

SONAE INDÚSTRIA, SGPS, S. A.

Registered Office: Lugar do Espido, Via Norte, Maia
Registered at the Commercial Registry of Maia
Registry and Tax Identification Number 506 035 034
Share Capital: EUR 253,319,797.26
Publicly Traded Company

ANNUAL REPORT

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

2019

31 March 2020



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**TOGETHER
CREATING
THE FUTURE**



**Management
Report
2019**

31 March 2020

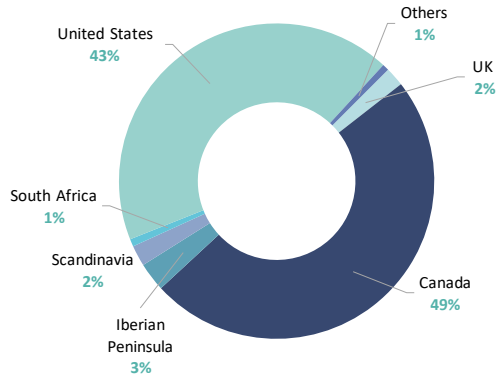


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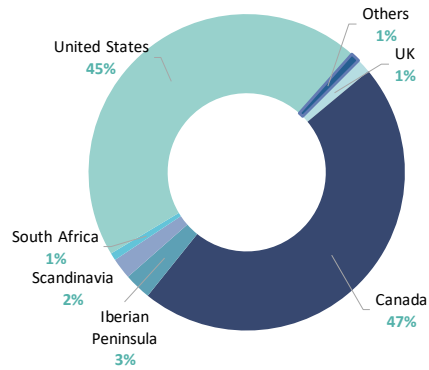
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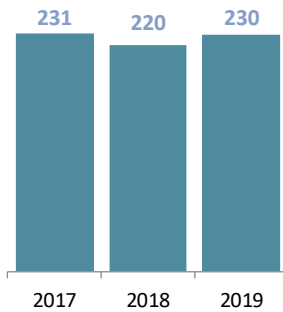
Turnover by Market
2018



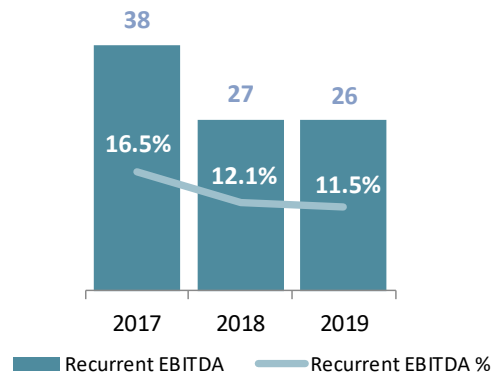
Turnover by Market
2019



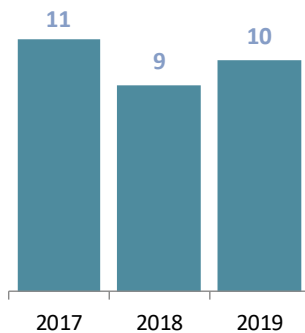
Turnover
MILLION EUROS



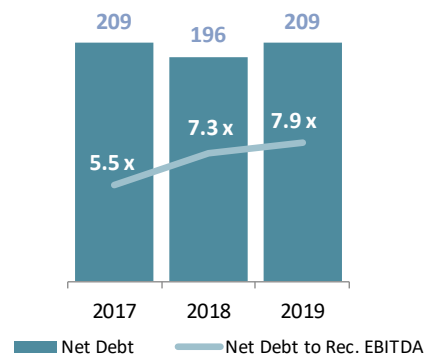
Recurrent EBITDA and % Turnover
MILLION EUROS



Working Capital
MILLION EUROS



Net Debt and Net Debt to Recurrent EBITDA
MILLION EUROS



CHAIRMAN'S MESSAGE

First I would like to acknowledge that 2019 was a year marked by greater challenges to our business sector and to our operations than envisaged; in North America the marginally weaker demand for particleboard and the entry of new capacity resulted in some pricing pressure and we experienced some production constraints; our Laminates business although improving still suffered from top line; and at Sonae Arauco, we faced harder underlying business conditions particularly in Iberia and South Africa.

In the light of the above and after booking one off charges¹ of 9.2 million euros during 2019 Sonae Indústria booked a negative Net Result of 13.4 million euros following three consecutive years of positive Net Results.

Proportional results were impacted by the lower profitability at Sonae Arauco leading to a Proportional Recurrent EBITDA of 63.9 million euros with a 10.5% margin in both cases below the levels achieved in 2018. Proportional Senior Net Debt² stood at 283 million euros, with a proportional senior leverage ratio² of 4.4x.

I would now like to turn to the key developments of 2019 at our fully owned businesses and at Sonae Arauco.

In 2019, despite the increased competition in the North American market as a result of the ongoing changes in installed capacity, and some production constraints, our North American business achieved a Recurrent EBITDA result only moderately lower than in the previous year while increasing Turnover and improving the sales mix, with decorative products increasing their weight, including the high end EIR³ decorative offer which is complemented with our matching Surforma® Laminates produced in Portugal.

As reported throughout 2019, our team in North America has been working hard on various fronts to extend our lead and further grow the distinctiveness of our innovative decorative solutions to industrial and trade customers.

In this regard, it should be noted that Tafisa Canada is currently investing in a new High Gloss and Super Matt lacquering plant in Lac Mégantic, further complementing its existing market leading decorative solutions offer to our customers in North America with the supply of these two new types of finishes. This investment will clearly reinforce our offer of innovative and value added solutions and will further strengthen our position in the high end segments of the market.

At our Laminates business, in 2019, Recurrent EBITDA results improved marginally notwithstanding we still lack a full recovery in top line. However, both production and commercial initiatives are being implemented to materially improve the profitability of the laminates business based in Maia, Portugal.

In 2019 we decided to close our Laminates industrial activities at our Horn site in Germany by the end of 2020 as previously announced, and we proceeded with the implementation of a decorative laminates value added strategy with a manufacturing base in our site in Maia, Portugal. In this regard our sales of Surforma® Laminates (HPL) in North America, a strategic project between our Laminates and North America businesses, have grown steadily in 2019 and there is still potential growth in the near future. Additionally, we are currently exploring different routes to improve the offer of decorative solutions to our customers and expect to make progress in this regard over the next quarters.

At Sonae Arauco despite still positive results at Net Result level, profitability was below our expectations for 2019 which proved to be the most challenging year since the inception of the partnership in 2016, essentially due to harder market conditions when compared to previous years and to production constraints particularly in Iberia and South Africa.

In the Iberian Peninsula, we have experienced increased competitive tensions since mid 2018 when we restarted our two Portuguese plants following the forest fires, at a time when the market saw capacity increases from local competitors and less a dynamic product demand making the achievement of our goal of recovering market share, slower. In 2019 we faced material industrial challenges with the ramp up of our new line in the Mangualde plant that led to a difficult year. We have been working to conclude the investment program in Mangualde so we can

¹ The one off charges of 9.2 million euros booked in 2019 refer to 7.7 million euros of Provisions (of which 50% directly in Sonae Indústria and 50% through Sonae Arauco Net Results) related to the Horn site and 1.5 million euros of provisions related to legal proceedings.

² Proportional Senior Net Debt excludes the Subordinated Bond Loan.

³ Embossed in-register.

start leveraging on the new continuous MDF press installed in this plant and considerably improve its recent profitability levels.

In Germany, in 2019 we managed to maintain the Recurrent EBITDA contribution at a similar level of the previous year despite the weaker general economic environment in the region. As previously reported, we have started the investment in a new continuous particleboard press at our Beeskow plant in Germany and during 2019 we made significant progresses in the construction and commissioning of this investment to replace the last single day light press in Sonae Indústria panels plants. Also in Germany, during the 4Q19 we further streamlined our business and improved our focus in our core decorative panels activities by concluding the closure of Sonae Arauco flooring joint-venture and also by agreeing the sale of its biomass power plant in Horn.

In South Africa, during 2019 our operations have suffered not only from the continued poor economic environment but also from the power outages that regularly hit the country throughout the year affecting our production and sales volumes and production costs. However, during the 4Q19 we completed the investment in a new and state of the art melamine surfacing line at our White River plant that is now fully operational and should allow us to effectively serve our customers, develop our MFC business and contribute positively for the overall profitability level in that region.

Despite the less positive results in the year at Sonae Arauco, with the strategic investments in the plants, the improvements in business processes in particular Health and Safety; decorative collection management; supply chain management and people development, as well as the pipeline of ongoing projects, I believe we have laid down fundamental building blocks in our plan to take Sonae Arauco to benchmark levels of competitiveness and profitability.

Regarding Sonae Indústria's Balance Sheet, although Shareholders' Funds were impacted by results of 2019, I would like to highlight that between December 2019 and January 2020, Sonae Indústria concluded refinancing deals totaling 165 million euros which allowed for a material improvement of its debt maturity profile and for the strengthening of its capital structure. These deals include a new subordinated debt tranche of 50 million euros with a ten year bullet maturity which enabled Sonae Indústria to reduce its senior debt by that amount and to materially extend senior debt maturities through existing and new facilities in a total amount of 115 million euros. If and when market conditions permit a second tranche of up to 15 million Euros of subordinated bonds will be offered to the market in 2020 in the form of a private placement with eligible counterparties and professional clients.

To conclude I would like to thank the contribution of Sonae Indústria employees, management teams and Statutory Boards and express my confidence that with the organic investments we are making combined with product innovation and commercial initiatives being implemented our businesses will be in a stronger competitive position enhancing the long term profitability and sustainability of the company.

Paulo Azevedo

Chairman, Sonae Indústria

Post Scriptum: My final words go to the situation the world is facing as a result of the Covid-19 pandemic and its significant harmful impact on humanity, with far reaching health, social and economic impacts. Our businesses will undoubtedly be affected in the short term and in fact some of our operations have already had to close temporarily or are likely to do so during the next few weeks. Notwithstanding the huge challenge that we face, I am confident that we have the resources and the people to mitigate these difficulties and eventually overcome them in the knowledge that this additional challenge will require significant effort by all stakeholders.

1. SECTOR REVIEW

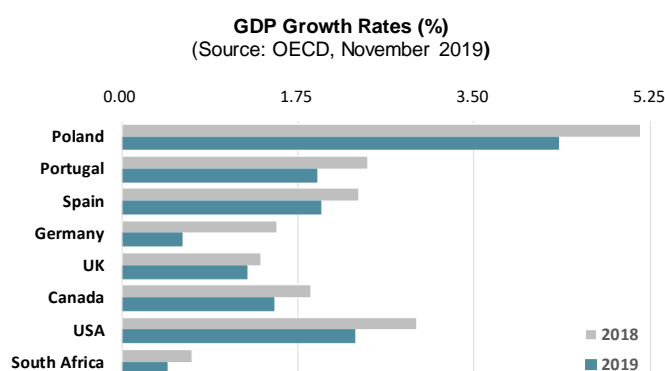
Macroeconomic context

The economic growth in the Euro area decelerated in 2019, with an expected growth rate of 1.2%⁴ (below by circa 0.8 p.p. vs. 2018). The uncertainties in global trade, including future relations between the UK and the rest of the EU, and the lower levels of private consumption contributed to the economic deceleration. However, the performance of labour market improved again, with a reduction of the unemployment rate, and the credit conditions remain favourable (short-term interest rates for the Euro area continue to be negative). From a trade perspective, Euro area presented again a surplus in the current account balance.

As regards the US economy, 2019 was another year of economic growth, but at a slower pace, partially affected by the economic tensions between US and China that impacted the global levels of investment. However, the performance of the labour market remained positive, with lower unemployment rates.

Brief analysis by region:

- 2019 represented the sixth year of growth in the Iberian Peninsula but at a slower pace with expected positive GDP⁵ growth rates below 2018 levels: circa 2.0% growth in Spain and 1.9% in Portugal. Despite the still relatively high unemployment rates particularly in Spain, these have been continuously decreasing. From a trade perspective, Spain registered a surplus in the current account balance, in line with the last seven years, but Portugal registered a deficit in the current account balance for



- the second consecutive year, affected by uncertainties in external conditions and trade tensions. The positive trend registered in the last years in the residential construction sector, which is fairly correlated with the economic environment, remained but with a slower growth, as indicated by the building permits y.o.y. increases in both countries (8.3%⁶ in Portugal and circa 5.5%⁷ in Spain).
- Germany showed signs of contraction with an expected growth of circa 0.6%, in 2019, (below by 0.9 p.p. vs. 2018), affected by weakness of global trade leading to the deterioration of business confidence. However, the labour market remained robust with high employment and increasing wages, leading to higher consumption levels, and the current account balance presented again a surplus. The reduction in production levels, affected by the constraints in the automotive industry since late 2018 is now explained by all manufacturing. The macroeconomic environment led to a weak growth in the residential construction sector, as evidenced by the slight y.o.y increase in the number of building permits (up by 0.5%⁸).
- In North America growth slowed down in 2019. Accordingly, for 2019 a GDP growth of 2.3% is expected for the US economy (below by 0.6 p.p. vs. 2018) and the Canadian economy is expected to have grown 1.5% (below by circa 0.4 p.p vs. 2018). The levels of investment and exports were affected by the higher uncertainty and trade tensions. In Canada, the business investment was also affected by investment cuts in the oil and gas sector. The performance of labour market continues to improve in both countries, with lower

⁴ Source: International Monetary Fund, World Economic Outlook Database, October 2019.

⁵ GDP: Gross Domestic Product.

⁶ Source: *Instituto Nacional de Estatística*, February 2020 (“Nova habitação residencial”, cumulative 12 months evolution until December 2019).

⁷ Source: *Ministerio de Fomento*, February 2020 (Total “New Housing”, cumulative 12 months evolution until December 2019).

⁸ Source: German Federal Statistics Office, March 2020 (“Permits for new construction, dwelling”, cumulative 11 months evolution until November 2019).

unemployment rates. Accordingly, in Canada housing starts decreased by 1.2%⁹ y.o.y and in the USA the number of housing starts increased by 1.7%¹⁰ y.o.y.

- For South Africa, OECD estimates point to a flat GDP grow of circa 0.5% in 2019 (down by 0.2 p.p. vs. 2018). The unemployment levels remained very high (28.5%¹¹ in 2019). The macroeconomic environment led to a weaker performance in the residential construction sector, as evidenced a y.o.y. decrease of circa 15.4%¹² in the number of residential building permits.

Wood based panels

North America (Tafisa Canada)

Demand by product

During 2019 particleboard demand in North America weakened, despite good overall economic conditions in Canada and in the United States. Estimates published by the Composite Panel Association (CPA) indicate that North America particleboard shipments reduced circa 4% when compared to 2018.

Supply information

Main closures by key industry players in North America announced:

- Georgia Pacific: closed three particleboard plants in southeast USA (Arkansas, Alabama and Georgia) in the summer of 2019;
- Arauco: stopped the particleboard press at St. Stephen (New Brunswick, Canada) in November 2019 (216 thousand m³ of capacity removed). Announced, already in 2020, that the particleboard line in Moncure (North Carolina, USA) will be closed until the end of the first half 2020 (262 thousand m³ of capacity).

Main investments by key industry players in North America announced:

- Arauco: USD 450 million investment in a new particleboard plant in Michigan (USA) with a capacity of 800 thousand m³, which started producing in the beginning of 2019;
- Kronospan: total investments of USD 363 million in its Alabama (USA) MDF/HDF plant, adding a particleboard line, melamine surfacing capacity, impregnation and potentially resin production. The particleboard operation produced its first panel on October 2019;
- Egger: investments in North Carolina (USA), of USD 500 million for particleboard production, with an expected capacity of 600 thousand m³, and melamine faced particleboard production. Production expected to start still in 2020.

During 2019 there was a reduction in particleboard installed capacity as the effect on capacity from plant closures exceeded the additional production capacity in 2019 coming from new investments.

Europe (Sonae Arauco)

Demand by product¹³

During 2019, in the EPF¹⁴ member countries, **particleboard** apparent consumption is expected to have grown by 1.5%, reaching a total of circa 31 million m³.

⁹ Source: Canada Mortgage and Housing Corporation, March 2020 ("Building permits (units)", cumulative 12 months evolution until December 2019).

¹⁰ Source: United States Census Bureau, November 2019 ("Housing units started", cumulative 12 months evolution until December 2019).

¹¹ Source: OECD Statistics, Economic Outlook No 104 dataset- November 2019.

¹² Source: Statistics South Africa, March 2020 ("Building plans for residential buildings (number)", cumulative 12 months evolution until December 2019).

¹³ Sources: EPF: European Panel Federation, Annual Report 2018/2019 and Sonae Arauco internal estimates.

¹⁴ European Panel Federation (EPF).

MDF consumption, in Europe as a whole (excluding Russia and Turkey) is expected to rise slightly further by 0.6% in 2019, to 11.7 million m3. Germany keeps its position as the largest European consumer of MDF panels in 2019, with an estimated consumption of circa 3.6 million m3, followed by Poland and the United Kingdom. It should be highlighted the increase in consumption estimated in Spain (+2.5%), Poland (+2.4%) and Portugal (+1.9%) in 2019.

In what concerns **OSB**, consumption is expected to have increased in 2019, by circa 3%.

Supply information¹⁵

The overall European **particleboard (PB)** production capacity is expected to have increased in 2019 by 4%. Particleboard capacity in the Iberian Peninsula is estimated to have increased by circa 5% in 2019 and to represent approximately 3.8 million m3. For 2020, is expected again an increase of circa 0.1 million m3. In Germany, no increases in the total particleboard available capacity are estimated to have occurred during 2019. It should be highlighted that Sonae Arauco investment to replace the two single day light particleboard presses by a new continuous press with state-of-the-art technology at our Beeskow plant in Germany, has already started and is ongoing. It is worth mentioning the start up in June 2019 of Egger new particleboard plant in Poland, with an annual capacity of 650 thousand m3.

MDF production capacity in Europe is expected to have decreased by 1% in 2019, mainly driven by Italy. In Iberian Peninsula, MDF capacity is estimated to have a residual increase of 0.5% in 2019. In Germany, the MDF production capacity is mainly expected to reflect the closure of Laminate Park operations (Sonae Arauco and Tarkett joint venture) at the Eiweiler site, by the end of 2019.

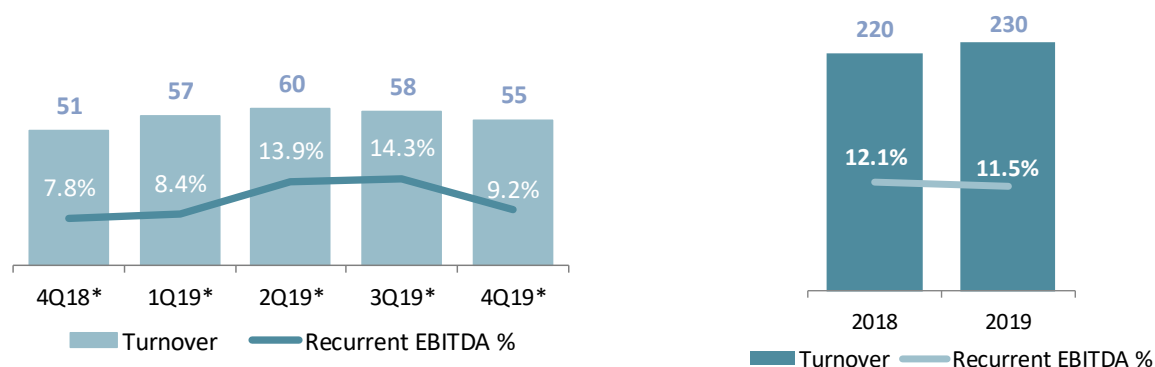
Total European **OSB** installed capacity is expected to have increased in 2019 by around 7% (circa +0.6 million m3). Additional OSB capacity expansion is forecasted in 2020 (circa +0.5 million m3), mainly in Western European countries.

2. BUSINESS REVIEW

Note IFRS 16: The mandatory adoption of the new accounting standard on leases (IFRS 16) from the beginning of 2019 financial year affects the comparability of Sonae Indústria's results in 2019 with previous years.

2.1. TURNOVER & RECURRENT EBITDA

TURNOVER and RECURRENT EBITDA
MILLION EUROS



*Quarterly information unaudited.

¹⁵ Sources: Sonae Arauco internal estimates and competitor's public information.

Consolidated Turnover reached 230.0 million euros in 2019, an improvement of circa 4.5% vs. last year (+9.8 million euros), driven by our North American business (in local currency but also benefiting from a circa 6.1 million euros favourable exchange rate effect resulting from the appreciation of the Canadian dollar vs. the EUR). For the quarter, Consolidated turnover reached 55.2 million euros, which represents an increase of circa 3.9 million vs. same period of last year, mainly driven by our North American business.

Variable costs per cubic meter increased both in local currency and in euros in 2019, when compared to the previous year, with an increase in input costs (except chemicals), and in the case of the increase in euros also driven by the appreciation of the Canadian dollar. For the quarter, variable costs per cubic meter also increased when compared to 4Q18 and to 3Q19.

Recurrent EBITDA in 2019 reached circa 26.5 million euros (including a positive effect from the adoption of the IFRS 16 of 2.1 million euros), a reduction of 0.2 million euros vs. 2018, with increases in turnover and variable costs, as referred above, and in fixed costs. On a quarterly basis, Recurrent EBITDA for the 4Q19 stood at circa 5.1 million euros, with Recurrent EBITDA margin of 9.2%, an increase of 1.0 million euros and of circa 1.4 p.p., respectively, when compared to 4Q18 which included the effect of the fire occurred in one of Canada particleboard lines.

Consolidated **EBITDA** in 2019 reached circa 25.8 million euros, a reduction of 3.5 million euros vs. 2018 that benefited from a non recurrent capital gain of circa 3.2 million euros, in 4Q18, as a result of the sale of Solsona inactive site real estate. On a quarterly basis, Consolidated EBITDA in 4Q19 stood at 4.9 million euros, a reduction of 2.2 million euros vs. 4Q18 explained by the already mentioned capital gain in the sale of real estate.

2.2. CONSOLIDATED FINANCIAL PERFORMANCE

2.2.1. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT MILLION EUROS

	2018	2019	2019 / 2018	4Q18 Unaudited	3Q19 Unaudited	4Q19 Unaudited	4Q19 / 4Q18	4Q19 / 3Q19
Turnover	220.2	230.0	4.5%	51.3	58.4	55.2	7.6%	(5.5%)
Other operational income	8.2	4.1	(50.2%)	5.1	0.7	1.4	(72.5%)	92.1%
EBITDA	29.2	25.8	(11.9%)	7.1	8.3	4.9	(31.0%)	(40.6%)
Non recurrent items	2.6	(0.7)	(127.8%)	3.1	(0.1)	(0.1)	(103.9%)	(105.6%)
Recurrent EBITDA	26.7	26.5	(0.7%)	4.0	8.4	5.1	26.2%	(39.6%)
Recurrent EBITDA Margin %	12.1%	11.5%	-0.6 pp	7.8%	14.3%	9.2%	1.4 pp	-5.2 pp
Depreciation and amortisation	(13.1)	(15.9)	(21.7%)	(3.5)	(4.1)	(4.0)	(15.5%)	1.9%
Provisions and impairment Losses	0.1	(5.4)	-	0.2	0.0	(5.4)	-	-
Operational profit (EBIT)	16.3	4.4	(72.8%)	3.9	4.2	(4.5)	-	-
Net financial charges	(11.6)	(11.5)	0.7%	(3.0)	(3.0)	(2.8)	8.3%	6.1%
o.w. Net interest charges	(8.1)	(8.4)	(2.9%)	(2.1)	(2.1)	(2.1)	(0.9%)	(0.3%)
o.w. Net exchange differences	0.0	(0.0)	-	(0.0)	(0.0)	(0.0)	-	-
o.w. Net financial discounts	(1.7)	(1.6)	0.9%	(0.4)	(0.4)	(0.4)	7.2%	8.6%
Gains and losses in Joint-Ventures - Net Results	12.0	0.7	(94.5%)	(9.5)	(3.5)	(1.2)	87.5%	65.5%
Gains and losses in Joint-Ventures - Other	0.5	(3.7)	-	0.5	(3.4)	(0.3)	-	91.3%
Profit before taxes (EBT)	17.2	(10.0)	-	(8.2)	(5.5)	(8.7)	(6.7%)	(57.9%)
Taxes	(6.2)	(3.3)	46.0%	(3.4)	(1.1)	(0.4)	87.6%	60.5%
o.w. Current tax	(5.7)	(3.3)	41.5%	(1.1)	(1.3)	0.3	127.2%	122.1%
o.w. Deferred tax	(0.5)	(0.0)	99.6%	(2.3)	0.3	(0.7)	68.9%	-
Consolidated net profit/(loss) for the period	11.0	(13.4)	-	(11.6)	(6.6)	(9.2)	20.7%	(38.9%)

Total **fixed costs** in 2019 represented 17.3% of turnover, an increase of 0.2 p.p. vs. 2018 given the growth in Turnover was proportionally lower than the increase in Fixed costs the latter essentially explained by an increase in personnel costs. It should be noted that 2019 figures consider lower lease rents as a result of the adoption of IFRS 16.

The **number of employees** of Sonae Indústria was 506 FTE's, at the end of December 2019, excluding Sonae Arauco and trainees, which compares with 503 and 495 FTE's at the end of September 2019 and December 2018, respectively, with the variation being mainly driven by the North American business.

Depreciation and amortization charges during 2019 were 15.9 million euros, which represents an increase of 2.8 million euros vs. 2018, due mainly to the impact of 1.9 million euros from the adoption of the IFRS 16 and also due to the investments executed in Canada. For the quarter, the depreciation charges reached circa 4.0 million euros, an increase of 0.5 million euros vs. 4Q18 explained essentially by the adoption of IFRS 16.

Provisions and impairment losses in 2019 represent a charge of 5.4 million euros, mainly explained by Provisions booked in 4Q19 subsequent to the decision to close all industrial activities at Horn site in Germany by the end of 2020. Pursuant to the agreement with Arauco these costs are the responsibility of Sonae Indústria hence, in addition to the 50% booked at Sonae Arauco level as explained below, Sonae Indústria books directly the remaining 50% in its accounts.

Net financial charges during 2019 were circa 11.5 million euros, which represents a reduction of 0.1 million euros vs. 2018, despite the 0.2 million euros increase from the adoption of the IFRS 16. In the quarter net financial charges reached 2.8 million euros, a reduction of circa 0.3 million euros when compared to 4Q18.

Gains and losses in Joint-Ventures – Net Results refers to 50% of the net results of Sonae Arauco in the period. This amounted to circa 0.7 million euros in 2019, a reduction of 11.3 million euros when compared to 2018, which included significant insurance income recognition related to the fires that affected two Sonae Arauco plants in Portugal in October 2017. Sonae Arauco Net Results in 2019 were affected by more difficult business conditions which translated into 9.5 million euros lower Recurrent EBITDA (considering the 50% contribution) when compared with the previous year. Additionally, in 2019 Sonae Arauco booked circa 3.9 million euros of Provisions (considering the 50% contribution) related with closure of industrial activities at Horn site.

