- (vi) Promotion of new Multimedia Services, with the offering of Mobile TV, a live TV service with direct transmission of 19 channels;
- (vii) Promotion of new data services, with the launch of the Music Store, more than 230 thousand MP3 downloads, updated daily;
- (viii) Launch of new data services for the corporate segment, such as GeoSMS and SMSPro.

#### Operational data

OPTIMUS OPERATIONAL KPI's	2005	2006	y.o.y
Customers (EOP) ('000)	2,353.2	2,601.9	10.6%
% Pre-paid Customers	81.7%	77.8%	-3.9pp
Active Customers <sup>(1)</sup>	1,786.8	1,960.2	9.7%
Net Additions ('000)	224.4	248.7	10.8%
Data as % Service Revenues	11.2%	14.4%	3.2pp
Total #SMS/month/user	37.6	50.5	34.4%
MOU <sup>(2)</sup> (min.)	114.4	115.9	1.4%
ARPU (euros)	21.9	19.7	-10.1%
ARPM <sup>(3)</sup> (euros)	0.19	0.17	-11.3%
CCPU <sup>(4)</sup> (euros)	16.6	15.1	-9.1%
SAC&SRC <sup>(5)</sup> ('000 000 euros)	107.5	100.7	-6.3%
Employees <sup>(6)</sup>	985	1,055	7.1%
Shared Services Division	480	776	61.7%

(1) Active Customers with Revenues generated on last 90 days; (2) Minutes of Use per Customer per month (Home is included since 4Q05); (3) Average Revenue per Minute; (4) Cash Cost per Customer = Total Operational Costs per Customer less Equipment Sales; (5) Total Acquisition & Retention Costs; (6) Includes Shared Services Division.

#### Customer base

Optimus' customer base increased by 10.6% to 2.6 million, at the end of 2006, compared to 2.35 million at the end of 2005, with net additions of 249 thousand in 2006, reflecting the success of its growth strategy. Active customers at the end of 2006 totalled 1.96 million, as compared to 1.79 million in 2005, an increase of 9.7% over 2005.

The new products launched in 2005, particularly Home and Kanguru, were the main drivers of Customer growth at Optimus, with Home continuing to attract new customers and exceeding 200 thousand customers by end 2006 and Kanguru performing ahead of expectations and continuing to push up data usage.

During 2006, Optimus customers generated an ARPU of 19.7 euros, down from an ARPU of 21.9 euros in 2005, of which 14.2 euros related to customer monthly bill. The ARPU decrease of 10.1% compared to 2005 is mainly explained by the impact of the phased reductions in MTRs and the continued decrease of incoming traffic from wireline operators.



#### Data usage

Data revenues represented 14.4% of service revenues in 2006, an improvement of 3.2pp over 2005, as the result of Optimus' focus on increasing usage of data services. Total monthly SMSs per user increased by 34.4%, explained mainly by the success of the chat plans on offer. Non-SMS related data services accounted for 38% of total data revenues in 2006, compared to 29% in 2005.

#### Traffic

In 2006, total voice traffic<sup>6</sup> was 11.8% higher than that recorded in 2005, with minutes of use per customer increasing by 1.4% to 115.9 minutes, compared to 114.4 minutes in 2005, driven mainly by the performance of the new products and services. Optimus' operator revenues continued to be negatively affected by the continued reduction in fixed incoming traffic, which decreased by 7% compared to 2005.

#### Mobile network

During 2006, Optimus' continued to invest in extending its network capillarity and capacity, with the deployment of new UMTS sites and with an upgrade of the 3G network with HSDPA. By the end of 2006, Optimus' UMTS network covered over 70% of the population with the delivery of speeds up to 384Kbps, of which 60% has been upgraded with HSDPA technology with bandwidth of up to 3.6 Mbps.

In January 2006, both Optimus and Sonaecom Fixed technical teams were fully integrated, involving 220 employees from Optimus and 110 employees from Sonaecom Fixed, consistent with the Group's strategy of telecoms integration of management, network and systems.

At the beginning of 2006, Optimus completed an RFP process to improve prices and conditions for the supply of 3G and 3.5G network elements. As a result, Huawei joined Ericsson as the main backbone and access network providers for Optimus.

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<sup>6</sup> Total voice traffic = total incoming traffic plus total outgoing traffic plus total Roaming out



## Financial data

Million euros

OPTIMUS CONSOLIDATED INCOME STATEMENT	2005	2006	y.o.y
<b>Turnover</b>	<b>627.4</b>	<b>610.4</b>	<b>-2.7%</b>
Service Revenues	567.0	562.2	-0.8%
Customer Revenues	391.2	405.7	3.7%
Operator Revenues	175.9	156.5	-11.0%
Equipment Sales	60.4	48.1	-20.4%
<b>Other Revenues</b>	<b>25.9</b>	<b>34.4</b>	<b>32.8%</b>
<b>Operating Costs</b>	<b>479.4</b>	<b>466.2</b>	<b>-2.8%</b>
COGS	86.2	71.5	-17.1%
Interconnection & Contents	137.9	133.2	-3.4%
Leased Lines & Other Network Operating Costs	48.0	52.3	9.0%
Personnel Costs	45.3	51.9	14.5%
Marketing & Sales	73.1	68.0	-7.0%
Outsourcing Services <sup>(1)</sup>	51.0	50.3	-1.3%
General & Administrative Expenses	27.8	29.1	4.4%
Other Operating Costs	10.1	10.0	-1.0%
<b>Provisions and Impairment Losses</b>	<b>6.8</b>	<b>9.5</b>	<b>39.9%</b>
<b>Service Margin <sup>(2)</sup></b>	<b>429.1</b>	<b>429.1</b>	<b>0.0%</b>
Service Margin (%)	75.7%	76.3%	0.6pp
<b>EBITDA</b>	<b>167.1</b>	<b>169.1</b>	<b>1.1%</b>
EBITDA Margin (%)	26.6%	27.7%	1.1pp
Depreciation & Amortization	109.2	117.4	7.4%
<b>EBIT</b>	<b>57.9</b>	<b>51.7</b>	<b>-10.7%</b>
<b>Net Financial Results</b>	<b>-13.0</b>	<b>-12.3</b>	<b>5.6%</b>
Financial Income	1.6	3.9	143.7%
Financial Expenses	14.6	16.2	10.8%
<b>EBT</b>	<b>44.9</b>	<b>39.4</b>	<b>-12.3%</b>
Taxes	-0.2	4.9	-
<b>Net Results</b>	<b>45.1</b>	<b>34.5</b>	<b>-23.5%</b>
Operating CAPEX <sup>(3)</sup>	84.3	102.5	21.6%
Operating CAPEX as % of Turnover	13.4%	16.8%	3.4pp
EBITDA - Operating CAPEX	82.8	66.5	-19.7%
Total CAPEX	87.2	114.8	31.6%
FCF <sup>(4)</sup>	76.8	60.8	-20.7%
Gross Debt	314.6	317.3	0.8%
Net Debt	226.8	217.1	-4.3%
Net Debt/ EBITDA last 12 months	1.4 x	1.3 x	-0.1x
EBITDA/Interest Expenses	17.3 x	14.9 x	-2.4x
Debt/(Debt + Shareholders' Funds)	46.0%	47.1%	1.1pp

(1) Outsourcing Services = Customer Services plus Consultants plus Subcontracts; (2) Service Margin = Service Revenues minus Interconnection & Content Costs; (3) Operating CAPEX excludes Financial Investments and Provisions for sites dismantling; (4) FCF Levered after Financial Expenses but before Capital Flows and Financing related up-front Costs.

### Turnover

Customer revenues increased by 3.7% to 405.7 million euros compared to 391.2 million euros in 2005, driven by the success of the investment focused on innovation and growth initiatives. This growth strategy partially compensated the negative effect of lower MTRs that reduced operator revenues by 27.9 million euros, which in turn led to a reduction of service revenues of just over 0.8% to 562.2 million euros as compared with 2005. Excluding the impact of the MTRs, service revenues would have increased by 4.1% compared to 2005.

### EBITDA

EBITDA in 2006 reached 169.1 million euros and a margin of 27.7%, an increase of 1.1% and 1.1pp over 2005. This growth was primarily a result of higher customer revenues and a 2.8% reduction in total operating costs, and was achieved despite the decrease in MTRs that led to a reduction of 10.0 million euros in EBITDA compared to 2005. Excluding the impact of the MTRs, EBITDA would have increased by 7.1%, as compared to 2005, generating an EBITDA margin of 29.3%, 2.7pp above 2005.

Total OPEX excluding COGS and marketing & sales reached 326.7 million euros, 2.1% higher than 2005 level, consistent with Optimus investment in growing market share while maintaining a commitment to managing costs and operating efficiencies. Marketing & sales and handset subsidisation costs fell to 91.4 million euros in 2006, 7.5 million euros less than in 2005, primarily as a result of the lower promotional activity in the year, with marketing

costs decreasing by 5.1 million euros, and due to lower subsidization, down by 2.4 million euros. Network maintenance costs were down by 13.5%, although not enough to compensate for the higher energy and rental costs associated with the extension of the Optimus 3G network. Outsourcing services decreased by 1.3%, reflecting Optimus' effort to contain operating costs while leased lines were up by 22.5%, primarily due to the extension of the 3G and HSDPA network, resulting in a higher number of circuits rented. Personnel costs were up by 14.5%, explained by the integration of Sonaecom Fixed technical team of 110 employees into Optimus' shared services technical structure as of January 2006.

### Strategy going forward

During 2007, operating priorities will continue to focus on growth initiatives targeted at increasing market share and improving profitability, based on 4 strategic objectives: (i) keep the brand at the centre of the communication strategy; (ii) extract more value from voice and messaging, through innovation and segmentation; (iii) extract more value from data and multimedia; and (iv) broaden the traditional market boundaries, by further developing existing and new fixed-mobile convergent products and wireless internet products.

By maintaining a keen focus on these objectives and overall strategy, Optimus will build its future, tackling its daily issues with greater ambition to grow, promoting the conditions for constant innovation and market disruption, adopting a customer centric attitude and with obsession for rigour in execution and quality.

### 3.3. Sonaecom Fixed

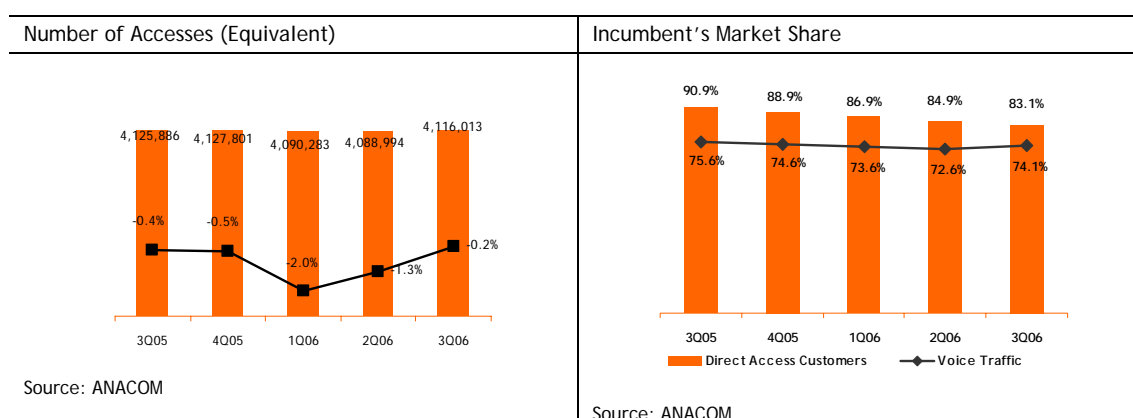
Sonaecom Fixed expanded significantly its ADSL direct broadband services, completing its transformation process to a direct access business, which accounted for more than 65% of its customer revenues and 71% of total services by the end of 2006, compared to 36% and 34% of its total services by end of 2005.

#### Fixed telecom market

Total number of fixed accesses reached 4.1 million in the 9 months to end September 2006, similar to the same period of 2005, mainly due to ADSL growth that compensated decrease in voice traffic lines. Fixed traffic decreased by 12.4% in the 9 months to end September 2006 when compared with same period of 2005, primarily as a result of: (i) continued migration of Narrowband customers to Internet Broadband solutions of ADSL, Cable and Mobile, decreasing by 44.9% when compared to the same period in 2005; and (ii) a 4.7% decrease of voice traffic, mainly due to the fixed-to-mobile substitution as total sector voice traffic continued to increase.

During 2006, alternative fixed line operators continued to gain market share. At end 3Q06, they accounted for 29.6% of total Portuguese voice traffic expressed in minutes, compared to 26.4% at end 3Q05, and achieved approximately 16.2% of total direct accesses compared to 9.2% in 3Q05, reflecting a market share gain of 7pp. Although the incumbent still has a dominant position in these markets, the improved regulatory and economic conditions for ULL offers have dramatically changed the fixed market landscape in Portugal.

With respect to Internet customers, Broadband users grew by 24.1% in 12 months to end September 2006, to more than 1.4 million, mainly driven by ADSL customer growth of 36.7%. In 3Q06, ADSL accesses accounted for 62.4% of the total Portuguese Broadband market, compared to 56.6% in 3Q05, Cable accesses for 37.3% compared to 42.3% at 3Q05 and other accesses for 0.3%. At the end of 3Q06, the Portuguese incumbent operator continued to have a dominant position in the Broadband market, reaching a market share of 71.5%, a decline of 5.5pp when compared to end September 2005, with alternative operators reaching a 60% market share of broadband net additions.



### Fixed regulatory developments

During 2006, the main regulatory developments in the fixed telecom market can be highlighted as follows:

- (i) On 13 April 2006, ANACOM approved new conditions for unbundling the local loop, namely a reduction in the monthly fee from 9.72 euros to 8.99 euros, with impact from January 2006 onwards.
- (ii) On 13 April 2006, ANACOM released a reference offer on the new terms and conditions of the access to PT's concessionaire ducts, improving significantly the economics underlying the process, based on decreases in the prices charged for installation and maintenance.
- (iii) On 21 April 2006, ANACOM approved a price cut reducing PT's leased lines charges on an average by 14%, following the ongoing trend of declining leased lines prices seen in recent years.
- (iv) On 14 December 2006, ANACOM approved a reference offer proposal regarding interconnection based on capacity usage, to be implemented in June 2007, contributing to future expected interconnection cost savings.

### 2006 Strategy

During 2006, Sonaecom Fixed operating priorities were focused on the same principal growth objectives established for 2005. Sonaecom Fixed strategy was aimed at transforming the business to a direct access model and at growing the wholesale business, while improving efficiency gains, reducing activation costs and reducing churn.

### Growth initiatives

The new products and services launched during 2006 include:

- (i) A new value added Broadband service, offering up to 24Mbps for a bundled voice and internet service priced at 39.9 euros per month. This new service replaced the previous 20Mbps offer, providing more bandwidth at a very attractive price. The previous 4 Mbps offer was also replaced with 12Mbps, at the same price of 29.9 euros and unlimited calls to the fixed national network during night time;
- (ii) Up-selling its IPTV product to its eligible double play customer base, making the offer available in limited areas where both the quality of PT's copper network is appropriate and where Sonaecom Fixed has local Central Offices unbundled;
- (iii) Focus on improving customer experience and reducing costs and CAPEX per user of its double play offerings, by better monitoring and controlling customer activation delays and service breakdowns, as well as by improving response time to customer support requests and increasing customer product knowledge;
- (iv) Development of broadband services, by launching a new range of eServices to complement its business services portfolio, including: (i) the new ebackup, a network based backup service that takes advantage of the higher bandwidths available; and (ii) the revamping of ePacks, a network storage service; eFax, a converged email based fax replacement service; and eConference, an integrated conferencing service.

## Operational data

SONAECON FIXED OPERATIONAL KPI's	2005	2006	y.o.y
Total Services (EOP)	271,463	346,308	27.6%
Direct	93,861	247,120	163.3%
ULL	91,867	244,759	166.4%
Other	1,994	2,361	18.4%
Indirect	177,602	99,188	-44.2%
Voice	87,218	53,897	-38.2%
Internet Broadband	14,865	11,994	-19.3%
Internet Narrowband	75,519	33,297	-55.9%
Total Accesses <sup>(1)</sup>	140,660	310,338	120.6%
PSTN/ISDN	75,191	167,227	122.4%
ULL ADSL	50,604	131,117	159.1%
Wholesale ADSL	14,865	11,994	-19.3%
Unbundled Central Offices with transmission	138	144	4.3%
Unbundled Central Offices with ADSL2+	130	137	5.4%
Direct access as % Customer Revenues	35.9%	65.6%	29.6pp
Total Voice Traffic ('000 Min.) <sup>(2)</sup>	1,258,342	1,435,971	14.1%
Total Internet Traffic			
Narrowband ('000 Min.)	462,546	229,431	-50.4%
Broadband ('000 Gigabytes)	2,757	11,355	-
Employees	281	172	-38.8%

<sup>(1)</sup> Reporting criteria according to Anacom standard: ISDN services equivalent to 2 or 30 accesses depending on whether they are basic rate (BRI) or primary rate (PRI); Accesses do not include indirect voice or narrowband services and data and wholesale services; <sup>(2)</sup> Includes Wholesale and Retail traffic.

## Customer base

At the end of 2006, Sonaecom Fixed total services reached 346.3 thousand, an increase of 27.6% compared to 2005 and 2.9% above 3Q06. The acquisition of direct access services more than compensated for the decline in indirect access customers, with total direct services representing 71.4% of Sonaecom Fixed customer base in 2006, compared to 34.6% in 2005, and to 65.1% in 3Q06. Average monthly ULL net adds exceeded 12 thousand services in 2006 compared to 7.2 thousand in 2005. In December 2006, and according to an independent study commissioned by the telecommunications regulator, Sonaecom Fixed's Clix offer was ranked number one in terms of customer satisfaction in the Portuguese broadband market, regarding access speed, reliability and invoice clarity.

Portuguese Broadband market<sup>7</sup> grew by 23% in 2006, when compared to 2005, and 5.5% in 4Q06, when compared to 3Q06, with Sonaecom Fixed outperforming the market and increasing its market share to 9.0% when compared to 5.0% in 2005 and 8.6% at the end of 3Q06.

## Traffic

Sonaecom Fixed voice traffic increased by 14.1% in 2006 to 1,436 million minutes compared to 1,258.3 million minutes in 2005, mainly as a result of the increase of direct voice traffic by 139.5% and wholesale traffic by 14.1%, more than compensating for the decrease of indirect voice traffic of 39.2%.

## Fixed network

With a focus on extending the reach of its direct connections, by the end of 2006, the capillarity of the network was further extended by the unbundling of a further 6 central offices for SHDSL circuit interconnection, bringing the total to 144 compared to 138 at the end of 2005. With these circuits, Sonaecom Fixed is capable of operating direct connections for most of Optimus GSM and UMTS network, instead of leasing circuits, and achieving significant mobile network savings.

To capture broadband growth, Sonaecom Fixed increased the number of unbundled central offices with ADSL2+, from 130 at the end of 2005 to 137 Central Offices at end of 2006, reaching 1.6 million homes in Portugal, approximately 50% of the Portuguese population. Of these central offices, 61% are prepared with full triple play capability.

<sup>7</sup> ANACOM market research, March 2007

## Financial data

Million euros

SONAECON FIXED INCOME STATEMENT	2005	2006	y.o.y
<b>Turnover</b>	<b>158.4</b>	<b>200.2</b>	<b>26.4%</b>
Service Revenues	158.3	199.0	25.7%
Customer Revenues	76.4	94.4	23.6%
Direct Access Revenues	27.4	61.9	125.6%
Indirect Access Revenues	47.7	30.4	-36.2%
Other	1.2	2.1	70.7%
Operator Revenues	81.9	104.5	27.6%
Equipment Sales	0.1	1.2	-
<b>Other Revenues</b>	<b>3.8</b>	<b>5.2</b>	<b>36.4%</b>
<b>Operating Costs</b>	<b>176.6</b>	<b>210.9</b>	<b>19.4%</b>
COGS	0.0	1.7	-
Interconnection	85.3	104.4	22.3%
Leased Lines & Other Network Operating Costs	25.2	32.0	26.8%
Personnel Costs	13.4	9.3	-30.3%
Marketing & Sales	18.3	22.4	22.1%
Outsourcing Services <sup>(1)</sup>	24.1	30.7	27.4%
General & Administrative Expenses	9.3	9.0	-3.0%
Other Operating Costs	0.9	1.3	48.1%
<b>Provisions and Impairment Losses</b>	<b>0.3</b>	<b>0.7</b>	<b>186.4%</b>
<b>Service Margin <sup>(2)</sup></b>	<b>73.0</b>	<b>94.5</b>	<b>29.6%</b>
Service Margin (%)	46.1%	47.5%	1.4pp
<b>EBITDA</b>	<b>-14.7</b>	<b>-6.2</b>	<b>57.4%</b>
EBITDA Margin (%)	-9.3%	-3.1%	6.1pp
Depreciation & Amortization	15.0	16.8	12.0%
<b>EBIT</b>	<b>-29.7</b>	<b>-23.0</b>	<b>22.3%</b>
<b>Net Financial Results</b>	<b>-2.1</b>	<b>-3.2</b>	<b>-55.1%</b>
Financial Income	0.5	0.2	-64.2%
Financial Expenses	2.5	3.4	33.8%
<b>EBT</b>	<b>-31.7</b>	<b>-26.3</b>	<b>17.3%</b>
Taxes	2.8	0.1	-98.1%
<b>Net Results</b>	<b>-34.5</b>	<b>-26.3</b>	<b>23.8%</b>
Operating CAPEX <sup>(3)</sup>	26.9	31.5	17.1%
Operating CAPEX as % of Turnover	17.0%	15.7%	-1.3pp
EBITDA - Operating CAPEX	-41.6	-37.7	9.2%
Total CAPEX	26.9	31.5	17.2%
FCF <sup>(4)</sup>	-34.7	-40.3	-16.2%
Gross Debt	51.1	71.7	40.3%
Net Debt	50.7	63.2	24.5%
Net Debt/ EBITDA last 12 months	-3.5 x	-10.1 x	-6.7x
EBITDA/Interest Expenses	-6.5 x	-1.9 x	4.6x
Debt/(Debt + Shareholders' Funds)	70.3%	76.0%	5.6pp

(1) Outsourcing Services = Customer Services plus Consultants plus Subcontracts; (2) Service Margin = Service Revenues minus Interconnection Costs; (3) Operating CAPEX excludes Financial Investments and Provisions for sites dismantling; (4) FCF Levered after Financial Expenses but before Capital Flows and Financing related up-front Costs.

## Turnover

Turnover in 2006 totalled 200.2 million euros, an increase of 26.4% over 2005, driven mainly by the significant increase in direct access revenues, up 125.6%, and by wholesale revenues, up 27.6%, which represented 31.1% and 52.5% of service revenues respectively, as compared to 17.3% and 51.7% respectively in 2005. Direct access revenues accounted for 65.6% of customer revenues in the year, confirming Sonaecom Fixed transformation to a direct access business with its current double play offering.

## EBITDA

Sonaecom Fixed generated a negative EBITDA of 6.2 million euros, compared to a negative 14.7 million euros in 2005, an improvement that is primarily due to the performance of the ULL direct business that began to generate a positive contribution to profitability during the second half of the year.

Operating costs at Sonaecom Fixed increased by 19.4% as compared to 2005, reflecting the effort in developing and expanding the direct access broadband business: (i) outsourcing services increased by 27.4% compared to 2005, driven primarily by customer activation support services ; (ii) leased lines and other network operating costs were up by 26.8%,

mainly as a result of a higher demand for circuits and higher maintenance costs related to the increased number of equipment in unbundled central offices; (iii) interconnection costs were up by 22.3%, due to the increased voice traffic in 2006 compared to 2005, as well as the higher ULL related set-up costs and monthly fees, driven by the larger number of direct clients acquired; and (iv) marketing & sales costs increased by 22.1% to 22.4 million euros compared to 18.3 million euros in 2005, as a result of increased advertising efforts and higher commissions related to the higher level of customer acquisitions. Personnel costs fell by 30.3%, explained by the integration of Sonaecom Fixed technical team of 110 employees into Optimus' shared services technical structure as of January 2006.

During the year, Sonaecom Fixed's service margin increased by 1.4pp over 2005, with an implied margin of 47.5% as compared to 46.1% in 2005.

### Strategy going forward

During 2007, Sonaecom Fixed's strategic guidelines will focus on consolidating its transformation into a direct access business and growing its broadband market share. It will invest in reinforcing and exploiting its current direct access broadband business, through the expansion of its direct access capillarity, and developing new broadband services. The IPTV and Home Video offer will continue to be developed as an add-on enhancer of the double play offering and penetration. Efforts will also be made to improve customer experience, by significantly improving quality of service and activation processes and by reducing breakdowns and complaints, and to increase operational efficiency, by improving business systems (rules, processes and applications) and reducing costs of outsourcing and servicing.

### 3.4. Público

Público faced significant pressures on all of its revenue streams during 2006, suffering from a reduction in the size of the paid press market, as well as competitive pressures from the tabloid newspapers and free newspapers and saturation in the sale of associated products.

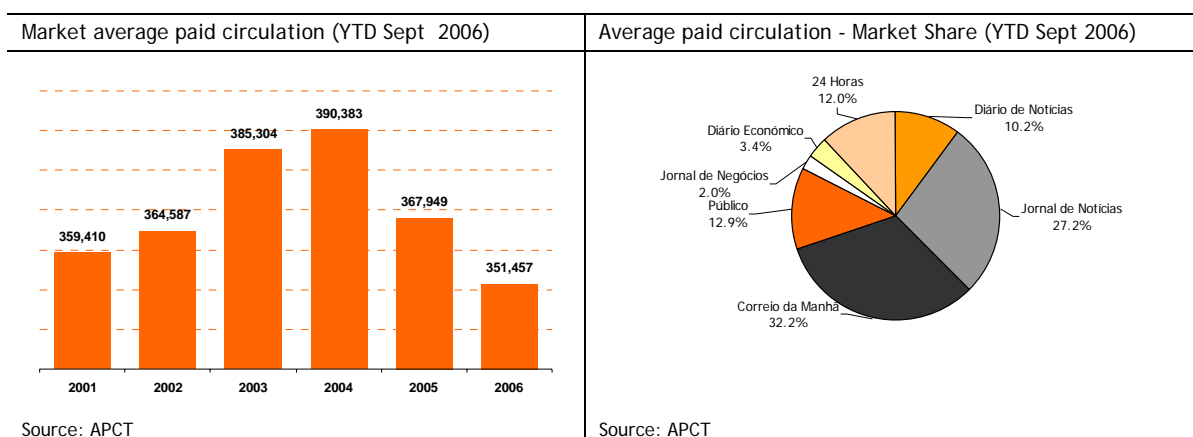
#### Media telecom market

According to the latest available data, daily generalist paid press continued to suffer from the competitive pressure of free newspapers, mainly explaining the declining trend of the market average paid circulation: from January to September 2006, average daily paid circulation decreased 4.5% when compared to the previous year and by 10.0% compared to 2004. The newspaper, "Correio da Manhã", increased its market leadership, followed by "Jornal de Notícias" and "Público".

As regards the daily generalist advertising market<sup>8</sup>, total press advertising increased by 1.3% from January until November 2006, a growth mainly driven by free newspapers, which have seen their advertising growing 3.8 times compared to the previous year, compensating the decrease of daily generalist paid advertising market by 5.8%. During January until November 2006, advertising market share of free newspapers increased to 6.5% when compared to 1.7% in the same period of 2005.

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<sup>8</sup> Source: Marktest/Media Monitor



### 2006 Strategy

During 2006, Público performed below expectations in its top line and profitability. However, a significant step was taken during the 2H06 to turn around the business, with the implementation of a restructuring plan focused on: (i) reformulating the newspaper; (ii) redesigning the newspaper layout; and (iii) rethinking the organizational structure and key processes, implementing a cost cutting policy, with major reductions in fixed costs and improvement in internal processes.

### Operational data

PÚBLICO OPERATIONAL KPI's	2005	2006	y.o.y
Average Paid Circulation <sup>(1)</sup>	48,984	44,188	-9.8%
Market Share of Advertising (EOP) (%)	15.9%	15.5%	-0.4pp
Employees	358	266	-25.7%

(1) Estimated value updated in the following quarter.

Público's restructuring plan, implemented during 2H06, has already achieved approximately a 3 million euros annual savings in personnel costs going forward. Furthermore, several general and administrative expenses contracts and policies have been revisited and renegotiated, which should achieve an additional 1 million euros of annual savings in fixed costs in the future.

Público's average paid circulation decreased by 9.8%, from an average level of 49.0 thousand units in 2005 to 44.2 thousand units in 2006, continuing to suffer from the reduction in the size of the paid press market, as well as the competitive pressures of tabloid newspapers and free newspapers. Público's advertising market share was impacted by circulation performance, reaching an average of 15.5% at the end of 2006, down 0.4pp as compared to end 2005.

