

# **CONSOLIDATED FINANCIAL STATEMENTS**

March 2006

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

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# **I. MANAGEMENT REPORT**

## **1. Message from Paulo Azevedo, CEO of Sonaecom**

Overall, our first quarter consolidated results are better than expected due to the continued benefit of our growth oriented investment strategy. The quarter saw positive operational developments at both Optimus and Sonaecom Fixed in terms of the underlying customer base, customer revenues and leading indicators. Optimus saw continued growth in its new services, in particular, Optimus Home and Kanguru, while Sonaecom Fixed saw a significant increase in its direct access business, which now accounts for approximately 50% of total services and approximately 57% of Customer Revenues, compared to 4% and 27% respectively in 1Q05. The transformation of Sonaecom Fixed to a direct access business model is now well under way, growing 64% quarter on quarter and currently capturing over 75% of the ULL market growth.

The increase in Customer Revenues at Optimus and Sonaecom Fixed and the latter's higher Wholesale Revenues, partially mitigated the expected combined negative impacts of: lower operator revenues at Optimus resulting from the programmed decrease in Mobile Termination Rates (MTRs); higher Network Costs, explained by the 3G/HSDPA deployment; higher servicing costs associated with the ULL double play activation process; and higher Marketing & Sales costs in both our telecoms businesses.

During the quarter, we continued the commercial pilot test for our Triple Play offering and invested significant time and effort in developing the IPTV product and commercial strategy with the aim of a full commercial launch during 2H06.

We further extended our strategy of telecoms integration in the pursuit of operating efficiencies and cost synergies during 1Q06, having completed the full integration of both Optimus and Sonaecom Fixed technical teams. As a result, both teams are now being managed under a unified organisational team structure. In addition, in January we successfully completed a Request for Proposal process for the supply of 3G and 3.5G network elements, as a result of which, we will achieve significant CAPEX savings of up to 100 million euros in the next 2 years, against our original expectations.

As regards our bid to acquire control of Portugal Telecom SGPS SA (PT), we are currently waiting for the pronouncement by the Competition Authority, which in principle, is expected by July. In the meantime, we continue to promote our offer which we believe offers a full and fair price to PT shareholders, implying an adjusted EV/EBITDA (2005) of 7.5x, a significant premium to comparable incumbent transactions. It also addresses the objectives of all interested parties and which, if successful, will create value for Sonaecom shareholders.

PT's response to our bid merely promised an increased pay-out to shareholders over three years, based on management's expectations of higher EBITDA growth and cash flow generation that we believe will be difficult to achieve under the 'new reality' for the Portuguese telecoms market, with increased market competition, driven by the Government's determination to implement the separation of the cable network. We reiterate our stated position and strategy regarding our offer for PT, which we believe represents superior value to PT shareholders compared to the value the business 'as is' can offer.

## 2. Quarterly Highlights

During 1Q06, Sonaecom continued to achieve solid growth in its telecoms businesses, as a result of investment focused on direct voice and broadband internet services, Fixed-Mobile convergent products and 3G services.

### Operational Highlights

OPERATING KPI's	1Q05	1Q06	y.o.y	4Q05	q.o.q
<b>Optimus</b>					
Customers (EOP) ('000)	2,135.7	2,383.4	11.6%	2,353.2	1.3%
Net Additions ('000)	6.9	30.2	335.4%	82.7	-63.5%
Data as % Service Revenues	9.9%	13.4%	3.5pp	13.4%	-0.1pp
MOU <sup>(1)</sup> (min.)	108.7	113.7	4.6%	120.9	-6.0%
<b>Sonaecom Fixed</b>					
Total Services (EOP)	268,840	309,735	15.2%	271,463	14%
Direct	11,343	154,262	1260.0%	93,861	64%
Direct access as % Customer Revenues	27.3%	56.9%	29.6pp	46.1%	10.9pp
<b>Sonaecom</b>					
Employees	2,261.0	2,165.0	-4.2%	2,196.0	-1.4%

(1) Minutes of Use per Customer (Home is included since 4Q05)

- Optimus' Customers increased by 11.6% to 2.4 million in 1Q06, compared to 2.1 million at the end of 1Q05.
- Optimus' Data Revenues represented 13.4% of Service Revenues in the quarter, up from 9.9% in 1Q05.
- Sonaecom Fixed direct access services increased by 143 thousand to 154 thousand at the end of 1Q06, from 11.3 thousand, at the end of 1Q05. When compared to 4Q05, direct access services increased by 64%.
- Sonaecom Fixed Direct Access Revenues represented 57% of Customer Revenues in 1Q06, an increase of 29.6pp when compared to the same contribution in 1Q05.
- Sonaecom total employees decreased 4.2% compared to 1Q05, consistent with its telecoms' integration efforts.

### Consolidated Financial Highlights

CONSOLIDATED FINANCIAL KPI's	1Q05	1Q06	y.o.y	4Q05	q.o.q
Million euros					
Turnover	196.9	196.9	0.0%	216.0	-8.8%
EBITDA	44.0	39.0	-11.3%	31.7	23.2%
EBITDA Margin (%)	22.4%	19.8%	-2.5pp	14.7%	5.2pp
EBIT	12.3	6.5	-47.0%	-2.5	-
EBT	9.6	3.0	-68.7%	-6.1	-
Net Results - Group Share <sup>(1)</sup>	4.6	0.1	-96.8%	-5.2	-
CAPEX	41.4	36.1	-12.9%	47.3	-23.8%
EBITDA - CAPEX	2.6	3.0	14.2%	-15.7	-
FCF <sup>(2)</sup>	-17.8	-19.5	-9.6%	10.6	-

(1) Net Results after Minority Interests; (2) FCF Levered after Financial Expenses but before Capital Flows and Raising Finance related up-front Costs.

- Turnover reached 196.9 million euros, similar to 1Q05 level, notwithstanding the significant impact of Mobile Termination Rates (MTR).
- Consolidated Customer Revenues increased by 4.4% to 132.9 million euros in 1Q06, compared to 1Q05 driven by a 4.8% increase at Optimus and a 13.5% increase at Sonaecom Fixed.
- EBITDA-CAPEX increased by 14% to 3 million euros compared to 1Q05.

### 3. Consolidated Results

#### 3.1. Consolidated Income Statement

Million euros					
CONSOLIDATED INCOME STATEMENT	1Q05	1Q06	y.o.y	4Q05	q.o.q
<b>Turnover</b>	<b>196.9</b>	<b>196.9</b>	<b>0.0%</b>	<b>216.01</b>	<b>-8.8%</b>
Optimus	146.8	141.2	-3.8%	161.4	-12.5%
Sonaecom Fixed	36.6	44.5	21.5%	41.4	7.6%
Público	10.0	8.7	-12.5%	10.9	-19.7%
SSI	20.0	22.1	10.4%	21.4	3.3%
Other & Eliminations	-16.5	-19.7	-18.9%	-19.0	-3.5%
<b>Other Revenues</b>	<b>1.3</b>	<b>1.3</b>	<b>-2.0%</b>	<b>1.3</b>	<b>-1.6%</b>
<b>Operating Costs</b>	<b>152.4</b>	<b>157.3</b>	<b>3.2%</b>	<b>183.4</b>	<b>-14.2%</b>
COGS	17.7	16.0	-9.6%	36.6	-56.3%
Network Costs <sup>(1)</sup>	62.7	63.7	1.6%	64.5	-1.1%
Personnel Costs	26.4	27.0	2.5%	24.9	8.7%
Marketing & Sales	18.4	19.7	7.2%	26.9	-26.9%
Outsourcing Services <sup>(2)</sup>	13.4	16.7	24.7%	16.4	1.5%
General & Administrative Expenses	11.1	11.6	4.3%	12.2	-5.2%
Other Operating Costs	2.9	2.6	-9.3%	1.9	36.0%
<b>Provisions and Impairment Losses</b>	<b>1.7</b>	<b>1.9</b>	<b>9.4%</b>	<b>2.3</b>	<b>-17.8%</b>
<b>EBITDA</b>	<b>44.0</b>	<b>39.0</b>	<b>-11.3%</b>	<b>31.7</b>	<b>23.2%</b>
<b>EBITDA Margin (%)</b>	<b>22.4%</b>	<b>19.8%</b>	<b>-2.5pp</b>	<b>14.7%</b>	<b>5.2pp</b>
Optimus	43.5	44.4	2.0%	36.5	21.7%
Sonaecom Fixed	-1.3	-4.5	-253.4%	-6.3	28.9%
Público	-0.4	-1.9	-343.2%	0.2	-
SSI	3.0	1.9	-35.6%	2.0	-4.1%
Other & Eliminations	-0.7	-0.8	-11.7%	-0.6	-33.7%
Depreciation & Amortization	31.7	32.5	2.6%	34.2	-4.9%
<b>EBIT</b>	<b>12.3</b>	<b>6.5</b>	<b>-47.0%</b>	<b>-2.5</b>	<b>-</b>
<b>Net Financial Results</b>	<b>-2.8</b>	<b>-3.5</b>	<b>-27.9%</b>	<b>-3.6</b>	<b>1.8%</b>
Financial Income	1.2	1.9	54.4%	1.3	43.8%
Financial Expenses	4.0	5.4	36.0%	4.9	10.3%
<b>EBT</b>	<b>9.6</b>	<b>3.0</b>	<b>-68.7%</b>	<b>-6.1</b>	<b>-</b>
Taxes	0.4	-2.2	-	0.8	-
<b>Net Results</b>	<b>9.1</b>	<b>5.2</b>	<b>-43.0%</b>	<b>-6.9</b>	<b>-</b>
Group Share	4.6	0.1	-96.8%	-5.2	-
Attributable to Minority Interests	4.5	5.1	12.8%	-1.7	-

(1) Network Costs = Interconnection plus Leased Lines plus Other Network Operating Costs; (2) Outsourcing Services = Customer Services, Consultants and Subcontracts.

#### Turnover

Consolidated Turnover reached 196.9 million euros in 1Q06, similar to 1Q05, notwithstanding the significant negative effect of the declining MTR's and the continuing fall of incoming fixed traffic. The main contributions for this positive performance were: (i) Optimus Customer Revenues increasing by 4.8%, as the result of its significant commercial activity focused on innovation and growth initiatives; (ii) Sonaecom Fixed generating 21.5% higher Turnover, driven by a strong growth in Operator Revenues of 30.6% and in Customer Revenues of 13.5%, the latter underpinned by the performance of the ULL direct access business; and (iii) Software and Systems Integration (SSI) Turnover increasing 10.4%, driven primarily by Equipment Sales that were up 77.6% in 1Q06 when compared to 1Q05.

#### Operating Costs

Total Operating Costs increased 3.2% to 157.3 million euros in 1Q06 compared to 1Q05, and represented 79.8% of Turnover in comparison to 77.4% in 1Q05. The main drivers of this increase were: (i) higher Outsourcing Services costs up by 24.7%, due to the significant growth in Sonaecom Fixed ULL Direct Access services requiring more customer activation support services; (ii) higher Marketing & Sales costs up by 7.2% to 19.7 million euros, driven by Sonaecom Fixed aggressive sales of its direct broadband Double Play offers; and (iii) higher Network costs up by 1.6%, driven by the increase in energy and rental costs associated with the extension of the Optimus 3G network and higher number of central offices unbundled.

Nevertheless, COGS decreased by 9.6% in 1Q06 when compared to 1Q05, as a result of one-off discounts received, as expected, from Equipment suppliers at Optimus. Interconnection costs fell by 0.9% in 1Q06 compared to 1Q05 as a result of MTR reduction and notwithstanding the Traffic increase in 1Q06 at Optimus and Sonaecom Fixed when compared to 1Q05.

Provisions and Impairment Losses were 9.4% higher in 1Q06 compared to 1Q05, due to increased Provisions for Stocks at Optimus.

### **EBITDA**

Consolidated EBITDA totalled 39 million euros in 1Q06, generating a margin of 19.8%, compared to an EBITDA of 44 million euros and a margin of 22.4% in 1Q05. The lower EBITDA result was driven by lower EBITDA contributions from Sonaecom Fixed, Público and SSI: (i) Sonaecom Fixed generated a negative EBITDA of 4.5 million euros compared to a negative EBITDA of 1.3 million euros in 1Q05, reflecting the higher investment in customer acquisition and other ULL related costs; (ii) Público recorded a negative EBITDA of 1.9 million euros, compared to a negative 0.4 million euros in 1Q05, as a result of lower sales in all three of its revenue lines and lower profitability of Associated Products; and (iii) SSI EBITDA decreased 35.6% to 1.9 million euros, compared to 3 million euros in 1Q05, as a result of lower Service Revenues at Enabler.

Optimus contributed positively with an EBITDA that was up by 2% over 1Q05 to 44.4 million euros, despite the programmed reductions in MTRs. This resulted from higher Customer revenues driven by the new products and services launched during 2005, namely Home, Kanguru and Rede 4, and by lower costs with total OPEX down by 3.6% against 1Q05.

### **Net Profit**

Depreciation and Amortization charges increased by 2.6% in 1Q06 from 31.7 million euros in 1Q05 to 32.5 million euros, due to the higher asset base resulting primarily from the extension of Optimus' 3G network and related assets.

Net Financial Charges increased by 0.7 million euros compared to 1Q05, mainly due to the higher average Gross Debt resulting from the 150 million euros bond issue completed in June 2005, and to the increase in Euribor rates by 25 basis points as at December 2005, with the consequent increase in Financial Expenses by 36% to 5.4 million euros, compared to 4 million euros in 1Q05.

Taxes in 1Q06 showed a benefit of 2.2 million euros, compared to a charge of 0.4 million euros in 1Q05, reflecting a current tax cash charge of 0.4 million euros and movements in deferred tax assets that generated a net benefit of 2.6 million euros.

Due to the lower level of EBITDA, higher Depreciation & Amortization charges and higher Net Financial charges, Net Results before Minorities were positive 5.2 million euros, down from positive 9.1 million euros in 1Q05. Net Results Group Share were positive 0.1 million euros, down from a positive 4.6 million in 1Q05, explained by the lower EBT result and the impact on Minority Interests of the France Telecom Roll-up; since 1 December 2005, Consolidated Results have included 100% of Sonaecom Fixed and 69.2% of Optimus results, compared to 56.7% and 49% of the results before the Roll-up.