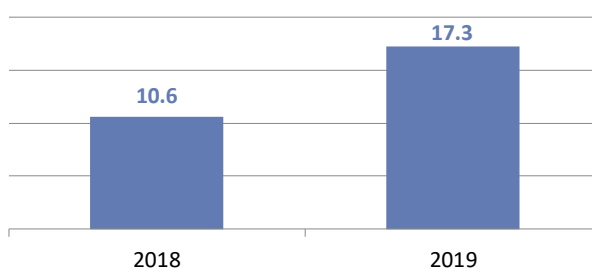
Gains and losses in Joint-Ventures – Other amounted to circa -3.7 million euros in 2019, essentially explained by Sonae Arauco's expenses and contingent liabilities that, pursuant to the agreement with Arauco, are the responsibility of Sonae Indústria and that, accordingly, Sonae Indústria compensates Sonae Arauco via cash contributions to Sonae Arauco for the full amounts paid or incurred. During 2019 Sonae Indústria paid circa 6.7 million euros to Sonae Arauco under this concept, in relation to a period of approximately two years. Since 50% of these expenses were already reflected in Sonae Indústria's income statement through the net results of Sonae Arauco, the remaining 50% are reflected through Gains and Losses in Joint-Ventures – Other.

Current tax charges were 3.3 million euros in 2019, a decrease of circa 2.4 million euros when compared to 2018, mainly driven by lower tax charges in Canada. **Deferred tax charges** represented a reduction of circa 1.6 million euros in the quarter when compared to 4Q18 that was affected by the full write-off of deferred tax assets in Portuguese companies.

Net results in 2019 were negative of circa 13.4 million euros, which compares with positive net results of 11.0 million euros in 2018. The evolution of the net results when compared to the previous year is essentially explained by the aforementioned reduction in Gains and losses in Joint-Ventures (aggregate Net Results and Other), by the provisions booked in 4Q19 and by the fact that 2018 EBITDA included a capital gain as a result of the sale of an inactive site.

2.2.2. CAPEX

CAPEX
MILLION EUROS



Additions to Gross Tangible Fixed Assets reached circa 17.3 million euros in 2019, essentially investments in our North American business (16.5 million euros).

2.2.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION MILLION EUROS

	2018	9M19 Unaudited	2019
Non current assets	354.5	370.1	370.0
Tangible assets	135.7	151.3	153.6
Investments in joint ventures	212.5	211.3	209.1
Deferred tax asset	0.0	0.0	0.0
Other non current assets	6.3	7.5	7.3
Current assets	47.4	51.1	50.6
Inventories	18.2	20.8	22.0
Trade debtors	12.3	18.4	14.1
Cash and cash equivalents	10.6	5.4	7.1
Other current assets	6.2	6.5	7.5
Non-current assets classified as available for sale	0.0	0.0	0.1
Total assets	401.8	421.1	420.7
Shareholders' Funds	135.5	135.9	127.3
Equity holders	135.5	135.9	127.3
Non-controlling interests	0.0	0.0	0.0
Liabilities	266.3	285.2	293.4
Subordinated bonds loan	0.0	0.0	50.0
Senior interest bearing debt	206.5	219.8	166.0
Non current	188.6	169.3	157.6
Current	17.9	50.5	8.4
Trade creditors	21.6	23.8	26.0
Other liabilities	38.3	41.7	51.4
Liabilities directly associated with non-current assets classified as available for sale	0.0	0.0	0.0
Total Shareholders' Funds and liabilities	401.8	421.1	420.7

Tangible assets reached 153.6 million euros at the end of December 2019, an increase of 17.9 million euros vs. December 2018, mainly due to investments executed in Canada and the impact of the adoption of the IFRS 16 of 4.8 million euros in 2019.

Investments in Joint-Ventures (50% shareholding in Sonae Arauco) reached 209.1 million euros, which represents a reduction of 3.3 million euros when compared to the book value of this investment at the end of 2018. This reduction includes a negative effect of 5.9 million euros due to dividends paid by Sonae Arauco to Sonae Indústria in 2019 and a positive effect of 3.4 million euros from 50% of the cash contributions made by Sonae Indústria to Sonae Arauco in 2019.

Total **Shareholders' Funds**, at the end of December 2019, totaled 127.3 million euros, which represents a decrease of 8.2 million euros when compared to 2018, mainly explained by the impact from the negative net result in 2019 and despite the positive impacts from exchange rate evolution of the South African Rand and of the Canadian dollar vs. the EUR of 1.0 million euros and 4.3 million euros, respectively.

NET DEBT and WORKING CAPITAL

MILLION EUROS

	2018	Excluding IFRS 16 effects		Including IFRS 16 effects	
		9M19 Unaudited	2019 Unaudited	9M19 Unaudited	2019
Senior Net Debt	195.8	208.8	154.0	214.4	158.9
Total Net Debt	195.8	208.8	204.0	214.4	208.9
Working Capital	9.0	15.4	10.0	15.4	10.0

Consolidated **Working Capital** reached 10.0 million euros, an increase of circa 1.1 million euros when compared to December 2018, explained by the increase in inventories and in trade debtors, which more than offset the increase in trade creditors.

Senior Net Debt (including IFRS 16 effects) stood at 158.9 million euros at the end of December 2019, which compares with 195.8 million euros at the end of December 2018. Note: Senior Net Debt does not include the Subordinated Bonds issued during 4Q19 which are however included in Total Net Debt.

It should be highlighted that during 4Q19 Sonae Indústria executed two material financing transactions which significantly improved its debt maturity profile and capital structure. The first of these transactions involved the refinancing of 90 million euros of existing senior debt, the terms of which extended its final maturity for a five year period as from December 2019 (3.9 years average life). The second transaction consisted of the issuance of 50 million euros of Subordinated Bonds, contractually and legally subordinated to all of Sonae Indústria senior debt and repayable in full at the end of the ten year period (December 2029). The 50 million euros of Subordinated Bonds were fully subscribed by Efanor, Sonae Indústria majority shareholder.

2.3. INDIVIDUAL RESULTS OF SONAE INDÚSTRIA, SGPS, S.A.

In 2019, Sonae Indústria, SGPS, SA, as the holding company of the Group, generated on its individual accounts a negative Net Result of 3,325,639.03 euros.

This Net Result is explained by operational results of -14.4 million euros (which include provisions and impairment losses of -13.0 million euros) and net Financial charges of -7.1 million euros, despite results related with investments in subsidiaries and joint ventures of +18.2 million euros (that include dividends from Megantic BV and Sonae Arauco of circa +17.7 million euros and circa +6.0 million euros, respectively, net of impairments in financial investments in subsidiaries of circa -5.4 million euros).

2.4. PROPOSED ALLOCATION OF RESULTS

In accordance with applicable legal and statutory terms, the Board of Directors proposes to the Shareholders' General Meeting that the negative results of 3,325,639.03 euros in Sonae Indústria, SGPS, SA 2019 individual accounts be transferred to retained earnings.

It also proposes that the referred amount of -3,325,639.03 euros is fully covered by free reserves.

2.5. PROPORTIONAL INDICATORS (UNAUDITED)

EXPLANATORY COMMENTS ON PROPORTIONAL INDICATORS

Due to the fact that in the audited accounts, one of Sonae Indústria's main assets (its 50% shareholding in Sonae Arauco) is accounted by the equity method, unaudited **Proportional Indicators** are also presented.

These Proportional Indicators consider the full contribution of our wholly owned businesses and the proportional consolidation of the 50% contribution from Sonae Arauco.

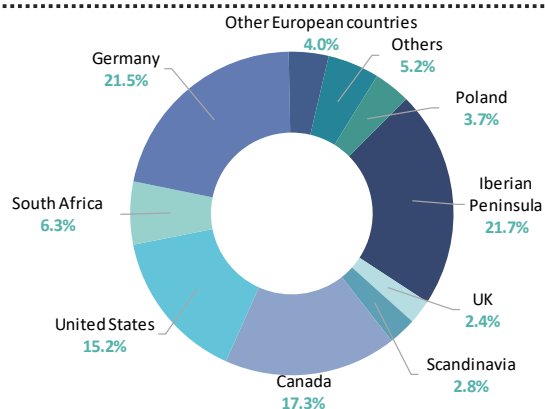
Proportional Indicators are not audited. In respect of Proportional Indicators, Sonae Indústria external auditors have carried out an analysis of the consistency of the assumptions and of the figures considered by Sonae Indústria in the calculation of those Proportional Indicators.

PROPORTIONAL FINANCIAL INDICATORS
(UNAUDITED)

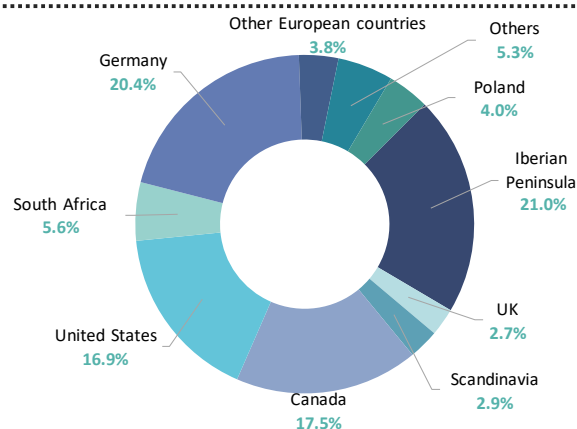
	2018	2019
Proportional Turnover	612	606
Proportional Rec. EBITDA	74	64
Proportional Rec. EBITDA margin	12.0%	10.5%
LEVERAGE		
Proportional Senior Net Debt (excluding Subordinated Bonds)	311	283
Proportional Senior Leverage (Senior Net Debt / LTM Rec. EBITDA)	4.2 x	4.4 x

In 2019, **Senior Net Debt to Recurrent EBITDA (proportional)** stood at circa 4.4x (including IFRS 16 effects), which compares with 4.2x in 2018. Proportional Senior Net Debt excludes Subordinated Bonds (50 million euros issued during 4Q19).

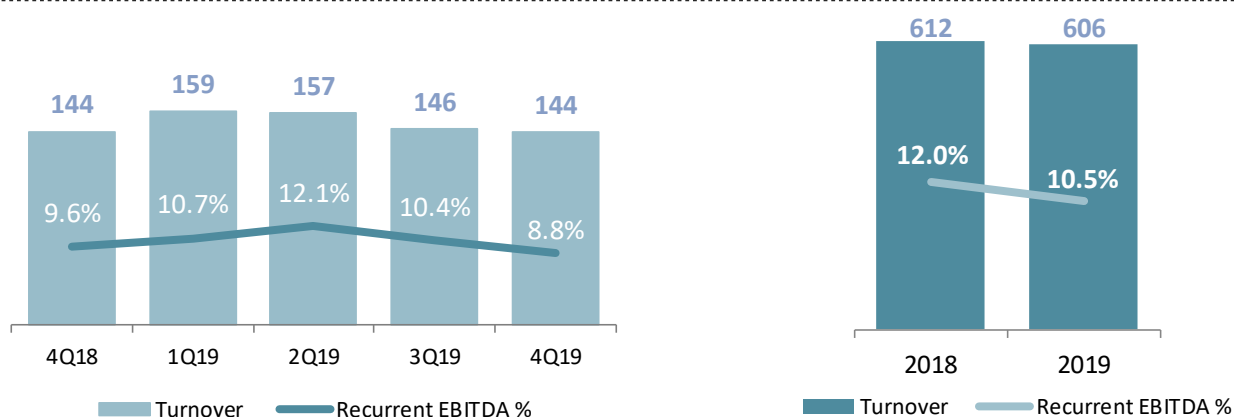
PROPORTIONAL TURNOVER BY DESTINATION MARKET
2018



PROPORTIONAL TURNOVER BY DESTINATION MARKET
2019



PROPORTIONAL TURNOVER and RECURRENT EBITDA (unaudited)
MILLION EUROS



Proportional Turnover in 2019 was 6.4 million euros lower than in the previous year. This evolution was driven by a lower contribution from Sonae Arauco (-16.2 million euros) affected by a reduction in total sales volumes and average selling prices, which more than offset the positive contribution of our fully owned businesses (+9.8 million euros).

Proportional Recurrent EBITDA in 2019 reached circa 63.9 million euros (including a positive effect from the adoption of the IFRS 16 of circa 4.0 million euros), 9.7 million euros lower than in 2018 driven by the 9.5 million euros lower contribution from Sonae Arauco which is explained by more difficult business conditions but also by the fact that 2018 Recurrent EBITDA included material insurance compensation recognition.

The **average unitary variable costs (per m³)** increased y.o.y. in Canada (in local currency and in euros) and in Sonae Arauco.

The **number of employees of Sonae Indústria**, at the end of December 2019, was 3,316 FTEs¹⁶ including 100% of Sonae Arauco operations.

2.6. OUTLOOK FOR 2020

The outlook for 2020 is clearly marked by the significant negative effects of the Covid-19 pandemic, as described in the previous section, which will limit or constrain the achievement of our goals for this year.

As a result, certain investments that were being considered for 2020 may have to be delayed or completed in phases.

Notwithstanding these extraordinary circumstances, we will not lose sight of our strategic objectives and will pursue them to the full extent that external conditions permit.

2.7. INFORMATION ON SHAREHOLDINGS AND SHARE PERFORMANCE

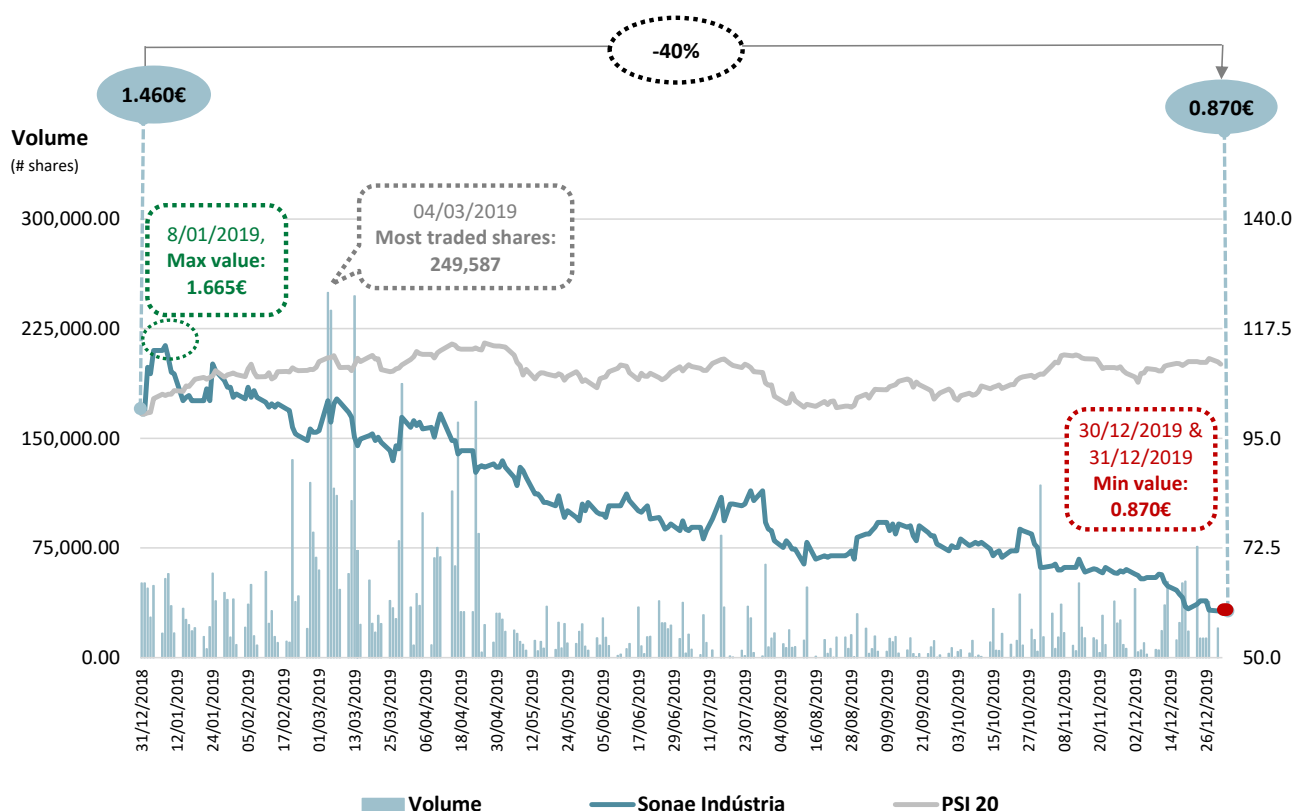
Sonae Indústria, SGPS, SA is a company listed in the NYSE Euronext Lisbon, with a majority shareholder – EFANOR Investimentos, SGPS, SA – that currently controls directly or indirectly, approximately 68.6% of the share capital.

¹⁶ Number of Employees: FTEs excluding Trainees and Externals and for Sonae Arauco consider, since 2018 inclusively, 100% of Laminate Park (the joint venture between Sonae Arauco and Tarkett for the manufacturing and sale of MDF/HDF laminate flooring).

Share performance

ISIN Code **PTS3P0AM0025** (Until 28/07/2017: ISIN Code PTS3P0AM0017)
Bloomberg Code **SONI**
Reuters Code **SONI.LS**

	2017	2018	2019
Share Capital	253,319,797.26	253,319,797.26	253,319,797.26
Total number of shares	45,403,029	45,403,029	45,403,029
Net Results	15,265,731	11,028,470	-13,369,349
Net Results per share	0.336	0.243	-0.294
Dividends per share	0.000	0.000	0.000
Prices			
Year High	3.6590	4.1400	1.6650
Year Low	1.4000	1.3750	0.8700
Year Average	2.2956	2.7039	1.2086
Share price as at 31-Dec	3.5010	1.4600	0.8700
Market Capitalization as at 31-Dec	158,956,005	66,288,422	39,500,635
Average trading volumes per day (shares)	57,761	50,477	28,554



Sonae Indústria's share price performance is highly dependent on the business cycles, which are correlated with the residential construction and furniture industries. As such, the share price evolution of Sonae Indústria has been historically impacted by economic and business cycles.

During 2019, Sonae Indústria's share price varied significantly in relative terms, contrasting with a less pronounced evolution of the Portuguese Stock Market index (PSI 20). Accordingly, Sonae Indústria's share price decreased by 40% from the end of 2018 until the end of 2019 (with the index PSI 20 increasing 10%).

The highest daily trading volume of Sonae Indústria shares was registered on 4 March (249,587 shares).

The minimum share price during 2019 was registered on two consecutive sessions: 30 December and 31 December (0.870 euros). On the other hand, the maximum share price was achieved on 8 January (1.665 euros).

Regarding liquidity, Sonae Indústria's share had, during 2019, an average turnover of 28,544 shares per day.

2.8. TRANSACTIONS WITH OWN SHARES

Sonae Indústria, SGPS, S.A. did not acquire or sell any own shares during the year and, as at 31 December 2019, the company did not hold any own shares.

2.9. DIVIDEND POLICY

The Board of Directors has set a target to distribute to its shareholders 50% of the company's yearly profits.

The actual dividend pay-out ratio is proposed by the Board of Directors each year, taking into consideration the sustainability of the company's capital structure and the available financing sources, as well as the current investment plans.

2.10. SUBSEQUENT EVENTS

The worldwide propagation of COVID-19 in the first months of 2020 is having material negative human, social, economic and financial impacts.

The extraordinary measures imposed by the authorities in the several regions where Sonae Indústria conducts its business (namely Europe, North America and South Africa) have also had a significant impact not only on daily lives of people but also on businesses including Sonae Indústria operations.

Accordingly, during the last few days and as a result of the Covid-19 pandemic the following developments have taken place:

- Sonae Arauco has temporarily shut down its industrial units in Spain and South Africa, countries where legal provisions set out by local authorities to fight the pandemic currently prevent the continuation of activity for most businesses;
- Our North American business has partially and temporarily shut down its industrial activity in Lac Mégantic, Canada (in accordance with legal provisions set out by local authorities to fight the pandemic).

The possibility of interrupting temporarily the activity of other industrial units is currently being evaluated, taking into account the reduction in orders from our customers due to the scaling back or temporary shut down of their activities and the possible disruption of the supply of raw materials. The continuation of our other operations could also be conditioned by additional measures imposed by governments with the aim of mitigating the Covid-19 pandemic.

Due to the uncertainty, not only on the Covid-19 pandemic duration period but also on its impact in the global economy, Sonae Indústria cannot estimate the impact on the company's results, but we envisage that it will be important.

Sonae Indústria will take all possible actions, within the limitations imposed by this pandemic crisis, to mitigate the effects of any temporary shutdowns and also to restart any temporarily closed down operations as soon as the conditions allow.

3. RISK MANAGEMENT

3.1. CREDIT RISK MANAGEMENT POLICY

a) Receivables (Customers)

Sonae Indústria credit risk derives mainly from account receivables items associated with its operating activity.

The main objective of Sonae Indústria Credit Risk Management policy is to guarantee the effective collection of its operating receivables, according to the most commercially adequate reduced payment terms, while maintaining the level of debtors' impairments as low as possible.

In order to mitigate credit risk related with potential customers defaulting on payment of outstanding receivables, Group companies have:

- established Credit Risk Committees to analyse and monitor, on a quarterly basis, credit risks and customers payment behaviours. These Committees are also an opportunity to foster the sharing of experiences, the alignment of procedures and practices and to ensure the enforcement of sound controlling rules;
- implemented common proactive and preventive credit management procedures and processes, supported by IT systems;
- established appropriate risk coverage mechanisms (for example, credit insurance, letters of credit, bank guarantees).

b) Financial assets other than trade debtors

In addition to its operating activities and the related trade debtor balances, Group companies have other financial assets, which are mainly associated with its cash management activities and with deposits in financial institutions. As a result of these bank movements and balances, credit risk arises from the potential counterparty default by the applicable financial institutions. This risk is, nevertheless, considered as very low due to the limited duration and amounts typically involved in bank deposits and to the credit profile of the financial institutions used by Group companies.

3.2. MARKET RISKS

a) Interest Rate Risk

Due to the significant proportion of floating rate debt and the consequent cash flows related to interest payments, the company is exposed to interest rate risk.

As a general rule, Sonae Indústria does not hedge its exposure to floating interest rates. This approach is based on the principle of the existence of a positive correlation between the interest rate levels and the "operating cash flow before net interest charges", which creates a natural hedge on the "operating cash flow after net interest charges" for Sonae Indústria.

As an exception to this general rule, Sonae Indústria may engage in certain interest rates derivatives, solely aimed at hedging existing risk exposures and only to the extent that the risks and valuation of such derivatives can be

accurately assessed by the company. Sonae Indústria subsidiaries do not engage in interest rate derivatives for trading, speculative or profit making purposes.

In December 2019, Sonae Indústria issued a Subordinated Bond Loan of 50 million Euros, with a maturity of 10 years and a fixed interest rate.

b) Foreign Exchange Risk

As a geographically diversified Group, present in three different continents, Sonae Indústria is exposed to foreign exchange risk. Consolidated Statements of Financial Position and Profit and Loss are exposed to foreign exchange translation risk and Sonae Indústria subsidiaries are exposed to foreign exchange risk of both translation and transaction type.

As a Group rule, whenever possible and economically viable, subsidiaries aim to offset assets and liabilities denominated in the same foreign currency, thus mitigating exchange risks.

Also as a rule, in situations where relevant exchange risk arises from trade in a currency other than that of the subsidiary, exchange risk should be mitigated through the use of short term forward exchange rate agreements contracted by the subsidiary exposed to such risk. Sonae Indústria subsidiaries do not engage in forward exchange rate agreements for trading, speculative or profit making purposes.

As a policy, translation risk in connection with the conversion of the equity investments in foreign non-euro subsidiaries is not hedged, as these are considered long-term investments. Also, it is assumed that hedging transactions would not add value in the long term. Gains and losses related to the translation at different exchange rates of assets and liabilities of foreign non-euro subsidiaries are accounted as equity under the “Other Accumulated Comprehensive Income”.

c) Liquidity Risk

Liquidity risk management in Sonae Indústria aims to ensure that the company can obtain, on a timely basis, the financing required to properly carry on its business activities, implement its strategy and meet its payment obligations when due, under the most favourable terms and conditions.

For this purpose, liquidity management at the Group comprises:

- consistent financial planning and cash flow forecasting at country and consolidated levels with different time horizons (weekly, monthly, annual and business plan);
- diversification of financing sources;
- diversification of debt maturities issued in order to avoid excessive concentration of debt repayments in short periods of time;
- negotiation of (committed and uncommitted) credit facilities, commercial paper programmes and other facilities with relationship banks to ensure the right balance between satisfactory liquidity and adequate commitment fees;
- active access and management of subsidiaries cash positions and cash flows taking into account the Group's objectives on liquidity.

3.3. LEGAL RISKS

Sonae Indústria and its affiliates and subsidiaries are subject and actively promote the respect for applicable laws in countries and regions where they operate. Changes in these legal environments can result in changes or restrictions to the present conditions of exploitation and can lead to increased costs.

Sonae Indústria, SGPS, S.A. is and intends to continue being recognised by the way it abides by the rules and values of competition based on merit, the force of free markets and unrestricted respect for the consumer. In order to

achieve that goal, measures are in place to reinforce the promotion and dissemination of the existing compliance initiatives within the Group. Such measures include training for employees in order to ensure that all parts of our organisation, across all geographies, have a deeper and more complete awareness and a more rigorous respect for their legal obligations.

3.4. OPERATIONAL RISKS

The production of wood-based panels is an industrial activity with a significant operational risk, which arises, namely from eventual fire and explosion accidents. Consequently, operational risk management is a key concern of the company and Sonae Indústria is active in the implementation of standards and selecting systems that are capable of reducing industrial risks.

For a detailed description of these risks and the initiatives undertaken to mitigate them, please refer to section 4. and to the Corporate Governance Report.

4. NON-FINANCIAL INFORMATION

This reporting of non-financial information, which refers to the year ended on 31 December 2019, has been prepared in line with the requirements established in Portuguese law by Decree-Law No 89/2017 of 28 July, which modifies the Companies Code, in matters of non financial information.

In accordance with the referred legislation, the non-financial information status is part of this Management Report.

In this context, through the non-financial information statement, the Sonae Indústria Group aims to inform on environmental, social and employee related matters, on respect for human rights, fight against corruption and bribery, gender equality and non-discrimination, as well as other information for the company that has been defined as relevant in the execution of its own business activities.

For the elaboration of this report, those matters that have a high degree of relevance in environmental, social and economic social character, and that may affect the ability of Sonae Indústria Group to create value in the short, medium and long term, have been taken into account.

In order to identify which of the commented topics are material and must be reported, we have considered a number of variables, being the main ones:

- The relevance of such matters or indicators, both internally for the company and externally for its stakeholders and target audiences;
- The sector of activity in which the company operates; and
- The sensitivity of the information.