### Financial data



Million euros			
PÚBLICO CONSOLIDATED INCOME STATEMENT			
	2005	2006	y.o.y
<b>Turnover</b>	<b>44.11</b>	<b>36.39</b>	<b>-17.5%</b>
Advertising Sales <sup>(1)</sup>	17.53	15.58	-11.1%
Newspaper Sales	12.90	12.16	-5.7%
Associated Product Sales	13.69	8.65	-36.8%
Other Revenues	0.62	0.39	-36.7%
<b>Operating Costs</b>	<b>46.11</b>	<b>45.49</b>	<b>-1.4%</b>
COGS	13.85	10.39	-25.0%
Personnel Costs	13.71	17.37	26.7%
Marketing & Sales	3.19	2.99	-6.2%
Outsourcing Services <sup>(2)</sup>	11.19	11.27	0.7%
General & Administrative Expenses	4.09	3.45	-15.5%
Other Operating Costs	0.10	0.03	-69.7%
Provisions and Impairment Losses	0.32	0.08	-75.2%
<b>EBITDA</b>	<b>-1.69</b>	<b>-8.78</b>	<b>-</b>
EBITDA Margin (%)	-3.8%	-24.1%	-20.3pp
Depreciation & Amortization	1.24	0.76	-39.0%
<b>EBIT</b>	<b>-2.93</b>	<b>-9.53</b>	<b>-</b>
<b>Net Financial Results</b>	<b>-0.24</b>	<b>-0.34</b>	<b>-43.5%</b>
Financial Income	0.01	0.01	-7.7%
Financial Expenses	0.24	0.34	42.1%
<b>EBT</b>	<b>-3.17</b>	<b>-9.87</b>	<b>-</b>
Taxes	0.02	0.16	-
<b>Net Results</b>	<b>-3.19</b>	<b>-10.03</b>	<b>-</b>
Operating CAPEX <sup>(3)</sup>	0.87	0.36	-59.1%
Operating CAPEX as % of Turnover	2.0%	1.0%	-1pp
EBITDA - Operating CAPEX	-2.56	-9.13	-
Total CAPEX	0.87	0.36	-59.1%
FCF <sup>(4)</sup>	-3.93	-9.19	-134.1%
Gross Debt	3.82	0.93	-75.7%
Net Debt	3.52	0.71	-79.8%
Net Debt/ EBITDA last 12 months	-2.1 x	-0.1 x	2x
EBITDA/Interest Expenses	-7.5 x	-26.8 x	-19.3x
Debt/(Debt + Shareholders' Funds)	272.9%	194.6%	-78.3x

<sup>(1)</sup> Includes Contents; <sup>(2)</sup> Outsourcing Services = Customer Services plus Consultants plus Subcontracts; <sup>(3)</sup> Operating CAPEX excludes Financial Investments and Provisions for sites dismantling; <sup>(4)</sup> FCF Levered after Financial Expenses but before Capital Flows and Financing related up-front Costs.

During 2006, turnover decreased by 17.5% to 36.4 million euros, compared to 44.1 million euros in 2005, due primarily to: (i) the decrease in associated product sales by 36.8%, as a result of market competition and saturation; (ii) lower advertising sales that were down by 11.1%; and (iii) the decrease in newspaper sales of 5.7%, which reflects the difficult economic outlook in Portugal, the reduction of the paid press market and concentration of advertising on TV.

EBITDA fell to a negative 8.8 million euros, from a negative 1.7 million euros in 2005, due to lower advertising sales, lower margins from associated products and, more significantly, due to higher personnel costs in the year, up by 26.7% as compared to 2005, including severance costs of 4.3 million euros. Excluding these severance costs, personnel costs would have decreased by 4.7% and EBITDA would have been negative 4.5 million euros. Nevertheless, total fixed costs excluding severance costs decreased by 10.0% as compared to 2005, mainly reflecting reductions in general and administrative expenses and content.

### Strategy going forward

Público will be focusing on implementing the new strategy adopted, aimed at achieving an acceptable level of profitability, based on: (i) a new totally redesigned and full colour newspaper and supplements, launched in February 2007, positioned to attract readers that have left the press market and younger readers that have not yet entered the market, while maintaining the same editorial standards; (ii) more efficient processes; (iii) a re-dimensioned cost structure; and (iv) increased cost flexibility. Also, Público will invest in the expansion of its online business, where it is already market leader in both visits and revenues, and work towards the integration of both the online and offline structures. Regarding its associated products, Público will redirect its strategy and focus on higher margin collections, with the selection of the ideas and the communication plan being considered as the 2 critical phases.



### 3.5. Software and Systems Information

The SSI division had a positive year in terms of its operational and financial performance, buoyed by WeDo's continued investment in developing its international footprint through its RAID product and by the sale of Enabler during the 2Q06.

#### 2006 Strategy

SSI's strategic guidelines are to launch and grow focused IT/IS businesses with strong international expansion prospects and the ability to generate "best in class" EBITDA margins. During 2006, SSI participated in the start up of Profimetrics, a new retail software company based in Portugal and with a prime focus on international markets, and Saphety, a new high potential company carved out from Sonaecom Fixed, which will strive to be a leading provider of trusted services, namely electronic invoice and security messaging.

The sale of Enabler was consistent with SSI's established strategic goal as, given its stage of development, it was felt that its integration into a leading multinational IT player would allow the company and its employees to accelerate their future growth potential.

#### Operational data

SSI OPERATIONAL KPI's	2005	2005 <sup>(R)</sup>	2006	y.o.y
IT Serv Revenues/Employee ('000 euros) <sup>(1)</sup>	100.5	105.7	106.0	0.3%
Equipment Sales as % Turnover <sup>(2)</sup>	23.2%	27.4%	32.3%	4.9pp
Equipment Sales/Employee <sup>(2)</sup> ('000 euros)	1,970.3	1,970.3	2,323.9	17.9%
EBITDA/Employee ('000 euros) <sup>(3)</sup>	15.4	15.8	13.2	-16.9%
Employees	637	318	336	5.7%

(1) Excluding employees dedicated to Equipment Sales; (2) Bizdirect; (3) EBITDA excluding capital gains from Enabler sale; (R) Restated to exclude Enabler's contribution in 2H05.

SSI's IT service revenues per employee totalled 106 thousand euros in 2006, 0.3% above 2005<sup>(R)</sup> and equipment sales per employee increased by 17.9% to 2.3 million euros in 2006 compared to 2.0 million in 2005<sup>(R)</sup>. Headcount increased by 18 to 336 as compared to 2005<sup>(R)</sup>, due to the growth projects at WeDo and the resulting need for more internal consultants.

WeDo Group continued to invest in strengthening its international footprint, mainly through its RAID product, with the renewal of the RAID maintenance contract with Telefónica Brasil, the Brazilian wireline telecom operator and with France Telecom Spain, and with the capture of new RAID contracts with PTSA, a Polish fixed operator, ERA, a Polish mobile telecom operator, and ONO, the Spanish cable and wireline Operator. During 2006, WeDo continued to implement its RAID product with AIS Thailand and with Orange France and UK. In the second half of the year, WeDo obtained two large RAID projects, at Brasil Telecom and at Mobinil in Egypt, a mobile operator of the Orascom Group. Additionally, and to promote its software applications and develop close relationships with its clients, WeDo created a community of RAID clients, with its first annual RAID user group meeting held in May 2006.

## Financial data

Million euros

SSI CONSOLIDATED INCOME STATEMENT	2005	2005 <sup>(R)</sup>	2006	y.o.y
<b>Turnover</b>	<b>85.97</b>	<b>72.20</b>	<b>78.76</b>	<b>9.1%</b>
Service Revenues	66.05	52.76	53.33	1.1%
Equipment Sales	19.92	19.44	25.44	30.8%
Other Revenues	2.26	1.03	27.15	-
<b>Operating Costs</b>	<b>78.44</b>	<b>65.70</b>	<b>73.87</b>	<b>12.4%</b>
COGS	18.98	18.65	24.49	31.3%
Personnel Costs	31.40	24.57	25.04	1.9%
Marketing & Sales	0.82	0.66	0.94	41.5%
Outsourcing Services <sup>(1)</sup>	16.11	13.29	14.14	6.4%
General & Administrative Expenses	10.40	7.80	9.06	16.2%
Other Operating Costs	0.74	0.73	0.21	-70.5%
Provisions and Impairment Losses	0.33	0.33	0.26	-20.3%
<b>EBITDA</b>	<b>9.46</b>	<b>7.20</b>	<b>31.78</b>	<b>-</b>
EBITDA Margin (%)	11.0%	10.0%	40.3%	30.4pp
Depreciation & Amortization	3.34	3.05	1.45	-52.4%
<b>EBIT</b>	<b>6.12</b>	<b>4.16</b>	<b>30.33</b>	<b>-</b>
Net Financial Results	0.41	0.41	0.49	21.2%
Financial Income	0.82	0.74	0.68	-8.0%
Financial Expenses	0.41	0.33	0.19	-43.5%
<b>EBT</b>	<b>6.53</b>	<b>4.56</b>	<b>30.82</b>	<b>-</b>
Taxes	1.36	1.00	0.10	-89.7%
<b>Net Results</b>	<b>5.17</b>	<b>3.56</b>	<b>30.72</b>	<b>-</b>
Operating CAPEX <sup>(2)</sup>	0.72	0.54	0.61	11.8%
Operating CAPEX as % of Turnover	0.8%	0.7%	0.8%	0.1pp
EBITDA - Operating CAPEX	8.74	6.66	31.17	-
Total CAPEX	0.72	0.54	1.36	150.5%
FCF <sup>(3)</sup>	7.16	5.88	24.69	-
Gross Debt	0.17	0.17	0.37	115.0%
Net Debt	-13.97	-9.86	-35.42	-
Net Debt/ EBITDA last 12 months	-1.5 x	-1.4 x	-1.1 x	0.3x
EBITDA/Interest Expenses	35.6 x	31.5 x	-	-
Debt/(Debt + Shareholders' Funds)	0.7%	1.0%	0.8%	-0.2pp

(1) Outsourcing Services = Customer Services plus Consultants plus Subcontracts; (2) Operating CAPEX excludes Financial Investments and Provisions for sites dismantling; (3) FCF Levered after Financial Expenses but before Capital Flows and Financing related up-front Costs; (R) Restated to exclude Enabler's contribution in 2H05.

SSI turnover increased by 9.1% in 2006 to 78.7 million euros compared to 2005<sup>(R)</sup>, mainly due to: (i) higher IT equipment sales, which increased by 30.8% to 25.4 million euros; and (ii) higher service revenues, increasing 1.1%, mainly driven by the 5.2% increase in service revenues at WeDo. In 2006, Equipment sales represented 32.3% of turnover, compared to 26.9% in 2005<sup>(R)</sup>.

SSI EBITDA totalled 31.8 million euros in 2006, more than a fourfold increase over 2005. However, excluding the capital gain of 25.3 million euros from the sale of Enabler, accounted for in other revenues, EBITDA would have decreased by 0.7 million euros to 6.5 million euros in 2006 from 7.2 million euros in 2005<sup>(R)</sup>, mainly explained by the lower EBITDA generated by Enabler during the 1H06 when compared to 1H05, notwithstanding the 5.8% EBITDA growth at WeDo.

## Strategy going forward

SSI will be focused on growing the existing businesses, particularly by expanding WeDo's international footprint, and on analysing new growth opportunities, both within its current portfolio of businesses and via acquisitions and investments in selective start-ups.

## 4. Shareholder information

Sonaecom shares have been listed since June 2000, on the Portuguese Stock Exchange - Euronext Lisbon - with the symbol SNC. The following table provides the main statistics related to Sonaecom's 2006 stock performance.

Sonaecom shares on the stock market

Stock market	Euronext Lisbon
Ticker	SNC
ISIN	PTSNCOAE0006
Bloomberg Code	SNC PL Equity
Reuters Code	SNC.LS
Number of shares outstanding	366,246,868
Capital stock	366,246,868
Stock Price as of last day December (euros)	5.02
Stock Price - High (euros)	5.38
Stock Price - Low (euros)	3.5
Volume as of last day December	790,098
Market Capitalization as of last day December (euros)	1,838,559,277

### 4.1. Share price trend

#### M&A activities and positive telecoms market stance

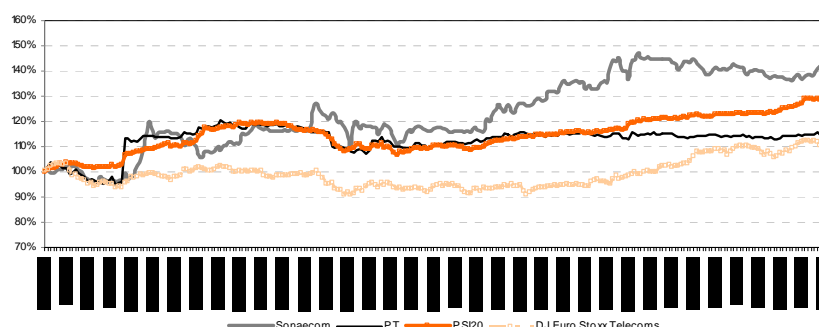
The European Stock Telecommunications index, DJ Euro Stoxx Telecoms, ended 2006 with an increase of 36%, due mainly to an overall improvement in market sentiment driven by intensified merger and acquisition activities, improved telecoms sector prospects for growth and profitability, based on better news regarding competitive intensity, lower technological risk, corporate restructurings and improved processes and services.

The Portuguese Stock Index, PSI20, ended 2006 with a gain of 30%, while Portuguese stock market turnover in 2006 increased by 36.9% to 13.9 billion euros, supported by the better than average results of listed companies, by M&A operations and speculation in the Portuguese market, as well as better than average results of listed companies and economic recovery prospects as from the last quarter of the year.

#### Sonaecom's share performance

During 2006, Sonaecom's share price increased by 37.2% driven primarily by market expectations regarding the public tender offer for PT, launched on 6 February 2006.

Sonaecom relative performance in 2006



Sonaecom's shares ended 2006 at a market price of 5.02 euros per share, 37.2% above the closing price of 3.66 euros per share at 31 December 2005, outperforming the Euro Stoxx Telecoms' index. On 31 January 2006, the share price hit a low of 3.5 euros per share and a high of 5.38 euros per share on 2 October 2006.

Sonaecom's market capitalization rose by approximately 69% to 1.9 billion euros compared to 1.1 billion in 2005. An average daily trading volume of approximately 582 thousand shares was achieved, an increase of 81.9% compared to 320 thousand shares in 2005,

equivalent to an average daily value of 2.6 million euros in 2006 compared to 1.2 million euros in 2005.

#### Events with an impact on Sonaecom's share price in 2006

Sonaecom's share price performance reflects the market reaction to the following main events:

- (i) 6 and 7 February: Sonaecom's preliminary announcement of Tender Offer for PT and PTM. The market reacted enthusiastically and the downward trend in the share price that began in 2005 was inverted.
- (ii) 27 February: Sonaecom announced draft prospectus disclosing the basis for the price offered for PT and the strategy proposed to shareholders. Market reaction to the proposed bid was positive although it attributed a significant amount of uncertainty to the outcome given competition issues, notwithstanding the fact that the deal would transform overnight the telecom market landscape.
- (iii) 2 May: Sonaecom announced first quarter results, broadly in line with market expectations.
- (iv) 24 May: Competition Authority notified Sonaecom of its decision to initiate an in-depth investigation in relation to the tender offer by Sonaecom for PT. The market showed concern about the likelihood of achieving the go-ahead for the integration of TMN and Optimus and thus put further uncertainty on the outcome of the bid.
- (v) 1 June: Sonaecom announced the sale of Enabler with a capital gain of 25.3 million euros.
- (vi) 4 July: Sonaecom disclosed its strategic business plan for its direct access broadband business at Sonaecom Fixed. The market reflected the new information in their valuation models for Sonaecom.
- (vii) 27 July: Sonaecom announced its half-year results, broadly above market expectations.
- (viii) 28 July: EDP agreed rolling-up its stake in Optimus into Sonaecom's shares. The market reacted positively to this long awaited operation as it believed it made sense from an operational and financial perspective.
- (ix) 14 August: Parpública agreed rolling-up its stake in Optimus into Sonaecom's shares. In the same way as the EDP share-for share exchange, the market valued the operation positively.
- (x) 27 September: Competition Authority released its first preliminary decision regarding the Tender Offer for PT, including the conditions and obligations to be implemented by Sonaecom to insure healthy competition in the telecoms and content market. This was a crucial step forward in the bid process, with the Competition Authority giving permission for the merger of Optimus and TMN mobile operators.
- (xi) 30 October: Sonaecom announced third quarter results, ahead of market consensus estimates, driven by the wireline and mobile businesses.
- (xii) 5 December: Competition Authority released its second preliminary decision regarding the Tender Offer for PT, with similar overall commitments to be accepted by Sonaecom but with more stringent and less flexible implementation conditions. The market was expectantly waiting for the final decision from the Competition Authority, although no big changes were anticipated.
- (xiii) 22 December: Competition Authority released its final decision, not reflecting any material changes to the former draft decision released.
- (xiv) 29 December: Sonaecom's submission of the final Offer prospectus to the Portuguese Securities Exchange Commission, CMVM, with the Offer price at 9.5 euros per share maintained.

#### 4.2. Qualified holdings

In accordance with the Portuguese Securities Code, shareholdings amounting to or exceeding the thresholds of 2%, 5%, 10%, 20%, 33.33%, 50%, 66.66% and 90% of the total share capital must be reported to the Portuguese Securities Market Commission and disclosed to the capital market. Reporting is also required if the shareholdings fall below the same percentages.

During 2006, the following notifications were made:

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Sonaecom Qualified Holdings notification during 2006

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Date	Shareholder	Number shares held	Shareholder % in the notification
20 October 2006	Parpública	11,420,000	3.12%
23 October 2006	Brahman Capital	7,877,195	2.67%
23 October 2006	EDP	58,300,000	15.91%
12 December 2006	Parpública	6,978,767	1.91%
18 December 2006	CSFB	9,622,208	2.63%

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Sonaecom largest shareholders are Sonae SGPS, a Portuguese multinational Group with interests in real estate, retail and industry, with a shareholding position of just over 52%, and France Telecom, one of the biggest telecom operators in the world, with a 19.2% stake in Sonaecom.

#### 4.3. Changes in share capital

At the end of December 2006, Sonaecom's share capital amounted to 366.2 million euros, made up of 366.2 million shares, each with a nominal value of 1 euro and all having the same rights.

##### Share capital increase

Following the capital increase approved by Sonaecom's shareholders at the Extraordinary General Meeting held on 18 September 2006, and the execution of the notary deed on 18 October 2006, the Company's share capital was increased from 296.5 million euros to 366.2 million euros, through the issue of 69.7 million new ordinary shares, each with a nominal value of 1 euro with a corresponding share premium of 275.7 million euros. This share capital increase was fully subscribed by EDP and Parpública, by means of the contribution in kind of their respective shareholdings in Optimus of 25.72% and 5.04%, respectively, together with corresponding amounts of supplementary capital.

##### Share capital commitment

On 26 October 2006, Sonaecom's Board of Directors approved a share capital increase, from 366.2 million to 1.87 billion euros, by new entries in cash of 1.5 billion euros. The share capital increase would be made by means of the issue of 1.5 billion new ordinary bearer shares, with a nominal value of 1 euro each. The share capital increase would be a rights issue, whereby the shareholders at the date of the rights issue would have a legal pre-emption right to subscribe their pro-rata share of the rights offering.

#### 4.4. Investor relations activities

Sonaecom's investor relations department has the mission of providing its current and potential shareholders with the best possible information and support, through a transparent and consistent two-way communication dialogue with investors and financial analysts.

##### Strong interest from the financial community

During 2006, a total of 4 investment banks published regular analyses of Sonaecom - BPI, BCP, CSFB, BANIF - with 3 other investment banks offering restricted coverage due to the ongoing Tender offer - Santander, Caixa BI and BES.

The capital market was provided with information on Sonaecom's performance and future prospects at two roadshows in Europe and United States, through participation in 130 one-on-one and group meetings, 20 conference calls and 4 telecommunications conferences. A highlight of these activities was the ULL day held in Portugal in early July 2006, at which the business plan of Sonaecom Fixed was presented to analysts and institutional investors.

## 5. Sustainability

Sonaecom is fully committed to Sustainable Development and embodies, within its culture and values, the principle of social responsibility, as it recognizes its role as a driving force for a fairer and more balanced society. This includes a commitment to the environment and the community and respect for employees, clients, shareholders and suppliers.

A full version of Sonaecom's sustainability report may be found on the Group's website [www.sonae.com](http://www.sonae.com).

### 5.1. Environmental management

As an environmentally conscious company, Sonaecom has implemented environmental policies and adapted its products, services, infrastructure and facilities in such a way as to minimize their impact on the environment.

In this respect, Sonaecom continually undertakes the following actions:

- (i) Identification of environmental issues across all facilities, activities and products;
- (ii) Implementation of various measures to quantify and monitor environmental performance;
- (iii) Development of processes to identify and take all necessary steps to comply with new environmental legislation;
- (iv) Publication of the Group's environmental indicators and promotion of environmental improvements to its employees, through intranet and email newsletters;
- (v) Development of internal communication projects to increase environmental awareness and improve the control and efficiency of their implementation.

During 2006, Sonaecom was able to consolidate its Environmental Management System, which has been certified by an independent body, APCER<sup>9</sup>, as complying with the globally accepted reference - the ISO 14001:2005 Standard. This Environmental Management System encompasses all Sonaecom subsidiaries and all of its facilities within Portugal.

Of the environment related activities carried out during 2006, the following should be highlighted:

- (i) Implementation of action plans to guarantee compliance with rules regarding the management of buildings' energy, electronic and electric waste equipment, the management of operations to control and recoup the Ozone depletion substances and to control the implementation of general waste environmental policies;
- (ii) Wide ranging environmental programs for areas with specific identified requirements;
- (iii) Continuous internal communication and events to generate environmental awareness, with specific tailored actions such as the "Mobility day";
- (iv) Environmental audits and visits to suppliers;
- (v) Conclusion 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 various packaging elements;
- (vi) Maintenance of a collaboration protocol signed between Optimus and the Telecommunications Institute, with the goal of making publicly available relevant information on electromagnetic radiation in mobile communications;
- (vii) Continuous efforts to promote the sharing of infrastructure in the telecom divisions with other operators;
- (viii) Analysis and evaluation of the potential use of solar panels and hybrid vehicles.

<sup>9</sup> APCER – Associação Portuguesa de Certificação

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

## 5.2. Social commitment

During 2006, Sonaecom has been very active in the field of social cooperation, reinforcing its focus on education and community cooperation and giving support to a variety of social initiatives.

### Value creation through mobile technologies

Sonaecom sponsored, during 2006, the development of the system information for forest fire prevention used by 238 lookout stations, in partnership with the natural resources organization. The purpose of this initiative was to make available a centralized and updated information and communication system that could help the decision making process to prevent and put out forest fires. Additionally, and also through Optimus, the Group made available to all Portuguese teachers a solution that provides a service to notify the details and decisions in relation to their job applications in a quick, convenient and easy way by SMS.

### Improve information society through technology

Regarding education, Sonaecom strengthened its project "*Público na Escola*", whereby the Group's media division encouraged the use of electronic media facilities in schools as an additional learning service. Its main goal was to generate interest in reading newspapers by the young, by creating an educational relationship with schools, teachers and students, stimulating the use of media tools and initiating a critical reflexion about the purpose and role of communication tools in society. Regarding health, Sonaecom sponsored a special internet based project - Gripnet - allowing scientists to follow, in real time, all flu occurrences in Portugal; in partnership with the Sports & Exercise University, Sonaecom developed a website covering obesity and related behaviours - *Peso & Medida* - comprising updated information on nutrition, exercise, medicine, psychology, education, public health among other areas.

### Community cooperation

Sonaecom was involved in voluntary social schemes through its "Smile" project, a Sonaecom programme involving volunteer work created to support Portuguese welfare institutions and carry out fund raising programmes. During 2006, "Smile" had as its mission to make Sonaecom's employees aware of social exclusion and encouraged them to participate in numerous activities, in partnership with Portuguese welfare institutions and the Red Cross, to help the integration of needed classes and the technological training of children and elder people. To promote internal involvement in these welfare initiatives, Sonaecom launched a campaign called "Volunteer of the Year", whereby employees earned a certain number of points for taking part in each social activity. This campaign stimulated involvement in community cooperation and was the major reason for Sonaecom reaching a total of 400 hours of voluntary work during 2006.

## 5.3. Codes of conduct

### Code of ethics

Sonaecom promotes and encourages, through its Code of Ethics, the adoption of certain behavioural principles and rules ranging from integrity, transparency, respect, social responsibility, environmental commitment, health and safety, confidentiality and use of privileged information, to managing conflicts of interest and communicating irregularities.

Sonaecom's employees and suppliers, including external consultants, are required to comply with these guidelines, and to always follow them in the carrying out of their activities.



### Whistle blowing policy

Aligned with Sonaecom's culture of responsibility and excellence, the Group has in place a policy and process for communicating internal irregularities, which sets out procedures to efficiently and fairly respond to alleged irregularities reported.

It is the responsibility of Sonaecom's Ethics Committee to review and evaluate the efficiency with which the policy and process for communicating irregularities is applied. By successfully implementing these procedures and by making efforts to respond to alleged irregularities, the Group aims to involve all its employees in the creation of a healthy and balanced work environment.

A more detailed description of Sonaecom's Codes of Conduct can be found on Sonaecom's Corporate Governance Report in section 8.2 of this document.

## 6. Acknowledgements

Sonaecom would like to thank its Statutory External Auditor for the valuable advice and help given during 2006. Sonaecom would also like to express its gratitude to its suppliers, banks and other business associates of the Group for their continuing involvement and the confidence they show in the organization. Sonaecom's Executive Committee would like to thank the Non-Executive Directors for their work and valuable advice. Finally, Sonaecom expresses its gratitude to all its employees who have worked tirelessly to ensure Sonaecom's continuing success and whose efforts are clearly visible in the results achieved.

## 7. Subsequent events

The following events, which took place after 31 December 2006 but before the approval of the full year accounts by the Board, should be noted:

- (i) On 12 January 2007, the Portuguese Securities' Exchange Market Commission (CMVM) granted the registration of Sonaecom's Offer for PT;
- (ii) On 16 January 2007, Sonaecom published its final offer prospectus for PT, with offer consideration of 9.5 euros per share for a period running from 16 January 2007 to 9 March 2007;
- (iii) On 15 February 2007, Sonaecom announced its decision to change the offer consideration, increasing it from the previous 9.5 euros per share to 10.5 euros per share and irrevocably waiving any possibility of further increases. This increase was based on Sonaecom's desire to align the interests of all shareholders and, thereby improve the probability of success of the bid;
- (iv) On 2 March 2007, PT held a shareholders' EGM to vote on the proposed changes to the by-laws, specifically the removal of the 10% limitations on the voting rights of a single shareholder and the approval of the acquisition by Sonaecom of more than 10% of PT's share capital. The attendance level, at the EGM, was 67.4%; 45.58% voted against, 43.90% voted for and 9.52% abstained. As the bid for PT was dependent on these changes to the articles of association, Sonaecom's public tender offer automatically terminated;
- (v) Between 5 and 6 March 2007, Sonaecom acquired a total of 1.89 million own shares, representing 0.52% of the share capital, at an average price of 4.81 euros per share. These acquisitions were carried out to fully cover obligations under Sonaecom's Medium Term Incentive Plan attributed to employees;
- (vi) On 6 March 2007, Sonaecom sold its 1% shareholding in PT into the market, at an average price of 9.61 euros per share. This compares to the average purchase price of 9.38 euros per share during 2Q06.



## 8. 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 Mbps) and a lower speed upstream channel (sending) (16 to 640 Kbps), apart from the regular telephone service in the low frequency range. It is a modem 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.
Customer churn	Number of customers who discontinue a service during a specified time period.
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, and therefore also been referred to as the third and a half generation (3.5G)

HSUPA	High-Speed Uplink Packet Access over W-CDMA networks - a technology, similar to HSDPA but relates to the 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.
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.
MTRs	Mobile Termination Rates - fees mobile phone companies charge other carriers to terminate calls on their networks.
B-Nodes	Base transmission element of an UMTS network.
Network capillarity	Network extension and reach to support telecommunication services.
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 over 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.

# CORPORATE GOVERNANCE REPORT

## 1. Declaration of compliance

As at 31 December 2006, Sonaecom was compliant with all the CMVM Recommendations on Corporate Governance with the exception of the second part of Recommendation IV-8, which is not complied with for the reasons explained below.