## 3.2. Consolidated Balance Sheet

Million euros					
CONSOLIDATED BALANCE SHEET	1Q05	1Q06	y.o.y	4Q05	q.o.q
<b>Total Assets</b>	<b>1,031.5</b>	<b>1,456.1</b>	<b>41.2%</b>	<b>1,451.8</b>	<b>0.3%</b>
Non Current Assets	772.4	1,016.5	31.6%	1,010.2	0.6%
Tangible and Intangible Assets	656.0	654.3	-0.3%	652.7	0.2%
Goodwill	40.2	285.6	610.4%	285.5	0.0%
Investments	2.9	2.1	-28.6%	1.9	9.4%
Deferred Tax Assets	68.9	68.8	0.0%	66.2	3.9%
Others	4.4	5.7	30.0%	3.9	48.4%
Current Assets	259.2	439.7	69.6%	441.6	-0.4%
Trade Debtors	129.2	136.4	5.6%	143.6	-5.0%
Liquidity	33.8	190.2	463.1%	209.4	-9.2%
Others	96.2	113.1	17.5%	88.6	27.6%
<b>Shareholders' Funds</b>	<b>439.7</b>	<b>692.1</b>	<b>57.4%</b>	<b>686.9</b>	<b>0.7%</b>
Group Share	261.3	571.9	118.9%	571.8	0.0%
Minority Interests	178.4	120.2	-32.7%	115.2	4.3%
<b>Total Liabilities</b>	<b>591.8</b>	<b>764.1</b>	<b>29.1%</b>	<b>764.8</b>	<b>-0.1%</b>
Non Current Liabilities	320.6	485.7	51.5%	480.6	1.1%
Bank Loans	306.2	457.1	49.3%	455.9	0.3%
Other Loans	1.6	0.0	-100.0%	0.0	-
Provisions for Liabilities and Charges	3.7	9.1	147.7%	5.1	78.8%
Others	9.2	19.5	112.5%	19.7	-0.8%
Current Liabilities	271.1	278.4	2.7%	284.2	-2.0%
Bank Loans	0.9	0.4	-57.9%	0.1	562.9%
Trade Creditors	129.7	145.8	12.4%	143.3	1.8%
Others	140.6	132.2	-6.0%	140.9	-6.2%
CAPEX	41.4	36.1	-12.9%	47.3	-23.8%
CAPEX as % of Turnover	21.0%	18.3%	-2.7pp	21.9%	-3.6pp
EBITDA - CAPEX	2.6	3.0	14.2%	-15.7	-
FCF <sup>(1)</sup>	-17.8	-19.5	-9.6%	10.6	-
Gross Debt	308.6	457.4	48.2%	455.9	0.3%
Net Debt	274.9	267.3	-2.8%	246.5	8.4%
Net Debt/ EBITDA last 12 months	1.4 x	1.8 x	0.4x	1.6 x	0.2x
EBITDA/Interest Expenses <sup>(2)</sup>	16.6 x	10.0 x	-6.5x	8.9 x	1.1x
Debt/(Debt + Shareholders' Funds)	41.2%	39.8%	-1.4pp	39.9%	-0.1pp

(1) FCF Levered after Financial Expenses but before Capital Flows and Raising Finance related up-front Costs ; (2) Interest Cover.

### CAPEX

Consolidated CAPEX was 36.1 million euros in 1Q06, 12.9% lower than in 1Q05 representing 18.3% of Turnover. The level of CAPEX was consistent with Sonaecom's stated growth strategy and reflected investment related to the deployment of the wireless UMTS and HSDPA network, and to the roll-out of the wireline Next Generation Network, namely investments related with customer growth in the ULL broadband business.

Of total CAPEX, 40.5% was invested in the deployment of UMTS/HSDPA network, 15.8% was invested in the network to support ULL broadband, 14.1% were related to Information Technology/Information Systems investments and 2.8% were capitalized Triple Play development costs.

## FCF

	Million euros				
	1Q05	1Q06	y.o.y	4Q05	q.o.q
LEVERED FREE CASH FLOW					
EBITDA-CAPEX	2.6	3.0	14.2%	-15.7	-
Change in WC	-19.0	-25.6	-34.5%	28.5	-
Non Cash Items & Other	1.3	5.6	322.1%	0.6	803.5%
<b>Operating Cash Flow</b>	<b>-15.1</b>	<b>-17.0</b>	<b>-12.8%</b>	<b>13.4</b>	<b>-</b>
Financial results	-2.2	-2.1	0.2%	-2.4	9.3%
Income taxes	-0.6	-0.4	36.3%	-0.4	10.0%
<b>FCF</b>	<b>-17.8</b>	<b>-19.5</b>	<b>-9.6%</b>	<b>10.6</b>	<b>-</b>

Consolidated FCF in 1Q06 was negative 19.5 million euros, compared to a negative 17.8 million in 1Q05. This performance is mainly due to higher investment in working capital, up by 6.6 million euros, due to increased stock levels at Optimus and high levels of payments to trade creditors at both Optimus and Sonaecom Fixed.

### Capital Structure

Consolidated Gross Debt at the end of March 2006 stood at 457.4 million euros, up 148.7 million euros from 308.7 million euros at the end of 1Q05, due to the 150 million euros unsecured privately placed bond issue completed in June 2005. Consolidated liquidity increased by 156.4 million to 190.2 million euros, compared to 33.8 million euros at the end of 1Q05, as a result of the net proceeds from the bond issue that have been invested as treasury applications, and due to the FCF performance at Optimus and SSI. Consolidated Net Debt as at 1Q06 amounted to 267.3 million euros, a decrease of 7.6 million euros compared to end of 1Q05, but up 20.8 million euros compared to 4Q05.

At the end of 1Q06 and compared to 4Q05, Leverage or Net Debt to annualised EBITDA deteriorated to 1.8x from 1.6x; Gearing or Debt to Equity remained stable at 40% while Interest Cover improved to 10x, from 8.9x.

Net Debt at Sonaecom SGPS stood at 57.9 million euros at the end of 1Q06, reflecting a total cash position of 169.6 million euros, external debt of 146.3 million euros and treasury applications made by subsidiaries with Sonaecom of 81.2 million euros.

## 4. Optimus

### 4.1. Operational Data

OPTIMUS OPERATIONAL KPI's	1Q05	1Q06	y.o.y	4Q05	q.o.q
Customers (EOP) ('000)	2,135.7	2,383.4	11.6%	2,353.2	1.3%
% Pre-paid Customers	84.9%	80.9%	-4pp	81.7%	-0.8pp
Active Customers <sup>(1)</sup>	1,709.9	1,890.1	10.5%	1,882.1	0.4%
Net Additions ('000)	6.9	30.2	335.4%	82.7	-63.5%
Data as % Service Revenues	9.9%	13.4%	3.5pp	13.4%	-0.1pp
Total #SMS/month/user	26.1	49.2	88.5%	48.8	0.8%
MOU <sup>(2)</sup> (min.)	108.7	113.7	4.6%	120.9	-6.0%
ARPU (euros)	22.2	19.3	-12.9%	20.6	-6.3%
ARPM <sup>(3)</sup> (euros)	0.20	0.17	-15.8%	0.17	0.8%
CCPU <sup>(4)</sup> (euros)	16.2	14.4	-11.2%	16.4	-12.2%
SAC&SRC <sup>(5)</sup> ('000 000 euros)	15.1	12.9	-15.1%	19.6	-34.4%
Employees <sup>(6)</sup>	1,058	1,067	0.9%	985	8.3%

(1) Active Customers with Revenues generated on last 90 days; (2) Minutes of Use per Customer (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.

#### Growth Initiatives

During 1Q06, new services were launched, such as new Chat plans with promotional campaigns focused on SMS data usage, and the commercial partnership with Microsoft was extended, with Optimus being the first operator in Europe to offer Push-Email in PDA windows mobile handsets.

#### Customer Base

Optimus' customer base increased significantly by 11.6% to 2.38 million, at the end of 1Q06, compared to 2.14 million at the end of 1Q05, with Net Additions of 30.2 thousand. Active customers at the end of 1Q06 totalled 1.89 million, which compares to 1.71 million in 1Q05, an increase of 180 thousand over 1Q05.

For 1Q06, Optimus Customers generated an ARPU of 19.3 euros, down from an ARPU of 22.2 euros in 1Q05, a decrease of 12.9% mainly explained by the impact of the phased reductions in MTRs and price cuts in Roaming In.

New products such as Home, Kanguru and Rede4 were the main drivers of Customer growth at Optimus, with Home reaching 100 thousand clients by the end of 1Q06, Kanguru performing ahead of expectations and Rede4 performing in line with expectations.

#### Data Usage

Data Revenues represented 13.4% of Service Revenues in 1Q06, an improvement of 3.5pp over 1Q05, as the result of Optimus' focus on GPRS and 3G data services and handset offering. Total monthly SMS's per user increased by 88.5%, accounting for 61% of total Data Revenues in 1Q06, compared to 74% in 1Q05. By the end of 1Q06, approximately 9% of Optimus' customer base was 3G enabled.

#### Traffic

In 1Q06, total traffic<sup>1</sup> was 15.8% higher than that recorded in 1Q05, with the Minutes of Use per customer increasing 4.6% to 113.7 minutes, compared to 108.7 minutes in 1Q05, mainly driven by the performance of the new products and services launched. Optimus' Operator Revenues continued to be negatively affected by the continued reduction in fixed to mobile traffic, which decreased by 10% compared to 1Q05 incoming fixed traffic and 5.6% compared to 4Q05.

<sup>1</sup> Total Traffic = total incoming traffic plus total outgoing traffic plus total Roaming out

**Mobile Network**

During 1Q06, both Optimus and Sonaecom Fixed technical teams were fully integrated namely 220 employees from Optimus and 110 employees from Sonaecom Fixed, consistent with the Group's strategy of telecoms integration of management, resources, network and systems. Underlying this strategy has been Sonaecom's aim to create operating efficiencies and cost synergies, as well as to stimulate joint product development and catalyse cross-marketing opportunities between both businesses.

At the beginning of 1Q06, Optimus completed a RFP process to improve prices and conditions of the supply of 3G and 3.5G network elements. As a result of this process, Huawei joined Ericsson and Motorola as the main backbone and access network providers for Optimus. This process is expected to generate CAPEX savings of up to 100 million euros in the next 2 years.

To support its ambitions of a leading position in the Mobile Broadband segment, Optimus continued to invest in the roll-out of its UMTS Network, expecting to obtain up to 80% of population coverage by the end of 2006, and of its HSDPA network, already covering more than 40% of the population.

## 4.2. Financial Data

Million euros					
OPTIMUS CONSOLIDATED INCOME STATEMENT	1Q05	1Q06	y.o.y	4Q05	q.o.q
<b>Turnover</b>	<b>146.8</b>	<b>141.2</b>	<b>-3.8%</b>	<b>161.4</b>	<b>-12.5%</b>
Service Revenues	138.6	133.7	-3.5%	138.6	-3.6%
Customer Revenues	92.8	97.2	4.8%	99.7	-2.5%
Operator Revenues	45.8	36.4	-20.4%	38.9	-6.3%
Equipment Sales	8.2	7.6	-7.9%	22.8	-66.8%
<b>Other Revenues</b>	<b>6.0</b>	<b>8.9</b>	<b>49.4%</b>	<b>6.4</b>	<b>39.8%</b>
<b>Operating Costs</b>	<b>107.8</b>	<b>103.8</b>	<b>-3.6%</b>	<b>129.3</b>	<b>-19.7%</b>
COGS	12.3	8.8	-28.8%	31.3	-72.0%
Interconnection	36.5	31.4	-13.9%	33.1	-5.2%
Leased Lines & Other Network Operating Costs	11.8	13.1	11.8%	12.8	2.6%
Personnel Costs	11.7	12.6	7.5%	10.4	20.6%
Marketing & Sales	14.4	14.6	1.7%	19.8	-26.1%
Outsourcing Services <sup>(2)</sup>	11.9	13.4	12.2%	13.1	2.3%
General & Administrative Expenses	6.6	7.2	8.7%	7.3	-2.1%
Other Operating Costs	2.5	2.7	7.3%	1.4	97.7%
<b>Provisions and Impairment Losses</b>	<b>1.5</b>	<b>2.0</b>	<b>28.5%</b>	<b>2.0</b>	<b>-2.7%</b>
<b>Service Margin <sup>(1)</sup></b>	<b>102.1</b>	<b>102.3</b>	<b>0.2%</b>	<b>105.5</b>	<b>-3.1%</b>
Service Margin (%)	73.7%	76.5%	2.8pp	76.1%	0.4pp
<b>EBITDA</b>	<b>43.5</b>	<b>44.4</b>	<b>2.0%</b>	<b>36.5</b>	<b>21.7%</b>
EBITDA Margin (%)	29.6%	31.4%	1.8pp	22.6%	8.8pp
Depreciation & Amortization	27.4	28.2	2.9%	28.0	0.5%
<b>EBIT</b>	<b>16.1</b>	<b>16.2</b>	<b>0.5%</b>	<b>8.4</b>	<b>92.2%</b>
<b>Net Financial Results</b>	<b>-3.5</b>	<b>-3.1</b>	<b>10.7%</b>	<b>-2.9</b>	<b>-6.3%</b>
Financial Income	0.3	0.6	124.6%	0.6	3.5%
Financial Expenses	3.8	3.8	-0.7%	3.5	5.8%
<b>EBT</b>	<b>12.6</b>	<b>13.0</b>	<b>3.5%</b>	<b>5.5</b>	<b>138.4%</b>
Taxes	1.1	-2.8	-	-1.6	-77.1%
<b>Net Results</b>	<b>11.5</b>	<b>15.8</b>	<b>38.3%</b>	<b>7.1</b>	<b>124.6%</b>
CAPEX	16.7	26.3	57.1%	38.4	-31.6%
CAPEX as % of Turnover	11.4%	18.6%	7.2pp	23.8%	-5.2pp
EBITDA - CAPEX	26.8	18.1	-32.4%	-2.0	-
FCF <sup>(3)</sup>	9.5	2.2	-76.7%	29.4	-92.5%
Net Debt	285.0	220.8	-22.5%	221.8	-0.5%
Net Debt/ EBITDA last 12 months	1.5 x	1.3 x	-0.2x	1.3 x	0x

(1) Service Margin = Service Revenues minus Interconnection Costs; (2) Outsourcing Services = Customer Services, Consultants and Subcontracts; (3) FCF Levered after Financial Expenses but before Capital Flows and Raising Finance related up-front Costs.

### Turnover

Customer Revenues increased by 4.8% to 97.2 million euros, compared to 92.8 million euros in 1Q05, mainly driven by the performance of the new products launched last year (Home, Kanguru and Rede4). Service Revenues decreased by 3.5% to 133.7 million euros, as a result of the reduction in Operator Revenues of 20.4% to 36.4 million euros in 1Q06 compared to 1Q05, due to: (i) lower MTRs that were reduced further as of 1 January 2006, explaining a reduction of 10.5 million euros in Operator Revenues; and (ii) decrease in Roaming In Revenues by 1.1 million euros, mainly due to price reductions.

### EBITDA

EBITDA in 1Q06 reached 44.4 million euros, an increase of 2% over 1Q05, primarily as a result of higher Customer Revenues and a 3.6% reduction in total OPEX and despite the decrease in MTRs that led to a reduction of 3.2 million euros in EBITDA compared to 1Q05, COGS were 29% lower in 1Q06 due to expected one-off discount benefits from Equipment Suppliers. Nevertheless, total OPEX excluding COGS decreased 0.4 million euros in 1Q06 compared to 1Q05, reflecting Optimus' commitment to managing costs and operating efficiencies. As regards other costs, Interconnection costs were down by 14%, due to the benefits of the MTRs cuts and notwithstanding the increase of mobile traffic in the quarter; Leased Lines and Network Costs were up by 11.8%, due to the deployment of the 3G and HSDPA network, and resulting higher circuits, energy and rental costs; and Support Services increased by 12.2%, reflecting services

provided to Sonaecom Fixed by the Shared Services division, with corresponding revenues included in Other Revenues.