4.1. ABOUT SONAE INDÚSTRIA

4.1.1. BUSINESS

Strategic partnership with Arauco

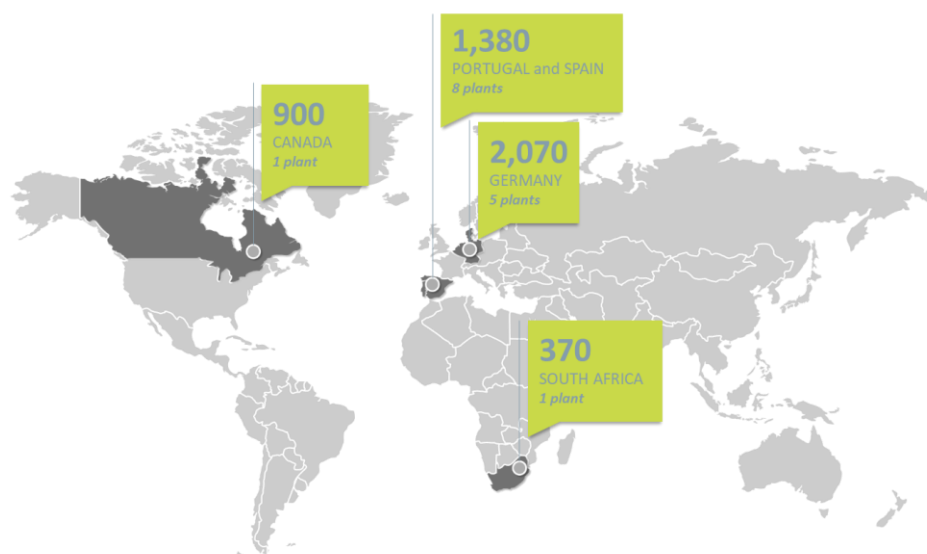
On 31 May 2016, a strategic partnership between Sonae Indústria SGPS and Inversiones Arauco Internacional, Limitada (Arauco) was completed through “Sonae Arauco”, a 50/50 joint-venture involving the European and South African wood based panels and related operations of Sonae Indústria, namely the production facilities of wood based panels, chemicals and paper impregnation. This partnership aims to build a stronger company in the European and South African markets and reinforce Sonae Indústria’s long term growth commitment in the wood based panels industry.

Fully owned businesses

In addition to the 50% shareholding in Sonae Arauco, Sonae Indústria holds full ownership of the wood based panels business in North America and of the Laminates & Components business, together with some real estate assets in Europe.

INSTALLED PRODUCTION CAPACITY (raw boards, '000 m³)

SONAE INDÚSTRIA 900
SONAE ARAUCO 3,820



SONAE INDÚSTRIA	SONAE ARAUCO
PORTUGAL Maia HPL Vilela – Paredes C	PORTUGAL Castelo de Paiva WV Mangualde MDF+VFB Oliv. Hospital PB+MF+IMP Sines R+IMP
GERMANY Horn HPL+CPL	SPAIN Linares PB+MF+IMP Valladolid MDF+MF+DP
CANADA Lac-Mégantic PB+MF	GERMANY Beeskow PB+MF+MDF Kaisersesch IMP Meppen MDF Nettgau PB+OSB+MF
	SOUTH AFRICA White River PB+MDF+MF

PB Particleboard; MDF Medium Density Fibreboard; OSB Oriented Strand Board; MF Melamine Faced Board; C Components; R Resins; HPL High Pressure Laminate; CPL Continuous Pressure Laminate; DP Direct Printing; IMP Impregnation; WV Wood Veneer; VFB Veneer Faced Board.

Sonae Indústria currently operates a total of fifteen plants located in five countries on three continents, of which four plants¹⁷ are fully owned businesses and the remaining eleven are part of the Sonae Arauco partnership, totalling 3,316 employees¹⁸ at the end of 2019. Considering only the fully owned businesses (i.e. without Sonae Arauco contribution) turnover reached 230.0 million euros in 2019.

Wood based panels

Wood-based panels are valuable alternatives to solid wood with some clear advantages, namely in terms of efficiency in the use of raw materials. Another particular advantage is their dimensional flexibility, which (in contrast to solid wood) allows for the production of tailor-made sizes, which can be adapted to the clients requirements. Hence, today wood-based panels are replacing solid wood in an increasing number of applications.

Compared to other construction materials such as steel and concrete, wood has significantly lower adverse environmental impacts when used as a building material. In what regards to the climate change, wood-based panels have a positive effect through improved energy efficiency, which enables homeowners to significantly reduce energy spent. Additionally, when used for construction purposes, wood-based panels function as carbon stores, thereby helping to mitigate CO₂ emissions. At the end of their useful life, wood-based panels can be recycled and

¹⁷ Including Horn laminates plant and real estate whose economic interest belongs to Sonae Indústria (according to the agreement between Sonae Indústria and Arauco) despite the fact that this asset is held by GHP GmbH, a subsidiary of Sonae Arauco.

¹⁸ Number of Employees: FTEs excluding Trainees and Externals and for Sonae Arauco consider, since 2018 inclusively, 100% of Laminate Park (the joint venture between Sonae Arauco and Tarkett for the manufacturing and sale of MDF/HDF laminate flooring).

transformed into new products, in this way re-entering a continuous recycling process. The demand for wood and wood-based panels in the construction industry is therefore expected to steadily increase over time.

In times where extreme climate events like floods and droughts signal that climate change is much more than a theoretical scientific discussion, societies in general – and businesses in particular – are increasingly looking for ways on how to fight these new climate scenarios and realities.

Wood-based products have an important role to play in this reality. Sonae Indústria believes using more wood is a strong contribution to fight climate change, as it reduces CO₂ sources and assures CO₂ sinks and the storage of carbon. The reduction of CO₂ sources results from the fact that wood is a material that stores energy and that it can replace other materials, in several applications, that require more energy – and emissions – in their production. Wood use can also increase CO₂ sinks and storage of carbon, as the forest itself is a unique player in carbon sequestration from the atmosphere: as forests grow, they absorb more CO₂ while forest products keep the carbon stored during their service life. Using wood products encourages further forest growth, and an effective market for wood products provides a financial incentive to invest in active forest management. Additionally, when wood products are reused or recycled, carbon storage is extended during another service life, avoiding CO₂ emissions into the atmosphere.

4.1.2. HISTORY

SONAE was founded in 1959 at the site of its present location in Maia. Its first activity was the production of high pressure decorative laminates.

SONAE's expansion and diversification began in 1971 when it took control of Novopan, a particleboard company, located in Rebordosa, near Oporto. At the same time, the first melamine surfacing production line was installed and the components production for the furniture and interior decoration industries also started.

Throughout the 1990s and until 2007, Sonae Indústria made acquisitions and invested significantly in Greenfield projects in Brazil, Canada, South Africa, Portugal, Spain, and the United Kingdom. It is also important to highlight the spin-off, in 2005, from Sonae SGPS, S.A., which had been the shareholder until then.

Between 2008 and 2015, following the global economic and financial crisis, Sonae Indústria went through a restructuring process which led to a significant reduction in installed capacity through assets sales and plant closures, which culminated in the current perimeter, with industrial operations in Portugal, Spain, Germany, Canada and South Africa.

In May 2016, a strategic partnership between Sonae Indústria SGPS and Inversiones Arauco Internacional, Limitada (Arauco) was completed through a 50/50 joint-venture, "Sonae Arauco", involving the European and South African wood based panels, chemicals and paper impregnation activities of Sonae Indústria. The creation of a new brand and corporate image for Sonae Arauco was completed in 2017.

In August 2018, Sonae Indústria launched a new brand for its laminates and compacts business, Surforma® intended for the construction, furniture and interior design industries.

In 2019, Laminate Park operations at Eiweiler site (Germany) were closed. Laminate Park was a joint venture between Sonae Arauco and Tarkett for the manufacturing and sale of MDF/HDF laminate flooring.

In 2019, GHP GmbH, a subsidiary of Sonae Arauco, announced that it would cease its industrial operations (laminates and worktops) at its Horn site¹⁹ in Germany, by the end of 2020 and in the meantime reached an agreement to sell its biomass power plant in the Horn site.

¹⁹ The economic interest of Horn laminates and worktops plant and real estate belongs to Sonae Indústria (according to the agreement between Sonae Indústria and Arauco) despite the fact that this asset is held by GHP GmbH.

4.1.3. PRODUCTS

Raw and technical products

Sonae Indústria “raw and technical products” are comprised of:



- **Particleboard (PB)**, a very versatile product, suitable for all general uses in furniture and construction industries;



- **Medium density fibreboard (MDF)**, an excellent substitute for solid wood and ideal for furniture, flooring and the building industry;



- **Oriented strand board (OSB)** a product which is highly resistant and suitable for structural and non-structural applications in the construction industry. Due to its natural wooden appearance it is increasingly being used for decorative purposes as well, mostly in public spaces and shop-fitting.

More than 50% of the “raw board” production is then transformed into value added products such as **melamine faced board**, acoustic panels and others. These are used in a great variety of applications, such as home and office furniture, kitchen and bath cabinets shelving, doors, wall paneling, packaging and interior decoration.

Laminates & Components

Thin laminates ensure high quality application, where design, quality and durability come together. They are versatile materials and have great surface features, such as abrasion resistance. Besides, they are the ideal solution for any successful design. Laminates create unique bold environments, while combining quality, versatility and exclusivity.

Compact solutions can withstand high impacts, thus ensuring reliability and safety. They can be used in the harshest of environments and unstable conditions, such as high wear and tear or humidity levels. Compacts are the perfect ally, thanks to their structural stability and high resistance.

The components business is equipped with the necessary resources required to achieve high production levels whilst maintaining the flexibility to attend to clients’ design and quality demands, being able to manufacture several types of products and components for the furniture industry.

Decorative Products

DECORATIVE PRODUCTS IN NORTH AMERICA



After the successful of two new Embossed in-register (EIR) textures in its Sommet® Series, FERIA™ & BRAVA™ and of the SURFORMA® HPL (high-pressure laminates), program in 2018, Tafisa Canada focused on its Prelude® Series by launching 7 new decors in 2019. These new decors, of which four are available in the urbania texture and three in the alto texture, have names inspired by our beautiful locations in North America, such as Mégantic, Sable Island, Mojave, Tofino, Mariposa, Appalachia and Niagara. All colours are available in both melamine faced chipboard (TFL) and HPL. The new panels also come with a wide range of complementary products, including edgebanding, doors, 3D laminates and mouldings, enabling Tafisa Canada to offer an extensive complementary product program to the market.



In tune with the trends of solid colours and textures, in 2019 Tafisa Canada also launched its black and white colours in the VIVA™ and BRAVA™ textures.

Following these launches in 2019, Tafisa Canada was able to consolidate its position as a design leader, with a complete line of decorative surfaces both in TFL and Surforma® HPL available in more than 120 standard colour and texture combinations between the EIR Sommet Series® and the renowned Prelude Series®.

During the year, Tafisa Canada was present in several events, such as the sixth edition of the Expo Bois Design in Quebec, Canada; the 41st AFDICQ (*Association des fabricants et détaillants de l'industrie de la cuisine du Québec*) convention in Sherbrooke, Canada; the WMS (Woodworking Machinery & Supply Conference and Expo), the national event for Canada's wood industry, and the Inspiration & Tendances exhibition in Quebec, Canada.

More information at www.tafisa.ca

Innovus - The perfect match with life

Innovus is the brand of decorative products that offers versatile solutions, turning ideas into innovative projects. Totally renewed in 2019, the new Innovus collection proposes a set of contemporary decors and brand new finishes with distinctive colours, appealing patterns and attractive textures. The new collection was inspired by our everyday lives, the places we live and work in and that we visit, which become part of who we are. When it comes to different needs, Innovus has the solution: a perfect match for different projects and creations.



Besides its wide offer of wood, fantasies and unicolours decors, Innovus also includes a comprehensive range of special products, such as:

Innovus Coloured MDF, a product that combines the strength and technical properties of the Medium Density Fibreboard with the visual appeal of a versatile range of colours. Innovus Coloured MDF can also be combined with the trendy Innovus melamine decors, which results in a unique and truly distinctive decorative solution.

Innovus Essence, a product range using double-sided embossed in-register (EIR) technology to obtain decorative panels with the look and feel of real wood in a melamine surfaced panel. Innovus Essence, with its two structures – Rustic and Authentic – and nine wood shades was developed with a variety of applications in mind such as doors, living room furniture and wall panelling, in applications that really value the natural effect of wood.

Innovus Magnetic, a range of laminates that can be used for sticking magnets or to write on with markers or chalk. This functional and decorative solution is ideal for partitions and wall coverings for shops, offices, schools and nurseries and even at home.

Innovus Lamifloor, a range of laminates with very high abrasion resistance, ideal for access flooring application.

Innovus Metallic, a range of laminates with real metal as a decorative element, that can be used for interior fittings.

2019 was the year of the launch of new Innovus collection: besides new decors, Innovus proposes new contemporary finishes:

- Stucco, a texture with a concrete, with a ceramic touch;
- Fusion, a wood textured surface that provides a warm natural touch, by recreating the look of handcrafted wood;
- Spirit, an expressive finish full of movement and contrasts; and
- Cosmos, an exclusive finish that represents the next level in stone and cement structures, inspired by sandblasted stone and real concrete walls.



2019 also marks the year that Sonae Arauco was present at Interzum, one of the most relevant events in this sector in the world that received around 74,000 trade visitors from 152 countries. On an area of over 300 square meters, Sonae Arauco presented the new Innovus collection with its more than 200 decors and 15 different finishes and its comprehensive offer of products.

During the year, Sonae Arauco was present in several worldwide events, such as InteriHotel in Spain, and Iberia Retail Summit and Archi Summit, in Portugal, and has also associated itself with renowned cultural partners, such as *Centro Cultural*

de Belém or *Casa da Arquitectura*, in Portugal.

More information at www.sonaearauco.com

SURFORMA® - LAMINATES & COMPACTS



Surforma® Laminates and Compacts are an excellent material for indoor and outdoor surfaces. Laminates can be used either applied to suitable substrates and compacts as self-supporting compact sheets. Surforma® products meet the stringent requirements for hygiene, fire and humidity resistance and mechanical properties and are available in a variety of colors, patterns

and surface textures, providing extensive options for architects and designers. Their surfaces are hard and resistant to wear, impact and scratching, making them long lasting, easy to clean and largely resistant to vandalism.

2019 was a memorable year due to the design and development of the first Surforma collection. The first Surforma collection proposes a set of contemporary decors and new finishes with distinctive colours, appealing patterns and attractive textures.

This collections is a complete and innovative proposals for decorative laminates and offers versatile solutions, enhancing the high features of laminates and bringing to customers the possibility of find the right colour, the ideal finish and the perfect pattern, to create innovative and successful projects.

Surforma collection has the perfect finish for each décor:

ULTRA SMOOTH is an elegant and warm to the touch finish with anti-fingerprint proprieties.

STUCCO is a texture with a concrete, ceramic touch. Its development was inspired by industrial and urban moods and its highly tactile surface.

COSMOS is an exclusive finish that represents the next level in stone and cement structures.

SPIRIT is an expressive finish full of movement and contrasts, which provides the true spirit of real wood, resulting in a top quality product.

FLOW is a unique finish with gentle cross lines, creating subtle waves that give the surface a very natural and spontaneous look.

FUSION is a wood textured surface that provides a warm natural touch, by recreating the look of handcrafted wood.

Sonae Indústria oficialmente apresentou its new brand, launched in 2018, Surforma® at Interzum 2019 exhibition in Cologne, Germany to establish itself in the market and thus reinforce its DNA.

At Interzum 2019 exhibition Surforma® showcased, for the first time, the brand's new collection, highlighted the project FlexComp and its Synchronized HPL (Embossed in Register) finish available in full match between Laminate and Melamine, sold in North America by Tafisa Canada. Surforma® is the exclusive HPL supplier of Sonae Arauco Innovus 3.0 collection that was launched in Interzum 2019 exhibition.

Surforma® also participated in several other fair events during 2019 such as the Opening Ceremony, the Interzum Award Ceremony and Speakers Corner, a space created for brands to make presentations about themselves and their products to the market.

In 2019 Surforma® created its social networking accounts in LinkedIn, Facebook and Instagram, getting closer to its customers, and also a catalog that reflects its brand positioning and presents the new collection featuring.

Also in 2019, Surforma® and ColorADD established a long-term partnership for the use of a universal color code in all of Surforma®'s colors and textures, allowing colorblind people to take more informed decisions. ColorADD is a universal color code which can be used by roughly 350 million colorblind people around the world.

More information at www.surforma.com



Furniture Components

movelpartes

Components business develops solutions for its customers, based on the

company expertise and on modern technology, with several types of applications: all types of furniture, including kitchen furniture, several types of easy-assembly furniture kits, storage solutions/shelves, profiles and skirting.

Following the strategy defined for the company after the conclusion of an investment of 2.8 million euros at the end of 2017 and its rebranding during 2018, both aimed at strengthening its position in the Portuguese market of components for furniture industry, Movelpartes, a company located in Vilela, Paredes, Portugal, has been focused in developing its business either by pursuing new opportunities in export markets as well as by the development of its own product offer. The increase of export sales, with particular focus in Spain, but also to other destinations, allied with the development of new products offered to the market, namely,



Movelpartes Kitchen Carcasse line and Sandwich Pannels, are the base for the business development expected for the next years. Movelpartes' Sandwich Panels are wood-based panels, surfaced on both sides making it possible for the client to decrease the time and effort usually spent producing the material.

More information at www.movelpartes.pt

4.1.4. STRATEGY

The way in which Sonae Indústria views itself as a company, acts and interacts with others and with the surroundings represents a corporate culture that promotes continuous improvement – always challenging ourselves to perform better – and is sustained by the company's Mission, Vision and Values.

VISION:

To be recognised as a sustainable world leader in the wood-based panels industry, consistently providing our customers with the best value products, upholding the highest standards of service and promoting responsible business and environmental practices.

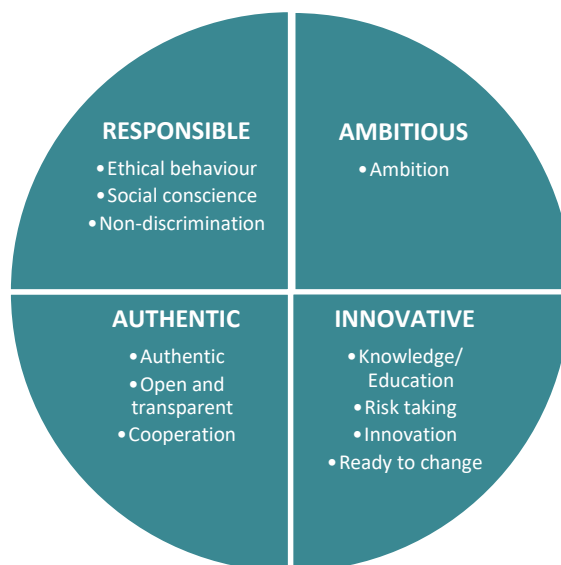
MISSION:

Our aim is to deliver the full potential of wood-based panels for the benefit of our customers, shareholders, employees, and society.

We base our operations on sound corporate governance, continuously improving the efficiency of our operations, actively promoting innovation and providing a motivated, safe and fair working environment.

VALUES & PRINCIPLES

Sonae Indústria's values represent the foundation stone on which we build our business and they serve to guide our behaviour. Our value system is focused on four main principles: Ambitious, Innovative, Authentic and Responsible, which can then be sub-divided in the values and capabilities illustrated in the picture below.



STRATEGIC GUIDELINES:

1. North America:
 - Continue to improve the product offering, product mix and customer service levels.
 - Strengthen our decorative solutions with the launch of new melamine colors and finishings.
 - Leverage on the investment in a new hot coating lacquering line to introduce new surface finishings and explore investments on new decorative products.
 - Enhance supplier partnerships for complementary products to our melamine collection, including matching HPL supplied from our Laminates business in Portugal.
 - Investment in production improvements.
2. Laminates and Components:
 - Improve profitability by looking for growth opportunities with existing and new customers and with new and innovative products.
 - Enhance the partnerships with Tafisa Canada and Sonae Arauco for the provision of matching Laminates.
 - Develop ongoing initiatives to materially reduce Laminates manufacturing costs.
 - Seek to improve significantly our industrial competitiveness and customer offering in Components by leveraging on the new edging line.
3. Support Sonae Arauco in achieving its strategic objectives focused on investing in productivity and flexibility; improving its sales mix, namely through its decorative solutions, and improving product quality and service level offered to our customers.
4. Seek a more balanced and flexible capital structure in order to finance the future growth of the business.

4.1.5. 2019 KEY CORPORATE EVENTS

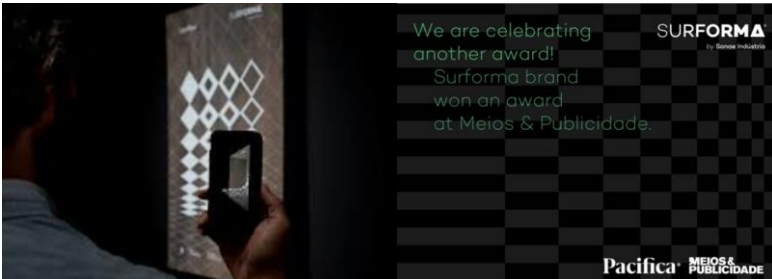
19 February 2019	Announcement regarding LaminatePark intention to close and 4Q18 Recurrent EBITDA (non-audited)
27 March 2019	FY18 consolidated results announced
29 April 2019	Announcement on resolutions taken by the Shareholder's Annual General Meeting
8 May 2019	1Q19 consolidated results announced
6 June 2019	Announcement of intention to cease activities in Horn (Germany)
29 July 2019	1H19 consolidated results announced
16 September 2019	Release of Sonae Indústria Plan for Gender Equality 2020
30 October 2019	9M19 consolidated results announced
20 December 2019	Announcement about agreements on certain financing transactions

4.1.6. AWARDS AND INNOVATIVE PROJECTS

Surforma® and This is Pacifica - national design award

In March 2019, the company This is Pacifica, responsible for the naming and branding of Sonae Indústria’s new brand, launched in 2018 - Surforma® - received an award at Meios & Publicidade Design Ceremony being recognized for the development of the Augmented Reality project, or Surforma AR Posters.

The Surforma AR Posters is a technology developed by This is Pacifica in order to enable costumers interaction with Surforma’s posters and therefore get to know its products’ details.



This is Pacifica has created five posters to represent Surforma’s five product categories: Magnetic, Metals, Laminates, Lamifloor and Unicolor.

This project was developed considering that Surforma’s branding was thought to have a more dynamic approach, which could emphasize the multiplicity of shapes and

looks Surforma’s products might gain.

SONAE ARAUCO - Best Digital Transformation Enterprise Award

Sonae Arauco was distinguished as the Best Digital Transformation Enterprise, reflecting the digital transformation roadmap currently in place, in the fourth edition of the European Digital Mindset awards, a Digital Enterprise Show organization, held in Madrid.

European Digital Mindset Awards recognize the most relevant international initiatives and projects in digital transformation carried by startups, business leaders and large organizations to boost into the digital economy. This edition of the European Digital Mindset Awards awarded 6 professionals and projects including the Best Digital Transformation Enterprise that focused on projects that have moved on to digital business from traditional business model, or that have better combined both models.

SONAE ARAUCO - Intelligent Material & Design – High Product Quality Award

Sonae Arauco was distinguished at Interzum 2019, in Cologne, with the Intelligent Material & Design 2019 award in the category “High Product Quality Award” for its three-Dimensional Fiberboard 3DF. This award considers the innovative aspects of material, function and design.



3DF is a wood fiberboard that can be molded in many different ways by applying temperature and pressure (compression molding) and is used to achieve deep structures and large diameters very quickly and productively. This technology makes it possible to replace conventional processes such as plywood forming and CNC (computer-aided milling) and leads to outstanding improvements in productivity, quality, design options and environmental friendliness.

SONAE ARAUCO - TTJ - product development Award

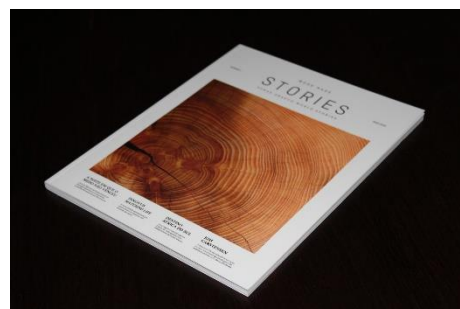
Sonae Arauco has won the renowned TTJ Award in the product development category with 3DF - Three Dimensional Fiberboard. TTJ Magazine's annual awards underscore the importance, modernity and future orientation of the wood industry, while recognizing its achievements in areas that are critical to the company's success.



SONAE ARAUCO - Golden Stevie® Awards 2019

Sonae Arauco magazine Wood Made Stories has won Gold at the Golden Stevie® Awards 2019. The Stevie® Awards distinguish the most remarkable work and achievements of companies on a global scale.

This magazine was also distinguished in the Editorial Design category at the Prémios Lusófonos da Criatividade (Portuguese-speaking creativity awards) and as the Best Institutional Publication at the Meios & Publicidade Awards.



The Wood Made Stories resulted from a project developed by Sonae Arauco and LLYC. In this project Sonae Arauco was looking for a publication that would contribute to bring employees closer, regardless of geographic location, and foster the sense of belonging to an international group that has in the People its top priority, simultaneously reinforcing the positioning of the brand, in a differentiating support.

DecoChrom Project

The DecoChrom Project is a 48 month project that has been initiated in January 2018. This project elevates printed graphics products to the age of interactivity, and empowers the creative industries with the tools and innovative advanced material sets to design and build aesthetically pleasing practical human interfaces to smart consumer goods and environments. The DecoChrom consortium, of which Sonae - Indústria de Revestimentos, S.A. (SIR) is a member, develops printed electrochromics (EC) as the mass producible, print industry compatible, ultralow power interactive graphics solution for ambient intelligence. This project brings together a strong interdisciplinary consortium of 15 industry and research balanced partners, with state-of-the-art backgrounds in design, chemistry, printing, coatings and laminates, electronics system integration, and complete electrochromic solutions. This project was funded by the European Union's Horizon 2020 research and innovation programme.



After one year of the execution of the project, the team is integrating electrochromic devices in HPL to produce industrial proof of concepts of furniture and a gym floor. The project was presented at the Interzum 2019 exhibition in Cologne, Germany.

