

**SONAE INDÚSTRIA, SGPS, S. A.**

Headquarters: Lugar do Espido, Via Norte, Maia

Registered at Maia Commercial Registering Office under no. 506 035 034

Share Capital: 700 000 000 euros

VAT no. 506 035 034

Publicly Traded Company

# Annual Report

Consolidated and Separate Accounts  
2006

(Translation from the Portuguese original)

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## Management Report

### 1. Message from the Chairman

Back in 2005, our management team embraced the challenge of redefining the strategy for Sonae Indústria. At that time, the Group had just come through an extremely challenging period, having digested the aggressive expansion plan of the previous 5 years and was beginning to recover from the significant economic downturn in our core European markets during the early years of 2000. Sonae Indústria then stood as one of the leading wood panel players in the world, with prime manufacturing capacity in 9 countries, spread over 4 continents, each region presenting clearly different market dynamics and levels of profitability. The outcome of our strategic reflection was that we should continue to grow profitably as a multi-regional wood panel manufacturer, maintaining a strong balance sheet and focusing on increasing productivity in the geographies where we already had an industrial presence.

We defined guidelines for the 3 main regions in which we operate: Iberia: to protect market share and profitability; Central Europe (Germany, France and the UK): to increase our profitability, whilst playing an active role in sector consolidation; and the Rest of the World (Canada, Brazil and South Africa): to expand in our more profitable growth markets.

I am pleased to report that, just two years later, we have clearly made clear progress in the execution of this strategy.

2006 was a particularly busy year. We entered into a joint-venture agreement with Tarkett for production and commercialization of laminate flooring based at our Eiweiler MDF plant. Also in Germany, we acquired the 3 production sites of the Hornitex Group, thereby increasing our capacity by 1.4 million m<sup>3</sup> and contributing to market consolidation in the Central European panels sector. In September, we acquired a particleboard plant in South West France which we integrated into our Iberian management structure and in July we announced the intention to acquire the minority shareholdings in our subsidiary Tafisa, the bid was authorized by the Comisión Nacional del Mercado de Valores (CNMV - The Spanish Securities Exchange Regulator) on 13 April 2007. In line with our goal of growth in our more profitable markets, we started construction of a new particleboard line at our White River plant in South Africa, which will be operational by 2Q07, and increased our melamine facing capacity in Canada, in order to raise our exposure to the higher value-added segments of the market.

Unfortunately, we suffered a setback at our Canadian operation when a fire broke out on one of our two particleboard lines in April. Thankfully, none of our employees were seriously injured. However, the production line was seriously damaged and is currently under reconstruction.

Consolidated Turnover in 2006 was 1.7 billion euros, an increase of 16% compared with 2005 and a consolidated EBITDA increased to 234 million euros, compared with 208 million euros in 2005. We began 2006 facing a tough market environment due to the relentless increases in raw material prices, particularly for oil related costs such as transport and energy. However, this negative pressure was offset during the year by delivery of increased operating efficiencies, good underlying volume growth and good price performance in our main geographies. This was helped by the gradual recovery in the economic climate and by sector consolidation in Central Europe.



Socially responsible behaviour is present in everything we do and we are striving to further improve our actions and communication in this field. In the second quarter of 2007, we will be issuing our first Sustainability Report which will provide a more global picture of how we approach sustainable management and what we are actually doing across our businesses. We have already made important inroads in specific areas, in particular in relation to our employees, health and safety standards and environmental management and our actions are supported by our pursuit of best practices in corporate governance and business ethics.

I am confident that the foundations are now laid for Sonae Indústria to continue to develop its strategy of profitable and sustainable growth and I am very proud to be able to count on such a capable and committed team.

## **2. Board of Director's Report**

### **2.1. Sector Review in 2006**

The European wood panels sector was characterized globally by an increase in demand which, together with a shortage in wood supply driven by a harsh winter, and the fact that some factories in Central Europe decided to execute maintenance stoppages as a result of this shortage, led to a more favourable market environment, particularly for particleboard. In December, Euroconstruct increased its estimates for growth of the construction sector in 2006 to 3.2% (previously 2.6%) on the back of stronger residential demand and larger investment in civil works, although performance differs widely from country to country. In addition, preliminary estimates for the furniture industry from the UEA (Union Européenne de l'Ameublement) indicate that 2006 was globally a positive year, in particular for the most recent EU member states.

The laminate flooring market posted weaker performance in Europe, mainly as a result of lower exports to North American markets. However, due to the improvement recorded in other industries and in export markets, sales volumes of MDF increased in 2006. OSB was also in strong domestic demand thereby offsetting the downturn in exports to the US following the weaker housing market and the new capacity installed.

The effect of the improved market environment was diluted by an increase in production costs, namely in terms of energy related costs, resins and wood. In 2H06, reported methanol production problems led to a shortage in supply in European and North American markets, thereby driving a significant hike in prices and consequently in resin costs. Also during 2H06, wood costs suffered substantial upward pressure as a result of increased competition for wood as a source of energy for power plants and for domestic purposes, as a substitute for oil, gas and electricity.

In North America, market data points to a slowdown in consumption of particleboard in the latter part of the year, due to lower demand from the furniture industry and the US construction sector. Furniture production appears to be weaker due to lower internal consumption and to pressure from Asian imports. The North American particleboard sector in late 2005 and early 2006 was marked by the closure of some capacity, which, together with the fire at our Canadian plant led to a shortfall of capacity and a subsequent increase in prices which only began to subside in 4Q06. During the first months of 2006, increased OSB capacity led to record production volumes. However, the build-up in capacity combined with the fall-off in the construction market, led to a decline in OSB prices in 2H06. Therefore, driven by weaker prices and rising costs, in particular of wood in North East America and Canada, a number of OSB producers eventually curtailed

capacity in 2H06. In contrast to weaker particleboard and OSB volume sales, MDF recorded a positive trend during 2006.

The Brazilian market performed very well in 2006 with strong volume growth in particular of MDF and favourable price evolution, despite further deterioration in competitiveness of the Brazilian furniture industry due to a stronger BRL. In South Africa, the building sector continued to perform well with the main constraining factor being capacity. As a result, imports of most building related materials continued to flourish, despite the devaluation of the ZAR, which lost 18% against the USD and 22% against the Euro.

Regarding market consolidation a number of transactions occurred in 2006. The most significant ones in Europe were our acquisition of the assets of the Hornitex Group in Germany and of the Darbo particleboard plant in South West France and Weyerhaeuser's sale of its MDF plant in Ireland to Coillte. In North America, Weyerhaeuser sold its wood panels business to the Canadian operator Flakeboard and Georgia Pacific sold six particleboard plants and one MDF plant to Roseburg Forest Products.

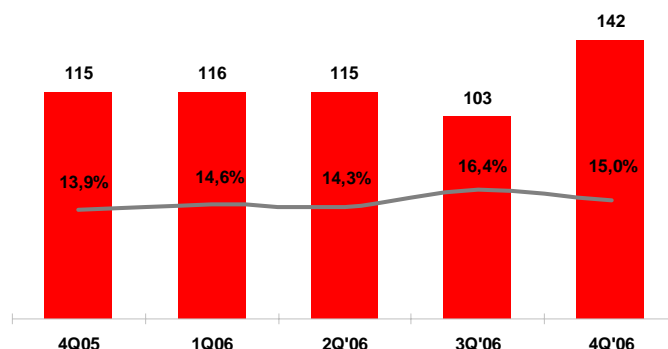
## **2.2. Sonae Indústria Business Review in 2006**

### **2.2.1. Iberia**

2006 was a strong year for the Iberian wood panels business, with good volume growth and a healthy economic environment. Underlying trends in the Portuguese and Spanish markets were mixed. In Spain, the construction sector performed strongly with an estimated 600 thousand new homes being built and a growth in furniture consumption of between 2% and 3%. Importantly as regards the Spanish furniture sector, imports seem to be stabilizing and Spanish producers appear to be increasing their level of exports. In Portugal, exports from the furniture industry continue to increase representing already more than 50% of total production in 2006. Construction remains lacklustre in Portugal recording a further reduction in new housing starts, although some improvement was felt in the renovation sector.

In this region we continue to focus on protection of our market share and profitability. To this end, marketing activity has concentrated on improving the level of customer service, management of the product portfolio and consolidation of our position in strategic export markets. Our industrial mindset has been directed at eco-efficiency, health and safety and overall improvement in productivity. As from 4Q06, the Darbo PB plant in South West France was consolidated into our Iberian operations, further strengthening our market position in the region.

**Iberia Turnover & Recurrent EBITDA Margin**



Financial performance was very good in 2006. We achieved an increase in Turnover in Iberia of 10% to 476 million euros, supported by growth in sales volumes and an average increase in prices. Greater production efficiencies and improved wood management achieved at our Iberian plants helped to offset the pressure felt on input prices, namely the cost of chemicals.

Recurrent EBITDA was 72 million euros, representing 15% as a percentage of Turnover and an increase of 19% in comparison with 2005. The decline in EBITDA margin in 4Q06 is primarily a consequence of the inclusion of the Darbo plant which generated significantly lower profitability than in the rest of Iberia however we anticipate that it will increase to close to the average of the region in the medium term.

### **2.2.2. Central Europe (Germany, France and UK)**

Market conditions in Western and Northern Europe started to recover driven by strong demand from Eastern Europe and healthy domestic business performance. All industry segments recorded stronger demand for wood panels, as did trade and DIY channels. The downward trend in the construction sector of the past years reverted and new investments increased by 3.6% compared with 2005. French domestic demand was active, helped by a stronger construction sector. The furniture industry posted good performance albeit this sector could be at risk from consolidation activity. Our UK business has also benefited from stronger housing and civil engineering activity, although the furniture industry has been slow due to low levels of consumer expenditure linked to the higher interest rate environment.

The most relevant to the industry structure was our acquisition of the Hornitex Group assets in July 2006 and our reinforced entry into the laminated flooring market in cooperation with Tarkett.

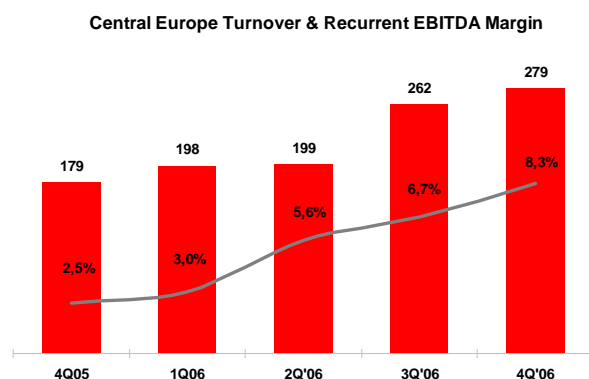
Our sales performance was good during 2006, Turnover increasing by 27% compared with 2005 to 938 million euros, of which 147 million euros represent 6 months contribution from the Hornitex plants. The increase in sales of PB was influenced by the improvement in demand from German and Eastern European customers. MDF sales increased marginally over 2005 although stronger growth was recorded in more speciality MDF products as a result of the pick-up in construction. As regards sales of OSB, volumes declined in 2006 with the fall-off from the previously high levels of sales to the US market. Demand at our Knowsley plant in the UK was strong, reinforced by some

closures of capacity by competitors and to lower levels of imports, mainly due to the good domestic markets for European producers. In all three countries, average prices have posted significant increases after the erosion felt in 2005.

Profitability was affected by rising input costs, in particular of wood, resins and energy with the pressure on wood prices becoming very strong in the latter part of the year.

Production efficiency increased in 2006 thanks to strong market demand which drove higher capacity utilization and to industrial improvements made at our French plants. With the launch of flooring production at our Eiweiler plant, our flooring activity in this region was concentrated at this plant, leading to closure of our flooring line at Ussel in France. Our UK production output increased significantly in 2006 as a result of the investments in cleaning technology for recycled wood that we had made during 2005.

The integration process of Hornitex is well underway and important synergies have already been achieved in key areas such as raw material purchasing and customer relationship management, and also allocation to the most appropriate plants. The principal investments made to date have been to modernize industrial equipment and to improve general information systems.



Recurrent EBITDA for Central Europe increased, by 38%, to 58 million euros in 2006, of which 18 million euros were generated by the Hornitex plants, which were consolidated as from 1 July 2006.

### **2.2.3. Rest of the World (Canada, Brazil, South Africa)**

North American markets were affected by two main factors in 2006 – consolidation and industry closures. Between June 2005 and April 2006, around 10% of the capacity was closed, although one of the lines was restarted later in the year due to stronger market conditions. Imported furniture from Asia continues to place pressure on the North American furniture manufacturing industry. New housing starts peaked in 2006 at a 30 year-high and by 4Q06, new housing and existing housing inventories had recorded a sharp correction in demand. The softwood lumber dispute between Canada and the United States was resolved in 2006, although many sawmills in Canada have reduced their activity, affected by the strength of the CAD against the USD and the lower price for lumber products.

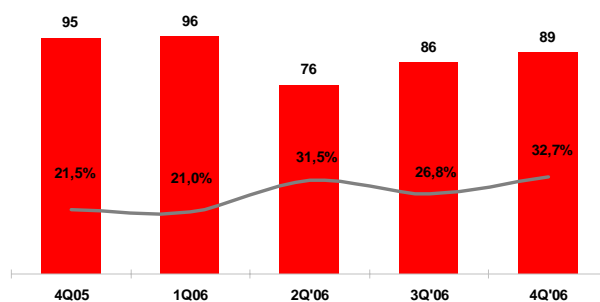
The Brazilian wood-panels market recorded very strong growth in 2006, helped by the more stable macroeconomic climate with more controlled inflation, the gradual reduction in interest rates, lower unemployment and a gradually increasing level of average

income. The strongest growth in volumes was in the MDF and flooring market's and the global pricing environment remained relatively stable, with some improvement in MDF prices.

Demand in the South African market was on a par with 2005. However residential building permits showed a negative trend in contrast with non-residential building permits that increased in 2006 in comparison with 2005. Four consecutive interest rate hikes have led to a slowdown in consumer spending and in the housing market. The Rand devalued throughout most of 2006, losing 18% against the USD and 22% against the Euro. Local demand for wood panels was strong, although capacity is currently capped, therefore market shares remained relatively stable. The risk of imports into South Africa by South American players was undermined as the latter were equally constrained in terms of available capacity.

Taking into consideration the damaged line in Canada, our industrial performance in these 3 countries was good. In particular, in Brazil capacity utilization increased to 88% in 2006, compared with 72% in 2005, leading to a significant improvement in industrial efficiency further helped by a favourable evolution in some of our key variable costs, namely the price of wood. South African capacity utilization was again much stretched in 2006, at 99%. However both chemical and wood costs increased significantly in 2006 thereby affecting operating margins. In 2006 we started the investment in our new particleboard line at our White River plant in South Africa. Construction of the new line is going as planned and it is expected to start operating in 2Q07.

RoW Turnover & Recurrent EBITDA Margin



Turnover for the "Rest of the World" (ROW) was 347 million euros, representing no growth over 2005. Due to the fire at our PB line 2 in Canada, volumes sold in 2006 reduced significantly in comparison with 2005.

Recurrent EBITDA in the RoW increased by 18% to 96 million euros, representing 28% as a margin of turnover. However this reflects a combination of stronger performance in Brazil and a higher relative margin in Canada due to a lower turnover and the insurance compensation for business interruption.

### 2.3. Financial Review of 2006

Our business grew significantly in 2006, driven by the underlying growth in volumes and prices and by the expansion of our asset base primarily, as a result of the acquisition of Hornitex and Darbo. In order to compare the performance of 2006 with that of 2005, it is important to keep in mind the impact of four main effects: (i) the acquisition of the Hornitex assets in Germany which are consolidated in our accounts as from 1 July 2006;

(ii) the acquisition of the Darbo plant in France, consolidated as from 30 September; (iii) the contribution of the Eiweiler plant to the 50%-50% partnership with Tarkett, which was formalized on 29 September 2006 and (iv) the effects of the fire at our Canadian particleboard line 2 on 17 April 2006.

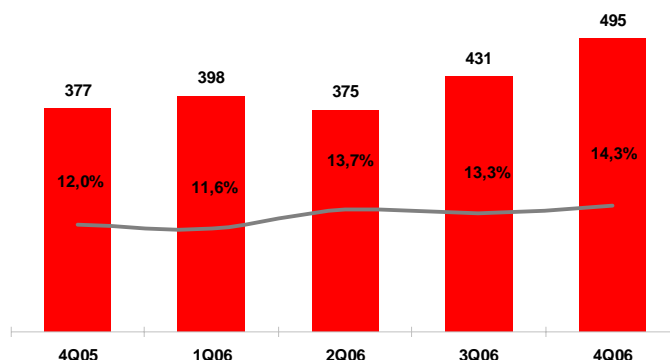
	4Q'05	3Q'06	4Q'06	4Q'06 / 4Q'05	4Q'06 / 3Q'06	(euro millions)		
						2005	2006	%chg 06/05
<b>Turnover</b>	<b>377</b>	<b>431</b>	<b>495</b>	31%	15%	<b>1.465</b>	<b>1.699</b>	16%
Other Operational Income	19	46	36	89%	(21%)	64	119	87%
<b>EBITDA</b>	<b>44</b>	<b>75</b>	<b>61</b>	41%	(18%)	<b>208</b>	<b>234</b>	13%
Recurrent EBITDA	42	57	71	70%	23%	183	223	22%
Recurrent EBITDA Margin %	11,0%	13,3%	14,3%			12,5%	13,1%	
Depreciation and amortisation	(27)	(27)	(31)	17%	16%	(102)	(108)	6%
<b>Operational Profit</b>	<b>21</b>	<b>37</b>	<b>36</b>	73%	(2%)	<b>108</b>	<b>120</b>	11%
Net Financial Charges	(13)	(18)	(17)	28%	(8%)	(44)	(68)	54%
<b>Profit before taxes (EBT)</b>	<b>7</b>	<b>19</b>	<b>19</b>	153%	2%	<b>64</b>	<b>52</b>	(19%)
Taxes	(6)	(11)	(0)	(93%)	(96%)	(28)	(19)	(33%)
<b>Net Results attributable to Sonae Indústria Shareholders</b>	<b>2</b>	<b>6</b>	<b>17</b>	725%	177%	<b>36</b>	<b>32</b>	(11%)

Our Consolidated Turnover was 1,699 million euros in 2006, compared with 1,465 million euros in 2005. Of this, 164 million euros results from the change in our consolidation perimeter with the inclusion of the Hornitex plants which contributed with 6 months activity and of the Darbo plant which contributed with 3 months. Adjusting for these effects, Consolidated Turnover increased by 5% in 2006 to 1,536 million euros on a “like for like” basis.

A global trend felt to a greater or lesser degree in all our operations was the increase in raw material prices. 2006 was marked by the strong hike in oil prices which affected our input costs, particularly direct energy costs, transport costs and resin costs. The cost of wood in some regions increased significantly, especially in Central Europe, driven by competing demand from biomass energy plants and the use of wood as a domestic source of heating.

Consolidated Recurrent EBITDA was 223 million euros, representing an EBITDA margin of 13.1%. Comparable EBITDA, adjusting for Hornitex and Darbo, was 215 million euros, up 17% on 2005. The non-recurrent items recorded in 2006 were 11 million euros: these include an 18 million euro positive effect from the contribution of the Eiweiler assets to the JV with Tarkett, partially offset by restructuring charges of approximately 9 million euros at Hornitex.

**Consolidated Turnover & Recurrent EBITDA Margin**



Depreciation charges in 2006 were 108 million euros, 10.4 million euros of which relate to depreciation at Hornitex and Darbo. The acquisitions of Darbo and Hornitex in 3Q06 were accounted for at acquisition value. In 4Q06 the purchase price was allocated between the respective assets based on the result of their fair value assessment, in accordance with IFRS3 relating to business combinations, thereby generating a Negative Goodwill taken to results of 19.6 million Euros. In terms of results this effect was offset by restructuring costs of 20,2 million euros (8.6 million euros accounted for as staff costs and 11.6 million euros as provisions).

Operating Results (EBIT) increased in 2006 to 120 million euros compared with 108 million euros in 2005.

Net financial charges in 2006 were 68 million euros, compared with 44 million euros in 2005 and were composed of:

Millions of Euros	2005	2006
Net Interest Charges	(-30.6)	(-37.3)
Net Exchange Gains/Losses and Hedging Costs	10.1	(-4.3)
Net Financial Discounts and Other Net Financial Charges	(-23.7)	(-26.1)
<b>Total Net Financial Charges</b>	<b>(-44.1)</b>	<b>(-67.8)</b>

The increase in Net Interest Charges results from a combination of the higher level of gross debt and the higher interest rate environment. The negative Net Exchange Losses and Hedging Costs of 4.340 million euros, which contrast with a positive value of 10.154 million euros in 2005 is explained by the negative exchange rate movements in 2006, particularly in terms of the ZAR/EUR, whereas in 2005 the movements were favourable.

The Tax Charge for 2006 was 18.7 million euros compared with 27.8 million euros in 2005 and was split between Current Tax and Deferred Tax Reversals as follows:

Millions of Euros	2005	2006
Current Tax	8.4	14.1
Deferred Tax Reversals	19.4	4.6
<b>Total Tax Charge</b>	<b>27.8</b>	<b>18.7</b>

As a result of the increase in Operating Profitability and of higher Negative Net Financial Charges, in 2006, Sonae Indústria generated Consolidated Net Results Attributable to Equity Holders of 32 million euros, which compares with 36 million euros in 2005.

CAPEX<sup>1</sup> in 2006 was 312 million euros, of which the main components were the acquisition of Hornitex and Darbo and the White River expansion project. Working Capital at the end of 2006 was 279 million euros, which compares with 233 million euros at the end of 2005. Additional working capital requirements resulting from the acquisitions of Hornitex and Darbo were 49 million euros.

<sup>1</sup> Change to Gross Fixed Assets in period



	2005	2006	% chg 2006 / 2005
<b>Non Current Assets</b>	<b>1.241,6</b>	<b>1.360,3</b>	<b>10%</b>
Tangible Assets	1.128,0	1.234,6	9%
Goodwill	44,5	51,1	15%
Deferred Tax	52,7	60,0	14%
Other Non Current Assets	16,5	14,6	(11%)
<b>Current Assets</b>	<b>560,9</b>	<b>795,7</b>	<b>42%</b>
Inventories	164,0	214,0	30%
Trade Debtors	239,9	290,2	21%
Cash & Investments	119,9	194,1	62%
Other Current Assets	37,2	97,4	162%
<b>Total Assets</b>	<b>1.802,5</b>	<b>2.156,0</b>	<b>20%</b>
Shareholders' Funds	483,5	520,0	8%
Minority Interests	45,0	28,1	(37%)
<b>Shareholders' Funds + Minority Interests</b>	<b>528,5</b>	<b>548,1</b>	<b>4%</b>
Interest Bearing Debt	753,7	943,0	25%
Short term	89,1	140,9	58%
L-M term	664,7	802,1	21%
Trade Creditors	183,4	258,8	41%
Other Liabilities	336,9	406,0	21%
<b>Total Liabilities</b>	<b>1.274,1</b>	<b>1.607,8</b>	<b>26%</b>
<b>Total Liabilities, Shareholders' Funds and Minority Interests</b>	<b>1.802,5</b>	<b>2.156,0</b>	<b>20%</b>

Net Debt has increased significantly in comparison with 2005 as a result of the Hornitex and Darbo acquisitions and the expansion project at White River. Although the full impact of these acquisitions is included in the Balance Sheet, the impact on the income statement reflects only 6 months of operations at Hornitex and 3 months at Darbo as these were consolidated as from 1 July and 30 September respectively. This asymmetrical effect leads to a temporary deterioration of financial ratios. Net Debt at the end of 2006 was 749 million euros resulting in a Net Debt to EBITDA ratio of 3.2. Gross Debt increased from 751 million euros in 2005 to 943 million euros in 2006.

#### 2.4. Review of the Individual Accounts of the Holding Company

Sonae Indústria, SGPS, SA, as the holding company of the Sonae Indústria Group, defines the strategic guidelines for the Group and actively manages shareholdings and monitors the business activity of its subsidiaries. Amongst its main activities it is responsible for the global finance function, allocating funds for investment and for treasury requirements of its subsidiaries.

The main financial transactions that occurred during 2006 were:

- The liquidation of a fully owned subsidiary, Socelpac SGPS, SA, that was inactive;
- A cash injection of 156,753.44 euros in Maiequipa SA to cover accumulated losses;
- The sale of all shares held in Glunz AG to Tafisa SA, in the squeeze-out process that enabled Glunz AG to be delisted from the Frankfurt stock exchange, for 48,000.00 euros;
- The capitalization of Sonae Serviços de Gestão SA, the shared service centre of Sonae Indústria Group, with 700,000.00 euros;
- On 25 January 2006 Sonae Indústria signed a Commercial Paper agreement of up to 100.000.000 euros with a number of financial institutions, which matures on 27 January 2016. At 31 December 2006, the principal outstanding was 60.950.000



euros relating to an issue made on 12 December 2006 that matures on 11 January 2007. Interest for this issue was 3,953% .

- f) 50,000,000 euros of bonds issued on 28 March 2006. The issue (Sonae Indústria 2006/2014) has a bullet repayment at the end of its 8 year term. Interest is indexed to EURIBOR 6 months plus an 87.5 basis point spread and is payable twice a year on 28 March and 28 September;
- g) 50,000,000 euros of bonds issued on 3 July 2006. The issue (Sonae Indústria 2006/2013) has a bullet repayment at the end of its 7 year term. Sonae Indústria has an option to repay in part or in full outstanding principal on any interest payment date starting from July 2011, inclusive. Interest is indexed to EURIBOR 6 months with an 86 basis point spread and is payable twice a year on 3 January and 3 July;
- h) 50,000,000 euros of bonds issued on 2 August 2006. The issue (Sonae Indústria 2006/2014 - 2nd issue) has a bullet repayment at the end of its 8 year term. Interest is indexed to EURIBOR 6 months with an 88 basis point spread and is payable twice a year on 2 February and 2 August.

The existing Sonae Indústria, SGPS, SA, resulted from the demerger-merger-merger process of Sonae Indústria from Sonae SGPS, SA that was completed on 15 December 2005. The 126,510,092 shares in the new Sonae Indústria, SGPS, SA distributed to Sonae SGPS, SA shareholders and the 9,322,350 shares distributed to Sonae SGPS, SA in this process, were listed on the Euronext Lisbon stock exchange on 20 January 2006.

On 28 July 2006 Sonae Indústria SGPS announced a public tender offer for 39,546,174 shares of Tableros de Fibra, SA (Tafisa) held by minority shareholders at an offer price 1,54 euros per share. The delisting from the Madrid stock exchange was approved at Tafisa's Extraordinary Shareholder Meeting on 13 September 2006 and the formal request for registration of the tender offer was delivered to the Comisión Nacional del Mercado de Valores (CNMV - The Spanish Securities Exchange Regulator) on 12 December 2006. The deal was authorized by the CNMV on 13 April 2007.

## 2.5. Treasury Shares

The Company did not acquire or sell any own shares during the year. As at 31 December, the Company did not hold any own shares.

## 2.6. Proposal for Appropriation of Results

Sonae Indústria SGPS SA, as the holding company of the Group on an individual accounts basis, generated Net Profits of 25.6 million euros for 2006. The Board of Directors will propose to the Shareholders' General Meeting that no dividend should be paid in order to continue to strengthen Shareholders' Funds to mitigate the increased borrowing resulting from the acquisitions made during 2006 and that Net Profit for the year should be appropriated as follows:

<i>Euros</i>	<b>2006</b>
Legal Reserves	1,280,144.20
Free Reserves	24,322,739.80
Proposed Dividend	0.00

## 2.7. Outlook

Our expectations for underlying business performance in terms of sales volumes and market prices in our main geographic regions are positive for 2007, although pressure is likely to remain from wood and resin prices. We will continue to concentrate on

increasing the profitability of our existing asset base aiming to deliver further production and process based operating efficiencies, supported by continuous innovation at all levels of our organization.

During 2007, our team will give top priority to the integration of the assets we acquired during 2006, the launch of our new production line in South Africa in 2Q07 and to the return to production of our Canadian particleboard line 2 scheduled for 3Q07.

## **2.8. Dividend Policy**

Sonae Indústria has not distributed dividends in recent years as it has opted to strengthen its balance sheet after the significant deterioration in shareholders' funds as a result of losses accumulated up to 2003. As Sonae Indústria now has recovered its financial strength and is generating positive results, a policy of distributing up to 50% of Net Results attributable to the shareholders of Sonae Indústria will be proposed. Each year, the actual pay-out ratio will be proposed taking into consideration this target pay-out ratio of 50% and the investment opportunities that the Board plans to execute in the near future.

## **2.9. Acknowledgements**

We would like to thank our employees for their continuous dedication to Sonae Indústria throughout the year. It is due to their commitment and to the strong and lasting relationships established with our customers, suppliers and local communities that we have become one of the leading wood panel producers in the World. In turn, we reconfirm the commitment of our management team to pursuing sustainable business practices and culture in all that we do. We would also like to thank our equity and debt holders for their confidence in the value and potential of Sonae Indústria and for their continued support of our growth strategy as a leading multiregional wood panels producer. We also extend our thanks to the Statutory External Auditors for their advice and valuable assistance throughout the year.

Maia, 19 April, 2007

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Belmiro de Azevedo

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Álvaro Cuervo

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Ángel Altozano

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Paulo Azevedo

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Per Knuts

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Thomas Nystén

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Carlos Bianchi de Aguiar

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Christian Schwarz

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Rui Correia

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José Antonio Comesaña

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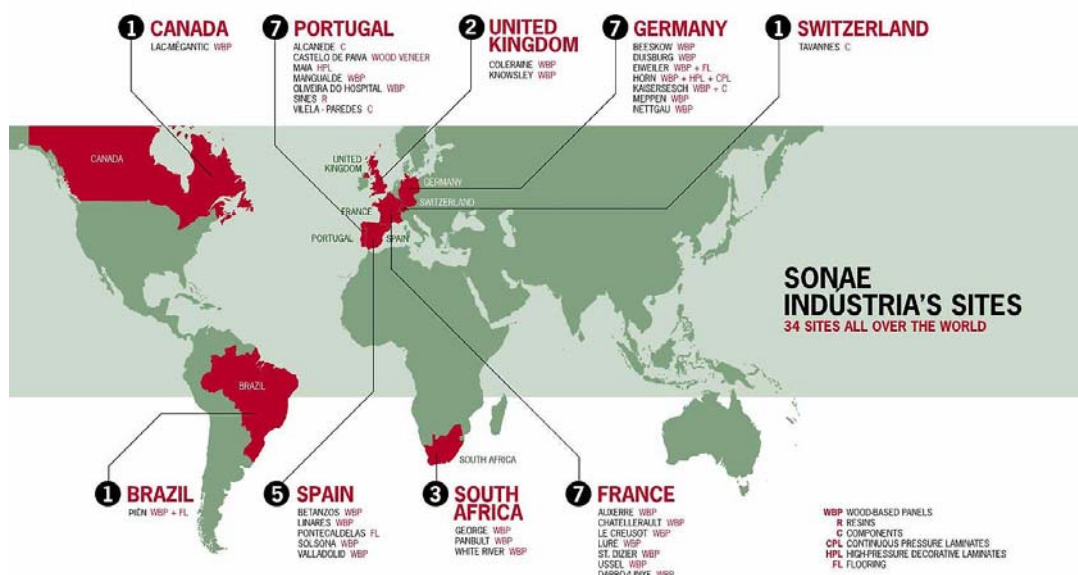
Louis Brassard

## Social And Environmental Report

### 1. Overview

#### 1.1 Corporate Context

We are one of the largest wood based panel producers in the world, with plants in 34 countries worldwide, spread across 4 continents. Our business is focused on production of panels and our ambition is to continue to grow, sustainably, as a leader in our sector, generating superior returns and maintaining a healthy balance sheet.



#### Legend:

HPL : High Pressure Laminates

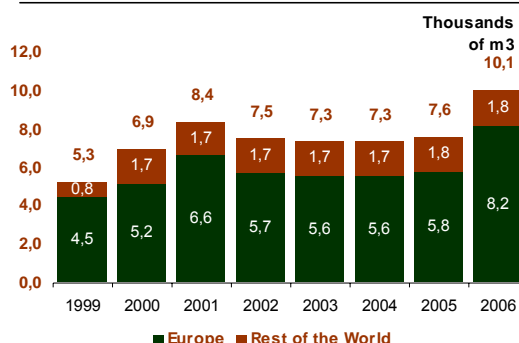
C : Components

R : Resins

#### 1.2 History of Growth

Our first plant was established in 1959 in the North of Portugal. Initially, we grew through acquisitions of local players in Portugal and then in 1989, expanded into the UK with the acquisition of Spanboard in Coleraine, Northern Ireland. In 1993 we initiated the acquisition of the Tafisa Group, which at that time had operations in Spain and Canada. Throughout the 90's we made a number of acquisitions and significant investments in greenfield projects in Brazil, UK, South Africa and Canada and in 1998 we expanded into Germany and France when we bought the German Group Glunz. By 2001, we had increased our raw board production capacity to more than 8 million m<sup>3</sup>, compared with just 5.3 million m<sup>3</sup> in 1999. More recently in 2006 we bought another large German operator, Hornitex, and a plant in Linxe in the South West of France, bringing our raw board production capacity at the end of 2006 to 10 million m<sup>3</sup>.

SONAE INDÚSTRIA RAWBOARD CAPACITY



### 1.3 Values and Culture

An understanding of how our Group grew to become what it is today is important to comprehend the cultural diversity of our various operations. As a leading consolidator over the past years, we have absorbed a number of different corporate and geographical cultures. We believe that we have been successful in conveying Sonae values and culture, the Sonae “way of doing things”, and yet we have always been conscious of the importance of open mindedness. As a result, we have clearly benefited over the years from the knowledge and experience of the new employees that have joined our organization.

Although relatively informal, the value culture of Sonae Indústria is strongly embedded in our day to day practices, and has its origins in the values of the Efanor/Sonae Group.



Our value system is focused on four main areas: the promotion of an entrepreneurial culture; socially responsible business practices; an ongoing commitment to our employees; and independence from political influences. Our proven ability to grow and to create value over the past decades is clearly derived from our entrepreneurial mindset and our readiness to embrace change through continued innovation, in both products and processes. Our managers are challenged on a daily basis to develop their leadership skills, at all levels of the organization, and we strive to provide them with the tools and motivation to develop their

talent, primarily through continuous training and educational programmes, a merit based evaluation and career development process and a stimulating and healthy work environment. Although conscious of the importance of maintaining good relationships with the relevant regulatory and government agencies in our various markets and business segments, we strive to maintain independence from political influence of whatever nature.

Within the context of our commitment to reporting on sustainability at Sonae Indústria, we are in the process of formalizing our work ethics in a code of conduct and will be able to report on implementation of the code and related governance structures in future sustainability reports.

