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STATE BUDGET FOR 2006

The state budget for 2006 brought several changes. Key among those changes are various tax exemptions, namely the reinstatement of exemptions associated to retirement plans and the possibility to deduct expenses with computers in the assessment of personal income tax. Other changes include the governments' intention to legislate on the automatic dissolution of companies, with a view that the dissolution may be achieved through an administrative decision.

This state budget provides for a reduction of the public expenditure in the region of 1,7 billion euros, further to the Government's promise to reduce the deficit. An interesting point is that the government intends to receive, in 2006, around 1,56 billion Euros in privatizations. These privatizations will bring business opportunities in the energy, paper, transports and communication sectors.

PROPOSED NEW PHARMACEUTICALS LAW

The Portuguese Government is preparing a new Pharmaceuticals Law. According to the proposal, the new Pharmaceuticals Law will gather in a single piece of legislation certain matters of Pharmaceuticals Law that are presently governed in various decrees.

One of the key innovations of the proposed piece of legislation is the creation of a new full market approval procedure, which is the "decentralized procedure" that allows a pharmaceutical company to request a full market approval simultaneously in several EU member states. It also foresees that the mandatory full market approval renewals that take place every five years will be replaced by a single renewal that will be valid for an unlimited period of time (subject to certain limitations).

Also, the proposed piece of legislation includes, for the first time in Portugal, the regulation of parallel imports of pharmaceuticals. Another innovation concerns

advertisement and information obligations, namely regarding non-prescription pharmaceuticals.

PORTUGUESE GOVERNMENT PASSES NEW DECREE LAW ON PENSION FUNDS

The Portuguese Government has approved a new decree-law on pension funds, pursuant to Directive number 2003/41/EC of 3rd June. Among other relevant changes, the new legislation increases the protection of the participants and beneficiaries of said funds and rules on cross-border management of pension plans, apart from increasing the information rights any participant or beneficiary is entitled to. In addition, it sets forth new provisions concerning conflicts of interest and subcontracting, the latter bringing new business opportunities for asset management companies.

Business

PORTUGUESE COMPANIES IMPROVED THEIR TAX COMPETITIVENESS

According to the 2006 Economic Freedom Index released by the Heritage Foundation, Portugal has registered a tax competitiveness increase during 2005.

According to this study, in a 0 to 5 scale, (being 0 the best and 5 the worst), the tax burden of income obtained in Portugal obtains a rank of 4, revealing some stability. Considering the tax burden of 160 countries list, this study rates Portugal in the middle, with 3,4 points, being its position better concerning Corporate Income Tax, with a rate of 3, than concerning Personal Income tax, where it has been qualified with a rank of 4 in a maximum of 5 possible.

This study also addresses other aspects of Portuguese economy, such as Public Expense, Monetary politics, Foreign Direct Investment, and Banking and Finance.

IKEA, AGNI AND VOLKSWAGEN INVEST IN PORTUGAL:

IKEA plans to invest 32 million euros to build a factory in Portugal aimed mostly at the export market, and create around 450 direct and indirect jobs;

Malaysian AGNI Inc plans to invest 65 million euros to build a fuel cell batteries factory in Portugal, including the creation of the first Portuguese R&D centre in the area of biogas and fuel cell.

The German automaker Volkswagen AG has officially announced that the Portuguese plant Autoeuropa will build a new model, beginning in 2008, based on the competitive costs of the Portuguese factory.

This Newsletter is designed to provide a summary of the subject matter. It does not purport to be comprehensive or a substitute for specialist legal advice in individual circumstances.

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