Marketing & Sales including Handset Subsidization costs reached 15.8 million euros in 1Q06, 2.7 million euros less than in 1Q05. Excluding the one-off discount benefits mentioned above, these costs would have been 4.3% higher than in 1Q05, on the back of the higher Subsidization costs, advertising of convergent products and 3G promotions.

## 5. Sonaecom Fixed

### 5.1. Operational Data

SONAECOM FIXED OPERATIONAL KPI's	1Q05	1Q06	y.o.y	4Q05	q.o.q
Total Services (EOP)	268,840	309,263	15.0%	271,463	13.9%
Direct	11,343	153,790	1255.8%	93,861	63.8%
ULL	9,512	151,661	1494.4%	91,867	65.1%
Other	1,831	2,129	16.3%	1,994	6.8%
Indirect	257,497	155,473	-39.6%	177,602	-12.5%
Voice	153,285	76,277	-50.2%	87,218	-12.5%
Internet Broadband	14,208	14,103	-0.7%	14,865	-5.1%
Internet Narrowband	90,004	65,093	-27.7%	75,519	-13.8%
Total Accesses <sup>(1)</sup>	n.a.	199,870	n.a.	140,660	42.1%
PSTN/ISDN	n.a.	106,719	n.a.	75,191	41.9%
ULL ADSL	n.a.	79,048	n.a.	50,604	56.2%
Wholesale ADSL	n.a.	14,103	n.a.	14,865	-5.1%
Unbundled Central Offices with transmission	79	138	74.7%	138	0.0%
Unbundled Central Offices with ADSL2+	34	130	282.4%	130	0.0%
Direct access as % Customer Revenues	27.3%	56.9%	29.6pp	46.1%	10.9pp
Total Voice Traffic ('000 Min.)	274,799	371,030	35.0%	352,791	5.2%
Total Internet Traffic					
Narrowband ('000 Min.)	139,559	78,908	-43.5%	92,938	-15.1%
Broadband ('000 Gigabytes)	294	2,044	595.6%	1,261	62.1%
Employees	281	170	-39.5%	281	-39.5%

(1) 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.

Sonaecom Fixed investment in ADSL2+ broadband services over ULL, begun to show tangible results in 4Q05, stimulated by a good product mix, improved pricing and improved processes and systems.

#### Growth initiatives

Sonaecom Fixed continued with the pilot test of its Triple Play bundled offer, developing the commercial and communication strategy before its mass market launch due during 2H06. All the essential content negotiations, including most of PT controlled content, have now been successfully completed, guaranteeing the broadcast channels to the initial offer.

#### Customer Base

At the end of 1Q06, Sonaecom Fixed Total services amounted to 310 thousand, an increase of 15.2% compared to 1Q05 and 14.1% over the previous quarter. The acquisition of direct access services more than compensated the decline in indirect access customers, with total Direct Services representing close to 50% of Sonaecom Fixed Customer base in 1Q06, compared to 4.2% in 1Q05, and to 34.6% in 4Q05. Direct Access Activations have been improving substantially since September 2005, with an average monthly activation rate exceeding 20 thousand services in 1Q06.

#### Traffic

Sonaecom Fixed voice traffic increased by 35% in 1Q06 to 371 million minutes compared to 274.8 million minutes in 1Q05, as a result of the growth of the Wholesale traffic by 62.1%, and the increase of Direct Voice traffic by 168%, more than compensating the decrease of the indirect voice traffic of 43%.

## 5.2. Financial Data

		Million euros				
SONAECOM FIXED INCOME STATEMENT		1Q05	1Q06	y.o.y	4Q05	q.o.q
<b>Turnover</b>		<b>36.6</b>	<b>44.5</b>	<b>21.5%</b>	<b>41.4</b>	<b>7.6%</b>
Service Revenues		36.6	44.5	21.6%	41.3	7.6%
Customer Revenues		19.3	22.0	13.5%	19.7	11.6%
Direct Access Revenues		5.3	12.5	136.5%	9.1	38.0%
Indirect Access Revenues		13.7	9.2	-32.9%	10.1	-9.4%
Other		0.4	0.3	-27.6%	0.5	-42.7%
Operator Revenues		17.2	22.5	30.6%	21.7	3.9%
Equipment Sales		0.0	0.0	-11.4%	0.0	-1.2%
<b>Other Revenues</b>		<b>0.71</b>	<b>1.4</b>	<b>101.3%</b>	<b>1.1</b>	<b>34.6%</b>
<b>Operating Costs</b>		<b>38.5</b>	<b>50.6</b>	<b>31.5%</b>	<b>48.7</b>	<b>4.0%</b>
COGS		0.0	0.0	-22.1%	0.0	-55.3%
Interconnection		17.4	25.8	48.3%	23.8	8.4%
Leased Lines & Other Network Operating Costs		7.0	7.8	11.5%	5.6	39.0%
Personnel Costs		3.6	2.7	-24.4%	3.1	-12.7%
Marketing & Sales		3.0	4.5	49.1%	6.7	-33.3%
Outsourcing Services <sup>(2)</sup>		5.1	7.6	50.9%	6.7	14.0%
General & Administrative Expenses		2.3	2.1	-5.3%	2.6	-16.2%
Other Operating Costs		0.2	0.1	-63.9%	0.2	-62.3%
<b>Provisions and Impairment Losses</b>		<b>0.1</b>	<b>-0.2</b>	<b>-</b>	<b>0.1</b>	<b>-</b>
<b>Service Margin <sup>(1)</sup></b>		<b>19.2</b>	<b>18.7</b>	<b>-2.6%</b>	<b>17.6</b>	<b>6.5%</b>
Service Margin (%)		52.6%	42.1%	-10.4pp	42.5%	-0.4pp
<b>EBITDA</b>		<b>-1.3</b>	<b>-4.5</b>	<b>-253.4%</b>	<b>-6.3</b>	<b>28.9%</b>
EBITDA Margin (%)		-3.5%	-10.1%	-6.6pp	-15.3%	5.2pp
Depreciation & Amortization		3.6	3.8	5.9%	4.4	-14.2%
<b>EBIT</b>		<b>-4.9</b>	<b>-8.3</b>	<b>-70.7%</b>	<b>-10.8</b>	<b>22.9%</b>
<b>Net Financial Results</b>		<b>-0.4</b>	<b>-0.5</b>	<b>-24.8%</b>	<b>-0.6</b>	<b>9.8%</b>
Financial Income		0.1	0.0	-75.6%	0.1	-56.6%
Financial Expenses		0.5	0.5	3.2%	0.6	-14.5%
<b>EBT</b>		<b>-5.3</b>	<b>-8.8</b>	<b>-67.1%</b>	<b>-11.4</b>	<b>22.2%</b>
Taxes		-1.0	0.0	-	2.1	-99.4%
<b>Net Results</b>		<b>-4.3</b>	<b>-8.8</b>	<b>-104.8%</b>	<b>-13.5</b>	<b>34.3%</b>
CAPEX		4.5	8.7	93.5%	7.7	12.4%
CAPEX as % of Turnover		12.2%	19.5%	7.2pp	18.6%	0.8pp
EBITDA - CAPEX		-5.8	-13.2	-128.9%	-14.0	6.2%
FCF <sup>(3)</sup>		-8.8	-18.7	-113.5%	-9.6	-94.8%
Net Debt		43.0	69.5	61.6%	50.7	36.9%
Net Debt/ EBITDA last 12 months		18.3 x	-3.9 x	-22.1x	-3.5 x	-0.4x

(1) Service Margin = Service Revenues minus Interconnection Costs; (2) Outsourcing Services = Customer Services, Consultants and Subcontracts; (3) FCF Levered after Financial Expenses but before Capital Flows and Raising Finance related up-front Costs.

### Turnover

Turnover in 1Q06 totalled 44.5 million euros, an increase of 21.5% over 1Q05, driven mainly by the significant increase in Direct Access Revenues up 136.5% and Wholesale Revenues up 30.6%, which represented 28.1% and 50.6% of Service Revenues, compared to 14.5% and 47% in 1Q05, respectively. The increased proportion of Direct Access Revenues within total Turnover reflects the shift in strategy initiated at end of 2004 and maintained as an underlying strategy during 2005.

### EBITDA

Notwithstanding the improvement in top-line performance, Sonaecom Fixed generated an EBITDA loss of 4.5 million euros, compared to a negative 1.3 million euros in 1Q05, due to the costs incurred associated with the aggressive push into Direct Access Broadband services: (i) Increased Marketing & Sales costs by 49.1% to 4.5 million euros compared to 3 million euros in 1Q05, as a result of the higher commissions and as a result of the significant level of customer acquisitions; (ii) increased Outsourcing Services by 50.9% compared to 1Q05, driven primarily by higher customer activation support services; (iii) higher Network costs due to the number of Central Offices unbundled; (iv) higher Interconnection costs that increased by 48% due to higher

ULL related Set-Up costs and Monthly Fees, reflecting the larger direct Access Customer base and the increased Voice Traffic in 1Q06 compared to 1Q05; and (v) margin loss of churned indirect voice and dialup Internet users.

## 6. Público

### 6.1. Operational Data

PÚBLICO OPERATIONAL KPI's	1Q05	1Q06	y.o.y	4Q05	q.o.q
Average Paid Circulation <sup>(1)</sup>	48,140	44,256	-8.1%	47,156	-6.1%
Market Share of Advertising (%)	14.5%	15.7%	1.2pp	14.6%	1.1pp
Audience <sup>(2)</sup> (%)	5.0%	4.3%	-0.7pp	5.1%	-0.8pp
Employees	362	354	-2.2%	358	-1.1%

(1) Estimated value updated in the following quarter; (2) Audience: total number of Público's readers over total daily newspaper readers.

Público's average paid circulation decreased by 8.1%, from an average level of 48,140 units in 1Q05 to 44,256 units in 1Q06, continuing to suffer from the competitive pressures of tabloid newspapers and free newspapers, as well as the reduction of the size of the press market, a reduction of 300 thousand readers compared to 1Q05. Nevertheless, Público's advertising market share was not impacted by circulation performance, reaching 15.7% in 1Q06, an additional 1.2pp when compared to 1Q05.

## 6.2. Financial Data

PÚBLICO CONSOLIDATED INCOME STATEMENT	Million euros				
	1Q05	1Q06	y.o.y	4Q05	q.o.q
<b>Turnover</b>	<b>9.98</b>	<b>8.72</b>	<b>-12.5%</b>	<b>10.86</b>	<b>-19.7%</b>
Advertising Sales	3.89	3.43	-11.6%	5.03	-31.8%
Newspaper Sales	3.07	2.95	-4.1%	3.24	-9.1%
Associated Product Sales	3.02	2.35	-22.3%	2.59	-9.5%
<b>Other Revenues</b>	<b>0.15</b>	<b>0.13</b>	<b>-10.5%</b>	<b>0.23</b>	<b>-43.0%</b>
<b>Operating Costs</b>	<b>10.48</b>	<b>10.72</b>	<b>2.3%</b>	<b>10.86</b>	<b>-1.2%</b>
COGS	2.64	2.86	8.1%	2.94	-2.9%
Personnel Costs	3.55	3.74	5.1%	3.43	8.9%
Marketing & Sales	0.73	0.50	-31.1%	0.44	14.6%
Outsourcing Services <sup>(1)</sup>	2.51	2.79	11.2%	2.97	-6.0%
General & Administrative Expenses	1.02	0.88	-13.7%	1.02	-13.8%
Other Operating Costs	0.03	-0.04	-	0.06	-
<b>Provisions and Impairment Losses</b>	<b>0.07</b>	<b>0.05</b>	<b>-33.1%</b>	<b>0.06</b>	<b>-13.1%</b>
<b>EBITDA</b>	<b>-0.43</b>	<b>-1.92</b>	<b>-343.2%</b>	<b>0.17</b>	<b>-</b>
<b>EBITDA Margin (%)</b>	<b>-4.3%</b>	<b>-22.0%</b>	<b>-17.7pp</b>	<b>1.6%</b>	<b>-23.6pp</b>
Depreciation & Amortization	0.35	0.22	-36.0%	0.26	-13.9%
<b>EBIT</b>	<b>-0.78</b>	<b>-2.14</b>	<b>-174.3%</b>	<b>-0.08</b>	<b>-2451.4%</b>
<b>Net Financial Results</b>	<b>-0.05</b>	<b>-0.05</b>	<b>-8.5%</b>	<b>-0.06</b>	<b>16.7%</b>
Financial Income	0.00	0.00	-53.3%	0.00	-51.9%
Financial Expenses	0.05	0.05	5.8%	0.06	-17.8%
<b>EBT</b>	<b>-0.83</b>	<b>-2.19</b>	<b>-165.2%</b>	<b>-0.14</b>	<b>-1433.1%</b>
Taxes	-0.37	0.01	-	0.00	35.1%
<b>Net Results</b>	<b>-0.46</b>	<b>-2.20</b>	<b>-380.3%</b>	<b>-0.15</b>	<b>-1395.0%</b>
CAPEX	0.08	0.09	12.5%	0.20	-52.7%
CAPEX as % of Turnover	0.8%	1.1%	0.2pp	1.8%	-0.8pp
EBITDA - CAPEX	-0.52	-2.01	-289.7%	-0.02	-8292.7%
FCF <sup>(2)</sup>	-2.45	-2.17	11.4%	0.33	-
Net Debt	5.76	5.69	-1.1%	3.52	61.7%
Net Debt/ EBITDA last 12 months	0.8x	-1.8 x	-2.5x	-2.1 x	0.3x

(1) Outsourcing Services = Customer Services, Consultants and Subcontracts; (2) FCF Levered after Financial Expenses but before Capital Flows and Raising Finance related up-front Costs.

During 1Q06, Turnover decreased by 12.5% to 8.72 million euros, compared to 9.98 million euros in 1Q05, mainly driven by the decrease in Associated Product Sales by 22.3%, explained by market competition and saturation, and by a decrease in Advertising Sales of 11.6%, given the retraction of the market Investment in press, reflection of the difficult economic outlook for Portugal. EBITDA deteriorated to a negative 1.92 million euros, from a negative 0.43 million euros in 1Q05, mainly explained by: (i) Lower Turnover Performance; and (ii) increased COGS related with the higher number of magazines and supplements on offer; and (iii) lower margins for Associated Products, driven by the decrease of Associated Product Sales.

A strategy has been established to improve Público's performance focused on: (i) redesigning the newspaper with the inclusion of more colours, seeking new distribution and sales channels, and improving POS quality control; and (ii) continuing to stimulate the commercial activity for advertising including the strengthening of relationships with top brands and establishing partnerships.