#### **1.4 Governance Structure and the Social Responsibility and Environment Committee (SREC)**

Sonae Indústria is committed to being a reference in Corporate Governance practices and has in place sound governance rules and well balanced structures (details of the composition, role and activity of our governing bodies and processes may be found in the Corporate Governance section of this annual report).

Within our Board Committees we established a Social Responsibility and Environment Committee (SREC) in 2004, which has responsibility to analyse and monitor the impact of the economic, environmental and social dimensions of sustainability.

The SREC is responsible for reviewing and advising the Board on the information and reporting on these issues for inclusion in our interim and full year Report and Accounts and has challenged us to launch our sustainability strategy and publish our first sustainability report during 2007.

#### **1.5 Commitment to Sustainable Development**

We have made significant progress in our sustainability activities over the past couple of years, with the development of key horizontal corporate functions such as Health & Safety, Environment & Eco-efficiency and Risk Management. During 2006, the Executive Committee reinforced their commitment to sustainability issues with the approval and public signature of a Global Health and Safety Policy at an internal meeting at which top managers from around the world were present. Also in 2006, we renewed our Corporate Environmental Policy to reinforce the Group's commitment to critical issues such as sustainable sourcing of raw materials and the adoption of sustainable development and eco-efficiency principles in all business practices.



While still integrated in the Sonae SGPS Group, in 2004, Sonae Indústria became a signatory of the Global Compact. We adhere to all the principles advocated by the Global Compact and through the progress made in our sustainability reporting will be able to formally report on progress made over coming years. The following sections provide a brief overview of what we have achieved to date.

## 2. Our Responsibility towards the Environment

The following section describes the main developments in implementing the Sonae Indústria Environmental Policy.

Further integration of environmental management into operations and the development of the framework for Corporate Environmental Surveys (CES) were the main achievements during 2006.

The CES also address the environmental information system to guarantee further improvements in data quality and reliability. A summary of the key environmental indicators is also disclosed in this section.

### 2.1. Management Systems





The development and implementation of integrated management systems within Sonae Indústria has been a continuous effort over recent years.

We view quality management to be almost a prerequisite for operating in such a highly standardised sector as ours.

As regards environmental management, we have developed systems at plant level, which are the basis for establishing and implementing our environmental policy.

Integration of these management systems is fostered to enhance efficiency and avoid unnecessary paper work.

Third party certification of our quality and environmental management systems can be summarized as follows (situation at 31<sup>st</sup> December 2006 with 2007 objectives in brackets):

	Quality	Environment	Forest products chain-of-custody	
	ISO 9001	ISO 14001	PEFC	FSC
				
Maia*	1			
Mangualde	1	(2007)	(2007)	
Oliveira do Hospital	1	1	(2007)	
Sines**	1	1	not applicable	not applicable
Betanzos	1		1	
Linares	(Feb 2007)	(2007)	1	
Solsona	1		1	
Valladolid	1		1	
Linxe	1		1	
Auxerre	1		1	
Châtellerault	1		1	
Le Creusot	1		1	
Lure	(Jan 2007)		1	
St Dizier	1		1	
Ussel	(Jan 2007)		1	
Meppen	1	1	1	1
Eiweiler	1	1	1	1
Nettgau	1	1	1	
Kaisersesch	1	1	1	
Horn	1	(2007)	1	
Beeskow	1	(2007)	1	
Duisburg	1	(2007)	1	
Knowsley	1	1	1	1
Coleraine	1			1
Panbult	1	1		
White River	1	1		



George	1	1		
Lac-Mégantic	1	1		
Piên	1	(2007)		

\* HPL plant  
\*\* Resins plant

Sonae Indústria is committed to the sustainable use of forest resources, mainly wood - our prime raw material.

Whenever relevant for our local markets, we seek independent certification of sound procurement practices of our forest products chain-of-custody, thereby demonstrating that wood-based raw materials come from sustainably managed sources.

The two major sustainable forest management and chain-of-custody certification schemes are: PEFC, *Programme for the Endorsement of Forest Certification schemes* and FSC, *Forest Stewardship Council*.

Twenty major plants have certified their forest products chain-of-custody.

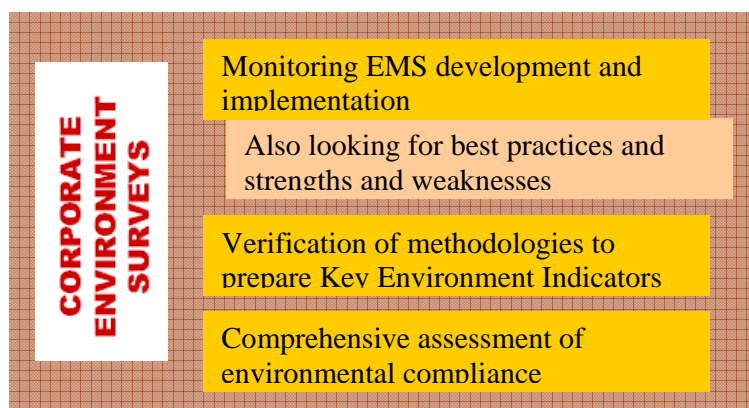
Eleven major plants have been certified by ISO 14001 and another six are targeting certification in 2007.

### Corporate Environmental Surveys

On July 2006, the Sonae Indústria Executive Committee approved a global framework for Corporate Environmental Surveys (CES), including a comprehensive assessment of environmental compliance site by site.

CES have three main components:

- An assessment of the Environmental Management System to identify strengths or good practices to be disseminated throughout Sonae Indústria, and weaknesses to be improved. This part of the survey uses international best practices of environment auditing protocols and procedures.
- A verification of the methodologies used to calculate or measure each of the Key Environmental Indicators.
- A comprehensive assessment of compliance with environmental regulations applicable to each site (using site-specific checklists).



The list of regulatory obligations set out in site-specific checklists will be reviewed every year to ensure that the documents are updated with new or emerging regulations.

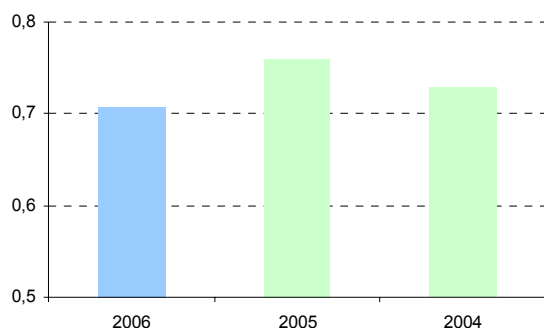
These checklists were prepared as a tool to verify legal and regulatory compliance in accordance with the ISO14001 standard for environmental management systems.

CES are one of the major drivers for updating the Eco-efficiency Action Plans at site level. These are medium-long-term plans including all investments and major costs needed to improve eco-efficiency performance at each plant.

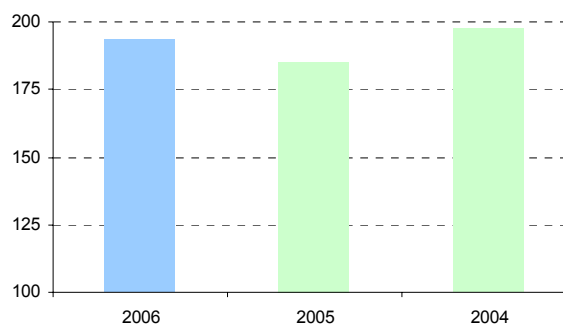
## 2.2. Performance / Eco-efficiency (KPIs)

Key eco-efficiency performance indicators are presented below. Further information on their evolution may be found in the Sonae Indústria Sustainability Report 2006.

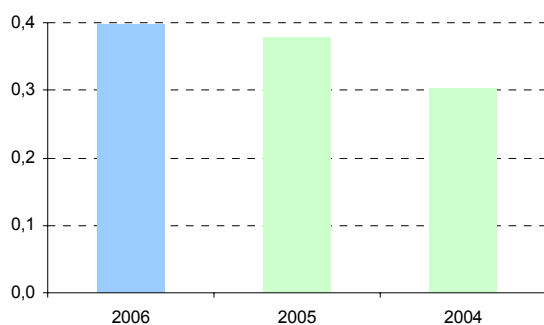
**Wood consumption by cubic metre produced (dry ton/m<sup>3</sup>)**



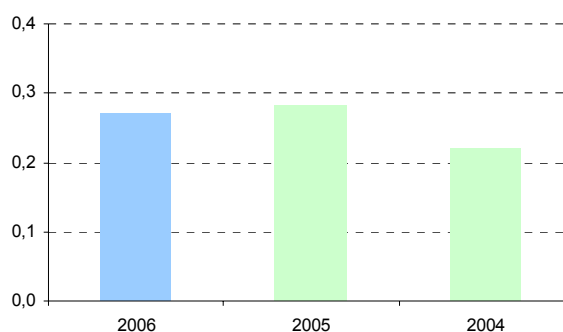
**Electricity consumption by cubic metre produced (kWh/m<sup>3</sup>)**



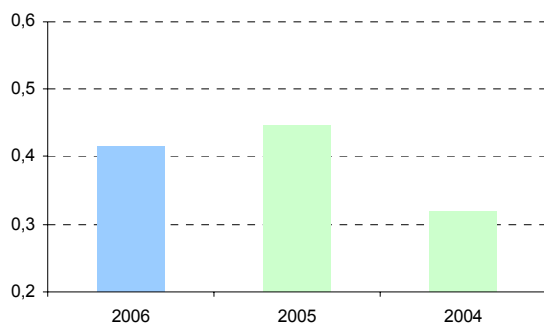
**Waste disposal cost by cubic metre produced (euro/m<sup>3</sup>)**



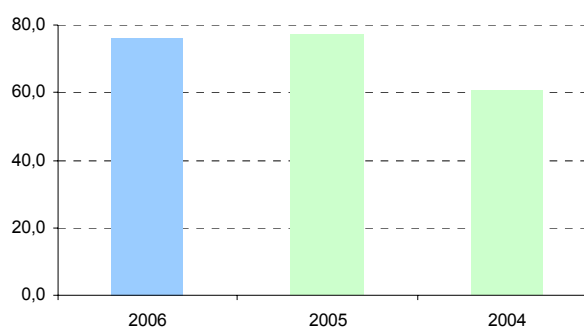
**Water cost by cubic metre produced (euro/m<sup>3</sup>)**



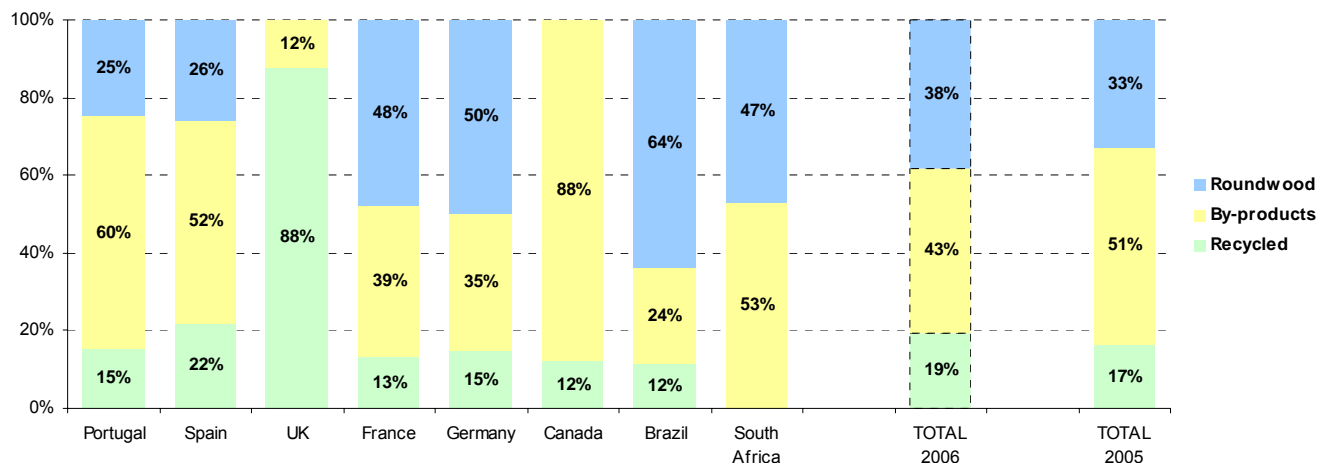
**Water consumption by cubic metre produced (m<sup>3</sup>/m<sup>3</sup>)**



**Waste generation by cubic metre produced (kg/m<sup>3</sup>)**



**Wood consumption by type 2006 (vs 2005)**



### 3. Our Responsibility towards our People

The following section highlights the most significant events and statistics related to people and health & safety.

#### 3.1 Health and Safety

As already mentioned, ensuring employee health and safety is a core value for Sonae Indústria.

During 2006, a comprehensive health and safety diagnosis was performed. Despite a significant increase in our focus on safety efforts, each site still has a different approach to health and safety and varying levels of performance were reported by country.

In order to harmonize performance, we developed Corporate Health & Safety Standards that reflect the commitment and concerns of our organization.

In spite of our efforts, we regret to report that six fatal accidents occurred during 2006 at our sites, involving two employees and four contractors. Serious injuries and fatalities remain a major concern and all significant incidents are fully investigated and reported to the Executive Committee. Corrective actions are undertaken and safety processes improved with lessons learned being shared across our organization.

We held a health and safety road show, involving all countries to present the Corporate Standards and to ensure that all managers are aware of our strategy and its implications for each site. During the sessions we provided training on the Standards and identified the most prominent gaps in current practices at each site. This training facilitated the formulation of action plans at each plant which will form the basis for developing site procedures and working practices to ensure full compliance with the Standards by 2010.

## ROAD SHOWS

Number	20
Number of attendees (Managers and Supervisors)	230
Number of information/training hours	5,364

In 2006, more than 110 thousand hours were invested in training programmes, worldwide, 26% of the time being dedicated to specific health and safety related programmes.

	2006	2005	2004	2003
Absenteeism (% work hours)	4.0%	5.0%	4.3%	4.8%
Training (thousands of hours)	110	80	72	67
Health and safety training (as % of total hours of training)	26%	24%	27%	19%
% of total working time lost to injuries	0.5%	0.6%	0.8%	0.8%

During 2006, we implemented new corporate KPI's to monitor performance and compliance with Standards. For 2007 and 2008, a set of corporate actions will be developed to support and monitor implementation of the Standards such as:

- tools for Control Self-Assessment;
- health and safety support visits to help implementation of the standards and provide information/training and expert advice; and
- health and safety surveys to validate the level of implementation and compliance with the standards.

## 3.2 People / Employees

Sonae Indústria values and principles respect internationally proclaimed Human Rights, and to date no complaints have been lodged against us for infringement or complicity in Human Rights abuses.

Sonae Indústria does not engage in any form of forced or compulsory labour or in labour discrimination of any sort and has a minimum hiring age of 18.

At 31 December 2006, Sonae Indústria employed 7,049 people (86% male / 14% female), 30% more than in the previous year, mainly due to the acquisitions of Hornitex (1.369 employees) and Darbo (150 employees). The integration of the new employees into the Sonae Indústria Group and the continuing delivery of productivity improvements is a major challenge for 2007.

In 2006, we launched our first global "Social Climate Survey", which had a participation rate of almost 60%. All employees involved were informed of the results and of the ExCom's commitment to work for continuous improvement in the areas that this survey revealed to be in need of further developments.

In Spain, a compensation agreement was reached with the workers' representatives for the period 2006-09 (2006-08 for the Valladolid plant) and, in France, negotiations have been started with the objective of harmonizing the compensation and benefits at the different plants.

In Canada, during the 4<sup>th</sup> quarter, negotiations with the labour representatives were successfully concluded, with a compensation agreement valid until 2011.

In South Africa, Sonae Novobord placed great emphasis on initiating various Corporate Social Investment projects specifically in the areas of education, health and safety (HIV / Aids) and the environment. Most of the projects are ongoing for 2007 having a two to three year life span. Significant inroads were also made in respect of the recruitment of previously disadvantaged individuals (PDI's) with over 40% of vacancies during 2006 being filled by such individuals.

#### **2006 Workforce by gender and age group**

Age	Male	Female	Total
<= 23 y	3%	1%	4%
24 to 29 y	9%	3 %	12%
30 to 39 y	24%	5%	29%
40 to 49 y	30%	3%	33%
50 to 59 y	18%	2%	19
=> 60 y	2 %	0%	2%
Total	86%	14%	100 %

#### **2006 Workforce by seniority**

Seniority	
<= 1 y	12%
2 to 5 y	23%
6 to 10 y	19%
11 to 15 y	16%
=> 16 y	30%
Total	100 %

## **4. Outlook**

During 2006, we decided to issue our first Sustainability Report, which will be published during the first half of 2007. With this step, we have committed ourselves to produce a transparent document that reflects our underlying values, business practices and performance.

The report will present the key orientations of our sustainability strategy going forward, identifying specific commitments and action plans for implementation. We are confident that this represents as excellent opportunity to communicate with our stakeholders and explain our progress towards implementation of sound principles for sustainable business.

## Corporate Governance Report

### 0. Compliance with CMVM Recommendations

Sonae Indústria is committed to developing and implementing good corporate governance practices going beyond complying with regulated obligations. Sonae Indústria believes that good governance reduces risk and creates shareholder value. Good governance is considered to include responsible management practices, Board governance, and a global concern with environmental, social and ethical issues.

Sonae Indústria is currently compliant with all but Recommendations 2, 8, 8-A and 10-A of the Corporate Governance Recommendations made by the CMVM, (the Portuguese Securities Exchange Regulator).

As regards Recommendation 2, Sonae Indústria's Articles of Association currently allow shareholders to vote by post only in relation to changes to the Articles of Association and the election of Statutory Bodies. A proposal to change the Company's Articles of Association will be presented to the Shareholders' General Meeting in 2007, to allow postal voting on all points listed on the agenda.

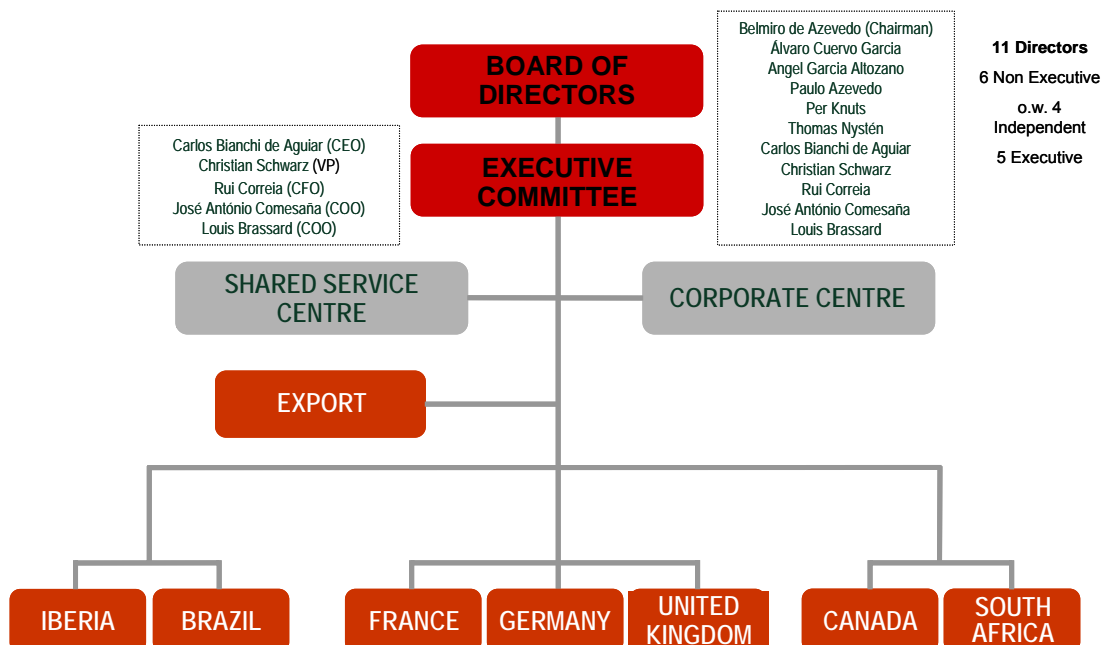
In relation to Recommendation 8, Sonae Indústria discloses the individual remuneration of the Chairman of the Board of Directors and of the CEO, as well as the aggregate remuneration for the executive Directors and Non-Executive Directors. The Board's decision is based on the fact that disclosure of individual remuneration of all Directors is not generally accepted practice amongst Portuguese companies. In addition, the Board believes that the disclosure currently made is sufficient to separately assess the remuneration of the main components of the Board: the Chairman, the CEO, the Executive Committee and the Non-Executive Directors.

In addition, as regards recommendation 8-A, a proposal regarding remuneration policy for the governing bodies will be presented to the General Shareholders' Meeting in 2007.

Sonae Indústria has already launched a process to develop a sustainability reporting strategy in 2007. Sonae Indústria's business practices are rooted in strong ethical standards and processes, however to date these have not been formally documented and reported externally. Within the scope of the sustainability reporting strategy, Sonae Indústria will develop and actively disseminate within the organization its Code of Conduct and procedures for communication of irregularities and will, as a result, become compliant with recommendation 10-A.

As a consequence of the changes made to Portuguese Company Law ("Código das Sociedades Comerciais") in 2006, a proposal to change the Company's Articles of Association will be presented to the Shareholders' General Meeting in 2007 by the Board of Directors. This proposal will include the adoption of what is known as the "Reinforced Latin Model" corporate governance structure. The company will therefore be audited by a Statutory Audit Committee ("Conselho Fiscal") and Statutory External Auditors.

## 1. Governing Bodies, Constitution and Organization



### 1.1. Board Composition and Organization

Sonae Indústria's Board of Directors is comprised of 11 Directors elected by the Shareholder's General Meeting. The Board of Directors elects its Chairman. The number of Non-Executive Directors (6) exceeds the number of Executive Directors (5). Of the Non-Executive Directors, 4 are Independent, in that they are not associated with special interest groups related either to the Company or to its reference shareholder, and they have no materially relevant business interests that could interfere with their ability to freely exercise independent judgement. These independent Directors exercise an important influence over the decision-making process and development of company strategy and policy and as such the Board of Directors exhibits a clear balance between the number of Directors that represent reference shareholders and the number of independent Directors. The Board mandate is three years, with the possibility of re-election. The current Board mandate covers the period 2006 to 2008. All members of the Board of Directors were appointed with effect from 15 December 2005, the date of registration of the merger of the "old" Sonae Indústria – SGPS into Sonae 3P – Panels, Pulp and Paper and the renaming of the later to Sonae Indústria, SGPS, with the exception of Rui Correia who was initially appointed to the Board of Sonae 3P on 22 July 2002.

As stipulated by the Company's Articles of Association, Sonae Indústria's Board of Directors meets once a quarter and additionally whenever the Chairman or two of its members call a meeting. All decisions taken are recorded in the respective minutes. There were 8 Board meetings held in 2006. The Board of Directors can only deliberate if the majority of its members are present or represented by proxy and decisions are taken by a majority of votes cast.

Members of the Board of Directors are currently also members of the Boards of other companies, which are listed in Point 17 of this report. Former Board memberships over the last 5 years are also listed in Point 18 of this report.

The Board of Directors is empowered to assure the management of the Company in accordance with the object established in its Articles of Association. Presently the Board of Directors may deliberate the increase in share capital of up to two billion euros, once or more, in accordance with the law.

Sonae Indústria's Board of Directors
<p><b>Belmiro de Azevedo (Chairman Sonae Indústria):</b> obtained a degree in Industrial Chemical Engineering at the University of Oporto, a PMD from Harvard Business School and participated in the Financial Management Programme from Stanford University and has occupied a diverse number of positions in the Efanor/Sonae Group from early on. Mr de Azevedo is today Chairman of the Sonae Group, a member of the European Union Hong Kong Business Cooperation Committee, of the International Advisory Board of Allianz AG and of the Harvard Business School International Advisory Board. He has been decorated on a number of occasions, some of the most prominent being the “Encomienda de Numero de la Ordem del Mérito Civil” from His Majesty D.Juan Carlos, King of Spain, the “Order of the Cruzeiro do Sul” from the President of the Brazilian Federal Republic, the “Grã Cruz da Ordem do Infante D. Henrique” from the President of the Portuguese Republic, nomination as “Honorary Fellow” of the London Business School and member of the “Order of Outstanding Contributors to Sustainable Development” from the World Business Council for Sustainable Development.</p>
<p><b>Álvaro Cuervo García (Independent):</b> holds a post graduate degree in Statistics and Psychology and a PhD in Economics from the University of Madrid (Spain). Mr Cuervo is a professor of Business Economics and was Head of the Business department at the Complutense University in Madrid, Head of Business Economics at Valladolid and Oviedo University (Spain) and CIDE (Mexico), and a visiting professor at New York University and California Berkeley University (USA). He is a member of the Spanish government's consultative committee for privatizations and Chairman of the Economic and Business Scientific Association (Spain). He holds a number of other directorship roles.</p>
<p><b>Ángel García Altozano (Independent):</b> obtained a degree in Civil Engineering from the University of Madrid (Spain) and an MBA from Dayton University (Ohio – USA). He holds a number of other managerial and directorship roles.</p>
<p><b>Paulo Azevedo:</b> obtained a degree in Chemical Industrial Engineering from the Lausanne Polytechnic School (Switzerland) and a post graduate degree in Business studies from the Oporto Institute of Business Studies. He was CEO of Optimus – Telecomunicações S.A. between 1998 and 2000 and then became CEO of Sonaecom – SGPS, S.A. and Chairman of the Board of Optimus Telecomunicações S.A.. He holds a number of managerial and directorship roles in the Efanor/Sonae Group. Paulo Azevedo is Belmiro de Azevedo's son.</p>
<p><b>Per Knuts (Independent):</b> obtained a degree in Chemical Engineering from the Royal Institute of Technology (Sweden) and was Chairman of the Global Council of the Stora Feldmühle AG Companies and FPB Holding AG (Dusseldorf – Germany) between 1998 and 2004.</p>



<p><b>Thomas Nystén</b> (Independent): obtained in 1963 the Master of Arts degree (Political Economy) at the University of St Andrews in Scotland and completed in 1984 the AMP at Harvard Business School. He was Executive Director of Myllykoski Corporation in Helsinki and CEO of MD Lang Papier in Germany (1994- 2004)..</p>
<p><b>Carlos Bianchi de Aguiar (President of the Executive Committee and CEO Sonae Indústria)</b>: obtained a degree in economics from the University of Oporto. With Sonae Indústria since 1986, he has occupied a number of managerial and directorship roles in various geographies, namely UK ('90-'95), Spain ('96-'97) and Germany ('00-'01). He returned to Portugal in 2002 to become Group CFO and was appointed CEO in 2005.</p>
<p><b>Christian Schwarz (Vice President of the Executive Committee and COO Central Europe)</b>: obtained a degree in Industrial Engineering from the Karlsruhe Technical University (Germany). Mr.Schwarz worked as an executive manager for many years in the automotive sector. He joined Sonae Indústria in 2002 and has since occupied a number of managerial and directorship roles.</p>
<p><b>Rui Correia (CFO)</b>: obtained a degree in Economics from the University of Oporto and a post graduate degree in Business Management from the Oporto Institute of Business Studies. In the Efanor/Sonae Group since 1994, he was head of the Finance Department of Sonae SGPS from 2000 and was appointed as Sonae Indústria CFO in 2005. As from 2001, he has also held a number of directorship roles in the Efanor/Sonae Group.</p>
<p><b>José Antonio Comesaña (COO Iberia &amp; Brazil)</b>: obtained a degree in Industrial Mechanical Engineering from the Barcelona School of Industrial Engineers and has held a number of managerial and directorship roles in Sonae Indústria. He started his career in the resins sector and has been in the wood panels business for over 33 years with Tafisa. He has held numerous positions at plant management level and has been COO of Iberia since 1998. He joined Sonae Indústria with the acquisition of Tafisa in 1993.</p>
<p><b>Louis Brassard (COO Canada &amp; South Africa)</b>: obtained a degree in Industrial Engineering from the Montreal Polytechnic School (Quebec Canada) and an MBA in Finance and Marketing from Montreal University. Mr Brassard has been with Sonae Indústria since 1994 and has held a number of managerial and directorship roles.</p>

Sonae Indústria Directors have the following Sonae Indústria Shares attributed to them:

Number of Shares		Number of Shares	
<b>Belmiro Mendes de Azevedo</b>		<b>(1) Efanor Investimentos, SGPS, SA</b>	
Efanor Investimentos, SGPS, SA (1)	49.999.997	Sonae Indústria, SGPS, SA	44.674.706
Sonae Indústria, SGPS, SA	1.010	Pareuro, BV (2)	20.000
		Sonae-SGPS, SA (3)	658.804.410
<b>Carlos Bianchi de Aguiar</b>		<b>(2) Pareuro, BV</b>	
Sonae Indústria, SGPS, SA	720	Sonae, SGPS, SA	400.000.000
<b>Rui Manuel Gonçalves Correia</b>		Sonae Indústria, SGPS, SA	27.118.645
Sonae Indústria, SGPS, SA	5.000		
<b>Duarte Paulo Teixeira de Azevedo</b>		<b>(3) Sonae-SGPS, SA</b>	
Efanor Investimentos, SGPS, SA (1)	1	Sonae Capital-SGPS, SA (4)	391.046.000
Imparfin, SGPS, SA (5)	150.000		
Sonae Indústria, SGPS, SA	40.172	<b>(4) Sonae Capital-SGPS, SA</b>	
		Sonae Indústria, SGPS, SA	9.521.815
		<b>(5) Imparfin, SGPS, SA</b>	
		Sonae, SGPS, SA	4.105.273
		Sonae Indústria, SGPS, SA	278.324

## 1.2. Executive Committee Composition and Organization

The Executive Committee is appointed by the members of the Board of Directors and is composed of the CEO, CFO and COOs of the three main geographical regions where the Company has operations. Company Articles of Association permit the Board to delegate ordinary company business, duties and responsibilities to an Executive Committee.

Responsibilities are divided among the Executive Committee members as follows:

### EXECUTIVE COMMITTEE

#### **Carlos Bianchi de Aguiar**

President of the Executive Committee and CEO

#### **Christian Schwarz**

Vice President of the Executive Committee and COO Germany, France & UK

#### **Rui Correia**

CFO

#### **José Antonio Comesaña**

COO Iberia & Brazil

#### **Louis Brassard**

COO Canada, South Africa

The Board of Directors delegated powers to the Executive Committee to manage day-to-day operations of the Company except:

- appointing the Chairman of the Board of Directors;
- co-opting a substitute for a member of the Board of Directors;

- c) convening Shareholders' General Meetings;
- d) approving the Annual Report and Accounts;
- e) granting any pledge, guarantees or charges over the assets of Sonae Indústria;
- f) deciding to change the Company's headquarters or to approve any share capital increases;
- g) deciding on mergers, demergers and modifications to the corporate format of Sonae Indústria;
- h) approving the Company's business plan and annual budget;
- i) defining key features of personnel policies, including stock incentive plans and variable remuneration plans applicable to executives and senior managers (Level G4 and above), in areas that do not require decisions from the Shareholders' Remuneration Committee or deliberations at Shareholders' General Meetings, as well as decisions on individual compensation for executives of Level G3 and above, which are delegated to the Board Nomination and Remuneration Committee and, when these executives are Officers of the Company, also require decisions from the Shareholders' Remuneration Committee or deliberations at Shareholders' General Meetings;
- j) defining or changing major accounting policies of any company included in the consolidation perimeter of the Group;
- k) approving quarterly and half-yearly reports and accounts;
- l) selling, acquiring directly or by long term lease or transacting in any other way, investments classified as tangible fixed assets where the individual transaction value is in excess of 5,000,000 euros, unless covered by the Annual Budget or the Business Plan, duly approved by the Board;
- m) purchasing or subscribing new shares in the share capital of any subsidiary company where the accumulated amount exceeds 20,000,000 euros in any financial year, unless covered by the Annual Budget or the Business Plan, duly approved by the Board;
- n) investing in any other company or in other financial assets when the accumulated value is in excess of 10,000,000 euros in any financial year, unless covered by the Annual Budget or the Business Plan, duly approved by the Board;
- o) making any other financial investment which exceeds the accumulated amount of 10,000,000 euros in any financial year, unless covered by the Annual Budget or the Business Plan, duly approved by the Board;
- p) disposing of assets or other divestments, if such a transaction has a significant effect on the operating results of the Company (defined as equal or greater than 5%) or affects the jobs of more than 100 employees, unless covered by the Annual Budget or the Business Plan, duly approved by the Board.

The Executive Committee currently meets at least once every month and additionally whenever the President of the Executive Committee or a majority of its members call a meeting in writing, at least 3 days before the appointed date. Meetings can only take place if at least four of the members are present (either physically or by videoconference). The CEO acts as Chairman. There were 20 meetings of the Executive Committee in 2006.

The decisions of the Executive Committee are taken by a qualified majority of four votes in favour. In the absence of this qualified majority, the Executive Committee must submit the matter under consideration to the Board of Directors for a decision. In order to keep the Board of Directors updated on the decisions taken by the Executive Committee, all Board members are sent a summary of the minutes of the Executive Committee meetings.

## 2. Board Committees

To improve the operational efficiency of the Board of Directors and meet best practice in Corporate Governance, the Board of Directors has created 3 Board Committees and a Board and Corporate Governance Officer:



### 2.1. Board Audit and Finance Committee (“BAFC”)

The BAFC is currently composed of the following Non-Executive Directors:

- Álvaro Cuervo (Chairman; independent);
- Ángel Altozano (Independent);
- Paulo Azevedo.
- Per Knuts (Independent)

The BAFC normally meets at least 5 times a year and its main tasks are:

- To review the financial statements and earnings announcements to be disclosed to the market and to report its findings to the Board of Directors;
- To review risk management, internal control and business processes;
- To review the results of internal and external audits;
- To advise on any changes in accounting policies and practices;
- To review compliance with accounting standards;
- To review compliance with legal and statutory obligations, in particular in the financial domain.

The BAFC met 6 times during 2006.

### 2.2. Social Responsibility and Environment Committee (“SREC”)

The SREC is composed of the following Directors:

- Belmiro de Azevedo (Chairman);
- Christian Schwarz
- Per Knuts (Independent)
- Thomas Nystén (Independent)

The SREC met twice in 2006 and its main function is to analyse the impact of the economic, environmental and social dimensions of sustainability..

### **2.3. Board Nomination and Remuneration Committee (“BNRC”)**

The BNRC is currently composed of the following Directors:

- Belmiro de Azevedo (Chairman);
- Álvaro Cuervo (Independent)
- Carlos Bianchi de Aguiar
- Paulo Azevedo
- Thomas Nystén (Independent)

The BNRC normally meets at least twice a year and its main function is to review and approve proposals and recommendations on behalf of the Board of Directors in relation to the remuneration and other compensation of the Board of Directors and other senior executives of the Sonae Indústria Group.

The BNRC liaises with the Sonae Indústria Shareholders’ Remuneration Committee (“Comissão de Vencimentos”). It may also receive assistance from external entities, which ensure absolute confidentiality in relation to the information obtained as a result of that cooperation.

The BNRC met 3 times during 2006.