More information at www.decochrom.com

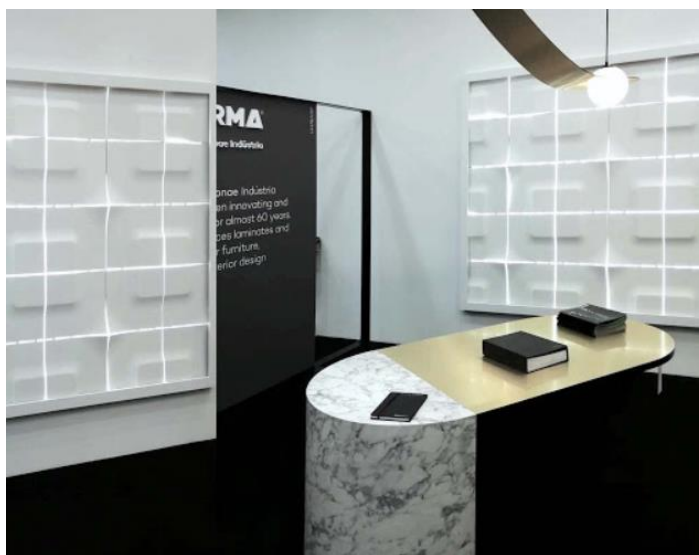
FlexComp Project



The FlexComp Project started in November 2017 as a 24 month project finishing in November 2019 and arises from an identified need in the transport and furnishing markets to replace metal- and polymer-based materials with others having more favourable weight, resilience and sustainability related

characteristics. The use of composite materials is an attractive alternative as they promote not only the reduction of fuel consumption, but also of pollutant gas emissions, with the added benefit of higher recyclability. Accordingly, Sonae - Indústria de Revestimentos, S.A. plans to meet the identified needs by providing a postformable compact to the automotive, railway and aerospace industries with minor changes to its manufacturing process. FlexComp are postformable compact products with the ability of adopt more complex geometries with the application of temperature and pressure in moulding processes. This project addresses the societal challenge "Intelligent, Ecological and Integrated Transport" proposed in the Europe 2020 Strategy in a two-pronged approach: weight reduction with direct impact in the reduction of pollutant gas emissions, and recyclability through the possibility of reutilizing the same material in a more sustainable way.

In 2019, in collaboration with ESAD (*Escola Superior de Arte e Design*) and UMa (University of Madeira), teachers and students were invited to apply their imagination on the new FlexComp material, conceptualizing creative ideas for future applications in the furniture, lighting, interior design and mobility markets. In order to guarantee the best visual results possible, Surforma® engaged in a workshop week at ESAD's facilities, where all the support and feedback was given to the students from start to finish. Several concepts were explored by the students, producing virtual 3D models and renderings of the FlexComp product applications for a further careful selection of the winners. Their collaboration unfolded into two phases: the creation of decorative and flexible panels for vertical applications like walls and the use of FlexComp products in order to create surfaces for objects and furniture, such as drones, chairs and so forth. The final piece was presented at Interzum 2019 exhibition in Cologne, Germany.



Within the scope of FlexComp project, an Open Day was organized in July 2019, with the objective of presenting the products that were being developed throughout the project. Academic and business entities as well as associations were invited to share this event that brought together near 100 individuals.

EU projects



Sonae - Indústria de Revestimentos, S.A. has been actively involved in the participation and submission of several European H2020 projects, mostly in the printing electronics, structural electronics and simulation areas, such as STEFFI, PVISE and Paradigm projects,

recently submitted.

4.1.7. IMPROVING OUR WORK (IOW)

The IOW (Improving our Work) initiative is a pillar of Sonae companies culture and way of working. It is a powerful philosophy and methodology in search of productivity and quality, everyday, everywhere, by everyone, creating sustainable value for Sonae's stakeholders.

Based on the improvement cycle, the IOW model is structured around 4 pillars:

- **Daily IOW:** improve the Natural Teams and promote a continuous improvement culture;
- **Project IOW:** processes improvements with multidisciplinary teams;
- **Leaders IOW:** deployment, follow-up and support of strategy implementation with management teams;

- **Support IOW:** provide support to all IOW activities by IOW team.



The IOW model aims to develop change capability in the organization, by fostering changes in behaviours and improvements in business processes, ensuring operational excellence in order to improve our overall performance.

As this change is a journey, six years after the implementation of its Continuous Improvement System, Sonae Indústria continues its IOW initiative.

The “**Daily IOW**” pillar is still a strong focus, in order to assure the basic stability of our processes. Our teams are working using Daily IOW routines, such as standardised meetings, 5S tools, standardization of processes and structured problem solving methodology. In this regard we are giving special attention at ensuring the sustainability of the improvements by implementing process confirmation routines.

The “**Project IOW**” implementation helps to better manage the longer term and more disruptive initiatives inside the organization. We continue to expand the utilization of the good practices for project management, training our teams in new and improved approaches.

The “**Leaders IOW**” and “**Support IOW**” activities complete the IOW dynamic by reinforcing Management commitment and Experts guidance. We continue to believe that the efforts placed in training our employees, ensuring a common language and increasing their skills, is a key success factor. In addition to the IOW Lab, an approach for training off new employees implemented in 2018, the IOW Training Center has designed and implemented, in 2019, new solutions of training such as IOW for Top-Management, IOW for Management, and IOW Expert.

Aware that sharing good practices is fundamental, several “study tours” within Sonae Companies are available since 2019 for the teams to visit inspiring places with good examples of IOW implementation.

Our teams keep embracing the IOW way, continuously improving, in order to deliver outstanding Customer satisfaction and results.

4.2. SOCIAL AND EMPLOYEE-RELATED MATTERS

People

At Sonae Indústria, we believe that people are the key resource to drive change towards the future. We care for the safety and well-being of our employees and we strive to support their personal and professional development so that they fulfil their own career aspirations. We have expressed our commitment towards our people in the corporate values of Cooperation, Non-discrimination and Health and Safety.

Growing our business through acquisitions challenged us to continually respond to the different working cultures of the companies acquired. In many cases, this has also involved a need to respond to different geographical cultures, as acquisitions and greenfield projects take place in different parts of the world. While the integration of new people and cultures into the Sonae Indústria family provided valuable insight into different approaches to people management and invited the exchange of knowledge and best practices, it also challenged the company to create a common framework for people management within the organization. Operating in a globalized and interconnected economy, we are in constant competition for skilled and experienced people. We realise that in today's business environment, careful attention to human resources management is a prerequisite for attracting and retaining the people we require to succeed.

Health and safety

The production of wood-based panels requires physical abilities, permanent attention and good health as employees work with heavy equipment and are regularly exposed to some levels of noise, sawdust and chemical emission during production. We therefore work to implement measures to minimize these effects in our people, as described in further detail below.

Unfortunately, the risk of accidents in our industry is real. Providing a healthy and safe environment for our people is an absolute priority and we never compromise in this area. Managing health and safety issues is integrated into our daily work, and we take a proactive and preventive approach. We maintain the commitment to do more than just legal compliance.

Most common risks at Sonae Indústria

Employees at Sonae Indústria may be exposed to various risks in the industrial environment:

Trampling situations

At Sonae Indústria plants there are several daily movements of large industrial vehicles carrying raw materials, as well as heavy trucks that transport Sonae Indústria's products. This movement may cause potential life threatening situations since, in some cases, the drivers of these vehicles may have reduced visibility therefore putting in danger someone that is not on the identified secure paths.

Dust explosion

A dust explosion is the rapid combustion of fine particles suspended in the air (dust), often, but not always, in an enclosed location. Dust explosions can occur where the concentration of dust in air falls within the explosive limits and a source of ignition of the required energy for that dust cloud is present. A dust explosion can be prevented if one or preferably both of these conditions are avoided. Research shows that the woodworking industry accounts for 40% of all such events, being dust the primary source of fuel.

Industrial environment health risks

Another type of risk in an industrial environment is related with health. Sonae Indústria employees are exposed to noise and dust and in some cases, formaldehyde. According to the workplace risk analysis, personal protective equipment (PPE) is mandatory in some areas of the plants.

Hot work

Hot work refers to any temporary or permanent operation involving open flames or the production of heat and/or sparks with the capacity to ignite any combustible materials within the work area. At Sonae Indústria, there are a wide variety of hot works in the industrial plants, such as welding, grinding, oxyacetylene cutting and others. Recent studies carried out by leading insurance companies reported hot work related incidents as the third-leading cause of property damage events. Sonae Indústria uses the Hot Work Permit System as a primary measure to prevent fires due to non-routine open flame and high temperature work.

Hazardous material exposure

When visiting or working in a Sonae Indústria plant, visitors and employees may be exposed to a wide variety of hazardous materials, such as acids.

It is important that all follow certain rules and adopt behaviours to prevent risk situations, namely:

- Always wear the minimum mandatory Personal Protective Equipment, PPE (e.g. safety footwear, safety glasses, helmet/ cap and high visibility vest). If required by the site, or in some specific areas, other PPE may be mandatory;
- Always use the designated walking paths;
- Always be aware and respect the safety signs displayed;
- Do not enter the wood yard except through the designated entry points and only after complying with existing access protocols and when carrying a beeper;
- Make sure they are aware of all the risks in the areas of work/visit;
- When in doubt, always ask the local safety officer about emergency situations and other relevant aspects, such as meeting points or emergency exits.

How to deal with people and social matters

Employment

Sonae Indústria focus on constantly fostering good relationships with its employees, promoting open communication with all our people as well as training and education opportunities. We also prioritise career development and offer equal opportunities, despite the challenges on gender diversity due to the nature of our industry. Additionally, we support freedom of association wherever we operate.

Measures to attract and retain Talent

In Sonae Indústria, people are considered a key element to ensure the success of the company and to leverage our strategic projects. Hence we strive to attract qualified professionals that have the required skills to meet present and future challenges, and invest in continuous training and development initiatives to promote the retention and development of our people.

The Human Resources management for Sonae Indústria (except for Tafisa Canada) is handled by Sonae Arauco Human Resources specialized team.

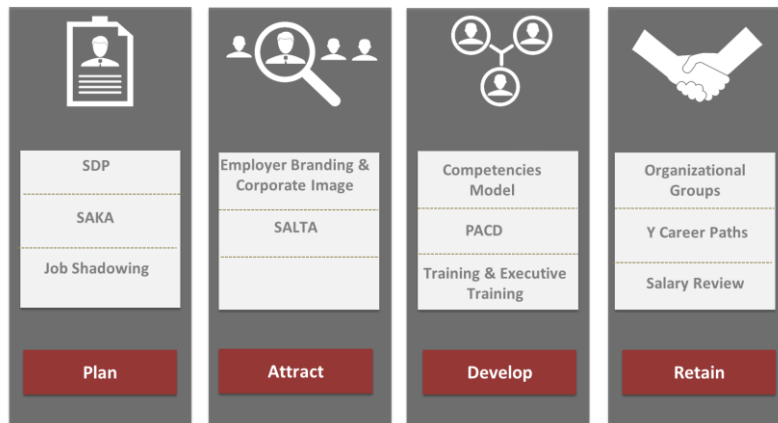
At Tafisa Canada, to continue to increase our appeal as an employer and to increase the retention of the talent, in 2019 were implemented several initiatives such as:

- Corporate promotional videos featuring our employees (five videos in 2019);
- Sponsoring several community activities, namely the Sprint Triathlon Canada Man/Woman, (as mentioned below in Involvement in Local Community topic);
- Building relationships with universities by hiring trainees;
- Development of a progressive retirement program;
- Modernization of the office furniture and IT tools;
- Providing more daylight access; and
- Providing a flexible work schedule for non-unionized employees.

Through Sonae Arauco an investment was made in the implementation of a new platform to support HR Processes, ensuring alignment in Talent Management initiatives. The platform “4 People” is considered an enabler for the

strategic pillars for recruiting, retaining and developing people, and during 2018 and 2019, several dimensions of this tool have been implemented.

At Sonae Arauco the Competences Model is being redesigned in alignment with the company’s mission and strategy and to better address and support employees individual development needs. In 2019 the first stage of this project addressed soft skills, proposing a new framework and assessment scale, to be implemented in the 2019 Performance Appraisal and Competences Development yearly review.



Source: Sonae Arauco.

Collective Agreements

In all geographies we are an active part of the negotiation process with the works councils, participating in regular meetings with the purpose of reaching sustainable agreements for all parties.

Additional details regarding each country are presented below:

- Canada – Collective Agreement in place for the period 2016-2021. Following legislative changes or legal decisions, it was necessary to revise the probation status and the sick and family leave clauses;
- Spain – Collective Agreement in place for the period 2016-2020. This Collective Agreement includes a complete chapter covering Health & Safety topics, including the relationship between the company and the employees’ representatives on this area;
- Portugal – regular meetings with trade unions and participation in the negotiations for collective agreements;
- Germany – we are involved in several negotiations with each plant Works Council. We are currently in negotiations for the implementation of training programs and protective barriers in Health & Safety areas;
- South Africa – in Sonae Arauco, regular meetings with Works Council mostly dedicated to health & safety issues.

As evidenced previously, the Collective Agreements agreed with the Works Councils, usually include a complete chapter for Health & Safety topics.

Zero accidents is our top priority and main focus, and for that we:

- have clear and strict rules regarding the use of equipment’s in the plants;
- have machine regulations for our equipments;
- provide continuous training to our employees to develop them and create awareness towards safety behaviours.

Company rules on work breaks and resting periods

Sonae Indústria has collective agreements in place in the countries in which is present, covering the large majority of its employees. For those employees not covered by such agreements, the company takes into account the specific legislation of the countries where it is present and the labour market conditions.

In the existing collective agreements of Sonae Indústria companies, it is also considered important considerations to ensure sound Health & Safety practices, namely in what concerns breaks and mandatory resting periods, following local legislation and sometimes going beyond.

European Forum – Sonae Arauco

Sonae Arauco and its European affiliates believe that effective communication with all employees is essential for correct business performance. As such, the company permanently seeks ways to improve the efficacy of information and the exchange of opinions with all its employees.

With this objective in mind, an European Forum was created to ensure that Sonae Arauco employees in the region are kept informed about the major developments and have the opportunity to discuss all common affairs that could affect their interests.

The members of the forum are Sonae Arauco CCDO (Chief Corporate Development Officer), the national HR managers of each country and representatives of all workers of the European subsidiaries (at the moment only workers' representatives from Germany and Spain were designated). The forum meets once per year.

Non-discrimination

Sonae Indústria adopted and develops a policy of non-discrimination. We are an equal opportunities employer and we do not accept any form of discrimination in the workplace be it related to age, gender, race, social background, religion, sexual orientation, or physical ability. Our career development and reward systems are based on merit.

The set of standards included in Sonae Indústria Code of Conduct and in Sonae Arauco Code of Ethics reinforce the implementation of these values.

The prohibition of arbitrary discrimination demeanours includes recruitment and hiring procedures, as well as employment terms and conditions, such as tasks to be carried out, training, wages, benefits, promotion, transfers, discipline and treatment. In addition, moral and sexual harassment conducts are especially rejected.

Different initiatives and procedures on this regard have been followed, some of them as a result of legal requirements in the different countries. For example, Sonae Indústria in Portugal and Sonae Arauco in Spain created, respectively, a Plan for Gender Equality²⁰ and an Equal Opportunities Plan (both with measures foreseen until 2020), following as applicable the Portuguese and Spanish law. Other legal requirements are also observed such as, in Portugal, the code of good conduct for anti-harassment prevention and a law entered in force (during 2019) regarding the equal remuneration between men and women on equal work functions.

In South Africa, an Employment Equity policy is being defined to regulate the conditions under which Sonae Indústria South Africa staff will be affected by Employment Equity practices. This policy is designed to comply with Employment Equity legislation of South Africa (The Employment Equity Act 55 of 1998 (EEA)) and its Regulations and Code of Conduct. This policy aims to: implement affirmative action measures; implement education, training and development strategies to provide and ensure equal opportunity to all employees in the workplace; develop a culture and practices that will prevent and readdress inequalities, imbalances, prejudices and injustice in the workplace; protect employees against unfair discrimination and harassment; make reasonable accommodation in the workplace for family responsibility and people with disability.

During 2018 and 2019 no communications have been received regarding discriminatory behaviours between employees.

²⁰ Portuguese version of the Plan for Gender Equality is available in the company website, through the following link: https://www.sonaeindustria.com/fileManager/notas_imprensa/pdf_pt_183.pdf.

Operational changes

The different organisational changes and significant events are officially communicated to the organization and its employees in compliance with the various legal provisions applicable in the countries and with the labour regulations. These notifications are mostly made via employee representatives, intranet, notices to interested parties or unions.

Training and education

Sonae Indústria recognizes the importance of people in the organization, and values the dissemination of knowledge within the company, as such, training and development are a key factor and priority in the company. Employees are expected to take advantage of all opportunities that are presented to them to achieve both personal and professional development and Sonae Indústria aims to provide the training and support necessary to achieve their full potential, by maximising their skills and motivation.

Tafisa Canada revised all the job training programs considering the concepts of the TWI (Training Within Industry) with an internal trainer. Tafisa Canada continued to hire several trainees (from universities and technical schools) and students (during the summer period) in order to provide them enriching work experiences and to prepare the company future workforce.

Sonae Arauco has set up in 2018 a knowledge academy, with specific programmes to foster culture development and business knowledge.

SAKA

In 2018, Sonae Arauco has launched its academy of knowledge: SAKA.

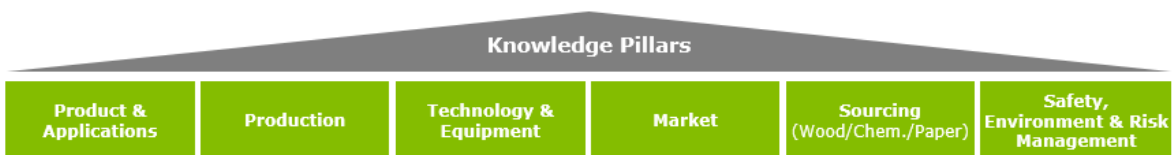


This initiative was implemented to address the following challenges:

- Eventual exit of skilled employees with deep business and specific operational knowledge;
- Risk of losing additional key knowledge holders due to retirement in coming years;
- In certain cases, knowledge mostly resides in key peoples’ minds instead of a knowledge repository;
- Difficulty in passing business specific knowledge to younger people because of lack of formal transfer programs.

SAKA aims to identify, collect and standardize Sonae Arauco core and critical knowledge, in order to retain and transmit it.

SAKA is structured around six pillars of knowledge:



Source: Sonae Arauco.

In each pillar, Sonae Arauco is collecting information and delivering training materials to increase the knowledge of its people.

Sonae Arauco expectation is that, once implemented, SAKA will directly impact on critical areas related with the company's knowledge.

In a near future, SAKA will not only be the most important repository of knowledge but will also perform a key role both on the company's training programs and on people's development.

In 2019, SAKA officially kick off several training courses and implemented a new Learning Platform in the "4 People" system.

Taking me Further

Sonae Arauco started in 2018 the implementation of an initiative called "Taking me Further" with the ambition to develop a balanced, high performance and healthy work environment. This program promotes equilibrium between mind, emotions, body and health. The program was implemented in Sonae Indústria and Sonae Arauco facilities in Maia.

It should be highlighted that this program has a high commitment from the employees, as they are the monitors of the activities promoted. The fact that the program is built with internal resources (core & support teams) affected positively the engagement of all the participants.



Taking me Further initiative.

Source: Sonae Arauco.

Partnerships with Universities

With the objective of developing and improving the characteristics of our products we have developed partnerships with several Portuguese universities; Faculdade de Engenharia da Universidade do Porto (FEUP), Escola Superior Tecnológica de Viseu (ESTV), Universidade do Minho, Universidade de Aveiro (UA), Universidade Nova de Lisboa (UNL), Universidade de Coimbra (UC), Universidade de Trás os Montes e Alto Douro (UTAD), Instituto Superior Técnico (IST) and Instituto Superior de Engenharia do Porto (ISEP), as well as with research associations and consortiums - Associação Rede de Competência em Polímeros (ARCP), PrintoCent, Pólo de Inovação em Engenharia de Polímeros (PIEP), Centro de Nanotecnologia e Materiais Técnicos, Funcionais e Inteligentes (CENTI), TechMinho and Colab ForestWise – Laboratório Colaborativo para a Gestão Integrada da Floresta e do Fogo. These partnerships provide the basis for product and process innovation in the Group and encourage the proximity between our company and the academic community. At the moment, and within the defined competences framework, the main objectives of our research are as follows:

- New polymers, fundamental investigation;
- Resins – industrial control and monitoring;
- Wood based panels – development of new products, analysis of physical and mechanical characteristics, and performance evaluation of gluing systems;

- Impregnated papers and laminates – impregnation, performance characterization, development of new products / processes;
- Emissions – analysis of VOC²¹ emissions;
- Forest and fires management.

With some of the above mentioned objectives in mind, Sonae Indústria, through its affiliates, has a series of facilities and equipment in the campus of the University of Porto.

With these partnerships, Sonae Indústria has privileged access to university, equipment and techniques, researchers' know-how, development of new technologies and methodologies in collaborative projects and a permanent access to high value technicians that could potentially be integrated in the company.

Involvement in Local Community

At Sonae Indústria, most of our people have a common inherent desire to improve the conditions of those in need in the local communities where we are present. In some specific situations, the employees are involved with social institutions or charities and the company encourages them to actively participate in these initiatives.

In the different countries where Sonae Indústria operates, the specific needs for help and contribution vary greatly depending on the communities' level of welfare, presence of social security systems as well as the culture and values of the local citizens. Therefore, the community-related activities are prioritized and managed at local level.

Sonae Arauco

In the beginning of the year and through a close partnership with Sonae Indústria and Sonae's Activeshare Program, Sonae Arauco organized a reforestation initiative in Oliveira do Hospital. This was the first reforestation initiative of the company in an area affected by the forest fires of 2017, with the support of almost 200 volunteers from the different companies involved. In all, over 1,100 oaks and strawberry trees were planted, contributing to a managed landscape that is more diverse and more resistant to fires.

By mid 2019, Sonae Arauco, Sonae, Sonae MC and Worten supported together the Portuguese Government campaign "Portugal Chama" through the organization of different initiatives targeting both the internal and the external stakeholders: emails, muppies, media advertisements, digital banners and social media posts from the different companies. As a result, it was possible to reach 16,500 employees and around 2.8 million store visitants.

The year was also marked by the organization of open days in Maia offices and in the Mangualde, Oliveira do Hospital and Valladolid industrial units.

In Maia offices, the employee's children were invited to spend a day at the office in an initiative jointly organized with Sonae Indústria and made with the employees involvement. The day's program included different initiatives, namely moments with the parents and the presentation of important messages related with the environmental features of wood-based materials.

In Mangualde and Oliveira do Hospital, the families of the employees were also invited to visit the industrial units to better know the jobs performed by their relatives.

In Valladolid, the company opened the doors to students and professionals from other companies, in a program that contemplated a visit to the plant, presentations of Sonae Arauco's business and the company's accomplishments in industry 4.0.

Moreover – and as usual since the beginning of the partnership in 2017 – Sonae Arauco supported "STEM talent Girl". This is a project of mentoring for the STEM talent development (Science, Technology, Engineering and Mathematics) and intends to promote scientific and technological vocations amongst women with the aim to inspire and empower the next generation of leading women in science and technology. In 2019, the company renewed the program's sponsorship, thus supporting women talent identification and their easier integration in professional roles in the fields of Science, Technology, Engineering and Mathematics.

²¹ Volatile organic compound emissions.

During 2019, Sonae Arauco also launched its educational program “Woody”, which is a volunteers educational program that aims to leverage the importance of the forest and recycling wood near the young generations.

By the end of the year, Sonae Arauco collaborated for the first time with U.DREAM, an educational project with the mission of educating university students to perform social impact through a two-year program that is focused on developing personal competencies and involving them directly on their local communities. Sonae Arauco supported U.DREAM on its mission and challenged the team to organize an activity that fostered the communication between employees and revolved around the theme of “Gratitude”.

Throughout the year, Sonae Arauco also made various donations, namely by providing professional equipment and financial support to the volunteer fire brigades from different local communities, among others mentioned below.

In 2019, Sonae Arauco maintained the collaboration with two children’s sports clubs (“Titanes de Castilla” and “CD. Juventud Rondilla y Ribera Atlético”) to guarantee the children’s appropriate sports and personal training, and started a new partnership with “Club Balonmano Castillo”.

Also, a donation was made to the City Hall of Overuela (Valladolid), to support its summer cultural festival program and to the Institute of Secondary Education (IES) in Valladolid. IES is committed to raising awareness amongst most disadvantaged people about values and solidarity through a solidarity breakfast whose funds go to the non-governmental association “Educatanzania” and the association “A Salvo”.

During the year, Sonae Arauco continued to support the “Banco de Alimentos de Valladolid”, “Banco de Alimentos de Segovia” and “Cruz Roja in Tres Cantos” by raising awareness amongst its employees to donate food, reaching a donation of 294 kgs.

In Valladolid, employees were also challenged to participate in a social running competition in which 10% of the registration profits was donated to “Banco de Alimentos de Valladolid”.

In Linares, during the year Sonae Arauco supported the “Fundación Don Bosco”, that works to find a job for people who are threatened to be socially excluded. Thus, Sonae Arauco welcomes groups of this people to its plant and explains how each department works and what’s their impact on the plant’s overall performance.

In Germany, donations were made to forestry, sports and youth welfare associations, namely “Förderung Jugendhilfe”, “K & L Verlag”, “Leichtathletik in Beeskow”, “Türkischer Sportverein”, “Verbandsgemeinde Beetzendorf-Diesdorf”, “Reit- und Fahrverein Beetzendorf”, “Schützenverein St. Vitus Bokeloh” and “Qualifizierungsfonds Forstwirtschaft e.V.”

TAFISA CANADA

Tafisa Canada strives to support non-profits, charities and organizations that help make Lac-Mégantic and surrounding communities better, stronger, and more dynamic places to live, work and do business. In 2019, funds were distributed to programs in the areas of youth, education, technology, sports, health care research, community services, tourism, environment and the arts.

In 2019, Tafisa Canada and its employees maintained their support of the “Fondation du Centre de Santé et de Services Sociaux du Granit” (Health and Social Services Foundation) through voluntary donations, which are used to improve health care services for the entire population of Lac-Mégantic and surrounding communities.

The town of Lac-Mégantic also hosted for a third consecutive year the Canada Man/Woman Extreme Triathlon in North America in July 2019. One of the toughest full distance triathlons in the world, comparable to similar ones in Norway, Scotland, Alaska and Switzerland. Sports enthusiasts from around the world came to Lac-Mégantic to participate in the race. Several employees of Tafisa Canada participated in the shorter version of the event and Tafisa Canada was the main sponsor of the race.

Occupational Health and Safety

TAFISA CANADA

Tafisa Canada continued to provide induction training to all employees, visitors and contractors. The company has also a safety video that must be viewed annually and organized an annual exercise (simulation of real emergency cases with each shift) doing a postmortem analysis afterwards to continuously improve the safety system.

Regarding our goal of continuous improvement of the safety of our employees, in 2019 Tafisa Canada implemented many actions, namely:

- training sessions to all our employee (circa 659 hour of training) to inform about the risks of dust explosions and how to mitigate these risks;
- revise the areas with higher risk of falling objects and the implementation of the rule of mandatory hard hat in certain areas of the plant. This resulted in 31% less head injuries in 2019.
- investment in 4 formaldehyde monitors, to collect data in real time in critical areas. These monitors have an alarm system to inform us if the measurement exceeds our standard;
- training in health and safety (circa 3,170 hours);
- improvement of our lockout procedures for the second line of raw board production;
- investment in a system that allows truck drivers to safely climb on top of their trucks without the risk of falling;
- starting of a project to improve the security of the wood yard. The access to the wood yard is even more restricted with new barriers and the project is at about 50% completed;
- revising of the rules and protection measures to enter confined spaces;
- implementation of equipment safety projects, namely installation of gates on every ladder in both of our raw board production lines to prevent falls.