## 7. Software and Systems Integration

### 7.1. Operational Data

SSI OPERATIONAL KPI's	1Q05	1Q06	y.o.y	4Q05	q.o.q
IT Service Revenues/Employee <sup>(1)</sup> ( '000 euros)	26,7	24,1	-10,0%	24,1	-0,1%
Equipment Sales as % Turnover	16,7%	26,9%	10,2pp	22,2%	4,7pp
Equipment Sales/Employee <sup>(2)</sup> ( '000 euros)	337,4	184,1	-45,4%	426,6	-56,8%
EBITDA/Employee ( '000 euros)	5,0	3,0	-40,9%	3,1	-5,3%
Employees	592	645	9,0%	637	1,3%

(1) Excluding employees dedicated to Equipment Sales; (2) Bizdirect

SSI headcount increased by 9% to 645 in 1Q06, compared to 592 in 1Q05, driven by the growth of projects at Wedo and the resulting need to increase the number of internal consultants. IT Service Revenues per employee totalled 24.1 thousand euros in 1Q06, similar to the previous quarter.

### 7.2. Financial Data

SSI CONSOLIDATED INCOME STATEMENT	1Q05	1Q06	y.o.y	4Q05	q.o.q
<b>Turnover</b>	<b>20.03</b>	<b>22.10</b>	<b>10.4%</b>	<b>21.40</b>	<b>3.3%</b>
Service Revenues	16.68	16.16	-3.1%	16.66	-3.0%
Equipment Sales	3.35	5.95	77.6%	4.74	25.4%
<b>Other Revenues</b>	<b>0.35</b>	<b>0.53</b>	<b>49.9%</b>	<b>0.98</b>	<b>-46.2%</b>
<b>Operating Costs</b>	<b>17.39</b>	<b>20.68</b>	<b>18.9%</b>	<b>20.24</b>	<b>2.2%</b>
COGS	3.20	5.71	78.7%	4.37	30.8%
Personnel Costs	7.72	7.90	2.3%	8.09	-2.4%
Marketing & Sales	0.24	0.21	-11.3%	0.18	20.5%
Outsourcing Services <sup>(1)</sup>	3.77	4.04	7.1%	4.48	-9.9%
General & Administrative Expenses	2.35	2.75	16.9%	2.82	-2.5%
Other Operating Costs	0.12	0.07	-43.3%	0.31	-78.1%
<b>Provisions and Impairment Losses</b>	<b>0.02</b>	<b>0.04</b>	<b>112.4%</b>	<b>0.14</b>	<b>-72.0%</b>
<b>EBITDA</b>	<b>2.97</b>	<b>1.91</b>	<b>-35.6%</b>	<b>1.99</b>	<b>-4.1%</b>
EBITDA Margin (%)	14.8%	8.6%	-6.2pp	9.3%	-0.7pp
Depreciation & Amortization	0.57	0.42	-27.4%	1.58	-73.6%
<b>EBIT</b>	<b>2.39</b>	<b>1.49</b>	<b>-37.5%</b>	<b>0.41</b>	<b>264.3%</b>
<b>Net Financial Results</b>	<b>0.10</b>	<b>0.16</b>	<b>57.8%</b>	<b>0.00</b>	<b>-</b>
Financial Income	0.23	0.27	14.5%	0.08	218.9%
Financial Expenses	0.13	0.10	-20.3%	0.09	21.4%
<b>EBT</b>	<b>2.50</b>	<b>1.66</b>	<b>-33.6%</b>	<b>0.41</b>	<b>305.4%</b>
Taxes	0.64	0.58	-9.2%	0.28	110.9%
<b>Net Results</b>	<b>1.86</b>	<b>1.08</b>	<b>-42.0%</b>	<b>0.13</b>	<b>704.6%</b>
CAPEX	0.16	0.22	42.7%	0.16	44.9%
CAPEX as % of Turnover	0.8%	1.0%	0.2pp	0.7%	0.3pp
EBITDA - CAPEX	2.81	1.69	-40.0%	1.84	-8.2%
FCF <sup>(2)</sup>	-1.78	-1.07	39.7%	4.03	-
Net Debt	-2.84	-13.69	-382.8%	-14.12	3.0%
Net Debt/ EBITDA last 12 months	-0.3 x	-1.6 x	-1.4x	-1.5 x	-0.1x

(1) Outsourcing Services = Customer Services, Consultants and Subcontracts; (2) FCF Levered after Financial Expenses but before Capital Flows and Raising Finance related up-front Costs.

SSI Turnover increased 10.4% in 1Q06 to 22.1 million euros when compared to 1Q05, mainly due to higher IT equipment sales, which increased by 77.6% to 6 million euros. In 1Q06, Equipment Sales represented 26.9% of Turnover compared to 16.7% in 1Q05. SSI Service Revenues decreased by 3.1%, mainly driven by the 11% decrease in Turnover at Enabler Group when compared to 1Q05.

SSI EBITDA decreased by 35.6% to 1.91 million euros in 1Q06, from 2.97 million euros in 1Q05, mainly explained by the higher volume in Equipment Sales that generate lower margins. Despite Enabler's weaker project base in 1Q06 (compared to those in the 1Q05, their best quarter ever), it has acquired new customers during the quarter, namely with Tesco UK, Tesco Ireland, Tesco

Check Republic, Gallery Lafayette and Dubai duty Free, which will impact 2Q06 results. Wedo had a good performance, with a Turnover increasing by 10% and EBITDA growing by 18% compared to 1Q05.

## 8. Other Issues

### 8.1. Regulatory Developments

- On 1 January 2006, a further reduction in MTRs became effective for all the Portuguese mobile operators, in accordance with ANACOM's decision in February 2005. For Optimus, Fixed to Mobile termination rates decreased by 6.6% to 0.17 euros per minute, down from 0.182 euros per minute, and Mobile to Mobile and International Mobile termination rates decreased by 3.8% to 0.125 euros per minute, down from 0.13 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 per mobile SIM card.
- The EU Commission has announced the outline of a complex proposal for reducing EU mobile roaming charges, looking to address both retail and wholesale roaming charges. However, there are still a number of open questions regarding conditions and prices, and reductions are not expected to be implemented before 2H07.

### 8.2. Corporate Development

We reiterate our stated position regarding our Public Tender Offer for Portugal Telecom and continue to believe that our offer of 9.5 euros per share plus a dividend of 0.385 euros per share reflects a full and fair value for PT shareholders. Based on this dividend and taking into consideration the newly released information on PT's 2005 accounts, our offer implies an adjusted EV/EBITDA (2005) of 7.5x, a significant premium to the comparable incumbent transactions of TDC (6.8x) and Cesky (6.4x)<sup>2</sup>.

Our offer is based on an estimated 2 billion euros of mobile synergies that we believe we can extract from the proposed combination of TMN and Optimus' operations that is expected to generate OPEX and CAPEX savings. In addition, we believe our offer to be well balanced, as it addresses 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.

Our stated strategy for the enlarged Sonaecom/PT is clear and is 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.

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<sup>2</sup> Sonaecom's Offer implied enterprise value to EBITDA 2005 multiple is calculated by multiplying PT's number of shares adjusted for PT's buyback program, by Sonaecom's offer price and including the Nov-05 announced €0.385 dividend. This value is additionally adjusted for PT's Dec-05 net debt, Dec-05 unfunded pension liabilities (post-tax), minority interests of PTM and Vivo, and unconsolidated affiliates. PT's EBITDA 2005 is calculated based on its 2005 results and adjusted for post-retirement benefits.

## 9. Looking Forward

During the next three quarters, we will continue to build on our established growth strategy for our telecoms businesses: at Optimus, we intend to build on the new services launched last year and in particular promote enhanced 3G services (HSDPA); at Sonaecom Fixed, we will continue to grow the Direct Access broadband business, both in terms of our current double play offering and, with the launch of our IPTV service, that will enable us to offer triple play services. At SSI, we will continue to promote and explore international growth opportunities, while at Público efforts will continue to turn-around the current performance and to achieve an acceptable level of profitability.

The growth expected from our telecoms businesses and from SSI will help to mitigate the negative impacts on our 2006 results that will continue to be affected by: the progressive cuts in MTR's; higher Network Costs; higher Customer Acquisition Costs at Sonaecom Fixed; the costs associated with the launch of our triple play service; and by the poor economic climate that we expect to continue to restrict consumer confidence and spending.

## 10. Additional Information

### Consolidated Nominal Net Debt before application of IAS 39

CONSOLIDATED NOMINAL DEBT	Million euros				
	1Q05	1Q06	y.o.y	4Q05	q.o.q
Gross Debt	326.9	475.1	45.3%	474.7	0.1%
Liquidity	33.8	190.2	463.1%	209.4	-9.2%
Net Debt	293.1	284.9	-2.8%	265.3	7.4%
Net Debt/ EBITDA last 12 months	1.5 x	1.9 x	0.4x	1.7 x	0.2x
Debt/(Debt + Shareholders' Funds)	42.6%	40.7%	-1.9pp	40.9%	-0.2pp

### Optimus Nominal Net Debt before application of IAS 39

OPTIMUS NOMINAL DEBT	Million euros				
	1Q05	1Q06	y.o.y	4Q05	q.o.q
Gross Debt	325.2	324.9	-0.1%	324.7	0.1%
Liquidity	21.9	90.1	311.2%	87.8	2.7%
Net Debt	303.3	234.7	-22.6%	236.9	-0.9%
Net Debt/ EBITDA last 12 months	1.6 x	1.4 x	-0.2x	1.4 x	0x
Debt/(Debt + Shareholders' Funds)	49.3%	45.8%	-3.5pp	46.8%	-1pp

### Reconciliation of Consolidated Net Debt

CONSOLIDATED NET DEBT	Million euros			
	Bank Debt	Intra-Group	Liquidity	Net Debt
<b>Stand Alone Debt</b>	<b>457,4</b>	<b>212,3</b>	<b>277,4</b>	<b>392,3</b>
Optimus	310,9	-	90,1	220,8
Sonaecom Fixed	-	71,4	1,9	69,5
Público	-	6,0	0,3	5,7
SSI	0,2	-	13,9	-13,7
Sonaecom SGPS (1)	146,3	81,2	169,6	57,9
Others	-	53,7	1,5	52,2
<b>Intragroups</b>	<b>0,0</b>	<b>-212,3</b>	<b>-87,2</b>	<b>-125,1</b>
Optimus	-	-	-74,3	74,3
Sonaecom Fixed	-	-71,4	-	-71,4
Público	-	-6,0	-	-6,0
SSI	-	-	-6,4	6,4
Sonaecom SGPS	-	-81,2	-6,0	-75,2
Others	-	-53,7	-0,6	-53,1
<b>Total</b>	<b>457,4</b>	<b>0,0</b>	<b>190,2</b>	<b>267,3</b>

(1) Sonaecom Holding Company intra-group relates to Treasury Applications from Operating Companies (Operating Companies' Cash intra group)

## **II. CONSOLIDATED FINANCIAL STATEMENTS**

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

FOR THE QUARTERS ENDED AT 31 MARCH 2006 AND 2005 AND FOR THE YEAR ENDED AT 31 DECEMBER 2005

(Amounts expressed in Euro)

ASSETS	Notes	March 2006	March 2005	December 2005
<b>NON CURRENT ASSETS:</b>				
Tangible assets	1.c), 1.b) and 5	482,331,748	478,063,562	477,432,375
Intangible assets	1.d), 1.e) and 6	171,941,716	177,973,006	175,275,138
Goodwill	1.f) and 7	285,593,276	40,204,241	285,468,452
Investments in associated companies	1.b) and 3	864,427	685,668	685,661
Investments available for sale	1.g) and 8	1,207,320	1,207,320	1,207,320
Other non current debtors		1,898,198	2,841,370	1,903,493
Deferred tax assets	1.p) and 9	68,827,031	68,850,471	66,239,165
Other non current assets	1.r), 1.s), 1.w) and 10	3,823,403	2,527,508	1,952,890
Total non current assets		<u>1,016,487,119</u>	<u>772,353,146</u>	<u>1,010,164,494</u>
<b>CURRENT ASSETS:</b>				
Inventories	1.i)	28,781,452	12,703,331	23,212,665
Trade debtors	1.j)	136,387,964	129,179,470	143,573,014
Other current debtors	1.j)	21,827,771	17,939,634	20,660,299
Other current assets	1.r), 1.s) and 1.w)	60,710,146	65,580,339	43,439,057
Investments recorded at fair value through profit or loss	1.g) and 11	1,784,411	-	1,321,690
Cash and cash equivalents	1.k) and 12	190,169,400	33,769,231	209,414,711
Total current assets		<u>439,661,144</u>	<u>259,172,005</u>	<u>441,621,436</u>
<b>Total assets</b>		<u><b>1,456,148,263</b></u>	<u><b>1,031,525,151</b></u>	<u><b>1,451,785,930</b></u>
<b>SHAREHOLDERS' FUNDS AND LIABILITIES</b>				
<b>SHAREHOLDERS' FUNDS:</b>				
Share capital		296,526,868	226,250,000	296,526,868
Reserves	1.t)	275,229,118	30,401,389	273,093,218
Consolidated net income/(loss) for the period		146,584	4,647,862	2,156,198
		<u>571,902,570</u>	<u>261,299,251</u>	<u>571,776,284</u>
Minority interests		120,165,976	178,433,789	115,163,114
Total Shareholders' Funds		<u>692,068,546</u>	<u>439,733,040</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 13	457,065,497	306,184,359	455,863,338
Other non current creditors		9,596,144	3,581,902	9,698,642
Other non current financial liabilities	14	2,037,689	2,943,141	1,886,588
Provisions for other liabilities and charges	1.o) and 15	9,103,510	3,674,535	5,092,476
Other non current liabilities	1.r), 1.s) and 1.w)	7,873,031	4,259,255	8,077,712
Total non current liabilities		<u>485,675,871</u>	<u>320,643,192</u>	<u>480,618,756</u>
<b>CURRENT LIABILITIES:</b>				
Short-term loans and other loans	1.l), 1.m) and 13	357,959	850,789	54,420
Trade creditors		145,847,571	129,710,898	143,303,460
Other current financial liabilities	16	2,370,788	3,621,052	3,257,037
Other creditors		13,988,962	23,889,458	18,798,148
Other current liabilities	1.r), 1.s) and 1.w)	115,838,566	113,076,722	118,814,711
Total current liabilities		<u>278,403,846</u>	<u>271,148,919</u>	<u>284,227,776</u>
<b>Total Shareholders' Funds and liabilities</b>		<u><b>1,456,148,263</b></u>	<u><b>1,031,525,151</b></u>	<u><b>1,451,785,930</b></u>

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

The Chief Accountant

The Board of Directors

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT BY NATURE

FOR THE QUARTERS ENDED AT 31 MARCH 2006 AND 2005 AND FOR THE YEAR ENDED AT 31 DECEMBER 2005

(Amounts expressed in Euro)