### **2.4. Board and Corporate Governance Officer**

At a Board Meeting on 31 October 2006, Sonae Indústria’s Board decided to create a new role of Board and Corporate Governance Officer (“BCGO”) and appoint David Graham Shenton Bain to that role.

The BCGO officer reports to the Board of Sonae Indústria as a whole, through the Chairman.

The main duties of the BCGO are:

- Supporting the Board in defining its role, objectives and operating procedures in order to optimise its performance;
- Taking a leading role in organising Board evaluations and assessments;
- Keeping under close review all Legislative, Regulatory and Corporate Governance developments;
- Supporting and challenging the Board to achieve the highest standards in Corporate Governance;
- Support the Board in ensuring that the concept of stakeholders and the need to protect minority interests are in the Board’s mind when important business decisions are being taken.

The BCGO also acts as the secretary of the BAFC and BNRC.

### 3. Board Assessment

Aligned with Corporate Governance best practices, the Board intends to carry out a self-assessment every 2 or 3 years. The last formal self-assessment was carried out in 2005, with the help of an external consultant. The assessment was designed to review how the Board and the Board Committees function, to evaluate Corporate Governance at Board level and propose actions to achieve further improvements. The main actions identified in the 2005 self-assessment have already been implemented.

### 4. Board and Board Committee Meetings and Attendance in 2006

During 2006, the number of meetings and attendance record for the Board of Directors and Board Committees were as follows:

	Number of Meetings	Attendance
Board of Directors	8	86%
Executive Committee	20	98%
Board Audit and Finance Committee	6	70%
Social Responsibility and Environment Committee	2	100%
Board Nomination and Remuneration Committee	3	93%

### 5. Directors' Remuneration and Other Compensation

The remuneration and other compensation of the Executive Members of the Board of Directors consists of 3 elements: fixed annual remuneration, short term performance bonus and deferred medium term performance bonus.

The fixed annual remuneration is based on market reference values for similar functions and is paid in twelve monthly instalments.

The short term target performance bonus attributed is indexed to a percentage of the fixed annual remuneration. Actual amounts paid are linked to the achievement of several predefined annual key performance indicators directly aligned with short term financial and operational objectives of Sonae Indústria and a part is based on individual assessment.

The deferred medium term target performance bonus is indexed to a percentage of the short term target performance bonus attributed. Payments are deferred over a 3 year period and the actual amounts payable are linked to the achievement of a predefined medium term indicator (Economic Profit) directly aligned with medium term strategic objectives of Sonae Indústria.

The remuneration of the Non Executive Members of the Board of Directors consists of a fixed annual remuneration based on market benchmarks for similar functions. Additional amounts are paid for Board Committee Membership and Chairmanship, to reflect the additional time and responsibility involved. Non Executives do not receive any variable remuneration.

2006	Total Fixed Annual Remuneration		Total Short Term Performance Bonus		Total Deferred Medium Term Performance Bonus		Total 2006	
	2005	2006	2005 (a)	2006 (c)	2005 (b)	2006 (d)	2005	2006
Chairman of the Board of Directors	105000 *	61.000					105.000	61.000
CEO	216.000	221.400	105.450	102.000	128.340	147.200	449.790	470.600
Executive Directors (remaining)	848.500	775.270	458.394	283.815	405.400	261.780	1.712.294	1.320.865
Non Executive Directors (remaining)	77.688	173.070					77.688	173.070
Total of Board of Directors	1.247.188	1.230.740	563.844	385.815	533.740	408.980	2.344.772	2.025.535

(\*) relative to 2004 and 2005

(a) relative to 2004

(b) relative to 2003 and 2004

(c) relative to 2005

(d) relative to 2005 and to be paid in 2008

No special agreements exist regarding indemnities or payments to be made to Company Directors or employees in the event of contract termination resulting from a tender offer.

## 6. Capital Structure

Sonae Indústria's share capital is 700 million euros and is represented by 140 million ordinary shares with a nominal value of 5 euros per share. All the shares are listed on Euronext Lisbon. No limitations or restrictions are in place regarding the transfer or sale of shares.

## Qualified Shareholdings according to Article 8, nr 1, line e) of CMVM regulation 04/2004

Shareholder	Number of Shares	% Share Capital	% Voting Rights
Efanor Investimentos, SGPS, S.A.	44.674.706	31,9105%	31,9105%
Pareuro, BV	27.118.645	19,3705%	19,3705%
Sonae Capital, SGPS, SA	9.521.815	6,8013%	6,8013%
Duarte Paulo Teixeira de Azevedo	40.172	0,0287%	0,0287%
Maria Claudia Teixeira de Azevedo	23.186	0,0166%	0,0166%
Maria Margarida Carvalhais Teixeira de Azevedo	1.010	0,0007%	0,0007%
Nuno Miguel Teixeira de Azevedo	969	0,0007%	0,0007%
Total	81.380.503	58,1290%	58,1290%

## 7. Voting Rights and Shareholder Representations

Under the terms of Sonae Indústria's Articles of Association, the Shareholders General Meeting is composed only of shareholders with voting rights and holding shares or subscription bonds who, until five business days before the meeting, provide evidence of their ownership, according to the terms established by law.

Currently, each block of one hundred shares corresponds to one vote; shareholders are entitled to a number of votes corresponding to the integer value obtained by dividing their number of shares by one hundred. A proposal to change the Company's Articles of Association will be presented to the Shareholders' General Meeting in 2007 to adopt a system of one share one vote. Unless the law provides otherwise, the decisions of the Shareholders' General Meeting are taken by simple majority. Individual shareholders may be represented at Shareholders' General Meetings by their spouse, direct family, a Director of the Company or another shareholder, as long as they have notified the Chairman of the Shareholders' General Meeting in writing, identifying the representative and his residence and the date of the meeting. Corporate shareholders may be represented by a person duly appointed for that purpose, by letter. The authenticity of the letter is subject to scrutiny by the Chairman of the Shareholders' General Meeting.



No shareholders possess special voting rights. The Board of Directors has no knowledge of shareholders' agreements in which the Company or the shareholders of the Company are involved.

The Company has not taken any measures that would hinder the success of a public tender offer for the purchase of the Company's shares. The Company has not entered into any relevant kind of agreement that would be subject to change or extinction in the event of transfer of control resulting from a public tender offer.

As Sonae Indústria is regarded as a listed and "publicly traded company", shareholders may only vote by post in relation to changes to the Articles of Association and to elect the Statutory Bodies. A proposal to change the Company's Articles of Association will be presented to the Shareholders' General Meeting in 2007 to eliminate all restrictions on postal voting.

Votes by post can only be considered when sent to the headquarters of the Company by registered post with notification of receipt addressed to the Chairman of the Shareholders' General Meeting and which are received at least three days before the date of the Meeting, and are subject to the normal rules regarding evidence of ownership.

A standard form for voting by post is available from Sonae Indústria's corporate website [www.sonaeindustria.com](http://www.sonaeindustria.com) and also at its head offices.

Proposals to be submitted by the Board of Directors to the Shareholders' General Meeting are made available to shareholders, as required by law, at the Company's headquarters, together with all relevant reports, documents and other legally mandatory information. These documents and the Annual Reports are available from the Company's website [www.sonaeindustria.com](http://www.sonaeindustria.com) as from the same date.

## **8. Rules for nomination and substitution of members of the Board of Directors and changes to the Company's Articles of Association**

Members of the Board of Directors are elected by the Shareholders' General Meeting. Groups of shareholders, representing between 10 and 20% of the Company's share capital, may submit a stand-alone proposal to nominate a Director in advance of the Shareholders' General Meeting. Each shareholder group may only support one list of Directors, and each list must identify at least two people to fulfil each position on the Board. If more than one list is submitted by more than one group of shareholders the lists will be voted in one competitive ballot. In order to submit a list, shareholders must provide evidence that they have been shareholders for the three months up to the Shareholders' General Meetings. A proposal to change the Company's Articles of Association will be presented to the Shareholders' General Meeting in 2007 to eliminate the need to provide evidence of shareholdership for the three months before a Shareholders' General Meeting.

In case of death, resignation or temporary or definitive inability of any of the Directors, the Board of Directors is responsible for his or her replacement. If the Director in question was nominated by minority shareholders, a new separate election must be held.

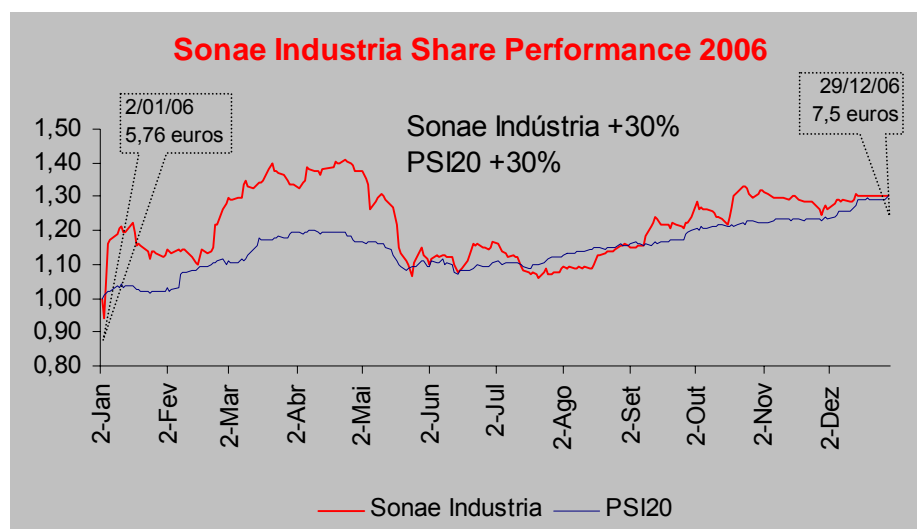
The Shareholders' General Meeting requires a quorum of 50% of the share capital being represented in the first meeting. Once a quorum is reached, deliberations are taken in accordance with the majorities established by Portuguese Company Law ("Código das Sociedades Comerciais").



## 9. Shareholders' Remuneration Committee

Sonae Indústria's Shareholders' Remuneration Committee, is appointed by the Shareholders' General Meeting for a three-year term and is currently composed of Efanor Investimentos - SGPS, SA, represented by José Manuel Neves Adelino, and Imparfin - SGPS, SA, represented by Bruno Walter Lehmann.

## 10. Share Price Performance during 2006



### Main events in 2006

2-6 January	Trading period for the demerger-merger rights attributed to shareholders of Sonae SGPS
20 January	Listing of shares in Sonae Indústria attributed to shareholders of Sonae SGPS
20 January	Listing of shares in "new" Sonae Indústria
22 February	FY2005 Results Announced
22 February	Announcement of agreement to acquire assets of the Hornitex Group subject to regulatory approval
28 March	Announcement of 8-year, 50 million euro bond issue
19 April	Announcement of fire at Canadian plant
4 May	1Q2006 Results Announced
28 June	Announcement of regulatory approval of Hornitex acquisition
3 July	Announcement of 7-year, 50 million euro bond issue
12 July	Announcement of agreement to acquire Darbo
28 July	Announcement of Board decision to launch Public Tender for Tafisa minority shareholdings (39,546,174 shares)
2 August	Announcement of 8-year, 50 million euro bond issue
31 August	2Q2006 Results Announced
8 September	Announcement of regulatory approval of Darbo acquisition
2 November	3Q2006 Results Announced

During 2006, Sonae Indústria's share price increased by 30% to close at 7.5 euros per share on 29 December in line with the valuation of the main Portuguese stock index, the PSI20. Sonae Indústria's average daily trading volume was 396 thousand shares, compared with just 8 thousand shares in 2005. This is largely explained by the increase in our free-float from less than 3% to approximately 42% following the spin-off from Sonae SGPS. Sonae Indústria's market capitalization at the end of 2006 was 1,050 million euros.

### **11. Investor Relations**

Sonae Indústria has an Investor Relations' Department that is responsible for managing the relationship between the Company and shareholders, investors, analysts and market authorities including the CMVM (the Portuguese Securities Exchange Regulator).

Each quarter, the Investor Relations' Department is responsible for coordinating the preparation of an earnings announcement to be issued to the market and also provides statements whenever necessary to disclose or clarify any relevant fact or event that could influence the share price. The Investor Relations' Department is available at all times to answer general questions posed by the market. The Company is available to meet with investors, either in roadshows or in one to one meetings upon request, or at conferences in which it may participate.

The Sonae Indústria Investor Relations' Department may be contacted by email at [investor.relations@sonaeindustria.com](mailto:investor.relations@sonaeindustria.com) or by telephone: 00 351 22 010 0638. Sonae Indústria's Investor Relations' Officer is Maria João Carrapato.

In addition, Sonae Indústria has an institutional website ([www.sonaeindustria.com](http://www.sonaeindustria.com)) that posts all earnings announcements, statements, report and accounts and any other public documents, press releases or general news items on the Company and the Group.

Sonae Indústria's legal representative for equity market relations ("Representante para as Relações com o Mercado") is Rui Correia, who can be contacted via the Investor Relations' Department or, if required, directly by email: [rmcorreia@sonaeindustria.com](mailto:rmcorreia@sonaeindustria.com).

### **12. Dividend Policy**

Sonae Indústria has not distributed dividends in recent years as it has opted to strengthen its balance sheet after the significant deterioration in shareholders' funds as a result of losses accumulated up to 2003. As Sonae Indústria now has recovered its financial strength and is generating positive results, a policy of distributing up to 50% of Net Results attributable to the shareholders of Sonae Indústria will be proposed. Each year, the actual pay-out ratio will be proposed taking into consideration this target pay-out ratio of 50% and the investment opportunities that the Board plans to execute in the near future.

### **13. Share and Share Options Schemes**

Sonae Indústria does not currently award any remuneration or other compensation involving or linked to shares or share options.

### **14. Transactions with Related Parties**

Sonae Indústria did not carry out any transactions with members of the Board of Directors or with the Statutory External Auditor.

All transactions with holding or other related companies represent normal operational activity and were made under "open market" conditions and at prices that comply with transfer pricing regulations.

### **15. Remuneration of the Statutory External Auditors**

During 2006, the statutory external auditors, PriceWaterhouseCoopers, invoiced Sonae Indústria and its affiliated companies a total amount of 755.310 euros, of which 87,5% related to audit and the legal certification of the accounts and 12,53% to other services.

To safeguard external auditor independence, tax consultancy and other services are provided by different teams from those involved in the audit process.

During 2005, Sonae Indústria ran a competitive tendering process to select statutory external auditors from the “Big 4” multinational audit companies for the period from 2006 to 2009. As a result of this process, Deloitte, who had been the statutory external auditors for Sonae Indústria from 2000 to 2005, were replaced by PriceWaterhouseCoopers.

During 2005, Deloitte invoiced Sonae Indústria and its affiliated companies a total amount of 1.112.209 euros, of which 58,2% related to audit and the legal certification of the accounts, 16,5% to tax consultancy services and 25,3% to other services.

### **16. Risk Management**

Sonae Indústria has a Risk Management Department that is responsible for promoting and monitoring the development of structured and systematic processes and activities to manage business risks.

Risk Management is a key concern within the Sonae Indústria culture, is present in all management processes and is part of the delegated responsibility of managers and employees at all levels within the Sonae Indústria Group.

Risk Management comprises the process of identifying potential risks, analysing their possible impact on the organisation's strategic goals and seeking ways to minimise the probability of their materialisation, in order to determine the best procedures to manage exposure to them.

Risk Management relies on the culture, processes and organisational structures that help Sonae Indústria to identify and assess risks, check their potential impact on the business and plan adequate actions to effectively manage their impact. Since the complete elimination of risk is an impossible task, the organisation has implemented efficient and effective processes to assure that unacceptable risks are rejected, other risks are avoided, some are retained at acceptable levels, and others are transferred through insurance policies.

A global approach is in place to assure a suitable and balanced coverage of the operational risk through its transfer to our reinsurance panel. The property damage and business interruption risks are covered by a global policy, developed and implemented locally. Sonae Indústria adopts this global policy as a support to its processes of risk management and is committed to improve the plant protection and prevention levels to reinforce this partnership.

### **Process of Integrated Risk Management**

At Sonae Indústria, Risk Management is based on a standard and integrated methodology, denominated Enterprise-Wide Risk Management (“EWRM”).

During 2006, the systematisation process, initiated in 2004, was consolidated, fully integrated and aligned with strategic business goals, aimed at prioritizing relevant business risks and

identifying actions to mitigate their impact. The process covers the whole organisation, involving all countries and corporate functions.

The Risk Model, which was built in 2004, aggregates business risks into three categories (Business Environment Risks, Business Process Risks and Information for Decision-Making Risks), was reviewed and key risks were identified, prioritised and analysed during the 2006 Business Planning Cycle, ensuring that risk mitigation strategies were developed and that actions were taken and resources were identified that will contribute to an efficient and effective management of the main business risks.

Based on previous work, having in mind the Risk Model 2005, the fulfilment of the EWRM Action Plans for 2005 the Risk Model was re-evaluated in two dimensions (Sonae Indústria and Country). The Risk Model 2006 contains the quantification of the Significance (impact on the EBITDA and operational efficiency) as well as the Likelihood (the frequency of occurrence of the event or scenario) of the critical risks for Sonae Indústria.

A Risk ScoreCard (RiSC 07) was developed identifying and defining KPI's to challenge and monitor the accomplishment of the Action Plans prepared to address the Critical risks that were identified. The KPIs identified are integrated in the Compensation Process of the people with capacity to deal and manage these risks. This is done through the identification and fulfilment of actions, included in the PAR process, to address those risks and consequent measurement, through the KPI's, of their impact. The KPI's are measured in a local (country) basis and the objectives defined as such.

As an example of the EWRM process, in 2005 the Information Technology Infrastructure was identified as a significant risk (with low likelihood but high significance). Consequently, a project for IT Disaster Recovery and Business Continuity was launched in 2006 and will be implemented in 2007.

In addition, financial risk management is included in Business Process Risk and is complemented and monitored within the scope of the financial function.

#### Operational Risk Management

The manufacture of wood-based panels is an industrial activity with very significant operational fire and explosion risks. As a world leader, it would be unacceptable for Sonae Indústria not to be able to recover from a catastrophic event in a "world class" manner. Thus, loss prevention and protection of core assets is a constant concern for our Group.

As a structured response to this "risk exposure", an ambitious Loss Prevention Programme was set up in 2003.

This programme is the corner stone of the property damage and loss prevention strategy in all plants:

#### **Corporate Risk Standards**

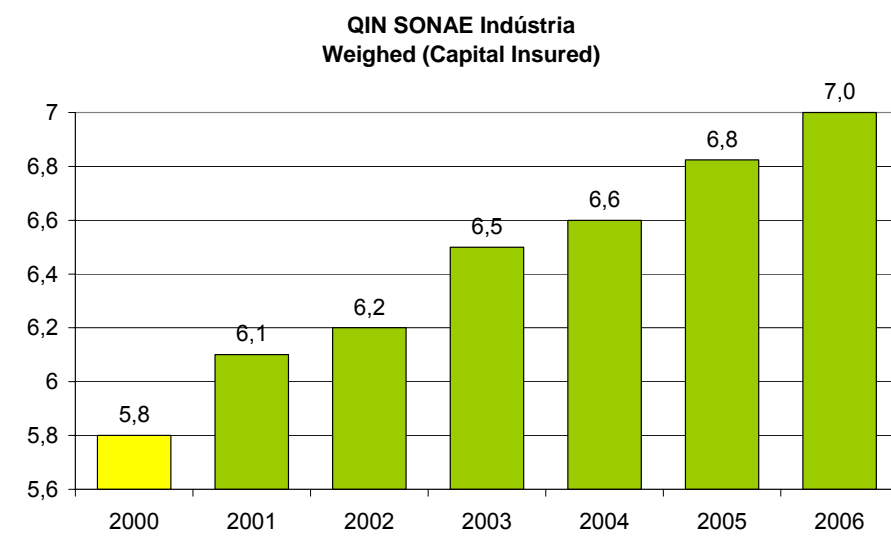
Developed in 2003, the Corporate Risk Standards are divided into several groups of Loss Prevention measures as follows:

- Management Programs
- Automatic Fire Protection
- Specific protection systems for machinery and equipment
- Surveillance
- Manual Fire Fighting
- Warehousing

- Maintenance
- Water Supply
- Contingency Planning and Business Continuity Management

### External Risk Inspections

Supported by the Corporate Risk Standards, Swiss Re GAPS conducts external risk inspections at all the sites every two years; a report is issued with a set of recommendations for each of the plants visited and a rating of the risk quality (QIN – Quality Index Number) is given for each plant. Since 2000, the overall QIN of Sonae Indústria has improved from 5.8 in 2000 to 7.0 in 2006 (on a scale from 0 to 10).



In addition, AXA Corporate Solutions is actively participating in the Risk Engineering program in collaboration with Swiss Re and the risk management services of our insurance broker - MDS. Its role is mainly focused on the specific analysis of special operational risks: thermal-oil installations risk analysis, one of the most significant risks in the wood-based panels industry. The fulfilment of the recommendations issued by AXA CS is included in the investments plan and improvements program.

In 2006, 21 external risk surveys were conducted by Swiss Re GAPS and AXA CS.

### Internal Risk Inspections

An internal visit is made to each plant every 18 months in order to review the status of the previous internal and external recommendations as well as to review compliance with Corporate Risk Standards. In 2006 we carried out 10 internal surveys.

### Self Inspection Form

A Quarterly Control self-assessment procedure using a Self Inspection Form has been carried out by each plant since 2000. This evaluates 106 items grouped into 23 categories. All non-conformities detected automatically generate a corrective action, and there is an automatic quarterly follow-up of outstanding corrective actions.

In the period from 2005 to 2006, with the Self Inspection Form now implemented in Lotus Notes, the process generated 786 corrective actions of which 587 were implemented while 199 are in progress at the year end.

### **Risk Plan 2004-2010**

Each individual plant plan (which is updated annually) defines a set of measures to be taken towards achieving full compliance with the Corporate Risk Standards by 2010. The main objectives are:

- To have a payback reflected in the insurance premium (demonstration of real and tangible commitment to loss prevention).
- To form the basis for the preparation of the annual budget for investment in Loss Prevention measures and to establish priorities based on impact on Loss Prevention.

The Risk Plan 2004-2010 was integrated into the 2006 Industrial Master Plan of Sonae Indústria, which consists of the investment planning of each plant for next 5 years for:

- De-bottlenecking
- Downtime
- Quality
- Environment and Eco-Efficiency
- Energy
- Health and Safety and Risk Management
- Logistics and Supply Chain
- Product Range and Marketing Opportunities
- Process and Technology/Re-engineering
- Information and Management Systems

### **Insurance Premium Distribution**

Sonae Indústria's global insurance premium is charged to each plant with 50% being allocated according to local insurance market prices and 50% being based on the plant's measured risk quality. The former is calculated in line with "stand alone" local market insurance premium levels, and the latter according to the QIN of each plant, so that the "worst" performers pay their fair share of insurance costs.

### **Relevant Event**

On 17 April Sonae Indústria suffered a significant fire at our plant at Lac Mégantic, Canada. The core of the plant – the second chipboard line- and a very substantial part of the preparation area was severely affected. Operations were interrupted for a long period and will only recommence in 3Q2007.

The risk management procedures in place contributed to the absence of relevant personal injuries. The economic impact is not expected to be significant since there is an adequate property damage and business interruption insurance cover.

Immediately after the fire, a multi-disciplinary team was put in place to manage the recovery project in cooperation and with the support of the insurance adjuster appointed by the insurance company and other specialised external staff. The objectives of this team are to:

- Recover, in the shortest possible period of time, the normal production and activity, whilst minimising the property damage and the business interruption losses;
- Guarantee customer needs are met;
- Ensure the safety of our employees.

**New Acquisitions**

During 2006 four plants were acquired by Sonae Indústria: three in Germany and one in France. In the second half of the year, Risk Management initiated the process of implementing the Corporate Risk Standards at these plants. In 2007 the external risk surveys will be conducted for the first time at these plants by Swiss Re GAPS/AXA Corporate Solutions using our reference standards and issuing the resulting Quality Index Number ("QIN").

**Risk Management Organisation**

In addition to the active involvement of all Sonae Indústria Group managers and employees, risk management activity is performed and supported by the Risk Management Department, as well as by the Corporate Planning and Management Control Department.

The Risk Management Department has a central team with 2 full time members. There is a formally coordinated network of Country Risk Officers in each of the countries where Sonae Indústria has industrial operations and at each of the sites there is a Plant Risk Officer.

The Corporate Planning and Management Control Department has 7 people and is organised into two teams to better address the challenges and changes the businesses face: the Corporate Reporting Team, which is also responsible for business analysis, and the Investment Analysis, Mergers & Acquisitions and Strategic Planning Team.

## 17. Other Positions held by Sonae Indústria Directors

### **Belmiro Mendes de Azevedo:**

- BA – Business Angels SGPS, S.A. (Sole Director)
- Casa Agrícola de Ambrões, S.A. (Chairman)
- Efanor Investimentos, SGPS, S.A. (Chairman)
- Modelo Continente, SGPS, S.A. (Chairman)
- Praça Foz – Sociedade Imobiliária, S.A. (Chairman)
- Setimanale – SGPS, S.A. (Chairman)
- Sonae – SGPS, S.A. (Chairman and CEO)
- Sonae Capital – SGPS, S.A. (Chairman)
- Sonae Sierra – SGPS, S.A. (Chairman)
- Sonaecom – SGPS, S.A. (Chairman)

### **José Álvaro Cuervo García:**

- ACS – Actividades de Construcción Y Servicios, S.A.
- Bolsas y Mercados Españoles (BME)
- BA Vidrio, S.A.
- ThyssenKrupp, S.A.
- Sonae – SGPS, S.A.
- Tableros de Fibras, S.A.

### **Ángel Manuel García Altozano:**

- Abertis Infraestructuras, S.A.
- Abertis Telecom, S.A.
- ACS Servicios y Concesiones, S.L.
- ACS Servicios, Comunicaciones y Energía, S.L.
- ACS Telefonía Móvil, S.A.
- Clece, S.A.
- Continental Auto, S.L.
- Dragados Servicios Portuarios y Logísticos, S.A.
- Dragados, S.A.
- Dragados Industrial, SA
- Energías Ambientales de Novo, S.A. (Chairman)
- Energías Ambientales de Somozas, S.A. (Chairman)
- Energías Ambientales de Vimianzo, S.A. (Chairman)
- Energías Ambientales EASA, S.A. (Chairman)
- Inversora de Infraestructuras, S.L.
- Iridium Concesiones, S.A.
- Novovilla, S.A.
- Saba Aparcamientos, S.A.
- Publimedia Sistemas Publicitarios, SL
- PR Pisa, S.A.
- Roperfeli, S.A.
- Residencial Monte Carmelo, S.A.
- Societat Eolica de L'Enderrocada, S.A. (Chairman)
- TBI plc
- Tableros de Fibras, S.A.
- Unión Fenosa, S.A.



- Urbaser, S.A.
- Villanova, S.A.
- Xfera Mviles, S.A. (Chairman)

**Duarte Paulo Teixeira de Azevedo:**

- Efanor Investimentos, SGPS, S.A.
- Glunz AG (Chairman of Supervisory Board)
- Imparfin, SGPS, S.A.
- Migracom – SGPS, S.A. (Chairman)
- Modelo Continente, SGPS, SA
- Novis Telecom, S.A. (Chairman)
- Optimus – Telecomunicações, SA (Chairman)
- Praça Foz - Sociedade Imobiliária, S.A.
- Profimetrics – Software Solutions, S.A. (Chairman)
- Público Comunicação Social, S.A. (Supervisory Board)
- SonaeCom – Sistemas de Informação, SGPS, S.A. (Chairman)
- Sonae Matrix Multimédia, SGPS, S.A. (Chairman)
- Sonae Telecom, SGPS, S.A. (Chairman)
- Sonae, SGPS, S.A. (Member of Executive Committee)
- Sonaecom, SGPS, S.A. (CEO)
- Tableros de Fibras, S.A. (Chairman)
- We do Consulting – Sistemas de Informação, S.A. (Chairman)

**Carlos Francisco de Miranda Guedes Bianchi de Aguiar:**

- Agepan Tarkett Laminare Park, GmbH & Co. Kg
- 173509 Canada, INC.
- Agloma – Sociedade Industrial de Madeira Aglomerada, S.A.
- Aserraderos de Cuéllar, S.A.
- Darbo, SAS
- Ecociclo – Energia e Ambiente, S.A.
- Ecociclo II Energias, SA
- Euro Decorative Boards, Ltd.
- Euromegantic Ltée.
- Euroresinas - Indústrias Químicas, S.A.
- GHP GmbH
- Glunz AG (Chairman)
- Glunz Service GmbH
- Glunz UK Holdings, Ltd.
- Imoplamac – Gestão de Imóveis, S.A.
- Ipaper – Indústria de Papéis Impregnados, S.A.
- Isoroy SAS (Chairman)
- Maiequipa – Gestão Florestal, S.A.
- Movelpartes – Componentes para a Indústria do Mobiliário, S.A.
- Poliface North America Inc.
- Racionalización y Manufacturas Forestales, S.A.
- Resoflex – Mobiliário e Equipamentos de Gestão, S.A.
- Rochester Real Estate, Ltd.
- SIAF - Imobiliária, S.A.
- Somit - Imobiliária, S.A.
- Somit – Sociedade de Madeiras Industrializadas e Transformadas, S.A.
- Sonae – Serviços de Gestão, S.A.
- Sonae International, Ltd.

- Sonae Novobord (PTY) Ltd. (Chairman)
- Sonae Tafibra Benelux, B.V.
- Sonae Tafibra UK, Ltd.
- Sonae UK, Ltd.
- Spanboard Products, Ltd.
- Tableros de Fibras, S.A.
- Tableros Tradema, SL
- Tafiber – Tableros de Fibras Ibéricos, SL
- Tafibra South Africa (PTY) Ltd. (Chairman)
- Tafibrás Participações S.A.
- Tafisa Brasil S.A.
- Tafisa France S.A. (Chairman)
- Tafisa UK, Ltd.
- Taiber – Tableros Aglomerados Ibéricos, SL
- Tarkett Agepan Laminate Flooring, SCS
- Tecnologias del Medio Ambiente, S.A.

**Christian Günther Schwarz:**

- Agepan Tarkett Laminate Park, GmbH & Co. Kg
- GHP GmbH
- Glunz AG
- Glunz UK GmbH
- Isoroy S.A.S.
- OSB Deutschand GmbH
- Sonae Novobord (PTY) Ltd.
- Sonae UK, Ltd.
- Spanboard Products, Ltd.
- Tafibra South Africa (PTY) Ltd.
- Tafisa France S.A.
- Tafisa UK, Ltd.
- Tarkett Agepan Laminate Flooring, SCS
- Tavapan SA (Supervisory Board)
- Tool GmbH

**Rui Manuel Gonçalves Correia:**

- 173509 Canada, INC.
- Agepan Tarkett Laminate Park GmbH & Co. Kg
- Agloma – Sociedade Industrial de Madeira Aglomerada, S.A.
- Aserraderos de Cuéllar, S.A.
- Ecociclo – Energia e Ambiente, S.A.
- Ecociclo II- Energias, S.A.
- Euromegantic Ltée.
- Euroresinas - Indústrias Químicas, S.A.
- GHP GmbH
- Glunz AG
- Glunz UK Holdings, Ltd.
- Imoplamac – Gestão de Imóveis, S.A.
- Isoroy SAS
- Maiequipa – Gestão Florestal, S.A.
- Movelpartes – Componentes para a Indústria do Mobiliário, S.A.
- Poliface North America Inc.
- Racionalización y Manufacturas Forestales, S.A.
- Resoflex – Mobiliário e Equipamentos de Gestão, S.A.

- SC - Consultadoria de Gestão, S.A.
- SIAF - Imobiliária, S.A.
- Somit - Imobiliária, S.A.
- Somit – Sociedade de Madeiras Industrializadas e Transformadas, S.A.
- Sonae – Indústria de Revestimentos, S.A.
- Sonae – Serviços de Gestão, S.A.
- Sonae Indústria – Produção e Comercialização de Derivados de Madeira, S.A.
- Sonae Novobord (PTY) Ltd.
- Tableros de Fibras, S.A.
- Tafibra South Africa (PTY) Ltd.
- Tafisa France S.A.
- Tafisa UK, Ltd.
- Tarkett Agepan Laminate Flooring, SCS
- Tecnologias del Medio Ambiente, S.A.

**José Antonio Comesaña Portela:**

- Agloma – Sociedade Industrial de Madeira Aglomerada, S.A.
- Aserraderos de Cuéllar, S.A. (Chairman)
- Compañía de Industrias y Negocios, S.A.
- Ecociclo – Energia e Ambiente, S.A.
- Imoplamac – Gestão de Imóveis, S.A.
- Maiequipa – Gestão Florestal, S.A.
- Racionalización y Manufacturas Forestales, S.A.
- Scs Beheer, B.V.
- Serradora Boix, SL
- Siaf – Imobiliária, S.A.
- Sociedade de Iniciativa e Aproveitamentos Florestais – Energia, S.A.
- Somit – Imobiliária, S.A.
- Somit – Sociedade de Madeiras Industrializadas e Transformadas, S.A.
- Sonae – Serviços de Gestão, S.A.
- Sonae España, S.A.
- Sonae Indústria – Produção e Comercialização de Derivados de Madeira, S.A.
- Tableros de Fibras, S.A.
- Tableros Tradema, SL
- Tafiber, Tableros de Fibras Ibéricos, SL
- Tafibrás Participações, S.A. (Chairman)
- Tafisa Brasil, S.A. (Chairman)
- Taiber, Tableros Aglomerados Ibéricos, SL
- Tecmasa Reciclados de Andalucía
- Tecnologias del Medio Ambiente, S.A. (Chairman)

**Louis Maurice Brassard:**

- 173509 Canada, Inc.
- Isoroy SAS
- Sonae Novobord (PTY) Ltd.
- Tafibra South Africa (PTY) Ltd.
- Tafisa France S.A.

**18. Other Positions formerly held by Sonae Indústria Directors**

During the past five years, Belmiro de Azevedo, Carlos Bianchi de Aguiar, Christian Schwarz, Rui Correia, Jose Antonio Comesaña and Paulo Azevedo were also Directors at several other companies belonging to the Efanor/Sonae Group.

Within the same period, the following Directors also held directorships at the following companies not belonging to the Efanor/Sonae Group:

**Christian Günther Schwarz:**

- Heraeus Sensor - Nite International, Amsterdam

**Ángel Manuel García Altozano:**

- Accesos de Madrid, C.E.S.A.
- ACS Proyectos, Obras Y Construcciones, S.A.
- Alazor Inversiones, S.A.
- Autopista Central Gallega, C.E.S.A.
- Autopista Trados 45, S.A.
- Broadnet Consorcio S.A.
- Cobra Instalaciones Y Servicios, S.A.
- Tacel Inversiones, S.A.
- Tecmed, S.A.
- Vias Y Construcciones, S.A.
- Dragados Concesiones de Infraestructuras
- Energías Ambientales de Outes, S.A.
- SAFRA, Energía Eólica, S.A.