SONAE ARAUCO

Sonae Arauco Behavioural Safety Transformation project (BeST program) drives the actions outlined to achieve Sonae Indústria goal: zero injuries and zero serious process related incidents.

With this goal, we have defined clear safety policies & rules, created safer workspaces and have become more critical in identifying improvement opportunities.

The most relevant measures established to enable these targets were the following:

- Leaders at all levels acting as role models, enforcing work discipline with clear commitment to safety in all their decisions and behaviours;
- Knowledgeable workforce able to recognise risks and empowered to safely execute routine and non-routine activities;
- All employees committed to safety as a condition of employment. This also applies to service providers;
- An integrated safety management system with best practices, procedures and standards that ensure continuous performance improvement.

The objectives are kept and we strive for:

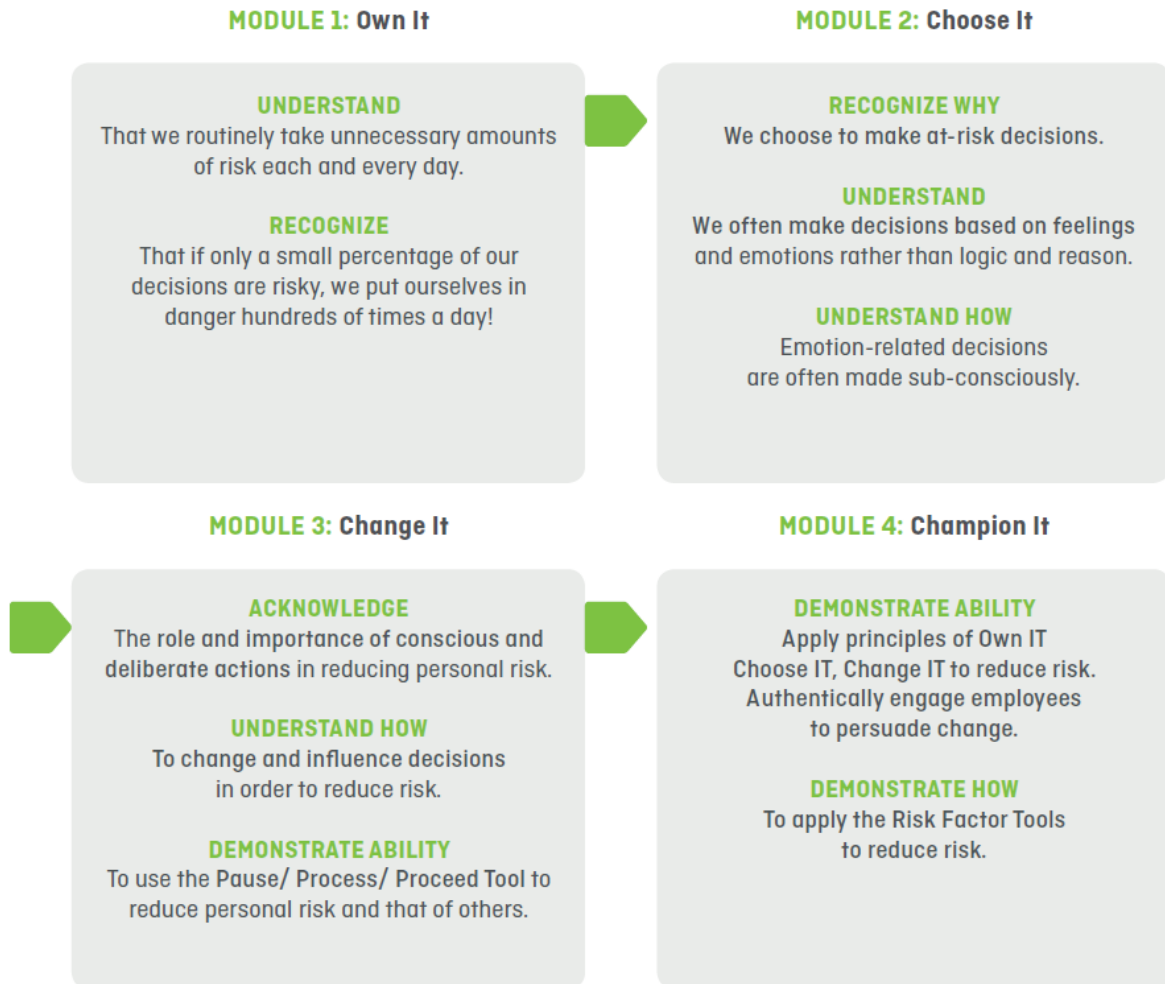
- Accidents with lost work days rate (LWC) ≤ 2.5 ;
- Absenteeism below local industrial standards (by country).

The Risk Factor training

During 2019 Sonae Arauco gathered the conditions to embark on another important part of the journey to become a safer, more sustainable and efficient company – The Risk Factor (TRF) training program.

Despite the efforts and all actions taken to ensure that Sonae Arauco is heading in the right direction, there is still plenty road ahead to achieve its safety vision. As one of the main drivers in this cultural evolution process is our people we need to reinforce an environment where everybody feels committed and, at the same time, accountable for safety, both their own and that of others.

The Risk Factor consists of four modules intended for all Sonae Arauco employees, regardless of their role, allowing a better understanding of human motivational factors and subsequent impact on the decision-making process, as described below:



Source: Sonae Arauco.

Life-saving rules

At Sonae Arauco:

In 2019 formal training of the Life-Saving Rules (LSR) was delivered in the different Sonae Arauco sites to consolidate the importance of the message.

Simultaneously a dedicated e-learning module was developed and made available with the LSR within the SAKA project. This module is part of the induction process of any new employee that begins to work with Sonae Arauco.

The purpose of the Life-Saving Rules creation was to define the critical safety rules that, if not followed, have the potential to result in life changing injury or exposure to life threatening hazards. These apply to all employees (own and contractors) and are:

Safety interlock bypasses /machine protection removal

Safety interlocks shall not be bypassed or a machine which protection was removed cannot be operated without formal written authorisation at the proper management level and compensatory measures should be in place.

Isolation of energy sources (LOTO)

All energy sources (electrical, pressure, gravity, chemical or mechanical) shall be properly and completely locked out, isolated, drained or secured before personnel commence work as defined by an internal procedure, which included certain life-saving personal protective equipments (PPE) requirements and a check of the effectiveness of the lockout.

Work at height

Only properly trained personnel using proper fall protection equipment shall be authorised to carry out work at an elevated position as defined by internal procedure, which include certain including life-saving PPE requirements.

Hot work

Only properly trained, supervised and authorised personnel are entitled to perform hot work activities.

All hot work must be subject to a previous authorisation, given by an authorised Sonae Arauco employee, before it is undertaken as defined by a corporate procedure. As such, employees must:

- Confirm with the supervisor or the person in charge of the work that there is an authorisation in place as defined by the internal procedure;
- Initiate the work only after receiving the signed authorisation;
- Check that all defined conditions and required precautions are met throughout the duration of the work.

Access to wood yard

Only authorised personnel are entitled access to the wood yard, accordingly to the internal procedure, which include certain PPE requirements.

Confined space entry

Only properly trained, supervised and authorised personnel shall enter a confined space as defined by an internal procedure. A work permit is required and an approved rescue plan should exist before any entry can commence.

Incidents classification and report

At Tafisa Canada, all material damages (including caused by fires), near miss, first aid, medical treatment, lost workdays, or fatal accident are registered and communicated. For major material damages or when a worker suffers an injury, the internal first aid team is called to the scene (internal sound signal) to provide help or organize the transportation of the injured person. The supervisor provides support to the worker, informs his superior and H&S counsellors, begins an investigation, implements an immediate solution to protect other employees and informs the management team and local authorities if requested. A report is written by the worker to complete the investigation. A permanent solution is implemented and the final report is presented to the management team.

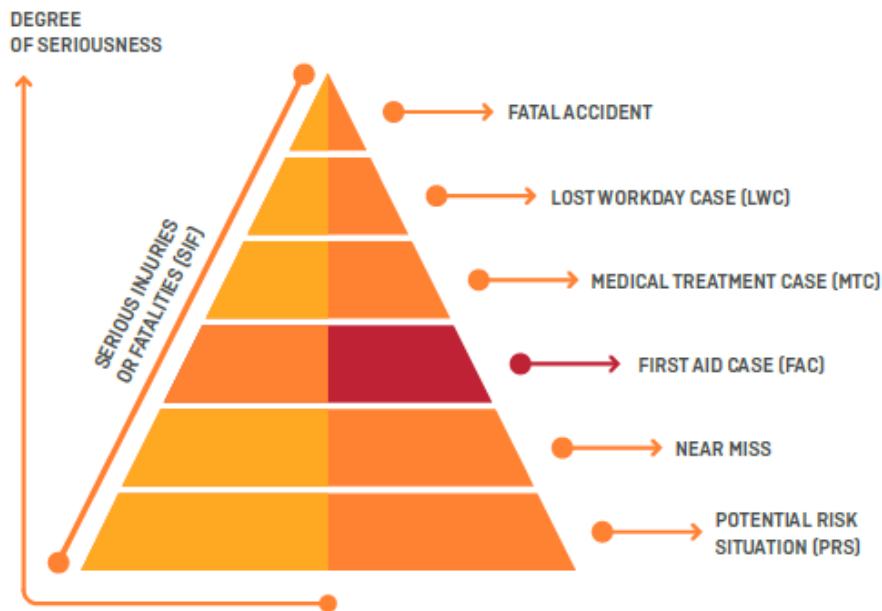
At Sonae Arauco, all incidents should be reported and classified according to the impacts on the victim in a scale of six degrees of seriousness.

1. Fatal Accident/Permanent disability, which is an incident that had fatal victims or that resulted in a permanent life-altering condition;
2. Lost Workday Case (LWC), which is any work related injury that leads to, at least, one workday lost by the employee in addition to the shift in which the event occurred;
3. Medical Treatment Case (MTC), which is any work related injury that requires medication or treatment that is typically administered by a healthcare professional, but does not result in any days lost or in work restrictions. After the medical treatment, the worker is able to return to work;
4. First Aid Case (FAC), which represents an incident that required a simple treatment given to a person with a minor injury that is usually administered immediately after the injury occurs. It consists of an one-time and short-term treatment and requires little technology or training to administer.
5. Near Miss, which is any unplanned and undesired event that did not result in injury, illness, or property/environment damage but had the potential to do so. A near miss situation (when an event occurs) is, for example, a suspended load that falls next to a person, but not hitting him/her.
6. Potential Risk Situation (PRS), which is a situation identified before the occurrence of an event that has the potential to cause one if not properly addressed. This includes unsafe conditions and risky/unsafe behaviours.

Identification and correction of potential risk situations (PRS) should not be considered or treated as a near miss but as an improvement opportunity.

Another relevant concept concerning the incidents classification is the Serious Injuries or Fatalities (SIF) concept. SIF is any fatal event, life-threatening injury, permanent disability or illnesses caused by exposure to conditions in the workplace that will lead to a life-altering condition. In addition, all events in which fundamental management controls²² are either absent, ineffective or not complied with, are to be considered as SIF.

All events recorded in Sonae Arauco are evaluated in terms of potential, which means that even a Near Miss could be logged as a Potential SIF if, after the analysis, it is understood that it could have led to the consequences described in a SIF. In such cases a comprehensive investigation is required to determine the root causes.



Serious Injuries or Fatalities (SIF).

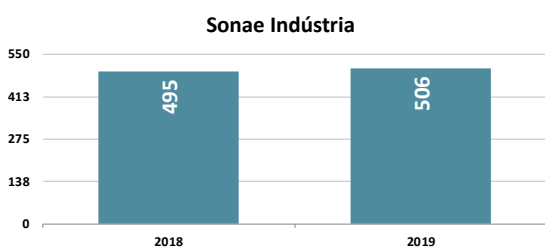
Source: Sonae Arauco.

²² Fundamental management controls: LoTo, Confined spaces, Work at height, Removing machine guarding or barricades, Hot work, Woodyard circulation and access protocol.

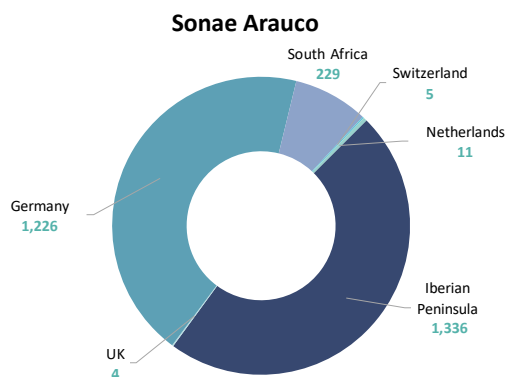
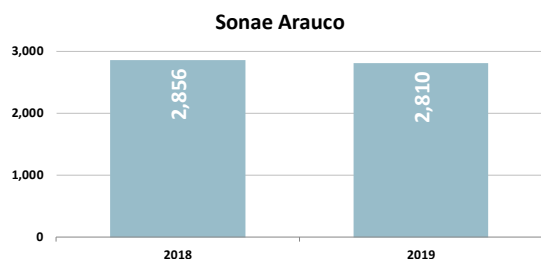
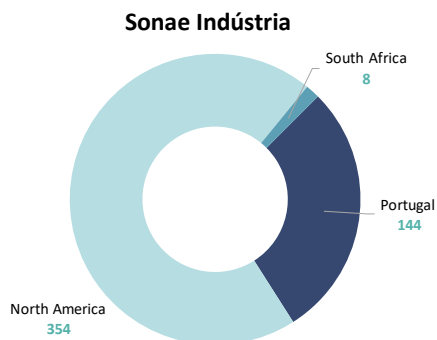
Key Employment Performance Indicators

The following sections considers information for Sonae Indústria and also for Sonae Arauco. Aggregate data consider 100% of Sonae Arauco figures also since 2016.

Number of Employees²³



Employees per country / region²³

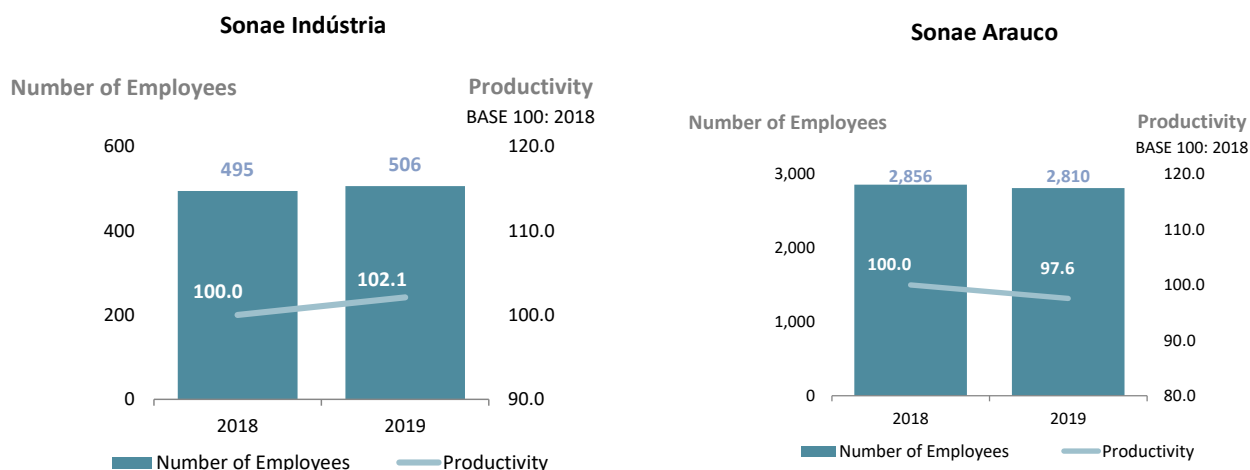


At the end of 2019, Sonae Indústria employed 506 employees (excluding trainees) in three different countries, an increase of 11 employees when compared to the end of 2018 of which 10 in the North American business (mainly due to the reinforcement of the risk management team and of the number of MFC operators).

Considering Sonae Arauco, the number of employees reaches 2,810 people in seven different countries, 45 people less when comparing to the end of 2018, mainly due to the ongoing process of closure of Laminate Park operations.

²³ Number of Employees: FTEs excluding Trainees and Externals and for Sonae Arauco consider, since 2018 inclusively, 100% of Laminate Park (the joint venture between Sonae Arauco and Tarkett for the manufacturing and sale of MDF/HDF laminate flooring).

Productivity (Turnover/Number of Employees)²⁴



In 2019, the productivity increased in Sonae Indústria (+2.5%) vs. 2018 due to an increase in Turnover driven by our North American business.

Despite the decrease of the number of employees, in 2019, the productivity of Sonae Arauco was lower (-2.4%) than in 2018, mainly explained by the turnover evolution which was affected by a reduction in total sales volumes and average selling prices.

Employee turnover²⁵

Employee turnover (%)	2018	2019
Sonae Indústria	10.7%	8.5%
Sonae Arauco	9.1%	7.4%

Employee turnover rate

	2018	2019
Sonae Indústria		
Executives and managers	0.2%	0.0%
High Qualified Technicians and supervisors	0.6%	0.0%
Administrative staff	2.0%	2.3%
Manufacturing workers and non-qualified workers	8.0%	6.2%
from 18 to 34 years	3.7%	2.3%
from 35 to 44 years	2.1%	2.3%
from 45 to 54 years	1.6%	1.3%
from 55 to 65 years	2.3%	2.3%
over 66 years old	1.0%	0.2%
Sonae Arauco		
Executives and managers	0.4%	0.3%
High Qualified Technicians and supervisors	1.8%	0.8%
Administrative staff	0.2%	1.3%
Manufacturing workers and non-qualified workers	6.7%	5.0%
from 18 to 34 years	2.8%	2.3%
from 35 to 44 years	2.8%	1.5%
from 45 to 54 years	1.6%	1.2%
from 55 to 65 years	1.8%	2.2%
over 66 years old	0.2%	0.2%

²⁴ Number of Employees: FTEs excluding Trainees and Externals and for Sonae Arauco consider, since 2018 inclusively, 100% of Laminate Park (the joint venture between Sonae Arauco and Tarkett for the manufacturing and sale of MDF/HDF laminate flooring).

²⁵ Employee turnover (%) = total number of employees (headcount) that left during the year / average FTEs during the year (based on monthly average values).

Workforce by sex, age group and professional classifications (Total FTEs²⁶)

	2018			2019		
	female	male	total	female	male	total
Sonae Indústria						
from 18 to 34 years	27	72	99	22	74	96
from 35 to 44 years	37	117	154	39	127	166
from 45 to 54 years	30	126	156	30	123	153
from 55 to 65 years	15	80	95	17	85	102
over 66 years old	0	0	0	0	0	0
Total	109	396	505	108	410	518
Sonae Arauco						
from 18 to 34 years	116	442	558	113	432	544
from 35 to 44 years	176	546	722	168	529	696
from 45 to 54 years	142	730	872	150	694	844
from 55 to 65 years	67	702	769	70	727	797
over 66 years old	2	4	6	3	5	8
Total	503	2,424	2,927	503	2,386	2,889
Executives and managers	5	21	26	5	22	27
High Qualified Technicians and supervisors	8	23	31	8	25	33
Administrative staff	45	51	95	44	54	98
Manufacturing workers and non-qualified workers	51	302	353	51	309	360
Total	109	396	505	108	410	518
Executives and managers	23	111	134	14	66	80
High Qualified Technicians and supervisors	82	255	337	65	317	381
Administrative staff	249	338	587	312	256	568
Manufacturing workers and non-qualified workers	149	1,720	1,869	112	1,747	1,859
Total	503	2,424	2,927	503	2,386	2,889

The most representative age groups at Sonae Indústria range between 35 and 54 years (corresponding to 62% of the total employees). It should also be noted that women represent 20% of the total workforce of the company.

Regarding Sonae Arauco, the most representative age group ranges between 45 and 54 years (corresponding to 29% of the total employees) and women represent 17% of the total workforce of Sonae Arauco.

²⁶ FTEs including Trainees. For Canada this figures also include Externals.

Employees by type of contract (Labour Agreements) (Headcount²⁷)

	2018			2019		
	female	male	total	female	male	total
Sonae Indústria						
Permanent	92	381	473	102	394	496
Temporary	12	9	21	3	9	12
Total	104	390	494	105	403	508
Sonae Arauco						
Permanent	472	2,303	2,775	476	2,224	2,700
Temporary	53	176	229	42	181	223
Total	525	2,479	3,004	518	2,405	2,923

Employees by contract time (Headcount²⁷)

	2018			2019		
	female	male	total	female	male	total
Sonae Indústria						
Full-time	104	389	493	105	402	507
Part-time	0	1	1	0	1	1
Total	104	390	494	105	403	508
Sonae Arauco						
Full-time	511	2,470	2,981	471	2,366	2,837
Part-time	14	9	23	47	39	86
Total	525	2,479	3,004	518	2,405	2,923

Collective agreements and salary policies

In the table below we present the percentage of employees covered by collective bargaining agreements in Sonae Indústria and Sonae Arauco.

% of Employees	2018	2019
Sonae Indústria	58.9%	58.7%
Sonae Arauco	83.1%	84.9%

²⁷ Headcount including Trainees and excluding Externals.

Ratio of Standard Entry Level Wage (Shop Floor) by Gender Compared to Local Minimum Wage at significant locations of operations (Industrial Operations)

	2018		2019	
	female	male	female	male
Sonae Indústria				
Portugal	1.00	1.00	1.00	1.00
Canada	2.07	2.07	2.04	2.04
South Africa	-	-	2.12	2.12
Sonae Arauco				
Portugal	1.08	1.08	1.04	1.04
Spain	1.55	1.55	1.40	1.40
Germany	1.70	1.70	1.64	1.64
South Africa	-	-	2.12	2.12

South Africa - Minimum wage only came into force on 1 May 2018.

Gender Pay Gap²⁸

Provided below is information on the “Gender pay gap”, regarding average remuneration by each gender group within each employee category.

2019

Sonae Indústria

Management, supervisors and highly qualified technicians (%)	20.5%
Administrative staff (%)	24.6%
Manufacturing workers and non-qualified workers (%) - Canada	2.8%
Manufacturing workers and non-qualified workers (%) - Others	18.2%

Sonae Arauco

Management, supervisors and highly qualified technicians (%)	18.2%
Administrative staff (%)	24.4%
Manufacturing workers and non-qualified workers (%)	10.7%

Note: For this indicator data is present for 2019, given there is no comparable information for 2018.

Parental Leave

Sonae Indústria complies with parental leave legislation in all the countries where it operates. The group encourages an equitable gender choice for both maternity and paternity leave, thus allowing employees to take leave and return to work in comparable positions with the other employees.

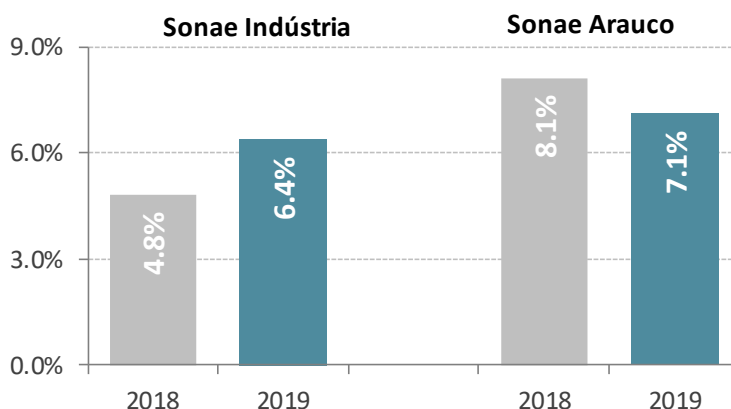
²⁸ Gender pay gap = (Gross average annual base salaries of male employees - Gross average annual base salaries of female employees) / Gross average annual base salaries of male employees * 100

The table below indicates the number of parental leaves taken by Sonae Indústria and Sonae Arauco employees in 2019.

	2018		2019	
	Maternity	Paternity	Maternity	Paternity
Sonae Indústria				
Portugal	2	2	3	1
Canada	4	17	3	21
South Africa *	NA	NA	NA	NA
Sonae Arauco				
Portugal	13	12	15	22
Spain	3	9	1	10
France	0	0	0	0
United Kingdom	0	0	0	0
Germany	8	21	11	10
Switzerland	0	0	0	0
South Africa *	NA	NA	NA	NA
Netherlands	0	0	0	0

* In South Africa there is no paternity leave concept but a family responsibility leave is available for the employees (e.g.: leave in case of children illness, loss of a family member, among others) with a limit of five days per employee per 12 month cycle.

Absenteeism rate (%)



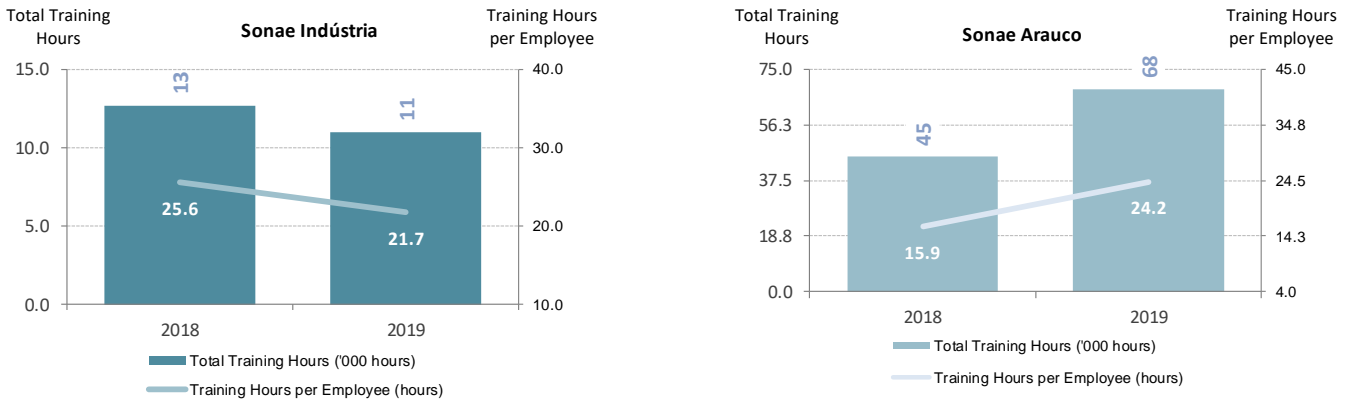
In 2019, Absenteeism increased in Sonae indústria when compared to 2018, driven by our operations in Portugal and Canada. In Portugal this indicator was affected by an increase in long term leaves. It should be noted that Sonae Indústria has an ageing workforce which has an effect in prolonged absences due to natural diseases.

The increase in Canada was observed in the short term absenteeism, in part due to new legislation that, in January 2019, authorized all employees to have access to two days paid for personal health reasons (sick days) or family reasons.

Regarding this issue Tafisa Canada continues to improve the follow-up procedures, when necessary provide lighter work to promote a quick return to work and encourage the employees and their families to use the employee assistance program. The utilization rate of this assistance program in Canada increased from 12.5 % to 17.6 % in 2019. Tafisa Canada will continue improving the follow-up process, finalize testing of programs to support employees on alternative shifts (day/night) and investigate other possible causes of absenteeism.