	<u>Notes</u>	<u>March 2006</u>	<u>March 2005</u>	<u>December 2005</u>
<b>Operating revenues:</b>				
Sales		17,361,095	16,800,580	102,297,934
Services rendered		179,534,392	180,065,855	741,162,926
Other operating revenues		1,269,547	1,294,760	5,826,910
Total operating revenues		<u>198,165,034</u>	<u>198,161,195</u>	<u>849,287,770</u>
<b>Operating costs:</b>				
Cost of sales		(16,004,263)	(17,699,651)	(114,924,806)
External supplies and services	17	(111,643,019)	(105,518,051)	(454,823,366)
Staff expenses		(27,018,595)	(26,352,774)	(102,848,384)
Depreciation and amortisation	5 and 6	(32,491,391)	(31,676,465)	(128,222,823)
Provisions and impairment losses	1.o), 1.v) and 15	(1,865,343)	(1,704,701)	(7,770,367)
Other operating costs	1.v)	(2,611,003)	(2,877,852)	(12,044,965)
Total operating costs		<u>(191,633,614)</u>	<u>(185,829,494)</u>	<u>(820,634,711)</u>
<b>Net operating income/(expenses)</b>		<b>6,531,420</b>	<b>12,331,701</b>	<b>28,653,059</b>
Gains and losses in associated companies	18	28,766	-	-
Other net financial income/(expenses)	1.m), 1.n), 1.w), 1.v and 18	<u>(3,567,253)</u>	<u>(2,765,886)</u>	<u>(13,090,758)</u>
<b>Current income/(loss)</b>		<b>2,992,933</b>	<b>9,565,814</b>	<b>15,562,301</b>
Income taxation	1.p), 9 and 19	<u>2,211,374</u>	<u>(433,905)</u>	<u>(4,008,288)</u>
<b>Consolidated net income/(loss)</b>		<b>5,204,307</b>	<b>9,131,909</b>	<b>11,554,013</b>
Attributed to:				
Shareholders of parent company		<b>146,584</b>	<b>4,647,862</b>	<b>2,156,198</b>
Minority interests		5,057,723	4,484,048	9,397,815
<b>Earnings per share</b>				
Including discontinued operations				
Basic		0.00	0.02	0.01
Diluted		0.00	0.02	0.01
Excluding discontinued operations				
Basic		0.00	0.02	0.01
Diluted		0.00	0.02	0.01

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

The Chief Accountant

The Board of Directors

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

CONSOLIDATED MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE QUARTERS ENDED AT 31 MARCH 2006 AND 2005

(Amounts expressed in Euro)

	2006								
	Share capital	Legal reserves	Share premium	Other reserves	Hedging reserves	Total reserves	Minority Interests	Net income/(loss)	Total
Balance at 31 December 2005	296,526,868	114,360	499,633,160	(226,654,302)	-	273,093,218	-	2,156,198	571,776,284
Appropriation of consolidated result of 2005	-	444,718	-	1,711,480	-	2,156,198	-	(2,156,198)	-
Consolidated net income/(loss) for the quarter ended 31 March 2006	-	-	-	-	-	-	-	146,584	146,584
Adjustments in foreign currency translation reserves and others	-	-	-	(20,298)	-	(20,298)	-	-	(20,298)
Balance at 31 March 2006	296,526,868	559,078	499,633,160	(224,963,120)	-	275,229,118	-	146,584	571,902,570
<u>Minority interests</u>									
Balance at 31 December 2005	-	-	-	-	-	-	115,163,114	-	115,163,114
Minority interests on results	-	-	-	-	-	-	5,057,723	-	5,057,723
Other changes	-	-	-	-	-	-	(54,861)	-	(54,861)
Balance at 31 March 2006	-	-	-	-	-	-	120,165,976	-	120,165,976
Total	296,526,868	559,078	499,633,160	(224,963,120)	-	275,229,118	120,165,976	146,584	692,068,546
	2005								
	Share capital	Legal reserves	Share premium	Other reserves	Hedging reserves	Total reserves	Minority Interests	Net income/(loss)	Total
Balance at 31 December 2004	226,250,000	114,360	335,819,541	(323,208,276)	(369,155)	12,356,470	-	18,048,373	256,654,843
Appropriation of consolidated result of 2004	-	-	-	18,048,373	-	18,048,373	-	(18,048,373)	-
Consolidated net income/(loss) for the quarter ended 31 March 2005	-	-	-	-	-	-	-	4,647,862	4,647,862
Hedging reserves (Swaps)	-	-	-	-	32,789	32,789	-	-	32,789
Adjustments in foreign currency translation reserves and others	-	-	-	(36,243)	-	(36,243)	-	-	(36,243)
Balance at 31 March 2005	226,250,000	114,360	335,819,541	(305,196,146)	(336,366)	30,401,389	-	4,647,862	261,299,251
<u>Minority interests</u>									
Balance at 31 December 2004	-	-	-	-	-	-	183,919,719	-	183,919,719
Hedging reserves (Swaps)	-	-	-	-	-	-	34,015	-	34,015
Minority interests on results	-	-	-	-	-	-	4,484,048	-	4,484,048
Minority changes and others	-	-	-	-	-	-	(10,003,993)	-	(10,003,993)
Balance at 31 March 2005	-	-	-	-	-	-	178,433,789	-	178,433,789
Total	226,250,000	114,360	335,819,541	(305,196,146)	(336,366)	30,401,389	178,433,789	4,647,862	439,733,040

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

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES  
CONSOLIDATED CASH FLOW STATEMENT  
FOR THE QUARTERS ENDED AT 31 MARCH 2006 AND 2005  
(Amounts expressed in Euro)

	<b>31 March 2006</b>	<b>31 March 2005</b>	
<b>Operating activities</b>			
Receipts from trade debtors	202,276,262	216,058,467	
Payments to trade creditors	(146,738,047)	(162,137,486)	
Payments to employees	(37,729,095)	(35,100,742)	
<b>Cash flows from operating activities</b>	<b>17,809,120</b>	<b>18,820,239</b>	
Payments/receipts relating to income taxes, net	55,355	(1,948,671)	
Other payments/receipts relating to operating activities, net	(8,752,835)	14,229,899	
<b>Cash flows from operating activities (1)</b>	<b>9,111,640</b>	<b>31,101,467</b>	<b>31,101,467</b>
<b>Investing activities</b>			
Receipts from:			
Investments	-	-	
Tangible assets	1,153,192	971,971	
Intangible assets	426,916	151,129	
Investment Subsidies	103,491	50,626	
Interest and similar income	846,597	2,303,215	3,476,941
Payments for:			
Loans granted	10	-	
Investments	(564,841)	(19,847,703)	
Tangible assets	(23,963,897)	(28,770,483)	
Intangible assets	(3,789,110)	(560,461)	(49,178,647)
<b>Cash flows from investing activities (2)</b>	<b>(25,787,642)</b>	<b>(25,787,642)</b>	<b>(45,701,706)</b>
<b>Financing activities</b>			
Payments for:			
Loans obtained repaid	-	(67,015)	
Interest and similar expenses	(2,936,976)	(3,288,087)	(3,355,102)
<b>Cash flows from financing activities (3)</b>	<b>(2,936,976)</b>	<b>(2,936,976)</b>	<b>(3,355,102)</b>
Net cash Flows (4)=(1)+(2)+(3)	<b>(19,612,978)</b>	<b>(17,955,341)</b>	
Effect of the foreign exchanges	64,128	50,161	
Cash and cash equivalents at the beginning of the year	<b>(209,360,291)</b>	<b>(51,554,271)</b>	
Cash and cash equivalents at end of the year	<b>189,811,441</b>	<b>33,649,091</b>	

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

Chief Accountant

The Board of Directors

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT  
 FOR THE QUARTERS ENDED AT 31 MARCH 2006 AND 2005  
 (Amounts expressed in Euro)

	<u>2006</u>	<u>2005</u>
<b>1 - Acquisition or sale of subsidiaries or other businesses</b>		
<b>a) Acquisitions</b>		
Profimetrics - Software Solutions, SA	150,000	-
Optimus - Telecomunicações, S.A	-	16,262,801
<b>b) Amount of other assets and liabilities acquired (sold)</b>		
Acquisition of shares of Sonae Indústria, S.G.P.S., S.A.	414,841	-
Shares - Supplementary capital - Optimus - Telecomunicações, S.A.	-	2,344,350
<b>c) Payments of acquisitions from previous years</b>		
Jaua, S.G.P.S., S.A. (*)	-	537,779
Noriema, S.G.P.S., S.A. (*)	-	702,773
	<u>564,841</u>	<u>19,847,703</u>
(*) The amount paid was less than the acquisition value by Euro 9,447.		
<b>2 - Details of cash and cash equivalents</b>		
Cash in hand	318,695	545,945
Cash at bank	4,850,595	5,301,062
Treasury applications	185,000,110	27,922,224
Overdrafts	(357,959)	(120,140)
Cash and cash equivalents	<u>189,811,441</u>	<u>33,649,091</u>
Overdrafts	357,959	120,140
Cash assets	190,169,400	33,769,231
<b>3 - Description of non monetary financing activities</b>		
a) Bank credit granted and not used	227,941,176	227,273,167
b) Purchase of company through the issue of shares	Not applicable	Not applicable
c) Conversion of loans into shares	Not applicable	Not applicable

#### 4 - Cash flow by segments

Activity	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Net cash flows
Mobile network	22,650,386	(17,795,593)	(2,683,478)	2,171,315
Fixed network and Internet	(5,244,192)	(8,452,594)	(28,249)	(13,725,035)
Multimedia	(1,448,725)	(80,004)	(5,652)	(1,534,381)
Information Systems	(4,215,144)	202,816	(29,208)	(4,041,536)
Others	(2,904,502)	588,352	(167,189)	(2,483,339)
	<u>8,837,823</u>	<u>(25,537,023)</u>	<u>(2,913,776)</u>	<u>(19,612,976)</u>

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

Chief Accountant

The Board of Directors

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## ***Notes to the consolidated financial statements at 31 March 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.

The Group's business consists essentially of:

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

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

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

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

### **1. Basis of presentation**

The accompanying consolidated financial statements have been prepared on a going concern basis, based on the accounting records of the companies included in the consolidation (Notes 2 and 3) under International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), and including all interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") as at 31 March 2006. For Sonaecom there are no differences between IFRS as adopted by the EU and IFRS published by the International Accounting Standards Board ("IASB").

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

The interim financial statements are prepared every trimester in accordance with IAS 34 – "Interim Financial Reporting".

### **Main accounting policies**

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

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

Investments in companies in which the Group has direct or indirect voting rights at Shareholders' General Meetings, in excess of 50%, or in which it has control over the financial and operating policies (definition of control used by the Group) were fully consolidated in the attached

consolidated financial statements. Third party participations in the shareholders' equity and net results of those companies are reflected separately in the consolidated balance sheet and in the consolidated statement of profit and loss, respectively, under the caption 'Minority interests'.

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

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

The fully consolidated companies are listed in Note 2.

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

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

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

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

Investments in associated companies are listed in Note 3.

#### **c) Tangible assets**

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

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

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

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

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

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

The estimated costs of the mandatory dismantling and removal of tangible assets, that the Group incurs, are capitalised and amortised according to the useful life of the corresponding assets.

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

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

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

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

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

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

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

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

#### **f) Goodwill**

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

In subsequent acquisitions of financial investments already held by the Group, an amount of Goodwill is registered equal to the difference between the cost of acquisition of such financial investments and the proportional amount of the shareholders funds of the acquired company.

#### **g) Investments**

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

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

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

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

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

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

c) Held-to-maturity investments

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

d) Available-for-sale financial assets

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

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

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

The fair 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 asset.

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

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

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

#### **i) Inventories**

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

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

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

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

#### **k) Cash and cash equivalents**

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

#### **l) Loans**

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

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

Financial expenses relating to loans obtained are generally recognised as expenses at the time they are incurred. Financial expenses relating to loans obtained directly for the acquisition, construction or production of fixed assets are capitalised as part of the cost of the assets. These expenses are capitalised starting from the time of preparation for the construction or development

of the asset. The capitalization is interrupted when the assets are operating or at the end of the production or construction phases or when the associated project is suspended.

#### **n) Derivatives**

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

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

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

#### **o) Provisions and contingencies**

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

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

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

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

#### **p) Income tax**

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

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

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

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

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

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

#### **q) Government subsidies**

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

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

#### **r) Accrual basis and revenue recognition**

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

The captions of 'Other non current assets', 'Other current assets', 'Other non current liabilities' and 'Other current liabilities' include expenses and income relating to the current period, where payment and receipt will occur in future periods, as well as payments and receipts in the current period but which relate to future periods. The latest ones will be included in the results of such periods that they relate to.

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

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

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

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

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

#### **s) Balance sheet classification**

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

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

#### **t) Legal reserve**

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

#### **u) Foreign currency**

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

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

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

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

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

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

	2006		2005	
	31.03.06	Average	31.03.05	Average
Pounds Sterling	1.43596	1.45725	1.45243	1.44179
Brazilian Real	0.3788	0.379	0.28782	0.28582

#### v) Assets impairment

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

#### w) Deferred Performance Bonus Plans

The Accounting Treatment of Share and Share Options 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 ‘Other reserves’, within the heading ‘Shareholders’ funds’ and is charged as an expense under the caption ‘Staff expenses’ in the profit and loss statement.

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

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

- a) The total gross fixed amounts payable to third parties are recorded in the balance sheet as either ‘Other non current liabilities’ or ‘Other current liabilities’;
- b) The part of this responsibility that has not yet been recognised in the profit and loss statement (the “unelapsed” proportion of the cost of each plan) is deferred and is

- recorded, in the balance sheet as either ‘Other non current assets’ or ‘Other current assets’;
- c) The net effect of the entries in (a) and (b) above eliminate the original entry to ‘Shareholders’ funds’;
  - d) In the profit and loss account statement, the “elapsed” proportion continues to be charged as an expense under the caption ‘Staff expenses’.