**Per Otto Knuts:**

- Stora Feldmühle AG
- FPB Holding AG

**Knut Thomas Alarik Nystén:**

- MD Lang Papier GmbH
- Myllykoski Corporation

# Appendices to the Management Report

## Qualified Shareholdings

**APPENDIX REGARDING ARTICLE 447 OF THE COMPANY LAW**

		Acquisitions		Sales		Balance at 31.12.2006
	date	amount	average value	amount	average value	amount
<b>Belmiro Mendes de Azevedo</b>						
Efanor Investimentos, SGPS, SA (1)						49,999,997
Sonae Indústria, SGPS, SA(*)	20.01.2006	1,010	0			1,010
<b>Carlos Bianchi de Aguiar</b>						
Sonae Indústria, SGPS, SA (*)	20.01.2006	720	0			720
<b>Rui Manuel Gonçalves Correia</b>						
Sonae Indústria, SGPS, SA						5,000
Demerger-Merger rights (*)	02.01.2006	1,875	0.38			
Shares(*)	20.01.2006	2,372	0			
Shares(**)	20.01.2006	128				
Acquisition	08.05.2006	2,500	7.35			
Tableros de Fibras, SA						100
<b>Duarte Paulo Teixeira de Azevedo</b>						
Efanor Investimentos, SGPS, SA (1)						1
Imparfin, SGPS, SA (6)						150,000
Sonae Indústria, SGPS,SA						40,172
(*)	20.01.2006	24,446	0			
Delivered under the Deferred	10.03.2006	15,726	0			
Performance Plan of Sonaecom						
<b>Jose Antonio Comesaña Portela</b>						
Tableros de Fibras, SA						0
Sale	23.02.2006			57,024	1.70	
		Acquisitions		Sales		Balance at 31.12.2006
	date	amount	average value	amount	average value	amount
<b>(1) Efanor Investimentos, SGPS, SA</b>						
Sonae Indústria - SGPS, SA						44,674,706
(*)	20.01.2006	44,664,706	0.00			
Pareuro, BV (2)						20,000
Sonae-SGPS, SA (3)						658,804,410
Sonaecom-SGPS, SA (4)						1,000
<b>(2) Pareuro, BV</b>						
Sonae, SGPS, SA						400,000,000
Sonae Indústria, SGPS, SA(*)	20.01.2006	27,118,645	0			27,118,645
<b>(3) Sonae-SGPS, SA</b>						
Sonae Indústria - SGPS, SA						0
Sale	16.05.2006			1,000,000	7.35	
Sonae Capital-SGPS, SA (5)						391,046,000
Sonaecom-SGPS, SA						46,572,998
Sonae Investments BV (7)						18,151
<b>(4) Sonaecom-SGPS, SA</b>						
Sonae Indústria, SGPS, SA						0
Demerger-Merger rights (*)	09.01.2006	1,120,074	0.37			
(*)	20.01.2006	75,937				
Delivered to Sonaecom's employees	10.03.2006			37,103	0	
Sale	23.03.2006			38,834	6.37	
<b>(5) Sonae Capital-SGPS, SA</b>						
Sonae Indústria, SGPS, SA						9,521,815
Acquisition	16.05.2006	1,000,000	7.35			
Acquisition	27.12.2006	199,461	7.51			
<b>(6) Imparfin, SGPS, SA</b>						
Sonae, SGPS, SA						4,105,273
Sonae Indústria, SGPS, SA (*)	20.01.2006	278,324	0.00			278,324
<b>(7) Sonae Investements BV</b>						
Sonaecom-SGPS, SA						143,596,649

(\*) - Rights resulting from the demerger-merger and merger operation that involved Sonae, SGPS, SA, Sonae Indústria - SGPS, SA and Sonae Indústria - SGPS, SA (extinguished company).

(\*\*) - Rights resulting from the demerger - merger

## APPENDIX REGARDING ARTICLE 448 OF THE COMPANY LAW

	Número de acções a 31.12.06
<b>Efanor Investimentos, SGPS, SA</b>	
Sonae Indústria,SGPS, SA (*)	44,674,706
Pareuro, BV	20,000
Sonae-SGPS, SA	658,804,410
<b>Pareuro, BV</b>	
Sonae Indústria, SGPS, SA(*)	27,118,645
Sonae, SGPS, SA	400,000,000
<b>Sonae-SGPS, SA</b>	
Sonae Indústria, SGPS, SA	0
Sonae Capital-SGPS, SA	391,046,000
Sonaecom-SGPS, SA	46,572,998
Sonae Investments BV	18,151
<b>Sonae Capital-SGPS, SA</b>	
Sonae Indústria,SGPS, SA	9,521,815
<b>Sonaecom-SGPS, SA</b>	
Sonae Indústria, SGPS, SA	0
<b>Sonae Investements BV</b>	
Sonaecom-SGPS, SA	143,596,649

(\*) - Rights resulting from the demerger-merger and merger operation that involved Sonae, SGPS, SA, Sonae Indústria - SGPS, SA and Sonae Indústria - SGPS, SA (extinguished company).

## QUALIFIED SHAREHOLDINGS

Complying with Article 8, no. 1, e) of the CMVM Regulation no. 04/2004

Shareholder	No. of shares	% Share Capital	% Voting rights
<b>Efanor Investimentos, SGPS, S.A.</b>	44,674,706	31.9105%	31.9105%
Pareuro, BV	27,118,645	19.3705%	19.3705%
Sonae Capital, SGPS, SA	9,521,815	6.8013%	6.8013%
Maria Margarida CarvalhaisTeixeira de Azevedo	1,010	0.0007%	0.0007%
Nuno Miguel Teixeira de Azevedo	969	0.0007%	0.0007%
Duarte Paulo Teixeira de Azevedo	40,172	0.0287%	0.0287%
Maria Claudia Teixeira de Azevedo	23,186	0.0166%	0.0166%
Total allocation	81,380,503	58.1290%	58.1290%



# Consolidated Financial Statements

SONAE INDÚSTRIA, S.G.P.S., S.A.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006 AND 2005

(Amounts expressed in Euros)

ASSETS		Notes	IFRS	
			31.12.06	31.12.05
NON CURRENT ASSETS:				
Tangible assets	11	1 234 559 373	1 127 955 731	
Goodwill	9, 14	51 105 176	44 492 181	
Intangible assets	12	510 166	896 245	
Investment properties	13	8 410 688	8 985 512	
Associated undertakings and non consolidated undertaking	10	2 985 727	3 213 222	
Investment available for sale	10	1 409 864	1 372 620	
Deferred tax asset	15	60 007 308	52 685 592	
Other non current assets	16	1 284 956	2 007 538	
Total non current assets		1 360 273 258	1 241 608 641	
CURRENT ASSETS:				
Inventories	17	213 971 609	163 976 752	
Trade debtors	18	290 208 628	239 891 538	
Other current debtors	19	23 056 810	16 676 327	
State and other public entities	21	18 785 614	15 538 683	
Other current assets	20	55 603 220	4 973 080	
Investments	10	4 769 781	3 041 265	
Cash and cash equivalents	22	189 289 129	116 842 604	
Total current assets		795 684 791	560 940 249	
TOTAL ASSETS		2 155 958 049	1 802 548 890	
SHAREHOLDERS' FUNDS, MINORITY INTERESTS AND LIABILITIES				
SHAREHOLDERS' FUNDS:				
Share capital	23	700 000 000	700 000 000	
Legal Reserve		59 994		
Reserves and retained earnings		- 212 328 870	- 252 848 817	
Net profit (loss) for the period - Group		32 311 969	36 383 591	
Total shareholders' funds		520 043 093	483 534 774	
Minority interests	24	28 100 792	44 960 793	
TOTAL SHAREHOLDERS' FUNDS		548 143 885	528 495 567	
LIABILITIES:				
NON CURRENT LIABILITIES:				
Long term bank loans - net of short-term portion	25	134 085 215	176 146 046	
Non convertible debentures	25	530 273 929	381 101 414	
Long term Finance Lease Creditors - net of short-term portion	25	41 897 417	229 326	
Other loans	25	95 856 073	107 182 288	
Pensions liabilities	28	24 984 515	23 770 510	
Other non current liabilities	27	111 284 832	106 236 035	
Deferred tax liabilities	15	57 635 679	43 136 143	
Provisions	31	35 380 272	17 254 812	
Total non current liabilities		1 031 397 932	855 056 574	
CURRENT LIABILITIES:				
Short term portion of long term bank loans	25	39 959 384	56 192 111	
Short term bank loans	25	97 996 052	27 347 137	
Short term portion of Finance Lease Creditors	25	2 483 759	4 476 336	
Other loans	25	411 087	1 072 734	
Trade creditors		258 824 535	183 420 752	
Taxes and Other Contributions Payable	29	27 741 983	21 136 608	
Other current liabilities	30	141 969 877	120 073 415	
Provisions	31	7 029 555	5 277 656	
Total current liabilities		576 416 232	418 996 749	
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		2 155 958 049	1 802 548 890	

The notes are an integral part of the consolidated financial statements

The Board of Directors

SONAE INDÚSTRIA, S.G.P.S., S.A.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE PERIODS ENDED AT 31 DECEMBER 2006 AND 2005

(Amounts expressed in Euros)

	Notes	IFRS		
		31.12.06	2º. Sem. 2006	31.12.05
Operating revenues				
Sales	37	1 692 333 903	921 383 898	1 459 552 013
Services rendered	37	6 981 465	4 356 536	5 468 193
Negative goodwill	9	19 565 777	19 565 777	-
Other operating revenues	3, 34	119 474 376	82 600 015	64 041 058
Total operating revenues		<u>1 838 355 521</u>	<u>1 027 906 226</u>	<u>1 529 061 264</u>
Operating costs				
Cost of sales		847 678 904	466 601 704	702 113 592
(Increase) / decrease in production		- 7 873 782	- 8 744 225	- 4 653 806
External supplies and services		463 165 266	253 732 774	392 744 222
Staff expenses		244 471 593	139 168 511	206 049 227
Depreciation and amortisation	11, 12	107 971 033	58 429 992	101 827 792
Provisions and impairment losses	3, 10, 11, 31	35 088 175	31 116 684	801 737
Other operating costs	35	27 795 419	14 808 362	21 793 187
Total operating costs		<u>1 718 296 608</u>	<u>955 113 802</u>	<u>1 420 675 951</u>
Operational profit / (loss)		<u>120 058 913</u>	<u>72 792 424</u>	<u>108 385 313</u>
Financial profits	36	51 525 288	35 732 588	31 836 538
Financial costs	36	119 302 883	70 941 704	75 961 611
Gains and losses in associated companies		- 5 205	- 197 596	133 356
Gains and losses in investments		72 557	601	- 141 358
Current profit / (loss)		<u>52 348 670</u>	<u>37 386 313</u>	<u>64 252 238</u>
Taxation	37	18 702 317	11 773 801	27 820 544
Consolidated net profit / (loss) after taxation		<u>33 646 353</u>	<u>25 612 512</u>	<u>36 431 694</u>
Profit / (loss) after taxation from discontinued operations		-	-	-
Consolidated net profit / (loss) for the period		<u>33 646 353</u>	<u>25 612 512</u>	<u>36 431 694</u>
Attributable to:				
Equity Holders of Sonae Industria		32 311 969	23 684 400	36 383 591
Minority Interests		<u>1 334 384</u>	<u>1 928 112</u>	<u>48 103</u>
Profit/(Loss) per share				
Excluding discontinued operations:				
Basic	38	0.2308	0.1692	0.2599
Diluted	38	<u>0.2308</u>	<u>0.1692</u>	<u>0.2599</u>
From discontinued operations:				
Basic	38	-	-	-
Diluted	38	<u>-</u>	<u>-</u>	<u>-</u>

The notes are an integral part of the consolidated financial statements

The board of directors

SONAE INDÚSTRIA, S.G.P.S., S.A.

CONSOLIDATED MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE PERIODS ENDED AT 31 DECEMBER 2006 AND 2005

(Amounts expressed in Euros)

Notes	Attributable to Equity Holders of Sonae Indústria				Minority Interests	Total Equity
	Share Capital	Reserves and retained earnings	Net Profit/(Loss)	Total		
Balance as at 1 January 2005	700 000 000	- 311 273 229	42 580 440	431 307 211	38 906 799	470 214 010
Appropriation of consolidated result of 2004:						
Transfer to legal reserves and retained earnings		42 580 440	- 42 580 440			
Changes in conversion reserves		15 803 248		15 803 248	6 281 046	22 084 294
Changes in fair value of hedge financial instruments, net of taxation		- 1 650 356		- 1 650 356	- 160 039	- 1 810 395
Consolidated Profit/(Loss) for the period ended at 31 December 2005			36 383 591	36 383 591	48 103	36 431 694
Others		1 691 080		1 691 080	- 115 116	1 575 964
Balance as 31 December 2005	700 000 000	- 252 848 817	36 383 591	483 534 774	44 960 793	528 495 567
Balance as at 1 January 2006	700 000 000	-252 848 817	36 383 591	483 534 774	44 960 793	528 495 567
Appropriation of consolidated result of 2005:						
Transfer to legal reserves and retained earnings		36 383 591	-36 383 591			
Changes in conversion reserves		-12 746 692		-12 746 692	-1 785 925	-14 532 617
Changes in fair value of hedge financial instruments, net of taxation		1 225 189		1 225 189	118 790	1 343 979
Aquisição de partes de capital					-1 356 364	-1 356 364
Consolidated Profit/(Loss) for the period ended at 31 December 2006			32 311 969	32 311 969	1 334 384	33 646 353
Others		15 717 853		15 717 853	-15 170 886	546 967
Balance as 31 December 2006	700 000 000	- 212 268 876	32 311 969	520 043 093	28 100 792	548 143 885

The notes are an integral part of the consolidated financial statements

The board of directors

SONAE INDÚSTRIA, S.G.P.S., S.A.  
CONSOLIDATED CASH FLOWS STATEMENTS  
FOR THE PERIODS ENDED AT 31 DECEMBER 2006 AND 2005  
(Amounts expressed in Euros)

<u>OPERATING ACTIVITIES</u>	<u>Notes</u>	<u>31.12.06</u>	<u>31.12.05</u>
Receipts from trade debtors		1 673 124 336	1 444 830 952
Payments to trade creditors		1 273 235 770	1 080 776 757
Payments to staff		237 782 110	205 524 987
Net cash flow from operations		162 106 456	158 529 208
Payment / (receipt) of corporate income tax		9 659 575	6 619 028
Other receipts / payments relating to operating activities		40 058 705	20 591 437
Net cash flow from operating activities (1)		192 505 586	172 501 617
<u>INVESTMENT ACTIVITIES</u>			
Cash receipts arising from:			
Investments		81 944 704	107 624 889
Tangible and intangible assets		1 147 225	23 745 895
Loans granted		96 883	433 627
Investment subventions		7 164 502	
Interest and similar charges		4 764 495	3 645 457
Dividends		55 815	47 058
Others			7 442
		95 173 624	135 504 368
Cash Payments arising from:			
Investments		177 535 737	99 200 072
Tangible and intangible assets		99 993 857	40 282 011
Loans granted		329 270	158 901
		277 858 864	139 640 984
Net cash used in investment activities (2)		- 182 685 240	- 4 136 616
<u>FINANCING ACTIVITIES</u>			
Cash receipts arising from:			
Loans obtained		210 570 425	348 462 286
Set up of jointly controlled companies		30 090 000	
		240 660 425	348 462 286
Cash Payments arising from:			
Loans obtained		123 741 992	427 014 965
Interest and similar charges		45 597 123	43 790 120
Dividends			5 013
Finance leases - repayment of principal		5 893 556	4 280 593
Others			60 240
		175 232 671	475 150 931
Net cash used in financing activities (3)		65 427 754	- 126 688 645
Net increase in cash and cash equivalents (4) = (1) + (2) + (3)		75 248 100	41 676 356
Effect of foreign exchange rate		3 007 610	- 2 629 424
Cash and cash equivalents at the beginning of the period	22	116 475 852	72 170 072
Cash and cash equivalents at the end of the period	22	188 716 342	116 475 852

The notes are an integral part of the consolidated financial statements

The board of directors



SONAE INDÚSTRIA SGPS, S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2006

(Amounts expressed in euros)

1. INTRODUCTION

SONAE INDÚSTRIA, SGPS, SA, whose head-office is at Lugar do Espido, Via Norte, Apartado 1096, 4470-909 Maia, Portugal, is the parent company of a group of companies as detailed in notes 5 to 7 ("Sonae Indústria Group"). The Group's operations and business segments are described in Note 39.

The notary deed of the demerger-merger-merger process of the stake held by Sonae SGPS, SA in Sonae Indústria, SGPS, SA's share capital was held on 15 December 2005. Sonae SGPS, SA demerged 90.3644% of Sonae Indústria, SGPS, SA's share capital, which was incorporated into Sonae 3P – Panels, Pulp and Paper, SGPS, SA and all of Sonae Indústria SGPS, SA's assets were simultaneously merged into Sonae 3P – Panels, Pulp and Paper, SGPS, SA. As a result, Sonae Indústria, SGPS, SA ceased to exist and the incorporating company, Sonae 3P – Panels, Pulp and Paper, SGPS, SA was renamed to Sonae Indústria, SGPS, SA.

Due to the fact that the activity of Sonae Indústria Group remained substantially unchanged after the aforementioned merger operation, the comparability of consolidated financial statements at 31 December 2006 and 31 December 2005 was not affected.

2. MAIN ACCOUNTING POLICIES

The main accounting policies adopted in preparing the accompanying consolidated financial statements are as follows:

2.1. Basis of Preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" – previously named International Accounting Standards – "IAS"), issued by the International Accounting Standards Board



("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") or by the previous Standing Interpretations Committee ("SIC"), applicable to financial years beginning on 1 January 2006.

The accompanying consolidated financial statements have been prepared from the books and accounting records of the companies included in the consolidation (Note 5) on a going concern basis and under the historical cost convention, except for financial instruments which are stated at fair value (Note 2.12).

## 2.2. Consolidation Principles

The consolidation methods adopted by the Group are as follows:

### a) Investments in Group companies

Investments in companies in which the Group owns, directly or indirectly, more than 50% of the voting rights at Shareholders' General Meetings and is able to establish financial and operational policies so as to benefit from its activities (definition of control normally used by the Group), are included in the consolidated financial statements using the full consolidation method. Equity and net profit attributable to minority shareholders are shown separately, under the caption Minority interests, in the consolidated balance sheet and in the consolidated income statement, respectively. Companies included in the consolidated financial statements are listed in Note 5.

When losses attributable to minority interests exceed the minority interest in the equity of the Group company, the excess, and any further losses attributable to minority interests, are charged against the equity holders of Sonae except to the extent that minority shareholders have a binding obligation and are able to cover such losses. If the Group company subsequently reports profits, such profits are allocated to the equity holders of Sonae until the minority's share of losses previously absorbed by the equity holders of Sonae has been recovered.

Assets and liabilities of each Group company are measured at their fair value at the date of acquisition. Any excess of the cost of acquisition over the Group's interest in the fair value of the identifiable net assets acquired is recognised as goodwill (Note 2.2.d and 14)). Any excess of the Group's share in the fair value of the identifiable net assets acquired over cost, is recognised as income in profit or loss for the period of acquisition, after reassessment of the estimated fair value. Minority interests include their proportion of the fair value of net identifiable assets and liabilities recognised on acquisition of Group companies.



The results of Group companies acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Adjustments to the financial statements of Group companies are performed, whenever necessary, in order to adapt accounting policies to those used by the Group. All intra-group transactions, balances, income and expenses and distributed dividends are eliminated on consolidation.

b) Financial Investments in jointly owned companies

Financial investments in joint ventures (companies that the Group holds together with third parties and in which joint control is established in a shareholders' agreement) are accounted for through the proportionate consolidation method, as from the date the joint control is acquired or established. Under this method, the assets, liabilities, profits and losses of these companies are incorporated proportionately to the control attributable and line by line, in the Group's financial statements in appendix.

The excess value resulting from the difference between the acquisition cost and the fair value of the assets and liabilities of the joint-venture at the time of acquisition is recorded as goodwill (Note 2.2.d). If the difference between the acquisition cost and the fair value of the assets at the time of acquisition is negative, it is recognized as income in the period.

Transactions, balances and dividends between the companies are eliminated proportionately to the control attributable to the Group.

Joint-venture companies are detailed in note 6.

c) Investments in associated companies

Investments in associated companies (companies where the Group exercises significant influence but does not establish financial and operational policies – usually corresponding to holdings between 20% and 50% in a company's share capital) are accounted for in accordance with the equity method.

Under the equity method, investments are recorded at cost, adjusted by the amount corresponding to the Group's share of changes in equity (including net profit) of associated companies and are offset against losses or profits in the period and against dividends received.





Any excess of the cost of acquisition over the Group's share in the fair value of the identifiable net assets acquired is recognised as goodwill (Note 2.2.d). Any excess of the Group's share in the fair value of the identifiable net assets acquired over cost is recognised as income in the profit or loss for the period of acquisition, in results related to associated companies.

An assessment of investments in associated companies is performed when there is an indication that the asset might be impaired. Any impairment loss is disclosed in the income statement. Impairment losses recorded in prior years that are no longer justifiable, are reversed.

When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued, unless the Group is committed beyond the value of its investment.

The Group's share in unrealized gains arising from transactions with associated companies is eliminated. Unrealized losses are eliminated, but only to the extent that there is no evidence of impairment of the asset transferred.

Investments in associated companies are disclosed in Note 7.

d) Goodwill

The excess of the cost of acquisition of investments in group, jointly controlled and associated companies over the Group's share in the fair value of the assets and liabilities of those companies at the date of acquisition is shown as Goodwill (Note 14). The excess of the cost of acquisition of investments in foreign companies over the fair value of their identifiable assets and liabilities at the date of acquisition is calculated using the functional currency of each of those companies. Translation to the Group's currency (Euro) is made using the closing exchange rate. Exchange rate differences arising from this translation are disclosed in Reserves and retained earnings.

Goodwill is not amortised, but it is subject to impairment tests on an annual basis. Impairment losses identified in the period are disclosed in the income statement under Provisions and impairment losses, and cannot be reversed.

Any excess of the Group's share in the fair value of identifiable assets and liabilities in group, jointly controlled and associated companies over cost, is recognised as income in the profit or loss for the period, at the date of acquisition, after reassessment of the fair value of the identifiable assets and liabilities acquired.



e) Translation of financial statements of foreign companies

Assets and liabilities denominated in foreign currencies in the individual financial statements of foreign companies are translated to Euro using exchange rates at the balance sheet date. Profit and loss and cash flows are converted to Euro using the average exchange rate for the period. Exchange rate differences originated after 1 January 2004 are recorded as equity under Translation reserves in Reserves and retained earnings. Exchange rate differences that originated prior to 1 January 2004 (date of transition to IFRS) were written-off through Retained earnings

Goodwill and fair value adjustments arising from the acquisition of foreign companies are recorded as assets and liabilities of those companies and translated to Euro using exchange rates at the balance sheet date.

Whenever a foreign company is sold, accumulated exchange rate differences are recorded in the income statement as a gain or loss on the disposal.

Exchange rates used on translation of foreign group, jointly controlled and associated companies are listed below:

	31.12.06		31.12.05	
	Closing rate	Average rate	Closing rate	Average rate
Great Britain Pound	0.6715	0.6816	0.6853	0.6837
Brazilian Real	2.8118	2.7279	2.7440	3.0049
South African Rand	9.2123	8.4381	7.4644	7.9120
Canadian Dollar	1.5281	1.4227	1.3725	1.5029
American Dollar	1.3170	1.2544	1.1797	1.2418
Swiss Franc	1.6069	1.5727	1.5551	1.5483
Polish Zloty	3.8310	3.8942		

Source: Bloomberg

2.3. Tangible assets

Tangible assets acquired up to 1 January 2004 (transition date to IFRS) are recorded at acquisition cost, or revaluated acquisition cost, in accordance with generally accepted accounting principles in Portugal until that date, net of depreciation and accumulated impairment losses.

Tangible assets acquired after that date are recorded at acquisition cost, net of depreciation and accumulated impairment losses.



Depreciation is calculated on a straight line basis, as from the date the asset is first used, over the expected useful life for each class of assets.

Depreciation rates used correspond to the following estimated useful lives of underlying assets:

	Years
Buildings	50
Plant & Machinery	15
Vehicles	5
Tools	4
Fixtures and Fittings	10
Other Tangible Assets	5

Maintenance and repair costs related to tangible assets are recorded directly as expenses in the year they are incurred.

Tangible assets in progress represent fixed assets still under construction/development and are stated at acquisition cost net of impairment losses. These assets are depreciated from the date they are completed or start being used.

#### 2.4. Intangible assets

Intangible assets are stated at acquisition cost, net of depreciation and accumulated impairment losses. Intangible assets are only recognised if it is probable that future economic benefits will flow from them, if they are controlled by the Group and if their cost can be reliably measured.

Expenditure on research associated with new technical know-how is recognised as an expense recorded in the income statement when it is incurred.

Expenditure on development is recognised as an intangible asset if the Group demonstrates the technical feasibility and its intention to complete the asset, its ability to sell or use it and the probability that the asset will generate future economic benefits. Expenditure on development which does not fulfil these conditions is recorded as an expense in the period in which it is incurred.

Internal costs associated with maintenance and development of software are recorded as an expense in the period in which they are incurred. Only costs directly attributable to projects for which the generation of future economic benefits is probable are capitalized as intangible assets.



Amortisation is calculated on a straight line basis, as from the date the asset is first used, over the expected useful life which normally is 5 years.

Brands and patents with indefinite useful lives are not amortised, but are subject to impairment tests on an annual basis.

## 2.5. Accounting for leases

### Accounting for leases where the Group is the lessee

Lease contracts are classified as (i) a finance lease if the risks and rewards incidental to ownership lie with the lessee and (ii) as an operating lease if the risks and rewards incidental to ownership do not lie with the lessee.

Whether a lease is classified as a finance or an operating lease depends on the substance of the transaction rather than the form of the contract.

Tangible assets acquired through finance lease contracts are recorded as assets and corresponding obligations as liabilities in the balance sheet. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Both the finance charge and the depreciation expense for depreciable assets are taken to the income statement in the period in which they are incurred.

Lease payments under operating lease contracts are recognised as an expense on a straight line basis over the lease term.

## 2.6. Investment Properties

Investment properties are recorded at acquisition cost net of depreciation and of accumulated impairment losses. These are registered as a result of land and buildings used in discontinued operations and that the Group had established lease contracts with third parties.

## 2.7. Government grants

Government grants are recorded at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Grants received as compensation for expenses, namely grants for personnel training, are recognised as income in the same period as the relevant expense.



Grants related to depreciable assets are disclosed as Other non-current liabilities and are recognised as income on a straight line basis over the expected useful lives of those assets.

#### 2.8. Impairment of non-current assets, except for goodwill

Assets are assessed for impairment at each balance sheet date whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement under Provisions and impairment losses.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognised in prior years is only recorded when it is concluded that the impairment losses recognised for the asset no longer exist or have decreased. This analysis is performed whenever there is an indication that the impairment loss previously recognised has been reversed. The reversal is recorded in the income statement as Other Operational income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for that asset in prior years.

#### 2.9. Borrowing costs

Borrowing costs are normally recognised as an expense in the period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of tangible and intangible assets are capitalised as part of the cost of the qualifying asset. Borrowing costs are capitalised from the time of preparation of the activities to construct or develop the asset up to the time the production or construction is complete or when asset development is interrupted. Any income earned on funds temporarily invested pending their expenditure on the qualifying asset, is deducted from the borrowing costs that qualify for capitalisation.



## 2.10. Inventories

Consumer goods and raw materials are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

Finished goods and work in progress are stated at the lower of the weighted average production cost or net realisable value. Production cost includes cost of raw materials, labour costs and overheads (including depreciation of production equipment based on normal levels of activity).

Net realisable value is the estimated selling price less estimated costs of completion and estimated costs necessary to make the sale.

Differences between cost and net realisable value, if negative, are shown as operating expenses under Cost of sales or Changes in stocks of finished goods and work in progress, depending on whether they refer to consumer goods and raw materials or finished goods and work in progress.

## 2.11. Provisions

Provisions are recognised when, and only when, the Group has an obligation (legal or constructive) resulting from a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of that obligation. Provisions are reviewed and adjusted at the balance sheet date to reflect the best estimate as of that date.

Restructuring provisions are recorded by the Group whenever a formal and detailed restructuring plan exists and that plan has been communicated to the parties involved.

## 2.12. Financial Instruments

### a) Investments

Investments are classified into the following categories:

- Held to maturity
- Investments measured at fair value through profit or loss
- Available-for-sale

Held to maturity investments are classified as non-current assets unless they mature within 12 months of the balance sheet date. Investments classified as held to maturity



have defined maturities and the Group has the intention and ability to hold them until the maturity date.

Investments measured at fair value through profit or loss are classified as current assets.

Available-for-sale investments are classified as non-current assets.

All purchases and sales of investments are recognised on the trade date, independently of the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration paid for them, including transaction costs.

Available-for-sale investments and investments measured at fair value through profit or loss are subsequently carried at fair value, without any deduction for transaction costs which may be incurred on sale, by reference to their quoted market price at the balance sheet date. Investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, are stated at cost, less impairment losses.

Gains or losses arising from a change in fair value of available-for-sale investments are recognised directly in equity, under Fair value reserve, included in Reserves and retained earnings until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is transferred to net profit or loss for the period.

Changes in the fair value of investments measured at fair value through profit or loss are included in the consolidated income statement for the period.

Held to maturity investments are carried at amortised cost using the effective interest rate, net of capital reimbursements and interest income received

b) Accounts receivable

Receivables are stated at net realisable value, corresponding to their nominal value less impairment losses, recorded under the caption Impairment losses in accounts receivable, and thereby reflect their net realisable value.



c) Classification as equity or liability

Financial liabilities and equity instruments are classified and accounted for based on their contractual substance, independently from the legal form they assume.

d) Loans

Loans are recorded as liabilities at their nominal value, net of up-front fees and commissions related to the issuance of those instruments. Financial expenses are calculated based on the effective interest rate and are recorded in the income statement on an accruals basis, in accordance with the accounting policy defined in Note 2.9. The portion of the effective interest charge relating to up-front fees and commissions, if not paid in the period, is added to the book value of the loan.

e) Trade accounts payable

Accounts payable are stated at their nominal value.

f) Derivatives

The Group uses derivatives in the management of its financial risks, only to hedge such risks. Derivatives are not used by the Group for trading purposes.

Derivatives classified as cash flow hedge instruments are used by the Group mainly to hedge interest and exchange rate risks on loans obtained. Conditions established for these cash flow hedge instruments are identical to those of the corresponding loans in terms of base rates, calculation rules, rate setting dates and repayment schedules of the loans and for these reasons they qualify as perfect hedges. Inefficiencies that may arise are recorded on the Profit and Loss statement.

The Group's criteria for classifying a derivative instrument as a cash flow hedge instrument include:

- the hedge transaction is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured;
- there is adequate documentation of the hedging relationships at the inception of the hedge;
- the forecasted transaction that is being hedged is highly probable.





Cash flow hedge instruments used by the Group to hedge the exposure to changes in interest and exchange rates of its loans are initially accounted for at cost and subsequently adjusted to their corresponding fair value. Changes in fair value of these cash flow hedge instruments are recorded in equity under the caption Hedging reserves, and then recognised in the income statement over the same period in which the hedged instrument affects income statement.

Whenever the company chooses not to apply hedge accounting to derivative instruments, changes in fair value affect results immediately on a daily basis.

Hedge accounting of derivative instruments is discontinued when the instrument matures or is sold. Whenever a derivative instrument can no longer be qualified as a hedging instrument, the fair value differences recorded in equity under the caption Hedging reserve are transferred to profit or loss of the period or to the carrying amount of the asset that resulted from the hedged forecast transaction. Subsequent changes in fair value are recorded in the income statement.

In those cases in which derivatives, in spite of having been negotiated to hedge financial risks inherent to the business (essentially, currency “forwards” to cover future imports), no longer meet the criteria for hedge accounting under IAS 39, changes in the fair value are recorded directly in the income statement.

When embedded derivatives exist, they are accounted for as separate derivatives when the risks and the characteristics are not closely related to economic risks and characteristics of the host contract, and this is not stated at fair value.

Additionally, the Group also negotiates, in specific situations, interest and exchange rate derivatives in order to hedge fair values. In these cases, derivatives are stated at fair value through profit or loss. When the hedged instrument is not measured at fair value (i.e. loans which are recorded at amortised cost) the book value is adjusted by the amount which is effectively hedged through profit or loss.

g) Equity instruments

Equity instruments are those that represent a residual interest on the Group's net assets and are recorded at the amount received, net of costs incurred with their issuance.



h) Own shares

Own shares are recorded at acquisition cost as a reduction to equity. Gains or losses arising from sales of own shares are recorded in Reserves and retained earnings under Other reserves.

i) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at banks, term deposits and other treasury applications which mature in less than three months and are subject to insignificant risk of change in value.

In the consolidated statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in the balance sheet caption Borrowings.

2.13. Retirement benefit plans

As referred to in Note 28, some of the Group companies are committed to provide pension complements to their employees. These commitments are considered as defined benefit plans, and autonomous pension funds have been established to this effect:

In order to estimate its obligations, the Group obtains, annually, actuarial valuations according to the "Projected Unit Credit Method". When unrecognised cumulative actuarial gains and losses exceed the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets, these are recorded as income or expense on a straight line basis over the average remaining service period of the participants.

Past service costs are recorded immediately when benefits are being paid. Otherwise, these are recorded on a straight line basis over the average remaining service period until they vest (generally, the date of retirement if they still work for the Group).

Obligations recorded at the closing balance sheet date reflect the present value of obligations for defined benefits adjusted for actuarial gains or losses and/or past service costs not recorded, net of the fair value of net assets of the pension fund.



#### 2.14. Contingent assets and liabilities

Contingent liabilities are not recorded in the consolidated financial statements. Instead they are disclosed in the notes to the financial statements, unless the probability of a cash outflow is remote, in which case, no disclosure is made.

Contingent assets are not recorded in the consolidated financial statements but disclosed when future economic benefits are probable.

#### 2.15. Income tax

Income tax for the period is calculated based on the taxable income of companies included on consolidation and considers deferred taxation.

Current income tax is determined based on the taxable income of companies included on consolidation and includes deferred taxation, in accordance with the tax rules in force in the respective country of incorporation, considering the period profit and using the estimated effective average annual income tax rate.

Deferred taxes are calculated using the balance sheet liability method, reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are calculated and annually remeasured using the tax rates that have been enacted or substantively enacted and therefore are expected to apply in the periods when the temporary differences are expected to reverse.

Deferred tax assets are recognised only when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be used, or when taxable temporary differences are recognised and expected to reverse in the same period. At each balance sheet date a review is made of the deferred tax assets recognised, which are reduced whenever their future use is no longer probable

Deferred tax assets and liabilities are recorded in the income statement, except if they relate to items directly recorded in equity. In these cases the corresponding deferred tax is recorded in equity.