### CMVM's Recommendations on Corporate Governance

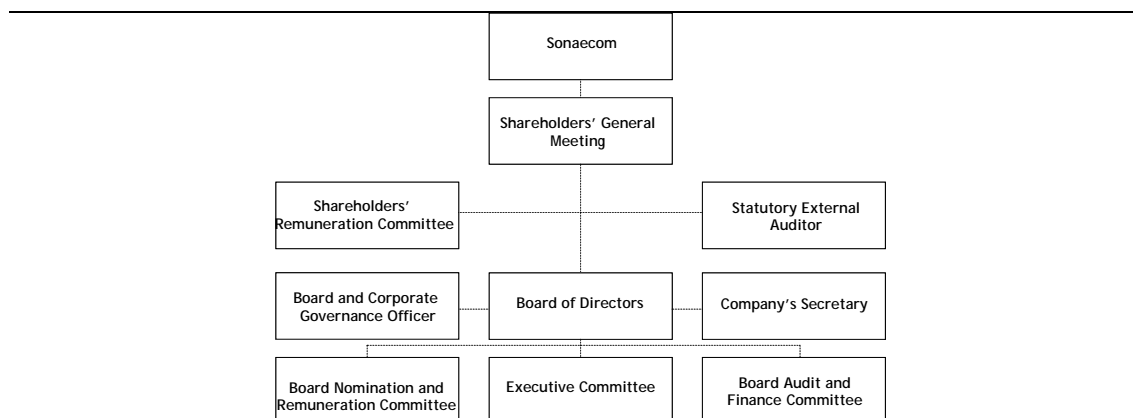
CMVM recommendations	Compliance
<b>I - Disclosure of information</b>	
1. The Company must ensure that permanent contact is maintained with the market, that the principle of equality among shareholders is upheld and that all investors have the same access to information. For these purposes, the Company should create an Investor Relations Department.	Yes
<b>II - The Exercise of Voting Rights and Representation Rights by Shareholders</b>	
2. The ability to exercise voting rights, whether directly, by post or by proxy, should not be restricted. For this purpose, the following examples are considered to restrict the ability to exercise voting rights: a) The requirement of a period of more than 5 working days between the deposit or blocking of shares and participation at a Shareholders' General Meeting; b) any statutory restriction on postal voting; c) a requirement that postal votes must be received more than 5 days in advance; d) failure to make available voting forms for shareholders wishing to submit their vote by post.	Yes
<b>III - Corporate Rules</b>	
3. The Company must establish an adequate internal control system, capable of detecting risks linked to its activity, to safeguarding its assets and to enhance the transparency of its corporate governance practices.	Yes
4. Measures adopted to restrict takeover bids should respect the interests of the Company and its shareholders. Measures considered contrary to these interests include defensive clauses intended to automatically reduce the value of the Company's assets in the event of a transfer of control, or changes to the composition of the Board which prove detrimental to the free transfer of shares and the free assessment by shareholders of the performance of members of the Board.	Yes
<b>IV - Board of Directors</b>	
5. The Board should be composed of a number of members who provide effective guidance for the management of the Company and to the persons responsible for that management.	Yes
5a. The Board of Directors should include a sufficient number of Non-Executive Directors, whose role is to continuously monitor and evaluate the Company's management by its Executive Board Members. Members of other corporate governance bodies may exercise complementary roles or, at the very most, replace Board Members, if their supervisory powers are equivalent and they are actually exercised.	Yes
6. The Non-Executive Members of the Board of Directors must include a sufficient number of Independent Members. When there is only one Non-Executive Director, he or she should also be independent. Independent Members of other corporate governance bodies may exercise complementary roles or, at the very most, replace Board Members, if their supervisory powers are equivalent and they are actually exercised.	Yes
7. The Board of Directors should create Audit Committees, with the power to assess the corporate structure and its governance.	Yes
8. The remuneration of members of the board of directors should be structured in order to allow the alignment of their interests with those of the company, and should be disclosed annually in individual terms.	No
8a. An explanation of the remuneration policy as applied to the Company's corporate governance bodies should be submitted for consideration at the Shareholders' Annual General Meeting.	Yes
9. Members of the Remuneration Committee, or its equivalent, should be independent in relation to the Members of the Board of Directors.	Yes
10. A proposal to obtain the approval of share allocation plans, and/or share call options or other awards based on share price variations, that apply to Members of the Board of Directors and/or to employees, should be submitted to the Shareholders' General Meeting. The proposal should contain all information necessary to allow a fair assessment of the plan. The proposal should be accompanied by the regulations for the plan, or, if these have not yet been drafted, by detail of the general conditions applying.	Yes
10a. The Company should adopt a policy covering the reporting of alleged irregularities occurring within the Company, containing the following information: The procedure to follow internally to report irregular practices, including the persons nominated to receive such information, the manner in which such reports are processed, including maintaining the confidentiality of the information, if so requested. The general guidelines to be followed should be disclosed in the Corporate Governance Report.	Yes

As regards Recommendation IV-8, Sonaecom agrees that the remuneration of its Board of Directors should be disclosed in a transparent manner, allowing for a clear understanding of the values involved and their distribution. However, Sonaecom considers that individual disclosure for the Chairman and the CEO, together with separate averages for the remaining Non-Executive and Executives Directors is sufficient to assess each of the four main components of remuneration of its Board. Disclosure of the individual figures for every member of the Board of Directors is not current general practice in Portugal and Sonaecom believes it is of marginal additional benefit for shareholders and the financial community. This view is consistent with the recommendations published by the Portuguese Institute of Corporate Governance in their "White Book".

## 2. Governing bodies composition

Sonaecom's corporate governance structure sets out clearly the roles, duties and responsibilities of its different Governing Bodies.

Sonaecom's Governing Bodies



### Shareholders' General Meeting

#### Composition

The 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 five days prior to the General Meeting, have provided confirmation of ownership to the Company, as required by Portuguese Company Law.

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

#### Limitations to voting rights

No Shareholders have special voting rights. Sonaecom's Board of Directors is unaware of any special shareholder voting rights and has not implemented any measures 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 Sonaecom's 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 Sonaecom's Shareholders' General Meetings by a person designated by means of a letter addressed to the Chairman of the Board of the Shareholders' General Meetings. The authenticity of these letters is subject to scrutiny by the Chairman of Sonaecom's Board of the Shareholders' General Meeting.

#### Postal voting

Postal voting is allowed regarding all proposals for discussion and decision at a Shareholders' General Meeting, according to the terms and conditions set forth in the Company's Articles of Association. Postal voting bulletins must be received at least three days before the Shareholders' General Meeting at the Company's Head Office by means of registered mail 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 Sonaecom's Articles of Association.

### Shareholders' General Meetings and quorum

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

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#### Board of the Shareholders's General Meeting

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

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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 the Board of Directors or Statutory External Auditor deem necessary or at the request of Shareholders, representing the legally required minimum percentage of the Company's share capital (currently 5%). During 2006, there were two Shareholders' General Meetings, one held in an ordinary session on 5 April 2006, with 85.5% of share capital represented, and the other held in an extraordinary session on 18 September 2006, with 61.5% of share capital represented.

The proposals for discussion and decision at Sonaecom's Shareholders' General Meetings, as well as other supporting information, are made available to shareholders at the Group's Head Office, and are posted on Sonaecom's website - [www.sonae.com](http://www.sonae.com) - at least 15 calendar days before the respective meeting or at the time the meeting is convened, for proposals in relation to changes in the Articles of Association.

### **Board of Directors**

#### Composition

Under Sonaecom's Articles of Association, the Board of Directors may consist of an odd number of members - three, five, seven, nine or eleven members, elected at a 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.

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#### Board of Directors

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Belmiro Mendes Azevedo.....Chairman  
 António Sampaio e Mello.....Independent Non-Executive  
 David Charles Denholm Hobley.....Non-Independent Non-Executive  
 Gervais Gilles Pellisser.....Non-Independent Non-Executive  
 Jean-François René Pontal.....Independent Non-Executive  
 Duarte Paulo Teixeira de Azevedo.....Executive – CEO  
 George Christopher Lawrie.....Executive  
 Luís Filipe Campos Dias Reis.....Executive  
 Maria Cláudia Teixeira de Azevedo.....Executive  
 Miguel Nuno Santos Almeida.....Executive

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Currently, Sonaecom's Board of Directors is composed of eleven members, including Executive members and Non-Executive members. Two of the Non-Executive Directors are independent, in that they are not associated with any special interest groups related to the Company nor to its reference shareholders, in accordance with the criteria established by CMVM Regulation no. 7/2001 for Independent Directors. David Hobley does not meet the criteria set out in CMVM Regulation no. 7/2001 to be formally classified as an Independent Director in this Report, due to the fact that he serves as an Independent Non-Executive Director within the France Telecom Group that owns a 19.2% stake in Sonaecom. However, Sonaecom regards him, and consider that he acts, as an independent member of the Board of Directors, given that his nomination was based on a proposal presented by Sonae SGPS

not France Telecom and that his independence was previously assessed and accepted by Sonaecom's Board Nomination & Remuneration Committee. On 13 December 2006, Loyola de Palacio del Valle Lersundi, who was a Independent Non-Executive Director appointed on 5 July 2005, died and her place on the Board has still not yet been filled.

According to CMVM Regulation no. 10/2005, there are no circumstances that may affect the Independent Non-Executive Directors' analysis or decision making capabilities and, these Directors as well as the other Non-Executive Directors exercise an important influence over the decision-making process and the development of company strategy and policy. Sonaecom Board of Directors exhibits a clear balance between the number of Non-Executive Directors, nominated by reference shareholders, and the number of Independent Non-Executive Directors.

#### Role

The Board of Directors is responsible for assuring the management of the company's business, monitoring risks, managing conflicts of interests and developing the organization's goals and strategy. Sonaecom's 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 to meet best practices in Corporate Governance, Sonaecom's Board has created two Board Committees, a Board Audit and Finance Committee and a Board Nomination and Remuneration Committee.

#### Qualifications, experience and responsibilities of individual Directors

A description of the qualifications, experience and responsibilities of each member of Sonaecom's Board of Directors, can be found in the Appendix to this Report.

#### Other offices held by Sonaecom's Directors

Information on other offices held by each of the members of Sonaecom's Board of Directors can be found in the Appendix to this Report.

#### Board meetings and quorum

Sonaecom's Board of Directors meets at least four times a year, as stipulated by its Articles of Association, and whenever its Chairman or two of its Board members call a meeting. During 2006 there were 11 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 2006, the attendance rate at Sonaecom's Board meetings was 86%.

Sonaecom's Non-Executive Directors also hold separate meetings to discuss their ability to assert their independence within the Board and to make suggestions to improve Board procedures and Corporate Governance in general. During 2006, there were 2 NED meetings and the attendance rate was 82%.

### **Executive Committee**

#### Composition

Under Sonaecom's Articles of Association, the Executive Committee is selected from the members of the Board of Directors. The Group CEO, COO and CFO and the COO's of the Group's business units comprise the Executive Committee. The Executive Committee meetings are also attended by the other members of the Executive Management Team, including the Advisors to the Board of Directors, who are identified below.



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**Management Team**


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Duarte Paulo Teixeira de Azevedo.....	Group CEO
George Christopher Lawrie.....	Group CFO
Luís Filipe Campos Dias Reis.....	Group COO
Maria Cláudia Teixeira de Azevedo.....	COO SSI/Media
Miguel Nuno Santos Almeida.....	COO Mobile
António Lobo Xavier.....	Advisor to the Board/ Legal, Regulation, PR, Fiscal
Pedro Ramalho Carlos.....	Advisor to the Board/COO Fixed

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**Role**

The Executive Committee may 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 Sonaecom's day to day operations except:

- (i) to appoint the Chairman of the Board;
- (ii) to co-opt a substitute to replace a member of the Board;
- (iii) to convene Shareholders' General Meetings;
- (iv) to approve the Annual Report and Accounts;
- (v) to grant any pledge, guarantees or charges over Sonaecom's assets, if those are in excess of an accumulated value of 500,000 euros in any financial year;
- (vi) to decide to change the registered office or to approve any share capital increases;
- (vii) to decide on mergers, de-mergers, modifications to the corporate format and any other projects relating to association with other legal entities to form new companies;
- (viii) to approve Sonaecom Group's 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 Executives (above Level XIV), in areas that do not require decisions from the Shareholders' Remuneration Committee ("Comissão de Vencimentos") or deliberations at Shareholder's General Meetings;
- (x) to define or change major accounting policies of any company included in the consolidation perimeter of the Group;
- (xi) to approve Sonaecom's 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 the Group's Annual Budget or Business Plan duly approved by the 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 the Group's Annual Budget or Business Plan duly approved by the 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 the Group's Annual Budget or Business Plan duly approved by the 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 the Group's Annual Budget or Business Plan duly approved by the Board;
- (xvi) to dispose of assets or make other divestments, if such transaction has a significant effect on Sonaecom's operating results (defined as equal or greater than 5%) or affects the jobs of more than 100 employees, unless covered by the Group's Annual Budget or Business Plan duly approved by the Board.

To ensure that the Board of Directors is kept well informed by the 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 the Board of Directors.

**Executive Committee meetings and quorum**

Sonaecom's Executive Committee currently meets at least twice every month and, whenever the CEO or a majority of its members calls a meeting. There were 24 meetings of the Executive Committee in 2006 and the attendance rate was 96.4%. The quorum for the Executive Committee meeting 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 the Board of Directors for decision.

## Board Audit and Finance Committee

### Composition

Sonaecom's Board Audit and Finance Committee ("BAFC") consists of three members who are appointed by and from among the members of the Board. The fourth member is the Board and Corporate Governance Officer. The Committee currently includes three Non-Executive Directors, two of whom are independent, and is chaired by an Independent Non-Executive Director.

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#### Board Audit and Finance Committee

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Jean-François René Pontal.....	Chairman - Independent Non-Executive Director
António Sampaio e Mello.....	Independent Non-Executive Director
David Charles Denholm Hobley.....	Non-Independent Non-Executive Director
David Graham Shenton Bain.....	Board and Corporate Governance Officer

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### Role

The BAFC operates under Terms of Reference approved by the Board and is responsible for monitoring and supervising Sonaecom's financial reporting processes, reviewing accounting policies and for evaluating risk associated with its activities on behalf of the Board, and additionally for overseeing Corporate Governance within the Company. The BAFC also meets directly with the Group's 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 reporting 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 Statutory 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.

Sonaecom's BAFC reports in writing on a regular basis to the 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 five times a year and whenever the Chairman, the Board of Directors, the Executive Committee or, exceptionally, the Statutory External Auditor believe a meeting is necessary. Between meetings, the BAFC follows projects and monitors activity by regular conference calls. During 2006, the Committee met 5 times with an attendance rate of 100% and also held 4 conference calls.

## Board Nomination and Remuneration Committee

### Composition

Sonaecom's Board Nomination and Remuneration Committee ("BNRC") normally consists of four members and includes the Chairman of the Board of Directors, the CEO, and two Independent Non-Executive Directors. However, following the death of Loyola de Palacio del Valle Lersundi, the current composition is shown in the table below.

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#### Board Nomination and Remuneration Committee

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Belmiro Mendes Azevedo.....	Chairman - Non-Independent Non-Executive
Jean-François René Pontal.....	Independent Non-Executive
Duarte Paulo Teixeira de Azevedo.....	Executive – CEO

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### Role

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

### BNRC meetings

The BNRC meets at least twice a year and, whenever the Chairman or the Board of Directors deem necessary. There were four formal BNRC meetings during 2006 and the attendance record was 100%.

## **Board and Corporate Governance Officer**

### Composition

Sonaecom's Board and Corporate Governance Officer ("BCGO") is David Graham Shenton Bain.

### Role

The BCGO officer reports to the Board of Sonaecom as a whole, through the Chairman, and also, when appropriate, through the senior independent Non-Executive Director.

In particular, the main duties of the BCGO are:

- (i) Ensuring the smooth running of the Board and Board Committees;
- (ii) Participating in Board Meetings and relevant Board Committee Meetings and, when appointed, serving as a member;
- (iii) Facilitating the acquisition of information by all Board and Committee members;
- (iv) Supporting the Board in defining its role, objectives and operating procedures; Taking a leading role in organising Board evaluations and assessments;
- (v) Keeping under close review all Legislative, Regulatory and Corporate Governance issues; Supporting and challenging the Board to achieve the highest standards in Corporate Governance;
- (vi) Ensuring that the concept of stakeholders and the need to protect minority interests are in the Board's mind when important business decisions are being taken;
- (vii) Helping to ensure that the procedure to nominate and appoint Directors is properly carried out and assist in the induction of new Directors;
- (viii) Acting as a primary point of contact and source of advice and guidance for, particularly, Non-Executive Directors as regards the Company and its activities; Facilitating and supporting the Independent Non-Executive Directors in the assertion of their "independence";
- (ix) Helping to ensure compliance with the continuing obligations of the Portuguese Listing Rules;
- (x) Participating in making arrangements for and managing the whole process of Shareholders' Meetings;
- (xi) Participating in the arrangement of insurance cover for Directors and Officers;
- (xii) Participating, on behalf of the Company, in external initiatives to debate and improve Corporate Governance regulations and practices in Portugal.

## **Statutory External Auditor**

### Composition

Sonaecom's 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

The Statutory External Auditor is responsible for auditing the activities of the Company, for supervising compliance with the law and the Articles of Association and for verifying the accounts and all the financial documents.

## Shareholders' Remuneration Committee

### Composition

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

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#### Shareholders' Remuneration Committee

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Sonae SGPS, S.A represented by.....José Manuel Trindade Neves Adelino <sup>(1)</sup>

Sonae Investments, BV, represented by.....Bruno Walter Lehmann<sup>(2)</sup>

(1) Professor at a Lisbon Business School

(2) Partner – Egon Zehnder International

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### Role

The Committee is responsible for approving the remuneration and other compensation of members of Sonaecom's Board of Directors and of its other Statutory Governing Bodies, on behalf of the Shareholders.

The representatives serving on the Shareholders' Remuneration Committee do not hold any office in the Company and are independent of the 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 2006 and the attendance record was 100%.

## Company Secretary

### Composition

Sonaecom's Secretary is Filipa Santos Carvalho who may be substituted, if required, by Vera Lopes Pereira.

### Role

The Company Secretary is responsible for:

- (i) Keeping the formal minute 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 the Shareholders' General Meetings and meetings of the Board of Directors and preparing the respective formal minutes;
- (iv) Responding to Shareholders' requests for information within the scope of the law;
- (v) Legal registration of any act or resolutions of the Company's Statutory Governing Bodies.

As a consequence of the changes made to Portuguese Company Law in 2006, which must be adopted by 1 July 2007, a proposal to change the Company's Articles of Association will be presented to the Shareholders' General Meeting in 2007. This proposal will include the adoption of what is known as the "Reinforced Latin Model" corporate governance structure, which requires the addition of a Statutory Audit Committee ("Conselho Fiscal") to Sonaecom's current governing bodies.

## 3. Changes in governing bodies

During 2006, the composition of the Board of Directors of Sonaecom underwent the following changes:

- (i) On 8 March 2006, António Borges and Richard O'Toole resigned as Independent Non-Executive Directors of Sonaecom, following the appointment by PT of Goldman Sachs,

- as one of its advisors for the public tender offer in progress, and to which both directors are professionally connected;
- (ii) On 20 March 2006, David Bain resigned as a Non-Independent Non-Executive Director at Sonaecom, in order to take up the newly created role of Board and Corporate Governance Officer at Sonaecom;
  - (iii) At Sonaecom's Annual General Meeting held on 5 April 2006, Cláudia Azevedo was appointed as an Executive member of the Board of Sonaecom for the remainder of the current Board mandate (2004-2007);
  - (iv) At an Extraordinary Board Meeting held on 5 July 2006, the Board of Sonaecom approved the co-option of Loyola de Palacio del Valle Lersundi and António Sampaio e Mello as Independent Non-Executive Directors of the Company for the remainder of the current Board mandate (2004-2007). At the same date, following the resignation of Michel Combes, the co-option of Gervais Pellissier as a Non-Independent Non-Executive Director of Sonaecom was also approved, for the same term of office;
  - (v) On 13 December 2006, Loyola de Palacio del Valle Lersundi, Sonaecom's Independent Non-Executive Director since 5 July 2006, died. The Board of Sonaecom has not yet coopted anyone to replace her.

#### 4. Group remuneration policy

To energize initiative and sharpen commitment, during 2006 Sonaecom once again carried out its well established annual performance appraisal process for all employees, through which it has measured each individual's activity, performance and contribution to the organization's success, and assessed the variable remuneration and other compensation to be attributed accordingly.

##### 4.1. Description of components

###### Remuneration components

Sonaecom's remuneration policy for all employees includes two basic components:

- (i) Fixed Remuneration, which is paid as Annual Salary (salaries are paid 14 times per annum in Portugal);
- (ii) Annual Performance Bonus, which is paid in the first quarter of the following year.

In addition, a discretionary third component may be awarded to more senior employees (Sonaecom Group Levels 9 and above), on 10 March of the following year, in the form of deferred compensation, under the Sonaecom Medium Term Incentive Plan<sup>10</sup> ("MTIP").

Sonaecom's MTIP is described in more detail in section 4.2 below.

###### Fixed remuneration

Annual remuneration and other elements of the compensation package 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.

During 2006, the "Sonaecom Group Levels" for senior management team were reorganised and simplified and former Levels 15 to 22 are now one of the following: Group Senior Executive, Senior Executive or Executive. The new model, although still linked to Hay's international model, introduces a system of valuation of competencies as an additional and complementary new criterion. Sonaecom expects to implement this new model for all remaining employees during 2007.

<sup>10</sup> In previous years, deferred compensation was delivered under Sonaecom Deferred Performance Bonus Plans ("DPBP"). The plan was renamed as the MTIP for 2006, but the main characteristics of the plan remain unchanged.

### Performance bonus

The performance bonus is aimed at rewarding the achievement of certain pre-defined annual objectives, which are linked to both Business and Personal Key Performance Indicators ("KPI's").

The target bonus amount is based on a percentage of the employee's Fixed Remuneration, which ranges between 15% and 70%, depending on the employee's Sonaecom Group Level. Business KPIs (which include economic and financial indicators based on approved budgets, relative share price performance, individual business unit performance as well as the performance of the Group as a whole) drive 70% of the Performance Bonus and are normally objective indicators.

The remaining 30% of the Performance Bonus is based on Personal KPIs, which are a mix of objective and subjective indicators. Performance Bonuses paid relate to the actual performance achieved or assessed and can represent anything from 0% to 160% of the target bonus for Business KPI's and 0% to 120% of the target bonus for Personal KPI's. Combining both components, the maximum range that can apply to any individual is 0% to 148% of the target bonus.

The Business KPI's and their weightings for 2006 were:

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#### Business KPI's and weightings

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Indicator - Description	Weight
Turnover	22.5%
EBITDA	22.5%
Free Cash Flow	22.5%
Operational Indicators (1)	22.5%
Relative Share Price Performance	10.0%

(1) Various operational indicators such as Active Users, Direct Services, Paid Circulation

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### Medium term incentive plan

The MTIP is an equity-based discretionary deferred compensation plan with a three year period between the award date and the date on which the award vests. MTIP awards are made in March each year, in respect of performance during the previous financial year. The size of an award made under the MTIP is linked to an individual's Performance Bonus paid for the same "performance year". Historically, the MTIP awards were made on 31 March of each year, but, for 2006 onwards, the award date has been changed to 10 March or the last working day before that date. The vesting dates for all open plans have also been adjusted to this new timing.

As the MTIP is share based, Sonaecom's Board of Directors decided that the plan should be presented to Shareholders for approval at the Shareholders' Annual General Meeting in 2006, in order to comply with best practice in corporate governance. The MTIP was approved by shareholders at that meeting.

#### 4.2. Medium term incentive plan

Sonaecom's MTIP is aimed at enhancing employees' loyalty, aligning their interests with those of shareholders, and increasing their awareness of the importance of their performance on the overall success of the organization, as reflected by changes in Sonaecom's share price.

#### MTIP assessment

All Sonaecom employees at Level 9<sup>11</sup>, or higher, are eligible to participate in the MTIP, as long as their joining date is before 31 December of the performance year or their

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<sup>11</sup> Sonaecom Group Levels are attributed according to Hay's international model for the classification of corporate functions. Sonaecom has defined internally that Managers with levels equal to or higher than 14 are "Top Managers"

promotion to Level 9, or higher, occurred at the annual review in the first quarter of the performance year.

The value awarded is determined by applying the following percentages to the Performance Bonuses paid in respect of the last financial year, according to Sonaec Group Levels (see footnote):

Sonaecom Group Level	Percentage of Performance Bonus
Level 9	Up to 60%
Level 10 & 11	Up to 70%
Level 12	Up to 80%
Level 13 & 14	Up to 90%
Executive	Up to 100%
Senior Executive	Up to 100%
Group Senior Executive	Up to 100%

For Sonaecom's most senior employees who are at Executive Level or above, up to 40% of the awards under the MTIP were linked to Sonaec SGPS shares (the "Sonaec SGPS Share Plans"), depending on the employee's Level. This Sonaec SGPS share linkage was introduced to promote cooperation, maximize synergies and promote the exchange of knowledge between the Company and Sonaec SGPS, Sonaecom's main shareholder.

In the past, employees participating in the MTIP were given the alternative of choosing between share options ("Sonaecom Share Options Plans") or shares ("Sonaecom Share Plans"). As from March 2004 (relating to 2003 performance - the "2003 Plan"), all participants have been awarded deferred rights to shares.

For MTIP awards delivered as options, the underlying value of each share option was determined using the 'Black-Scholes Option Pricing Model'. The number of share options awarded was computed by dividing the value of the MTIP amount awarded by the share option value. The share options can be exercised from the vesting date, for a 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 MTIP awards delivered as deferred rights to shares, the number of shares is calculated by dividing the MTIP amount awarded by the average share price in the month prior to the award date. The shares vested, corresponding to the initial number of shares, adjusted for dividends and other changes in issued share capital, are transferred to the beneficiaries on the third anniversary of the award date at zero cost. The Company, subject to approval by the Board Nomination and Remuneration Committee, has the option to pay the cash equivalent to the value of the shares at the same date.

#### Summary of shares under the MTIP - Sonaecom's share plans

The awards outstanding under the Sonaecom Share Plans in 2006 can be summarised as follows:

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and those with levels equal to or higher than Executive Level may be Executive Committee members of Sonaecom Group companies.



## Sonaecom Share Plans outstanding during 2006

		Vesting period		Exercise period		At 31 December 2006	
	Share price at award date*	Award date	Vesting date	From	To	Aggregate number of participants	Number of options /shares
Sonaecom Options							
2001 Plan	3.014	31-Mar-02	31-Mar-05	01-Apr-05	31-Mar-06	-	-
2002 Plan	1.694	31-Mar-03	10-Mar-06	13-Mar-06	09-Mar-07	33	510,633
2003 Plan	-	-	-	-	-	-	-
2004 Plan	-	-	-	-	-	-	-
2005 Plan	-	-	-	-	-	-	-
Sonaecom Shares							
2002 Plan	1.694	31-Mar-03	10-Mar-06	-	-	-	-
2003 Plan	3.190	31-Mar-04	09-Mar-07	-	-	349	1,173,959
2004 Plan	3.960	31-Mar-05	10-Mar-08	-	-	372	1,063,163
2005 Plan	4.093	10-Mar-06	09-Mar-09	-	-	402	947,652

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

The number of shares awarded, and shares and options unvested, vested, cancelled or lapsed and exercisable options under Sonaecom's MTIP in the year ended 31 December 2006, are shown in the following table:

## Sonaecom's options and shares under the MTIP

	Sonaecom options		Sonaecom shares		Total
	Aggregate number of participants	Number of options	Aggregate number of participants	Number of shares	Corresponding shares
<b>Outstanding at 31.12.2005</b>					
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
<b>Movements in the year</b>					
Awarded	-	-	410	976,226	976,226
Vested	(112)	(1,836,621)	(210)	(1,258,444)	(3,095,065)
Exercisable	112	1,836,621	-	-	1,836,621
Exercised	(117)	(1,524,290)	-	-	(1,524,290)
Cancelled/Lapsed	(1)	(14,691)	(39)	(82,148)	(96,839)
<b>Outstanding at 31.12.2006</b>					
Exercisable	33	510,633	-	-	510,633
Unvested	-	-	1,123	3,184,774	3,184,774
Total	33	510,633	1,123	3,184,774	3,695,407

## Summary of shares and options under the MTIP - Sonae SGPS share plans

Awards under the Sonae SGPS Share Plans outstanding during 2006 can be summarised as follows:

## Sonae SGPS Share Plans outstanding during 2006

		Vesting period		At 31 December 2006	
	Share price at award date	Award date	Vesting date	Aggregate number of participants	Number of shares
Sonae SGPS Shares					
2002 Plan	0.36	31-Mar-03	10-Mar-06	-	-
2003 Plan	0.93	31-Mar-04	09-Mar-07	12	364,164
2004 Plan	1.17	31-Mar-05	10-Mar-08	13	362,611
2005 Plan	1.34	10-Mar-06	09-Mar-09	13	184,575

The number of awarded, unvested or vested, and cancelled, lapsed or adjusted Sonae SGPS shares under the MTIP in the year ended 31 December 2006, are shown in the following table:



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**Sonae SGPS shares under the MTIP**


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	Sonae SGPS shares	
	Aggregate number of participants	Number of shares
Outstanding at 31.12.2005		
Unvested	36	1,511,365
Movements in the year		
Awarded	13	179,825
Vested	(11)	(809,077)
Cancelled/Lapsed/Adjusted *		29,237
Outstanding at 31.12.2006		
Unvested	38	911,350

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

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**MTIP hedging agreements**

Sonaecom has hedged its MTIP and related obligations, up to and including the 2004 Plan. Sonae SGPS shares have been acquired and are held in treasury, until the related award's vesting date. Sonaecom has entered into agreements with its subsidiaries to recharge the corresponding hedging costs to each one of them.