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

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

#### **x) Subsequent events**

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

## 2. Companies included in the consolidation

Group companies included in the consolidation, their head offices, main activity, shareholders and percentage of share capital held at 31 March 2006 and 2005, are as follows:

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held			
				2006		2005	
				Direct	Effective*	Direct	Effective*
Parent company: SONAECOM, S.G.P.S., S.A. ("Sonaecom")	Maia	Management of shareholdings.	-	-	-	-	-
Subsidiaries: Clixgest – Internet e Conteúdos, S.A. ("Clixgest" using the brand name "Clix") ( a)	Maia	All activities relating to information and multi- media technologies, namely Internet, contents and electronic commerce.	Sonae Matrix	-	-	56.67%	56.67%
Digitmarket – Sistemas de Informação, S.A. ("Digitmarket" using the brand name "Bizdirect")	Maia	Development of management platforms and commercialisation of products, services and information, with the internet as its main support.	Sonae.com Sistemas de Informação	75.1%	75.1%	75.1%	75.1%
Enabler – Informática, S.A. ("Enabler")	Maia	Rendering of services relating to the development, commercialisation and implementation of software solutions.	Retailbox	98.5%	71.23%	97.3%	66.25%
Enabler Brasil, Ltda. ("Enabler Brasil")	Curitiba- Paraná, Brazil	Commercialisation of software developed by the companies or by third parties; provision of technical consultancy services relating to software.	Enabler	99.99%	71.22%	99.99%	66.24%
Enabler & Retail Consult, GmbH (Enabler Germany)	Germany	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	85%	60.55%	85%	56.31%
Enabler UK, Limited ("Enabler UK")	United Kingdom	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	100%	71.23%	100%	66.25%
Enabler FR, ("Enabler FR") (d)	France	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	100%	71.23%	-	-
Exit Travel – Agência de Viagens e Turismo Online, S.A. ("Exit")	Maia	Internet travel, tourism and leisure agency.	Sonaecom	(Sold)		75%	75%
Jaua, S.G.P.S, S.A. (Jaua) (b)	Lisbon	Management of shareholdings.	Novis	-	-	100%	56.67%
KPNQwest Portugal - Telecomunicações, Lda ("KPNQwest") (b)	Lisbon	Supply of internet access.	Jaua Noriema	- -	- -	51% 49%	28.9% 27.77%

\* Sonaecom effective participation

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held			
				2006		2005	
				Direct	Effective*	Direct	Effective*
Mainroad – Serviços em Tecnologias de Informação, S.A. (“Mainroad”)	Maia	Rendering of consultancy services in IT areas.	Novis	-	-	100%	56.67%
			Sonae.com Sistemas de Informação	100%	100%	-	-
Miauger – Organização e Gestão de Leilões Electrónicos, S.A. (“Miauger”)	Maia	Organisation and management of electronic auctions of products and services on-line.	Sonaecom	100%	100%	100%	100%
Noriema, S.G.P.S.,S.A. (“Noriema”) (b)	Lisbon	Management of shareholdings.	Novis	-	-	100%	56.67%
M3G – Edições Digitais, S.A. (“M3G”)	Lisbon	Digital publishing, electronic publishing and production of Internet contents.	Público.pt	-	-	100%	99.99%
			Público	100%	99.99%	-	-
Novis Telecom, S.A. (“Novis”)	Maia	Installation, maintenance and operation of information processing and telecommunications equipment, network management and supply of value-added information and services.	Sonaecom	58.33%	58.33%	15%	15%
			Sonae Matrix	41.67%	41.67%	41.67%	41.67%
Optimus – Telecomunicações, S.A. (“Optimus”)	Maia	Rendering of mobile telecommunications services and the establishment, management and operation of telecommunications networks.	Sonae Telecom	49.06%	49.06%	49.06%	49.06%
			Sonaecom	20.18%	20.18%	-	-
Per-Mar – Sociedade de Construções, S.A. (“Per-Mar”)	Maia	Purchase, sale, renting and operation of property and commercial establishments.	Optimus	100%	69.24%	100%	49.06%
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%
Público.pt – Serviços Digitais Multimédia, S.A. (“Público.pt”)	Maia	Dissemination of goods and services in electronic format, dissemination of multimedia information and promotion of trade in a digital environment.	Público	(Liquidated)		100%	99.99%
Retailbox BV (“Retailbox”)	Amsterdam	Management of shareholdings.	Sonaetelecom BV	64%	72.32%	68.09%	68.09%
Optimus Towering – Exploração de Torres de Telecomunicações, S.A. (“Optimus Towering”)	Maia	Implementation, installation and exploitation of towers and other sites for the placement of telecommunications equipment.	Optimus	100%	69.24%	100%	49.06%

\* Sonaecom effective participation

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held			
				2006		2005	
				Direct	Effective*	Direct	Effective*
Sonae Matrix Multimédia, S.G.P.S., S.A. ("Sonae Matrix")	Maia	Management of shareholdings in the area of multimedia trade.	Sonaecom	100%	100%	100%	100%
Sonae Telecom, S.G.P.S., S.A. ("Sonae Telecom")	Maia	Management of shareholdings in the area of mobile telecommunications.	Sonaecom	100%	100%	100%	100%
Sonae.com - Sistemas de Informação, S.G.P.S., S.A. ("Sonae.com Sistemas de Informação")	Maia	Management of shareholdings in the area of corporate ventures and joint ventures.	Sonaecom	100%	100%	100%	100%
Sonaecom BV (e)	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	96.46%	96.46%	100%	100%
Wedo do Brasil Soluções Informáticas, Ltda.	Rio de Janeiro	Commercialisation of software and hardware. Rendering of consultancy and technical assistance.	We Do	99.89%	96.35%	99.89%	99.89%
XS – Comunicação, Informação e Lazer, S.A. ("XS" using the brand name "Xis") (c)	Maia	Editing, composition and publication of periodical and non-periodical material, through the magazine Xis.	Público	-	-	100%	99.99%

\* Sonaecom effective participation

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

(b) These companies were merged into Novis at 1 June 2005, with accounting effects on 1 January 2005.

(c) On 2 December 2005, XS merged into Público. This merger produced accounting effects from 1 January 2005.

(d) Company created in December 2005

(e) 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). Although, in 2005, Sonaecom only controls 49.06% of the shares in Optimus (69.24% in 2006), it has 55.11% of the voting rights in that subsidiary (65.20% in 2006).

### 3. Investments in associated companies

At 31 March 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		2006	2005
				Direct	Effective*	Direct	Effective*		
<b>Associated companies:</b>									
Net Mall, S.G.P.S., S.A. ("Net Mall")	Maia	Management of shareholdings.	Sonae.Com Sistemas de Informação	39.51%	39.51%	50%	50%	(a)	(a)
Sociedade Independente de Radiodifusão Sonora, S.A. ("S.I.R.S." using the brand name "Rádio Nova")	Oporto	Sound broadcasting. Radio station.	Público	45%	45%	45%	45%	(a)	(a)
Unipress – Centro Gráfico, Lda. ("Unipress")	V.N.Gaia	Trade and industry of graphic design and publishing	Público	40%	40%	40%	40%	714,427	685,668
Profimetrics – Software Solutions, S.A. (c)	Maia	Development of software solutions to optimize the retail sales	Sonae.com Sistemas de Informação	30%	30%	-	-	150,000	-
Global S – Centro Comercial, Lda.	Matosinhos	Information technology services to promote and manage multimedia stores. Operation of shopping centres (Global Shop).	Global S			2.4%	0.8%	-	(b)
			Global S 24	(Sold)		97.5%	15.8%	-	(b)
Global S, S.G.P.S., S.A. ("Global S" using the brand name "Global Shop")	Matosinhos	Management of shareholdings.	Net Mall	(Sold)		64.7%	32.4%	-	(b)
Global S – Tecnologias de Informação, Lda.	Matosinhos	Development, production, commercialisation, training and services in the area of information technology, communications and security.	Global S	(Liquidated)		75%	24.3%	-	(b)
Global S 24, S.G.P.S., S.A.	Matosinhos	Management of shareholdings.	Global S	(Sold)		50%	16.2%	(b)	(b)
								864,427	685,668

\* Sonaecom effective participation

(a) Investment recorded at a nil book value.

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

(c) Company created in March 2006

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

#### 4. Changes in the Group

During the period ended 31 March 2006 the following changes occurred in the composition of the Group:

##### 4. a) Acquisitions

<u>Purchaser</u>	<u>Subsidiary</u>	<u>Date</u>	<u>% acquired</u>	<u>Current % Shareholding</u>
Sonae.com SI	We Do	Mar-06	0.99%	96.46%

As a result of the above mentioned acquisition, additional Goodwill of Euro 124,824 was recorded (Note 7).

##### 4. b) Supplementary Capital

<u>Shareholder</u>	<u>Subsidiary</u>	<u>Date</u>	<u>Amount</u>	<u>% Shareholding</u>
Optimus	Optimus Towering	Jan-06	6,800,000	100%
Optimus	Optimus Towering	Feb-06	650,000	100%
Optimus	Optimus Towering	Mar-06	(2,200,000)	100%

##### 4. c) Reductions in Supplementary Capital to cover losses

<u>Shareholder</u>	<u>Subsidiary</u>	<u>Date</u>	<u>Amount</u>	<u>% Shareholding</u>
Público	M3G	Mar-06	119,669	100%
Sonaecom	Matrix	Mar-06	18,412,208	100%
Sonaecom	Miau	Mar-06	4,458,099	100%
Sonae.com SI	Mainroad	Mar-06	3,250,919	100%
Matrix	Novis	Mar-06	67,345,006	41.67%
Sonaecom	Novis	Mar-06	112,278,781	58.33%
Optimus	Optimus Towering	Mar-06	547,499	100%
Sonaetelecom BV	Público	Mar-06	11,518,473	100%
Sonaecom	Sonae.com SI	Mar-06	25,421,587	100%

##### 4. d) New Entries to cover losses

<u>Shareholder</u>	<u>Subsidiary</u>	<u>Date</u>	<u>Amount</u>	<u>% Shareholding</u>
Sonaecom	Miau	Mar-06	110,000	100%

##### 4. e) Sales

<u>Seller</u>	<u>Subsidiary</u>	<u>Date</u>	<u>% Sold</u>	<u>% Shareholding</u>
Net Mall	Global S, SGPS, SA	Jan-06	64.73%	-

#### 4. f) Constitutions

<u>Shareholder</u>	<u>Subsidiary</u>	<u>Date</u>	<u>Amount</u>	<u>Current % Shareholding</u>
Sonaecom	Sonaecom BV	Feb-06	20,000	100%
Sonae.com SI	Profimetrics	Mar-06	500,000	30%

#### 5. Tangible Assets

The movement in tangible assets and corresponding accumulated depreciation and impairment losses in the periods ended 31 March 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 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>
Additions	-	3,510,253	1,180,896	33,416	362,439	-	10,500	26,549,350	31,646,854
Disposals	-	(551,542)	(193,812)	(51,006)	(85,930)	(2,933)	(1,763)	(98,618)	(985,604)
Transfers and write-offs	-	4,159,302	19,714,269	9,541	1,997,734	-	109	(26,447,074)	(566,119)
<b>Balance at 31 March 2006</b>	<b>1,391,593</b>	<b>200,920,199</b>	<b>690,648,155</b>	<b>160,736</b>	<b>134,737,419</b>	<b>1,043,979</b>	<b>2,777,999</b>	<b>11,918,102</b>	<b>1,043,598,182</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:</b>									
<b>Balance at 31 December 2005</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>536,070,676</b>
Depreciation for the year	-	4,620,453	16,817,635	6,135	3,882,639	3,711	150,004	-	25,480,577
Impairment losses in the year	-	-	-	-	(6,767)	-	(2,671)	-	(9,438)
Disposals	-	(63,673)	(128,494)	(42,398)	(47,354)	(2,933)	(558)	-	(285,410)
Transfers and write-offs	-	(15,520)	(63,313)	3,285	127,878	(21)	(42,280)	-	10,029
<b>Balance at 31 March 2006</b>	-	<b>93,949,523</b>	<b>366,986,711</b>	<b>69,935</b>	<b>97,015,681</b>	<b>1,010,760</b>	<b>2,233,824</b>	-	<b>561,266,434</b>
<b>Net Value</b>	<b>1,391,593</b>	<b>106,970,676</b>	<b>323,661,444</b>	<b>90,801</b>	<b>37,721,738</b>	<b>33,219</b>	<b>544,175</b>	<b>11,918,102</b>	<b>482,331,748</b>

	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 31December 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>
Additions	-	18,445	1,825,341	36,740	254,884	-	-	19,748,261	21,883,671
Disposals	-	(82,249)	(112,677)	(28,022)	(806,719)	-	-	(363,095)	(1,392,762)
Transfers and write- offs	-	4,198,356	15,083,228	882	3,851,144	-	9,282	(20,385,099)	2,757,793
<b>Balance at 31March 2005</b>	<b>1,391,593</b>	<b>175,643,824</b>	<b>634,739,985</b>	<b>139,889</b>	<b>123,040,321</b>	<b>1,203,681</b>	<b>2,829,838</b>	<b>8,157,812</b>	<b>947,146,943</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:</b>									
<b>Balance at 31December 2004</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>441,089,860</b>
Depreciation for the year	-	4,252,380	15,693,865	2,646	4,465,891	11,359	161,112	-	24,587,253
Impairment losses in the year	-	-	-	-	-	-	-	-	-
Disposals	-	(3,145)	(52,491)	(6,302)	(344,613)	-	-	-	(406,551)
Transfers and write- offs	-	(30,764)	(15,413,650)	519	18,548,259	(3,354)	711,809	-	3,812,819
<b>Balance at 31March 2005</b>	-	<b>75,229,888</b>	<b>304,191,491</b>	<b>106,777</b>	<b>85,647,181</b>	<b>1,148,987</b>	<b>2,759,057</b>	-	<b>469,083,381</b>
<b>Net Value</b>	<b>1,391,593</b>	<b>100,413,936</b>	<b>330,548,494</b>	<b>33,112</b>	<b>37,393,140</b>	<b>54,694</b>	<b>70,781</b>	<b>8,157,812</b>	<b>478,063,562</b>

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

The additions to Fixed assets in the year 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.

The acquisition cost of Tangible assets held by the Group under finance lease contracts amounted to Euro 12,110,102 and Euro 12,814,610 as of 31 March 2006 and 2005, respectively and their net book value as of those dates amounted to Euro 6,942,003 and Euro 7,768,050, respectively.

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

	<u>2006</u>	<u>2005</u>
Development of mobile network	5,259,603	7,186,874
Development of fixed network	4,992,328	720,997
Information systems	1,478,988	-
Other projects in progress	187,183	249,941
	<u>11,918,102</u>	<u>8,157,812</u>

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

	<u>2006</u>	<u>2005</u>
Technical investments	37,855,144	20,385,133
Investments in information systems	15,996,842	11,317,556
	<u>53,851,986</u>	<u>31,702,689</u>

## 6. Intangible assets

The movement in Intangible assets and corresponding accumulated amortisation and impairment losses in the periods ended 31 March 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 2005</b>	<b>147,155,167</b>	<b>172,425,905</b>	-	<b>7,085,344</b>	<b>326,666,416</b>
Additions	11,453	103,821	-	3,541,718	3,656,992
Disposals	(6,853)	-	-	(426,892)	(433,745)
Transfers and write-offs	5,553	2,492,388	-	(1,993,740)	504,201
<b>Balance at 31 March 2006</b>	<b>147,165,320</b>	<b>175,022,114</b>	-	<b>8,206,430</b>	<b>330,393,864</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIEMENT LOSSES:</b>					
<b>Balance at 31 December 2005</b>	<b>18,483,941</b>	<b>132,907,337</b>	-	-	<b>151,391,278</b>
Amortisation for the year	3,298,790	3,712,024	-	-	7,010,814
Disposals	(1,725)	-	-	-	(1,725)
Transfers and write-offs	(9,279)	61,060	-	-	51,781
<b>Balance at 31 March 2006</b>	<b>21,771,727</b>	<b>136,680,421</b>	-	-	<b>158,452,148</b>
<b>Net value</b>	<b>125,393,593</b>	<b>38,341,693</b>	-	<b>8,206,430</b>	<b>171,941,716</b>

	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>
Additions	22,970	184,219	-	731,717	938,906
Disposals	(21,000)	(115,344)	-	(166,228)	(302,572)
Transfers and write-offs	24	(1,159,430)	(441,465)	(2,771,961)	(4,372,832)
<b>Balance at 31 March 2005</b>	<b>145,657,052</b>	<b>158,699,017</b>	<b>196,735</b>	<b>3,935,353</b>	<b>308,488,157</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIEMENT LOSSES:</b>					
<b>Balance at 31 December 2004</b>	<b>5,186,364</b>	<b>122,823,729</b>	<b>270,594</b>	-	<b>128,280,687</b>
Amortisation for the year	3,230,345	3,842,440	16,427	-	7,089,212
Disposals	-	(5,592)	-	-	(5,592)
Transfers and write-offs	786,840	(5,464,276)	(171,720)	-	(4,849,156)
<b>Balance at 31 March 2005</b>	<b>9,203,549</b>	<b>121,196,301</b>	<b>115,301</b>	-	<b>130,515,151</b>
<b>Net value</b>	<b>136,453,503</b>	<b>37,502,716</b>	<b>81,434</b>	<b>3,935,353</b>	<b>177,973,006</b>

As at 31 March 2006 and 2005, the Group has recorded under the heading 'Intangible assets' an amount of Euro 124,579,864 and Euro 137,357,286, respectively, that correspond to investments net of depreciations made in the development of the UMTS network, including Euro 87,758,427 (amount of Euro 96,759,291 in 2005) related to the license and Euro 29,323,308 (amount of Euro 32,330,827 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 March 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 March 2006 and 2005 such expenses amounted to Euro 12,553,129 and Euro 12,140,579, respectively. The amount capitalised on the periods ended 31 March 2006 and 2005 were Euro 99,528 and Euro 38,069, respectively. An interest capitalization rate of 3.224% was used in 2006 (3.182% in 2005), which corresponds to the average interest rate supported by the Group.