#### 2.16. Revenue recognition and accrual basis

Revenue from the sale of goods is recognised in the income statement when the risks and benefits have been transferred to the buyer and the amount of the revenue can be measured



reasonably. Sales are recognised net of sales taxes and discounts and other expenses arising from the sale, and are measured as the fair value of the amount received or receivable.

Revenue from services rendered is recognised in the income statement taking into consideration the stage of completion of the transaction at the balance sheet date.

Dividends are recognised as income in the year they are attributed to the shareholders.

Income and expenses are recorded in the year to which they relate, independently of the date of the corresponding payment or receipt. Income and expenses for which their real amount is not known are estimated.

Other current assets and Other current liabilities include income and expenses of the reporting year which will only be invoiced in the future. Those captions also include receipts and payments that have already occurred but will only correspond to income or expenses of future years, when they will be recognised in the income statement.

#### 2.17. Capital gains and losses

Capital gains and losses that result from the sale or write-off of tangible and intangible assets and of investments are presented on the profit and loss statement as the difference between the sale price and the net book value at date of sale or write-off, under the caption Other Operating Profits and Losses.

#### 2.18. Balances and transactions expressed in foreign currencies

Transactions in currencies other than the Euro, are translated to Euro using the exchange rate as at the transaction date.

At each balance sheet date, all monetary assets and liabilities expressed in foreign currencies are translated to the functional currency of each foreign company at the exchange rates as at that date. All non-monetary assets and liabilities recorded at fair value and stated in foreign currencies are converted to the functional currency of each company, using the exchange rate at the date the fair value was determined.

Exchange gains and losses arising from differences between historical exchange rates and those prevailing at the date of collection, payment or the date of the balance sheet, are recorded as income or expenses of the period, except for those related to non-monetary assets or liabilities, for which adjustments to fair value are directly recorded under equity.



When the Group wants to reduce currency exposure, it negotiates hedging currency derivatives (Note 2.12.f)).

#### 2.19. Subsequent events

Events after the balance sheet date that provide additional information about conditions that existed at the balance sheet date (adjusting events), are reflected in the consolidated financial statements. Events after the balance sheet date that are non-adjusting events are disclosed in the notes when material.

#### 2.20. Segment information

All business and geographic segments of the Group are identified annually.

Information regarding business and geographic segments identified is included in Note 39.

### 3. RELEVANT EVENTS

On 17 April 2006 a fire broke out on production line 2 at the factory in Lac Megantic, Canada, destroying a significant part of this line's assets. In addition, Line 1 was also forced to stop for almost 2 months. The Group's insurance policy covers asset and operating losses and the compensation received will be sufficient to replace production capacity prior to the fire with new assets and to cover operating losses resulting from the stoppage of both production lines, for a period of up to 18 months.

As a result, consolidated financial statements for 2006 includes an impairment loss that results from the net value of the assets destroyed (38 115 481 euros) in "Provisions and impairment losses" on the consolidated profit and loss statement. The corresponding indemnity is included in "Provisions and impairment losses" (38 115 481 euros) and "Other current assets" on the consolidated profit and loss statement and balance sheet, respectively. As regards the estimated indemnity relating to operating losses, it is included in "Other operating profits" (31 025 219 euros) and "Other current assets" on the consolidated profit and loss statement and balance sheet, respectively. This estimate was calculated by the Company in accordance with the terms of the insurance policy which state whereby the value should take into account the gross profit margin and turnover generated in the previous year, adjusted for underlying business trends. The calculation is based on all available data at the time these accounts were finalized.

The amount of operating losses incurred until 31 December 2006 as a result of the aforementioned accident are still being analysed by the Group and the involved insurance



companies. Consequently, the indemnity included in the caption Other operating profits of the consolidated profit and loss statement for 31 025 219 euros, refers to an estimation based on the available information as at the closing date of these consolidated financial statements and will only be confirmed at the end of the indemnity period covered by the insurance policy and once a final agreement has been reached between the Company and the insurance companies.

#### 4. CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF ERRORS

No changes to the accounting policies mentioned in note 2 and no corrections to prior period errors were made.

#### 5. GROUP COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

Group companies included in the consolidated financial statements, their head offices and percentage of capital held by the Group as at 31 December 2006 and 31 December 2005 are as follows:

	COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD				TERMS FOR INCLUSION
			31.12.2006		31.12.2005		
			Direct	Total	Direct	Total	
1)	Agepan Eiweiler Management GmbH	Eiweiler (Germany)	100,00%	91,16%			a)
2)	Agepan Flooring Products, SARL	Luxembourg	100,00%	91,16%			a)
	Aglom - Sociedade Industrial de Madeira Aglomerada, S.A.	Oliveira do Hospital (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	Cia. De Industrias y Negocios, S.A.	Madrid (Spain)	100,00%	91,16%	100,00%	91,16%	a)
3)	Darbo SAS	Linxe (France)	100,00%	91,16%			a)
	Ecociclo, Energia e Ambiente, S. A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
4)	Ecociclo II – Energias, S. A.	Maia (Portugal)	100,00%	100,00%			a)
	Euro Decorative Boards Ltd.	Knowsley (United Kingdom)	100,00%	91,16%	100,00%	91,16%	a)
	Euromegantic Ltee	Lac Mégantic (Canada)	100,00%	91,16%	100,00%	91,16%	a)
	Euroresinas - Indústrias Químicas, S.A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
5)	GHP, GmbH	Meppen (Germany)	100,00%	91,16%			a)
6)	Glunz AG	Meppen (Germany)	100,00%	91,16%	98,17%	90,36%	a)
	Glunz Service GmbH	Hamm (Germany)	100,00%	91,16%	100,00%	90,36%	a)
	Glunz UK Holdings, Ltd.	Londres (United Kingdom)	100,00%	91,16%	100,00%	90,36%	a)
	Glunz UKa GmbH	Hamm (Germany)	100,00%	91,16%	100,00%	90,36%	a)
7)	Hornitex Polska	Poznan (Poland)	100,00%	91,16%			a)
8)	Isoroy Transformation S.A.S.	St. Dizier (France)	99,99%	91,16%	99,99%	91,16%	a)
	Isoroy, SAS	Boulogne (France)	100,00%	91,16%	100,00%	91,16%	a)
	Maiequipa - Gestão Florestal, S.A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	Megantic B.V.	Amsterdão (The Netherlands)	100,00%	91,16%	100,00%	91,16%	a)
	Movelpartes – Comp. para a Indústria do Mobiliário, S.A.	Paredes (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	OSB Deutschland	Germany	100,00%	91,16%	100,00%	91,16%	a)
	Poliface Brasil, Ltda.	São Paulo (Brazil)	99,99%	99,99%	99,99%	99,99%	a)



	Polifac North America	Baltimore (USA)	100,00%	91,16%	100,00%	91,16%	a)
	Racionalización y Manufacturas Forestales, S.A.	Madrid (Spain)	100,00%	91,16%	100,00%	91,16%	a)
	Resoflex – Mobiliário e Equipamentos de Gestão, S.A.	Vila de Conde (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	SCS Beheer, BV	The Netherlands	100,00%	91,16%	100,00%	91,16%	a)
	Siaf – Soc. de Iniciativa e Aproveitamentos Florestais, S.A.	Mangualde (Portugal)	100,00%	91,16%	100,00%	91,16%	a)
9)	Socelpac, SGPS, SA	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	Sociedade de Iniciativa e Aproveit. Florestais - Energias, S.A.	Mangualde (Portugal)	100,00%	91,18%	100,00%	91,18%	a)
	Société Industrielle et Financière Isoroy	Rungis (France)	100,00%	91,16%	100,00%	91,16%	a)
	Somit – Imobiliária, S.A.	Oliveira do Hospital (Portugal)	100,00%	91,16%	100,00%	91,16%	a)
	Sonae – Serviços de Gestão, S. A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	Sonae España, S. A.	Madrid (Spain)	99,94%	99,94%	99,94%	99,94%	a)
	Sonae Indústria – Prod. e Comerc. Derivados Madeira, S. A.	Mangualde (Portugal)	100,00%	91,41%	100,00%	91,41%	a)
	Sonae Indústria – Soc. Gestora de Participações Sociais, S.A.	Maia (Portugal)	HOLDING	HOLDING	HOLDING	HOLDING	HOLDING
	Sonae Indústria Brasil, Ltda.	São Paulo (Brazil)	100,00%	100,00%	100,00%	100,00%	a)
	Sonae Indústria de Revestimentos, S.A.	Maia (Portugal)	100,00%	100,00%	100,00%	100,00%	a)
	Sonae Novobord (Pty) Ltd	Woodhead (South Africa)	100,00%	91,16%	100,00%	91,16%	a)
	Sonae Tafibra (UK) Ltd	Knowsley (United Kingdom)	100,00%	91,16%	100,00%	91,16%	a)
	Sonae Tafibra Benelux, B. V.	Woerden (The Netherlands)	100,00%	91,16%	100,00%	91,16%	a)
	Sonae UK, Limited	Knowsley (United Kingdom)	100,00%	91,16%	100,00%	91,16%	a)
	Spanboard Products Ltd	Belfast (United Kingdom)	100,00%	91,16%	100,00%	91,16%	a)
	Tableros de Fibras, S.A.	Madrid (Spain)	91,16%	91,16%	91,16%	91,16%	a)
	Tableros Tradema, S.L.	Madrid (Spain)	100,00%	91,16%	100,00%	91,16%	a)
	Tafiber, Tableros de Fibras Ibéricas, S.L.	Madrid (Spain)	100,00%	91,16%	100,00%	91,16%	a)
	Tafibra South Africa, Limited	South Africa	100,00%	91,16%	100,00%	91,16%	a)
	Tafibras, S.A.	Curitiba (Brazil)	54,32%	49,55%	54,32%	49,55%	a)
	Tafisa Brasil, S.A.	Curitiba (Brazil)	100,00%	57,46%	100,00%	57,46%	a)
	Tafisa Canadá Société en Commandite	Lac Mégantic (Canadá)	99,99%	91,16%	99,99%	91,16%	a)
	Tafisa France S.A.S.	Rungis (France)	100,00%	91,16%	100,00%	91,16%	a)
	Tafisa U.K.Ltd.	Knowsley (United Kingdom)	100,00%	91,16%	100,00%	91,16%	a)
	Taiber, Tableros Aglomerados Ibéricos, S.L.	Madrid (Spain)	100,00%	91,16%	100,00%	91,16%	a)
	Tavapan, SA	Tavannes (Switzerland)	100,00%	91,16%	100,00%	90,36%	a)
	Tecnologías del Medio Ambiente, S.A.	Barcelona (Spain)	100,00%	91,16%	100,00%	91,16%	a)
	Tool, GmbH	Meppen (Germany)	100,00%	91,16%	100,00%	90,36%	a)

a) Majority of voting rights.

1) Company incorporated on 6 September 2006

2) Company incorporated on 23 March 2006;

3) Company acquired on 14 September 2006

4) Company incorporated on 24 November 2006

5) Company acquired 1 July 2006

6) Acquisition on 31 March of all shares held by third parties;

7) Company acquired 1 July 2006

8) Company sold 4 September 2006

9) Company liquidated 31 May 2006.

These group companies are consolidated using the full consolidation method as described in Note 2.2.a).



## 6. JOINT VENTURES

The joint ventures, their head offices, percentage of share capital held and balance sheet on 31 December 2006 are as follows:

	COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD	
			Direct	Total
1)	Agepan Tarkett Laminate Park GmbH & Co. KG	Eiweiler (Germany)	50,00%	50,00%
2)	Tarkett Agepan Laminate Flooring SCS	Luxemburg	50,00%	50,00%
3)	Tecmasa, Reciclados de Andalucía, S. L.	Alcalá de Guadaira (Spain)	50,00%	50,00%

1) Company incorporated 6 September 2006

2) Company incorporated 5 July 2006

3) Company incorporated 4 October 2006

Joint venture companies have been consolidated using the proportionate consolidation method, as explained in note 2.2.b).

## 7. INVESTMENTS IN ASSOCIATED COMPANIES

Associated companies, their head offices and the percentage of share capital held as at 31 December 2006 and 31 December 2005 are as follows:

COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD			
		31.12.2006		31.12.2005	
		Direct	Total	Direct	Total
Ipaper - Indústria de Papéis Impregnados, S. A.	Maia (Portugal)	49,00%	49,00%	49,00%	49,00%
Promodeco – Proj. Imobiliário Decoração e Constr., Lda.	Maia (Portugal)	27,60%	27,60%	27,60%	27,60%
Serradora Boix	Barcelona (Spain)	31,25%	28,49%	31,25%	28,49%
Sonaegest	Maia (Portugal)	20,00%	20,00%	20,00%	20,00%

Associated companies are consolidated using the equity method, as referred in Note 2.2.c).

## 8. CHANGES TO THE CONSOLIDATION PERIMETER

Comparison of the 2005 and 2006 financial statements is affected by the companies that were included and excluded in the consolidation perimeter during 2006 and by the companies that were excluded during 2005.

### Companies included in 2006:

Company	Head Office	Percentage of capital held at date of acquisition / incorporation	
		Directo	Total
1) Agepan Eiweiler Management, GmbH	Eiweiler (Germany)	100,00%	91,16%
2) Agepan Flooring Products, SARL	Luxemburg	100,00%	91,16%
3) Agepan Tarkett Laminate Park GmbH & Co. GK	Eiweiler (Germany)	50,00%	45,58%
4) Darbo, SAS	Linxe (France)	100,00%	91,16%
5) Ecociclo II – Energias, S. A.	Maia (Portugal)	100,00%	100,00%





6)	GHP, GmbH	Meppen (Germany)	100,00%	91,16%
7)	Hornitex Polska	Poznan (Poland)	100,00%	91,16%
8)	Tarkett Agepan Laminate Flooring SCS	Luxemburg	50,00%	45,58%
9)	Tecmasa, Reciclados de Andalucía, S. L.	Alcalá de Guadaira (Spain)	50,00%	45,58%

- 1) Company incorporated 6 September 2006;
- 2) Company incorporated 23 March 2006;
- 3) Company incorporated 6 September 2006;
- 4) Company acquired 14 September 2006;
- 5) Company incorporated 24 November 2006;
- 6) Company acquired 1 July 2006;
- 7) Company acquired 1 July 2006;
- 8) Company incorporated 5 July 2006;
- 9) Company incorporated 4 October 2006.

The inclusion of these companies in the consolidation perimeter during 2006 affected the comparability of the consolidated profit and loss statements of 2006 and 2005 financial years as follows:

	Year 2006	Companies entering perimeter in 2006	Year 2006 comparable basis	Year 2005
	[1]	[2]	[1] - [2]	
Operating revenues				
Sales	1 692 333 903	163 572 485	1 528 761 418	1 459 552 013
Services rendered	6 981 465	25 884	6 955 581	5 468 193
Negative goodwill	19 565 777	19 565 777		
Other operating revenues	119 474 376	19 649 735	99 824 641	64 041 058
Total operating revenues	1 838 355 521	202 813 881	1 635 541 640	1 529 061 264
Operating costs				
Cost of sales	847 678 904	83 252 628	764 426 276	702 113 592
(Increase) / decrease in production	- 7 873 782	- 1 869 847	- 6 003 935	- 4 653 806
External supplies and services	463 165 266	51 977 041	411 188 225	392 744 222
Staff expenses	244 471 593	40 678 513	203 793 080	206 049 227
Depreciation and amortisation	107 971 033	10 361 225	97 609 808	101 827 792
Provisions and impairment losses	35 088 175	12 659 869	22 428 306	801 737
Other operating costs	27 795 419	517 618	27 277 801	21 793 187
Total operating costs	1 718 296 608	197 577 047	1 520 719 561	1 420 675 951
Operational profit / (loss)	120 058 913	5 236 834	114 822 079	108 385 313
Financial profits	51 525 288	4 167 644	47 357 644	31 836 538
Financial costs	119 302 883	12 202 622	107 100 261	75 961 611
Net financial profit / (loss)	- 67 777 595	- 8 034 978	- 59 742 617	- 44 125 073
Gains and losses in associated companies	- 5 205		- 5 205	133 356
Gains and losses in investments	72 557		72 557	- 141 358
Current profit / (loss)	52 348 670	- 2 798 144	55 146 814	64 252 238
Taxation	18 702 317	- 7 120 985	25 823 302	27 820 544
Consolidated net profit / (loss) after taxation	33 646 353	4 322 841	29 323 512	36 431 694
Consolidated net profit / (loss) for the period	33 646 353	4 322 841	29 323 512	36 431 694
Attributable to:				
Equity holders of Sonae Indústria	32 311 969	5 608 430	26 703 539	36 383 591
Minority interests	1 334 384	- 1 285 589	2 619 973	48 103



#### Companies excluded in 2006:

Company	Head Office	Percentage of capital held at date of acquisition / incorporation	
		Direct	Total
1) Isoroy Transformation S.A.S.	St. Dizier (France)	99,99%	91,16%
2) Socelpac, SGPS, SA	Maia (Portugal)	100,00%	100,00%

1) Company sold 4 September 2006;

2) Company liquidated 31 May 2006.

The comparability of consolidated financial statements of 2006 and 2005 financial years was not materially affected by the exclusion of these companies from the consolidation perimeter during 2006.

#### Companies excluded in 2005:

Company	Head Office	Percentage of capital held at date of acquisition / incorporation	
		Direct	Total
1) Explotaciones Comerciales, Industriales y de Servicios, S.A.	Madrid (Spain)	100,00%	91,16%
2) Explotaciones Madereras Catalanias, S. A.	Barcelona (Spain)	100,00%	91,16%
3) Florestal y Maderera, S. A.	Madrid (Spain)	100,00%	91,16%
4) Gollin GmbH	Bad Oeynhausen (Germany)	90,00%	81,32%
5) Orpin, S. A.	Madrid (Spain)	100,00%	91,16%
6) Tafibra - Tableros Aglomerados y de Fibras, A.I.E.	Madrid (Spain)	100,00%	91,18%
7) Sonae 4-P, Panels, Pulp, Paper and Packaging, S. A.	Madrid (Spain)	100,00%	91,16%
8) Novobord (Pty) Ltd.	Woodnead (South Africa)	100,00%	91,16%

1) Company sold 31 December 2005;

2) Company sold 25 October 2005;

3) Company sold 25 October 2005;

4) Company sold 31 December 2005;

5) Company sold 25 October 2005;

6) Company liquidated 30 December 2005;

7) Company liquidated 31 December 2005;

8) Company liquidated during 2005. Its assets were transferred to Sonae Novobord (Pty) Ltd.

The comparability of consolidated financial statements of 2006 and 2005 financial years was not materially affected by the exclusion of these companies from the consolidation perimeter during 2005.

## 9. BUSINESS COMBINATIONS

As explained in notes 5 and 8, during the year the Group acquired 100% of the share capital of GHP GmbH, Darbo SAS and Hornitex Polska. It also acquired the remaining outstanding shares of its subsidiary Glunz AG which were previously held by third parties.



The assets acquired and the goodwill arising on consolidation are detailed as follows:

Euros	GHP GmbH	Darbo SAS	Hornitex Polska	Glunz AG	Total
Cost					
Acquisition cost	60 500 000	30 514 175	11 175	2 276 832	
Costs attributable to the combination	256 130			546 715	
	60 756 130	30 514 175	11 175	2 823 547	
Fair value of net assets at acquisition date	82 218 940	23 901 996	(1 302 906)	95 682 156	
Direct ownership percentage acquired	100.00%	100.00%	100.00%	0.88%	
Total ownership percentage acquired	91.16%	91.16%	91.16%	0.81%	
Goodwill (Note 14)	-	6 027 749	1 197 933	1 802 514	9 028 195
Negative goodwill	(19 565 777)	-	-	-	(19 565 777)

The fair value of the net assets at the time of the acquisition are as follows:

	GHP GmbH			Darbo SAS		
	Carrying amount at acquisition date	Fair value adjustments	Fair value at acquisition date	Carrying amount at acquisition date	Fair value adjustments	Fair value at acquisition date
Non current assets						
Tangible and intangible assets	167 384 607	4 458 049	171 842 656	19 138 832	10 421 174	29 560 006
Other non current assets	11 175		11 175	11 123		11 123
Current assets	35 008 859		35 008 859	17 090 905		17 090 905
Non current liabilities	62 651 101	41 089 116	103 740 217		5 070 612	5 070 612
Current liabilities	19 757 744	1 145 789	20 903 533	17 377 435	311 991	17 689 426
Net assets	119 995 796	-37 776 856	82 218 940	18 863 425	5 038 571	23 901 996

The fair value of the assets and liabilities acquired was calculated through independent valuations and internal audits. The adjustments to value referred to earlier, include changes to the book value of the assets and liabilities as a result of the evaluations made, recognition of the fair value of financial leases which prior to the acquisition were accounted for as operating leases on the financial statements of the companies acquired. This reclassification led to an increase in tangible assets of 43 104 726 euros (40 542 726 euros at GHP GmbH and 2 562 000 euros at Darbo SAS), to an increase in non-current liabilities of 41 423 843 euros (39 237 658 euros at GHP GmbH and 2 186 185 euros at Darbo SAS) and to an increase in current liabilities of 1 617 059 euros (1 305 068 at GHP GmbH and 311 991 euros at Darbo SAS).

The companies acquired contributed with Turnover of 162 651 131 euros to Consolidated Turnover and with 7 161 555 euros to Consolidated Net Results attributable to Sonae Indústria shareholders. If the acquisitions had occurred on 1 January 2006, Consolidated Turnover would have been higher by 192 688 021 euros and the Consolidated Net Results attributable to Sonae Indústria shareholders would have been lower by 4 984 173 euros. These amounts were determined through the financial statements of the companies acquired for the period in question and no adjustments were made to align accounting practices with those of the Sonae Indústria Group.



The Goodwill arising on the acquisition of Darbo SAS, of 6 027 749 arises from the fact that the company is expected to generate positive net results in the future as a result of synergies the Group expects to achieve in Iberia and France.

The negative goodwill recorded with the acquisition of GHP GmbH, of -19 565 777 euros is a result of the costs that the Group will have to incur to implement a restructuring plan for the business acquired and that could not be taken to goodwill in accordance with IFRS 3. At 31 December 2006, 20 236 891 euros of restructuring costs had already been recorded on the consolidated financial statements.

## 10. INVESTMENTS

At 31 December 2006 and 31 December 2005, details of Investments are as follows:

	31.12.06		31.12.05	
	Current	Non current	Current	Non current
Investment in group companies excluded from consolidation				
Opening balance		42 726 009		42 948 640
Disposal				196 990
Liquidation				25 641
Closing balance		42 726 009		42 726 009
Accumulated impairment losses (Note 31)		42 661 176		42 661 176
Net investment in group companies excluded from consolidation		64 833		64 833
Investment in associated companies				
Opening balance		3 148 389		3 168 799
Increase in share capital				100 000
Disposal				50 463
Effect of equity method application		- 227 495		137 700
Changes in consolidation perimeter				- 138 744
Transfer				- 68 903
Closing balance		2 920 894		3 148 389
Accumulated impairment losses (Note 31)				
Net investment in associated companies		2 920 894		3 148 389
Available-for-sale investment				
Opening balance		1 396 195		6 437 535
Acquisition		85 227		8 209
Disposal		20 489		5 393 091
Transfer				68 903
Currency translation effect		- 27 501		274 639
Closing balance		1 433 432		1 396 195
Accumulated impairment losses (Note 31)		23 568		23 575
Net available-for-sale investment		1 409 864		1 372 620
Investments measured at fair value through profit and loss				
Opening balance	3 079 442		15 287 880	
Acquisition	83 312 680			
Disposal	81 622 341		12 208 438	
Closing balance	4 769 781		3 079 442	
Accumulated impairment losses (Note 31)			38 177	
Net investments measured at fair value through profit and loss	4 769 781		3 041 265	



## 11. TANGIBLE ASSETS

During the twelve-month period ended 31 December 2006, movements in tangible assets, accumulated depreciation and impairment losses were as follows:

	2006							
	Land and Buildings	Plant and Machinery	Vehicles	Tools	Fixtures and Fittings	Other Tangible Fixed Assets	Fixed Assets under construction	Total tangible assets
Gross								
Opening balance	399 281 939	1 645 040 536	13 234 771	8 116 441	45 754 871	12 820 081	16 320 975	2 140 569 614
Changes in consolidation perimeter	52 392 910	262 218 070	33 878		10 548 513	- 68 074	17 422 955	342 548 252
Capital expenditure	2 200 820	5 579 755	413 257	8 163	950 511	- 268 251	107 412 322	116 296 577
Disposal	6 672 303	41 374 848	879 023	95 130	2 286 630	186 772	16 086 111	67 580 817
Transfers and reclassifications	25 443 410	40 078 706	- 2 593 489	1 501 204	2 963 004	610 684	- 63 639 670	4 363 849
Exchange rate effect	- 8 184 913	- 29 889 103	- 107 719	- 119 664	- 863 842	2 615	- 3 284 319	- 42 446 945
Closing balance	464 461 863	1 881 653 116	10 101 675	9 411 014	57 066 427	12 910 283	58 146 152	2 493 750 530
Accumulated depreciation and impairment losses								
Opening balance	92 741 075	863 283 400	9 127 212	5 278 556	31 330 191	10 853 450		1 012 613 884
Changes in consolidation perimeter	29 318 140	107 198 251			5 031 473	- 57 863		141 490 001
Charge for the period	12 742 729	135 718 826	603 528	1 392 699	5 324 355	763 461	343 447	156 889 045
Disposal	3 597 419	30 129 074	746 776	93 081	1 966 583	164 848		36 697 781
Transfer	251 778	1 551 869	- 476 963		466 204	22		1 792 910
Exchange rate effect	- 1 314 366	- 14 906 954	- 106 500	- 12 404	- 556 726	48		- 16 896 902
Closing balance	130 141 937	1 062 716 318	8 400 501	6 565 770	39 628 914	11 394 270	343 447	1 259 191 157
Carrying amount	334 319 926	818 936 798	1 701 174	2 845 244	17 437 513	1 516 013	57 802 705	1 234 559 373

	2005							
	Land and Buildings	Plant and Machinery	Vehicles	Tools	Fixtures and Fittings	Other Tangible Fixed Assets	Fixed Assets under construction	Total tangible asset
Gross								
Opening balance	398 140 852	1 577 797 176	13 514 125	5 805 246	42 552 969	12 498 164	16 527 666	2 066 836 198
Changes in consolidation perimeter	- 2 367 295	- 3 710 067	- 354 410	- 57 529	- 609 014			- 7 098 315
Capital expenditure	44 217	697 604	168 833	32 948	424 903	79 037	39 536 170	40 983 712
Disposal	11 017 239	26 010 103	662 370	368 722	157 874	85 454		38 301 762
Transfers and reclassifications	- 4 631 141	34 086 784	175 266	2 574 827	2 065 330	310 805	- 40 422 686	- 5 840 815
Exchange rate effect	19 112 545	62 179 141	393 326	129 672	1 478 557	17 533	679 825	83 990 599
Closing balance	399 281 939	1 645 040 535	13 234 770	8 116 442	45 754 871	12 820 085	16 320 975	2 140 569 617
Accumulated depreciation and impairment losses								
Opening balance	89 325 386	780 914 776	9 098 282	4 161 927	26 744 724	10 047 307		920 292 402
Changes in consolidation perimeter	- 868 563	- 2 669 092	- 309 192	- 45 767	- 455 852			- 4 348 466
Charge for the period	7 002 453	87 784 816	675 493	1 143 678	4 404 918	907 280		101 918 638
Disposal	6 415 295	22 439 988	614 109	56 948	118 902	84 961		29 730 203
Transfer	1 588 919	- 2 880 082	- 6 841	- 12 867	- 13 733	- 16 176		- 1 340 780
Exchange rate effect	2 108 175	22 572 970	283 578	88 535	769 037			25 822 295
Closing balance	92 741 075	863 283 400	9 127 211	5 278 558	31 330 192	10 853 450		1 012 613 886
Carrying amount	306 540 864	781 757 135	4 107 559	2 837 884	14 424 679	1 966 635	16 320 975	1 127 955 731

Charges for the period include an impairment loss of 50 156 311 euros of which 38 115 481 euros relate to the net book value of Tafisa Canada's tangible assets that were destroyed by the fire referred to in note 3. The effect of this impairment loss on the consolidated profit and loss statement is also included in note 3.

Charges to impairment losses are detailed in note 31.

During the period ending 31 December 2006 no interest paid or any other financial charges were capitalised, in accordance with conditions defined in note 2.9.



At 31 December 2006, mortgaged Land and buildings amounted to 27 137 500 euros (33 492 500 euros at 31 December 2005) as a guarantee for bank loans.

At 31 December 2006 and 2005, details of assets bought through financial leases were as follows:

	2006			31.12.2005
	Opening balance	Changes to consolidation perimeter	Other changes	Closing balance
Gross cost:				
Land and Buildings	6 602 696	2 562 000	2 382 831	11 547 527
Plant and Machinery	20 461 790	40 542 726	4 177 237	65 181 753
Vehicles	338 023		49 811	387 834
Tools				
Fixtures and Fittings	712 964			712 964
Other tangible assets				
	<u>28 115 473</u>	<u>43 104 726</u>	<u>6 609 879</u>	<u>77 830 078</u>
				<u>28 115 473</u>
Accumulated depreciation and impairment losses				
Land and Buildings	5 035 548		436 646	5 472 194
Plant and Machinery	6 914 478		5 213 208	12 127 686
Vehicles	133 922		95 870	229 792
Tools				
Fixtures and Fittings	599 072		39 000	638 072
Other tangible assets				
	<u>12 683 020</u>		<u>5 784 724</u>	<u>18 467 744</u>
				<u>12 683 020</u>
Net assets	<u>15 432 453</u>	<u>43 104 726</u>	<u>825 155</u>	<u>59 362 334</u>
				<u>15 432 453</u>

## 12. INTANGIBLE ASSETS

During the twelve-month period ended 31 December 2006, movements in intangible assets, accumulated depreciation and impairment losses were as follows:

	2006				
	Developmen Costs	Patents, Royalties And Other Rights	Softwar	Other Intangible Asset	Intangible Assets Under Developmen
Gross cost:					
Opening balance	805 060	4 036 502	223 951	1 655 526	20 947
Changes in consolidation perimeter			63 454		
Capital expenditure			827		
Disposals					
Transfers and reclassifications		12 910			
Exchange rate	- 1 461	2 214	14		
Closing balance	<u>803 599</u>	<u>4 051 626</u>	<u>288 246</u>	<u>1 655 526</u>	<u>20 947</u>
Accumulated amortisation and losses					
Opening balance	564 527	3 918 902	179 160	1 183 152	
Changes in consolidation perimeter			60 329		
Charge for the period	95 977	29 983	46 419	230 018	
Disposals					
Transfers	- 242 356			242 356	
Exchange rate	- 725	2 022	14		
Closing balance	<u>417 423</u>	<u>3 950 907</u>	<u>285 922</u>	<u>1 655 526</u>	
Carrying amount	<u>386 176</u>	<u>100 719</u>	<u>2 324</u>	<u>20 947</u>	<u>510 166</u>



	2005					
	Development Costs	Patents, Royalties And Other Rights	Software	Other Intangible Assets	Intangible Assets Under Development	Total intangible assets
<b>Gross cost:</b>						
Opening balance	828 159	3 993 935	223 951	1 724 531	62 081	6 832 657
Changes in consolidation perimeter				- 69 005		- 69 005
Capital expenditure					7 689	7 689
Disposals	23 325				6 795	30 120
Transfers and reclassifications		39 811			- 42 031	- 2 220
Exchange rate effect	226	2 759				2 985
Closing balance	805 060	4 036 505	223 951	1 655 526	20 944	6 741 986
<b>Accumulated depreciation and impairment losses</b>						
Opening balance	479 142	3 837 003	134 370	868 209		5 318 724
Changes in consolidation perimeter				- 15 787		- 15 787
Charge for the period	105 853	79 220	44 790	330 730		560 593
Disposals	20 604					20 604
Transfers						
Exchange rate effect	136	2 679				2 815
Closing balance	564 527	3 918 902	179 160	1 183 152		5 845 741
Carrying amount	240 533	117 603	44 791	472 374	20 944	896 245

### 13. INVESTMENT PROPERTIES

During the twelve-month period ended 31 December 2006, movements in investment properties, accumulated depreciation and impairment losses were as follows:

	31.12.2006			31.12.2005
	Cost	Under construction	Total	Total
<b>Gross cost:</b>				
Opening balance	9 237 766		9 237 766	
Changes to consolidation perimeter				
Increase				
Disposals	380 000		380 000	
Transfers	- 69 367		- 69 367	9 237 766
Closing balance	8 788 399		8 788 399	9 237 766
<b>Accumulated depreciation and impairment losses:</b>				
Opening balance	252 254		252 254	
Changes to consolidation perimeter				
Charge for the period	154 590		154 590	155 856
Disposals	29 133		29 133	
Transfers				96 398
Closing balance	377 711		377 711	252 254
Carrying amount	8 410 688		8 410 688	8 985 512

### 14. GOODWILL ARISING ON CONSOLIDATION

During the twelve-month period ended 31 December 2006, movements in goodwill arising on consolidation, accumulated depreciation and impairment losses were as follows:



	31.12.06	31.12.05
Goodwill		
Gross value:		
Opening balance	44 492 181	45 269 819
Increases	9 028 195	219 726
Decreases		1 400 250
Transfers and write-offs		26 811
Currency translation	-2 415 200	376 075
Closing balance	51 105 176	44 492 181
Accumulated impairment losses:		
Closing balance		

Goodwill is not amortised. Impairment tests on goodwill are performed on a yearly basis.

## 15. DEFERRED TAXES

At 31 December 2006 and 31 December 2005 deferred tax assets and liabilities were detailed according to underlying temporary differences as follows:

	Deferred tax assets		Deferred tax liabilities	
	31.12.06	31.12.05	31.12.06	31.12.05
Difference between fair value and cost of tangible assets			2 502 275	
Harmonisation adjustments			42 870 655	41 130 842
Provisions and impairment losses not accepted for tax purposes	10 780 570	3 898 133		
Impairment of Assets	1 757 559			
Tangible assets written off	13 910	184 692		
Intangible assets written off	240 530	299 538		
Deferred costs written off		43 327		
Valuation of hedging derivatives	86 125		505 112	
Revaluation of tangible fixed assets			2 651 114	
Tax losses carried forward	47 128 614	48 254 901		
Others		5 001	9 106 523	2 005 301
	60 007 308	52 685 592	57 635 679	43 136 143

	Deferred tax assets		Deferred tax liabilities	
	31.12.06	31.12.05	31.12.06	31.12.05
Opening balance	52 685 592	66 318 079	43 136 143	32 127 706
Impact on results:				
Harmonisation adjustments			2 335 368	4 524 632
Changes in provisions and impairment losses not accepted for tax purposes	7 184 972	1 320 656		
Impairment of Assets	1 757 559			
Derecognized intangible assets	- 170 782	- 225 543		
Derecognized tangible assets	- 59 008	- 40 118		
Deferred costs written off	- 43 328	- 45 497		
Valuation of hedging derivatives			551 458	
Revaluation of tangible fixed assets			- 17 874	
Tax losses carried forward	- 3 396 749	- 16 036 341		
Others		29	7 007 368	2 680 110
	5 272 664	- 15 026 814	9 876 320	7 204 742
Impact on reserves:				
Currency translation effect	- 703 461	1 394 327	- 4 245 379	3 803 695
Recognition in Reserves	89 028		594 718	
	- 614 433	1 394 327	- 3 650 661	3 803 695
Impact of changes in the consolidation perimeter:				
Acquisitions			5 610 392	
Disposals				
Previously offset deferred tax	2 663 485		2 663 485	
Closing balance	60 007 308	52 685 592	57 635 679	43 136 143





In accordance with International Financial Reporting Standards / International Accounting Standards, on a yearly basis the Group performs an evaluation of the deferred tax asset relating to tax losses carried forward that was accounted for in previous years.