The effect of these agreements is that Sonaecom's liability, related to the Sonaecom Shares Plans under the MTIP, is capped at a maximum share price of 2.25 euros per share (plus interest that accrues on payments that are deferred), for the 2000 Plan, the 2001 Plan and the 2002 Plan and share prices of 3.14 euros and 3.22 euros (plus interest that accrues on payments that are deferred), for the 2003 and 2004 Plans. Taking into account these hedging arrangements, the total liability as at 31 December 2006 was 8,155,743 euros, which is included under "Other Liabilities" in Sonaecom's accounts.

The 2005 Sonaecom shares plan (MTIP 2005), at 31 December 2006, is not hedged and is treated as an equity-settled plan, as it involves the delivery of Sonaecom's own shares. As such, the liability is accounted for in Reserves, within Shareholders' funds, based on the share price at the award date. At 31 December 2006, the amount included in Sonaecom accounts relating to this plan is 952,390 euros. In March 2007, Sonaecom acquired own shares to cover the MTIP 2005.

The 2005 Sonae SGPS share plan is also not hedged. The plan involves the delivery of Sonae SGPS shares, but, as it is attributed by Sonaecom and not by Sonae SGPS, the plan is treated as a cash-settled plan. As such, the liability is included under "Other Liabilities" and is marked to market using the share price at each balance date. At 31 December 2006, the total amount provided is 77,419 euros.

**MTIP accounting impact**

The cost of Sonaecom's MTIP is recognised in the accounts over the respective deferral period for each annual plan. As at 31 December 2006, 16.5 million euros had been expensed as a cost (4.6 million euros during 2006 and 11.9 million euros in previous years, including 0.7, 2.3 and 6 millions relating to the awards under the MTIP that vested during 2004, 2005 and 2006, respectively). The remaining 1.8 million euros has not yet been expensed and has been deferred and accounted for as "Other Costs".

**4.3. Directors' remuneration**

Sonaecom's Directors' compensation policy is aimed at remunerating in a fair, effective 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.

Sonaecom's 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 2 above.

### Executive Directors

Remuneration and compensation proposals for Sonaecom's Executive Directors (excluding the CEO) are based on proposals made by the CEO, which are prepared taking into account:

- (i) Market comparables;
- (ii) Other Sonae SGPS comparables;
- (iii) Individual appraisals of each Executive Director.

The Executive Directors remuneration and other compensation include Fixed Remuneration and a Performance Bonus, and they also benefit from compensation under the MTIP, as described in Section 4.1 and 4.2 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 MTIP.

For each Non-Executive Director, fixed remuneration assumes an agreed commitment of time during 2006, including the preparation and attendance of at least 5 Board Meetings each year. In addition, External Non-Executive Directors who are 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.

On resignation of any member of the Board, it is Group policy to pay whatever compensation that is legally required, or to negotiate, in each situation, a value considered to be fair and appropriate by the parties involved. No additional compensation conditions exist for members of the Board who are treated in the same way as all employees.

### Directors' remuneration

The remuneration of Sonaecom's Directors, including fixed remuneration and performance bonuses (both computed on an accruals basis), was as follows during 2006 and 2005:

Directors' Remuneration - Fixed Remuneration and Performance Bonuses

Amounts in euros	2006			2005		
	Fixed Remuneration	Performance Bonus	Total	Fixed Remuneration	Performance Bonus	Total
<b>Individual breakdown</b>						
Chairman (Non-Executive)	50,000	-	50,000	50,000	-	50,000
CEO (Executive)	353,663	332,200	685,863	340,801	199,100	539,901
Average of the remaining 4 Executive Directors (3 in 2005)(1)	201,700	130,475	332,175	211,369	92,063	303,432
Average of the remaining 5 Non-Executive Directors (6 in 2005) (2)	22,027	-	22,027	24,252	-	24,252
<b>Aggregate</b>						
Executive Directors (5 in 2006 and 4 in 2005)	1,160,462	854,100	2,014,562	974,907	475,288	1,450,194
Non-Executive Directors (6 in 2006 and 7 in 2005)	160,136	-	160,136	195,515	-	195,515
	<b>1,320,598</b>	<b>854,100</b>	<b>2,174,698</b>	<b>1,170,422</b>	<b>475,288</b>	<b>1,645,709</b>

(1) Maximum Individual Remuneration in 2006 represented 141% of average and minimum 78% of average; (2) Maximum Individual Remuneration in 2006 represented 141% of average and minimum 0% of average, as one Non-Executive Director was not remunerated.

On 5 April 2006, an additional executive director was appointed to the Board. In presenting the figures above, the respective remuneration was annualised and treated as if the Director had been appointed at the beginning of the year.

Sonaecom's Non-Executive Directors do not receive performance bonuses. The performance bonuses of the Executive Directors in the table above represents the final values for performance during 2006, as real performance has been fully assessed and the resulting bonuses have been approved by the Board Nomination and Remuneration Committee, on behalf of the Board of Directors, and by the Shareholders' Remuneration Committee, on behalf of the Shareholders.

**Directors' participation in the MTIP**

In addition to the values shown above, Sonaecom Executive Directors have been awarded compensation under the Sonaecom MTIP. Sonaecom's Non-Executive Directors do not participate in the MTIP.

The shares and options awarded to Executive Directors as part of the MTIP that vested, were exercised or remain unvested during 2006, are summarised below.

There are no performance conditions attaching to MTIP awards other than future share price performance, as these awards are based upon an individual's Performance Bonus for which KPIs have already been satisfied.

## Directors' Remuneration - Participation in the Sonaecom MTIP

	Unvested				Total
	Plan 2002 (1)	Plan 2003	Plan 2004	Plan 2005	
Award date	31-Mar-03	31-Mar-04	31-Mar-05	10-Mar-06	
Beginning of the exercise period	10-Mar-06	9-Mar-07	10-Mar-08	9-Mar-09	
End of the exercise period	9-Mar-07	8-Mar-08	9-Mar-09	8-Mar-10	
<b>SONAECON SHARES and OPTIONS</b>					
Share price at award date (2)	1.694	3.190	3.960	4.093	
Option value at award date	0.601	-	-	-	
Share price at vesting date	4.02	-	-	-	
Strike price	1.694	-	-	-	
Share price at 31 December 2006 (3)	-	5.02	5.02	5.02	
<b>CEO</b>					
N. of shares at 01.01.2006	71,547	44,577	39,878	-	156,002
N. of shares at 31.12.2006	-	44,577	39,878	29,186	113,641
N. of options exercised	-	-	-	-	-
<b>Average of the remaining Executive Directors</b>					
N. of shares at 01.01.2006	38,959	19,433	17,765	-	76,156
N. of shares at 31.12.2006	-	19,433	17,765	13,806	51,004
N. of options at 01.01.2006	57,426	-	-	-	57,426
N. of options at 31.12.2006	57,426	-	-	-	57,426
N. of options exercised	-	-	-	-	-
<b>Total of the remaining Executive Directors</b>					
N. of shares at 01.01.2006	77,917	77,731	71,059	-	226,707
N. of shares at 31.12.2006	-	77,731	71,059	55,224	204,014
N. of options at 01.01.2006	57,426	-	-	-	57,426
N. of options at 31.12.2006	57,426	-	-	-	57,426
N. of options exercised	-	-	-	-	-
<b>TOTAL</b>					
N. of shares at 01.01.2006	149,464	122,308	110,937	-	382,709
N. of shares at 31.12.2006	-	122,308	110,937	84,410	317,655
N. of options at 01.01.2006	57,426	-	-	-	57,426
N. of options at 31.12.2006	57,426	-	-	-	57,426
N. of options exercised	-	-	-	-	-
<b>SONAE SGPS SHARES</b>					
Share price at award date	0.36	0.93	1.17	1.34	
Share price at vesting date	1.35	-	-	-	
Share price at 31 December 2006 (4)	-	1.51	1.51	1.51	
<b>CEO</b>					
N. of shares at 01.01.2006	314,068	142,639	123,880	-	580,587
N. of shares at 31.12.2006	-	145,320	126,209	60,550	332,079
<b>Average of the remaining Executive Directors</b>					
N. of shares at 01.01.2006	67,621	23,968	26,184	-	117,773
N. of shares at 31.12.2006	-	24,419	26,677	18,413	69,508
<b>Total of the remaining Executive Directors</b>					
N. of shares at 01.01.2006	202,864	95,871	104,736	-	403,471
N. of shares at 31.12.2006	-	97,675	106,706	73,650	278,031
<b>TOTAL</b>					
N. of shares at 01.01.2006	516,932	238,510	228,616	-	984,058
N. of shares at 31.12.2006	-	242,995	232,915	134,200	610,110
<b>VALUES</b>					
<b>CEO</b>					
Value at award date	202,000	277,348	305,581	200,595	-
Value at vesting date	719,578	-	-	-	-
Value at 31 December 2006	-	443,210	390,763	237,944	1,071,917
<b>Average of the remaining Executive Directors</b>					
N. of the remaining executive directors	3	4	4	4	
Value at award date	117,923	84,700	101,560	81,181	-
Value at vesting date	383,195	-	-	-	-
Value at 31 December 2006	-	134,425	129,461	97,109	360,994
<b>Total of the remaining Executive Directors</b>					
Value at award date	218,712	338,800	406,240	324,723	-
Value at vesting date	725,821	-	-	-	-
Value at 31 December 2006	-	537,699	517,842	388,436	1,443,977
<b>TOTAL</b>					
Value at award date	420,713	616,148	711,821	525,318	-
Value at vesting date	1,445,400	-	-	-	-
Value at 31 December 2006	-	980,909	908,605	626,380	2,515,894

(1) Vested on 10 March 2006. For two Executive Directors, cash equivalents were paid, in lieu of the delivery of Sonaecom shares. The Sonaecom SGPS shares were delivered on 10 May 2006, rather than on 10 March 2006; (2) Average share price in the month prior to the award date; (3) On 31 January 2006, the share price hit a low of 3.5 euros per share and a high of 5.38 euros per share on 2 October 2006; (4) On 14 June 2006, the share price hit a low of 1.11 euros per share and a high of 1.52 euros per share on 14 November 2006.

### Directors' participation in Sonaecom MTIP - accounting impacts

The total accumulated costs of all MTIP awarded to Executive Directors, up to 31 December 2006, have been or will be expensed, as follows:

#### Directors' Participation in the Sonaecom MTIP Accounting Impacts

Plan	Deferral period	Value		Annual expense								
		At award date	At 31-Dec-06 (1)	2001	2002	2003	2004	2005	2006	2007	2008	2009
2000	2001 - 2004	281,880	143,600	35,900	47,867	47,867	11,967	-	-	-	-	-
2001	2002 - 2005	384,600	366,435	-	91,609	122,145	122,145	30,536	-	-	-	-
2002	2003 - 2006	420,726	1,041,855	-	-	260,464	347,285	347,285	86,821	-	-	-
2003	2004 - 2007	548,681	688,938	-	-	-	172,235	229,646	229,646	57,412	-	-
2004	2005 - 2008	633,598	639,890	-	-	-	-	159,973	213,297	213,297	53,324	-
2005	2006 - 2009	522,000	510,071	-	-	-	-	-	141,686	170,024	170,024	28,337
		<b>2,791,485</b>	<b>3,390,789</b>	<b>35,900</b>	<b>139,476</b>	<b>430,476</b>	<b>653,631</b>	<b>767,440</b>	<b>671,450</b>	<b>440,732</b>	<b>223,348</b>	<b>28,337</b>

(1) Total liabilities at current market prices (using the Black Scholes option pricing model for options), net of the benefits of hedging operations, except for the 2000, 2001 and 2002 plans, which vested on 31 March 2004, 2005 and 2006 and are valued, at those dates, net of the benefits of hedging.

## 5. Fees of statutory external auditor

During 2006, Sonaecom Group paid the following fees to the Statutory External Auditor, Deloitte and their network of companies:

#### Statutory External Auditor Fees

	2006		2005	
Audit	183,524	85%	212,254	62%
Other Compliance & Assurance Services	3,250	1%	5,130	1%
Tax Consultancy Services	17,208	8%	35,517	10%
Other Services	12,965	6%	90,961	26%
<b>Total</b>	<b>216,947</b>	<b>100%</b>	<b>343,862</b>	<b>100%</b>

In accordance with the recommendation made by Sonaecom's BAFC and in line with the Group's expectations, the percentage of non-audit fees decreased from 38% in 2005 to 15% in 2006.

Sonaecom's Risk Management Policy, which is supervised by the BAFC, monitors the non-audit services requested from the 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.

## 6. Share price trend

During 2006, Sonaecom's share price and liquidity was heavily influenced by the Tender Offer for PT, launched on 6 February 2006.

Sonaecom's shares ended the year at a market price of 5.02 euros per share, 37.2% above the prior year closing price of 3.66 euros per share at 31 December 2005, clearly outperforming the Euro Stoxx Telecoms index. On 31 January 2006, the share price hit a low of 3.5 euros per share and a high of 5.38 euros per share was reached on 2 October 2006.

The market capitalization of Sonaecom rose by approximately 69% to 1.86 billion euros compared to the previous year. An average daily trading volume of approximately 582 thousand shares was achieved, an increase of 81.9% compared to 2005.

### Events with an impact on Sonaecom's share price in 2006

Sonaecom's share price performance during 2006 reflected the market reaction to the following main events:

- (i) 6 and 7 February: Sonaecom's preliminary announcement of Tender Offer for PT and PTM;
- (ii) 27 February: Sonaecom announced its draft prospectus disclosing the basis for the price offered for PT and the strategy proposed to shareholders;
- (iii) 2 May: Sonaecom announced first quarter results;
- (iv) 24 May: Competition Authority notified Sonaecom of decision to initiate an in-depth investigation in relation to the tender offer by Sonaecom for PT;
- (v) 1 June: Sonaecom announced the sale of Enabler;
- (vi) 4 July: Sonaecom disclosed its strategic business plan for its direct access broadband business at Sonaecom Fixed;
- (vii) 27 July: Sonaecom announced half-year results;
- (viii) 28 July: EDP agreed rolling-up its stake in Optimus into Sonaecom's shares;
- (ix) 14 August: Parpública agreed rolling-up its stake in Optimus into Sonaecom's shares;
- (x) 27 September: Competition Authority released its first preliminary decision regarding the Tender Offer for PT;
- (xi) 30 October: Sonaecom announced third quarter results;
- (xii) 6 December: Competition Authority released its second preliminary decision regarding the Tender Offer for PT;
- (xiii) 22 December: Competition Authority releases final decision;
- (xiv) 29 December: Sonaecom's submission of the final Offer prospectus, next with the Portuguese Securities Exchange Commission (CMVM).

### Dividend distribution policy

At the Shareholders' Annual General Meeting, held on 5 April 2006, Sonaecom's shareholders approved the proposal from the Board of Directors to apply net results to legal reserves and retained earnings, with no dividend distribution, reflecting Sonaecom's strategy and the business opportunities available.

## 7. Investor relations

The Investor Relations department is responsible for managing Sonaecom's relationship with the financial community - current and potential investors, analysts and market authorities - with the goal of enhancing their knowledge and understanding of Sonaecom's Group by providing relevant, timely and reliable information.

The department regularly prepares presentations and communications covering quarterly, half year and annual results, as well as issues announcements to the market whenever necessary, to disclose or clarify any relevant event that could influence Sonaecom's share price.

To further enhance the effective communication with the capital market and guarantee the quality of information provided, the Investor Relations department organizes road shows covering the most important financial centres of Europe and United States, and participates in various conferences. Also, a wide variety of investors and analysts have the opportunity to talk to senior management in one-on-one meetings or conference calls.

Any interested party may access the Investor Relations department through the following contacts:

Patrícia Mendes  
 Investor Relations Manager  
 Tel: (+351) 93 1002 223  
 Fax: (+351) 93 1002 229  
 Email: [patricia.mendes@sonae.com](mailto:patricia.mendes@sonae.com)  
 Address: Rua Henrique Pousão, 432 - 7º Piso, 4460-841 Senhora da Hora

Site: [www.sonae.com](http://www.sonae.com)

During 2006, the Investor Relations department participated in 130 one-on-one and group meetings, 20 conference calls and 4 investor and telecommunications conferences, providing analysts and investors with information on Sonaecom's performance and future prospects.

## 8. Corporate regulations and guidelines

### 8.1. Share dealing regulation

In October 2004, Sonaecom's 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 the 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) Group Employees working in areas that tend to have access to Price Sensitive Information (PSI), which includes: Planning & Control, Treasury & Finance, Investor Relations, Legal, Public Relations and Accounting & Administration.

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

These guidelines, summarised below, are based on 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 circumstance" 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 the Board Audit and Finance Committee, Jean-François Pontal, who is an Independent Non-Executive Director.

The CMVM notification rules, changed on March 2006, require notification from: (a) Directors of Sonaecom SGPS; (b) Directors of companies that control Sonaecom SGPS; (c) "Dirigentes" of Sonaecom SGPS, where "Dirigentes" means all people who have a regular access to privileged information and participate in management decisions; (d) companies controlled by any of the above Directors or "Dirigentes"; or (e) persons who act on behalf of any of the Directors or "Dirigentes" or companies above. The notification has to be made to CMVM within 5 working days following the transaction.

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; (c) the price and (d) the reason of notification.

## 8.2. Codes of conduct

### Code of ethics

Sonaecom has in place a set of internal guidelines that are designed to guarantee the ethical and responsible behaviour of the organization.

The Code of Ethic deals with topics ranging 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. Sonaecom's employees and suppliers, including external consultants, are required to comply with by these guidelines, and to always follow them in the carrying out of their activities.

Under the scope of this Code of Ethics, Sonaecom has created an Ethics Committee, whose responsibility includes ensuring that doubts are clarified and reporting and dealing with alleged violations of the Code.

The full version of the Code of Ethics may be found on Sonaecom's website [www.sonae.com](http://www.sonae.com).

### Whistle blowing policy

Sonaecom has a policy and process for communicating internal irregularities, which sets out procedures to efficiently and fairly respond to alleged irregularities reported, including:

- (i) Anyone wishing to communicate any irregularity believed or known to have been committed by any of Sonaecom's members of staff, must address a letter or an e-mail containing a summary description of the facts to the Ethics Committee. The identity of the whistle blower will be kept anonymous, if explicitly requested;
- (ii) The letter will be analysed by the Ethics Committee and, if the committee finds grounds for the irregularity reported, measures will be taken, as deemed appropriate.

It is the responsibility of Sonaecom's Ethics Committee to review and evaluate the efficiency with which the policy and process for communicating irregularities is applied.

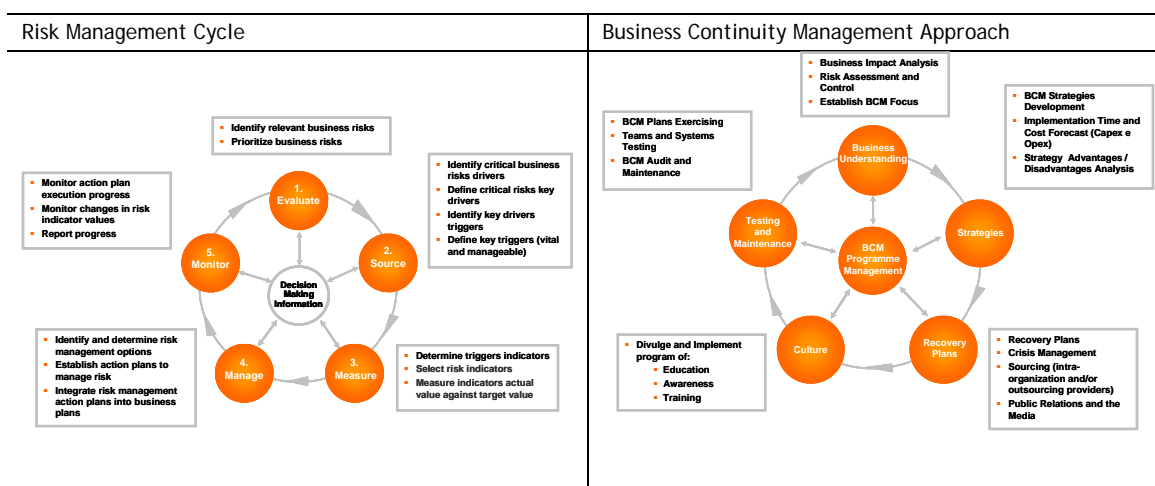
## 8.3. Internal risk management policies

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

- (i) Aligning the risk management cycle with the strategic planning cycle, implemented at all Sonaecom subsidiaries, which allows Sonaecom to prioritize and identify critical risks that might compromise performance and goals and to take actions to manage those risks within defined levels through constant monitoring and by implementing corrective measures;
- (ii) Implementing an internal business continuity management process, in order 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 Sonaecom's critical facilities (e.g. data centres, call centres), using business continuity management to assess and manage potential risks;
- (iv) Implementing risk management cycles that allow Sonaecom to mitigate identified critical risks related with processes, areas or entities, at levels required by the management.

The following pictures illustrate the main phases included in Sonaecom's risk management policies that apply to all its portfolio of businesses.





### Actions undertaken

#### Pandemic flu project

The possibility of occurrence, in the short term, of a pandemic flu as a result of mutation of avian flu is of a major concern to Sonaecom. Accordingly, the Group implemented a project envisaging the management of this pandemic flu risk, with the goal of guaranteeing that Sonaecom, its subsidiaries and employees are prepared to deal with this scenario.

The Group aims to minimize any related health problem and assure business continuity with critical services continuing to be offered, and different actions have already been taken:

- (i) A set of good practice guidelines and measures of hygiene and health started to be communicated internally, through the development of a specific intranet page and the distribution of explanatory flyers. Additionally, in collaboration with the National Public Health Centre, Sonaecom offered some specific training sessions in preparation for a pandemic;
- (ii) A group of employees, suppliers, agents and other partners was identified as being critical and Sonaecom is working to ensure that it would be available and respond to clients' needs.

Sonaecom has already established the procedures to be adopted by the human resources department, so that a contingency plan is in place to minimise the effects of a major temporary headcount reduction.

#### Business continuity management

During 2006, Sonaecom has also been very focused on the development and consolidation of the business continuity management process. In this respect, Sonaecom undertook several actions:

- (i) Implementation of a disaster recovery project covering systems supporting critical activities in the mobile business;
- (ii) Adoption of recovery plans, at the telecom businesses, under different scenarios and assumptions, for call center activities and activation services of voice and data;
- (iii) Physical safety diagnosis of Sonaecom's critical facilities and evaluation of their degree of exposure to risks such as energy failure, temperature oscillations and fire detection and extinction.

#### Management of Sonaecom's corporate risks

Regarding the management of the Group's corporate risks, the following actions can be highlighted:

- (i) Implementation of a risk management cycle for Sonaecom's telecom units of Wholesale and Interconnection, whereby several procedures have been agreed to be followed in order to mitigate the critical risks identified;
- (ii) Kick-off of a project designed to increase the internal controls over access to confidential information on clients and employees.

On a quarterly basis, Sonaecom's Internal Audit Team reports to the Board Audit and Finance Committee, presenting a summary of all relevant corporate risks findings. A follow up procedure to monitor adoption of effective corrective measures for the main findings identified is implemented on a half yearly basis.

## **9. Relevant transactions with related parties**

No material non-operational transactions were made during the year with related parties (including Sonaecom Officers or Governing Bodies, such as Members of the Board of Directors and the Statutory External Auditor, owners of qualified shareholdings or with controlling or Group companies), with the exception of the agreements signed in 2003, 2004 and 2005 with Sonae Investments BV and Sonae SGPS, relating to the hedging of Sonaecom's MTIP as described above. In the course of the Group's normal treasury management activities, the Company transferred its excess liquidity as treasury applications with Sonae SGPS at Euribor flat, with the exception of the excess liquidity from its bond issue that is earning a higher rate of Euribor plus 20 basis points.

On 16 December 2003, 30 July 2004 and 2 August 2005, Sonaecom signed agreements with Sonae Investments BV and Sonae SGPS to cover the execution and hedging of its MTIP and related obligations. In turn, the Group has entered into mirror agreements with its subsidiaries to pass on the corresponding commitments.

# APPENDIX

## 1. Qualifications of the Board of Directors

### Belmiro Mendes de Azevedo

**Date of Birth:**

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 and CEO 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:**

Non-Executive Director and Chairman of the Board of Sonaecom; Chairman of the Board Nomination and Remuneration Committee.

### Duarte Paulo Teixeira de Azevedo

**Date of Birth:**

31 December 1965

**Academic and Professional Qualifications:**

Degree in Chemical Engineering from the École Polytechnique Fédérale de Lausanne; 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; Executive Director of Sonae Indústria.

**Responsibilities at Sonaecom:**

CEO of Sonaecom; Member of the Board Nominations and Remunerations Committee.

### Luís Filipe Campos Dias de Castro Reis

**Date of Birth:**

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.

Previously he has been an Executive Director of Modelo Continente; Chairman of Banco Universo; Marketing Director of Sonae Distribuição.

**Responsibilities at Sonaecom:**

Executive Director and COO of Sonaecom.

### George Christopher Lawrie

**Date of Birth:**

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.

Previously 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 Schroders in the banking and corporate finance divisions.

**Responsibilities at Sonaecom:**

Executive Director and CFO of Sonaecom.

### Maria Cláudia Teixeira de Azevedo

**Date of Birth:**

13 January 1970

**Academic and Professional Qualifications:**

Degree in Business Studies from the Universidade Católica do Porto and MBA from INSEAD (Fontainebleu).

**Professional experience:**

Member of the General Council of Público; Executive Director of Sonaecom Sistemas de Informação (SSI)  
Previously, she has been an Executive Director of Sonae Matrix Multimedia residential unit; Marketing Director of Optimus.

**Responsibilities at Sonaecom:**

Executive Director of Sonaecom and COO of Media and SSI.

**Miguel Nuno Santos Almeida****Date of Birth:**

15 March 1967

**Academic and Professional Qualifications:**

Degree in Mechanical Engineering from the Faculty of Engineering of Porto University; MBA from the INSEAD, Fontainebleau.

**Professional experience:**

Executive Director of Optimus responsible for the areas of Marketing & Sales; Non-Executive Director of WeDo.  
Previously, he has been Marketing Director of Modelo Continente.

**Responsibilities at Sonaecom:**

Executive Director of Sonaecom and COO of Optimus.

**António Sampaio e Mello****Date of Birth:**

29 January 1955

**Academic and Professional Qualifications:**

Phd in Economics, London Business School; MBA, Columbia University; Master In Economics, Columbia University; B.Sc in Engineering, Technical University of Lisbon.

**Professional experience:**

Head of Corporate Finance of Banco Commercial Português; Head of Economic Research and Statistics of the Central Bank of Portugal; past president of the European Financial Management Association; board member of the US Financial Management Association; Professor at MIT; President of the Social Sciences and Humanities Commission at the Junta Nacional de Investigação Científica e Tecnológica.

**Responsibilities at Sonaecom:**

Independent Non-Executive Director of Sonaecom; Member of the Board Audit and Finance Committee.

**David Charles Denholm Hobley****Date of Birth:**

9 December 1946

**Academic and Professional Qualifications:**

Fellow of the Institute of Chartered Accountants of England and Wales.

**Professional experience:**

Managing Director of Deutsche Bank AG, London; Director of certain Orange Group companies.

**Responsibilities at Sonaecom:**

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

**Gervais Gilles Pellissier****Date of Birth:**

14 May 1959

**Academic and Professional Qualifications:**

Degree in Business Law (Université Paris XI); graduation of HEC (International Management - joint program with Berkeley University and the University of Cologne).

**Professional experience:**

Member of France Telecom Group management Committee; responsible for France Telecom Group Spanish operational activities; Supervised the operational and geographic integration of France Telecom's businesses in Spain; Director of Bull Group.

**Responsibilities at Sonaecom:**

Non-executive Director of Sonaecom.

**Jean-François René Pontal****Date of Birth:**

17 April 1943

**Academic and Professional Qualifications:**

Degree in Engineering from the Centre d'Études Supérieures des Techniques Industrielles, in France.

**Professional experience:**

Previously, he has been 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; CEO of Orange.

**Responsibilities at Sonaecom:**

Independent Non-Executive Director of Sonaecom; Chairman of the Board Audit and Finance Committee; Member of the Board Nomination and Remuneration Committee.

## 2. Other offices held by members of the Board of Directors

### Belmiro Mendes de Azevedo

#### Offices held in companies in which Sonaecom is a shareholder:

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

#### Other Offices held:

Efanor Investimentos, SGPS, S.A. (Chairman of the Board of Directors, Non-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, Non-Executive)  
 Setimanale, SGPS, S.A. (Chairman of the Board of Directors, Non-Executive)  
 Sonaec, SGPS, S.A. (Chairman of the Board of Directors and CEO)  
 Sonaec Capital, SGPS, S.A. (Chairman of the Board of Directors, Non-Executive)  
 Sonaec Sierra, SGPS, S.A. (Chairman of the Board of Directors, Non-Executive)  
 Sonaec 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:

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)  
 Profimetrics - Software Solutions, S.A. (Chairman of the Board of Directors)  
 Sonaec Matrix Multimédia, SGPS, S.A. (Chairman of the Board of Directors)  
 Sonaec 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)  
 Modelo Continente, SGPS, S.A. (Member of the Board of Directors, Non-Executive)  
 Praça Foz - Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)  
 Sonaec, SGPS S.A. (Member of the Board of Directors, Executive)  
 Sonaec Indústria, SGPS, S.A. (Member of the Board of Directors, Executive)  
 Tableros de Fibras, S.A. (Chairman of the Board of Directors, Non-Executive)

### George Christopher Lawrie

#### Offices held in companies in which Sonaecom is a shareholder:

Optimus - Telecomunicações S.A. (Member of the Board of Directors, Non-Executive)  
 Sonaec Matrix Multimédia, SGPS, 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

### Luís Filipe Campos Dias de Castro Reis

#### Offices held in companies in which Sonaecom is a shareholder:

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)  
 Sonaec Matrix Multimédia, SGPS, S.A. (Member of the Board of Directors, Executive)  
 Sonaec 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)

**Other offices held:**

Does not hold any office in any other company.