## 7. Goodwill

At 31 March 2006 and 2005, the movements occurred in goodwill and corresponding accumulated amortisation and impairment losses were as follows:

	<u>2006</u>	<u>2005</u>
<b>Gross Assets:</b>		
Opening balance	285,468,452	31,614,130
Increase of participations (Note 4. a))	124,824	8,595,469
Corrections to acquisition amount	-	(5,358)
<b>Net value</b>	<u><u>285,593,276</u></u>	<u><u>40,204,241</u></u>

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

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

	2006		2005	
	Date of acquisition	Net Book Value	Net Book Value	
Sonaecom / SRD	Jan-98	2,960	2,960	
Novis / IPG	May-99	3,221,708	3,221,708	
Optimus / Per-Mar	Dec-99	47,253	47,253	
Sonae Telecom BV / Público	Apr-00	20,000,000	20,000,000	
Público / SIRS	Apr-00	72,820	72,820	
Sonaecom / Enabler	Jun-00	946,696	946,696	
Novis / IPG	Jun-00	723,694	723,694	
WeDo / Sidra	Jan-01	923,108	923,108	
WeDo / Sidra	Jan-01	7,981	7,981	
Novis / IPG (a)	May-01	292,628	292,628	
Novis / IPG (a)	May-02	332,532	332,532	
Enabler / Enabler UK	Jul-03	356,001	356,001	
Optimus / Optimus Towering	Oct-03	10,713	10,713	
Enabler / Enabler DE	Jan-04	71,647	71,647	
Sonaetelecom BV / Retailbox	Feb-04	1,141,333	1,182,782	
Novis / Noriema	Apr-04	2,090,054	2,090,054	
Novis / Jaua	Apr-04	1,121,554	1,121,554	
Enabler / Enabler UK	Apr-04	48,067	48,067	
Enabler / Enabler UK	Dec-04	156,574	156,574	
Sonae Telecom SGPS/ Optimus	Mar-05	8,595,469	8,595,469	
Retailbox/ Enabler	Apr-05	94,567	-	
Sonaetelecom BV/ Retailbox	Apr-05	859,172	-	
Sonae.com SI/ WeDo	Sep-05	351,030	-	
Sonae.com SI/ WeDo	Oct-05	93,517	-	
Sonae.com SI/ WeDo	Nov-05	17,079	-	
Sonaecom/ Optimus	Nov-05	156,485,670	-	
Sonaecom/ Novis	Nov-05	76,120,306	-	
Sonaecom/ Clix	Nov-05	11,284,319	-	
Sonae.com SI/ WeDo	Mar-06	124,824	-	
		285,593,276	40,204,241	

SRD – Sonae Rede de Dados (Currently Novis)

IPG – IP Global (company merged into Novis)

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

## 8. Investments available for sale

At 31 March 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 (Note 15)	Net amount	Gross amount	Accumulated impairment losses (Note 15)	Net amount
Despegar.com	2,539,229	(2,539,229)	-	2,539,229	(2,539,229)	-
Altitude, SGPS, S.A.	1,000,000	-	1,000,000	1,000,000	-	1,000,000
Lusa – Agência de Notícias de Portugal, S.A.	197,344	-	197,344	197,344	-	197,344
SESI – Sociedade de Ensino Superior e Investigação, S.A.	146,248	(146,248)	-	146,248	(146,248)	-
NP – Notícias Portugal, Cooperativa de Utentes de Serviços de Informação, C.R.L.	7,482	-	7,482	7,482	-	7,482
Others	2,494	-	2,494	2,494	-	2,494
Investments held for sale	<b>3,892,797</b>	<b>(2,685,477)</b>	<b>1,207,320</b>	<b>3,892,797</b>	<b>(2,685,477)</b>	<b>1,207,320</b>

## 9. Deferred tax assets

Deferred tax assets at 31 March 2006 and 2005, in the amount of Euro 68,827,031 and Euro 68,850,471, respectively, result mainly from timing differences relating to tax losses carried forward and non tax deductible provisions.

The movements in deferred tax assets in the periods ended 31 March 2006 and 2005 were as follows:

	<b>2006</b>	<b>2005</b>
<b>Opening balance</b>	<b>66,239,165</b>	<b>68,693,940</b>
<b>Impact on results</b>		
Tax losses carried forward	(3,474,693)	(2,549,775)
Movements in provisions not deductible for tax purposes and on tax benefits	-	508,754
Recognition of deferred taxes, not recorded in previous years, as, at that time, the existence of future taxable profits to use them was considered to be uncertain (Optimus)	6,700,000	2,200,000
Temporary differences between the tax and accounting value of assets	(637,441)	-
<b>Sub-total (Note 19)</b>	<b>2,587,866</b>	<b>158,979</b>
<b>Impact on reserves</b>		
Others	-	(2,448)
<b>Closing balance</b>	<b>68,827,031</b>	<b>68,850,471</b>

The heading Tax losses carried forward is composed mainly by the movements in the subsidiaries Optimus (utilisations of circa Euro 3,200,000 and Euro 3,400,000, on 31 March 2006 and 2005, respectively) and Novis (recognition of an amount of Euro 480,000 on 31 March 2005).

At 31 March 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, and on tax planning opportunities available or identified.

At 31 March 2006 and 2005, a corporate tax rate of 27.5% was used to calculate the deferred tax assets.

In accordance with the tax returns and other information prepared by the companies that have registered deferred tax assets, the tax losses carried forward at 31 March 2006 were as follows:

	Optimus	We Do	Público	Total	Limit date to be used	2004
Originated in 1999	-	-	-	-	2005	13,097,691
Originated in 2000	-	-	-	-	2006	4,906,216
Originated in 2001	-	896,170	1,932,328	2,828,498	2007	30,598,638
Originated in 2002	28,977,157	3,300,611	3,729,977	36,007,745	2008	42,799,431
Originated in 2003	17,588,992	1,171,479	997,108	19,757,579	2009	23,650,585
Originated in 2004	-	316,186	56,872	373,058	2010	168,000
Originated in 2005	-	1,032,650	12,497,791	13,530,441	2011	-
	-	-	2,321,409	2,321,409	2012	-
	<u>46,566,149</u>	<u>6,717,096</u>	<u>21,535,485</u>	<u>74,818,730</u>		<u>115,220,561</u>

At 31 March 2006, the Group has other situations where potential deferred tax assets could result but they were not recognised since it was not expected sufficient taxable profits in the future to cover those losses:

	<b>2006</b>
Tax losses (including those from companies referred to in the table above, in relation to which no deferred tax assets were recorded)	98,670,955
Temporary differences (mainly provisions not accepted for tax purposes)	23,160,828
Adjustments on conversion to IAS/IFRS	4,444,764
	<u><b>126,276,548</b></u>

During the period ended 31 March 2006, the effective rate used for calculating the income tax was negative 73.89% and could be summarized as follows:

<b>Earning before taxes</b>	<b>2,992,933</b>
Income tax rate (27.5%)	(823,057)
Deferred taxes not recognised in individual accounts and resulting from consolidation adjustments	(3,165,555)
Adjustments to taxable income of the current year	137,427
Deferred taxes not recognised in previous years	6,700,000
Temporary differences between the tax and accounting value of assets	(637,441)
<b>Income taxation recorded in the year</b>	<b><u>2,211,374</u></b>
<b>Effective tax rate</b>	<b>(73.89)%</b>

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

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

## 10. Other non current assets

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

	2006			2005		
	Gross amount	Accumulated impairment losses (Note 15)	Net amount	Gross amount	Accumulated impairment losses (Note 15)	Net amount
<b>FINANCIAL ASSETS:</b>						
<b>Loans granted to companies recorded Under the equity method:</b>						
Rádio Nova	118,500	(118,500)	-	118,500	-	118,500
Net Mall	-	-	-	841,640	-	841,640
	<u>118,500</u>	<u>(118,500)</u>	<u>-</u>	<u>960,140</u>	<u>-</u>	<u>960,140</u>
<b>Other loans granted:</b>						
S.E.S.I.	24,316	(24,316)	-	24,316	(24,316)	-
	<u>24,316</u>	<u>(24,316)</u>	<u>-</u>	<u>24,316</u>	<u>(24,316)</u>	<u>-</u>
<b>NON FINANCIAL ASSETS:</b>						
Deferred Performance Bonus Plan (Notes 1.w) e 24)	3,823,403	-	3,823,403	1,567,368	-	1,567,368
	<u>3,823,403</u>	<u>-</u>	<u>3,823,403</u>	<u>1,567,368</u>	<u>-</u>	<u>1,567,368</u>
	<u><b>3,966,219</b></u>	<u><b>(142,816)</b></u>	<u><b>3,823,403</b></u>	<u><b>2,551,824</b></u>	<u><b>(24,316)</b></u>	<u><b>2,527,508</b></u>

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

The associated companies Net Mall and Rádio Nova/SIRS are included in the consolidation under the equity method. Since the proportion of the Group in the accumulated losses of these companies is greater than the recorded value of the investment, and due to the fact that the Group committed itself in relation to these associated companies, a provision for other liabilities and charges was recorded, which covers the potential losses that could arise from the non recoverability of these loans. During the year ended 31 December 2005, that provision was transferred from the caption 'Provisions for other liabilities and charges' to 'Impairment losses' under 'Other non current assets'.

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

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

During the period ended 31 March 2006, the movements in this heading were as follows:

	<b>2006</b>
Balance at the beginning of the year	1,321,690
Acquisitions in the period	414,842
Disposals in the period	(273,820)
Increases/reductions to fair value (Note 18)	321,699
Balance at closing of the period	<b>1,784,411</b>

As at 31 March 2006, 'Investments recorded at fair value through profit and loss' correspond to 1,120,074 shares of Sonae, S.G.P.S., S.A. and 38,834 shares of Sonae Indústria, S.G.P.S., S.A., acquired to fulfil future obligations under the Deferred Performance Bonus Plan.

## 12. Cash and cash equivalents

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

	<b>2006</b>	<b>2005</b>
Cash	318,695	545,945
Bank deposits repayable on demand	4,850,595	5,301,062
Treasury applications	185,000,110	27,922,224
Cash and cash equivalents	190,169,400	33,769,231
Bank overdrafts (Note 13)	(357,959)	(120,140)
	<b>189,811,441</b>	<b>33,649,091</b>

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

	<b>2006</b>	<b>2005</b>
<u>Funds placed with Sonae:</u>		
Sonaecom	163,473,004	16,150,004
<u>Bank term deposits:</u>		
Optimus	14,765,000	-
WEDO Brasil	2,462,279	1,084,047
Novis	1,710,000	1,210,000
Mainroad	575,000	150,000
Digitmarket	510,000	110,000
We Do	450,000	-
Enabler	389,827	428,173
Miauger	130,000	-
Optimus Towering	100,000	150,000
Sonaecom	75,000	8,200,000
Sonae.com SI	65,000	200,000
Others	295,000	240,000
	<b>185,000,110</b>	<b>27,922,224</b>

### 13. Loans

At 31 March 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
Sonaecom SGPS	'Obrigações Sonaecom SGPS 2005'	-	June 2013	Final	150,000,000	-
	Costs associated with setting-up the financing	-	-	-	(3,705,990)	-
					<b>146,294,010</b>	<b>-</b>
	European Investment Bank (a)	324,458,200	June 2009	30% - Jun 08 70% - Jun 09	324,458,200	324,458,200
Optimus	Revolving credit facility (syndicate)	125,541,800	June 2009	Final	-	-
	Costs associated with setting-up the financing	-	-	-	(13,962,543)	(18,273,841)
	Fair value of swaps	-	-	-	275,830	-
					<b>310,771,487</b>	<b>306,184,359</b>
					<b>457,065,497</b>	<b>306,184,359</b>

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

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

Subsidiary	Lender	Type	2006	2005
Various	Various	Bank overdrafts	357,959	120,140
Optimus	-	Fair values of swaps	-	730,649
			<b>357,959</b>	<b>850,789</b>

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

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

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

As at 31 March 2006, the repayment Schedule of medium and long term loans and bonds was as follows:

<b>Maturity year</b>	<u><b>2006</b></u>	<u><b>2005</b></u>
2008	97,337,460	97,337,460
2009	227,120,740	227,120,740
2013	150,000,000	-

### **Interest Rate Risk**

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

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

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

The following interest rate hedging instruments were outstanding as at 31 March 2006:

Subsidiary	Hedged loan	Notional Amount	Expiry date	Base rate	Fixed rate contracted	Fair value of the derivative transaction
Optimus	European Investment Bank	55,000,000	Dec-07	Euribor 3m	4.1% (a)	(275,830)
		<b>55,000,000</b>				<b>(275,830)</b>

(a) This rate corresponds to the cap (maximum rate) contracted and effective until September 2006. The rate effectively paid corresponds to the simple average of the 2 year swap rates verified during the period (3.095% in the last period of exchange).