According to the estimation of taxable profit for 31 December 2006 and the tax return of each company for fiscal year 2005, tax losses carried forward and the corresponding deferred tax asset are detailed as follows:

	31.12.06			31.12.05		
	Tax loss carried forward	Deferred tax asset	Limit date to be used	Tax loss carried forward	Deferred tax asset	Limit date to be used
Originated in 1993				2 310 596	808 708	2008
Originated in 1999	1 528 502	496 763	2014	1 528 502	534 976	2014
Originated in 2000	36 725	11 938	2015	36 725	12 854	2015
Originated in 2001	84 657	21 164	2007	97 047	26 688	2007
Originated in 2001	38 865 008	12 245 372	2016	40 877 400	14 306 985	2016
Originated in 2002	153 061	38 266	2008	269 693	74 166	2008
Originated in 2002	13 714 886	4 114 466	2017	13 714 886	4 800 210	2017
Originated in 2003	544 023	136 005	2009	138 205	38 462	2009
Originated in 2003	3 740 985	1 122 293	2018	3 740 985	1 309 345	2018
Originated in 2004	8 788 231	2 197 058	2010	9 468 726	2 374 689	2010
Originated in 2004	53 271	15 981	2019	53 271	18 645	2019
Originated in 2005	161 732	40 433	2011			
Originated in 2005	179 848	17 805	2014			
Originated in 2006	10 995 457	1 088 550	2015			
Originated in 2006	203 458	50 865	2012			
	<u>79 049 844</u>	<u>21 596 959</u>		<u>72 236 036</u>	<u>24 305 728</u>	
Without time limit	<u>84 998 784</u>	<u>25 531 655</u>		<u>64 569 001</u>	<u>23 949 173</u>	
	<u>164 048 628</u>	<u>47 128 614</u>		<u>136 805 036</u>	<u>48 254 901</u>	

The level of deferred tax assets recognized on account of deductible tax losses was affected by the reduction in the tax rate that is applied to a number of Group companies.

Furthermore, at 31 December 2006 and 31 December 2005, tax losses for which no deferred tax assets were recognised, are detailed as follows:

	31.12.06			31.12.05		
	Tax loss carried forward	Tax credit	Limit date to be used	Tax loss carried forward	Tax credit	Limit date to be used
Originated in 1999	20 999 339	6 299 801	2014	43 812 435	15 334 352	2014
Originated in 2001	50 945 246	15 283 574	2016	48 908 453	17 117 959	2016
Originated in 2002	5 720	1 564	2008	5 338	1 468	2008
Originated in 2002	48 726 117	14 617 835	2017	48 725 176	17 053 812	2017
Originated in 2003	173 858	43 465	2009	172 496	47 436	2009
Originated in 2003	95 081 602	28 524 481	2018	95 088 900	33 281 115	2018
Originated in 2004	83 551	22 956	2010	263 398	72 434	2010
Originated in 2004	19 280 761	5 784 229	2019	19 280 761	6 748 266	2019
Originated in 2005	417 922	104 488	2011	375 609	103 293	2011
Originated in 2006	62 900 153	15 725 038	2012			
Originated in 2006	2 793 827	276 589	2013			
Originated in 2006	4 244 376	1 400 644	2021			
	<u>305 652 472</u>	<u>88 084 664</u>		<u>256 632 566</u>	<u>89 760 135</u>	
Without time limit	<u>786 519 961</u>	<u>284 461 788</u>		<u>768 067 547</u>	<u>267 719 807</u>	
	<u>1 092 172 433</u>	<u>372 546 452</u>		<u>1 024 700 113</u>	<u>357 479 942</u>	

Deferred tax assets are offset against deferred tax liabilities in situations where the company generating the related temporary differences is legally entitled to offset the recognised amounts and intends to settle on a net basis or else to realise the assets and settle the liability simultaneously.



#### 16. OTHER NON CURRENT ASSETS

At 31 December 2006 and 31 December 2005 details of Other non current assets on the Consolidated Balance sheet were as follows:

	31.12.06	31.12.05
Loans granted to associated companies	14 132 897	14 132 905
Other loans granted	266 671	161 200
Trade accounts receivable and other debtors	1 079 300	1 770 959
Others	69 124	75 395
	<u>15 547 992</u>	<u>16 140 459</u>
Accumulated impairment losses (Note 31)	<u>14 263 036</u>	<u>14 132 921</u>
	<u>1 284 956</u>	<u>2 007 538</u>

Accumulated impairment losses include the full balance recorded in the Associated Companies line.

#### 17. INVENTORIES

At 31 December 2006 and 31 December 2005, details of Inventories on the Consolidated Balance Sheet were as follows:

	31.12.06	31.12.05
Merchandise	15 723 822	10 672 926
Finished and intermediate products	89 181 673	64 509 000
Products and working in progress	2 995 739	2 353 767
Raw Materials and Consumables	<u>121 613 564</u>	<u>91 212 997</u>
	<u>229 514 798</u>	<u>168 748 690</u>
Accumulated impairment losses on inventories (Note 31)	<u>15 543 189</u>	<u>4 771 938</u>
	<u>213 971 609</u>	<u>163 976 752</u>

#### 18. TRADE DEBTORS

At 31 December 2006 and 31 December 2005, details of Trade Debtors on the Consolidated Balance Sheet were as follows:

	31.12.06	31.12.05	
		Restated	Published
Current accounts	255 716 807	222 880 882	243 284 568
Bills receivable	37 741 009	20 744 711	341 025
Doubtful debtors	<u>15 261 669</u>	<u>12 561 675</u>	<u>12 561 675</u>
	<u>308 719 485</u>	<u>256 187 268</u>	<u>256 187 268</u>
Accumulated impairment losses on trade debtors (Note 31)	<u>18 510 857</u>	<u>16 295 730</u>	<u>16 295 730</u>
	<u>290 208 628</u>	<u>239 891 538</u>	<u>239 891 538</u>



#### 19. OTHER CURRENT DEBTORS

At 31 December 2006 and 31 December 2005, details of Other current debtors on the Consolidated Balance Sheet were as follows:

	31.12.06	31.12.05
Other debtors	19 306 235	14 175 453
Advances to trade creditors	1 525 550	829 448
Group companies	2 668 198	2 163 548
	<u>23 499 983</u>	<u>17 168 449</u>
Accumulated impairment losses in accounts receivable (Note 31)	443 173	492 122
	<u>23 056 810</u>	<u>16 676 327</u>

#### 20. OTHER CURRENT ASSETS

At 31 December 2006 and 31 December 2005, details of Other current assets on the Consolidated Balance Sheet were as follows:

	31.12.06	31.12.05
Accrued revenue	43 096 500	1 386 208
Deferred Costs	5 899 593	3 503 054
Derivatives instruments	6 528 109	
Others	79 018	83 818
	<u>55 603 220</u>	<u>4 973 080</u>

The item Accrued revenue includes an estimated indemnity of 41 351 673 euros for operating losses, net of insurance compensation received, and an impairment loss for the assets destroyed by the fire at the Canadian plant, as explained in Note 3.

#### 21. STATE AND OTHER PUBLIC ENTITIES (CURRENT ASSETS)

At 31 December 2006 and 31 December 2005, details of Other non current assets on the Consolidated Balance Sheet were as follows:

	31.12.06	31.12.05
State and other public entities:		
Income Tax	4 905 409	4 059 189
Value Added Tax	11 303 377	10 295 174
Social Security Contribution	10 327	14 993
Others	2 566 501	1 169 327
	<u>18 785 614</u>	<u>15 538 683</u>



## 22. CASH AND CASH EQUIVALENTS

At 31 December 2006 and 31 December 2005, the detail of Cash and Cash Equivalents was as follows:

	31.12.06	31.12.05
Cash at hand	1 994 530	3 175 464
Bank deposits	103 065 901	52 823 600
Treasury applications	84 228 698	60 843 540
Cash and cash equivalents on the balance sheet	189 289 129	116 842 604
Bank overdrafts	572 787	366 752
Cash and cash equivalents on the statement of cash flows	188 716 342	116 475 852

Bank overdrafts include credit balances on current accounts, and are included as Bank loans under current liabilities on the consolidated balance sheet's.

The balance of Treasury applications at 31 December 2006 and 31 December 2005 was composed of several very short term treasury applications at banks, with low risk (bank risk) and returns aligned with existing market applications with similar maturity and risk profiles.

## 23. SHARE CAPITAL

At 31 December 2006 and 31 December 2005, Sonae Indústria's Share Capital was fully underwritten and paid and was comprised of 140 000 000 common shares, not entitled to fixed income, with a face value of 5 euros per share. At this date, neither the company nor any of its affiliates held any shares in the company.

Sonae Indústria, SGPS, SA is included in the consolidation perimeter of its ultimate parent company, Efanor Investimentos, SGPS, SA.

## 24. MINORITY INTERESTS

Changes to this item during the periods ending 31 December 2006 and 31 December 2005 were as follows:

	31.12.06	31.12.05
Opening balance	44 960 793	38 906 799
Decrease / (increase) in ownership percentage on consolidated companies	- 1 356 364	- 235 893
Change resulting from currency translation	- 1 785 924	6 318 979
Net profit for the period attributed to minority interests	1 334 384	48 103
Others	- 15 052 097	- 77 195
Closing balance	28 100 792	44 960 793

The item Decrease/(increase) in ownership percentage on consolidated companies includes mainly the change in minority interests resulting from the acquisition of Glunz AG shares (Note 5).



The item Others includes an effect of circa -16 000 000 euros resulting from a revision of the calculation method of minorities interests performed during the year, which was compensated in the caption Reserves and retained earnings. Both current period and comparative period net profit remained unaffected.

## 25. LOANS

As at 31 December 2006 and 31 December 2005 Sonae Indústria had the following outstanding loans:

	31.12.06				31.12.05			
	Amortised cost		Nominal value		Amortised cost		Nominal value	
	Current	Non current	Current	Non current	Current	Non current	Current	Non current
Bank loans	137 955 436	134 085 215	137 955 436	134 085 215	83 539 248	176 146 046	83 539 248	176 146 046
Debentures		530 273 929		535 000 000		381 101 414		385 000 000
Obligations under finance leases	2 483 759	41 897 417	2 483 759	41 897 417	4 476 336	229 326	4 476 336	229 326
Other loans	411 087	95 856 073	411 087	95 856 073	1 072 734	107 182 288	1 072 734	107 182 288
<b>Gross debt</b>	<b>140 850 282</b>	<b>802 112 634</b>	<b>140 850 282</b>	<b>806 838 705</b>	<b>89 088 318</b>	<b>664 659 074</b>	<b>89 088 318</b>	<b>668 557 660</b>
Investment	4 769 781		4 769 781		3 041 265		3 041 265	
Cash and cash equivalent in balance sheet	189 289 129		189 289 129		116 842 604		116 842 604	
<b>Net debt</b>	<b>- 53 208 628</b>	<b>802 112 634</b>	<b>- 53 208 628</b>	<b>806 838 705</b>	<b>- 30 795 551</b>	<b>664 659 074</b>	<b>- 30 795 551</b>	<b>668 557 660</b>
<b>Total net debt</b>	<b>748 904 006</b>		<b>753 630 077</b>		<b>633 863 523</b>		<b>637 762 109</b>	

The loans have the following repayment schedule:

	31.12.06	31.12.05	
2006		89 088 318	2006
2007	140 850 282	37 961 270	2007
2008	140 622 195	140 970 897	2008
2009	212 935 155	224 227 737	2009
2010	175 114 511	172 619 155	2010
2011	22 324 796	19 836 061	2011
2012	21 084 827	72 942 540	After 2011
After 2012	234 757 221		
	<b>947 688 987</b>	<b>757 645 978</b>	

The aforementioned loans do not include loans granted by related parties.

### 25.1 Bank Loans

The bank loans and overdrafts presented in the table in note 25. are included in “Long Term Bank Loans – net of the Short Term portion”, “Short Term portion of Long Term Bank Loans” and “Short Term Bank Loans” on the Consolidated Balance Sheet and their composition as at 31 December 2006 are detailed in the following table:



Company	Bank loans				Total
	Non current	Current			
		Bank loans	Short term portion	Short term	
Glunz AG	78 349 600	14 042 000			92 391 600
Sonae Indústria-SGPS,SA	21 875 000	6 250 000	60 950 000		89 075 000
Sonae Novobord (Pty) Ltd	14 479 803	4 678 930	15 379 961		34 538 694
Tafisa Brasil, SA	319 756	37 342	21 088 839		21 445 937
Sonae UK,Ltd.	10 424 399	6 949 600		495 226	17 869 225
Sonae Ind., Prod. e Com.Deriv.Madeira,SA	7 627 148	4 964 045			12 591 193
Others	1 009 509	3 037 467	4 465	77 561	4 129 002
	134 085 215	39 959 384	97 423 265	572 787	272 040 651

a) During 2002, the Company, together with its main shareholder, Sonae S.G.P.S., SA and with its affiliated company Glunz AG., contracted a loan with the European Investment Bank for 119 000 000 Euros, withdrawn in full by 31 March 2005. The loan pays interest quarterly, indexed to a fixed rate of 3,64%, and will be redeemed in 16 consecutive and equal semi-annual instalments, the first of which was made in June 2005. At 31 December 2006, outstanding principal was 92 391 600 euros. Following a financial restructuring process at Sonae Indústria, S.G.P.S., S.A. , Sonae S.G.P.S., SA was released from this loan.

b) During the first half of 2005 a loan contracted by Sonae SGPS SA with the European Investment Bank, of 50 000 000 Euros, was transferred to Sonae Indústria SGPS, SA. The loan pays interest quarterly, at market rates, and will be redeemed in 16 consecutive and equal semi-annual instalments. On 31 December 2006, the principal outstanding was 28 125 000 euros;

c) On 25 January 2006 Sonae Indústria SGPS, S. A. contracted commercial paper with several financial institutions for up to a maximum nominal amount of 100 000 000 euros. This programme will mature on 27 January 2016. At 31 December 2006, outstanding principle was 60 950 000 euros and related to an issue that matured on 11 January 2007. Interest is calculated using Euribor throughout the issuance period.

d) Sonae Novobord raised ZAR 200 000 000 in debt from Firstrand Bank. The facility was issued at a fixed rate of 13.18%, interest is payable semi-annually, and principal is repaid in 14 consecutive and variable instalments, the first of which occurred in June 2003. As at 31 December 2006, the principal outstanding was 19 158 733 euros;

e) On 4 December 2006, Sonae Novobord contracted a loan from Santander Totta in ZAR (South African Rands) up to a maximum principal of 15 000 000 euros on withdrawal date. The loan has a three month maturity period and may be automatically renewed for equal periods. The facility was issued at a market rate and interest is payable quarterly. At 31 December 2006, the principal outstanding was 15 379 961.



f) Sonae UK signed a loan contract with the European Investment Bank, for GBP 35 000 000. This loan pays interest at market rates and is redeemable in 15 consecutive and semi-annual instalments, the first of which matured in June 2002. As at 31 December 2006, the principal outstanding was 17 374 000 euros;

g) In 2000, Sonae Indústria – Produção e Comercialização de Derivados de Madeira, SA contracted a 27 000 000 euro loan with the European Investment Bank. The loan pays interest semi-annually in arrears, at a fixed rate of 3.16%, and the principal is repaid in 16 consecutive semi-annual instalments. As at 31 December 2006, the principal outstanding was 10 125 000 euros;

h). During 2005, Tafisa Brazil contracted two loans from Santander Banespa of 80 000 000 reais. The loans pay interest at market rates and are automatically renewed at the end of each month. At 31 December 2006, outstanding principal was 59 000 000 reais (20 982 760 euros).

## 25.2 Bond Issues

a) Sonae Indústria 2004 bonds, issued on 15 October 2004, with a principal of 80 000 000 euros. Principal will be paid in a single bullet payment 5 years after issue date. Interest is calculated using Euribor six months plus 87.5 bps, and paid semi-annually in arrears on 15 April and 15 October;

b) Sonae Indústria 2005/2013 bonds, issued on 31 March 2005, with a principal amount of 55 000 000 euros, and a bullet repayment 8 years after issue date. Interest is calculated using Euribor six months plus 87.5 bps, paid semi-annually in arrears on 31 March and 30 September;

c) Sonae Indústria 2005/2008 bonds, issued on 27 April 2005, with a principal amount of 100 000 000 euros and a bullet repayment 3 years after issue date. Interest is calculated using Euribor six months plus 100 bps, paid semi-annually in arrears on 27 April and October;

d) Sonae Indústria 2005/2010 bonds, issued on 27 April 2005, with a principal amount of 150 000 000 euros and a bullet repayment 5 years after issue date. Sonae Indústria may anticipate repayment, either partially or for the full amount of principal outstanding, at any interest payment date after April 2008, inclusive. Interest is calculated using Euribor six months plus 110 bps, paid semi-annually in arrears on 27 April and October;

e) Sonae Indústria 2006/2014 bonds, issued on 28 March 2006, with a principal amount of 50 000 000 euros and a bullet repayment 8 years after issue date. Interest is calculated



using Euribor six months plus 87,5 bps, paid semi annually in arrears on 28 March and September;

f) Sonae Indústria 2006/2013 bonds, issued on 3 July 2006, with a principal amount of 50 000 000 euros and a bullet repayment 7 years after issue date. Sonae Indústria may anticipate repayment, either partially or for the full amount of principal outstanding, at any interest payment date after July 2011, inclusive. Interest is calculated using Euribor six months plus 86 bps, paid semi annually in arrears on 3 January and 3 July;

g) Sonae Indústria 2006/2014 bonds, issued on 2 August 2006, with a principal amount of 50 000 000 euros and a bullet repayment 8 years after issue date. Interest is calculated using Euribor six months plus 80 bps, paid semi annually in arrears on 2 February and 2 August.

### 25.3 Other Loans

Other loans, as detailed in the table in note 25, are included in the consolidated Balance Sheet, in “Other Financing” in Current Liabilities and Non-Current Liabilities, and had the following composition on 31 December 2006:

Company	Other Loans		
	Long term		Short term
	Securitization	Others	Others
Tableros Tradema,S.L.	12 352 671		
Sonae Ind., Prod. e Com.Deriv.Madeira,SA	18 214 271	59 645	59 646
Isoroy SAS	20 213 491	167 144	169 176
Glunz AG	15 244 345		44 425
Sonae Tafibra Benelux, BV	9 402 221		
Sonae UK,Ltd.	17 020 919		
Spanboard Products,Ltd	2 456 912		
Others		724 454	137 840
	<u>94 904 830</u>	<u>951 243</u>	<u>411 087</u>

During 2004, Sonae Indústria SGPS SA together with its subsidiaries Soane Indústria – Produção e Comercialização de Madeira, S.A (then Sonae Tafibra – Gestão Comercial S.A), Tableros Tradema S.L (then Tafibra, Tableros Aglomerados e de Fibras, A.I.E), Isoroy S.A.S (then Isoroy Diffusion S.N.C.), Glunz AG, Sonae Tafibra Benelux, B.V., Sonae (UK) Limited and Spanboard Products Limited, signed a Securitization facility of up to 120 000 000 euros, later increased to 150 000 000 euros, with ABN Amro Bank, NV and TAPCO – Tulip Asset Purchase Company BV. This facility matures in March 2009. At 31 December 2006, the principal outstanding was 94 904 830 euros.





## 25.4 Financial lease creditors

Details of finance leases creditors at 31 December 2006 and 2005 are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	31.12.06	31.12.05	31.12.06	31.12.05
2006	-	5 363 377	-	4 443 758
2007	7 134 059	147 775	2 483 758	147 248
2008	6 780 212	114 656	2 319 852	114 656
2009	6 620 369		2 367 727	
2010	6 411 164		2 379 621	
2011	6 172 911		2 372 999	
after 2011	49 824 097		32 457 219	
	<u>82 942 812</u>	<u>5 625 808</u>	<u>44 381 176</u>	<u>4 705 662</u>
Lease creditors - current			2 483 759	4 476 336
Lease creditors - non current			<u>41 897 417</u>	<u>229 326</u>

## 26. FINANCIAL DERIVATIVES

### Foreign Exchange (fx) derivatives

Sonae Indústria Group hedges mostly with the purpose of mitigating cash flow risk and not as a negotiation instrument.

The Group has contracted several foreign exchange forwards as well as cross currency swaps that are not perfect hedging relationships so they have not received a hedge accounting treatment. Nevertheless, these hedging transactions materially mitigate the effects of foreign exchange rate fluctuations in loans that have been contracted in currencies that differ from the base currency of each company.

Profits and losses associated to changes in the value of derivative instruments that have not received hedge accounting treatment were negative by 9 799 631 euros and have been recorded directly in the Profit and Loss Statement, as Financial Losses. This item also includes changes in market value of loans due to foreign exchange rate fluctuations, which the Group aims to hedge.

### Interest rate derivatives

Interest rate hedging instruments in place on 31 December 2006 were essentially interest rate related swaps and collars (cash flow hedges), contracted to hedge the risk of interest



rate fluctuation associated with loans with outstanding principal of 19 158 733 euros (24 724 190 euros at 31 December 2005).

These hedging instruments are valued at fair value at each reference date, in evaluations performed by the Group using appropriate treasury systems. The methodology used to calculate the fair value of these instruments is the comparison, for swaps, of the present value of future cash flows from the fixed leg of the derivative and the present value of the future cash flows from the variable leg of such instrument. For options, fair value is calculated using the Black'76 model.

Hedging principles utilised by the Group in using this type of hedging are as follows:

- Matching between paid and received cash flows: the timing of cash flows and the timing of rate resets in the underlying debt and in the hedging derivative coincide;
- Matching between base rates: the underlying rate for the hedge must be the same as the underlying rate for the loan the company is hedging;

Hedging instruments are accounted for at cost (if such a cost exists) and subsequently valued at fair value. Changes in fair value are recorded in Shareholder's Funds, under "Hedging Reserves" included in item "Reserves and Retained Earnings", which are transferred to Net Income in the same period that Net Results are impacted by the underlying loan. The Group recorded a loss of 889 267 euros in reserves and retained earnings.

#### Fair value of hedging instruments

The fair value of hedging instruments is composed of the following:

	Other current assets (note 20)		Other current liabilities (note 30)		Other non current liabilities (note 27)	
	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
Exchange rate derivatives	5 829 177		3 216 459	3 920 051		
Hedge derivatives	698 932		56 762	2 872 692	836	402 066
	<u>6 528 109</u>		<u>3 273 221</u>	<u>6 792 743</u>	<u>836</u>	<u>402 066</u>

## 27. OTHER NON CURRENT LIABILITIES

At 31 December 2006 and 31 December 2005, details of Other non current liabilities were as follows:



	31.12.06	31.12.05
State and other public entities:		
Others	33 772 070	26 656 350
Group companies	72 604	72 604
Other creditors	77 440 158	79 507 081
	<u>111 284 832</u>	<u>106 236 035</u>

The item State and other public entities – Others includes the owing amount of ICMS – Tax on Trade of Goods and Services Rendered to be paid by the subsidiary Tafisa Brasil in accordance with the terms of the agreement celebrated with the Government of the State of Paraná (Brazil), which considers postponing the payment of each parcel of tax for a twelve-year period, to be updated yearly according to 10% of FCA index.

Other creditors include circa 77 004 000 euros relating to deferred income-investment subventions.

## 28. PENSION FUND LIABILITIES

Various Group companies assumed the liability of giving their employees cash contributions to pension plans for old age, incapacity, early retirement and survival. These contributions are determined as a percentage that increases as a result of the number of years that the employee has worked at the company, and which is applied to a salary table that is negotiated on a yearly basis.

Current liabilities associated with past years of service are evaluated every year through actuarial studies and based on the “Projected Unit Credit” methodology. Actuarial assumptions employed on the last study prepared at 31 December 2006 were:

	South Africa		Germany				France		Portugal	
			Glunz AG		GHP GmbH					
	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
	A55	PA (90)	Richttafeln 2005 G	Richttafeln 1998	Richttafeln 2005 G	-	TPG 1993	TPG 1993	TV 88/90	TV 73/77
Mortality table										
Salary growth rate	5,5%	5,0%	2,0%	2,0%	0,00%	-	2,0%	2,0%	3,0%	3,0%
Return on fund	8,5%	8,0%	4,5%	-	4,10%	-	-	-	6,0%	6,0%
Actuarial technical rate	8,5%	8,0%	4,5%	4,5%	4,75%	-	4,5%	4,0%	4,0%	4,0%
Pension growth rate	5,0%	3,5%	1,5%	1,5%	1,50%	-	2,0%	2,0%	0,0%	0,0%

In previous periods, pension funds and provisions for pension liabilities were created by various companies within the Group in the following countries:

### South Africa:

The employees of Sonae Novobord (PTY) have the following benefit scheme:

Defined contribution plan composed of a number of assets that are managed by a third party. The Company is obliged to deliver the defined contributions. At 31 December 2006, no contributions were outstanding or unpaid.



Defined Benefit plan with a fund managed by a third party and calculated in accordance with International Accounting Standard 19 and based on actuarial studies performed by an independent party.

Post-Retirement Health Benefit scheme under which the Company will provide for 50% of eligible health expenses incurred after the employee's retirement.

In an actuarial study carried out on 31 December 2006, liabilities amounted to 40 903 003 ZAR (4 440 021 euros) covered by the market value of the fund of 34 111 000 ZAR (3 702 749 euros) and by a provision of 6 792 000 ZAR (737 272 euros), which is recorded as a Pension Liability in Non Current Liabilities on the Consolidated Balance Sheet.

Germany:

Glunz AG has a defined benefit plan and it has constituted a fund. The plan is calculated according to International Accounting Standard 19, and based on actuarial studies carried out by an independent party. The company has recorded a provision for Pension Liabilities in Non Current Liabilities of 19 133 237 euros, which fully provides for the liabilities calculated by the actuarial study reported to 31 December 2006. On the same date, the value of the fund constituted at the end of the year was 27 117 euros.

GHP GmbH has a defined benefit plan and it has constituted a fund. The plan is calculated according to International Accounting Standard 19. In an actuarial study dated 31 December 2006, liabilities amounted to 1 029 103 euros and were covered by the fund and by provisions for Pension Liabilities in Non Current Liabilities of 8 117 euros and 1 020 986 euros respectively.

France:

Upon retirement of their employees, Isoroy SAS and Darbo SAS are obliged to pay a sum defined under the terms of the sector's collective labour agreement. An actuarial study calculated the liabilities of the two companies on 31 December 2006 to be 1 838 429 euros. This is fully covered by a provision that is recorded as a Pension Liability in Non Current Liabilities on the Consolidated Balance Sheet

Portugal:

Various Group companies have a defined benefit plan and funds managed by third parties, calculated in accordance with International Accounting Standard 19 and based on actuarial studies carried out by independent parties. Employees of eight companies at 31 December 1994 are covered by this plan under which they will receive as from retirement, a life long monthly payment equivalent to 20% of their salary at their retirement date. The liability for services provided as at 31 December 2006, based on an



actuarial study on the same date, were calculated to be 3 541 864 euros. This was fully covered by the value of the fund and by a provision included as a Pension Liability in Non Current Liabilities on the Consolidated Balance Sheet, of 1 287 273 euros and 2 254 591, respectively.

The main changes, during the periods ending 31 December 2006 and 31 December 2005, to the present value of these liabilities are presented below:

	31.12.06	31.12.05
Opening balance of obligations' present value	30 240 033	25 980 562
Interest cost	1 352 903	1 548 985
Current service cost	644 580	477 698
Actuarial (Gains)/Losses	-1 050 134	3 144 097
Recognised past service cost	1 024 696	525 769
Paid pensions	1 671 546	1 562 009
Exchange rate effect	-1 035 535	124 932
Changes in consolidation perimeter	1 244 542	
Closing balance of obligations' present value	<u>30 749 539</u>	<u>30 240 034</u>

At 31 December 2006 and 2005, the amount of liabilities for defined benefits recognised in the consolidated balance sheet is detailed as follows:

	31.12.06	31.12.05
Present value of obligations	30 749 539	30 240 034
Actuarial Losses/(Gains) not recognised	739 768	1 171 751
Fair value of plan assets	5 025 256	5 297 773
Pension liabilities	<u>24 984 515</u>	<u>23 770 510</u>

The impact of these liabilities on the 2006 and 2005 consolidated profit and loss statements is detailed as follows:.

	31.12.06	31.12.05
Interest cost	1 385 652	1 548 985
Current service cost	598 404	477 698
Past service cost	1 024 696	525 769
(Increase) / Decrease in fair value of plan assets	- 296 156	639 305
Recognized actuarial (Gains)/Losses	- 956 835	- 101 649
	<u>1 755 761</u>	<u>3 090 108</u>

## 29. STATE AND OTHER PUBLIC ENTITIES (CURRENT LIABILITIES)

At 31 December 2006 and 31 December 2005, State and other public entities had the following composition:



	31.12.06	31.12.05
State and other public entities		
Income Tax	13 743 944	8 598 252
Value Added Tax	3 474 862	2 828 463
Social Security Contribution	7 945 825	7 825 568
Others	2 577 352	1 884 325
	<u>27 741 983</u>	<u>21 136 608</u>

### 30. OTHER CURRENT LIABILITIES

At 31 December 2006 and 31 December 2005, Other current liabilities were composed of:

	31.12.06	31.12.05
Group companies	814 434	983 195
Derivatives	3 273 221	6 792 743
Trade debtors advances	493 850	181 611
Fixed assets suppliers	8 415 384	15 883 230
Other creditors	23 995 329	33 081 546
Accrued expenses:		
Insurances	332 978	632 031
Personnel costs	29 390 350	17 366 221
Accrued financial expenses	6 713 869	3 517 003
Rappel discounts (annual quantity discounts)	31 745 244	18 653 530
External supplies and services	13 321 427	8 922 036
Other accrued expenses	13 157 603	6 827 808
Deferred income:		
Investment subventions	10 314 172	7 232 200
Other deferred income	2 016	261
	<u>141 969 877</u>	<u>120 073 415</u>

Other creditors include 12 600 000 euros relating to advances received for sale of land.

### 31. PROVISIONS AND ACCUMULATED IMPAIRMENT LOSSES

Movements occurred in provisions and accumulated impairment losses during the periods ended 31 December 2006 and 31 December 2005 were as follows:

Rubricas	2006					
	Opening balance	Exchange rate effect	Changes to perimeter	Increase	Utilizations	Closing balance
Accumulated impairment losses on investments (Note 10)	42 722 928				16 747	42 684 744
Accumulated impairment losses on tangible assets (Note 11)	877 301	- 2 624 908		49 464 568	262	45 391 373
Accumulated impairment losses on other non-current assets (Note 16)	14 132 921				130 115	14 263 036
Accumulated impairment losses on trade debtors (Note 18)	16 295 730	- 484 435	1 240 077	6 149 821	3 695 994	18 510 857
Accumulated impairment losses on other debtors (Note 19)	492 122				- 48 949	443 173
Accumulated impairment losses on inventories (Note 17)	4 771 938	- 107 697	10 308 751	7 036 668	5 716 013	15 543 189
Provisions	22 532 468	- 508 572	688 045	20 520 721	3 609 825	42 409 827
	<u>101 825 408</u>	<u>- 3 725 612</u>	<u>12 236 873</u>	<u>83 171 778</u>	<u>13 038 841</u>	<u>179 246 199</u>

Rubricas	2005					
	Opening balance	Exchange rate effect	Changes to perimeter	Increase	Utilizations	Closing balance
Accumulated impairment losses on investments (Note 10)	52 345 667		- 181 572	10 597	156 637	42 722 928
Accumulated impairment losses on tangible assets (Note 11)	504 606			807 306	- 434 611	877 301
Accumulated impairment losses on other non-current assets (Note 16)	14 434 255			262 402	- 563 736	14 132 921
Accumulated impairment losses on trade debtors (Note 18)	14 800 242	553 199	- 22 058	3 091 327	1 372 450	16 295 730
Accumulated impairment losses on other debtors (Note 19)	2 588 307				- 2 096 185	492 122
Accumulated impairment losses on inventories (Note 17)	3 009 927	121 940		3 906 787	2 266 716	4 771 938
Provisions	23 726 803	2 809 982	- 395 785	5 592 031	8 722 707	22 532 468
	<u>111 409 807</u>	<u>3 485 121</u>	<u>- 599 415</u>	<u>13 670 450</u>	<u>12 518 510</u>	<u>101 825 408</u>



The increase in provisions during the year included 11 600 000 euros related with restructuring costs of the operations acquired as explained in notes 5,8 and 9.

Impairment losses are offset against the corresponding asset.

The increases and utilizations of impairment losses on investments are recorded in Results from investments on the consolidated profit and loss statement.

The increase in impairment losses on tangible assets is recorded under Provisions and impairment losses on the consolidated profit and loss statement, despite the fact that the amount of the impairment was fully offset by the estimate referred to in note 3 (38 115 481 euros). The reduction is recorded under Other operating income on the consolidated profit and loss statement

The increases and reductions in trade creditor impairment losses are recorded under Provisions and impairment losses and other operating provisions on the consolidated profit and loss statement.

The increases and reductions in inventory impairment losses are recorded under Cost of goods sold and Changes in production on the consolidated profit and loss statement, depending on the nature of the inventory.

Values included in the Other changes column related to impairment losses are related with the write-down of assets, offset by the previously recorded impairment loss.