**Maria Cláudia Teixeira de Azevedo****Offices held in companies in which Sonaecom is a shareholder:**

Digitmarket - Sistemas de Informação, S.A. (Chairman of the Board of Directors)  
 Mainroad - Serviços de Tecnologias de Informação, S.A. (Chairman of the Board of Directors)  
 Miauger - Organização e Gestão de Leilões Electrónicos, S.A. (Chairman of the Board of Directors)  
 Netmall, SGPS, S.A. (Chairman of the Board of Directors)  
 Público Comunicação Social, S.A. (Member of the General Council)  
 Profimetrics - Software Solutions, S.A. (Member of the Board of Directors)  
 Saphety Level - Trusted Services, S.A. (Chairman of the Board of Directors)  
 Sonaecom Sistemas de Informação, S.A. (Member of the Board of Directors)  
 WeDo Consulting, Sistemas de Informação, S.A. (Member of the Board of Directors)

**Other offices held:**

Altitude - Sociedade Gestora de Participações Sociais, S.A. (Member of the Board of Directors, Non-Executive)  
 Efanor - Serviços de Apoio à Gestão, S.A. (Member of the Board of Directors, Non-Executive)  
 Efanor Investimentos, SGPS, S.A. (Member of the Board of Directors, Non-Executive)  
 Fundação Belmiro de Azevedo (Member of the Board of Directors, Non-Executive)  
 Imparfin, SGPS, S.A. (Member of the Board of Directors, Non-Executive)  
 Linhacom, SGPS, S.A. (Member of the Board of Directors, Non-Executive)  
 Praça Foz - Sociedade Imobiliária, S.A. (Member of the Board of Directors, Non-Executive)

**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 Telecom, SGPS, S.A. (Member of the Board of Directors, Non-Executive)

**Other offices held:**

Does not hold any office in any other company.

**António Sampaio e Mello****Offices held in companies in which Sonaecom is a shareholder:**

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

**Other offices held:**

Robert W. Baird (Member of the Board of Directors)  
 Nakoma Capital Management (Member of the Board of Directors)  
 Centrad Healthcare (Member of the Board of Directors)  
 Casb (Member of the Board of Directors)

**David Charles Denholm Hobley****Offices held in companies in which Sonaecom is a shareholder:**

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

**Other 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 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)  
 Velti plc (Member of the Board of Directors)  
 Deutsche Bank AG, London Branch (Managing Director)



**Gervais Gilles Pellissier**

**Offices held in companies in which Sonaecom is a shareholder:**

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

**Other offices held:**

Silicomp Group (Member of the Board of Directors)

France Telecom Spain (Member of the Board of Directors)

Studio 37 (Member of the Board of Directors)

Bull (Member of the Board of Directors)

**Jean-François René Pontal**

**Offices held in companies in which Sonaecom is a shareholder:**

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)

Oger Telecom, Dubai (Member of the Board of Directors, Non-Executive)

South Wing, Spain (Member of the Board of Directors, Non-Executive)

### 3. Article 447, 448 and qualified holdings

#### Article 447

Appendix in accordance with article 447 of the Portuguese Company Law.

#### Shares held by the Board of Directors and respective transactions during 2006

		Additions		Reductions		Balance at 31.12.2006
	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
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)						596,909
Shares attributed under the Medium Term Incentive Plan	11.05.2006	236,318	0,00			
Sonaecom, SGPS, SA						387,342
Shares attributed under the Medium Term Incentive Plan	13.03.2006	71,547	0,00			
Maria Cláudia Teixeira de Azevedo						
Efanor Investimentos, SGPS, SA (1)						1
Imparfin, SGPS, SA (3)						150,000
Sonae, SGPS, SA (4)						342,287
Shares attributed under the Medium Term Incentive Plan	11.05.2006	15,632	0,00			
Sonaecom, SGPS, SA						13,654
George Christopher Lawrie						
Sonaecom, SGPS, SA						208,000
Luís Filipe Campos Dias de Castro Reis						
Sonae, SGPS, SA (4)						-
Shares attributed under the Medium Term Incentive Plan	11.05.2006	97,218	0,00			
Sale	12.05.2006			97,218	1.34	
Miguel Nuno Santos Almeida						
Sonae, SGPS, SA (4)						-
Shares attributed under the Medium Term Incentive Plan	11.05.2006	39,799	0,00			
Sale	23.05.2006			39,799	1.28	
Sonaecom, SGPS, SA						18,903

#### Notes:

Notes:

	Additions		Reductions		Balance at 31.12.2006	
	Date	Quantity	Medium value €	Quantity	Medium value €	Quantity
<b>(1) Efanor Investimentos, SGPS, SA</b>						
Sonae, SGPS, SA (4)						658,804,410
Pareuro, BV (2)						20,000
Sonaecom, SGPS, SA						1,000
<b>(2) Pareuro, BV</b>						
Sonae, SGPS, SA (4)						400,000,000
<b>(3) Imparfin, SGPS, SA</b>						
Sonae, SGPS, SA (4)						4,105,273
<b>(4) Sonae, SGPS, SA</b>						
Sonaecom, SGPS, SA						46,572,998
Sonae Investments, BV (5)						40
<b>(5) Sonae Investments, BV</b>						
Sonaecom, SGPS, SA						143,596,649

**Article 448**

Appendix in accordance with article 448 of the Portuguese Company Law.

## Article 448 of the Portuguese Company Law

	Number of shares as of 31 December 2006
<b>Efanor Investimentos, SGPS, SA</b>	
Sonae, SGPS, SA	658,804,410
Pareuro, BV	20,000
Sonaecom, SGPS, SA	1,000
<b>Pareuro, BV</b>	
Sonae, SGPS, SA	400,000,000
<b>Sonae, SGPS, SA</b>	
Sonaecom, SGPS, SA	46,572,998
Sonae Investments, BV	40
<b>Sonae Investments, BV</b>	
Sonaecom, SGPS, SA	143,596,649
<b>Wirefree Services Belgium, S.A.</b>	
Sonaecom, SGPS, SA	70,276,868
<b>093X - Telecomunicações Celulares, SA</b>	
Sonaecom, SGPS, SA	29,150,000
<b>Atlas Services Belgium, S.A.</b>	
Sonaecom, SGPS, SA	-

**Qualified 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.

## Qualified Holdings as of 31 December 2006

Shareholder	Number of Shares	% Voting Rights
Efanor Investimentos, SGPS, SA	1,000	0.00%
Sonae, SGPS, SA	46,572,998	12.72%
Sonae Investments, BV	143,596,649	39.21%
Belmiro Mendes de Azevedo <sup>1, 3, 4</sup>	75,537	0.02%
Duarte Paulo Teixeira de Azevedo <sup>1, 3, 4</sup>	387,342	0.11%
Maria Cláudia Teixeira de Azevedo <sup>3, 4</sup>	13,654	0.00%
Ângelo Gabriel Ribeiro dos Santos Paupério <sup>1, 2</sup>	60,070	0.02%
Álvaro Carmona e Costa Portela <sup>1</sup>	5,000	0.00%
093X - Telecomunicações Celulares, SA	29,150,000	7.96%
<b>Imputable amount</b>	<b>219,862,250</b>	<b>60.03%</b>
<b>France Telecom, S.A</b>		
Wirefree Services Belgium, S.A.	70,276,868	19.19%
<b>Imputable amount</b>	<b>70,276,868</b>	<b>19.19%</b>
<b>Credit Suisse Securities (Europe) Ltd <sup>5</sup></b>	<b>9,622,208</b>	<b>2.63%</b>
<b>Brahman Capital Corporation <sup>6</sup></b>	<b>7,877,195</b>	<b>2.15%</b>
<b>Imputable amount</b>	<b>17,499,403</b>	<b>4.78%</b>

(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; (4) Member of the Board of Directors of Sonaecom, SGPS, SA; (5) In accordance with information on 14 December 2006; (6) In accordance with information on 13 October 2006.

# FINANCIAL INFORMATION

# CONSOLIDATED FINANCIAL STATEMENTS

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

## CONSOLIDATED BALANCE SHEETS FOR THE YEARS ENDED AT 31 DECEMBER 2006 AND 2005

(Amounts expressed in Euro)

ASSETS	Notes	December 2006	December 2005
<b>NON CURRENT ASSETS:</b>			
Tangible assets	1.c), 1.h) and 5	494,771,742	477,432,375
Intangible assets	1.d), 1.e) and 6	166,664,974	175,275,138
Goodwill	1.f) and 7	506,902,772	285,468,452
Investments in associated companies	1.b) and 3	762,437	685,661
Investments available for sale	1.g) and 8	112,317,225	1,207,320
Other non current debtors	9	-	1,903,493
Deferred tax assets	1.p) and 10	61,786,654	66,239,165
Other non current assets	1.r), 1.s), 1.w) and 11	348,568	1,952,890
Total non current assets		<u>1,343,554,372</u>	<u>1,010,164,494</u>
<b>CURRENT ASSETS:</b>			
Inventories	1.i) and 12	15,138,395	23,212,665
Trade debtors	1.j) and 13	151,981,914	143,573,014
Other current debtors	1.j) and 14	20,060,419	20,660,299
Other current assets	1.r), 1.s), 1.w) and 15	62,687,227	43,439,057
Investments recorded at fair value through profit or loss	1.g) and 16	849,375	1,321,690
Cash and cash equivalents	1.k) and 17	125,917,344	209,414,711
Total current assets		<u>376,634,674</u>	<u>441,621,436</u>
<b>Total assets</b>		<b><u>1,720,189,046</u></b>	<b><u>1,451,785,930</u></b>
<b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>			
<b>SHAREHOLDERS' FUNDS:</b>			
Share capital	18	366,246,868	296,526,868
Reserves	1.t)	556,646,226	273,093,218
Consolidated net income/(loss) for the year		<u>(13,883,168)</u>	<u>2,156,198</u>
		<u>909,009,926</u>	<u>571,776,284</u>
Minority interests	19	471,382	115,163,114
Total Shareholders' Funds		<u>909,481,308</u>	<u>686,939,398</u>
<b>LIABILITIES:</b>			
<b>NON CURRENT LIABILITIES:</b>			
Medium and long-term loans - net of short-term portion	1.l), 1.m) and 20	460,600,827	455,863,338
Other non current creditors	21	-	9,698,642
Other non current financial liabilities	1.h) and 22	1,614,602	1,886,588
Provisions for other liabilities and charges	1.o) and 23	20,078,571	5,092,476
Other non current liabilities	1.r), 1.s), 1.w) and 24	3,785,049	8,077,712
Total non current liabilities		<u>486,079,049</u>	<u>480,618,756</u>
<b>CURRENT LIABILITIES:</b>			
Short-term loans and other loans	1.l), 1.m) and 20	74,607	54,420
Trade creditors	25	162,680,112	143,303,460
Other current financial liabilities	1.h) and 26	1,708,922	3,257,037
Other creditors	27	17,538,711	18,798,148
Other current liabilities	1.r), 1.s), 1.w) and 28	142,626,337	118,814,711
Total current liabilities		<u>324,628,689</u>	<u>284,227,776</u>
<b>Total Shareholders' Funds and liabilities</b>		<b><u>1,720,189,046</u></b>	<b><u>1,451,785,930</u></b>

The notes are an integral part of the consolidated financial statements at 31 December 2006 and 2005.

**The Chief Accountant**

Patrícia Maria Cruz Ribeiro da Silva

**The Board of Directors**

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira de Azevedo

Luís Filipe Campos Dias de Castro Reis

George Christopher Lawrie

Miguel Nuno Santos Almeida

Maria Cláudia Teixeira de Azevedo

António Sampaio e Mello

Gervais Gille Pellissier

David Charles Denholm Hobley

Jean-François René Pontal

SONAECON, S.G.P.S., S.A. AND SUBSIDIARIES  
CONSOLIDATED PROFIT AND LOSS ACCOUNTS BY NATURE  
FOR THE YEARS AND QUARTERS ENDED AT 31 DECEMBER 2006 AND 2005

(Amounts expressed in Euro)

	Notes	December 2006	September to December 2006 (Not audited)	December 2005	September to December 2005 (Not audited)
Sales	29	89,288,539	22,666,820	102,297,934	31,320,105
Services rendered	29	746,751,737	189,343,178	741,162,926	184,691,812
Other operating revenues	30	32,035,543	2,412,482	5,826,910	1,290,401
		<u>868,075,819</u>	<u>214,422,480</u>	<u>849,287,770</u>	<u>217,302,318</u>
Cost of sales	12	(102,115,774)	(29,701,109)	(114,924,806)	(36,595,555)
External supplies and services	31	(457,366,138)	(120,895,672)	(454,823,366)	(119,996,646)
Staff expenses		(102,501,059)	(25,189,054)	(102,848,384)	(24,851,886)
Depreciation and amortisation	5 and 6	(135,670,907)	(35,480,638)	(128,222,823)	(34,180,265)
Provisions and impairment losses	1.o), 1.v) and 23	(10,612,459)	(2,378,237)	(7,770,367)	(2,268,650)
Other operating costs	1.v) and 32	(11,142,336)	(3,178,012)	(12,044,965)	(1,920,617)
		<u>(819,408,673)</u>	<u>(216,822,722)</u>	<u>(820,634,711)</u>	<u>(219,813,619)</u>
Tender Offer costs	33	(30,906,602)	(30,906,602)	-	-
		<u>(850,315,275)</u>	<u>(247,729,324)</u>	<u>(820,634,711)</u>	<u>(219,813,619)</u>
Gains and losses in associated companies	34	(162,483)	(41,249)	-	-
Other financial expenses	1.m), 1.n), 1.u), 1.v) and 34	(23,138,426)	(6,236,916)	(17,857,418)	(4,913,035)
Other financial income	1.n), 1.u), 1.v) and 34	5,931,577	1,403,780	4,766,660	1,308,394
<b>Current income/(loss)</b>		<b>391,212</b>	<b>(38,181,229)</b>	<b>15,562,301</b>	<b>(6,115,942)</b>
Income taxation	1.p), 10 and 35	(5,259,937)	(2,068,876)	(4,008,288)	(808,400)
<b>Consolidated net income/(loss)</b>		<b>(4,868,725)</b>	<b>(40,250,105)</b>	<b>11,554,013</b>	<b>(6,924,342)</b>
Attributed to:					
Shareholders of parent company	39	(13,883,168)	(40,354,249)	2,156,198	(5,188,685)
Minority interests		9,014,443	104,144	9,397,815	(1,735,657)
Earnings per share					
Including discontinued operations					
Basic		(0.04)	(0.11)	0.01	(0.02)
Diluted		(0.04)	(0.11)	0.01	(0.02)
Excluding discontinued operations					
Basic		(0.04)	(0.11)	0.01	(0.02)
Diluted		(0.04)	(0.11)	0.01	(0.02)

The notes are an integral part of the consolidated financial statements at 31 December 2006 and 2005.

**The Chief Accountant**

Patrícia Maria Cruz Ribeiro da Silva

**The Board of Directors**

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira de Azevedo

Luís Filipe Campos Dias de Castro Reis

George Christopher Lawrie

Miguel Nuno Santos Almeida

Maria Cláudia Teixeira de Azevedo

António Sampaio e Mello

Gervais Gille Pellissier

David Charles Denholm Hobley

Jean-François René Pontal

FOR THE YEARS ENDED AT 31 DECEMBER 2006 AND 2005

The notes are an integral part of the consolidated financial statements at 31 December 2006 and 2005.



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

## CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEARS ENDED AT 31 DECEMBER 2006 AND 2005

(Amounts expressed in Euro)

	<u>31 December 2006</u>		<u>31 December 2005</u>	
<b>Operating activities</b>				
Receipts from trade debtors	821,674,020		866,614,376	
Payments to trade creditors	(554,492,890)		(584,931,783)	
Payments to employees	(112,906,999)		(110,930,750)	
<b>Cash flows from operating activities</b>	<b>154,274,131</b>		<b>170,751,843</b>	
Payments/receipts relating to income taxes, net	(1,954,217)		(2,828,404)	
Other payments/receipts relating to operating activities, net	(29,255,058)		(23,173,570)	
<b>Cash flows from operating activities (1)</b>	<b>123,064,856</b>	<b>123,064,856</b>	<b>144,749,869</b>	<b>144,749,869</b>
<b>Investing activities</b>				
Receipts from:				
Investments	28,375,116		1,100,294	
Tangible assets	2,609,447		3,544,972	
Intangible assets	8,235		127,087	
Interest and similar income	5,919,370		4,788,684	
Other	-	36,912,168	170,682	9,731,719
Payments for:				
Loans granted	(4,990)		(2,500)	
Investments	(106,702,871)		(23,143,389)	
Tangible assets	(93,357,152)		(87,227,790)	
Intangible assets	(18,764,014)	(218,829,027)	(16,976,406)	(127,350,085)
<b>Cash flows from investing activities (2)</b>		<b>(181,916,859)</b>		<b>(117,618,366)</b>
<b>Financing activities</b>				
Receipts from:				
Loans obtained	-	-	145,950,000	145,950,000
Payments for:				
Leasing	(1,820,101)		(1,202,650)	
Loans obtained	-		(105,805)	
Interest and similar expenses	(18,512,975)		(13,724,744)	
Dividends	-	(20,333,076)	(554,193)	(15,587,392)
<b>Cash flows from financing activities (3)</b>		<b>(20,333,076)</b>		<b>130,362,608</b>
Net cash flows ( 4 )=( 1 )+( 2 )+( 3 )		<b>(79,185,079)</b>		<b>157,494,111</b>
Effect of the foreign exchanges		(59,000)		336,443
Cash and cash equivalents at the beginning of the year		<b>(209,361,534)</b>		<b>(51,529,737)</b>
Changes on the consolidation perimeter		4,274,718		-
Cash and cash equivalents at end of the year		<b>125,842,737</b>		<b>209,360,291</b>

The notes are an integral part of the consolidated financial statements at 31 December 2006 and 2005.

## Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

## The Board of Directors

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira de Azevedo

Luís Filipe Campos Dias de Castro Reis

George Christopher Lawrie

Miguel Nuno Santos Almeida

Maria Cláudia Teixeira de Azevedo

António Sampaio e Mello

Gervais Gille Pellissier

David Charles Denholm Hobley

Jean-François René Pontal

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES  
CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE YEARS ENDED AT 31 DECEMBER 2006 AND 2005

(Amounts expressed in Euro)

	<u>2006</u>	<u>2005</u>
<b>1 - Acquisition or sale of subsidiaries or other businesses</b>		
a) <b>Acquisitions</b>		
Profimetrics - Software Solutions, S.A.	150,000	-
Enabler - Informática, S.A.	-	298,000
Retailbox BV	-	1,653,596
Optimus - Telecomunicações, S.A.	-	16,262,801
b) <b>Amount of other assets and liabilities acquired</b>		
Acquisition of Sonae S.G.P.S., S.A. shares	-	1,344,089
Acquisition of Sonae Indústria, S.G.P.S., S.A. shares	414,842	-
Increases in Supplementary Capital of Profimetrics - Software Solutions, S.A.	150,000	-
Acquisition of Portugal Telecom, S.G.P.S., S.A. Shares	105,988,029	-
Increases in Supplementary Capital of Optimus - Telecomunicações, S.A.	-	2,344,350
c) <b>Payments of acquisitions from previous years</b>		
Jaua, S.G.P.S., S.A.	-	537,780
Noriema, S.G.P.S., S.A.	-	702,773
	<u>106,702,871</u>	<u>23,143,389</u>
d) <b>Sales</b>		
Exit Travel – Agência de Viagens e Turismo Online, S.A.	-	450,000
Investimento Directo, S.A.	679,412	650,294
Retailbox BV	33,268,381	-
e) <b>Amount to be paid related to financial investments sold</b>		
Retailbox BV	5,819,950	-
f) <b>Amounts of cash and cash equivalents in the subsidiary sold</b>		
Retailbox BV	247,394	-
Enabler - Informática, S.A.	3,166,663	-
Enabler Brasil, Lda.	116,001	-
Enabler Retail &Consult, Gmbh	17,900	-
Enabler UK, Limited	570,900	-
Enabler France	155,860	-
g) <b>Amounts of other assets and liabilities sold</b>		
Sonae Indústria, S.G.P.S., S.A.		
Shares	247,273	-
Retailbox BV		
Fixed assets	611,599	-
Trade debtors and other current debtors	6,490,798	-
Investments recorded at fair value through profit or loss	391,216	-
Trade creditors and other creditors	(2,416,842)	-
<b>2 - Details of cash and cash equivalents</b>		
Cash in hand	143,380	464,835
Cash at bank	6,173,117	8,843,760
Treasury applications	119,600,847	200,106,116
Overdrafts	(74,607)	(54,420)
Cash and cash equivalents	<u>125,842,737</u>	<u>209,360,291</u>
Overdrafts	74,607	54,420
Cash assets	125,917,344	209,414,711

The difference between Cash and cash equivalents at 31 December 2005 and Cash and cash equivalents at the beginning of the year ended on 31 December 2006 relates to the change of the consolidation perimeter.

Cash and cash equivalents at 31 December 2005	209,360,291
Changes on the consolidation perimeter	1,243
Cash and cash equivalents at the beginning of the year ended on 31 December 2006	<u>209,361,534</u>

**3 - Description of non monetary financing activities**

a) Credit facilities granted and not used	225,441,176	227,641,176
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 distribution by activity**

Actividade	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Net Cash Flows
Mobile network	147,513,543	(83,106,589)	(14,046,573)	50,360,381
Fixed network and Internet	13,056,027	(24,104,139)	(172,223)	(11,220,335)
Multimedia	(7,116,189)	(329,776)	(32,076)	(7,478,041)
Information Systems	(9,730,294)	926,863	(162,065)	(8,965,496)
Others	(20,658,231)	(75,303,218)	(5,920,139)	(101,881,588)
	<u>123,064,856</u>	<u>(181,916,859)</u>	<u>(20,333,076)</u>	<u>(79,185,079)</u>

The notes are an integral part of the consolidated financial statements at 31 December 2006 and 2005.

**Chief Accountant**

Patrícia Maria Cruz Ribeiro da Silva

**The Board of Directors**

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira de Azevedo

Luís Filipe Campos Dias de Castro Reis

George Christopher Lawrie

Miguel Nuno Santos Almeida

Maria Cláudia Teixeira de Azevedo

António Sampaio e Mello

Gervais Gille Pellissier

David Charles Denholm Hobley

Jean-François René Pontal

NOTES TO THE  
CONSOLIDATED FINANCIAL  
STATEMENTS

## ***Notes to the consolidated financial statements at 31 December 2006 and 2005***

(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.

By decision of the Shareholders General Meeting held on 18 September 2006, Sonaecom's share capital was increased in Euro 69,720,000, from Euro 296,526,868 to Euro 366,246,868, by the issuance of 69,720,000 new shares of 1 Euro each and with a share premium of Euro 275,657,217, subscribed by 093X – Telecomunicações Celulares, S.A. (EDP) and Parpública – Participações Públicas, SGPS, S.A.(Parpública). The corresponding public deed was executed on 18 October 2006.

The Group's business consists essentially of:

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

The Group operates, since 30 June 2006 and after the sale of Retailbox sub-group (that operates in England, Germany, France and Brazil), essentially, in Portugal, with one of its subsidiaries (from the information systems consultancy segment) operating in Brazil.

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, rounded at unit, and the transactions in foreign currencies are included in accordance with the accounting policies detailed below.

### **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") as adopted by the European Union ("EU"), and including all interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") in force as at 31 December 2006.

For Sonaecom, there are no differences between IFRS as adopted by European Union and IFRS published by the International Accounting Standards Board.

Sonaecom adopted "IAS/ IFRS" for the first time according to SIC 8 (First time adoption of IAS) on 1 January 2003.

At 31 December 2006, IFRS 7 – "Financial Instruments" was issued but is not yet effective. As it will only be effective for annual periods beginning on or after 1 January 2007, the Group decided not to adopt it in advance. The adoption of this standard will only result on a more comprehensive disclosure, namely, a description of the nature and the extension of all risks associated to each financial instrument that the Group is exposed to during the period and at the date of report, and all the processes used to manage those risks.

### **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 when 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 of control acquisition) or up to the date of sale (or of control cession). Intra Group transactions, balances and dividends are eliminated.

The expenses incurred with the acquisition of investments in Group companies are considered as part of the acquisition cost.

The fully consolidated companies are listed in Note 2.

#### **b) Financial 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 their acquisition 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 a 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 a corresponding charge to the caption 'Other operating costs' of the statement of profit and loss.

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

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

The Property, plant and equipment relating to the mobile telecommunications operations, namely the network equipment, are being depreciated taken in consideration the period of the UMTS license.

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 related with the mandatory dismantling and removal of tangible assets, incurred by the Group, 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 their acquisition cost. These assets are depreciated as from the moment they are completed or they are in condition to be used.

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

Intangible assets are recorded at their acquisition 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 the one 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.

Internally-generated intangible assets, namely research and development expenditures, are recognised in net income when incurred. Development expenditures can only be recognised initially as an intangible asset if the Group demonstrates the ability to complete the project and put it in use or available for sale.

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



### e) Brands and patents

Brands and patents are recorded at their 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 investment 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.

The classification of the investments is determined at the initial recognition and re-evaluated every quarter.

- 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 the adoption of this method allows to reduce or eliminate an accounting mismatch. Derivatives are also registered 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 variable 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 'trade debtors' and 'other current debtors' in the balance sheet.
- c) 'Held-to-maturity investments'  
Held-to-maturity investments are non-derivative financial assets with fixed or variable payments and fixed maturities that the Group's management has the positive intention and ability to hold till its 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. The financial assets at fair value through profit or loss are initially recognised at fair value and the transaction costs are recorded in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred substantially all the 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 value 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 assets.

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 the present value of payments. In addition, interest

included in lease payments and depreciation of the tangible assets are 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 amount of inventories, as well as the estimated impairment losses due to low turnover, obsolescence and deterioration (Note 23).

#### **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.

The consolidated cash flow statement has been prepared in accordance with IAS 7, using the direct method. The Group classifies, in the caption 'Cash and cash equivalents', investments that mature in less than three months, for which the risk of change in value is insignificant. The caption 'Cash and cash equivalents' in the cash flow statement also includes bank overdrafts, which are reflected in the balance sheet caption 'Short-term loans and other loans'.

The cash flow statement is classified by operating, financing and investing activities. Operating activities include collections from customers, payments to suppliers, payments to personnel and other captions relating to operating activities. Cash flows from investing activities include the acquisition and sale of investments in associated and subsidiaries companies and receipts and payments resulting from the purchase and sale of fixed assets.

Cash flows from financing activities include payments and receipts relating to loans obtained and finance lease contracts.

#### **l) Loans**

Loans are recorded as liabilities by the "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 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 the 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 Group 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 during 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 when 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 by the corresponding amount in the results of the 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.

Costs relating to customer loyalty programmes, under which points are awarded by the subsidiary Optimus, are quantified considering the probability of the points being effectively used, and are recognised, as a deduction to income, at the time the points are generated, by a corresponding entry in the caption 'Other current liabilities'.

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 taxes 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 such 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, in financial results.

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:

	2006		2005	
	31.12.06	Average	31.12.05	Average
Pounds Sterling	1.48920	1.46704	1.45921	1.46264
Brazilian Real	0.35564	0.36658	0.36443	0.33279

#### 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 'Other 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.

For Goodwill and Financial Investments, the recoverable amount is determined based on business plans duly approved by the Board of Directors of the Group and corroborated by reports prepared by independent entities. For accounts receivables, the Group uses historical and statistic information to estimate the amounts in impairment. For inventories, the impairments are calculated based on market values and several indicators of stock rotation.

#### **w) Medium Term Incentive Plans**

The Accounting Treatment of Medium Term Incentive Plans is based on IFRS 2 – “Share-based Payments”.

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 ‘Reserves – Medium Term Incentive Plans’, 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 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 statement, the “elapsed” proportion continues to be charged as an expense under the caption ‘Staff expenses’.

Equity-settled payments in shares of the parent company are recorded as if they were settled in cash, which means that the estimated liability is recorded in the balance sheet caption ‘Other non current liabilities’ and ‘Other current liabilities’ by a corresponding entry to the income statement caption ‘Staff expenses’, for the cost relating to the deferred period elapsed.

The liability is quantified based on the fair value of the shares as of each balance sheet date.

When the liability is covered by a hedging contract, it is recognised in the same way described above, but with the liability being quantified based on the amount fixed in the contract.