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

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

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

#### 14. Other non current financial liabilities

At 31 March 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 and loans by minority shareholders to some subsidiaries, as follows:

	<b>2006</b>	<b>2005</b>
Fixed assets suppliers – leasing	2,037,689	1,340,300
Clix (France Telecom)	-	1,602,841
	<u>2,037,689</u>	<u>2,943,141</u>

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

	<b>Lease payments</b>	<b>Present value of lease payments</b>
2006	2,269,705	2,156,609
2007	1,106,728	928,985
2008	683,590	636,090
2009	475,657	457,253
2010	236,931	229,540
	4,682,613	4,408,477
Interest	(274,134)	-
	<b>4,408,477</b>	<b>4,408,477</b>
Short term liability (Note 16)	-	(2,370,788)
	<b>4,408,477</b>	<b>2,037,689</b>

## 15. Provisions and accumulated impairment losses

The movements in provisions and accumulated impairment losses in the period ended 31 March 2006 were as follows:

Heading	Opening balance	Transfers	Increases	Utilisation	Decreases	Closing balance
Accumulated impairment losses on accounts receivable	64,905,431	-	125,726	(2,996,753)	(10,367)	62,024,037
Accumulated impairment losses on inventories	7,134,249	-	785,000	(1,154,452)	-	6,764,797
Accumulated impairment losses on investments available for sale(Note 8)	2,685,477	-	-	-	-	2,685,477
Accumulated impairment losses on other non current assets and associated companies investments (Notes 3 and 10)	986,956	-	-	-	-	986,956
Provisions for other liabilities and charges	5,092,476	(100,943)	4,240,477	(128,500)	-	9,103,510
	80,804,589	(100,943)	5,151,203	(4,479,705)	(10,367)	81,564,777

Increase of ‘Provisions for other liabilities and charges’ includes the amount of Euro 3,285,860 associated with the dismantling of sites, as foreseen under rule IAS 16 (Note 1.c.)). As such, the total amount included under increase of provisions and of impairment losses, registered against a corresponding entry in the profit and loss statement, corresponds to Euro 1,865,343.

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

### **16. Other current financial liabilities**

At 31 March 2006 this caption includes the amount of Euro 2,370,788 (Euro 3,621,052, in 2005) related to the short term portion of lease contracts (Note 14).

### **17. External supplies and services**

‘External supplies and services’ for the periods ended 31 March 2006 and 2005 are made up as follows:

	<u>2006</u>	<u>2005</u>
Interconnection costs	49,656,391	49,220,811
Commissions	13,915,932	12,086,244
Advertising and publicity	5,734,608	6,212,434
Leased lines	4,591,811	5,107,003
Other supplies and services	37,744,277	32,891,559
	<u>111,643,019</u>	<u>105,518,051</u>

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

## 18. Financial results

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

	<u>2006</u>	<u>2005</u>
<b>Financial results related to associated companies:</b>		
Gains on associated companies	28,766	-
	<u>28,766</u>	<u>-</u>
<b>Other financial results:</b>		
Interest expense	(3,887,220)	(2,652,594)
Interest income	1,420,174	1,056,798
Adjustments to fair value on investments recorded at fair value through profit and loss (Note 11)	321,699	-
Foreign exchange losses	(73,497)	(57,479)
Foreign exchange gains	100,340	137,465
Other financial results	(1,448,749)	(1,250,076)
	<u>(3,567,253)</u>	<u>(2,765,886)</u>
	<u>(3,538,487)</u>	<u>(2,765,886)</u>

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

## 19. Income taxation

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

	<u>2006</u>	<u>2005</u>
Current tax	(376,492)	(592,884)
Deferred tax (Note 9)	2,587,866	158,979
	<u>2,211,374</u>	<u>(433,905)</u>

## 20. Related parties

During the period ended 31 March 2006, the balances and transactions with related parties mainly relate to the normal operational activity of the Group (providing communications and consultancy services) and to the granting and obtaining loans.

The balances and more significant transactions with related parties as at 31 March 2006 were as follows:

<b>Balances:</b>	<u>Accounts receivable</u>	<u>Accounts payable</u>	<u>Treasury applications</u>	<u>Loans obtained</u>
Sonae	50,161	28,797	163,473,004	-
Modelo Continente				
Hipermercados, S.A.	3,216,083	337,893	-	-
France Telecom	1,698,985	3,671,755	-	-
Sonae Investments BV	-	12,674,109	-	-
	<u>4,965,229</u>	<u>16,712,554</u>	<u>163,473,004</u>	<u>-</u>
<b>Transactions:</b>	<u>Sales and services rendered</u>	<u>Supplies and services received</u>	<u>Interest income/ (expenses)</u>	<u>Supplementary income</u>
Sonae	80,327	46,748	1,106,968	2,621
Modelo Continente				
Hipermercados, S.A.	3,740,032	362,065	-	-
France Telecom	626,055	2,406,214	-	-
	<u>4,446,414</u>	<u>2,815,027</u>	<u>1,106,968</u>	<u>2,621</u>

### 36. Guarantees provided to third parties

Guarantees provided to third parties at 31 March 2006 and 2005 are as follows:

<b>Company</b>	<b>Beneficiary</b>	<b>Description</b>	<b>2006</b>	<b>2005</b>
Optimus	European Investment Bank	Loan	324,458,200	324,458,200
Optimus	ANACOM	UMTS License	2,493,989	2,493,989
Novis	Direcção de Contribuições e Impostos (Portuguese tax authorities)	VAT Reimbursements	108,372	-
Optimus and Público	Direcção de Contribuições e Impostos (Portuguese tax authorities)	VAT - Liquidation	598,000	598,000
Público	Tribunal de Trabalho de Lisboa(Lisbon Labour Court)	Execution action nº199A/92	271,511	271,511
Optimus and Novis	Hewlett Packard	Finance lease and services provider contracts	171,536	747,525
Clixgest	Governo Civil de Lisboa (Lisbon District Civil)	Guarantee the fulfilment of legal obligations	-	83,700
Público	Fazenda Pública do Porto (Oporto Public Treasury)	Tax process nº3190/98	209,493	209,493
We Do and Enabler	API (Portuguese Investment Agency)	Application to PRIME subsidies	468,120	184,004
Optimus and Novis	Direcção Geral do Tesouro (Portuguese tax authorities)	IRC – Withholding tax on payments to non-residents	164,000	39,000
Novis	Governo Civil de Santarém (Santarém District Civil)	Guarantee the fulfilment of legal obligations associated with a public contest launched	119,703	119,703
Novis	Câmara Municipal de Coimbra (Coimbra Municipality)	Performance bond - works	101,403	47,503
Optimus	Governo Civil de Lisboa (Lisbon District Civil)	Guarantee the fulfilment of legal obligations	98,195	93,025
Novis	Câmara Municipal de Lisboa (Lisbon Municipality)	Performance bond - works	91,560	100,575
Exit	Direcção Geral do Turismo (Portuguese tourism authorities)	Guarantee the fulfilment of legal obligations included in references c), d) and e) of point 2 of article 41.º from Decree-Law 209/97 of 13 August	-	99,760
Novis	Câmara Municipal de Braga (Braga Municipality)	Performance bond - works	45,416	45,416
Novis	Câmara Municipal de Elvas (Elvas Municipality)	Performance bond - works	28,142	28,142
Novis	Câmara Municipal de Caldas da Rainha (Caldas da Rainha Municipality)	Performance bond - works	19,952	-
Various	Others		520,456	311,929
			<u>329,968,048</u>	<u>329,931,475</u>

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

The following business segments were identified for the periods ending 31 March 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 March 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 March 2006 and 2005 can be summarised as follows:

	Mobile Network		Fixed Network and Internet		Multimedia		Information Systems		Other		Sub-total		Eliminations		Total	
	March 06	March 05	March 06	March 05	March 06	March 05	March 06	March 05	March 06	March 05	March 06	March 05	March 06	March 05	March 06	March 05
Revenues:																
Sales and services rendered	141,226,832	146,787,498	44,506,492	36,616,390	8,723,418	9,975,112	22,100,580	20,027,928	1,938,410	2,621,886	218,495,732	216,028,814	(21,600,245)	(19,162,379)	196,895,486	196,866,434
Other operating revenues	8,929,821	5,977,811	1,423,143	706,869	129,796	145,260	526,301	350,595	94,702	379,110	11,103,764	7,559,645	(9,834,217)	(6,264,885)	1,269,547	1,294,760
Total revenues	150,156,654	152,765,309	45,929,635	37,323,259	8,853,214	10,120,371	22,626,881	20,378,523	2,033,112	3,000,996	229,599,496	223,588,459	(31,434,462)	(25,427,265)	198,165,034	198,161,194
Depreciation and amortisation	(28,195,694)	(27,394,817)	(3,806,750)	(3,595,971)	(223,005)	(348,194)	(416,693)	(573,674)	(83,306)	(87,240)	(32,725,448)	(31,999,895)	234,057	323,431	(32,491,391)	(31,676,465)
Net operating income/(loss) for the segment	16,154,360	16,081,237	(8,315,938)	(4,871,654)	(2,143,169)	(781,400)	1,493,431	2,391,703	(684,322)	(575,788)	6,504,362	12,244,098	27,058	87,709	6,531,420	12,331,807
Net interests	(1,866,919)	(2,439,424)	(513,832)	(328,426)	(43,200)	(40,760)	148,986	42,804	(179,288)	1,173,894	(2,454,252)	(1,591,912)	(12,794)	(3,884)	(2,467,046)	(1,595,796)
Gains and losses in associated companies	-	-	-	-	-	-	-	-	-	-	-	-	28,766	-	28,766	-
Other financial results	(1,258,958)	(1,059,189)	(5,463)	(87,465)	(5,951)	(4,554)	15,712	61,592	146,426	(80,475)	(1,108,233)	(1,170,090)	8,026	-	(1,100,207)	(1,170,090)
Income taxation	2,810,854	(1,128,993)	(11,960)	967,647	(5,403)	369,127	(579,965)	(638,674)	(2,151)	(3,012)	2,211,374	(433,905)	-	-	2,211,374	(433,905)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(5,057,723)	(4,484,047)	(5,057,723)	(4,484,047)
Consolidated net income/(loss) for the year attributable to the Shareholders of Parent Company	15,839,337	11,453,631	(8,847,193)	(4,319,897)	(2,197,723)	(457,587)	1,078,164	1,857,425	(719,335)	514,619	5,153,251	9,048,191	(5,006,667)	(4,400,222)	146,584	4,647,969
Assets:																
Fixed assets and Goodwill	566,309,905	579,598,133	95,607,308	80,277,747	2,378,225	2,438,812	15,091,077	16,450,396	2,313,228	2,442,625	681,699,743	681,207,714	258,166,997	15,033,097	939,866,740	696,240,811
Inventories	25,103,206	10,947,888	2,488,467	363,130	1,102,349	1,352,972	87,430	39,284	-	57	28,781,452	12,703,331	-	-	28,781,452	12,703,331
Financial investments and other non current assets	73,185,870	68,561,599	685,382	17,383,615	2,722,360	3,028,826	1,593,277	1,725,465	1,289,200,675	905,169,144	1,367,387,564	995,868,648	(1,290,767,185)	(919,756,314)	76,620,379	76,112,334
Other current assets of the segment	255,490,666	193,180,246	68,490,536	59,218,080	9,523,196	9,047,418	37,904,392	29,482,867	187,478,437	39,713,858	559,091,227	330,642,469	(148,211,535)	(84,173,793)	410,879,692	246,468,676
	920,293,647	852,287,867	167,271,693	157,242,572	15,726,130	15,868,028	54,676,176	47,698,011	1,478,992,340	947,325,684	2,636,959,986	2,020,422,162	(1,180,811,724)	(988,897,010)	1,456,148,262	1,031,525,152
Liabilities:																
Liabilities of the segment	535,705,223	517,866,888	154,617,267	123,502,080	20,344,113	19,263,689	30,173,643	30,485,727	294,934,127	86,696,637	1,035,774,373	777,815,021	(271,694,657)	(186,022,910)	764,079,716	591,792,111
	535,705,223	517,866,888	154,617,267	123,502,080	20,344,113	19,263,689	30,173,643	30,485,727	294,934,127	86,696,637	1,035,774,373	777,815,021	(271,694,657)	(186,022,910)	764,079,716	591,792,111

## 23. Earnings per share

Earnings per share, basic and diluted, are calculated by dividing the consolidated net income of the period (Euro 146,584 in 2006 and Euro 4,647,862 in 2005) by the average number of shares outstanding during the periods ending 31 March 2006 ad 2005 (296,526,868 in 2006 and 226,250,000 in 2005 ).

## 24. Deferred Performance Bonus Plans

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

The Sonaecom plans outstanding at 31 March 2006 can be summarized as follows:

	Share price at award date*	Vesting Period		Exercise Period		At 31 March 2006	
		Award date	Vesting Date	From	To	Aggregate number of participants	Number of options/shares
<b>Sonaecom Options</b>							
2001 Plan	3.014	31-Mar-02	31-Mar-05	1-Apr-05	10-Mar-06	-	-
2002 Plan	1.694	31-Mar-03	10-Mar-06	1-Apr-06	09-Mar-07	75	1,010,754
2003 Plan	-	-	-	-	-	-	-
2004 Plan	-	-	-	-	-	-	-
2005 Plan	-	-	-	-	-	-	-
<b>Sonaecom Shares</b>							
2002 Plan	1.694	31-Mar-03	10-Mar-06	-	-	210	1,258,444
2003 Plan	3.190	31-Mar-04	09-Mar-07	-	-	358	1,199,583
2004 Plan	3.960	31-Mar-05	10-Mar-08	-	-	381	1,084,434
2005 Plan	4.093	10-Mar-06	09-Mar-09	-	-	410	976,226
<b>Sonae SGPS Shares</b>							
2002 Plan	0.36	31-Mar-03	31-Mar-06	-	-	11	797,998
2003 Plan	0.93	31-Mar-04	09-Mar-07	-	-	12	357,447
2004 Plan	1.17	31-Mar-05	10-Mar-08	-	-	13	355,920
2005 Plan	1.35	10-Mar-06	09-Mar-09	-	-	13	179,825

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

Sonaecom signed agreements to cover the execution and hedging of its Deferred Performance Bonus Plans and related obligations. The agreement means that Sonaecom's liabilities are limited to a maximum of Euro 15,189,898. This value is reflected in the captions 'Other non current liabilities' (Euro 7,873,031) and 'Other current liabilities' (Euro 7,316,867), for long term and short-term obligations, respectively.

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

The costs of the Option and Share Plans are recognised in the accounts over the period between the award and the vesting date of those shares and options. The costs recognised on previous years and in the period ended as at 31 March 2006, are as follows:

	<u>Amount</u>
Costs recognised on previous years	11,893,779
Costs recognised in the period	1,679,882
Cost of plans from subsidiary Exit (no longer consolidated)	(8,882)
Cost of plans vested on previous years	(3,081,435)
Cost of plans vested in the period	(3,247,452)
Other non current and current assets (Deferred costs not yet recognised)	7,945,978
Other adjustments	8,028
Other non current and current liabilities (Total cost of the Plans)	<u><u>15,189,898</u></u>

## 25. Others matters

(i) As of 31 March 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. At the time of this report, the court had already finished the judgement phase but the final decision is not known yet.

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

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

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

## **26. Commitments associated to “Information Society”**

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

These consolidated financial statements were approved and authorized for publication by the Board of Directors on 27 April 2006.

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

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