### 32. OPERATING LEASE

At 31 December 2006 and 2005, the Group held irrevocable operating leases with the following lease payments:

Minimum operating lease payments			
	31.12.06	31.12.05	
2006		5 761 681	2006
2007	8 568 812	4 803 099	2007
2008	7 049 890	4 807 772	2008
2009	4 277 993	2 888 350	2009
2010	3 520 312	13 045 077	After 2009
2011	2 662 137		
After 2011	6 915 257		
	<u>32 994 401</u>	<u>31 305 979</u>	



### 33. RELATED PARTIES

Balances and transactions with related parties may be summarised as follows:

Balances	Accounts receivable		Accounts payable		Loans			
					Obtained		Granted	
	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
Parent company and group companies	9 402 672	9 726 889	9 253 321	8 318 020		72 605	2 007 687	1 650 191
Associated companies	400 719	800 135	807 532	971 587				

Transactions	Sales and services rendered		Purchases and services obtained		Interest income		Interest expenses	
	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
Parent company and group companies	10 517 966	11 133 610	56 983 722	48 343 371	47 609	222 690		2 664 210
Associated companies	1 873 328	669 158	4 741 860	1 073 732		5 029		163

### 34. OTHER OPERATING REVENUES

Details of Other operating revenues on the Consolidated Profit and Loss Statement for the periods ended 31 December 2006 and 2005 are as follows:

	31.12.06	31.12.05
Gains on disposals of non current investments		12 551 322
Gains on disposals of tangible and intangible assets	18 564 247	16 738 981
Supplementary Revenue	22 682 065	6 456 663
Investment subventions	7 465 627	8 429 234
Tax received	8 886 645	5 889 593
Reversion of impairment losses	3 696 256	1 283 089
Gains on provisions	3 609 825	8 722 708
Others	54 569 711	3 969 468
	<u>119 474 376</u>	<u>64 041 058</u>

The item Others includes an estimated indemnity of 42 150 387 euros relating to the operating losses resulting from the accident referred to in Note 3.

Gains arising on the sale of tangible assets include 17 779 903 euros which resulted from the payment in assets upon incorporation of Agepan Tarkett Laminate Park GmbH & Co. KG (Note 6). The transaction implied a reduction of 50% of the assets' book value previously recorded on the consolidated balance sheet.





### 35. OTHER OPERATING COSTS

Details of Other operating costs on the Consolidated Profit and Loss Statement for the periods ended 31 December 2006 and 2005 are as follows:

	31.12.06	31.12.05
Taxes	11 959 396	11 693 868
Losses on disposal of non current investments	269 511	1 688 575
Losses on disposal of tangible and intangible assets	1 035 305	3 088 392
Others	14 531 207	5 322 352
	<u>27 795 419</u>	<u>21 793 187</u>

### 36. FINANCIAL RESULTS

Financial results for the periods ended 31 December 2006 and 2005 were as follows:

	31.12.06	31.12.05
<b>Financial Expenses:</b>		
Interest expenses	42 351 193	33 887 807
Cash discounts granted	20 436 456	15 300 847
Losses in currency translation	27 708 294	10 870 856
Others	28 806 940	15 902 100
Financial profit/(loss)	<u>- 67 777 595</u>	<u>- 44 125 073</u>
	<u>51 525 288</u>	<u>31 836 538</u>
<b>Financial revenues:</b>		
Interest income	5 057 012	3 265 086
Cash discounts obtained	3 866 301	2 153 661
Gains in currency translation	13 568 462	25 817 621
Others	<u>29 033 513</u>	<u>600 170</u>
	<u>51 525 288</u>	<u>31 836 538</u>

Gains and losses from changes in the fair value of derivatives, which are detailed in note 26, are included in Others.

### 37. TAXES

Corporate income tax accounted for during the periods ended 31 December 2006 and 2005 is detailed as follows:

	31.12.06	31.12.05
Current tax	14 098 661	8 387 026
Deferred tax	<u>4 603 656</u>	<u>19 433 518</u>
	<u>18 702 317</u>	<u>27 820 544</u>

Reconciliation of consolidated Earnings before taxes with taxes for the year may be detailed as follows:



	31.12.2006	31.12.2005
Consolidated net profit before tax	52 348 670	64 252 238
Tax rate	27.50	27.50
Expectable tax at rate	14 395 884	17 669 365
Differences to foreign tax rates	(+) - 939 188	- 370 324
Effect of provincial taxes	(+) 734 479	1 534 255
Consolidation adjustments	(-) 18 849 406	2 134 245
Permanent		
Non deductible costs	(+) 3 076 294	6 543 201
Non taxed profits	(-) 2 347 148	7 269 177
Tax losses carried forward		
Recognised deferred tax asset	(+) -2 618 452	-23 724 358
Reverted deferred tax asset	(+) 7 044 100	30 838 876
Deferred tax asset not recognized in compliance with IAS 12	(-) -17 864 533	-15 825 163
Utilization of tax losses carried forward whose deferred tax was not recognized in prior periods	(+) -5 354 615	-9 443 503
Effect of offsetting deferred tax liabilities related to depreciation	(+) 1 308 514	2 787 381
Effect of change in tax rates	(+) 3 279 488	- 95 192
Other deferred tax assets and liabilities not recognized in compliance with IAS 12	(+) - 725 013	-4 762 398
Others	(+) 1 832 845	421 499
Consolidated corporate income tax	<u>18 702 317</u>	<u>27 820 544</u>

The amount of 18 849 406 euros recorded as adjustments to expected taxes includes the effect of the negative goodwill explained in note 9 and the capital gain explained in note 34..

### 38. EARNINGS PER SHARE

Earnings per share, excluding the effect of discontinued operations, were calculated as follows:

	31.12.06	31.12.05
<b>Net Profit</b>		
Net profit considered to calculate basic earnings per share (Net Profit attributable to equity holders of Sonae Indústria)	32 311 969	36 383 591
Effect of potential shares Interest related to convertible bonds (net of tax)		
Net Profit considered to calculate diluted earnings per share	<u>32 311 969</u>	<u>36 383 591</u>
<b>Number of shares</b>		
Weighted average number of shares used to calculate basic earnings per share	140 000 000	140 000 000
Effect of potential ordinary shares from convertible bonds		
Weighted average number of shares used to calculate diluted earnings per share	<u>140 000 000</u>	<u>140 000 000</u>

During the period ended 31 December 2006 no significant profit or loss occurred relating to discontinued operations.



### 39. SEGMENT INFORMATION

The main activity of the Group is the production of wood based panels and derivative products through industrial plants and commercial facilities located in Portugal, Spain, France, Germany, United Kingdom, Switzerland, The Netherlands, Canada, Brazil and South Africa. It is, therefore, an activity characterised by a high geographical dispersion of assets and markets and by a relative homogeneity of products. For segment analysis purposes, the geographic element is considered the main segmentation vector of the Group's activity and it determines how internal management and financial reporting systems are organised.

Geographic segments identified for the periods ended 31 December 2006 and 2005 are as follows:

- Portugal
- Spain
- France
- United Kingdom
- Germany
- Rest of Europe
- Brazil
- Canada
- South Africa

#### 39.1 Geographic segments

The contribution of main geographic segments to the Consolidated Profit and Loss Statement for the twelve month periods ended 31 December 2006 and 2005, based on location of assets, are detailed as follows:

	2006								
	Portugal	Spain	France	Un. Kingdom	Germany	Rest of Europe	Brazil	Canada	South Africa
<b>Operating income</b>	297 751 696	330 551 488	281 892 276	116 545 523	677 246 760	165 140 987	134 615 607	148 977 450	109 154 084
Intersegmental eliminations	- 104 691 595	- 45 803 659	- 94 601 746	- 505	- 168 607 638	- 6 946 701	- 2 679 896	- 99 421	- 85 469
<b>External Operating income</b>	193 060 101	284 747 829	187 290 530	116 545 018	508 639 122	158 194 287	131 935 711	148 878 029	109 068 615
<b>Allocated Operating Net Profit/(Loss)</b>	17 577 984	16 994 106	- 19 796 430	- 5 692 032	38 939 538	1 585 957	18 917 312	23 429 482	28 364 848
<b>Non Allocated Operating Net Profit/(Loss)</b>									
									<b>- 261 852</b>
<b>Financial Net Profit/(Loss)</b>									
									<b>- 67 777 595</b>
Gains and losses in associated companies									- 5 205
Gains and losses in investments									72 557
<b>Taxation</b>									
									<b>18 702 317</b>
<b>Net Consolidated Profit/(Loss) after taxation</b>									
									<b>33 646 353</b>
Attributable to Equity Holders of Sonae Indústria									32 311 969
Attributable to Minority Interests									1 334 384



	2005									
	Portugal	Spain	France	Un. Kingdom	Germany	Rest of Europe	Brazil	Canada	South Africa	Consolidated
<b>Operating income</b>	278 570 767	293 009 303	256 639 442	107 038 696	436 519 303	171 724 901	101 280 113	141 842 073	105 972 745	
Intersegmental eliminations	- 99 059 074	- 45 941 577	- 84 517 012	- 109 495	- 155 932 162	- 5 357 595	- 1 899 145	- 23 084		
<b>External Operating income</b>	<b>179 511 693</b>	<b>247 067 726</b>	<b>172 122 430</b>	<b>106 929 201</b>	<b>280 587 141</b>	<b>166 367 306</b>	<b>99 380 968</b>	<b>141 818 989</b>	<b>105 972 745</b>	<b>1 499 758 199</b>
<b>Allocated Operating Net Profit/(Loss)</b>	14 285 075	10 353 074	- 7 675 957	- 3 159 127	13 992 009	655 195	7 393 907	17 984 188	30 313 081	<b>84 141 445</b>
<b>Non Allocated Operating Net Profit/(Loss)</b>										<b>24 243 868</b>
<b>Financial Net Profit/(Loss)</b>										<b>- 44 125 073</b>
Gains and losses in associated companies										133 356
Gains and losses in investments										- 141 358
<b>Taxation</b>										<b>27 820 544</b>
<b>Net Consolidated Profit/(Loss) after taxation</b>										<b>36 431 693</b>
Attributable to Equity Holders of Sonae Indústria										36 383 591
Attributable to Minority Interests										48 103

The operating profit for “Germany” in 2006 includes the negative goodwill explained in note 9 and the capital gain explained in note 34.

Contributions from the segments to the consolidated balance sheet on 31 December 2006 and 2005, based upon geographic location of the assets, were as follows:

	2006									
	Portugal	Spain	France	Germany	United Kingdom	Brazil	Canada	South Africa	Others	Consolidated
Net segmental assets	227 817 012	268 901 884	235 854 604	543 426 182	142 214 197	138 465 124	151 587 473	106 283 590	18 515 899	1 833 065 965
Non current	151 098 149	189 181 012	147 665 503	405 660 838	102 824 126	109 582 509	106 748 337	72 332 119	1 825 391	1 286 917 984
Current	76 718 863	88 666 032	76 133 603	138 974 504	39 390 071	28 882 615	44 839 136	33 456 783	19 086 374	546 147 981
Investments in associated companies	686 572	2 234 322								2 920 894
Non-allocated net assets										319 971 190
<b>Total net consolidated assets</b>										<b>2 155 958 049</b>
Segmental Liabilities	53 815 958	92 987 395	76 499 522	221 160 571	23 435 151	54 571 648	20 316 513	21 871 129	4 698 233	569 356 120
Non current	4 751 881	22 677 761	10 539 914	90 831 938	5 254 767	38 091 128	299 720	737 272	0	173 184 381
Current	49 064 077	70 309 634	65 959 608	130 328 633	18 180 384	16 480 520	20 016 793	21 133 857	4 698 233	396 171 739
Non-allocated liabilities										1 038 458 044
<b>Total consolidated liabilities</b>										<b>1 607 814 164</b>
Investment in tangible and intangible assets	8 056 349	11 490 408	5 351 313	46 430 492	2 092 538	5 468 878	21 726 712	23 371 649	1 337 262	125 325 601
Amortisation and depreciation	14 261 686	16 135 774	15 262 671	30 402 755	7 831 471	9 154 818	10 612 197	4 165 191	144 470	107 971 033

	2005									
	Portugal	Espanha	França	Alemanha	Reino Unido	Brasil	Canadá	África do Sul	Outros	Consolidado
Net segmental assets	233 981 407	236 179 580	232 203 072	308 009 766	141 673 518	148 892 928	170 708 801	99 909 014	18 260 272	1 589 818 358
Non current	165 215 830	163 556 558	162 135 196	245 491 913	106 594 251	116 035 910	147 143 495	67 782 319	621 146	1 174 576 618
Current	68 765 577	72 623 022	70 067 876	62 517 853	35 079 267	32 857 018	23 565 306	32 126 695	17 639 126	415 241 740
Investments in associated companies	692 040	2 456 354								3 148 394
Non-allocated net assets										209 582 138
<b>Total net consolidated assets</b>										<b>1 802 548 890</b>
Segmental Liabilities	46 141 456	76 493 857	70 335 974	131 357 630	22 678 259	36 016 926	19 720 839	20 437 663	2 555 558	425 738 162
Non current	3 896 211	23 882 252	9 600 238	68 982 985	5 565 665	24 481 958	0	975 837	0	137 385 146
Current	42 245 245	52 611 605	60 735 736	62 374 645	17 112 594	11 534 968	19 720 839	19 461 826	2 555 558	288 353 016
Non-allocated liabilities										848 315 161
<b>Total consolidated liabilities</b>										<b>1 274 053 323</b>
Investment in tangible and intangible assets	3 554 681	4 370 139	6 563 859	5 824 289	10 596 362	1 112 792	6 620 100	2 287 324	61 849	40 991 395
Amortisation and depreciation	17 386 341	15 940 057	13 847 854	21 767 425	8 257 730	8 169 637	11 905 997	4 421 085	131 666	101 827 792



Inter-segment transactions were executed at market prices and under identical conditions to those applied to third parties.

The average number of employees, by geography, were as follows.

	31.12.06	31.12.05
Portugal	1 097	1 090
Germany	2 580	1 135
France	854	881
Spain	977	828
South Africa	402	391
Canada	319	323
Brazil	352	320
United Kingdom	311	302
Others	50	38
	<u>6,942</u>	<u>5,308</u>

Sales and Services Rendered in 2206 and 2005, based on geographic location of the external clients, were the following:

2006		
Segment	'000 Euros	
Germany	405 434	24%
Spain	266 218	16%
France	187 602	11%
Portugal	148 659	9%
North America	119 021	7%
Brazil	116 257	7%
South Africa	106 320	6%
United Kingdom	104 054	6%
Others	245 750	14%
<b>Total</b>	<b>1 699 315</b>	

2005		
Segment	'000 Euros	
Germany	248 419	17%
Spain	240 703	16%
France	168 189	11%
Portugal	115 694	8%
South Africa	103 983	7%
United Kingdom	90 054	6%
Brazil	87 971	6%
North America	68 110	5%
Others	341 897	23%
<b>Total</b>	<b>1 465 020</b>	

Cash flow by geographic segment, based on geographic location of the assets, were as follows:

	2006										
	Portugal	Spain	France	Germany	United Kingdom	Brazil	Canada	South Africa	Luxemburg	Others	Inter-segment eliminations
<b>Cash flows arising from:</b>											
Operating activities	33 689 601	27 817 596	4 179 852	16 919 932	105 239	44 184 412	28 580 368	24 588 855	15 079	2 160 777	10 263 875
Investment activities	-114 955 598	-121 152 540	-35 211 395	-77 867 769	-4 651 094	-4 732 978	-30 309 855	-18 447 253	38 079	6 335 001	218 270 162
Financing activities	143 266 768	102 369 056	32 000 633	78 794 107	1 344 540	-36 876 284	-3 390 491	-16 578 642	60 572	-7 028 468	-228 534 037
<b>Change in Cash and Cash Equivalents</b>	<b>62 000 771</b>	<b>9 034 112</b>	<b>969 090</b>	<b>17 846 270</b>	<b>-3 201 315</b>	<b>2 575 150</b>	<b>-5 119 978</b>	<b>-10 437 040</b>	<b>113 730</b>	<b>1 467 310</b>	<b>75 248 100</b>



	2005										
	Portugal	Spain	France	Germany	United Kingdom	Brazil	Canada	South Africa	Others	Inter-segment eliminations	Consolidated
<b>Cash flows arising from:</b>											
Operating activities	24 920 517	30 490 584	22 199 583	27 065 914	- 913 972	20 030 614	28 812 944	34 676 384	1 294 369	- 16 075 320	172 501 617
Investment activities	- 307 467 645	80 955 787	- 13 214 486	13 653 446	- 9 237 217	- 813 200	- 13 640 878	- 30 628 616	41 770 882	234 485 311	- 4 136 616
Financing activities	272 862 040	- 71 513 157	- 8 037 959	- 42 714 032	15 332 577	- 17 765 711	- 18 369 653	5 517 592	- 42 063 817	- 219 936 525	- 126 688 645
<b>Change in Cash and Cash Equivalents</b>	- 9 685 088	39 933 214	947 138	- 1 994 672	5 181 388	1 451 703	- 3 197 587	9 565 360	1 001 434	- 1 526 534	41 676 356

## 39.2 Business Segments

In 2006, Sonae Indústria's main business segment, wood panel production, represented more than 95% of the Group's revenues, net assets and investment in tangible and intangible assets.

## 40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors and authorised for issuance on 19 April 2007.

## Separate Financial Statements

# Sonae Indústria,SGPS,SA

BALANCE SHEET AS AT 31 DECEMBER 2006 AND 2005

(Values in Euros)

ASSETS	Notes	31.12.06	31.12.05
NON CURRENT ASSETS			
Tangible assets	3	36.064	47.100
Intangible assets	4	29.019	41.457
Investment property		-	-
Investment property in progress		-	-
Goodwill arising on consolidation		-	-
Investments in jointly controlled companies		-	-
Investments in associated companies	5	623.323.924	680.111.535
Investments held for sale	5	17.922	17.922
Deferred tax assets		3.047.624	-
Other non current assets	6	988.568.166	809.148.197
Total Non Current Assets		1.615.022.719	1.489.366.210
CURRENT ASSETS			
Inventories		-	-
Trade debtors	7	776.381	377.841
Other debtors	7	379.419	5.839
Taxes and other contributions receivable	7	1.134.177	192.930
Other current assets	8	144.204	83.660
Investment at fair value through profit or loss		-	-
Cash and cash equivalents	9	97.771.288	36.421.049
Total Current Assets		100.205.469	37.081.319
Non current assets held for sale		-	-
TOTAL ASSETS		1.715.228.189	1.526.447.529
SHAREHOLDER'S FUNDS AND LIABILITIES			
SHAREHOLDER'S FUNDS:			
Share Capital		700.000.000	700.000.000
Own shares		-	-
Supplementary capital		-	-
Legal reserve		59.994	-
Revaluation reserve		-	-
Translation reserve		-	-
Other reserves		246.902.887	245.920.750
Retained earnings		-	(157.749)
Profit or Loss for the exercise		25.602.884	1.199.879
Total Shareholder's funds		972.565.765	946.962.880
LIABILITIES:			
NON CURRENT LIABILITIES			
Bank loans - long term - net of current portion	11	21.875.000	28.125.000
Debenture loans - long term - net of current portion	11	530.273.929	381.101.414
Finance lease creditors - long term - net of current portion		-	-
Derivatives		-	-
Other loans		-	-
Obligations arising from pensions:defined benefit plans	12	56.427	56.427
Obligations arising from share based payments		-	-
Other non current creditors		-	-
Deferred tax liabilities		-	-
Provisions		-	-
Total Non Current Liabilities		552.205.356	409.282.841
CURRENT LIABILITIES:			
Current portion of long term bank loans	11	6.250.000	6.250.000
Bank loans - short term	11	60.950.000	-
Current portion of long term debenture loans		-	-
Current portion of long term finance lease creditors		-	-
Finance lease creditors		-	-
Derivatives		-	-
Other loans		-	-
Trade creditors	13	494.315	399.677
Other creditors	14	115.136.053	158.724.840
Taxes and other contributions payable	14	571.764	1.604.721
Other current liabilities	15	7.054.935	3.222.570
Obligations arising from share based payments		-	-
Obligations arising from pensions:defined benefit plans		-	-
Provisions		-	-
Total Current Liabilities		190.457.068	170.201.808
Liabilities related to non current assts held for sale		-	-
TOTAL SHAREHOLDER'S FUNDS AND LIABILITIES		1.715.228.189	1.526.447.529



# Sonae Indústria,SGPS,SA

## INCOME STATEMENT

FOR THE EXERCISE ENDED 31 DECEMBER 2006 AND 2005

(Values in Euros)

	Notes	31.12.06	31.12.05
Operation Income:			
Sales		-	-
Services rendered	20	3.049.812	685.649
Variation in fair value of investment property		-	-
Other operating income		126.223	55
Total operating income		3.176.036	685.704
Operating Costs			
Cost of sales		-	-
Changes in stock and work in progress		-	-
External supplies and services		(2.508.538)	(903.070)
Staff costs		(2.261.535)	(572.272)
Amortisation and depreciation		(31.849)	(11.205)
Provisions and impairment losses		-	-
Other operating costs	21	(74.205.108)	(83.149)
Total operating costs		(79.007.030)	(1.569.697)
Operating profit / loss		(75.830.994)	(883.993)
Financial profit / (loss)	22	13.822.300	2.573.102
Profit/loss on associated companies		-	-
Profit/loss on other investments		83.891.674	-
Profit / loss before tax		21.882.981	1.689.109
Income taxation	24	672.279	(489.230)
Deferred taxation	24	3.047.624	-
Net Profit / loss on continuing operations		25.602.884	1.199.879
Profit/loss on discontinued operations			
Profit / loss for the exercise		25.602.884	1.199.879

# Sonae Indústria-SGPS,SA

## STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2006 AND 2005

(Amounts in Euros)

Notes	Share Capital	Own Share	Share Premiums	Supplementary Capital	Reserves					Retained Earnings	Net Profit / loss	Total
					Legal Reserve	Legal Revaluation Reserve	Fair Value Reserve	Hedging Reserve	Other Reserves			
Balance at 1 January 2005	50.000	-	-	-	-	-	-	-	-	(2.338)	(411)	47.251
Apropriation of profits from 2004:												
Transfer to legal reserve	-	-	-	-	-	-	-	-	155.000	(155.000)	-	-
Distribution dividends	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	(411)	411	-
Acquisition / (disposal) of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Increase/ (decrease) in fair value of hedging financial instruments net of taxes	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax connected to increase / (decrease) in fair value of hedging financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Increase / (decrease) in fair value of available for sale investments	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax connected to increase / (decrease) in fair value of available for sale investment	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the period ended at 31 December 2005	-	-	-	-	-	-	-	-	-	-	1.199.879	1.199.879
Other	699.950.000	-	-	-	-	-	-	-	245.765.750	-	-	945.715.750
Balance at 31 December 2005	700.000.000	-	-	-	-	-	-	-	245.920.750	(157.749)	1.199.879	946.962.880
Balance at 1 January 2006	700.000.000	-	-	-	-	-	-	-	245.920.750	(157.749)	1.199.879	946.962.880
Apropriation of profits from 2005:												
Transfer to legal reserve	-	-	-	-	59.994	-	-	-	982.136	-1042130	-	-
Distribution dividends	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	1.199.879	(1.199.879)	-
Acquisition / (disposal) of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Increase/ (decrease) in fair value of hedging financial instruments net of taxes	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax connected to increase / (decrease) in fair value of hedging financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Increase / (decrease) in fair value of available for sale investments	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax connected to increase / (decrease) in fair value of available for sale investment	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the period ended at 31 December 2006	-	-	-	-	-	-	-	-	-	-	25.602.884	25.602.884
Other	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2006	700.000.000	-	-	-	59.994	-	-	-	246.902.887	-	25.602.884	972.565.765

**SONAE INDÚSTRIA,SGPS,S.A.**
**STATMENTS OF CASH FLOWS**

	31.12.2006	31.12.2005
<b>OPERATING ACTIVITIES</b>		
Cash receipts from trade debtors	2.651.272	799.363
Cash paid to trade creditors	2.451.890	637.134
Cash paid to employees	2.788.387	-324.508
<b>Cash generated from operations</b>	<b>-2.589.005</b>	<b>486.737</b>
Corporate income tax paid / received	1.150.058	54.675
Other cash receipts and payments relating to operating activities	431.818	430.387
<b>Net cash flow from operating activities [1]</b>	<b>-3.307.245</b>	<b>862.449</b>
<b>INVESTMENT ACTIVITIES</b>		
Cash receipts arising from:		
Financial investments	46.085.197	
Tangible assets	41	
Intangible assets		
Dividends	20.706.168	
Interest and similar income	2.631.747	388.999
	69.423.153	388.999
Cash payments owing to:		
Financial investments	856.753	195.555
Tangible assets	11.737	4.613
Intangible assets		
	868.490	200.168
Increase / decrease in granted loans	143.235.173	-82.469.153
<b>Net cash flow investing activities [2]</b>	<b>-74.680.511</b>	<b>82.657.984</b>
<b>FINANCIAL ACTIVITIES</b>		
Cash receipts arising from:		
Share capital increase,supplementary capital, share premiums		35.000
	0	35.000
Cash payments owing to:		
Interest and similar costs	26.130.589	20.261.516
Dividends		
Others		
	26.130.589	20.261.516
Increase / decrease in loans	165.468.583	-53.398.550
<b>Net cash flow from financing activities [3]</b>	<b>139.337.994</b>	<b>-73.625.066</b>
Net increase / decrease in cash and cash equivalents	61.350.239	9.895.366
Cash and cash equivalents - opening balance	36.421.049	10.967
Cash and cash equivalents - closing balance	97.771.288	9.906.333
Net increase / decrease in cash and cash equivalents	61.350.239	9.895.366



SONAE INDÚSTRIA, SGPS, S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERÍOD ENDED 31 DECEMBER 2006

(Amounts expressed in euros)

**1. Introduction**

SONAE INDÚSTRIA, SGPS, S.A. is based at Lugar do Espido, Via Norte, Apartado 1096, 4470-909 Maia, Portugal.

**2. Main Accounting Policies**

The main accounting policies adopted in preparing the accompanying consolidated financial statements are as follows:

**2.1. Basis of Preparation**

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" – previously named International Accounting Standards – "IAS"), issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") or by the previous Standing Interpretations Committee ("SIC"), applicable to financial years beginning on 1 January 2005.

International Financial Reporting Standards ("IFRS") were adopted for the first time in 2005. As a result, the transition date from Portuguese generally accepted accounting principles to the standards referred to above is 1 January 2004, as established by IFRS 1 – "First Time Adoption of International Financial Reporting Standards".

The accompanying consolidated financial statements have been prepared from the books and accounting records of the company on a going concern basis.

The notary deed of the demerger-merger-merger process of the stake held by Sonae SGPS, SA in Sonae Indústria, SGPS, SA's share capital was held on 15 December 2005. Sonae



SGPS, SA demerged 90.3644% of Sonae Indústria, SGPS, SA's share capital, which was incorporated into Sonae 3P – Panels, Pulp and Paper, SGPS, SA and all of Sonae Indústria SGPS, SA's assets were simultaneously merged into Sonae 3P – Panels, Pulp and Paper, SGPS, SA. As a result, Sonae Indústria, SGPS, SA ceased to exist and the incorporating company, Sonae 3P – Panels, Pulp and Paper, SGPS, SA was renamed to Sonae Indústria, SGPS, SA. As a result, the financial statements ended 31 December 2006 are not directly comparable with those of 2005.

The effects of the merger are recorded in the accounts as from 1 October 2005.

## **2.2 Investments in Group and associated companies**

Assets and liabilities of each Group company are measured at their fair value at the date of acquisition adjusted for acquisition related expenses. Financial investments in Group and Associated Companies are tested for impairment when appropriate. If an impairment loss exists, it is recorded as a cost.

Revenues from financial investments (dividends received) are recorded on the Profit and Loss statement of the period in which distribution is decided and announced.

## **2.3 Tangible Assets**

Tangible assets acquired up to 1 January 2004 (transition date to IFRS) are recorded at their deemed cost, which corresponds to their acquisition cost or revalued acquisition cost, in accordance with generally accepted accounting principles in Portugal at that date, net of depreciation and accumulated impairment losses.

Tangible assets acquired after that date are recorded at acquisition cost, net of depreciation and accumulated impairment losses.

Depreciation is calculated on a straight line basis, as from the date the asset is first used, over the expected useful life for each class of assets.

Depreciation rates used, correspond to the following expected useful lives of the underlying assets:

	<u>Years</u>
Plant and Machinery	15
Fixtures and Fittings	4



Maintenance and repair costs related to tangible assets are recorded directly as expenses in the year they are incurred.

Tangible assets in progress represent fixed assets still under construction/development and are stated at acquisition cost net of impairment losses. These assets are depreciated from the date they are completed or start being used.

Gains or losses arising from the sale or write-off of tangible assets are determined as the difference between the sale price and the accounting net value at the sale/write-off date and are registered as Other Operational Income/ Other Operational Losses.

## 2.4 Intangible Assets

Intangible assets are stated at acquisition cost, net of depreciation and accumulated impairment losses. Intangible assets are only recognized if it is likely that they will generate future economic benefits, if they are controlled by the Group and if their cost can be reliably measured.

Development expenses are recognized as an intangible asset if the Group demonstrates technical feasibility and intention to complete the asset, ability to sell or use it and the probability that the asset will generate future economic benefits. Development expenses which do not fulfill these conditions are recorded as an expense in the period in which they are incurred.

Internal costs associated with maintenance and software development are recorded as an expense in the period in which they are incurred. Only costs directly attributable to projects for which the generation of future economic benefits is probable are capitalized as intangible assets.

Amortization is calculated on a straight line basis, as from the date the asset is first used, over the expected useful life which is normally 5 years.



## **2.5 Accounting for leases**

When accounting for leases in which the Group is the lessee, the lease contracts are classified as (i) a finance lease if the risks and rewards incidental to ownership lie with the lessee and (ii) as an operating lease if the risks and rewards incidental to ownership do not lie with the lessee.

A lease is classified as a financial or an operating lease dependent on the substance of the transaction rather than the form of the contract.

Lease payments within operating lease contracts are recognized as expenses on a straight line basis over the lease term.

## **2.6. Impairment of non-current assets, except for goodwill**

Assets are assessed for impairment at the end of each year, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recorded in the income statement under Provisions and impairment losses.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Fair value less sale related costs is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognized in prior years is only recorded when it is concluded that the impairment losses recognized for the asset no longer exist or have decreased. This analysis is performed whenever there is an indication that the impairment loss previously recognized has been reversed. The reversal is recorded in the income statement as Other Operational income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.



## **2.7. Borrowing costs**

Borrowing costs are recognized as an expense in the period in which they are incurred.

## **2.8. Provisions**

Provisions are recognized when, and only when, the Group has an obligation (legal or constructive) resulting from a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of that obligation. Provisions are reviewed and adjusted at the balance sheet date to reflect the best estimate as of that date.

## **2.9. Financial Instruments**

### **a) Investments**

Investments are classified into the following categories:

- Held to maturity
- Investments measured at fair value through profit or loss
- Available-for-sale

Held to maturity investments are classified as non-current assets unless they mature within 12 months of the balance sheet date. Investments classified as held to maturity have defined maturities and the Group has the intention and ability to hold them until the maturity date.

Investments measured at fair value through profit or loss, are classified as current assets.

Available-for-sale investments are classified as non-current assets.

All purchases and sales of investments are recognized on the trade date, independently of the settlement date.





Investments are initially measured at cost, which is the fair value of the consideration paid for them, including transaction costs.

Available-for-sale investments and investments measured at fair value through profit or loss are subsequently carried at fair value, without any deduction for transaction costs which may be incurred on sale, by reference to their quoted market price at the balance sheet date. Investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured are stated at cost, less impairment losses.

Gains or losses arising from a change in fair value of available-for-sale investments are recognized directly in equity, under Fair value reserve, included in Reserves and retained earnings until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is transferred to net profit or loss for the period.

Changes in the fair value of investments measured at fair value through profit or loss are included in the consolidated income statement for the period.

b) Accounts receivable

Receivables are stated at net realizable value, corresponding to their nominal value less impairment losses (recorded under the caption Impairment losses in accounts receivable).

c) Classification as equity or liability

Financial liabilities and equity instruments are classified and accounted for based on their contractual substance, independently from the legal form they assume.

d) Loans

Loans are recorded as liabilities at their nominal value, net of up-front fees and commissions related to the issuance of those instruments. Financial expenses are calculated based on the effective interest rate and are recorded in the income statement on an accruals basis, in accordance with the accounting policy defined in



Note 2.13. The portion of the effective interest charge relating to up-front fees and commissions, if not paid in the period, is added to the book value of the loan.

e) Trade accounts payable

Accounts payable are stated at their nominal value.

f) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at banks, term deposits and other treasury applications which mature in less than three months and for which the risk of change in value is insignificant.

In the consolidated statement of cash flows, cash and equivalents also include bank overdrafts, which are included in the balance sheet item Borrowings.

**2.10. Retirement benefit plans**

As referred in Note 12, the company has an insurance policy for employees which, at retirement (65) will pay an equivalent of 24 months salary on the date of retirement. All employees hired prior to 31/12/94 are covered by this policy.

It is a Defined Benefits Plan in the form of an insurance policy, established with an insurance company Fidelidade.

**2.11. Contingent assets and liabilities**

Contingent liabilities are not recorded in the financial statements. Instead they are disclosed in the notes to the financial statements (Note 17), unless the probability of a cash outflow is remote, in which case, no disclosure is made.

Contingent assets are not recorded in the financial statements but disclosed when future economic benefits are probable.



## **2.12. Income tax**

Income tax for the year is determined based on the taxable income of companies included in the consolidation and includes deferred taxation, in accordance with the tax rules in force in the respective country of incorporation, considering the interim period profit and using the estimated effective average annual income tax rate.

As from 1 January 2006, the company started to apply the Special Group Tax Regime, which includes the following companies: Euroresinas – Indústrias Químicas, S.A., Sonae Indústria de Revestimentos, S.A., Ecociclo – Energia e Ambiente, S.A., Maiequipa – Gestão Florestal, S.A., Resoflex – Mobiliário e Equipamento de Gestão, S.A., Movelpartes – Componentes para a Indústria de Mobiliário, S.A. and Sonae Serviços de Gestão, S.A.

Deferred taxes are calculated using the balance sheet liability method, reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are calculated and annually reviewed using the tax rates in place or announced and thereby expected to apply at the time the temporary differences are expected to reverse.

Deferred tax assets are recognised only when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be used, or when taxable temporary differences are recognised and expected to reverse in the same period. At each balance sheet date a review is made of the deferred tax assets recognised, which are reduced whenever their future use is no longer likely.

Deferred tax assets and liabilities are recorded in the income statement, except if they relate to items directly recorded in equity. In these cases the corresponding deferred tax is recorded in equity.

## **2.13. Revenue recognition and accrual basis**

Revenue from services rendered is recognised in the income statement taking into consideration the stage of completion of the transaction at the balance sheet date.

Dividends are recognised as income in the year they are attributed to shareholders.



Income and expenses are recorded in the year to which they relate, independently of the date of the corresponding payment or receipt. Income and expenses for which their real amount is not known are estimated.

Other current assets and Other current liabilities include income and expenses of the reporting year which will only be invoiced in the future. Those captions also include receipts and payments that have already occurred but will only correspond to income or expenses of future years, when they are to be recognised in the income statement.

#### **2.14. Balances and transactions expressed in foreign currencies**

Exchange gains and losses arising from differences between historical exchange rates and those prevailing at the date of collection, payment or the date of the balance sheet, are recorded as income or expenses of the period, except for those related to non-monetary assets or liabilities, for which adjustments to fair value are directly recorded under equity.