In 2019, Sonae Arauco reversed the increasing trend in absenteeism. The average absenteeism rate of Sonae Arauco decreased from 8.1% to 7.1%. Since 2017 this topic has been a high priority for the human resources, with the implementation and follow-up of several measures to act upon the absenteeism motives. In 2020 the focus on absenteeism will continue to be a priority, with new workshops and measures to address absenteeism.

Total training hours and training hours by employee²⁹



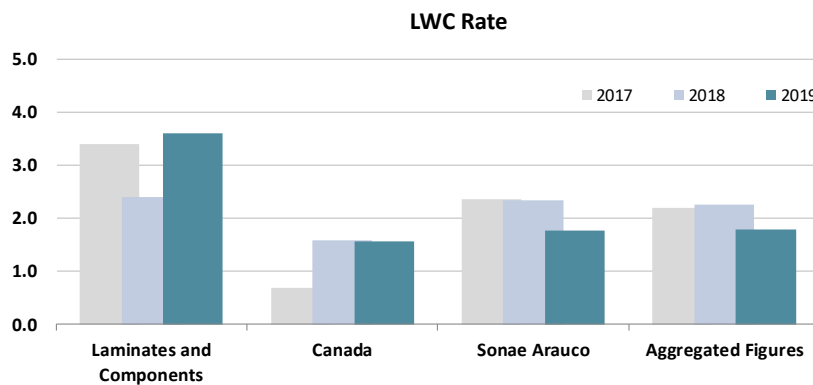
Recognising human capital as our most important asset, we are attentive to our professionals. We seek to ensure that they acquire the highest technical and managerial skills and that they are equipped to effectively and confidently address the continuous challenges. It is a priority to identify training needs in a structured way and then propose an adequate training offer. Training and development of our employees are also means to support their increased responsibility and commitment.

For Sonae Indústria the number of training hours per employee reduced from circa 25.6 to 21.6 hours on average per employee, due to our portuguese operations. In Portugal 2018 was marked by a set of legally required training sessions which involved a large number of employees and that are not necessary every year. These training sessions were related namely, with lifting loads, forklift safety and driving, fire fighting, introduction to the new ISO 45001 and safety of work equipment.

For Sonae Arauco, in 2019 the training hours increased from 15.9 to 24.2 hours on average per employee. There was a high commitment on training with a strong focus on the health and safety area, namely with the implementation of the Risk Factor training program and Life Saving rules training.

Key Health and Safety Performance Indicators

The chart below represents the Lost Workday Cases (LWC) rate³⁰:



In 2019 the aggregated LWC for Sonae Indústria registered an important improvement (22% when compared to 2018) as result of improvements recorded in two main businesses, Sonae Arauco (25% compared to 2018) and the

²⁹ Number of Employees: FTEs excluding Trainees and Externals and for Sonae Arauco consider, since 2018 inclusively, 100% of Laminate Park (the joint venture between Sonae Arauco and Tarkett for the manufacturing and sale of MDF/HDF laminate flooring).

³⁰ **Lost Workday Cases:** fatality, any occupational injury or illness that prevents the employee from reporting to work on any subsequent scheduled shift. A death as result of occupational injury and illnesses is a LWC regardless of the time between injury and decease because of the illness.

LWC Rate = (Number of LWC x 200,000) / Number of hours worked calculated on a 200,000 employee-hour base (100 full-time employees working 50 weeks, 40 hours per week).

Sonae Arauco figures for LWC Rate include Horn laminates plant and real estate and 50% of Laminate Park figures.

Canadian operation (1% compared to 2018). The slight increase registered in the Laminates & Components business (1% compared to 2018) was due to 1 Lost Workday case occurred in one of the sites.

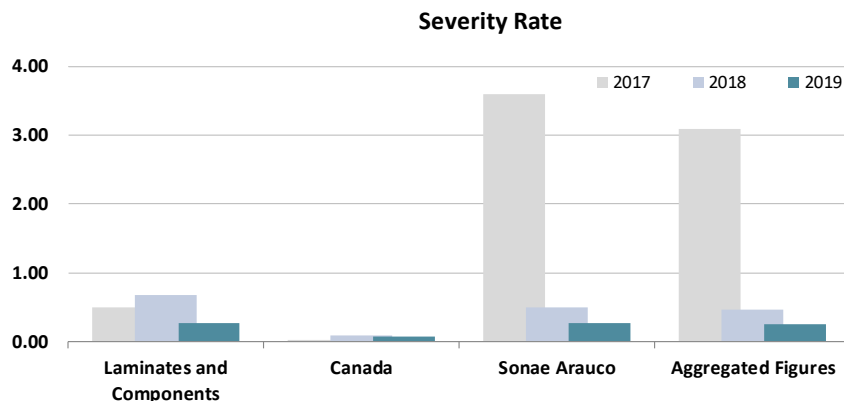
As previously mentioned (in the Occupational Health and Safety topic), regarding our goal of continuous improvement of the safety of our employees, in 2019 Tafisa Canada implemented many actions.

At Sonae Arauco the year of 2019 was marked by the further consolidation of the “BeST” (Behavioural Safety Transformation) program, a project which started at the end of 2017, in particular with:

- TRF (The Risk Factor) Training – an innovative safety awareness program designed to assist our employees in elevating their risk awareness and reducing unsafe decisions and behaviours by making conscious and deliberate choices when it comes to risk;
- LSR (Life Saving Rules) Reinforcement – formal training of the LSR, that was defined and approved in 2018, was delivered in the different sites to consolidate the importance of this message regarding safety that cannot be compromised;
- “STOP™ for Supervision” Reinforcement – reinforcement of the training program that was cascaded down to all company employees, who have supervision roles, to enable on how to perform safety observations and safety dialogues;
- SAKA project – development of e-learning modules with safety contents to be used in the induction process of new employees.

Our Components business also implemented several actions during 2019 to improve the safety of our employees, namely: special focus on issues related to the Work Equipment Directive, (DL 50/2015) (including reconditioning of edging line 1); training sessions to all employees on firefighting; first aid, chemical hazard and other health and safety issues and ensuring that the forklifts are compliant and properly inspected.

Other actions have been done to further strength Sonae Indústria safety culture and promote the required awareness in this area of paramount importance.



In terms of the seriousness of the injuries, translated by the Severity Rate³¹, the improvement in aggregate figures when compared to the previous year was even more significant with a reduction of circa 47%.

It should be highlighted that the impact of the LWC, in terms of days lost, was lower than in the previous year due to less severe accidents and also that all businesses improved in 2019.

Analysing the details of these results by business, when compared to 2018 we registered an improvement of 46% in Sonae Arauco, circa 61% in the Laminates and Components business and of 14% in the Canadian operation. At our Laminates Business, the improvement benefited from a higher degree of identification and reporting of “near accidents”, a more thorough multi-disciplinary work in the identification of occupational risks.

³¹ Severity rate = Number of workdays lost due to LWC*1,000 / Number of hours worked. A fatality is considered by adding 7,500 days in the numerator. Sonae Arauco figures for Severity Rate include Horn laminates plant and real estate and 50% of Laminate Park figures.

These results demonstrate that the commitment of Sonae Indústria with the Safety of all employees and contractors and the strategy defined, based on an improvement of the Safety Culture and Risk Awareness of individuals, is leading to the desired results.

4.3. RESPECT FOR HUMAN RIGHTS

Respect for human rights is fundamental for Sonae Indústria and forms part of the way the organization works and acts.

Managing human rights

Sonae Indústria adheres to global principles set out under international law and international declarations on Human Rights. The populations and governments of the countries where we operate hold us accountable for adhering to internationally proclaimed human rights principles. We are committed to fully respect all applicable rules and regulations, such as, for example, to follow legislation on minimum wages and minimum age of workers and maximum working hours per day. By treating workers with dignity and rewarding them fairly for their work, we can motivate them to be more productive and enhance loyalty towards the company. A reputation for adhering to international human rights may also enable us to attract skilled and well-qualified people and to maintain good relations with local communities. By actively seeking to manage our human rights record, we can thus not only ensure good working conditions for our own people but also contribute to raising the level of adherence to human rights standards in countries where the enforcement of these rights may be insufficient.

However, it is not only our own performance that must live up to fundamental human rights standards. To protect our image, we must also ensure that our suppliers and contractors are in full compliance. Therefore, in our relationships with suppliers and contractors it will increasingly become a pre-requisite that those parties also ensure full compliance with fundamental human rights. To this end, we consider suppliers performance in this area when entering into working relationships.

How we deal with human rights

Sonae Indústria shares the principles of the UN Global Compact, including those on human rights, that have been an intrinsic part of our culture for a long time, governing the way we treat our people, work with suppliers and contractors, and guiding us in decisions about which new markets to enter. Our efforts to abide by international human rights have also been formalised in our Code of Conduct.

We are pleased that to date, no complaints have been filed against us for involvement in human rights abuses, and we are committed to continuing, and extending, our efforts in this area. We will do so by incorporating key sustainability issues, including human rights, into our risk management processes, thereby ensuring that we address these issues as a regular part of risk assessments at all our operations. We believe these initiatives will allow us to identify, and immediately address, any potential or actual gaps in our future performance in this area.

Suppliers and contractors

Assessing and ensuring that our suppliers comply with human rights issues is a real challenge for the company, as the total number of suppliers is of several thousand.

Tafisa Canada implemented an IT system (Cognibox) with the main suppliers. This system requires that the supplier proves that it complies with all the regulations, that is in good standing with the authorities and that each of his employees has the skills to carry out the work requested. The supplier must declare any non-conformity.

Sonae Arauco aims to implement in the coming years a process to assess our suppliers and the implications of the relationship we establish with them (for example on human rights, site security issues, labour relations and other compliance issues), prioritising the major issues and risks in our relationships with them. Under the plan to implement

a new tool to support globally Sonae Arauco purchasing processes, suppliers will be required to fill and sign a statement, confirming they comply with Global Guiding Principles on Business and Human Rights, in terms similar to the ones illustrated below:

- The company has all the necessary business permits/licenses needed to perform the service, which are valid during the period of service execution;
- Fiscal situation; social, security and civil insurance of the company are in compliance with the law;
- All the equipment to be used during the service are in accordance with and comply with “CE” mark;
- People allocated to the service are physically fit to perform the duties, and there’s accident insurance for all employees, covering medical treatment for work;
- There’s no employees under the minimum legal age old and they are paid at least the legal minimum wage;
- The company ensures that social security of the employees is in compliance with the law;
- All the employees will use the mandatory PPE’s according the designated areas.

This is another important step towards the enforcement of sound business processes, supporting Sonae Indústria’s principles and respect for the human rights.

4.4. ANTI-CORRUPTION AND BRIBERY MATTERS

This chapter presents a brief description of Sonae Indústria's policies and instruments to fight corruption and bribery.

Code of Conduct and Communication of Irregularities

The Code of Conduct (“Code”) contains a set of standards based on Sonae Indústria's shared values that govern the activities of the Sonae Indústria Group. It applies to everyone working in the Group, including members of the statutory governing bodies of Sonae Indústria, SGPS, S.A. and Group companies, managing directors, senior executives and all employees (including temporary staff).

The complete Code of Conduct can be found at the company website:

<https://www.sonaeindustria.com/en/corporate-governance/code-of-conduct>

This code sets out guidance on matters of business ethics to be complied with by all employees when carrying out their professional duties. It has not been conceived to address every single possible situation, nor as a summary of all applicable laws and regulations. Following the Ethical Behaviour, one of the Sonae Indústria principles, our relationships with stakeholders are founded upon respect, transparency, honesty and integrity and we do not tolerate bribery or corruption in any shape or form. We strive to preserve our independence from political pressures in order to speak and act freely, first and foremost in the interests of the company.

Sonae Indústria's Code of Conduct sets out the main ethical behaviours that Sonae Indústria's employees must comply in their relations with:

- Employees and service providers;
- Shareholders and other investors;
- Governments and local communities;
- Business partners;
- Competitors.

The Ethics Committee supports the enforcement of the Code of Conduct and it is its responsibility to:

- Promote the values and behaviours encouraged by the Code;

-
- Act as a consulting body;
 - Review employee's clarification request;
 - Receive any communication of irregularity;
 - Initiate and supervise the investigation of all alleged irregularities reported and ensure that appropriate disciplinary actions are taken.

It is important to highlight that as per its Code of Conduct, everyone at Sonae Indústria is legally bound to comply with all national and international legislation. If our internal standards are more rigorous than those imposed by local laws, Sonae Indústria goes beyond compliance with local legislation and adopts the most demanding standards.

In 2019 there were no reported irregularity or corruption situations.

Antitrust Policy and Guidelines

"Antitrust" or "Competition" laws are applicable in most countries in which Sonae Indústria operates. The purpose of these laws is to ensure that businesses and markets operate competitively and provide the fairest outcome for the consumer. Competition laws are fundamentally premised upon the idea that, where free and open competition exists, markets will function efficiently, and consumers will benefit from lower prices, product variety and better quality products and services.

Sonae Indústria promotes and respects free competition as a healthy business practice and a fundamental principle, which must govern all aspects of its business dealings.

The management of Sonae Indústria is committed to complying with competition laws in all countries where operates and expects all employees to also do so. It is the belief of the management that compliance with such laws is on the best interest of Sonae Indústria, its shareholders, its employees and other stakeholders.

At Sonae Indústria, the Board of Directors approved in October 2019 an antitrust policy and guidelines applied to all Group, that will be released during 2020.

In 2019, at Sonae Indústria we also completed an antitrust training refresh for our staff and continued to provide training for these matters to new employees.

At Sonae Arauco an Antitrust Policy and Guidelines manual has been adopted and sets out the policy and rules by which all Sonae Arauco employees and management should conduct business from a competition standpoint. The content of this manual is regularly reassessed, and updated when necessary.

In addition, Sonae Indústria ensures that employees and management with exposure to competition law risks receive competition compliance training on a regular basis.

Third parties acting as agents of Sonae Indústria are also directed to comply with the same standards of conduct that apply to Sonae Indústria employees.

Prevention of Crimes

There are control practices and processes in the company's business activities, promoting an environment favourable to the prevention and detection of risks of crimes. The most relevant components to prevent and detect crimes are related with:

- i. Code of Conduct - disclosed to all Employees and available in different locations.
- ii. Whistleblowing channel – a "whistle-blowing" channel is foreseen and explained in the Code of Conduct and managed by the Ethics Committee. Non-compliance situations related with criminal risks are managed by this Committee.
- iii. Disciplinary system – the applicable law in each country is the basis for the disciplinary actions in case of non-compliance issues on criminal risks.

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- iv. Financial resources system suited to crime prevention – policies and procedures regulating the management of financial resources, with the aim of preventing crimes (budget, investment approval, services purchasing process, travel expenses, among others).

4.5. ENVIRONMENTAL AND FORESTRY MATTERS

The industrial activity of Sonae Indústria impacts the environment through the sourcing of raw materials and generates waste water discharges, waste disposal, and emissions.

As a company we are conscious of the environmental footprints we leave behind and consider that the responsible management of environmental issues is critical to our business success. We are committed to sustainable sourcing of raw materials and actively respect these principles in all our business practices.

This chapter describes our key environmental issues and what we are doing to manage them.

To respect the environment is part of Sonae Indústria's nature

Sonae Indústria is committed to the concept of sustainable utilisation of raw materials and actively respects these principles in all its business practices.

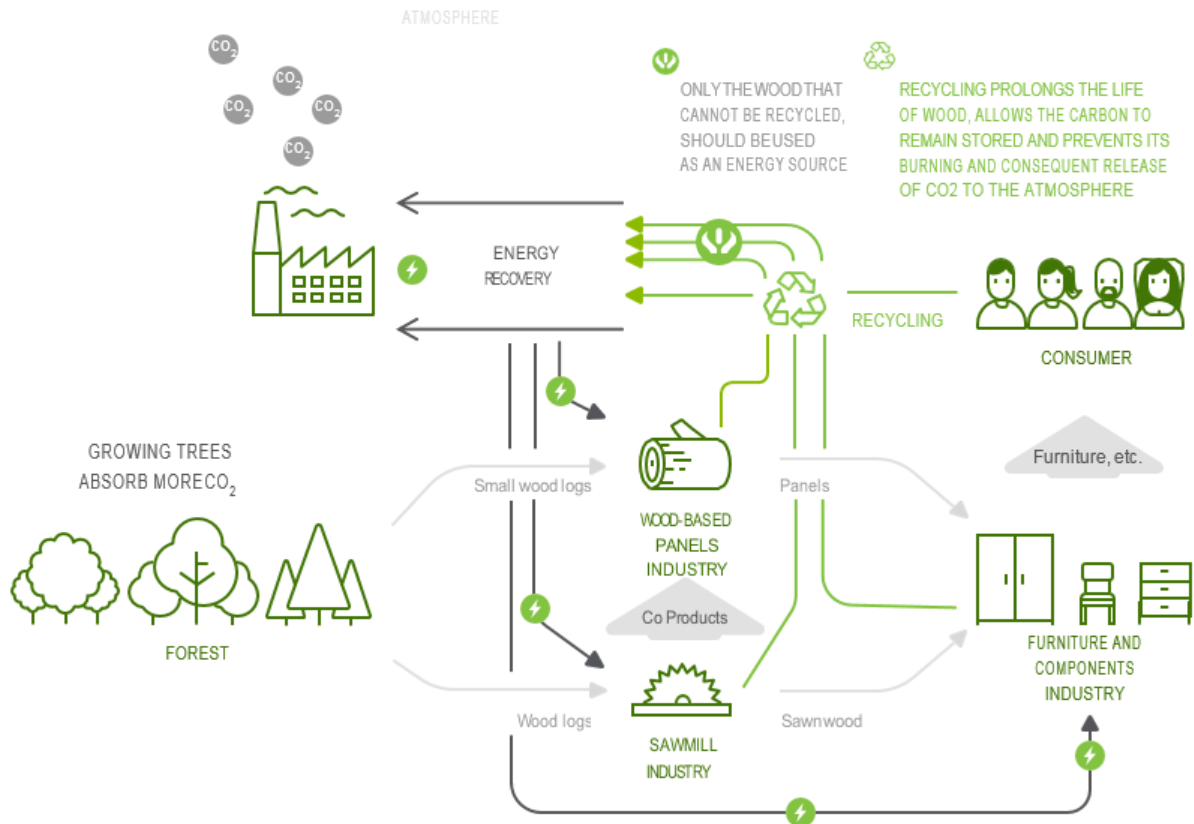
Sonae Indústria believes that efficient value chains are able to stimulate investment and the active management of forests. In this context, wood-based panels contribute to the sustainable use of forest resources.

The wood-based panels present diverse advantages, namely:

- An interesting alternative to solid wood;
- Their dimensional flexibility allows made-to-measure products to be manufactured;
- Compared to other building materials, like steel and concrete, it has considerably lower environmental impacts;
- A positive effect on global warming due to improved energy efficiency;
- Acting as carbon storage, helping reduce CO2 emissions;

- At the end of their lifespan, they can be recycled and transformed into new products in a continuous recycling process.

Life Cycle of Wood and Wood-based products:



Source: Sonae Arauco

Main Environmental and Forestry Concerns

Respect for the environment is one of the main concerns at Sonae Indústria and all its businesses. As the activities at Canada and Sonae Arauco are heavily dependent on forest-based resources, the sustainable utilization of the forest-based resources is one of the company focus.

Tafisa Canada is an active member of the Composite Panel Association and of the Conseil de l’Industrie Forestière du Québec in order to keep updated on the issues of environmental matters and participate on several committees in relation to Environment, Product performance, Product emissions, Health and Indoor air Quality.

Sonae Arauco is an active member of the EPF (European Panel Federation) and has an active participation in several of its working groups and performs lobby efforts towards environmental and government institutions focusing on regulations such as:

- Industrial emissions and its impact;
- Formaldehyde and its risk reclassification (in the European context);
- Forest management and forest-based raw material certifications (FSC® and PEFC™);
- CO₂ emissions;
- and Biomass and energy.

Industrial emissions regulations and its impact and implementation at Sonae Indústria

Industrial production processes account for a considerable share of the overall pollution in Europe due to the emissions of air pollutants, discharges of waste water and the generation of waste.

The Industrial Emissions Directive (IED) is the main European instrument that regulates the environmental impacts caused by industrial installations. The IED aims to achieve a high level of protection of the human health and the environment by reducing harmful industrial emissions across the EU, in particular through enforcing the application of Best Available Techniques (BAT).

Since 2010, the wood-based panels industry is included in the scope of the IED, setting permit conditions which include emission limit values for pollutants emitted in significant quantities. The main challenges arising for the sector are:

- Dryers dust emissions;
- Dryers TVOC (total volatile organic compounds) emissions;
- Emission limits defined for formaldehyde (mainly in the case of dryers and presses).

In 2019 Sonae Arauco started implementing the installation of state-of-the-art solutions that enable to go beyond the compliance with emissions at the European sites. This project encompasses new systems as well as retrofitting of existing ones following the best available techniques available.

In Canada, most environmental issues are regulated by provincial acts and regulations. The Quebec Environment Quality Act (EQA) establishes a general structure to prevent pollution by issuing permits (Ministerial authorization). This law is also the basis of specific regulations for air, water, land protection and waste management. The Clean Air Regulation (CAR) is the main Quebec regulation for air pollution control. The main challenges arising are:

- Dryers dust emissions;
- Dryers and combustion equipment heavy metals emissions;
- Formaldehyde emissions from production presses;
- Particle emissions from the transfer, fall or handling of materials.

In 2019, Tafisa Canada invested in a new emissions treatment system for its first particleboard production press to further reduce the company's environmental emissions. The system enabled us to reduce particulate emissions by 95%.

In 2019, Tafisa Canada also made improvements to the Wet Electrostatic Precipitator (Wesp) on the dryers of particleboard line 2 which allow a reduction of dust emissions by 47%.

Formaldehyde and its risk reclassification

Formaldehyde is naturally produced by the body, being a critical molecule for the formation of proteins and quickly metabolised. Formaldehyde is also naturally emitted by vegetation (leaves and wood) - up to 10 million tons per year globally. More than 11 million tons per year of formaldehyde is naturally formed via secondary atmospheric reactions.

In 2015, formaldehyde was reclassified as a carcinogenicity category 1B substance when it is present above certain values, which results in new challenges for the wood-based products industry. This reclassification triggered new obligations under various European legislations, including portuguese legislation and opened the way for potential actions under European registration, evaluation, authorisation and restriction of chemicals, known as the REACH regulation.

However, this reclassification focus on the potential occurrence of an extremely rare cancer in Europe (nasopharyngeal cancer) and a comprehensive risk assessment for workers and consumers demonstrated its safe use. Following these results, Sonae Arauco acts in accordance to ensure proper work conditions to all its employees.

An additional impact of this reclassification was the definition of a new standard for product emissions' analysis, with its method resulting in the reduction of the emissions limit of formaldehyde to half. Following a comprehensive

product development, Sonae Indústria is able to achieve the new standard and produce boards with very low formaldehyde emissions, that are highly demanded by the market.

Also worth mentioning that in Germany, the implementation of the new “E05” emission regulation on the level of formaldehyde emissions from wood-based products had impacts in the production costs which had to be dealt with. This new emission regulation is required since 1 January 2020.

In Canada, in 2019, the Environmental Protection Agency (EPA) implemented a national wide formaldehyde emission standard to which Tafisa Canada has been adhering to with no non-compliant lots in 2019. In 2019 Tafisa Canada has received a Composite Panels Association (CPA) certification stating compliance with the limit for formaldehyde emissions defined by EPA.

As for our Laminates business it should be noted that our Laminates are REACH compliant. It should also be highlighted that during 2019, our Laminates Business obtained the Greenguard® certification of its product, further attesting the low chemical emissions and overall contribution to improve the indoor air quality where our products are used.

As for our components business the plant has no formaldehyde emissions (formaldehyde in the particleboard used in the production is residual, having no impact on the environment).

Forest management and forest-based raw material certifications (FSC® and PEFC™)

Wood is a natural and renewable material, being absolutely necessary to have both responsible forestry and responsible use of forest resources to guarantee the sustainable use of wood.

To ensure this, Sonae Indústria promotes sustainable forestry management in the regions in which it operates, by actively participating in sustainable forest management standardisation and certification initiatives both at national and international level, as well promoting initiatives to increase the forest management certification along the value chain.

In order to do so, Sonae Arauco and Laminates and Components business are certified by two of the largest forest management and responsibility chain certification systems: the FSC® (Forest Stewardship Council® - FSC-C-013589) and the PEFC™ (Program for the Endorsement of Forest Certification schemes) and Tafisa Canada is certified by the FSC® (Forest Stewardship Council® - FSC-C-013589).

It should be also highlighted that in 2019 our, Laminates business reported a year-on-year four-fold increase in the sales of FSC® and PEFC™ certified products, which now represent circa 30% overall.



FSC® confirms that the forest is being managed in a way that preserves the natural ecosystem and benefits the life of local people and workers, while ensuring it sustains economic viability. To secure this certification, FSC® members have agreed upon a set of criteria that forest managers and owners have to meet:

- Maintain areas of environmental and social value, helping protect people, plants and animal species that live in these areas;
- Process to achieve forest management certification, achieved by passing an assessment carried out by a FSC®-accredited certification body, with forest management conformity assessed against the FSC® principles and criteria;
- Supplying controlled wood, since to gain this certification, forest owners and managers who supply controlled wood must meet the FSC® controlled wood standard. Meeting this standard means that the material sourced has not been harvested illegally, in violation of traditional or civil rights, or in a way that threatens high conservation value (HCV) areas.

Sonae Arauco is now a member of the Forest Stewardship Council (FSC®) International, taking another important step in its mission of creating a sustainable forest value chain. The company, which is one of the largest wood-based solutions' players in the world, joins a group of more than 1,000 members that integrate this international non-profit organization, dedicated to promoting the responsible management of the world's forests.



Programme for the Endorsement of Forest Certification (PEFCTM)

PEFCTM is an international non-profit non-governmental organisation dedicated to promoting Sustainable Forest Management (SFM) through an independent third-party certification. As such, PEFCTM is the world's largest forest certification system and the certification system of choice for small and non-industrial private forests, with hundreds of thousands of family forest owners certified and who comply with the PEFCTM Sustainability Benchmark.

PEFCTM sets the highest standards for forest certification and sustainable forest management in line with society's ever evolving expectations. Obtaining a PEFCTM Sustainable Forest Management certification demonstrates that management practices meet the requirements for best practice in SFM.