In 2003, the Group signed a hedging contract under which, through the establishment of the payment of a fixed amount, it was transferred its liability relating to the Sonaecom share plan to an entity outside the Sonaecom Group. At 31 December 2006 only one of the three existing plans was not covered by hedging contracts. Therefore, the impact of the share plans of the Medium Term Incentive Plans is recognised in the balance sheet captions ‘Other non current assets’ and ‘Other current assets’ and ‘Other non current liabilities’ and ‘Other current liabilities’ for the plans covered by hedging contracts, and in the caption ‘Reserve - Medium Term

Incentive Plans' for the plans that are not hedged. The cost is recognised in the income statement 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.

#### **y) Judgements and estimates**

The most significant accounting estimates reflected in the consolidated financial statements as at 31 December 2006 and 2005, are as follows:

- a) Useful lives of tangible and intangible assets;
- b) Impairment analysis of goodwill and of tangible and intangible assets;
- c) Recognition of adjustments on assets and provisions;
- d) Assessment of responsibilities associated with customers' loyalty programs.

Estimates used are based on the best information available during the preparation of consolidated financial statements and are based on best knowledge of past and present events. Although future events, are not controlled by the Group neither foreseeable, some could occur and have impact on the estimates. Changes to the estimates used by the management that occur after the date of these consolidated financial statements, will be recognised in net income, in accordance with IAS 8, using a prospective methodology.

The main estimates and assumptions in relation to future events included in the preparation of consolidated financial statements are disclosed in the correspondent notes.

## **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 2006 and 2005, are as follows:



			Percentage of share capital held				
Company (Commercial Brand)	Head Office	Main activity	Shareholder	2006		2005	
				Direct	Effective*	Direct	Effective*
Parent company:							
SONAECON, S.G.P.S., S.A. ("Sonaecom")	Maia	Management of shareholdings.	-	-	-	-	-
Subsidiaries:							
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	75.10%	75.10%	75.10%	75.10%
Enabler – Informática, S.A. ("Enabler")	Maia	Rendering of services relating to the development, commercialisation and implementation of software solutions.	Retailbox	(Sold)		98.50%	71.23%
Enabler Brasil, Ltda. ("Enabler Brazil")	Curitiba-Paraná, Brazil	Commercialisation of software developed by the companies or by third parties; provision of technical consultancy services relating to software.	Enabler	(Sold)		99.99%	71.22%
Enabler & Retail Consult, GmbH ("Enabler Germany")	Germany	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	(Sold)		85%	60.55%
Enabler UK, Limited ("Enabler UK")	United Kingdom	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	(Sold)		100%	71.23%
Enabler France ("Enabler FR")	France	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	(Sold)		100%	71.23%
Mainroad – Serviços em Tecnologias de Informação, S.A. ("Mainroad")	Maia	Rendering of consultancy services in IT areas.	Sonae.com Sistemas de Informação	100%	100%	100%	100%
Miauger – Organização e Gestão de Leilões Electrónicos, S.A. ("Miaueer")	Maia	Organisation and management of electronic auctions of products and services on-line.	Sonaecom	100%	100%	100%	100%
M3G – Edições Digitais, S.A. ("M3G")	Lisbon	Digital publishing, electronic publishing and production of Internet contents.	Público	100%	99%	100%	99.99%
* Sonaecom effective participation							

Company (Commercial Brand)	Head Office	Main activity	Shareholder	Percentage of share capital held			
				2006		2005	
				Direct	Effective*	Direct	Effective*
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%	58.33%	58.33%
			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%	49.06%	49.06%
			Sonaecom	50.94%	50.94%	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%	100%	100%	69.24%
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%
Retailbox BV ("Retailbox")	Amsterdam	Management of shareholdings.	Sonaetelecom BV	(Sold)		64%	72.32%
Optimus Towering – Exploração de Torres de Telecomunicações, S.A. ("Optimus Towering")	Maia	Implementation, installation and exploitation of towers and other sites for the instalment of telecommunications equipment.	Optimus	100%	100%	100%	69.24%
Saphety Level – Trusted Services, S.A. (Saphety) (a)	Maia	Rendering services, training, consultancy services in the area of communication, process and electronic certification of data; trade, development and representation of software.	Sonae.com Sistemas de Informação	100%	100%	-	-
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%
Sonaecom BV (b)	Amsterdam	Management of shareholdings.	Sonaecom	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	97.66%	97.66%	95.47%	95.47%

\* Sonaecom effective participation

Company (Commercial Brand)	Head Office	Main activity	Shareholder	Percentage of share capital held			
				2006		2005	
				Direct	Effective*	Direct	Effective*
Wedo do Brasil Soluções Informáticas, Ltda. ("We Do Brazil")	Rio de Janeiro	Commercialisation of software and hardware. Rendering of consultancy and technical assistance.	We Do	99.91%	97.57%	99.89%	95.36%

\* Sonaecom effective participation

(a) Company created in December 2006.

(b) Company created in February 2006.

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). In July 2006, agreements with EDP and Parpública were celebrated, in the scope of which these companies compromise to exchange their participation in Optimus of 25.72% and 5.04%, respectively, for a participation in Sonaecom. As a result of these agreements Sonaecom controls 100% of the shares of Optimus, and incorporate the totality of the results since 31 July 2006, as well as reported, at that date, the correspondent goodwill.

### 3. Investments in associated companies

At 31 December 2006 and 2005, 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	
				2006		2005			
				Direct	Effective*	Direct	Effective*	2006	2005
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%	39.51%	39.51%	(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%	762,437	685,661
Profimetrics - Software Solutions, S.A. (Profimetrics) (b)	Maia	Development of software solutions to optimize the retail sales	Sonae.com Sistemas de Informação	30%	30%	-	-	(a)	-
Global S - Centro Comercial, Lda.	Matosinhos	Information technology services to promote and manage multimedia stores. Operation of shopping centres (Global Shoo).	Global S	(Sold)		19.20%	4.90%	-	(c)
			Global S 24	(Sold)		80.80%	10.30%	-	(c)
Global S 24, S.G.P.S., S.A.	Matosinhos	Management of shareholdings.	Global S	(Sold)		50%	12.82%	-	(c)
Global S, S.G.P.S., S.A. ("Global S" - using the brand name "Global Shop")	Matosinhos	Management of shareholdings.	Net Mall	(Sold)		64.70%	25.60%	-	(c)
								762,437	685,661

\* Sonaecom effective participation

(a) Investment recorded at a nil book value

(b) Company created in March 2006.

(c) In 2005, 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 years ended 31 December 2006 and 2005 the following changes occurred in the composition of the Group:

##### 4. a) Acquisitions

2006				
Purchaser	Subsidiary	Date	% acquired	Current % shareholding
Sonae.com SI	We Do	Mar-06	0.99%	96.46%
Sonae.com SI	We Do	Apr-06	0.07%	96.53%
Sonae.com SI	We Do	May-06	0.09%	96.62%
Sonae.com SI	We Do	Jun-06	0.09%	96.71%
Sonae.com SI	We Do	Jul-06	0.12%	96.83%
Sonae.com SI	We Do	Aug-06	0.17%	97%
Sonae.com SI	We Do	Sep-06	0.58%	97.58%
Sonae.com SI	We Do	Oct-06	0.04%	97.62%
Sonaecom	Optimus	Oct-06	30.76%	50.94%
Sonae.com SI	We Do	Nov-06	0.04%	97.66%

As a result of the above mentioned acquisitions, additional Goodwill of Euro 225,108,379 was recorded (Note 7).

The acquisition of 30.76% of subsidiary Optimus occurred under the roll-up operation performed between Sonaecom and EDP and Parpública as described in the introductory note.

2005				
Purchaser	Subsidiary	Date	% acquired	Current % shareholding
Sonae Telecom	Optimus	Mar-05	2.77%	49.06%
Retailbox	Enabler	Apr-05	1.20%	98.50%
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	0.20%	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 43).

##### 4. b) Incorporations

Year	Shareholder	Subsidiary	Date	Amount	Current % shareholding
2006	Sonaecom	Sonaecom BV	Feb-06	100,000	100%
2006	Sonae.com SI	Profimetrics	Mar-06	500,000	30%
2006	Novis	Saphety	Dec-06	50,000	100%
2005	Enabler	Enabler FR	Dec-05	37,000	100%

#### 4. c) Sales

Year	Seller	Subsidiary	Date	% Sold	% Shareholding
2006	Net Mall	Global S, SGPS, SA	Jan-06	64.73%	-
2006	Sonaetelecom BV	Retailbox BV	Jun-06	68.47%	-
2005	Sonaecom	Exit	Jul-05	75%	-
2005	Retailbox	Retailbox*	Oct-05	1.50%	11.50%

\* Own shares

The sale of Retailbox BV in 2006 generated a gain in Sonaecom Group of Euro 25,370,915 which was recorded in the profit and loss statements under the caption 'Other operating revenues' (Note 30).

The sale of Net Mall generated a gain in Sonaecom Group of Euro 1.

The assets and liabilities sold, as well as the calculation of the gain were as follows:

##### Net assets sold

Tangible assets (Note 5)	570,807
Intangible assets (Note 6)	40,792
Deferred tax assets (Note 10)	122,892
Other non current assets	160,697
Non current assets	<u>895,188</u>
Trade debtors	4,822,693
Other current debtors	1,668,105
Other current assets	2,384,622
Investments at fair value through profit and loss	391,216
Cash and cash equivalents	4,274,718
Current assets	<u>13,541,354</u>
Provisions for other liabilities and charges (Note 23)	(339,409)
Non current liabilities	<u>(339,409)</u>
Trade creditors	(660,626)
Other creditors	(1,756,216)
Other liabilities	(3,847,277)
Current liabilities	<u>(6,264,119)</u>
Minority interests	(3,035,780)
Goodwill (Note 7)	3,674,059
Suspended gains	(573,827)
<b>Total</b>	<u><b>7,897,466</b></u>
Sale price	33,268,381
<b>Gain</b>	<u><b>25,370,915</b></u>

The sale price includes a variable amount, payable in two years, with a minimum of circa 4.45 million Euros that can be higher according with the future performance of the subgroup sold.

## 5. Tangible Assets

The movement in tangible assets and corresponding accumulated depreciation and impairment losses in the years ended 31 December 2006 and 2005 was as follows:

	Land	Buildings and other constructions	Plant and machinery	Vehicles	Fixtures and fittings	Tools	Other tangible assets	Work in progress	Total
<b>GROSS ASSETS</b>									
<b>Balance at 31 December 2004</b>	<b>1,391,593</b>	<b>171,509,272</b>	<b>617,944,093</b>	<b>130,289</b>	<b>119,741,012</b>	<b>1,203,681</b>	<b>2,820,556</b>	<b>9,157,745</b>	<b>923,898,241</b>
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)
<b>Balance at 31 December 2005</b>	<b>1,391,593</b>	<b>193,802,186</b>	<b>669,946,802</b>	<b>168,785</b>	<b>132,463,176</b>	<b>1,046,912</b>	<b>2,769,153</b>	<b>11,914,444</b>	<b>1,013,503,051</b>
Companies no longer consolidated (Note 4. c))	-	-	(2,414,413)	(89,507)	(546,614)	-	(268,965)	-	(3,319,499)
Additions	-	13,308,281	3,202,673	67,537	1,705,097	1,466	60,575	109,067,709	127,413,338
Disposals	-	(972,878)	(439,332)	(160,115)	(2,742,020)	(2,933)	(1,763)	(208,946)	(4,527,987)
Transfers and write-offs	-	16,995,576	73,913,349	66,571	3,195,902	42,394	8,599	(98,212,850)	(3,990,459)
<b>Balance at 31 December 2006</b>	<b>1,391,593</b>	<b>223,133,165</b>	<b>744,209,079</b>	<b>53,271</b>	<b>134,075,541</b>	<b>1,087,839</b>	<b>2,567,599</b>	<b>22,560,357</b>	<b>1,129,078,444</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:</b>									
<b>Balance at 31 December 2004</b>	<b>-</b>	<b>71,011,417</b>	<b>303,963,767</b>	<b>109,914</b>	<b>62,977,644</b>	<b>1,140,982</b>	<b>1,886,136</b>	<b>-</b>	<b>441,089,860</b>
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
<b>Balance at 31 December 2005</b>	<b>-</b>	<b>89,408,263</b>	<b>350,360,883</b>	<b>102,913</b>	<b>93,059,285</b>	<b>1,010,003</b>	<b>2,129,329</b>	<b>-</b>	<b>536,070,676</b>
Companies no longer consolidated (Note 4. c))	-	-	(2,109,812)	(18,153)	(366,872)	-	(253,855)	-	(2,748,692)
Depreciation for the year	-	19,826,075	71,481,827	12,658	14,978,197	16,175	335,352	-	106,650,284
Reversal of impairment losses in the year	-	(1,187)	(386)	-	(34,302)	-	(60)	-	(35,935)
Disposals	-	(139,609)	(239,325)	(51,466)	(2,532,879)	(2,933)	(559)	-	(2,966,771)
Transfers and write-offs	-	(106,389)	(692,414)	2,816	(1,823,215)	(1,451)	(42,207)	-	(2,662,860)
<b>Balance at 31 December 2006</b>	<b>-</b>	<b>108,987,153</b>	<b>418,800,773</b>	<b>48,768</b>	<b>103,280,214</b>	<b>1,021,794</b>	<b>2,168,000</b>	<b>-</b>	<b>634,306,702</b>
<b>Net value</b>	<b>1,391,593</b>	<b>114,146,012</b>	<b>325,408,306</b>	<b>4,503</b>	<b>30,795,327</b>	<b>66,045</b>	<b>399,599</b>	<b>22,560,357</b>	<b>494,771,742</b>

The additions to Tangible assets during 2006 include: assets associated with the UMTS operation (Universal Mobile Telecommunications Service); HSDPA (Kanguru Express); ULL assets (unbundling of the local loop); and assets related with the Triple Play project.

At 31 December 2005, the heading 'Transfers and write-offs' in 'Accumulated depreciation and impairment losses' includes circa Euro 15 million that are associated with the reclassification of accumulated depreciation between the headings 'Plant and machinery' and 'Fixtures and fittings'.

The acquisition cost of Tangible assets held by the Group under finance lease contracts amounted to Euro 9,378,039 and Euro 11,680,247 as of 31 December 2006 and 2005, respectively and their net book value as of those dates amounted to Euro 5,564,239 and Euro 7,152,026, respectively.

Tangible assets in progress at 31 December 2006 and 2005 were made up as follows:

	2006	2005
Development of mobile network	13,135,575	7,897,191
Development of fixed network	6,138,254	3,213,590
Information systems	3,091,141	511,849
Other projects in progress	195,387	291,814
	<u>22,560,357</u>	<u>11,914,444</u>

The development of fixed network includes Euro 5,783,026 related to the TriplePlay project.

At 31 December 2006 and 2005, the amounts of commitments to third parties relating to investments to be made were as follows:

	2006	2005
Technical investments	21,798,493	18,786,011
Investments in information systems	6,717,515	7,527,281
	<u>28,516,008</u>	<u>26,313,292</u>

## 6. Intangible assets

The movement in Intangible assets and in the corresponding accumulated amortisation and impairment losses in the years ended 31 December 2006 and 2005 was as follows:

	Brands and patents	Software	Others	Intangible assets in progress	Total
<b>GROSS ASSETS:</b>					
<b>Balance at 31 December 2004</b>	<b>145,655,058</b>	<b>159,789,572</b>	<b>638,200</b>	<b>6,141,825</b>	<b>312,224,655</b>
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 writte-offs	(79,852)	12,298,942	-	(13,921,661)	(1,702,571)
<b>Balance at 31 December 2005</b>	<b>147,155,167</b>	<b>172,425,905</b>	<b>-</b>	<b>7,085,344</b>	<b>326,666,416</b>
Companies no longer consolidated (Note 4. c))	(32,035)	(386,943)	-	-	(418,978)
Additions	252,545	225,264	-	18,414,103	18,891,912
Disposals	(6,853)	(17,600)	-	(434,262)	(458,715)
Transfers and writte-offs	31,479	17,913,118	-	(17,078,377)	866,220
<b>Balance at 31 December 2006</b>	<b>147,400,303</b>	<b>190,159,744</b>	<b>-</b>	<b>7,986,808</b>	<b>345,546,855</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:</b>					
<b>Balance at 31 December 2004</b>	<b>5,186,364</b>	<b>122,823,729</b>	<b>270,594</b>	<b>-</b>	<b>128,280,687</b>
Companies no longer consolidated	(12,578)	(477,918)	-	-	(490,496)
Depreciation for the year	13,277,865	15,263,349	90,104	-	28,631,318
Disposals	-	(25,022)	(302,837)	-	(327,859)
Transfers and writte-offs	32,290	(4,676,801)	(57,861)	-	(4,702,372)
<b>Balance at 31 December 2005</b>	<b>18,483,941</b>	<b>132,907,337</b>	<b>-</b>	<b>-</b>	<b>151,391,278</b>
Companies no longer consolidated (Note 4. c))	(22,740)	(355,446)	-	-	(378,186)
Depreciation for the year	13,241,891	15,778,732	-	-	29,020,623
Reversal of impairment losses in the year	(1,220)	(882,356)	-	-	(883,576)
Disposals	(1,725)	(1,941)	-	-	(3,666)
Transfers and writte-offs	(22,948)	(241,644)	-	-	(264,592)
<b>Balance at 31 December 2006</b>	<b>31,677,199</b>	<b>147,204,682</b>	<b>-</b>	<b>-</b>	<b>178,881,881</b>
<b>Net value</b>	<b>115,723,104</b>	<b>42,955,062</b>	<b>-</b>	<b>7,986,808</b>	<b>166,664,974</b>

At 31 December 2006 and 2005, the Group has recorded under the heading 'Intangible assets' the amounts of Euro 114,996,798 and Euro 127,774,219, respectively, that corresponds to the investments net of depreciations made in the development of the UMTS network, including Euro 81,007,779 (amount of Euro 90,008,643 in 2005) related to the license and Euro 27,067,669 (amount of Euro 30,075,188 in 2005) related to the agreement reached in 2002 between Oni Way and the other three mobile telecommunication operators in Portugal with UMTS licenses.

The intangible assets in progress, at 31 December 2006 and 2005, 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 2006 and 2005 such expenses amounted to Euro 13,096,510 and Euro 12,453,601, respectively. The amount capitalised on the years ended 31 December 2006 and 2005 were Euro 642,909 and Euro



351,091, respectively. An interest capitalization rate of 3.65% was used in 2006 (2.965% in 2005), which corresponds to the average interest rate supported by the Group.

## 7. Goodwill

At 31 December 2006 and 2005, the movements occurred in goodwill were as follows:

	2006	2005
Opening balance	285,468,452	31,614,130
Increase of participations (Note 4. a))	225,108,379	253,901,129
Companies no longer consolidated (Note 4. c))	(3,674,059)	-
Others	-	(46,807)
Closing balance	506,902,772	285,468,452

In accordance with IFRS 3, the Group suspended the amortization of the 'Goodwill' from 1 January 2004.

Goodwill at 31 December 2006 and 2005 was made up as follows:

	2006	2005
Optimus	389,902,620	165,081,139
Novis	95,189,755	95,189,755
Público	20,000,000	20,000,000
WeDo	1,679,611	1,392,713
SIRS	72,820	72,820
Permar	47,253	47,253
Optimus Towering	10,713	10,713
Retailbox	-	2,000,505
Enabler	-	1,041,264
Enabler UK	-	560,643
Enabler DE	-	71,647
	506,902,772	285,468,452

## 8. Investments available for sale

At 31 December 2006 and 2005, this caption included investments classified as available for sale and was made up as follows:

	2006			2005		
	Gross amount	Accumulated impairment losses (Nota 23)	Net amount	Gross amount	Accumulated impairment losses (Nota 23)	Net amount
Portugal Telecom, S.G.P.S., S.A.	111,109,905	-	111,109,905	-	-	-
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)	-
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
	114,856,454	(2,539,229)	112,317,225	3,892,797	(2,685,477)	1,207,320

The investment held in Portugal Telecom, SGPS, S.A. corresponds to 1% of the share capital of that company and is recorded at fair value. In March 2007, Sonaecom sold that investment (Note 46).

## 9. Other non current debtors

At 31 December 2005, the other non current debtors caption relates to amounts receivable from the sale of certain fixed assets by the subsidiary Optimus. The reimbursement plan was as follows but, due to a renegotiation process established with the debtor, the reimburse of such debt will occur within one year:

	2006	2005
2007	-	961,169
2008	-	942,324
	-	1,903,493

## 10. Deferred tax assets

Deferred tax assets at 31 December 2006 and 2005, in the amount of Euro 61,786,654 and Euro 66,239,165, 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 2006 and 2005 were as follows:

	2006	2005
Opening balance	66,239,165	68,693,940
Impact on results		
Tax losses carried forward	(9,423,815)	(15,001,873)
Adjustments to the estimated taxable income of prior year	-	541,419
Movements in provisions not deductible for tax purposes and on tax benefits	(1,555,435)	4,712,598
Recognition of deferred taxes, not recorded in previous years as, at that time, the existence of future taxable profits was considered to be uncertain (Optimus, Digitmarket and Mainroad)	10,132,525	2,000,000
Temporary differences between the tax and accounting value of fixed assets	(946,852)	8,100,000
Writte-off of the deferred tax assets recorded in previous years, due to impairments (KPNQwest)	-	(2,721,213)
Adjustments due to the changes occurred in the rate and computation of Municipal Surcharge	(2,270,047)	-
Others	-	(7,693)
Sub-total (Note 35)	(4,063,624)	(2,376,762)
Others (including Retailbox sub-group sale)	(388,887)	(78,013)
Closing balance	61,786,654	66,239,165

At 31 December 2006 and 2005 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.

The rates used at 31 December 2006 and 2005 to calculate the deferred tax assets relating to tax losses carried forward were 25% and 27.5%, respectively. The rates used at 31 December 2006 and 2005 to calculate deferred tax assets resulting from temporary differences were 26.5% and 27.5%, respectively. The change in the tax rate between 2005 and 2006 was a consequence of the publication of the Local Finances Law in the beginning of 2007, which changed the form of calculation of the Municipal Surcharge.

In accordance with the tax returns and other information prepared by the companies that have registered deferred tax assets, the detail of such deferred tax assets by nature at 31 December 2006 were as follows:

Nature	Optimus	We Do	Público	Digitmarket	Mainroad	We Do Brazil	Total
<u>Tax losses:</u>							
To be used until 2008	-	397,438	-	-	-	-	397,438
To be used until 2009	4,406,317	292,870	-	-	-	-	4,699,187
To be used until 2010	-	79,046	-	171,338	16,045	-	266,429
To be used until 2011	-	196,644	-	210,662	31,676	-	438,982
To be used until 2012	-	-	1,343,916	-	184,279	-	1,528,195
	4,406,317	965,998	1,343,916	382,000	232,000	-	7,330,231
Provisions not accepted for tax purposes	7,821,248	525,436	-	-	-	-	8,346,684
Adjustments in the conversion to IAS/IFRS	30,956,522	(63,646)	29,871	-	-	-	30,922,747
Temporary differences between the tax and accounting value of fixed assets	15,125,751	-	-	-	-	61,241	15,186,992
Total	58,309,838	1,427,788	1,373,787	382,000	232,000	61,241	61,786,654

At 31 December 2006 and 2005, the Group has other situations where potential deferred tax assets could result which were not recognised since it was not expected that sufficient taxable profits could be generated in the future to cover those losses:

	2006	2005
Tax losses	90,267,543	99,221,325
Temporary differences (mainly provisions not accepted for tax purposes)	20,896,545	23,558,505
Adjustments in the conversion to IAS/IFRS	2,251,861	10,774,552
	113,415,949	133,554,382

The reconciliation between the earnings before taxes and the taxes recorded in the year is as follows:

	2006	2005
Earnings before taxes	391,212	15,562,301
Income tax rate (27.5%)	(107,583)	(4,279,633)
Deferred tax assets not recognised in the individual accounts and/or resulting from consolidation adjustments	(26,453,650)	(13,768,804)
Adjustments to taxable income of the current year	14,385,670	6,661,362
Deferred tax assets not recognised in previous years	10,132,525	2,000,000
Write-off of the deferred tax assets recorded in previous years, due to impairments	-	(2,721,213)
Adjustments due to the changes occurred in the rate and computation of Municipal Surcharge	(2,270,047)	-
Temporary differences between the tax and accounting value of assets	(946,852)	8,100,000
Income taxation recorded in the year (Note 35)	(5,259,937)	(4,008,288)

Portuguese Tax Authorities can 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), except when tax losses have been generated, tax benefits have been granted or when any review, claim or impugnation is in course. Consequently, tax returns of each year, since the year 2003 (inclusive) 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 2006 and 2005 this caption was comprised mainly by loans granted to associated companies and was made up as follows:

	2006			2005		
	Accumulated impairment losses			Accumulated impairment losses		
	Gross amount	(Note 23)	Net amount	Gross amount	(Note 23)	Net amount
FINANCIAL ASSETS:						
Loans granted to companies recorded under the equity method:						
Profimetrics	60,751	-	60,751	-	-	-
Rádio Nova	-	-	-	118,500	(118,500)	-
	<u>60,751</u>	<u>-</u>	<u>60,751</u>	<u>118,500</u>	<u>(118,500)</u>	<u>-</u>
Other loans granted:						
S.E.S.I.	-	-	-	24,316	(24,316)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,316</u>	<u>(24,316)</u>	<u>-</u>
NON FINANCIAL ASSETS:						
Medium Term Incentive Plans (Notes 1. w) and 40)	287,817	-	287,817	1,952,890	-	1,952,890
	<u>287,817</u>	<u>-</u>	<u>287,817</u>	<u>1,952,890</u>	<u>-</u>	<u>1,952,890</u>
	<u>348,568</u>	<u>-</u>	<u>348,568</u>	<u>2,095,706</u>	<u>(142,816)</u>	<u>1,952,890</u>

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

The associated companies Profimetrics 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 amount 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 those loans.

## 12. Inventories

At 31 December 2006 and 2005 this caption was made up as follows:

	2006	2005
Raw materials	1,970,796	1,683,078
Merchandise	19,289,684	28,663,836
	21,260,480	30,346,914
Accumulated impairment losses on inventories (Note 23)	(6,122,085)	(7,134,249)
	15,138,395	23,212,665

The cost of goods sold in the years ended 31 December 2006 and 2005 amounted to Euro 102,115,774 and Euro 114,924,806, respectively, and was determined as follows:

	2006	2005
Opening inventories	30,346,914	17,393,309
Purchases	95,830,142	129,978,684
Inventory adjustments	(2,800,802)	(2,100,273)
Closing inventories	(21,260,480)	(30,346,914)
	102,115,774	114,924,806

The amounts recorded under the caption 'Inventory adjustments' at 31 December 2006 and 2005 correspond essentially to the transfer of telecommunications handsets from the caption 'Inventories' to the caption 'Tangible assets', under rental contracts agreements signed with customers by the subsidiaries Optimus and Novis.

## 13. Trade debtors

At 31 December 2006 and 2005 this caption was made up as follows:

	2006	2005
Trade debtors:		
Mobile network	108,536,324	108,055,898
Fixed network	31,174,046	18,296,513
Information systems	6,731,609	10,677,941
Internet and multimedia	5,509,136	6,511,863
	151,951,115	143,542,215
Bills receivable	30,799	30,799
Doubtful debtors	60,832,530	64,481,439
	212,814,444	208,054,453
Accumulated impairment losses in accounts receivable (Note 23)	(60,832,530)	(64,481,439)
	151,981,914	143,573,014

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 2006 and 2005 this caption was made up as follows:

	2006	2005
Other debtors	8,975,397	11,496,313
State and other public entities	10,841,786	9,001,020
Advances to suppliers	470,861	586,958
Accumulated impairment losses in accounts receivable (Note 23)	(227,625)	(423,992)
	<u>20,060,419</u>	<u>20,660,299</u>

At 31 December 2006 and 2005 the caption 'Other debtors' correspond essentially to accounts receivables from the subsidiary Optimus, in the amounts of Euro 7,499,432 and Euro 9,262,690, and the amounts of Euro 442,979 and Euro 133,412, respectively, related to accounts receivables from Novis. At 31 December 2005, this caption also includes the amount of Euro 679,412 related to the disposal of Investimento Directo.

At 31 December 2006, the caption 'State and other public entities' includes reimbursement requests of VAT from Sonaecom and Novis, amounting Euro 2,096,589 and Euro 3,433,391, respectively.

#### 15. Other current assets

At 31 December 2006 and 2005 this caption was made up as follows:

	2006	2005
Invoices to be issued to clients for services rendered	32,522,665	23,205,323
Invoices to be issued to operators	20,579,967	7,475,316
Specialised work paid in advance	4,037,048	4,531,345
Medium Term Incentive Plans (Notes 1. w) and 40)	1,506,645	3,179,279
Other costs paid in advance	1,356,984	1,190,842
Rappel to be received (annual quantity discounts)	1,423,478	1,559,347
Prepaid rents	1,042,892	1,135,868
Other accrued income	217,548	1,161,737
	<u>62,687,227</u>	<u>43,439,057</u>

#### 16. Investments recorded at fair value through profit and loss

During the years ended 31 December 2006 and 2005, the movements in this heading were as follows:

	2006	2005
Balance at the beginning of the year	1,321,690	-
Acquisitions in the year	414,842	1,344,089
Disposals in the year	(1,237,987)	-
Increases/ reductions to fair value (Note 34)	350,830	(22,399)
	<u>849,375</u>	<u>1,321,690</u>

At 31 December 2006, 'Investments recorded at fair value through profit and loss' correspond to 562,500 shares of Sonae, S.G.P.S., S.A., acquired to fulfil future obligations under the Medium Term Incentive Plans (1,120,074 shares in December 2005).