#### **2.15. Subsequent events**

Events after the balance sheet date that provide additional information about conditions that existed at the balance sheet date (adjusting events), are reflected in the consolidated financial statements. Events after the balance sheet date that are non-adjusting events are disclosed in the notes when material.

### **3. Tangible Assets**

During the period ended 31 December 2006 and 31 December 2005, movements in tangible assets, accumulated depreciation and impairment losses were as follows:



	Dez-06							
	Land & Building	Plant & Machinery	Vehicles	Tools	Fixtures & Fittings	Other Tangible Assets	Tangible Assets in Progress	Total
Gross Value								
Opening Balance		29.923			130.459			160.382
Mergers								
Acquisitions							10.256	10.256
Disposals					3.998		1.880	5.878
Transfers		8.376					-8.376	0
Variações cambiais								
Closing Balance		38.298			126.461		0	164.759
Accumulated Depreciations & Imparment Losses								
Opening Balance		5.928			107.355			113.283
Mergers								
Depreciations		8.398			11.013			19.411
Disposals					3.998			3.998
Transfers								
Variações câmbiais								
Closing Balance		14.326			114.370			128.695
Net Value		23.972			12.091			36.064

	Dec-05							
	Land & Building	Plant & Machinery	Vehicles	Tools	Fixtures & Fittings	Other Tangible Assets	Tangible Assets in Progress	Total
Gross Value								
Opening Balance								
Mergers		24.742			130.303		321.316	476.361
Acquisitions							1.496	1.496
Disposals								
Transfers		5.181			156		-322.812	-317.475
Closing Balance		29.923			130.459			160.382
Accumulated Depreciations & Imparment Losses								
Opening Balance								
Mergers		1.568			98.452			100.020
Depreciations		4.360			8.903			13.263
Disposals								
Transfers								
Closing Balance		5.928			107.355			113.282
Net Value		23.995			23.104			47.100

#### 4. Intangible Assets

During the period ended 31 December 2006 and 31 December 2005, movements in intangible assets, accumulated depreciation and impairment losses were as follows:



	Dez-06					
	R&D Expenses	Patents, Royalties & Other Rights	Software	Other Intangible Assets	Intangible Assets in Progress	Total
Gross Value						
Opening Balance	62 187					62 187
Mergers						
Acquisitions						
Disposals						
Transfers						
Variações cambiais						
Closing Balance	62 187					62 187
Accumulated Depreciations & Impairment Losses						
Opening Balance	20 730					20 730
Mergers						
Depreciations	12 438					12 438
Disposals						
Transfers						
Variações cambiais						
Closing Balance	33 168					33 168
Net Value	29.019	-	-	-	-	29.019

	Dec-05					
	R&D Expenses	Patents, Royalties & Other Rights	Software	Other Intangible Assets	Intangible Assets in Progress	Total
Gross Value						
Opening Balance						
Mergers	62 187			155 000		217 187
Acquisitions						
Disposals						
Transfers				- 155 000		- 155 000
Closing Balance	62 187					62 187
Accumulated Depreciations & Impairment Losses						
Opening Balance						
Mergers	17 620			5 178		22 798
Depreciations	3 110			- 5 178		- 2 068
Disposals						
Transfers						
Closing Balance	20 730					20 730
Net Value	41.457	-	-	-	-	41.457

## 5. Investments

At 31 December de 2006 and 31 December de 2005, detail of investments was as follows:



	31.12.2006		31.12.2005	
	Non Current	Current	Non Current	Current
<b><u>Investment Group Companies</u></b>				
Opening Balance	754.797.511		-	
Acquisition	156.753		195.555	
Disposal	(120.129.870)		-	
Merger ( Nota 2.1)			754.601.956	
Closing Balance	634.824.394		754.797.511	
Accumulated Impairment Losses	(11.500.469)		(74.685.976)	
	<b>623.323.924</b>		<b>680.111.535</b>	
<b><u>Available-For-Sale Investments</u></b>				
Opening Balance	17.922		-	
Acquisition	-		-	
Disposal	-		-	
Merger ( Nota 2.1)	-		17.922	
Closing Balance	<b>17.922</b>		<b>17.922</b>	
	<b>623.341.846</b>		<b>680.129.457</b>	

The value recorded during the period in asset sales relates to the sale of Socelpac,Sgps,S.A and to the sale of Glunz shares for 120.000.000 euros and 129.870 euros respectively, which were recorded as investments,. The sale of Socelpac,Sgps,S.A offset the impairment charge recorded in 2005. An increase in investment was recorded in February 2006 to offset losses in Maiequipa – Gestão Florestal,S.A.

The impairment charges registered relate to the participations in Agloma – Sociedade de Madeiras Aglomeradas,S.A.,Resoflex- Mobiliário e Equipamento de Gestão,S.A. and Sonae Indústria Brasil.

On 31 December 2006, Sonae Industria,SGPS had the following holdings in Group and Associated Companies:

Sociedade	% Participação	Custo de Aquisição	Capitais Próprios	Resultados Líquidos
Euroresinas - Industrias Químicas, S.A.	100,00%	5.204.481	8.323.494	1.732.689
Ipaper . Produção de Papeis Impregnados,S.A.	49,00%	509.144	-459.956	-508.346
Maiequipa - Gestão Florestal,S.A.	100,00%	3.438.885	762.272	115.908
Movelpartes - Componentes para Industria do Mobiliário,S.A.	100,00%	4.437.198	4.533.798	701.773
Resoflex - Mobiliário e Equipamento de Gestão,S.A.	100,00%	3.742.915	1.510.440	-793.429 a)
Sonae Industria de Revestimentos,S.A.	99,98%	38.548.932	29.986.690	825.854
Sonae Espanha	99,94%	9.976	-337.199	3.411
Sonae Industria Brasil	100,00%	490.252	236.709	-7.561 a)
Sonae Serviços de Gestão,S.A.	100,00%	2.000.000	2.924.815	645.819
Sonaegeist	20,00%	159.615	1.397.239	20.693
Taiber	0,02%	25.142	11.599.604	4.083.587
Tafisa - Tableros de Fibras,S.A.	89,01%	514.937.661	171.159.793	-1.529.554
Ecociclo - Gestão Ambiental,S.A.	100,00%	631.267	695.822	266.591
Somit Imobiliária,S.A.	0,02%	5.000	59.532.897	8.603.830
Sonae Industria - Produção e Comercialização de Derivados de Madeira,S.A.	2,81%	3.868.925	100.761.292	12.113.588 b)
Siaf Energia, S.A.	0,20%	5.000	2.613.747	46.493
Siaf Imobiliária,S.A.	0,02%	5.000	26.568.935	1.718.044
Agloma - Soc.Ind.Madeira Aglomerada,S.A.	99,84%	56.805.000	48.104.136	1.126.237 a)



a) The values recorded for the holdings in Agloma, Resoflex and Sonae Industria Brasil were higher than their recoverable value, therefore the company recognized impairment charges on the Income Statement under the heading Provisions & Accumulated Impairment Losses (Note 16)

## 6. Other Non Current Assets

The detail of Other Non Current Assets at December 31, 2006 and December 31, 2005, was as follows:

	31.12.06	31.12.05
Loans Granted To Group Companies (Nota 19)	988 969 071	809 549 102
Other Loans Granted	0	0
Tax Recoverable	0	0
Other Non- Current Assets	0	0
	<u>988 969 071</u>	<u>809 549 102</u>
Accumulated Impairment Losses (Nota 16)	400 905	400 905
	<u>988 568 166</u>	<u>809 148 197</u>

Loans granted to Group companies have a medium and long term maturity and they yield interest at an average rate of 4,439%.

## 7. Trade and Other Current Debtors

At 31 December 2006 and 31 December 2005, the details of Current Trade Debtors were as follows:

	31.12.06	31.12.05
Current Accounts	776 381	377 841
Bills Receivable	0	0
Doubtful Debtors	0	0
	<u>776 381</u>	<u>377 841</u>
Accumulated Impairment Losses	0	0
	<u>776 381</u>	<u>377 841</u>

At 31 December 2006 and 31 December 2005, the details of Other Current Trade Debtors were as follows:





	31.12.06	31.12.05
State & Other Public Entities		
Income Tax	960 725	58 952
Value Added Tax	173 452	133 978
Social Security Contributions		
Others		
	<u>1 134 177</u>	<u>192 930</u>
Other Debtors	<u>379.419</u>	<u>5.839</u>

## 8. Other Current Assets

The detail of Other Current Assets at 31 December 2006 and 31 December 2005, was the following:

	31.12.06	31.12.05
Accrued Revenue	137 696	77 153
Deferred Costs	<u>6 507</u>	<u>6 507</u>
	144 204	83 660
Accumulated Impairment Losses	<u>0</u>	<u>0</u>
	<u>144 204</u>	<u>83 660</u>

"Other Current Assets" includes mainly interest due in regards to loans granted to Group and Associated companies.

## 9. Cash and Cash equivalents

On 31 December 2006 and 31 December 2005 the detail of Cash and cash equivalents was the following:

	31.12.06	31.12.05
Cash at Hand	957	869
Deposits	61 318 245	425 403
Treasury Applications	<u>36 452 086</u>	<u>35 994 778</u>
Cash & Cash Equivalents - Balance Sheet	97 771 288	36 421 049
Bank Overdrafts	<u>0</u>	<u>0</u>
Cash & Cash Equivalents - Cash Flows Statement	<u>97 771 288</u>	<u>36 421 049</u>



Cash & equivalents comprises cash at hand, deposits, treasury applications and term deposits with less than three months maturity, and for which the risk of value change is insignificant.

Cash and Cash Equivalents on the Balance sheet is composed of two bank applications: one of 5.700.000 euros maturing on 3 January and the other a Cash Reserve of 14.443.086 euros related to the Group Securitization programme, maturing on 6 January, and of various financial operations with Group companies that total 16.309.000 euros.

## 10. Share Capital

On December 31, 2006, the share capital, fully underwritten and paid, is represented by 140.000.000 ordinary shares, not entitled to fixed income, with a face value of 5 euros.

The following entities had more than 20% of the subscribed capital on 31 December 2006:

<u>Entity</u>	<u>%</u>
Efanor Investimentos, SGPS, S. A.	31,9

## 11. Loans

At 31 December 2005 and 31 December 2006 Sonae Industria, SGPS, S.A had the following outstanding loans:

	31.12.06				31.12.05			
	Reductions/Repayments		Nominal Value		Reductions/Repayments		Nominal Value	
	Current	Non Current	Current	Non Current	Current	Non Current	Current	Non Current
Bank Loans	6 250 000	21 875 000	6 250 000	21 875 000	6 250 000	28 125 000	6 250 000	28 125 000
Debentures		530 273 929		535 000 000		381 101 414		385 000 000
Obligations Under Finance Leases								
Other Loans	60 950 000		60 950 000					
Bank Overdrafts								
Hedge Derivatives								
<b>Gross Debt</b>	<b>67 200 000</b>	<b>552 148 929</b>	<b>67 200 000</b>	<b>556 875 000</b>	<b>6 250 000</b>	<b>409 226 414</b>	<b>6 250 000</b>	<b>413 125 000</b>
Investments	97 771 288		97 771 288		36 421 049		36 421 049	
Cash & Cash Equivalents - Balance Sheet	- 30 571 288	552 148 929	- 30 571 288	556 875 000	- 30 171 049	409 226 414	- 30 171 049	413 125 000
<b>Net Debt</b>	<b>- 30 571 288</b>	<b>552 148 929</b>	<b>- 30 571 288</b>	<b>556 875 000</b>	<b>- 30 171 049</b>	<b>409 226 414</b>	<b>- 30 171 049</b>	<b>413 125 000</b>
<b>Total Net Debt</b>	<b>521 577 641</b>		<b>526 303 712</b>		<b>379 055 365</b>		<b>382 953 951</b>	



The loans have the following repayment schedule:

	31.12.06	31.12.05
2006		6 250 000
2007	67 200 000	6 250 000
2008	106 250 000	106 250 000
2009	86 250 000	86 250 000
2010	156 250 000	156 250 000
Após 2010	208 125 000	58 125 000
	<u>624 075 000</u>	<u>419 375 000</u>

On December 31, 2006, the contracted loans are summarized as follows:

a) Sonae Indústria 2004 bonds, issued on 15 October 2004, with a principal of 80.000.000 euros. Principal will be paid in a single bullet payment 5 years after issue date. Interest is calculated using Euribor 6 months plus 87.5 basis points and paid semi annually in arrears on 15 April and 15 October;

b) Sonae Indústria 2005/2013 bonds, issued on 31 March 2005, with a principal amount of 55.000.000 euros, and a bullet repayment 8 years after issue date. Interest is calculated using Euribor 6 months plus 87.5 basis points, paid semi annually in arrears on 31 March and 30 Setember;

c) Sonae Indústria 2005/2008 bonds, issued on 27 April 2005, with a principal amount of 100.000.000 euros and a bullet repayment 3 years after issue date. Interest is calculated using Euribor 6 months plus 100 basis points, paid semi annually in arrears on 27 April and October;

d) Sonae Indústria 2005/2010 bonds, issued on 27 April 2005, with a principal amount of 150.000.000 euros and a bullet repayment 5 years after issue date. Interest is calculated using Euribor 6 months plus 110 basis points, paid semi annually in arrears on 27 April and October.

e) During 1H05 a loan contracted by Sonae SGPS SA with the European Investment Bank, in the total amount of 50.000.000 euros, was transferred to Sonae Indústria SGPS, SA. The loan pays interest quarterly, at market rates, and will be redeemed in 16



consecutive and equal semi annual instalments, the first of which occurred on 30 June 2003. On 31 December 2006, the principal outstanding was 28.125.000 euros;

f) Sonae Indústria 2006/2014 50.000.000 euros Bond issued on 28 March 2006, to be repaid in one payment at maturity in 8 years. Interest is calculated on EURIBOR 6 months plus 87.5 basis points and will be paid twice a year on 28 March and 28 September;

g) On 25 January 2006, Sonae Indústria signed a Commercial Paper agreement of up to 100.000.000 euros, with a number of financial institutions. The programme matures on 27 January 2016. At 31 December 2006, the balance stood at 60.950.000 euros, composed of one issue on 12 December 2006 and that matures on 11 January 2007. Interest is calculated at the Euribor rate that matches the maturity of the issue.

h) Sonae Indústria 2006/2013 50.000.000 euros Bond issued on 3 July 2006, to be repaid in one payment at maturity in 7 years. The company has the option of total or partial repayment (by reduction of nominal value of bonds) from July 2011. Interest is calculated on EURIBOR 6 months plus 86 basis points and will be paid twice a year on 3 January and 3 July;

i) Sonae Indústria 2006/2014 (second issue) 50.000.000 euros Bond issued on 2 August 2006, to be repaid in one payment at maturity in 8 years. Interest is calculated on EURIBOR 6 months plus 88 basis points and will be paid twice a year on 2 February and 2 August;

## **12. Pension Fund Liabilities**

Sonae Industria – Produção e Comercialização de Derivados de Madeira,S.A, has an insurance contract for employees under which they will receive at retirement age (65) the equivalent of 24 months salary. All employees hired up to 31/12/94 are covered by this contract, Sonae Indústria,SGPS,S.A. employees are also covered by this plan.

It is a Defined Benefits Plan in the form of an insurance contract, established with Fidelidade, an insurance company.

According to actuarial studies carried out by the fund manager, total liabilities for services provided, without taking into account salary growth, amounted to 210.008 euros and the market value of the fund is 109.274 euros. The company had a provision of 56.427 euros.



The actuarial assumptions were as follows:

Pension Growth Rate: 0%  
 Forecasted Income Rate: 6%  
 Expected Salary Growth Rate: 3%  
 Technical Actuarial Rate: 4%  
 Mortality Rate: TV 88/90

### 13. Trade Creditors

At 31 December 2006 and 31 December 2005 all amounts recorded under this item resulted from normal operations.

### 14. Others Creditors

On 31 December 2006 and 31 December 2005 the detail of this item was as follows:

	31.12.06	31.12.05
State & Other Public Entities		
Income Tax	545 251	1 573 755
Social Security Contributions	26 263	30 881
Others	50	85
	<u>571 564</u>	<u>1 604 721</u>
Other Creditors		
Loans From Group Companies (Nota 19)	114 894 000	158 023 296
Fixed Assets Suppliers	47	1 528
Others	242 006	700 017
	<u>115.136.053</u>	<u>158.724.840</u>

### 15. Other Current Liabilities

On 31 December 2006 and 31 December 2005 this item had the following detail:

	31.12.06	31.12.05
Accrued Costs		
Insurance	4 913	
Holidays	235 673	125 781
Bonus	430 590	339 191
Interests	6 377 259	2 721 871
External Supplies & Services	6 500	35 727
	<u>7 054 935</u>	<u>3 222 570</u>



## 16. Provisions & Accumulated Impairment Losses

The changes in provisions and accumulated impairment losses during the period ended in December, 2006 were the following:

Description	Opening Balance	Increases	Utilisation	Reductions	Closing Balance
Accumulated Impairment Losses on Investments (Nota 5)	74 685 976	11 500 469	74 685 976	0	11 500 469
Accumulated Impairment Losses on Other Non Current Assets (Nota 6)	400 905	0	0	0	400 905
	<u>75 086 881</u>	<u>11 500 469</u>	<u>74 685 976</u>	<u>0</u>	<u>11 901 374</u>

Impairment losses are offset against the corresponding asset.

## 17. Contingent Assets & Liabilities

	31.12.06	31.12.05
Granted Guarantees:		
Fiscal Processes in Course	357.258	357.258
Lawsuits in Course		
Garantias prestadas por processos autárquicos		
Loans - Bei	117.493.745	156.500.744
Loans - Abn	2.529.655	
Others - Siempelkamp	1.250.000	1.750.000
	<u>121.630.658</u>	<u>158.608.002</u>

The company, together with its affiliates, Isoroy and Glunz, signed financing contracts with the European Investment Bank and ABN which are fully covered by bank guarantees corresponding to the total amount of the facility.

## 18. Operational Leases

During 2006, 64.722 euros were recorded as a cost on the profit and loss statement relating to operational lease payments. During 2005, operational lease payments amounted to 13.981 euros..

In addition, at the balance sheet date, the company had irrevocable operational lease contracts with the following payment maturities:



	31.12.06	31.12.05
2006		61.675
2007	47.925	51.775
2008	34.638	38.031
2009	14.750	21.155
After 2009		
	<u>97.313</u>	<u>172.636</u>

## 19. Related Parties

Balances and transactions with related parties may be summarized as follows:

Transactions	Sales & Services Rendered		Purchases & Acquired Services		Interest Income		Interest Expenses	
	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
<b>Parent Company &amp; Group Companies</b>	<b>3 039 763</b>	<b>685 152</b>	<b>1 155 071</b>	<b>284 398</b>	<b>38 284 683</b>	<b>7 339 518</b>	<b>3 752 982</b>	<b>1 170 045</b>
- Agloma	1 842						1 509 905	302 592
- Ecociclo	10 339	2 616			91 062	19 294		
- Euroresinas	25 020	3 343			935 816	163 719	112	
- Glunz	639 200	115 955						
- Imoplamac	3 684	1 244	13 174	5 658				
- Sind-pcdm	461 485	119 253	78 429	32 232	949 401		532	365 176
- Isoroy	532 866	140 112						
- Maiequipa	4 073	1 244			51 158	13 193		
- Movelpartes	7 285	1 380				- 156	24 990	2 329
- Resoflex	9 254	1 244					22 254	5 092
- Sc - Consultadoria			980	4 686				
- Siaf Imobiliária	3 684	1 741					454 418	2 535
- Siaf Energia	2 318	423			244 619	1 925		18 929
- Sonae Industria Revestimentos	13 777	2 770	142 931	69 684			570 191	110 752
- Socelpac							502 230	286 606
- Somit	1 842							
- Somit Imobiliária	1 842	1 244					660 921	76 006
- Solinca			54 852	3 210				
- Sonae ,sgps			319 582	109 431				
- Sonae Uk	165 033	35 029	238 761					
- Spanboard	33 500	11 676	4 220					
- Sonae Serviços de Gestão	4 123	1 514	44 588	9 064	193	2 768	7 429	28
- Sonae Tafisa Benelux	8 102							
- Tafisa Canadá	374 279	63 513	887					
- Tafisa Espanha	528 599	141 752	16 559					
- Tafisa South Africa	206 451	39 099	488					
- Tavapan	1 165							
- Taiber					36 012 434	7 138 775		
- Tradema			1 261					
- Imosedo			8 650					
- Novis			3 441	1 166				
- Mch			20 701					
- Praedium III			5 269					
- Optimus			15 679	3 403				
- Box Lines			2 845					
- Equador			181 774	45 864				
<b>Associated Companies</b>	<b>10 047</b>	<b>497</b>						
- Ipaper	10 047	497						



Balance	Accounts Receivable		Accounts Payable		Loans			
					Obtained		Granted	
	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
<b>Parent Company &amp; Group Companies</b>	<b>776 382</b>	<b>375 511</b>	<b>212 892</b>	<b>263 077</b>	<b>114 894 000</b>	<b>158 023 296</b>	<b>988 969 071</b>	<b>809 549 102</b>
- Agloma	186				47 951 000	57 000 000		
- Ecociclo	1 043	1 055					312 486	310 098
- Euroresinas	14 302	1 348					20 934 190	15 803 891
- Sonae Espanha							400 905	400 905
- Glunz	158 736	38 652						
- Imoplamac	371	502						
- Sind-pcdm	109 615	56 059	21 353	13 794		1 686 847	18 031 073	
- Isoroy	137 508	47 992						
- Maiequipa	411	502					846 406	342 903
- Movelpartes	2 698	557			1 403 000	657 500		1 806
- Resoflex	929	502			918 000	1 093 800		
- Sc - Consultadoria			2 702	4 952				
- Siaf Imobiliária	743	702			16 658 000	14 298 200		
- Siaf Energia	234	171					4 006 905	
- Sonae Industria Revestimentos	4 879	1 117	1 260	22 635	16 708 000	24 936 500		
- Socelpac						45 683 549		
- Somit	186					12 660 600		
- Somit Imobiliária	186	502			30 067 000			
- Solinca			49 284	1 799				
- Sonae ,sgps			90 647	173 247				
- Sonae Uk	49 156	11 676						
- Spanboard	2 792	3 892						
- Sonae Serviços de Gestão	416	611	4 496	3 656	1 189 000	6 300		
- Sonae Tálbra Benelux	675							
- Tafisa Canadá	113 002	67 383		713				
- Tafisa Espanha	112 645	47 251	140					
- Tafisa South Africa	53 011	91 617	483					
- Taiber				1 753			944 337 106	792 589 499
- Tradema	10 621	3 219						
- Tavapan	97							
- Novis			491	885				
- Optimus			2 182	2 628				
- Box Lines			3 442					
- Mds			109					
- Mch			5 019					
- Equador			23 909	37 015				
<b>Associated Companies</b>	<b>1 940</b>	<b>201</b>					<b>100 000</b>	<b>100 000</b>
- Ipaper	1 940	201					100 000	100 000

## 20. Services Rendered

The detail for Services Rendered is presented below:

Services Rendered	31.12.06	31.12.05
Internal Communication	351.121	128.382
Consolidation & Management Control	129.390	36.897
Legal	165.792	34.786
Health & security	454.438	
Administration	1.254.827	285.392
Engineering	272.951	52.858
Others	421.292	147.334
<b>TOTAL</b>	<b>3.049.812</b>	<b>685.649</b>

## 21. Other Operational Costs

	31.12.06	31.12.05
Taxes	96.453	28.371
Losses in disposal financial investments	74.044.674	0
Others	63.981	54.778
	<b>74.205.108</b>	<b>83.149</b>





## 22. Financial Results

	31.12.06	31.12.05
<b>Financial Expenses:</b>		
Interest Expenses	24 422 525	4 752 751
Exchange Losses	5 652	2 144
Others	637 381	99 481
Financial Results	13 822 301	2 573 102
	<u>38 887 859</u>	<u>7 427 478</u>
<b>Financial Revenues</b>		
Interest Income	38 882 239	7 426 524
Exchange Gains	5 620	954
	<u>38.887.859</u>	<u>7.427.478</u>

## 23. Gains on Investments

Socelpac, Sgps, S.A was sold in May 2006, generating a capital gain of 641.302 euros due to the difference between the loss recorded on sale (74.044.674 euros) and the reversal of the impairment charge recorded in the accounts in 2005 of 74.685.976 euros

The company received dividends of 20.706.168 euros from the following companies:

Aglom – Soc.Ind.Madeira Aglomerada, S.A.	9.995.558 €
Sonae Industria de Revestimentos, S.A.	9.557.206 €
Sonae Industria – Produção e Comercialização Derivados Madeira, S.A.	1.151.210 €
Siaf Energia, S.A.	2.194 €

## 24. Income Taxation

The income and deferred taxation recorded at 31 December 2006 and 2005 were:

	31.12.06	31.12.05
Income taxation	(672.279)	489 230
Deferred taxation	(3.047.624)	
	<u>(3.719.903)</u>	<u>489 230</u>



The income taxation represents the income taxation of Sonae Industria of 12.179 euros and tax savings from the tax perimeter of 690.794 euros. Deferred taxation relates to impairment charges of several participations.

The reconciliation of Net Income with income taxation was as follows:

	31.12.06	31.12.05
<b>Net income/(loss) before tax</b>	<b>21.882.981</b>	<b>1.689.109</b>
<b><u>Non deductible incomes</u></b>		
Non-deductible provisions (e.g. restructuring and other risks & charges)	74.685.976	
Non deductible assets adjustments (e.g.debt and inventory)	54.767	63.844
Capital gains/losses on the sale of fixed assets	41	
Dividends	20.706.168	
Others (please specify):	115.691	
	<b>95.562.643</b>	<b>63.844</b>
<b><u>Non deductible losses</u></b>		
Non-deductible provisions (e.g. restructuring and other risks & charges)		56.427
Non deductible assets adjustments (e.g.debt and inventory)		8.151
Derivatives		21.331
Capital gains/losses on the sale of fixed assets	83.870	
Others	74.597	13.137
	<b>158.467</b>	<b>99.046</b>
	<b>-73.521.195</b>	<b>1.724.311</b>
<b><u>Fiscal income</u></b>		
Tax charge per income statement		27,5%
Total Current tax		<b>474.186</b>
Current tax - prior year adjustment	12.179	1.506
Fiscal saving from fiscal perimeter	-690.794	
Excess/insufficiency of valuation	6.335	13.538
	<b>-672.280</b>	<b>489.230</b>

## 25. Earnings Per Share

Earnings per share, excluding the effect of discontinued operations, were calculated as follows:

	31.12.06	31.12.05
<b><i>Net Profit</i></b>		
Net Profit Considered for Basic EPS Calculation (Periodic Net Profit)	25 602 884	1 199 879
Net Profit Considered for Diluted EPS Calculation	<u>25 602 884</u>	<u>1 199 879</u>
<b><i>Number of Shares</i></b>		
Weighted Average Number of Shares for Basic EPS Calculation	140 000 000	140 000 000
Weighted Average Number of Shares for Diluted EPS Calculation	<u>140 000 000</u>	<u>140 000 000</u>
Net Profit Per Share	<u>0,182</u>	<u>0,009</u>

During 2006, no effect from discontinued operations was recorded.



**26. Financial Statements Approval**

These financial statements were approved by the Board of Directors and authorised for issuance on 19 April 2007.

## Extract from the Minutes of the Annual General Shareholders' Meeting



**SONAE INDÚSTRIA, SGPS, S. A.**  
Head Office: Lugar do Espido, Via Norte, Maia  
Maia Commercial Registry Nr. 57 048  
Share Capital: 700 000 000 euros  
Fiscal Nr. 506 035 034  
Sociedade Aberta

I hereby certify that according to the terms recorded in Minute number eight, dated May 31 of two thousand and seven and recorded in the Minutes Book of the Annual General Shareholders' Meeting, the following deliberations were taken:

- a) A majority of votes approved the following proposal:  
“That the 2006 Management Report, Individual and Consolidated Accounts and respective notes to the accounts, be approved as presented”, and:
- b) A unanimous vote approved the following proposal:  
“That Sonae Indústria SGPS, SA, as recorded in the Individual accounts, generated a Net Profit in 2006 of 25,602,884.00 Euros.

The Board of Directors proposes that dividends not be paid in order to strengthen the Equity of the Company and to mitigate the increase in loans contracted to finance acquisitions made during 2006. In addition it proposes that Net Profit be appropriated as follows:

Legal Reserves	Eur 1,280,144.20
Free Reserves	Eur 24,322,739.80
Dividends	Eur 0.00

Maia, 15 June 2007

Chairman of the General Shareholders Meeting

João Vieira de Castro

# Statutory Audit and Auditors' Report Report and Opinion of the Statutory Auditor

## Audit Report for Stock Exchange Regulatory Purposes in respect of the Consolidated and Individual Financial Information

(Free translation from the original version in Portuguese)

### Introduction

1 As required by article 245 of the Portuguese Securities Market Code, we present the Audit Report in respect of the Consolidated and Individual Financial Information included in the Board of Directors' Report and in the Consolidated and Individual Financial Statements of **Sonae Indústria, SGPS, SA**, comprising the consolidated and individual balance sheet as at 31 December 2006, (which shows total assets of Euros 2,155,958,049 and Euros 1,715,228,189, respectively, a total consolidated equity of Euros 548,143,885 including total minority interests of Euros 28,100,792, an individual equity of Euros 972,565,765, and a net consolidated and individual profit of Euros 32,311,969 and Euros 25,602,884, respectively), the consolidated and individual statement of income by nature, the consolidated and individual statements of changes in equity and the consolidated and individual cash flow statements for the year then ended and the corresponding notes to the accounts.

### Responsibilities

2 It is the responsibility of the Company's Board of Directors (i) to prepare the Directors' Report and Consolidated and Individual Financial Statements that present fairly, in all material respects, the financial position of the company and its subsidiaries, the consolidated and individual changes in equity, the consolidated and individual result of their operations, and their consolidated and individual cash flows; (ii) to prepare historical financial information in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU that is complete, true, timeliness, clear, objective and licit, as required by the Portuguese Securities Market Code; (iii) to adopt adequate accounting policies and criteria; (iv) to maintain appropriate systems of internal control; and (v) to disclose any relevant facts that have influenced the activity, the financial position or results of the company and its subsidiaries.

3 Our responsibility is to verify the financial information included in the above mentioned documents, namely if it is complete, true, timeliness, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our audit.

Sonae Indústria, SGPS, SA.

## Scope

4 We conducted our examination in accordance with the Standards and Technical Recommendations approved by the Institute of Statutory Auditors which require that we plan and perform the examination to obtain reasonable assurance about whether the consolidated and individual financial statements are free of material misstatement. Accordingly, our examination included: (i) verification that the subsidiaries' financial statements have been properly examined and for the cases where such an examination was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements, and assessing the reasonableness of the estimates, based on the judgements and criteria of Management used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations and the utilization of the equity method; (iii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) assessing the overall presentation of the consolidated and individual financial statements; and (vi) assessing whether the consolidated and individual financial information is complete, true, timely, clear, objective and licit.

5 Our examination also covered the verification that the financial information included in the Board of Director's report is in agreement with the remaining documents referred to above.

6 We believe that our examination provides a reasonable basis for our opinion.

## Conclusion

7 In our opinion, the consolidated and individual financial statements referred to above, present fairly in all material respects, the consolidated and individual financial position of **Sonae Indústria, SGPS, SA** as at 31 December 2006, the consolidated and individual results of their operations and their consolidated and individual cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the information included is complete, true, timely, clear, objective and licit.

## Emphasis

8 The financial information included in the Directors' Report and the consolidated and individual financial statements for the period ended 31 December 2005 have been reviewed by another auditor, who issued the required reports. The 2005 audit report on the consolidated financial statements included an emphasis for uncertainty regarding the realisation of deferred tax assets, amounting to 43,200,000 euros, related with unused tax losses to be carried forward of subsidiaries located in France and Germany, which affects the comparatives of 2005. We consider that the economical recovery in 2006 of some foreign subsidiaries should continue to be followed up. However, in our opinion, the uncertainty regarding the realisation of those assets, as supported by the information received from the company, has been reduced to an acceptable level for the recognition of such an asset.



Sonae Indústria, SGPS, SA.

9 As mentioned on the Note 2 of the individual financial statements, the present legal entity, Sonae Indústria, SGPS, SA is the consequence of a merge occurred in December 2005, under which the incorporating company, Sonae 3P – Panels, Pulp and Paper, SGPS, SA has changed its designation to Sonae Indústria, SGPS, SA, after the extinguishment of the incorporated company. As a result, the financial statements as at 31 December 2006 are not comparable with those of the prior period.

10 As mentioned on the Note 3 of the consolidated financial statements, a fire in the Canadian subsidiary's plant in April 2006 destroyed one of the production line and interrupted the production. The company recorded an operational income related to business interruption amounting to 31,025,219 euros. As the final agreement with the insurance company regarding the indemnity of the business interruption losses was not yet achieved, there is an uncertainty regarding this amount.

Porto, 20 April 2007

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.  
represented by:

António Joaquim Brochado Correia, R.O.C.

## Report and Opinion of the Statutory Auditors

(Free Translation from the original in Portuguese)

To the Shareholders

1 In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the Directors' Report and the corresponding Consolidated and Individual Financial Statements of **Sonae Indústria, SGPS, SA** with respect to the year ended 31 December 2006.

2 During the course of the year, we have accompanied the evolution of the company's activities, as and when deemed necessary, and have verified the timeliness and adequacy of the accounting records and supporting documentation. We have also ensured that the law and the company's statutes have been complied with.

3 As a consequence of our work, we have issued the attached Audit Report for Stock Exchange Regulatory Purposes in respect of the Consolidated and Individual Financial Information. Furthermore we have considered the Statutory Auditors' Report sent to the Board of Directors in which the audit procedures undertaken are described.

4 Within the scope of our mandate, we have verified that:

i) the Consolidated and Individual Balance Sheets, the Consolidated and Individual Statements of Income by nature, the Consolidated and Individual Statements of Changes in Equity, the Consolidated and Individual Cash Flow Statements and the corresponding Notes to the accounts present adequately the financial position, the results and cash flows of the company;

ii) the accounting policies and valuation methods applied are appropriate;

iii) the Directors' Report is sufficiently clear as to the evolution of the business and the position of the company and its subsidiaries and highlights the more significant aspects;

iv) the proposed appropriation of profits is adequately supported.

Sonae Indústria, SGPS, SA.

5 On this basis, and taking into account the information obtained from Board of Directors and the company's employees, together with the conclusions in the Audit Report for Stock Exchange Regulatory Purposes in respect of the Consolidated and Individual Financial Information, we are of the opinion that:

- i) the Directors' Report be approved;
- ii) the Consolidated and Individual Financial Statements be approved;
- iii) the proposed appropriation of profits be approved.

Porto, 20 April 2007

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.  
represented by:

António Joaquim Brochado Correia, R.O.C.