Eco-Certified Composite grademark program (ECC)

In 2019, Tafisa Canada panels have been granted Eco-Certified Composite Grademark Program (ECC) Certification by the Composite Panel Association (CPA), demonstrating an exemplary commitment to the sustainable use of wood fiber and to environmental stewardship. Tafisa Canada's particleboard meet or exceed the following five requirements:



- Carbon Footprint – The plant shall demonstrate that the panel's carbon store offsets its cradle-to-gate carbon footprint as determined in kg-CO2 equivalents of greenhouse gas (GHG) emissions;
- Local and Renewable Resource – At least 85% of total annual wood fibre used shall be sourced within 402 km of the manufacturing plant;
- Recycled/Recovered – Use a minimum of 75% recycled or recovered fiber; or at least 50% recycled or recovered fiber and a minimum of 5% post-consumer fiber. Percentages shall be calculated on a weight basis as measured in bone dry tons (bdt);
- Sustainability – The plant shall document that greater than 97% fiber furnish brought on-site to manufacture panels is either converted into panels or other non-waste products;
- Wood Sourcing – The plant shall hold a valid assessment and certificate from a certifying agency recognized by CPA such as the Forest Stewardship Council (FSC—Controlled Wood Standard or Chain of Custody Standard) or the Sustainable Forestry Initiative (SFI—Fiber Sourcing Standard).

LEED® credits (Leadership in Energy and Environment Design 2009)

Tafisa Canada's panels qualify for LEED® credits (Leadership in Energy and Environment Design 2009) under the US Green Building Rating System.

LEED is an internationally recognized green building certification system, providing third-party verification that a building or community was designed and built using strategies aimed at improving performance across all the metrics that matter most: energy savings, water efficiency, CO2 emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts. To be awarded a LEED certification, a building project must be granted a minimum number of credits from an independent audit through the independent Green Building Certification Institute (GBCI.org) which classifies its rating as certified, silver, gold or platinum.

CO2 emissions

As responsible citizens of the local communities where we operate, the company is committed to manage the energy consumption in a responsible way to reduce CO2 emissions as far as possible.

By using the non-reusable and non-recyclable materials generated during production as fuel we are able to supplement our energy consumption in the form of heat and power through sources of renewable “fossil-free” energy. As a general rule, for the board producing facilities, the process heat needs are supplied locally using integrated thermal energy facilities. The final balance between CO2 emissions during combustion of biomass-based materials and CO2 sequestration during tree growth is estimated as neutral.

In addition, one of the major environmental focus, in what concerns Sonae Arauco, is related to successfully managing the carbon emissions allowed within the European Union Emissions Trading Scheme (ETS), ensuring the respect for the environment and the will to reduce CO2 emissions.

In 2019, as the result of developing efforts on reduction CO2 emissions, Sonae Arauco decided to sell an important amount of its exceeding allowances accumulated during the latest years, still not having to buy any allowances from the grid.

Our Components business plant has no meaningful air emissions namely CO and NOx (there is a burning boiler for the elimination of wood particles residues with the energy being used to heat the site, through a system of coils and water).

Tafisa Canada operation is not subject to Carbon tax considering the low values of CO2 emissions. The Quebec cap-and-trade system for greenhouse gas emission allowances considers an emitter: an enterprise who produces annual greenhouse gas emissions in a quantity equal to or greater than 25,000 metric tonnes of CO2, excluding the emissions attributable to the combustion or use of biomass and biomass fuels. Since Tafisa Canada mainly uses biomass fuels such as bark and wood dust, the quantity of CO2 emitted is much lower than 25,000 metric tonnes.

Biomass and energy

In several regions of the world, facilities to produce energy (mainly electricity) from biomass have been developed and these are largely funded by national programs that focus on the mitigation of climate changes.

These incentives are based on the assumption that replacing fossil fuels by renewable alternative fuels - such as biomass - represents a positive contribution in mitigating CO2 emissions in the long term. This has increased the usage of biomass in co-combustion processes, mainly in production units covered by the regulations on greenhouse gas emissions (e.g. facilities covered by the European Directive on Emissions Trading). Thereby, biomass contributes to the achievement of these plants’ goals to reduce their CO2 emissions from fossil fuels. Within this scope, the production of pellets has been strongly encouraged as an essential activity to facilitate long distance transport of biomass fuel, increasing the wood price.

For this reason we have been arguing that energy producers who also use biomass as fuel should be obliged to demonstrate that:

- The replacement of fossil fuels by biomass maintains a carbon-positive balance, even when considering the CO2 emissions associated with the shipping process and supply logistics;
- The biomass is produced from sustainable managed sources and that the principles of the circular economy and of the waste hierarchy are fulfilled.

This demonstration can be easily integrated into a compulsory annual verification of greenhouse gas emissions which in most situations already exists.

This initiative aims to restore wood procurement competitiveness, that otherwise could jeopardize wood based panel industry, if incentives would be given for burning.

At the beginning of January 2020, the Horn biomass power plant was sold. In contrast, new investments on improvements of the energy performance of some equipment, as well as a change on a combustion system in one of Sonae Arauco sites, are setting Sonae Arauco in the direction of lower energy consumption.

Climate change

The company is committed to manage the energy consumption in a responsible way to reduce CO2 emissions (the most important element of “greenhouse effect” generated in its industrial processes) as far as possible.

One of the key environmental focus of the company is related to a successful management of the carbon emissions rights that are granted within the European Union Emissions Trading Scheme (ETS), ensuring the respect for the environment and the will to reduce CO2 emissions.

In global terms industrial production processes account for a considerable share of the overall pollution in Europe due to their emissions of air pollutants, discharges of waste water and the generation of waste.

Sonae Arauco is actively adapting its industrial sites to fulfil all IED compliance requirements and therefore continue to improve the footprint associated to its industrial operations.

Our products, when used for building purposes, act as carbon storage, helping to reduce CO2 emissions and to carbon storage extension and all of its products, at the end of their lifespan can be recycled and transformed into new products in a continuous recycling process.

Having in mind the above commitments, Sonae Arauco have implemented, during 2019, the following actions aimed to reduce the CO2 emissions and to mitigate the negative impacts in terms of “Climate change”:

- Conversion of boilers from heavy fuel to natural gas;
- Equipments to remove additional moisture from the wood reducing the thermal energy needed for the drying process;
- Continuous development of initiatives to optimize the energy consumptions in all industrial plants.

Tafisa Canada has been committed to using only 100% recovered and recycled fibres in the manufacturing of its panels. Tafisa’s Rewood™ technology continued to play a key role in the company’s commitment towards the preservation of the environment through the recycling of 244,000 tons of post-consumer wood fibre annually which are integrated into the company’s panels thus saving millions of trees each year.

Our North American business used mainly biomass for energy and consumed a low amount of fossil fuels to meet very important energy needs in winter only. Although burning biomass releases carbon dioxide CO2, the wood that is the source of biomass for energy captures almost the same amount of CO2 through photosynthesis while growing as is released when biomass is burned, thus, biomass is considered a carbon-neutral energy source.

Tafisa Canada continued to work on developing initiatives to optimize its energy consumption.

How We Deal With These Concerns

Pollution

Sonae Indústria sites undertake thorough emission measurements and inspections are done to all the applicable discharge points (air, water or ground) to confirm compliance to their emission licenses in accordance with the countries were they operate.

External party audits (ISO management systems, IWAY system, among others) also act as catalysts to continuous improvement in terms of what can be done to reduce the environmental impacts of our operations.

This concern is imbedded in all investments, or changes that we do to the industrial process, and we constantly seek to optimize the existing solutions and simultaneously to prevent future problems.

Waste Management

On a broader sense, and less related with the specificities of the industrial process, waste separation is done, and enforced, in designated industrial sites as part of the certification requisites. Residues are collected and selected by

category (general, hazardous, plastic, paper and metals) and disposed of accordingly (hazardous disposed via an accredited contractor, general to municipal operators and other recycled by specific contractor). Monthly records are kept for each disposal.

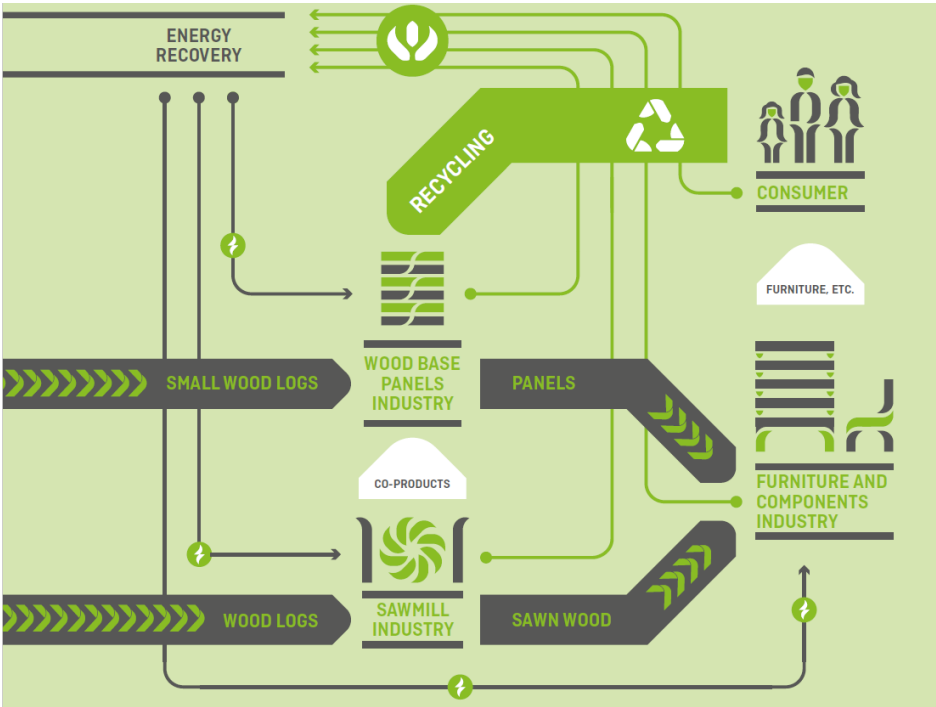
During the industrial process a significant volume of non-reusable and non-recyclable material is generated which is used as fuel in the site’s power plants to supplement the process energy consumption, both in the form of heat and power.

Sonae Indústria has, within its industrial sites, a 5-step waste hierarchy (see image below) for a more comprehensive and detailed waste prevention and management. This forces us as a company to constantly think of all materials and services entering or leaving our sites within a more holistic approach.



5-step waste hierarchy
Source: Sonae Arauco

Closing the loops on the life cycle of our products is part of our daily praxis. The following chart shows an overall, not detailed, image of the most relevant energy and waste flows within the life cycle of our products.



Main energy and waste flow within the life cycle of our products.
Source: Sonae Arauco

Sustainable use of resources

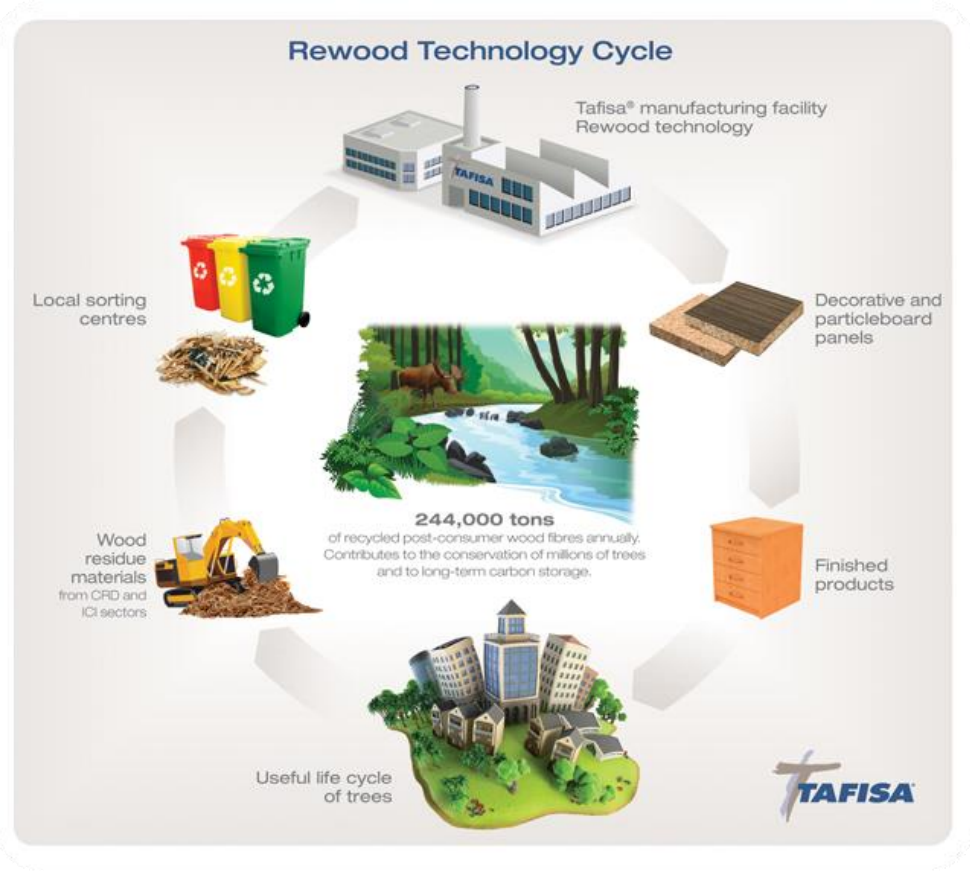
Main raw materials

As mentioned above a significant part of the raw materials used by Sonae Indústria in the production process is derived directly from materials that would otherwise be treated as waste. We turn these materials into sustainable value-added products which may be recycled at the end of their respective lifecycle. There are few other industries can achieve similar rates of sustainability and circular bio economy business model. We are doing plans to increase the certified wood consumption, in order to ensure responsible forestry and responsible use of forest resources in accordance with our policies and social commitments, and with direct impact in biodiversity protection.

As an example, it should be highlighted that Sonae Arauco is one of the founding members of ForestWISE – Collaborative Laboratory for Forest and Fire Integrated Management in Portugal, officially created in September 2018. ForestWISE aims at developing research and development (R&D), innovation and transfer of knowledge and technology in order to preserve the sustainability of the forest resources, to minimize the risks of the wildland fires and to optimize the benefits of the forest to the society.

Since 2005, over 20 million dollars have been invested to develop in Tafisa Canada a unique technology, named Rewood™, which enables Tafisa Canada to replace a portion of the post-industrial wood fibres in its panels with recycled post-consumer wood fibres. This innovative technology ensures a constant and renewable supply of raw material without compromising the environment for future generations.

The Rewood™ technology enables the recycling of 244,000 tons of post-consumer wood fibre annually, thus saving millions of trees. This approach extends a tree’s useful life cycle; instead of ending up in a landfill site, post-consumer wood materials are recycled and integrated into the company’s panels.



Key Performance Indicators

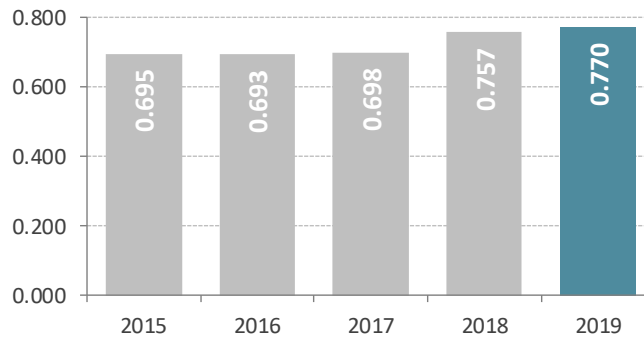
The following sections considers information for Sonae Indústria and also for Sonae Arauco. For Sonae Indústria, most indicators are calculated for Canada wood based panel business on the basis of specific consumption per cubic meter produced (concept not directly applicable to the Laminates business).

Wood consumption (dry ton/m³)³²

Wood is Sonae Indústria’s primary raw material, considering the business in Canada and Sonae Arauco. As a major user of this natural, renewable and recyclable material, we believe that using recycled wood and wood by-products in our production is part of our sustained contribution towards mitigating CO2 emissions and climate change.

The figures below consider the board businesses (aggregate figures of Canada and Sonae Arauco) and show the global evolution of the wood mix consumption and wood use efficiency figures.

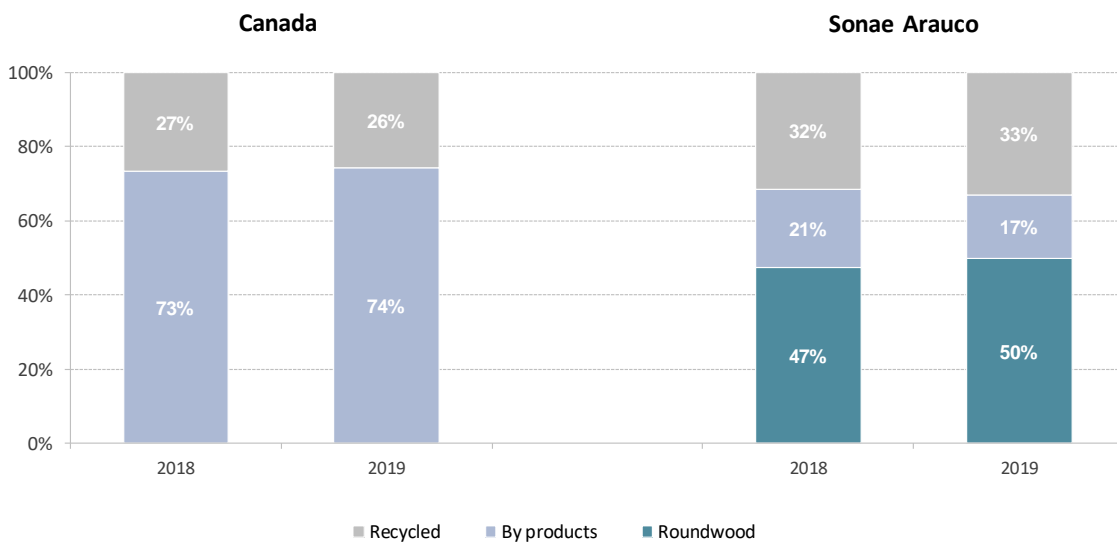
Wood consumption by cubic meter produced
(dry ton/m³)



For Sonae Arauco portfolio, wood consumption per cubic meter produced registered an increase when compared to 2018, which is mainly explained by an the increase in the weight of MDF production (that has an higher specific consumption of wood per m³) when compared to the production of PB and OSB products.

However, in Canada and compared to 2018, wood consumption per cubic meter produced registered a reduction.

Wood consumption by type



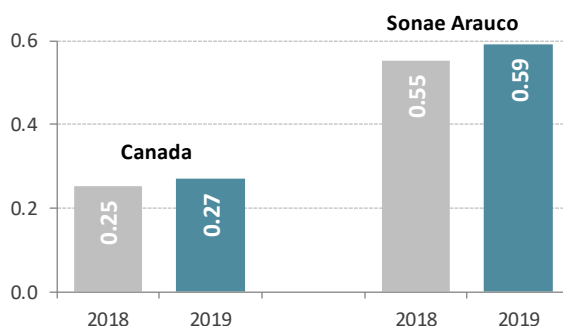
³² Figures for wood consumption (dry ton/m³) consider, since 2018 inclusively, the total specific wood consumption and not only the specific wood consumption in wood raw lines as reported in the previous years.

In the year of 2019, the global wood supply mix for the board operations in Sonae Arauco showed a slight increase on the utilization of recycled material, which was allowed namely by the improvements in the industrial process of cleaning the recycled wood in the particleboard sites. In Sonae Arauco, the utilisation of roundwood increased to circa 50% (+3 p.p.), the by products usage decreased to 17% (-4 p.p.) and the incorporation of recycled material, as already mentioned, increased to 33% (circa +2 p.p.).

The canadian operation slightly reduced the level of incorporation of recycled material (-1 p.p) and slightly increased the by products (+1 p.p.) utilization when compared to 2018.

Water consumption (m3/m3)

Municipal, surface and underground water



Below, we present the water consumption by source for 2018 and 2019:

Water consumption (thousands, m3)	2018	2019
Sonae Indústria	190.1	200.9
Canada (Municipal Water)	180.9	191.1
Laminates & Components	9.2	9.8
Municipal Water	0.2	0.2
Underground Water	8.9	9.6
Sonae Arauco¹	1679.4	1784.9
Municipal Water	975.072	1051.7
Surface Water	161.3	178.1
Underground Water	543.1	555.1

(1) Sonae Arauco figures include Horn laminates plant and real estate.

Sonae Indústria’s industrial process requires water and, conscient of this impact, efforts are done to reduce the use of fresh water and to increase the reutilization of treated wastewater. These are common environmental objectives in several industrial sites.

Overall, the specific water consumption increased in 2019, when compared with 2018, due to increase consumption both in Canadian operation and Sonae Arauco. Compared to 2018, the consumption of water from all sources has increased in 2019, which is also translated in the specific consumption as explained.

At Sonae Arauco the effect came from an increase of the weight of MDF production, that is more water demanding process, while the overall production in the year decreased also impacting the indicator.

At Tafisa Canada the increase is mainly explained by the use of water in the improved gas quenching to remove particulates from the dryers exit.

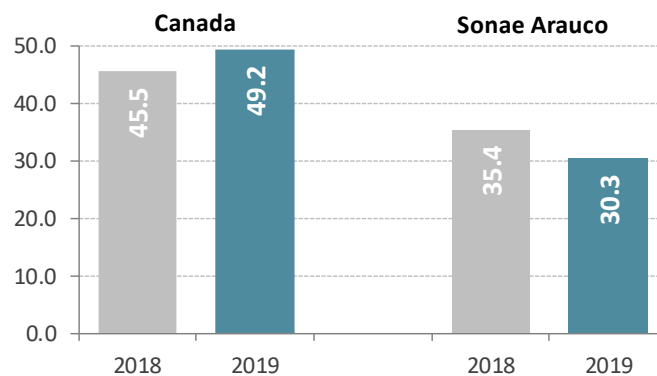
Our Laminates and Components Business registered a slight increase in the water consumption in 2019 when compared to 2018. However, following our commitment to reduce the environmental footprint, at the end of 2Q19, one cooling tower in Maia site was decommissioned which should lead to a material reduction of the water consumption in the next years.

Waste generation (kg/m3)

Hazardous and non-hazardous waste

In 2019, at Sonae Arauco, there was a reduction of this global indicator on specific waste generation, although the values achieved were above what has been registered in the past. The projects developed in some Sonae Arauco sites, including the replacement of a complete press line in Beeskow and of an MDF dryer in Mangualde, resulted in generation of a significant quantity of non-hazardous residues, mainly metal scrap and demolition material, that had to be disposed and, consequently, negatively impacted this waste indicator as described.

At Tafisa Canada this indicator increased when compared to 2018 mainly due to: a higher inventory of dust residues at the end of 2018 that had to be disposed of in 2019; higher bark consumption for energy production (producing more waste) caused by the replacement of certain recycled wood rejects (that are not allowed anymore for energy production according to environmental regulations) and by the reduction of fossil fuel consumption.

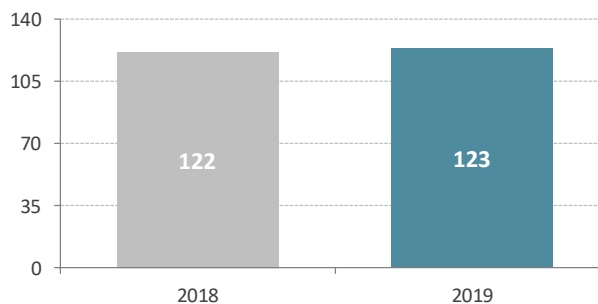


Chemical Consumption (kgs/m3)

Together with wood, chemicals are one of the key raw materials used in the wood panels production process. As a downstream user, Sonae Indústria recognizes its obligations under REACH regulation and takes all necessary actions to ensure the continued supply of its products in accordance with this Regulation.

The figures below summarise the global evolution of the consumption of chemicals by our main businesses. This consumption remained constant in the Canadian operation and registered a slight increase in the Laminates and Components business when compared with 2018. Looking to Sonae Arauco, and comparing it with 2018, there has been an increase partly explained by the mix of raw boards produced and by the start-up of new gluing systems in some sites (that required adjustments in the formulations before entering in steady production).

Chemicals consumption by cubic meter produced (Kg/m3)

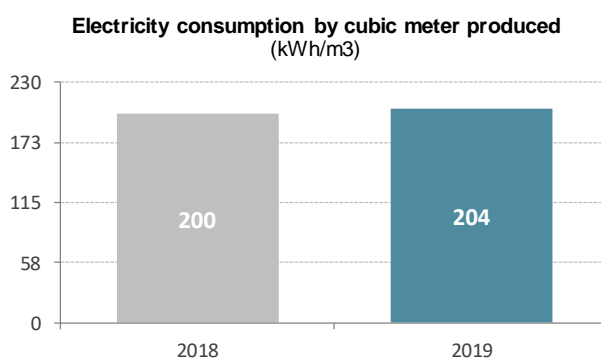


Chemicals consumption (thousands, kg)	2018	2019
Laminates & Components	8.2	7.7

Energy use

Energy is a very relevant aspect of wood-based panel production. It is used in the day to day activities of the manufacturing processes, for example, in the drying of the wood particles, heating up the presses or driving equipment.

Sonae Indústria has a strong commitment with energy management, aiming to reduce the energy usage (by means of efficiency improvements) and, at the same time, to minimize the use of fossil fuels.



Notwithstanding the increase in the electricity specific consumption, the total volume of electricity aggregated figures stayed almost at the same level of 2018. These indicators have been negatively impacted by new investments done but, in the long term, it is expected a reduction in electricity specific consumption with old equipment being stopped and decommissioned.

Energy consumption (million, kWh)	2018	2019
Laminates & Components	3.5	3.5

In 2019, the energy specific consumption for our Laminates and Components business was in line with the values registered in the previous year.

Regarding our Laminates business it should be noted that in 2019 was a slight reduction (1.0%) of absolute consumption of electricity despite the installation of a new cut-to-size operation in Maia plant. In fact, in relative terms the consumption of electricity specific to production volume (in m²) registered a higher reduction of 3.3%.

In the near term, the energy specific consumption of Laminates business is expected to continue on a downwards trend considering two main actions which have been implemented throughout 2019: the aforementioned decommissioning of one cooling tower; and the conversion of lighting in the industrial areas from halogen to power-saving LED lamps.

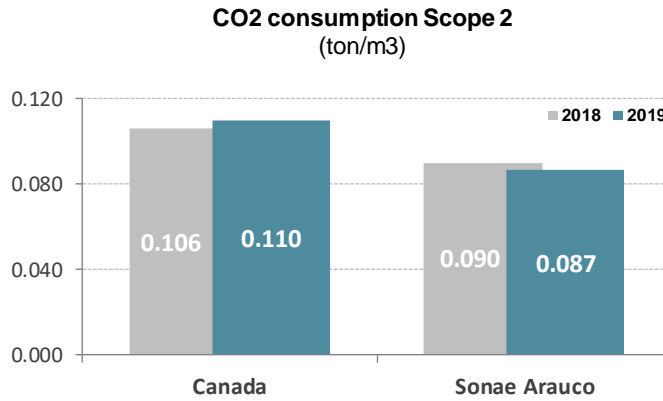
Greenhouse gas emissions

The most relevant emissions of Sonae Indústria group come from the electricity consumptions of the company's several plants.

In 2019, the volumes of electricity consumed, in ton of CO₂ by m³ of raw board produced, registered an increase in the Canadian operation and a decrease in Sonae Arauco, the latter due to the reduction on production explained by the stoppage of one of the German industrial sites. The increase in the Canadian operation is mainly explained by new investments done and lower production volumes.