## 17. Cash and cash equivalents

At 31 December 2006 and 2005, the detail of cash and cash equivalents was as follows:

	2006	2005
Cash	143,380	464,835
Bank deposits repayable on demand	6,173,117	8,843,760
Treasury applications	119,600,847	200,106,116
Cash and cash equivalents	125,917,344	209,414,711
Bank overdrafts (Note 20)	(74,607)	(54,420)
	<u>125,842,737</u>	<u>209,360,291</u>

At 31 December 2006 and 2005, the heading 'Treasury applications' had the following breakdown:

	2006	2005
Funds placed in Sonae:		
Sonaecom	90,000,004	172,473,004
Financial application in Altitude		
Sonaecom SI	-	150,000
Bank term deposits:		
Optimus	26,620,000	23,825,000
WeDo Brazil	2,105,843	1,425,635
Mainroad	875,000	940,000
Enabler	-	637,477
Digitmarket	-	180,000
Matrix	-	140,000
Others	-	335,000
	<u>119,600,847</u>	<u>200,106,116</u>

During the year ended 31 December 2006, the above referred treasury applications bear interests at an average rate of 2.94%.

## 18. Share capital

At 31 December 2006 and 2005 the share capital of Sonaecom was comprised by 366,246,868 and 296,526,868 ordinary bearer shares of 1 Euro each, respectively. At those dates, the shareholder structure was as follows:

	2006		2005	
	Number of shares	%	Number of shares	%
Sonae Investments BV	143,596,649	39.21%	146,133,648	49.28%
Shares traded on the Portuguese				
Stock Exchange ("Free float")	76,649,353	20.92%	40,752,354	13.74%
Wirefree Services Belgium, S.A.	70,276,868	19.19%	51,533,076	17.38%
Sonae	46,572,998	12.72%	39,362,998	13.28%
093X (EDP)	29,150,000	7.96%	-	-
Efanor Investimentos, S.G.P.S., S.A	1,000	0.00%	1,000	0.00%
Atlas Services Belgium, S.A.	-	-	18,743,792	6.32%
	<u>366,246,868</u>	<u>100.00%</u>	<u>296,526,868</u>	<u>100.00%</u>

## 19. Minority interests

Minority interests at 31 December 2006 and 2005 are made up as follows:

	2006	2005
Digitmarket	472,655	321,707
Optimus and Optimus Towering	-	111,996,080
Enabler and subsidiaries	-	4,018,556
Retailbox	-	(1,112,438)
Others	(1,273)	(60,791)
	<u>471,382</u>	<u>115,163,114</u>

The positive results attributed to minorities result from the fact that, until 31 July 2006, the results of Optimus were distributed by minorities in a percentage of 30.76%. Since that date, Sonaecom incorporate the totality of the results of that subsidiary (Note 2).

## 20. Loans

At 31 December 2006 and 2005, 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	
					2006	2005
	"Obrigações Sonaecom SGPS 2005"	-	Jun-13	Final	150,000,000	150,000,000
Sonaecom SGPS	Costs associated with setting-up the financing	-	-	-	(3,373,693)	(3,732,811)
					<u>146,626,307</u>	<u>146,267,189</u>
	European Investment Bank (a)	324,458,200	Jun-09	30% - Jun 08 70% - Jun 09	324,458,200	324,458,200
	Revolving credit facility (syndicate)	125,541,800	Jun-09	Final	-	-
Optimus	Costs associated with setting-up the financing	-	-	-	(10,591,142)	(15,078,463)
	Fair value of swaps	-	-	-	107,462	216,412
					<u>313,974,520</u>	<u>309,596,149</u>
					<u>460,600,827</u>	<u>455,863,338</u>

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

### b) Short-term loans and other loans

Subsidiary	Lender	Type	2006	2005
Various	Various	Bank overdrafts	74,607	54,420
			<u>74,607</u>	<u>54,420</u>

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.

At 31 December 2006 and 2005, the repayment schedule of medium and long term loans and bonds was as follows:

Maturity year	2006	2005
2008	97,337,460	97,337,460
2009	227,120,740	227,120,740
2013	150,000,000	150,000,000

### Interest Rate Risk Hedging

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 (Banks) to exchange, at specified limits in pre-determined periods, 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 at 31 December 2006 and 2005:

Subsidiary	Hedged loan	Notional amount	Expiry date	Base rate	Fixed rate contracted	Fair value of the derivative transactions
Optimus	European Investment Bank	55,000,000	Dec-07	Euribor 3m	4,75% (a)	(107,462)
					3,68% (b)	-
						(216,412)
		<u>55,000,000</u>				<u>(107,462) (216,412)</u>

(a) This rate corresponds to the cap (maximum rate) contracted and effective after 15 September 2006. The rate effectively paid corresponds to the simple average of the 2 year swap rates verified during the period (3.767% in the last period of exchange).

(b) This rate corresponds to the cap (maximum rate) contracted and effective until 15 September 2006 exclusive.

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 established 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 year.

## 21. Other non current creditors

At 31 December 2005 this caption was made up of accounts payable to fixed asset suppliers due in more than one year, in the amount of Euro 9,698,642. During 2006, this amount was transferred to 'Other creditors'.

## 22. Other non current financial liabilities

At 31 December 2006 and 2005, this caption was made up of accounts payable to fixed assets suppliers related to leasing contracts that are due in more than one year in the amount of Euro 1,614,602 and Euro 1,886,588, respectively.

At 31 December 2006 and 2005, accounts payable to fixed assets suppliers related to leasing contracts are due as follows:

	2006		2005	
	Lease payments	Present value of lease payments	Lease payments	Present value of lease payments
2006	-	-	3,409,142	3,257,037
2007	1,812,615	1,708,922	926,654	860,008
2008	959,885	908,212	593,516	562,411
2009	477,035	457,943	385,583	378,551
2010	228,719	220,614	87,002	85,618
2011	27,909	27,833	-	-
	<u>3,506,163</u>	<u>3,323,524</u>	<u>5,401,897</u>	<u>5,143,625</u>
Interests	(182,639)	-	(258,272)	-
	<u>3,323,524</u>	<u>3,323,524</u>	<u>5,143,625</u>	<u>5,143,625</u>
Short term liability (Note 26)	-	(1,708,922)	-	(3,257,037)
	<u>3,323,524</u>	<u>1,614,602</u>	<u>5,143,625</u>	<u>1,886,588</u>

## 23. Provisions and accumulated impairment losses

The movements in provisions and in accumulated impairment losses in the years ended 31 December 2006 and 2005 were as follows:

Heading	2006						Closing balance
	Opening balance	Companies no longer consolidated (Note 4. c))	Transfers	Increases	Utilisations	Decreases	
Accumulated impairment losses on accounts receivables (Notes 13 and 14)	64,905,431	(158,854)	(189,820)	5,575,466	(8,570,655)	(501,413)	61,060,155
Accumulated impairment losses on inventories (Note 12)	7,134,249	-	-	1,631,000	(2,643,164)	-	6,122,085
Accumulated impairment losses on investments available for sale (Note 8)	2,685,477	-	-	-	(146,248)	-	2,539,229
Accumulated impairment losses on other non current assets (Note 11)	986,956	-	-	5,000	(991,956)	-	-
Provisions for other liabilities and charges	5,092,476	(339,409)	428,283	15,623,073	(626,318)	(99,534)	20,078,571
	<u>80,804,589</u>	<u>(498,263)</u>	<u>238,463</u>	<u>22,834,539</u>	<u>(12,978,341)</u>	<u>(600,947)</u>	<u>89,800,040</u>

2005							
Heading	Opening balance	Transfers	Increases	Companies no longer consolidated	Utilisations	Decreases	Closing balance
Accumulated impairment losses on accounts receivables (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 in associated companies investments (Notes 3 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
	<u>78,931,314</u>	<u>-</u>	<u>10,653,427</u>	<u>(10,291)</u>	<u>(7,992,546)</u>	<u>(777,315)</u>	<u>80,804,589</u>

The increase of 'Provisions for other liabilities and charges' includes the amount of Euro 12,222,080 associated with the dismantling of sites (Euro 2,883,060 in 2005), as foreseen in 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 10,612,459 (Euro 7,770,367 in 2005).

The heading utilisations refer, essentially, to the use of provisions by the subsidiary Optimus, which were registered against an entry in customers' current accounts.

At 31 December 2006 and 2005, the breakdown of the provisions for other liabilities and charges were as follows:

	2006	2005
Dismantling of sites	15,105,140	2,883,060
Legal processes	3,401,081	1,277,190
Indemnities	575,780	550,000
Others	996,570	382,226
	<u>20,078,571</u>	<u>5,092,476</u>

## 24. Other non-current liabilities

This caption, in the amounts of Euro 3,785,049 and Euro 8,077,712, respectively at 31 December 2006 and 2005, corresponds to the medium and long term amount associated with the Medium Term Incentive Plans (Note 40).

## 25. Trade creditors

At 31 December 2006 and 2005 this caption was made up as follows:

	2006	2005
Suppliers - current account	106,888,885	101,635,809
Fixed assets suppliers	53,648,257	31,543,705
Suppliers - invoices pending approval	2,142,970	10,123,946
	<u>162,680,112</u>	<u>143,303,460</u>

## 26. Other current financial liabilities

At 31 December 2006 this caption includes the amount of Euro 1,708,922 (Euro 3,257,037 in 2005) related to the short term portion of lease contracts (Note 22).

## 27. Other creditors

At 31 December 2006 and 2005 this caption was made up as follows:

	2006	2005
State and other public entities	10,584,085	14,825,863
Other creditors	6,954,626	3,972,285
	<u>17,538,711</u>	<u>18,798,148</u>

At 31 December 2006 and 2005, 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:

	2006	2005
Optimus	5,597,492	7,750,448
Público	1,056,339	1,234,193
We Do	1,197,369	1,057,467
Novis	542,439	803,770
Enabler	-	1,163,139
Others	2,190,446	2,816,846
	<u>10,584,085</u>	<u>14,825,863</u>

## 28. Other current liabilities

At 31 December 2006 and 2005 this caption was made up as follows:

	2006	2005
Accrued expenses:		
Invoices to be issued by operators	42,801,688	25,558,684
Personnel costs	25,145,801	25,853,907
Costs related to Public Tender Offers (Note 45)	16,185,850	-
Commissions	10,481,089	13,722,331
Other external supplies and services	4,366,871	2,623,025
Specialised works	2,625,515	4,701,786
Medium Term Incentive Plans (Note 40)	4,448,113	5,857,905
Advertising and promotion	4,247,475	6,483,903
Rappel discounts (annual quantity discounts)	2,603,357	2,398,264
Accrued financial expenses	910,706	566,825
Maintenance and repairs	781,025	1,479,588
Other accrued costs	4,480,844	6,251,157
	<u>119,078,334</u>	<u>95,497,375</u>
Deferred income:		
Customer advance payments	23,262,734	22,657,875
Other deferred income	285,269	659,461
	<u>23,548,003</u>	<u>23,317,336</u>
	<u>142,626,337</u>	<u>118,814,711</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 2006 and 2005 the caption 'Sales and services rendered' was made up as follows:

	2006	2005
Mobile network	601,526,345	621,560,876
Fixed network and internet	150,048,671	120,938,557
Multimedia	35,758,402	44,128,922
Information systems	48,239,841	56,327,310
Others	467,017	505,195
	<u>836,040,276</u>	<u>843,460,860</u>

## 30. Other operating revenues

At 31 December 2006 and 2005 the caption 'Other operating revenues' was made up as follows:

	2006	2005
Supplementary income	3,853,525	3,076,111
Reversal of provisions (Note 23)	600,947	777,315
Operating subsidies	401,085	418,971
Others	27,179,986	1,554,513
	<u>32,035,543</u>	<u>5,826,910</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 'Others' includes, mainly, capital gains generated by the sale of tangible assets and by the sale of Retailbox (Euro 25,370,915 - Note 4.c)).

## 31. External supplies and services

'External supplies and services' for the years ended 31 December 2006 and 2005 are made up as follows:

	2006	2005
Interconnection costs	200,603,352	200,004,733
Commissions	58,144,594	53,293,199
Specialised works	46,760,511	51,212,887
Advertising and publicity	35,625,198	41,684,858
Rents	30,879,521	30,198,968
Other subcontracts	21,992,713	17,188,125
Leased lines	19,873,355	19,099,963
Energy	7,071,431	6,156,764
Travelling costs	5,464,890	5,995,450
Other supplies and services	30,950,573	29,988,419
	<u>457,366,138</u>	<u>454,823,366</u>

The commitments assumed by the Group in 31 December 2006 related with operational leases are as follows:

Minimum payments of operational leases	
2007	3,633,184
2008	2,874,382
2009	1,463,240
2010	425,474
2011	6,599
	<u>8,402,879</u>

### 32. Other operating costs

At 31 December 2006 and 2005 the caption 'Other operating costs' was made up as follows:

	2006	2005
Taxes	10,634,282	10,855,196
Others	508,054	1,189,769
	<u>11,142,336</u>	<u>12,044,965</u>

The caption 'Taxes' at 31 December 2006 and 2005 includes essentially the fees paid by the subsidiary Optimus to ANACOM, calculated based on the number of its active customers. This obligation was included in the terms of the GSM operator license granted to that subsidiary.

### 33. Tender Offer costs

This caption includes all the costs incurred (invoiced and not invoiced but which legal obligation was generated during 2006) with the public tender offers for the acquisition of the shares of Portugal Telecom S.G.P.S., S.A. (PT) and of PT – Multimédia – Serviços de Telecomunicações, S.G.P.S., S.A. (Note 45). These costs were recorded in 'Other non current assets' until December 2006 because, until that date, the probability of success of the offers was high and the costs incurred would be considered as part of the cost of acquiring those financial investments. After the end of the offers, those costs were fully recognised, during the last quarter, in the consolidated profit and loss accounts.

### 34. Financial results

Net financial results for the years ended 31 December 2006 and 2005 are made up as follows:

	2006	2005
Financial results related to associated companies:		
Losses on associated companies	(239,249)	-
Gains on associated companies	76,766	-
	<u>(162,483)</u>	<u>-</u>
Other financial expenses:		
Interest expenses	(17,457,933)	(12,179,189)
Foreign exchange losses	(101,915)	(193,898)
Other financial expenses	(5,578,578)	(5,484,331)
	<u>(23,138,426)</u>	<u>(17,857,418)</u>
Other financial income:		
Interest income	5,281,255	4,234,357
Foreign exchange gains	125,483	444,029
Adjustments to fair value on investments recorded at fair value through profit and loss (Note 16)	350,830	(22,399)
Other financial income	174,009	110,673
	<u>5,931,577</u>	<u>4,766,660</u>

'Other financial expenses' include, essentially, the effect of effective interest rate method application to setting-up financing costs (Nota 1.I)).

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

### 35. Income taxation

Income taxes recognised during the years ended 31 December 2006 and 2005 are made up as follows (costs)/gains:

	2006	2005
Current tax	(1,196,313)	(1,631,526)
Deferred tax (Note 10)	(4,063,624)	(2,376,762)
	<u>(5,259,937)</u>	<u>(4,008,288)</u>

### 36. Related parties

During the years ended 31 December 2006 and 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 most significant balances and transactions with related parties at 31 December 2006 and 2005 were as follows:

Balances at 31 December 2006					
	Accounts receivable	Accounts payable	Treasury applications	Accruals	Loans obtained
Sonae	34,455	68,267	90,000,004	101,731	-
Modelo Continente Hipermercados, S.A.	3,920,522	196,471	-	289,165	-
France Telecom	1,448,363	3,885,223	-	398,650	-
Sonae Investments BV	-	-	-	(5,517,065)	-
	<u>5,403,340</u>	<u>4,149,961</u>	<u>90,000,004</u>	<u>(4,727,519)</u>	<u>-</u>
Balances at 31 December 2005					
	Accounts receivable	Accounts payable	Treasury applications	Accruals	Loans obtained
Sonae	129,601	15,851	172,473,004	324,347	-
Modelo Continente Hipermercados, S.A.	5,856,858	369,011	-	(525,417)	-
France Telecom	626,857	1,291,704	-	(185,038)	-
Sonae Investments BV	-	-	-	(7,153,525)	-
	<u>6,613,316</u>	<u>1,676,566</u>	<u>172,473,004</u>	<u>(7,539,633)</u>	<u>-</u>

Transactions at 31 December 2006				
	Sales and services rendered	Supplies and services received	Interest and similar income/ (expense)	Supplementary income
Sonae	336,115	331,390	2,848,505	-
Modelo Continente				
Hipermercados, S.A.	12,866,646	2,245,900	-	245,279
France Telecom	3,041,726	5,625,713	-	-
	<u>16,244,487</u>	<u>8,203,003</u>	<u>2,848,505</u>	<u>245,279</u>
Transactions at 31 December 2005				
	Sales and services rendered	Supplies and services received	Interest and similar income/ (expense)	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>

### 37. Guarantees provided to third parties

Guarantees provided to third parties at 31 December 2006 and 2005 were as follows:



Company	Beneficiary	Description	2006	2005
Optimus	European Investment Bank	Loan	324,458,200	324,458,200
Sonaecon	BBVA – Portugal, ING Belgium Portugal and Millennium BCP	Commercial paper	70,000,000	-
Optimus	ANACOM	UMTS License	2,493,989	2,493,989
Optimus	Direcção de Contribuições e Impostos (Portuguese tax authorities)	VAT - Liquidation	580,000	598,000
Público	Tribunal de Trabalho de Lisboa (Lisbon Labour Court)	Execution action n. 199A/92	271,511	271,511
Novis and Digitmarket	Hewlett Packard	Finance lease and services provider contracts	212,790	227,652
Público	Fazenda Pública do Porto (Oporto Public Treasury)	Tax process n. 3190/98	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	164,000
Novis and Público	Direcção de Contribuições e Impostos (Portuguese tax authorities)	VAT Reimbursements	126,372	327,871
Novis	Governo Civil de Santarém (Santarém Government 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	101,403
Optimus	Governo Civil de Lisboa (Lisbon Government Civil)	Guarantee the fulfilment of legal obligations	98,195	98,195
Novis	Câmara Municipal de Lisboa (Lisbon Municipality)	Performance bond - works	85,652	90,060
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
Novis	Câmara Municipal de Caldas da Rainha (Caldas da Rainha Municipality)	Performance bond - works	19,952	-
Various	Others		541,219	529,816
			<u>399,740,041</u>	<u>329,947,455</u>

### 38. Information by business segment

The following business segments were identified for the years ending 31 December 2006 and 2005:

- 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 2006 and 2005 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 2006 and 2005 can be summarised as follows:

	Mobile Network		Fixed Network and Internet		Multimedia		Information Systems		Other		Sub-total		Eliminations		Total	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
<b>Revenues:</b>																
Sales and services rendered	610,364,809	627,466,576	200,187,750	158,379,483	36,394,116	44,592,024	78,763,483	85,971,727	7,390,065	7,002,866	953,039,223	923,392,216	(96,998,947)	(79,931,186)	836,040,276	843,460,860
Other operating revenues	34,924,109	28,965,852	51,601,226	3,281,201	394,549	620,941	27,148,920	2,266,712	431,203	1,653,692	67,526,907	34,200,293	(35,491,364)	(28,573,683)	32,035,543	5,826,910
Total revenues	644,776,918	656,432,428	251,788,976	161,660,684	36,788,665	45,212,965	105,912,403	88,238,444	7,821,268	8,656,558	1,020,566,130	957,592,510	(132,490,311)	(108,505,069)	888,075,819	849,287,770
<b>Transfer Other costs</b>	-	-	-	-	-	-	-	-	(30,906,402)	-	(30,906,402)	-	-	-	(30,906,402)	-
Depreciation and amortization	(117,355,977)	(109,255,533)	(16,796,081)	(14,997,108)	(757,042)	(1,241,942)	(1,449,610)	(3,339,088)	(349,297)	(349,297)	(16,640,193)	(129,153,389)	1,020,266	930,867	(15,670,897)	(128,222,823)
Net income/(loss) before interests and taxes for the segment	51,696,514	57,921,727	(23,083,709)	(29,688,860)	(9,531,860)	(2,934,500)	30,330,181	6,117,771	(32,279,757)	(2,636,017)	17,176,341	28,809,972	586,203	(156,012)	177,660,544	28,683,059
<b>Net interests</b>	(7,621,835)	(8,337,246)	(3,198,450)	(1,807,003)	(321,293)	(222,423)	595,668	78,041	(1,540,026)	2,368,045	(12,085,044)	(7,921,286)	(90,744)	(33,546)	(12,176,786)	(7,944,832)
Gains and losses in associated companies	-	-	-	-	-	-	-	-	-	-	-	-	(162,483)	-	(162,483)	-
Other financial results	(4,685,061)	(4,467,870)	(20,830)	(267,726)	(14,455)	(12,189)	(104,552)	330,192	33,053,165	10,344,360	28,225,267	5,696,467	(33,255,438)	(10,842,993)	(5,030,171)	(51,485,920)
Income taxation	(4,931,217)	(4,644,480)	(54,681)	(2,282,433)	(1,625,611)	(23,3466)	(102,830)	(1,357,261)	(8,018)	(9,020)	(45,590,673)	(44,008,286)	-	-	(5,250,927)	(44,008,286)
Consolidated net income/(loss) for the year	38,454,900	45,051,090	(26,372,676)	(34,516,421)	(10,032,260)	(25,135,407)	30,718,429	5,168,744	(772,806)	10,667,289	28,065,337	22,377,065	(41,938,965)	(20,424,067)	(3,883,166)	2,156,198
<b>Attributable to:</b>																
Shareholders of Parent Company	-	-	-	-	-	-	30,718,429	5,168,744	(772,806)	10,667,289	28,065,337	22,377,065	(41,938,965)	(20,424,067)	(3,883,166)	2,156,198
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	9,014,443	9,014,443	9,014,443	9,397,815
<b>Assets:</b>																
Fixed assets and Goodwill	566,244,652	568,466,533	104,840,963	90,853,090	2,104,453	2,525,480	13,306,533	15,445,740	2,112,290	2,364,447	(87,517,391)	679,602,490	480,921,997	258,483,475	1,168,316,486	908,175,865
Inventories	11,472,556	19,304,398	-	2,184,074	1,925,796	1,678,078	18,527	54,114	-	-	151,381,395	23,212,665	-	-	151,381,395	23,212,665
Financial investments	1,282,025	1,282,025	-	-	1,097,095	978,194	2,494	1,553,994,520	660,738,762	660,738,762	1,386,736,534	62,602,477	(1,242,297,072)	(650,109,866)	11,079,662	1,862,881
Other non-current assets	60,192,619	67,947,592	-	327,785	1,381,292	1,681,213	2,115,311	1,776,899	574,252,078	618,053,344	407,992,856	688,786,223	(37,857,734)	(619,696,075)	62,153,222	70,095,548
Other current assets of the segment	292,565,022	251,260,549	86,169,088	51,343,660	7,865,320	8,962,717	56,034,991	37,402,939	213,212,254	191,394,399	666,004,678	540,721,635	(29,808,360)	(22,413,164)	361,206,279	418,408,771
	938,758,876	978,253,699	192,917,977	144,599,897	14,972,977	15,807,802	173,818,586	54,082,272	194,537,144	148,158,027	1,535,303,671	2,585,513,389	(1,432,147,465)	(1,137,928,860)	1,701,155,209	1,851,787,930
<b>Liabilities:</b>																
Liabilities of the segment	574,439,892	540,004,412	170,102,970	123,040,390	14,825,133	18,233,576	25,649,402	31,262,105	437,535,754	275,608,354	1,222,582,651	989,419,357	(411,844,913)	(234,573,053)	300,707,738	364,846,532
	574,439,892	540,004,412	170,102,970	123,040,390	14,825,133	18,233,576	25,649,402	31,262,105	437,535,754	275,608,354	1,222,582,651	989,419,357	(411,844,913)	(234,573,053)	300,707,738	364,846,532

### 39. Earnings per share

Earnings per share, basic and diluted, are calculated by dividing the consolidated net income of the year attributable to the Group (Euro 13,883,168 in 2006 and Euro 2,156,198 in 2005) by the average number of shares outstanding during the years ending 31 December 2006 and 2005 (366,246,868 during 3 months and 296,526,868 during 9 months in 2006; 296,526,868 during 2 months and 226,250,000 during 10 months in 2005).

### 40. Medium Term Incentive Plans

In June 2000, Sonaecom Group created a discretionary Medium Term Incentive Plan for more senior employees, 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 in 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 2006 can be summarized as follows:

	Share price at award date *	Vesting period		Exercise period		At 31 December 2006	
		Award date	Vesting date	From	To	Aggregate	Number of
						number of	options/
Sonaecom options						participants	shares
2001 Plan	3.014	31-Mar-02	31-Mar-05	01- Apr-05	10-Mar-06	-	-
2002 Plan	1.694	31-Mar-03	10-Mar-06	13-Mar-06	09-Mar-07	33	510,633
2003 Plan	-	-	-	-	-	-	-
2004 Plan	-	-	-	-	-	-	-
2005 Plan	-	-	-	-	-	-	-
Sonaecom shares							
2002 Plan	1.694	31-Mar-03	10-Mar-06	-	-	-	-
2003 Plan	3.19	31-Mar-04	09-Mar-07	-	-	349	1,173,959
2004 Plan	3.96	31-Mar-05	10-Mar-08	-	-	372	1,063,163
2005 Plan	4.093	10-Mar-06	09-Mar-09	-	-	402	947,652
Sonae SGPS shares							
2002 Plan	0.36	31-Mar-03	31-Mar-06	-	-	-	-
2003 Plan	0.93	31-Mar-04	09-Mar-07	-	-	12	364,164
2004 Plan	1.17	31-Mar-05	10-Mar-08	-	-	13	362,611
2005 Plan	1.34	10-Mar-06	09-Mar-09	-	-	13	184,575

\* 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 Medium Term Incentive Plans and related obligations and acquired Sonae SGPS shares with the same purpose. The agreement means that Sonaecom's liabilities are limited to a maximum of Euro 8,155,743, with the exception of the two plans of 2006. This value is recorded in the captions 'Other non current liabilities' (Euro 3,707,630) and 'Other current liabilities' (Euro 4,448,113), for long term and short-term obligations, respectively.

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

For the plans attributed in 2006, that were not hedged, the total responsibility is Euro 77,419 for Sonae SGPS plan, which was recorded in 'Other non current liabilities' and Euro 952,390 for Sonaecom plan, which was recorded in 'Reserves - Medium Term Incentive Plans' and corresponds to the share price at balance date and share price at award date, respectively.

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 at 31 December 2006, are as follows:

	Amount
Costs recognised on previous years	11,893,779
Costs recognised in the year	4,644,061
Costs of plans from subsidiary Exit (no longer consolidated)	(8,882)
Costs of plans vested on previous years	(3,081,435)
Costs of plans vested in the year	(6,064,461)
Other non current and current assets (Deferred costs not yet recognised)	1,794,462
Others	8,028
Total cost of the plans	9,185,552
Other non current and current liabilities	8,233,162
Reserves	952,390

#### 41. Remuneration attributed to the key management personnel

The remuneration of directors and other members of key management during the years ended 31 December 2006 and 2005 were as follows:

	2006	2005
Short term employee benefits	2,914,352	2,430,761
Share based payments	2,054,667	698,495
	4,969,020	3,129,256

The values above related to short term employee benefits, were calculated on an accruals basis and includes Fixed Remuneration and Performance Bonus. The Share based payments for 2006 and 2005 corresponds to the value of the Medium Term Incentive Plan awarded in 2003, in respect of performance during 2002 (and the Medium Term Incentive Plan awarded in 2002 in respect of performance during 2001, for the 2005 values), whose shares, or the cash equivalent, were delivered on March 2006 and March 2005, respectively, and valued based on the share price of the delivery date (10 March 2006 and 31 March 2005, respectively).

Full details on the Sonaecom group remuneration policy are disclosed in the Corporate Governance Report, Section 4.

#### 42. Average number of employees

During the years ending 31 December 2006 and 2005 the companies included in the consolidation employed an average number of 2,069 and 2,344 employees, respectively. At 31 December 2006, the number of employees is 1.871.

#### 43. Others matters

(i) As of 31 December 2006, 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. In the lower court, the decision was favourable to Optimus but the higher courts decided that the case should be tried again.

(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. In consequence of this rejection, Maxistar appeals to the 'Tribunal da Relação de Lisboa'.

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. Before the decision of the Arbitration Court, 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.

#### **44. 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. Assuming that a decision can be taken in the short term, 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.

Additionally, the acquisition of spectrum use rights from ONIWAY could, according to some interpretations, imply some responsibilities to Optimus related to commitments associated to Information Society assumed by ONIWAY. Sonaecom does not agree with those interpretations. Anyway, those eventual responsibilities were assumed by ONIWAY and guaranteed by its shareholders (BCP, EDP and GALP).

#### **45. Public Tender Offer**

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 S.G.P.S., S.A. (PT) and of PT - Multimédia - Serviços de Telecomunicações, S.G.P.S., 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.. At that moment, and considering certain assumptions, we estimated that the amount involved in the operations above referred could ascend to, approximately, 12,000 million Euros.

Following the preliminaries announcements, Sonae and Sonaecom made public that the launch of the offer would be made by Sonaecom, directly and/or by special purpose vehicles incorporated for those purposes. The financing for the acquisition would be secured by a bank syndicate led by the Santander Group and would be 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 would be 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 would become necessary or convenient.

Since the preliminary announcements, some important events have occurred, mainly:

- (i) On 27 September 2006, Sonaecom was notified by the Competition Authority that reached a draft decision of non-opposition that includes a set of conditions and obligations intended to ensure the fulfilment of the commitments that were made by Sonaecom;
- (ii) On 5 December 2006, after hearing the interested parties and ICP – ANACOM, Sonaecom was again notified of the provisional conclusions of the Competition Authority regarding its decision in the process of notification of the concentration operation. The decision consisted of not opposing the concentration operation and included the imposition of conditions and obligations to ensure compliance with a set of commitments assumed by Sonaecom after the above hearing;
- (iii) On 22 December Sonaecom was notified of the final decision of the Competition Authority;
- (iv) On 12 January 2007 the launching and the registration of the Public Tender Offer to acquire the shares of Portugal Telecom, S.G.P.S., S.A and PT- Multimédia – Serviços de Telecomunicações e Multimédia, S.G.P.S., S.A. was announced. The period of the offer would run from 16 January 2007 to 9 March 2007.
- (v) On 15 February 2007, Sonaecom announced a revision of consideration for the takeover bid over Portugal Telecom, S.G.P.S., S.A., increasing it from the previous 9.5€ to the amount of 10.5€ per share. The offer of 9.03€ per share of PT-Multimédia – Serviços de Telecomunicações e Multimédia, S.G.P.S., S.A. would remain unchanged.
- (vi) On 2 March 2007, during the Extraordinary General Meeting of Portugal Telecom, S.G.P.S., S.A, shareholders voted against the decision of unblock the articles of association of the telecommunications operator and to allow a competitor to hold more than 10% of its share capital. Since the offer for Portugal Telecom, was conditioned upon these changes of the article of association, the offer came to an end.

#### 46. Subsequent events

1. On 2 January 2007 Sonae, S.G.P.S., S.A. and Sonae Investments BV sold 40,481,436 shares and 143,008,245 shares, respectively, of the share capital of Sonaecom to the Dutch company Sontel BV, a fully owned subsidiary of Sonae, S.G.P.S., S.A..  
As a result of the above transactions:
  - a) The voting rights of 6,091,562 shares representing 1.66% of the share capital and voting rights of Sonaecom are attributed directly to Sonae;
  - b) The voting rights of 588,404 shares representing 0.16% of the share capital and voting rights of Sonaecom held by Sonae Investments BV, the voting rights of 183,489,681 shares representing 50.01% of share capital and voting rights of Sonaecom held by Sontel BV and the voting rights of 1,000 shares representing 0.00027% of the share capital and voting rights of Sonaecom held by Efanor Investimentos, S.G.P.S., S.A. are attributed to Sonae under the terms of line b), paragraph 1, article 20 of the Stock Exchange Code (CVM);
  - c) The voting rights of 29,150,000 shares representing 7.96% of the share capital and voting rights of Sonaecom held by 093X – Telecomunicações Celulares, S.A. are

attributed to Sonaecom under the terms of line e), paragraph 1, article 20 of the Stock Exchange Code (CVM).

2. Events related to Public Tender Offers are disclosed in Note 45.
3. Between 5 and 6 March 2007, Sonaecom acquired a total of 1.894.326 own shares, representing 0.52% of the share capital, at a medium price of 4.72 Euros, to fully cover obligations under Sonaecom's Medium Term Incentive Plan attributed to employees;
4. On 6 March 2007, Sonaecom sold its 1% shareholding in PT into the market, generating a gain of circa 2.5 million Euro.

These consolidated financial statements were approved and authorized for publication by the Board of Directors on 14 March 2007.

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.

In accordance with article 250, n. 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).



## COMPLEMENTARY INFORMATION TO THE CONSOLIDATED ANNUAL REPORT 2006

### 1 - Corporate Governance Report

#### a) Identification of the Market Relations Representative

David Graham Shenton Bain

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E-mail: [david.bain@sonae.com](mailto:david.bain@sonae.com)

#### b) List of incompatibilities defined internally by the Board of Directors and the maximum number of offices held by members of the Board of Directors in other companies.

There is neither an internal definition of incompatibilities nor a maximum number of offices held by members of the Board of Directors in other companies.

#### c) Date of the first appointment and of the office term of each member of the Board of Directors

The date of the first appointment of the members of the Board of Directors identified in the Annual Report is as follows:

Belmiro Mendes Azevedo: October 1997

António Sampaio e Mello: July 2006

David Charles Denholm Hobley: September 2005

Gervais Gilles Pellisser: July 2006

Jean-François René Pontal: July 2003

Duarte Paulo Teixeira de Azevedo (CEO): September 1998

George Christopher Lawrie: April 2003

Luís Filipe Campos Dias Reis: March 2000

Maria Cláudia Teixeira de Azevedo: April 2006

Miguel Nuno Santos Almeida: April 2005

The date of the office term of the members of the Board of Directors is the same as for all Governing Bodies and the current mandate is from 2004 until 2007.

## 2 – Notes to the Consolidated Financial Statements

### a) Main accounting policies – Tangible assets

The policy of depreciation and amortization of assets followed by the Group is described in Note 1.c) of the Notes to the Consolidated Financial Statements, where is indicated that:

(i) depreciation is calculated as from the date the assets are brought into use; and

(ii) assets are classified under "Work in progress" during the construction/development stage and are depreciated as from the moment they are completed or they are in condition to be used.

Thus, the Group policy is to start depreciation of the assets as from the moment they are in condition to be used and in the condition necessary to work as desired by management. Good conditions in terms of network cover and/or necessary conditions to assure a minimum service in terms of quality and technical reliability are examples of conditions evaluated by management.

### b) Main accounting policies - Investments

As indicated in Note 1. g) of the Notes to the Consolidated Financial Statements, the fair value of quoted investments are based on current bid prices. If the market for a financial asset is not active (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.

For Sonaecom, the fair value of listed investments is calculated based on closing share price of Euronext at the balance sheet date. The unlisted investments correspond to reduced participations and of immaterial value, for which the book value is a reasonable approximation of the fair value, adjusted, whenever it is applicable, by their respective impairment losses, and therefore none other valuation techniques are used.

### c) Investments in associated companies

The amount of assets, liabilities, total revenues and net income of associated companies as at 31 December 2006 is as follows:

Company	Assets	Liabilities	Total revenues	Net income
Netmall, S.G.P.S., S.A.	10,568	29,234	54	(7,410)
Sociedade Independente de Radiodifusão Sonora, S.A.	478,675	576,012	1,137,842	95,681
Profimetrics - Software Solutions, S.A.	887,607	605,707	477,169	(810,413)
Unipress - Centro Gráfico, Lda.	5,027,507	3,198,883	2,934,954	52,945

#### d) Related Parties

As at 31 December 2006, the related parties of Sonaecom's Group are as follows:

Key management personnel	
Álvaro Carmona e Costa Portela	Jean François Pontal
Álvaro Cuervo Garcia	Luís Filipe Campos Dias Castro Reis
Angêlo Gabriel Ribeirinho dos Santos Paupério	Luís Filipe Palmeira Lampreia
António Bernardo Aranha da Gama Lobo Xavier	Maria Cláudia Teixeira de Azevedo
António de Sampaio e Mello	Michel Marie Bom
Belmiro de Azevedo	Miguel Nuno Santos Almeida
David Hobley	Nuno Manuel Moniz Trigos Jordão
Duarte Paulo Teixeira de Azevedo	Nuno Miguel Teixeira Azevedo
George Christopher Lawrie	Paulo Jorge Henriques Pereira
Gervais Pellissier	Pedro Miguel Freitas Ramalho Carlos

Sonaecom Group Companies	
3DO Holding GmbH	Aserraderos de Cuellar, SA
3DO Shopping Centre GmbH	Atlantic Ferries - Tráf. Loc, Flu. e Marít, SA
3shoppings - Holding, SGPS, S.A.	Avenida M-40 B.V.
Aegean Park, SA	Avenida M-40, SA
Agepan Eiweiler Management GmbH	Azulino Imobiliária, S.A.
Agepan Flooring Products, SARL	Bertimóvel - Sociedade Imobiliária, S.A.
Agepan Tarket Laminat Park GmbH Co. KG	Best Offer - Prest. Inf. p/Internet, SA
Agloma Investimentos, Sgps, S.A.	Bikini, Portal de Mulheres, SA
Agloma-Soc. Ind. Madeiras e Aglom., SA	Bloco Q - Sociedade Imobiliária, SA
Águas Furtadas - Imobiliária, S.A.	Bloco W - Sociedade Imobiliária, SA
ALEXA Administration GmbH	Boavista Shopping Centre BV
ALEXA Holding GmbH	Box Lines Navegação, SA
ALEXA Shopping Centre GmbH	Cacatinho - Com. Ret. e Expl. C. Comerciais, SA
Alexa Site GmbH & Co. KG	Campo Limpo, Lda
Algarveshopping - Centro Comercial, S.A.	Canasta - Empreendimentos Imobiliários, SA
Andar - Sociedade Imobiliária, S.A.	Carnes do Continente - Ind. Distr. Carnes, SA
Aqualuz - Turismo e Lazer, Lda	CarPlus - Comércio de Automóveis, S.A.
Aquapraia - Investimentos Turísticos, SA	Casa Agrícola de Ambrães, S.A.
Arrábidasshopping - Centro Comercial, S.A.	Casa Agrícola João e A. Pombo, SA

Casa da Ribeira - Hotelaria e Turismo,SA	Fozmassimo - Sociedade Imobiliária, SA
Cascaishopping- Centro Comercial, S.A.	France Telecom, S.A.
Cascaishopping Holding I, SGPS, S.A.	Freccia Rossa- Shopping Centre S.r.l.
Centro Colombo- Centro Comercial, S.A.	Friengineering, S.A.
Centro Residencial da Maia,Urbán.,SA	Fundo de Invest. Imobiliário Imosede
Centro Vasco da Gama-Centro Comercial,SA	Fundo Invest.Imob.Shopp. Parque D.Pedro
Change, SGPS, S.A.	Gaiashopping I- Centro Comercial, S.A.
Chão Verde-Soc.Gestora Imobiliária,SA	Gaiashopping II- Centro Comercial, S.A.
Choice Car - Comércio de Automóveis, S.A.	GHP Gmbh
Choice Car SGPS, S.A.	Gli Orsi - Shopping Centre, Srl
Cia.de Industrias e Negócios,SA	Global S-Hipermercado,Lda
Cinclus Imobiliária,SA	Glunz AG
Cinclus-Plan. e Gestão de Projectos,SA	Glunz Service GmbH
Citorres-Sociedade Imobiliária,SA	Glunz UK Holdings Ltd
Clérigoshopping- Gestão do C.Comerc.,SA	Glunz Uka Gmbh
Coimbrashopping- Centro Comercial, S.A.	Golf Time-Golfe e Invest. Turísticos, SA
Contacto Concessões, SGPS, S.A.	Guerin - Rent a Car (Dois), Lda.
Contacto-SGPS,SA	Guimarãesshopping- Centro Comercial, S.A.
Contacto-Sociedade de Construções,SA	Hornitex Polska Sp z.o.o
Contibomba-Comérc.Distr.Combustíveis,SA	Iberian Assets, SA
Contimobe-Imobil.Castelo Paiva,SA	IGI-Investimento Imobiliário,SA
Contry Club da Maia-Imobiliaria,SA	Igimo-Sociedade Imobiliária,SA
Cronosaúde - Gestão Hospitalar, S.A.	Iginha-Sociedade Imobiliária,SA.
Cumulativa - Sociedade Imobiliária, S.A.	Imoareaia - Invest. Turísticos, SGPS, SA
Darbo SAS	Imobiliária da Cacela, S.A.
Developpement & Partenariat Assurances, S.A.	Imoclub-Serviços Imobiliários,SA
Difusão-Sociedade Imobiliária,SA	Imoconti- Soc.Imobiliária,SA
Distrifin-Comercio y Prest.Servicios,SA	Imodivor - Sociedade Imobiliária, S.A.
Dortmund Tower GmbH	Imoestrutura-Soc.Imobiliária,SA
Dos Mares - Shopping Centre B.V.	Imoferro-Soc.Imobiliária,SA
Dos Mares-Shopping Centre, S.A.	Imohotel-Emp.Turist.Imobiliários,SA
Ecociclo - Energia e Ambiente, SA	Imomuro-Sociedade Imobiliária,SA
Ecociclo II - Energias, SA	Imopenínsula - Sociedade Imobiliária, SA
Efanor Investimentos, SGPS, S.A.	Imoplamac Gestão de Imóveis,SA
Efanor Serviços de Apoio à Gestão, S.A.	Imoponte-Soc.Imobiliaria,SA
Efanor-Design e Serviços,SA	Imoresort - Sociedade Imobiliária, S.A.
Efanor-Indústria de Fios,SA	Imoresultado-Soc.Imobiliaria,SA
Efisa	Imosedas-Imobiliária e Seviços,SA
Elmo SGPS, SA	Imosistema-Sociedade Imobiliária,SA
Empreend.Imob.Quinta da Azenha,SA	Imosonae II
Equador & Mendes,Lda	Implantação - Imobiliária, S.A.
Espimaia -Sociedade Imobiliária,SA	Infocfield-Informática,SA
Espmen - Investimentos Imobiliários, SA	Inparsa - Gestão Galeria Comercial, SA
Estação Oriente-Gest.de Galerias Com.,SA	Inparvi SGPS, SA
Estação Viana- Centro Comercial, S.A.	Insulatroia - Sociedade Imobiliária, S.A
Estêvão Neves-Hipermercados Madeira,SA	Integrum-Serviços Partilhados,SA
Etablissement A. Mathe, SA	Interclean, S.A.
Euro Decorative Boards,Ltd	Interlog-SGPS,SA
Euromegantic,Lteé	Inventory-Acessórios de Casa,SA
Euroresinas-Indústrias Químicas,SA	Investalentejo, SGPS, SA
Finlog - Aluguer e Comércio de Automóveis, S.A.	Invsaude - Gestão Hospitalar, S.A.
Fozimo-Sociedade Imobiliária,SA	Ipaper-Industria Papeis Impregnados,SA

ISF - Imobiliário, Serviços e Participaç	Parcium Imobiliária, SA
Isoroy Casteljalous	Parcomarco, Gest Parq Est Centros Comer
Isoroy SAS	Pareuro, BV
La Farga - Shopping Center, SL	Pargeste SGPS, S.A.
Lazam Corretora, Ltda.	Park Avenue Develop. of Shop. Centers SA
Le Terrazze - Shopping Centre S.r.l.	Parque Atlântico Shopping - C.C., SA
Leroy Gabon SA	Parque D. Pedro 1 B.V.
Libra Serviços, Lda.	Parque D. Pedro 2 B.V.
Lidergraf - Artes Gráficas, Lda.	Parque de Famalicão - Empr. Imob., S.A.
Lima Retail Park, S.A.	Parque Principado SL
Loureshopping- Centro Comercial, S.A.	Partnergiro - Empreend. Turísticos, Lda
Luso Assistência - Gestão de Acidentes, S.A.	Pátio Boavista Shopping Ltda.
Luz del Tajo - Centro Comercial S.A.	Pátio Penha Shopping Ltda.
Luz del Tajo B.V.	Pátio São Bernardo Shopping Ltda
Madeirashopping- Centro Comercial, S.A.	Pátio Sertório Shopping Ltda
Maiashopping- Centro Comercial, S.A.	Peixes do Continente-Ind.Dist.Peixes,SA
Maiequipa-Gestão Florestal,SA	PJP - Equipamento de Refrigeração, Lda
Marcas MC, ZRT	Placage d'Okoumé du Gabon
Marimo -Exploração Hoteleira Imobiliária	Plaza Eboli B.V.
Marina de Tróia S.A.	Plaza Eboli - Centro Comercial S.A.
Marinamagic-Expl.Cent.Lúdicos Marít,Lda	Plaza Mayor Holding, SGPS, S.A.
Marmagno-Expl.Hoteleira Imob.,SA	Plaza Mayor Parque de Ócio B.V.
Martimope - Sociedade Imobiliária, S.A.	Plaza Mayor Parque de Ocio,SA
Marvero-Expl.Hoteleira Imob.,SA	Plaza Mayor Shopping B.V.
Max Office Artigos Serviços p/escrit.,SA	Plaza Mayor Shopping, SA
MC Property Management S.A.	Plysorol SAS
MDS Corretor de Seguros, SA	Poliface Brasil, Ltda
Mediterranean Cosmos Shop. Centre	Poliface North America
Investments, SA	Porturbe-Edifícios e Urbanizações,SA
Megantic BV	Praedium II-Imobiliária,SA
MJLIF-Empreendimentos Imobiliários, SA	Praedium III-Serviços Imobiliários,SA
Modalfa-Comércio e Serviços,SA	Praedium SGPS, SA
Modelo - Dist.de Mat. de Construção,S.A.	Predicomercial-Promoção Imobiliária,SA
Modelo Continente - Oper.Retalho SGPS,SA	Prédios Privados Imobiliária,SA
Modelo Continente Hipermercados,SA	Predisedas-Predial das Sedas,SA
Modelo Continente, SGPS,SA	Pridelease Investments, Ltd
Modelo Hiper Imobiliária,SA	Profimetrics - Software Solutions, SA
Modelo,SGPS,SA	Proj. Sierra Germany 1 - Shop.C. GmbH
Modelo.com-Vendas p/Correspond.,SA	Proj.Sierra 1 - Shopping Centre GmbH
Modis Distribuição Centralizada,SA	Proj.Sierra Hold. Portugal IV,SGPS,SA
Monselice Centre Srl	Proj.Sierra Hold. Portugal V, SGPS,SA
Movelpartes-Comp.para Ind.Mobiliária,SA	Proj.Sierra Italy 1 -Shop.Centre Srl
Mundo Vip - Operadores Turísticos, S.A.	Proj.Sierra Italy 3 - Shop. Centre Srl
NAB, Sociedade Imobiliária,SA	Proj.Sierra Portugal I- C.Comerc., SA
Net Mall SGPS, Sa	Proj.Sierra Portugal II-C.Comerc.,SA
Norscut - Concessionária de Scut Interior Norte, S.A.	Proj.Sierra Portugal III-C.Comerc.,SA
Norte Shop. Retail and Leisure Centre BV	Proj.Sierra Portugal IV-C.Comerc.,SA
Norteshopping-Centro Comercial, S.A.	Proj.Sierra Portugal V-C.Comercial,SA
Nova Equador Internacional,Ag.Viag.T,Ld	Proj.Sierra Portugal VI-C.Comercial,S.A.
Oeste Retail Park - Gestão G.Comerc., SA	Proj.Sierra Portugal VII - C. Comerc.,SA
OK Bazar-Comércio Geral,SA	Proj.Sierra Portugal VIII - C.Comerc.,SA
Operscut - Operação e Manutenção de Auto-estradas, SA	Project SC 1 BV
OSB Deustchland GmbH	

Project Sierra 1 B.V.	Sierra Developments Germany GmbH
Project Sierra 2 - Shopping Centre GmbH	Sierra Developments Germany Holding B.V.
Project Sierra 2 B.V.	Sierra Developments Holding B.V.
Project Sierra 3 BV	Sierra Developments Italy S.r.l.
Project Sierra 4 BV	Sierra Developments Spain-Prom.C.Com.SL
Project Sierra Brazil 1 B.V.	Sierra Developments, SGPS, S.A.
Project Sierra Charagionis 1 S.A.	Sierra Developments-Serv. Prom.Imob., SA
Project Sierra Spain 1 B.V.	Sierra Enplanta Ltda
Project Sierra Spain 1-Centro Comer. SA	Sierra European R.R.E. Assets Hold. B.V.
Project Sierra Spain 2 B.V.	Sierra GP Limited
Project Sierra Spain 2-Centro Comer. SA	Sierra Investimentos Brasil Ltda
Project Sierra Spain 3 B.V.	Sierra Investments (Holland) 1 B.V.
Project Sierra Spain 3-Centro Comer. SA	Sierra Investments (Holland) 2 B.V.
Project Sierra Spain 4 BV	Sierra Investments Holding B.V.
Project Sierra Spain 5 BV	Sierra Investments SGPS, S.A.
Promessa Sociedade Imobiliária, S.A.	Sierra Italy Holding B.V.
Promosedas-Prom.Imobiliária,SA	Sierra Man.New Tech.Bus.-Serv.Comu.CC,SA
Prosa-Produtos e serviços agrícolas,SA	Sierra Management Germany GmbH
Publmeios-Soc.Gestora Part. Finan.,SA	Sierra Management II-Gestão de C.C. S.A.
Quinta da Covilhã-Empr.Imobiliários,SA	Sierra Management Italy S.r.l.
Racionaliz. y Manufact.Florestales,SA	Sierra Management Portugal-Gest. CC,S.A.
Resoflex-Mob.e Equipamentos Gestão,SA	Sierra Management Spain-Gestión C.Com.SA
Rio Sul - Centro Comercial, SA	Sierra Management, SGPS, S.A.
Rochester Real Estate,Limited	SII - Soberana Invest. Imobiliários, SA
Safira Services-Limpeza Espaços Verd.,SA	SIRS - Sociedade Independente de Radiodifusão Sonora, SA
Saúde Atlântica - Gestão Hospitalar, SA	Sistavac-Sist.Aquecimento,V.Ar C.,SA
SC Aegean B.V.	SKK-Central de Distr.,SA
SC Insurance Risks Services, SGPS, SA	SKKFOR - Ser. For. e Desen. de Recursos
SC Mediterraneum Cosmos B.V.	SM Empreendimentos Imobiliários, Ltda
SC-Consultadoria,SA	SMP-Serv. de Manutenção Planeamento
SCS Beheer,BV	Soc.Inic.Aproveit.Florest.-Energias,SA
Selfrio,SGPS,SA	Sociedade de Construções do Chile, S.A.
Selfrio-Engenharia do Frio,SA	Sociedade Imobiliária Troia - B3, SA
Selifa-Empreendimentos Imobiliários,SA	Société de Tranchage Isoroy SAS.
Sempre à Mão - Sociedade Imobiliária,SA	Société des Essences Fines Isoroy
Sempre a Postos - Produtos Alimentares e Utilidades, Lda	Société Industrielle et Financière Isoroy
Serra Shopping - Centro Comercial, SA	Socijofra-Sociedade Imobiliária,SA
Sesagest-Proj.Gestão Imobiliária,SA	Sociloures-Soc.Imobiliária,SA
Sete e Meio - Invest. Consultadoria, SA	Soconstrução BV
Sete e Meio Herdades-Inv. Agr. e Tur.,SA	Sodesa, S.A.
Shopping Centre Parque Principado B.V.	Soflorin,BV
Shopping Penha B.V.	Soira-Soc.Imobiliária de Ramalde,SA
Siaf-Soc.Iniciat.Aprov.Florestais,SA	Sol Retail Park - Gestão G.Comerc., SA
Sic Indoor - Gestão de Suportes Publicitários, SA	Solaris Supermercados, S.A.
Sierra Asset Management-Gest. Activos,SA	Solinca III-Desporto e Saúde,SA
Sierra Brazil 1 B.V.	Solinca-Investimentos Turísticos,SA
Sierra Charagionis Develop.Sh. Centre SA	Solinfitness - Club Malaga, S.L.
Sierra Charagionis Propert.Management SA	Soltroia-Imob.de Urb.Turismo de Tróia,SA
Sierra Corporate Services- Ap.Gestão, SA	Somit Imobiliária,SA
Sierra Corporate Services Holland, BV	Somit-Soc.Mad.Ind.Transformadas,SA
Sierra Develop.Iberia 1, Prom.Imob.,S.A.	Sonae Capital Brasil, Lda
Sierra Development Greece, SA	Sonae Capital,SGPS,SA

Sonae Espanha, S.A.	Textil do Marco,SA
Sonae Financial Participations BV	Tlantic Sistemas de Informação Ltdª
Sonae Ind., Prod. e Com.Deriv.Madeira,SA	Todos os Dias-Com.Ret.Expl.C.Comer.,S.A.
Sonae Indústria Brasil, Ltda	Tool Gmbh
Sonae Indústria de Revestimentos,SA	Torre Colombo Ocidente-Imobiliária,SA
Sonae Indústria-SGPS,SA	Torre Colombo Oriente-Imobiliária,SA
Sonae International, Ltd	Torre São Gabriel-Imobiliária,SA
Sonae Investments,BV	TP - Sociedade Térmica, S.A.
Sonae Novobord (PTY) Ltd	Troiaresort-Investimentos Turísticos, SA
Sonae RE, S.A.	Troiaverde-Expl.Hoteleira Imob.,SA
Sonae Retalho Espana-Servicios Gen.,SA	Tulipamar-Expl.Hoteleira Imob.,SA
Sonae S.G.P.S., S.A.	Unipress - Centro Gráfico, Lda
Sonae Serviços de Gestão, SA	Unishopping Administradora Ltda.
Sonae SGPS, SA	Unishopping Consultoria Imob. Ltda.
Sonae Sierra Brasil Ltda	Urbisedas-Imobiliária das Sedas,SA
Sonae Sierra Brazil B.V.	Valecenter Srl
Sonae Sierra, SGPS, S.A.	Vastgoed One - Sociedade Imobiliária, S.A.
Sonae Tafibra (UK),Ltd	Vastgoed Sun - Sociedade Imobiliária, S.A.
Sonae Tafibra Benelux, BV	Venda Aluga-Sociedade Imobiliária,SA
Sonae Turismo Gestão e Serviços,SA	Via Catarina- Centro Comercial, S.A.
Sonae Turismo-SGPS,SA	Wirefree Services Belgium, S.A.
Sonae UK,Ltd.	World Trade Center Porto, S.A.
Sonaegest-Soc.Gest.Fundos Investimentos	Worten-Equipamento para o Lar,SA
Sondis Imobiliária,SA	Zubiarte Inversiones Inmob,SA
Sontaria-Empreend.Imobiliários,SA	
Sontel Bv	
Sontur BV	
Sonvecap BV	
Sopair, S.A.	
Sótaqua - Soc. de Empreendimentos Turist	
Spanboard Products,Ltd	
Spinarq,SA	
Spinveste - Promoção Imobiliária, SA	
Spinveste-Gestão Imobiliária SGII,SA	
Sport Zone-Comércio Art.Desporto,SA	
SRE-Projectos e Consultadoria,SA	
SRP-Parque Comercial de Setúbal, S.A.	
Star-Viagens e Turismo,SA	
Tableros Tradema,S.L.	
Tafiber,Tableros de Fibras Ibéricas,SL	
Tafibra Southe Africa, SA	
Tafibras Participações, SA	
Tafisa Brasil, SA	
Tafisa Canadá Societé en Commandite	
Tafisa France, SA	
Tafisa UK,Ltd	
Tafisa-Tableros de Fibras, SA	
Taiber,Tableros Aglomerados Ibéricos,SL	
Tarkett Agepan Laminare Flooring SCS	
Tavapan,SA	
Tecmasa Reciclados de Andalucia, SL	
Teconologias del Medio Ambiente,SA	

## e) Medium Term Incentive Plans

The number of shares awarded, and shares and options unvested, vested, cancelled or lapsed and exercisable options under Sonaecom's MTIP in the year ended 31 December 2006, are shown in the following table:

	Sonaecom options		Sonaecom shares		Total
	Aggregate number of participants	Number of options	Aggregate number of participants	Number of shares	Corresponding shares
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
Movements in the year					
Awarded	-	-	410	976,226	976,226
Vested	(112)	(1,836,621)	(210)	(1,258,444)	(3,095,065)
Exercisable	112	1,836,621	-	-	1,836,621
Exercised	(117)	(1,524,290)	-	-	(1,524,290)
Cancelled/Lapsed	(1)	(14,691)	(39)	(82,148)	(96,839)
Outstanding at 31.12.2006					
Exercisable	33	510,633	-	-	510,633
Unvested	-	-	1,123	3,184,774	3,184,774
Total	33	510,633	1,123	3,184,774	3,695,407

All the options awarded in the vesting date, either from the 2001 Plan or from the 2002 Plan, were exercised. The average exercise price during 2006 was of Euro 4.073 and of Euro 4.295 for the 2001 Plan and 2002 Plan, respectively.

Maia, 25 May 2007



This document may contain forward-looking information and statements, based on management's current expectations or beliefs. Forward-looking statements are statements that are not historical facts.

Although these statements reflect our current expectations, which we believe are reasonable, investors and analysts are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond our control, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. You are cautioned not to put undue reliance on any forward-looking information or statements. We do not undertake any obligation to update any forward-looking information or statements.

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