The Laminates and components CO₂ consumption remained constant when compared to 2018.

The charts below shows the evolution of the ratio Intensity of Indirect greenhouse gas emissions (Scope 2 as per GHG³³ Protocol³⁴):



The table below show the evolution of the CO2 consumption (scope 2) for our Laminates & Components business:

CO2 consumption scope 2 (thousands, ton)	2018	2019
Laminates & Components	1.0	1.0

Provisions and Impairments

The company monitors the environmental risks in a continuous way, and looks to make all necessary investments and take actions to comply with the requirements of legislation and specific regulation in necessary timings, thus looking to mitigate risks in a pro-active way.

Sonae Indústria has provisions for environmental liabilities of circa 1.2 million euros in its consolidated accounts. Sonae Arauco has provisions for estimated decontamination costs in an amount of circa 3.0 million euros in its accounts.

4.6. MANAGEMENT SYSTEMS

Management systems are one of the core concerns of an organisation, since it allows to manage interrelated parts of the company’s business, in order to achieve its objectives.

A risk-based thinking is the basis of the management system. Detecting the risks and opportunities in several contexts, drives the company to more focused and successful strategies. Being certified means, for example, that the organisation has a risk management system where work stations are systematically evaluated and actions are taken in order to eliminate or minimise those risks. With this, industrial activities stops can be avoided, the well-being of the employees is guaranteed and the absences due to illnesses or accidents are minimised.

In order to ensure this, Sonae Indústria holds several certifications:

- ISO 9001 - Quality management system;
- ISO 14001 - Environment management system;

³³ GHG: Green House Gas.

³⁴ Energy indirect (Scope 2) GHG emissions: GHG emissions that result from the generation of purchased or acquired electricity, heating, cooling and steam consumed by an organization.

- OHSAS 18001 - Occupational health and safety management system;
- ISO 45001 - Occupational health and safety management system (transition from OHSAS mandatory until 2021).

All Sonae Indústria factories are certified for Environmental Management, Quality Management and Occupational Health and Safety Management, in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 (which was renamed as ISO 45001) international standards. Most of Sonae Indústria factories are also certified for Energy Management, in accordance with the ISO 50001 international standard.

The wood used by Sonae Indústria comes from sustainably managed or responsible sources.

Sonae Indústria is also certified through two of the largest forest management and responsibility chain certification systems: the PEFC™ (Programme for the Endorsement of Forest Certification schemes) and the FSC® (Forest Stewardship Council®)



Management systems certifications.

Source: Sonae Arauco.

ISO 9001 - Quality management system

The adoption of this standard comes from a strategic decision of organisations to improve results and create a basis for sustainable growth.

The principles of this quality standard are the following:

- Focus on customer;
- Leadership;
- Development of employees;
- Continuous improvement of processes and products;
- Organisation of processes;
- Decisions based on evidence (facts and data);
- Relationships management (stakeholders).

Being certified means that our plants are capable of delivering its products in a systematic and consistent manner, both at the level of performance and agreed quality level, always aiming at optimizing its processes and products, involving its employees and suppliers actively throughout the process and always keeping a risk mitigation mind-set. These processes are documented so that there is evidence (records) that the whole process is performed in accordance with the desired standard.

ISO 14001 - Environment management system

This standard aims at the voluntary commitment of organisations to study and minimise their environmental impact. For this purpose, the organisation develops improvement activities and integrates the “life-cycle” perspective in its

operations. It is a tool for organisations that want to achieve greater trust from customers, employees, the surrounding community and society in general.

The principles of this standard are the following:

- Strategic objectives through the incorporation of environmental issues in the organisation's management agenda and the increase of the top management and employees' involvement;
- Reduced probability of environmental risks;
- Reduced costs by improving process efficiency (energy reduction);
- Improvement of the organisation's environmental image and its acceptance by clients, employees and society;
- Ensure alignment with all existing legislation that is applicable to the activity sector.

This certification demonstrates that the company is aware that its activity has an impact on the environment and that it actively and voluntarily seeks to minimise that impact.

OHSAS 18001 - Occupational health and safety management system

This standard regulates a systematic approach for the identification of risks and their elimination or minimisation.

The principles of this standard are the following:

- Reduce risk in order to contribute to a healthier environment, prevent diseases and reduce the number of accidents;
- Improve the well-being of employees by conducting wellness activities;
- Several industries now require partners/suppliers of excellence in these areas and, in such cases, it is mandatory to have in place a risk management system;
- Ensure compliance with all existing legislation applicable to the sector;
- Raise awareness among all employees and among all those who, in a regular or sporadic way, carry out activities at the company's premises for the consequences of their actions, in terms of health and physical integrity.

Quality, Environmental and Health & Safety management systems are an important part of Sonae Indústria's standardised way of operating.

The **situation of management systems certifications** of Sonae Indústria affiliates and subsidiaries, at the end of 2019, was the following:

Quality	Environment	Energy	Forest products chain-of-custody		Health & Safety	
			ISO 9001	ISO 14001	ISO 50001	PEFC

Sonae Indústria

Maia*	✓	✓	✗	✓	✓	✓
Vilela**	✓	✓	✗	✓	✓	✓
Horn	✓	✓	✗	✓	✓	✓
Lac-Mégantic	✓	✓	✗	✓	✓	✓

Sonae Arauco

Mangualde	✓	✓	✗	✓	✓	✓
Oliveira do Hospital	✓	✓	✗	✓	✓	✓
Sines***	✓	✓	✗	✓	✓	✓
Castelo de Paiva****	✓	✓	✗	✓	✓	✓
Linares	✓	✓	✗	✓	✓	✓
Valladolid	✓	✓	✗	✓	✓	✓
Cuéllar*****	✓	✓	✗	✓	✓	✓
Meppen	✓	✓	✗	✓	✓	✓
Eiweiler	✓	✓	✗	✓	✓	✓
Nettgau	✓	✓	✗	✓	✓	✓
Beeskow	✓	✓	✗	✓	✓	✓
Kaisersesch*****	✓	✓	✗	✓	✓	✓
White River	✓	✓	✗	✓	✓	✓

- * HPL plant.
- ** Components plant.
- *** Resins plant & paper impregnation.
- **** Wood vanner plant.
- ***** Sawmill.
- ***** Paper impregnation plant.

Following what was done in White River site in 2018, actions are being implemented to ensure the transition from the current OHSAS 18001 to ISO 45001 which aim to be completed until 2021.

5. CLOSING REMARKS AND ACKNOWLEDGEMENTS

Activity carried out by the Non-Executive Board Members

With the exception of the Chairman, all Non-Executive Board Members of Sonae Indústria are members of Board Committees (for a full description of composition and main tasks of each Committee please refer to the Corporate Governance Report). In this context, these Board Members analyse matters that are within the competence of the respective Committee, providing guidance to the company about them and making proposals to the Board of Directors.

Non-Executive Board Members actively participate in meetings of the Board of Directors, intervening in the discussions and questioning the decisions taken. According to their respective professional experience, Non-Executive Board Members also participate in the analysis of industrial optimisation projects, of restructuring and expansion projects and in the development of relevant international networking with possible partners and authorities in current and potential geographical areas of investment.

Acknowledgements

The Board of Directors would like to express its sincere gratitude towards all employees for their efforts, commitment and dedication demonstrated throughout the year.

The Board of Directors would also like to thank the shareholders, customers, suppliers, financial institutions and other business associates of Sonae Indústria for their continuing involvement and for the confidence that they have once more shown in the organisation.

31 March 2020,

The Board of Directors,

Paulo Azevedo

Carlos Moreira da Silva

Albrecht Ehlers

Berta Cunha

Isabel Barros

Javier Vega

José Romão de Sousa

Christopher Lawrie

Louis Brassard

APPENDICES TO THE MANAGEMENT REPORT AND QUALIFIED SHAREHOLDINGS

APPENDIX REGARDING ARTICLE 447 OF THE COMPANIES LAW

	Date	Acquisitions		Sales		Position at 31.12.2019	Balance at 31.12.2019 amount
		amount	€ average value	amount	€ average value		
Duarte Paulo Teixeira de Azevedo							
Efanor Investimentos, SGPS, SA (1)							
Migracom, SA (2)							
						Minoritary	
						Dominant	
<hr/>							
	Date	Acquisitions		Sales		Position at 31.12.2019	Balance at 31.12.2019 amount
		amount	€ average value	amount	€ average value		
(1) Efanor Investimentos, SGPS, SA							
Sonae Indústria, SGPS, SA							
Pareuro, BV (3)							
						Dominant	19 370 549
(2) Migracom, SA							
Sonae Indústria, SGPS, SA							
Imparfin, Investimentos e Participações							
Financeiras, SA (4)							
						Minoritary	38 931
(3) Pareuro, BV							
Sonae Indústria, SGPS, SA							
							11 730 752
(4) Imparfin, Investimentos e Participações							
Financeiras, SA							
Sonae Indústria, SGPS, SA							
	30/08/2019	5,000	1.08642				
	02/09/2019	6,959	1.08745				132 355

QUALIFIED SHAREHOLDINGS

Complying with Article 8, nr.1, paragraph b) of the CMVM Regulation nr. 05/2008

Shareholder	No. of shares	% Share Capital	% Voting rights
Efanor Investimentos, SGPS, SA (1)			
Directly	19,370,549	42.6636%	42.6636%
By Pareuro, BV (controlled by Efanor Investimentos, SGPS, SA)	11,730,752	25.8369%	25.8369%
By Maria Margarida CarvalhaisTeixeira de Azevedo (Director of Efanor Investimentos, SGPS, SA)	4	0.000009%	0.000009%
By Migracom,SA (Company controlled by Efanor Investimentos, SGPS, SA´s Director, Duarte Paulo Treixeira de Azevedo)	38,931	0.0857%	0.0857%
By Linhacom, SA (Company controlled by Efanor Investimentos, SGPS, SA´s Director, Maria Cláudia Teixeira de Azevedo)	10,030	0.0221%	0.0221%
Total allocation	31,150,266	68.6083%	68.6083%

On 30 April 2018, TEAK Capital, SA informed Sonae Indústria of having signed a services agreement with the company Pareuro, BV, through which it was granted, by way of consideration, a call option over 2,000,000 shares representative of 4.40% of the share capital and voting rights of Sonae Indústria, SGPS, S.A., exercisable on 30 April 2021. This agreement replaces and revokes the previous agreement signed on 22 February 2016.

Teak Capital, SA also informed that 40% of its share capital is held by Carlos Moreira da Silva, 45% by his wife (under the regime of separation of people and property) Fernanda Arrepiá and 15% by TPR, BV, the latter being jointly held by Carlos Moreira da Silva's three descendants, Tiago Moreira da Silva, Pedro Moreira da Silva and Raquel Moreira da Silva. Fernanda Arrepiá and Tiago Moreira da Silva are also directors of TEAK.

(1) Efanor Investimentos, SGPS, SA ceased, with effect from 29 November 2017, to have a controlling shareholder, according with the terms and for the purpose of articles 20º and 21º of the Portuguese Securities Code.

STATEMENT ISSUED UNDER THE TERMS AND FOR THE PURPOSE OF SUB-PARAGRAPH C) OF NR. 1 OF ARTICLE 245 OF THE PORTUGUESE SECURITIES CODE

(Free translation from the original in Portuguese)

In terms of the order in sub-paragraph c), nr. 1, Article 245 of the Portuguese Securities Code, the Board members of Sonae Indústria, SGPS, S.A. hereby declare, to the best of our knowledge, that the:

- a) Management Report, the annual accounts and further related documents requested by current law have been prepared according to the applicable accountancy norms, reflecting a true and appropriate image of assets and liabilities, the financial situation and results of both the company and other companies within its consolidation perimeter; and
- b) Management Report duly states the evolution of the business, performance and financial position of both the company and other companies within its consolidation perimeter business and contains a description of the main risks and uncertainties they are confronted with.

Paulo Azevedo

Carlos Moreira da Silva

Albrecht Ehlers

Berta Cunha

Isabel Barros

Javier Vega

José Romão de Sousa

Christopher Lawrie

Louis Brassard

GLOSSARY OF TERMS

CAPEX	Investment in Tangible Fixed Assets
EBITDA	Earnings Before Interests and Taxes + Depreciations and Amortizations + (Provisions and impairment losses - Impairment losses in trade receivables + Reversion of impairment losses in trade receivables)
FTEs	Full Time Equivalent; the equivalent of one person working full time, according to the working schedule of each country where Sonae Indústria has operations
Fixed Costs	Overheads + Personnel costs (internal and external); <i>management accounts concept</i>
Gross Debt	Bank loans + Subordinated bonds + Other bonds + Obligations under finance leases + other loans + Loans from related parties
LTM	Last Twelve Months
Proportional Senior Leverage (unaudited)	Proportional Senior Net Debt / Proportional LTM Recurrent EBITDA
Proportional Senior Net Debt (unaudited)	Proportional Senior Net Debt considers the full contribution of the Senior Net Debt of the wholly owned businesses and the proportional consolidation of the 50% contribution from Sonae Arauco Net Debt
Proportional: Turnover, Recurrent EBITDA (unaudited)	Proportional Turnover and Proportional Recurrent EBITDA consider, in what regards to Turnover and Recurrent EBITDA, the full contribution of the wholly owned businesses and the proportional consolidation of the 50% contribution from Sonae Arauco.
Recurrent EBITDA	EBITDA excluding non-recurrent operational income / costs
Recurrent EBITDA margin	Recurrent EBITDA / Turnover
Senior Net Debt	Total Gross Debt - Subordinated Bonds - Cash and cash equivalents
Total Net Debt	Total Gross Debt - Cash and cash equivalents
Working Capital	Inventories + Trade Debtors – Trade Creditors

**TOGETHER
CREATING
THE FUTURE**



**CORPORATE
GOVERNANCE
REPORT
2019**

31 March 2020



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PART I - MANDATORY INFORMATION ON SHAREHOLDER STRUCTURE, ORGANISATION AND CORPORATE GOVERNANCE

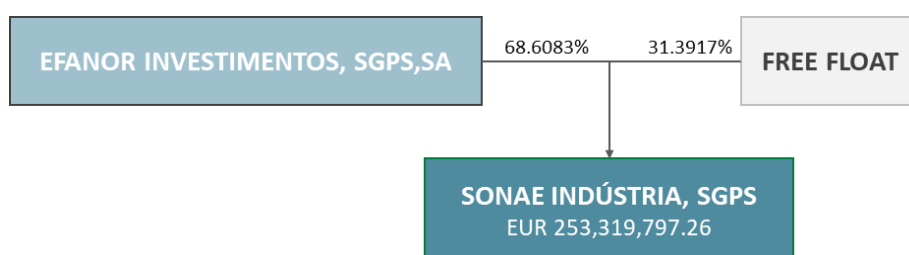
A. SHAREHOLDER STRUCTURE

I. CAPITAL STRUCTURE

1. Capital structure (share capital, number of shares, capital distribution, etc.), including information regarding shares not admitted to trading on a regulated market, different categories of shares, rights and duties incurred and share capital percentage by category (Article 245-A, number 1, paragraph a))

Sonae Indústria's share capital amounts to 253,319,797.26 euros and is represented by 45,403,029 ordinary nominative shares without nominal value. All shares are admitted to trading on the Euronext Lisbon.

Sonae Indústria's share capital is distributed according to the illustration below (the qualified shareholding attributed to Efanor shown below is explained in item 7 of this report):



2. Restrictions to the transfer of shares, such as clauses of consent on sale of shares, or restriction on ownership of shares (Article 245-A, number 1, paragraph b))

There are no restrictions in place regarding the transfer or sale of the company's shares.

3. Number of own shares, corresponding percentage of share capital and voting rights (Article 245-A, number 1, paragraph a))

As at 31 December 2019, the company did not own any own shares.

4. Relevant agreements to which the company is a party and that come into effect, are amended or are terminated in the event of a change in the control of the company after a takeover bid, including the respective effects, unless their disclosure is materially adverse to the company; this exception does not apply where the company is specifically required to disclose said information pursuant to other legal requirements (Article 245-A/1/j)).

The company did not adopt any measure which impose payments or the acceptance of charges in the event of a change in the composition of its management body.

As at 31 December 2019, the amount of debt in loans which grant to the respective creditors the option to consider the amount of debt due in the event of a change of control (i.e. shareholder ownership) was circa 146 million euros (70% of the value of the consolidated net debt).

	Million € ¹	Nº Contracts
Total	146	6

1) Debt value (nominal).

The Shareholders' Agreement subscribed by Sonae Indústria and Inversiones Arauco International, Ltda, (Arauco) in relation to Sonae Arauco, SA, confers Arauco the right to exercise a call option over the full amount of Sonae Arauco shares owned by Sonae Indústria, in the event of a change of control of Sonae Indústria, as well as it confers a call option to Sonae Indústria in the event of a change of control of Arauco.

The agreements mentioned above do not restrict the free transfer of company shares, not even the free appraisal of the Board of Directors' performance by shareholders, as they reflect the interest of the corporate purpose, aiming to guarantee the long term business sustainability in the framework of market conditions.

- Regime applicable to the renewal or revocation of defensive measures, in particular those that foresee the limitation of the number of votes susceptible of being detained or exercised by only one shareholder, in an individual way or in cooperation with other shareholders

There are no statutory constraints regarding the number of votes that may be cast by a single shareholder.

- Shareholders' agreements known to the company that may result in restrictions to the transfer of shares or voting rights (Article 245-A, number 1, paragraph g))

The company is unaware of the existence of a shareholders' agreement, which may restrict the transfer of its securities or voting rights.

II. SHAREHOLDINGS AND BONDS HELD

- Identification of the individuals or companies that, directly or indirectly, hold a qualified shareholding (Article 245-A, number 1, paragraphs c) and d) and Article 16), indicating, in detail, the percentage of share capital and voting rights entitled, as well as the source and causes of such entitlement

Shareholder	Number of shares	% Share Capital	% Voting Rights
Efanor Investimentos, SGPS, S.A (1)			
Directly	19,370,549	42.6636%	42.6636%
By Pareuro, BV (controlled by Efanor Investimentos, SGPS, SA)	11,730,752	25.8369%	25.8369%
By Maria Margarida Carvalhais Teixeira de Azevedo (Director of Efanor)	4	0.000009%	0.000009%
By Migracom, SA (company controlled by Efanor and Sonae Indústria's Director, Paulo Azevedo)	38,931	0.0857%	0.0857%
By Linhacom, SA (company controlled by Efanor's Director, Cláudia Azevedo)	10,030	0.0221%	0.0221%
	31,150,266	68.6083%	68.6083%

On 30 April 2018, TEAK Capital, SA informed Sonae Indústria having signed a services agreement with the company Pareuro, BV, through which it was granted, by way of consideration, a call option over 2,000,000 shares representative of 4.40% of the share capital and voting rights of Sonae Indústria, SGPS, S.A., exercisable on 30 April 2021. This agreement replaces and revokes the previous agreement signed on 22 February 2016. Further informed the referred to company that 40% of its share capital is held by Carlos Moreira da Silva, 45% by his wife (under the regime of separation of people and property) Fernanda Arrepiã and 15% by TPR, B.V., the latter being jointly held by Carlos Moreira da Silva's three descendants, Tiago Moreira da Silva, Pedro Moreira da Silva and Raquel Moreira da Silva. Fernanda Arrepiã and Tiago Moreira da Siva are also directors of TEAK.

(1) Efanor Investimentos, SGPS, SA ceased, with effects from 29 November 2017, to have a controlling shareholder, according with the terms and for the effects of articles 20º and 21º of the Portuguese Securities Code.

- Indication of the number of shares and bonds held by members of the Management and Supervisory Boards

Sonae Indústria Directors held the following company shares as at 31 December 2019:

Number of Shares/Position		Number of Shares/Position	
Duarte Paulo Teixeira de Azevedo		(3) Migracom, SA	
Efanor Investimentos, SGPS, SA (1)	Minoritary	Sonae Indústria, SGPS, SA	38,931
Migracom, SGPS, SA (3)	Dominant	Imparfin, Invest. e Part. Financ., SA (4)	Minoritary
(1) Efanor Investimentos, SGPS, SA		(4) Imparfin, Invest. e Part. Financ., SA	
Sonae Indústria, SGPS, SA	19,370,549	Sonae Indústria, SGPS, SA	132,355
Pareuro, BV (2)	Dominant		
(2) Pareuro, BV			
Sonae Indústria, SGPS, SA	11,730,752		

9. Special powers of the managing bodies, namely in respect of resolutions concerning share capital increase (Article 245-A, number 1, paragraph i)), indicating the date these powers were attributed, the date these competencies expire, the maximum quantitative limit of the share capital increase, the amount issued in accordance with the attribution of powers and the means for accomplishment of the attributed powers

The Board of Directors of Sonae Indústria may decide to increase the company's share capital up to the amount of three hundred fifty million euros, one or more times, through cash injections under the terms established by the law. These powers were granted at the General Meeting held on 29 April 2019 and may be exercised over a period of five years from that date, notwithstanding the General Meeting decision to renew them.

10. Information regarding the existence of relevant relationships of commercial nature between the owners of qualified shareholdings and the company

There are no significant commercial relationships between the owners of the qualified shareholdings and the company.

In December 2019, Efanor Investimentos, SGPS, SA, the majority shareholder of Sonae Indústria, subscribed to the first tranche of a subordinated bond loan issued by Sonae Indústria in the amount of € 50,000,000, with the duration of 10 years and with a fixed interest rate of 7%.

B. GOVERNING BODIES AND COMMITTEES

I. GENERAL MEETING

a) Composition of the Board of the General Meeting

11. Identification and role of the members of the Board of the Shareholders' General Meeting and respective mandate

The Board of the Shareholders' General Meeting was elected at the Shareholders' Annual General Meeting of Sonae Indústria held on 9 May 2018, for the mandate 2018-2020 and is composed by:

- Carlos Manuel de Brito do Nascimento Lucena - Chairman
- Maria Daniela Farto Baptista Passos – Secretary

b) Exercise of Voting Rights

- 12. Restrictions in terms of voting rights such as limitations to vote depending on the ownership of a number or percentage of shares, deadlines to exercise the voting right, or systems that highlight rights of asset contents (Article 245-A, number 1, paragraph f))**

According to Sonae Indústria's Articles of Association, the Shareholders' General Meeting is composed only of shareholders with voting rights who provide evidence of their ownership, according to the terms established by the law.

Article 239-C of the Securities Code sets out that, who is entitled to participate, discuss and vote in the Shareholders' General Meeting, are shareholders who, at the record date, which corresponds to 0 hours of the 5th trading day prior to the date of the meeting, hold at least one vote, according to the law and the company statutes.

According to Sonae Indústria's Articles of Association, shareholders may be represented at Shareholders' General Meetings under the terms established by the law and by the respective notice of the meeting.

Under the terms of Sonae Indústria's Articles of Association, Shareholders' General Meetings can meet at the first session, as long as shareholders representing over fifty percent of the company's share capital are present or represented.

The company's Articles of Association stipulate that, as the company is regarded as a listed and "publicly traded company", shareholders are allowed to vote by post in relation to all items in the agenda of the Shareholders' General Meeting, following the rules for the exercise of voting by post. The company's Articles of Association establish that postal votes can only be considered when sent to the company's headquarters by registered post with notice of receipt addressed to the Chairman of the Board of the Shareholders' General Meeting. These votes should be received at least three days before the date of the General Meeting and are subject to the normal rules regarding evidence of share ownership. Postal votes are considered negative votes in relation to any proposals presented after the date on which they were issued. A standard form for postal voting is available at Sonae Indústria's corporate website, www.sonaeindustria.com, and at the company's head office.

Sonae Indústria Articles of Association stipulate that postal voting may be exercised by electronic means if this medium is made available to shareholders and is included in the notice of the meeting. This possibility was made available to shareholders for the Shareholder's Annual General Meetings held in the last four years, and was used by one shareholder at the Shareholder's Annual General Meeting in 2017. The preliminary information for the General Meeting and the proposals submitted by the Board of Directors are made available at the time of disclosure of the notice of meeting.

The company has not adopted any mechanism that causes a time lag between the entitlement to receive dividends or the subscription of new securities and the right to vote of each share.

- 13. Indication of the maximum percentage of voting rights that may be exercised by a single shareholder or by shareholders that are related to him according to Article 20, number 1**

Each share corresponds to one vote, with no limitation.

- 14. Identification of the shareholders' resolutions that, under the terms of the company's Articles of Association, can only be approved by qualified majority, apart from the legal ones, and description of those majorities**

The decisions are taken by simple majority, except when the law stipulates otherwise.

II. MANAGEMENT AND SUPERVISION

a) Composition

- 15. Identification of the governance model adopted**

Sonae Indústria's Articles of Association define a corporate governance model of the company composed by a Board of Directors, a Statutory Audit Board and a Statutory External Auditor.

The Board of Directors examines annually the advantages and possible disadvantages of adopting this model.

The Board of Directors believes that the model favours the interests of the company and its shareholders, being effective and having not faced any constraints to its operation.

- 16. Statutory rules concerning procedural and material requirements applicable to the appointment and replacement of the members of the Board of Directors (Article 245-A, number 1, paragraph h))**

Under the terms of the Articles of Association, the Board of Directors may consist of an even or odd number of members, with a minimum of five and a maximum of nine, elected by the Shareholders' General Meeting for three-year mandates.

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. Such shareholder cannot support more than one list of Directors and each list must identify at least two eligible persons to fill each position on the Board. If lists are submitted by more than one group of shareholders, the voting will be based on all of these lists.

In the event of death, resignation or temporary or permanent 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 profiles of the new members of the corporate bodies must comply with the criteria and requirements set out by the company, in respect to academic qualifications, competences in industrial areas, professional skills, knowledge of the Group businesses, integrity, cultural and gender diversification.

- 17. Composition of the Board of Directors, indicating the minimum and maximum number of members according to the company statutes, duration of the mandate, number of effective members, date of the first appointment and date of the end of the mandate of each member**

On 31 December 2019, Sonae Indústria's Board of Directors comprised nine Directors. All its members were elected at the Annual General Meeting held on 9 May 2018 for the 2018-2020 mandate.

Date of the Sonae Indústria's current Directors first appointment:

- Duarte Paulo Teixeira de Azevedo - 15 December 2005;
- Carlos António da Rocha Moreira da Silva – 12 November 2014;
- Albrecht Olof Lothar Ehlers – 8 September 2011;
- Berta Maria Nogueira Dias da Cunha – 9 May 2018;
- Isabel Sofia Bragança Simões de Barros – 9 May 2018;
- Javier Vega de Seoane Azpilicueta – 29 March 2012;
- José Joaquim Romão de Sousa – 31 March 2015;
- George Christopher Lawrie – 12 April 2013;
- Louis Brassard – initially appointed on 15 December 2005, resigned on 28 April 2009 and was co-opted on 8 June 2016.

On 31 December 2019, the Board of Directors of Sonae Indústria comprised:

- Duarte Paulo Teixeira de Azevedo – Chairman (Non-Executive)
- Carlos António da Rocha Moreira da Silva – Vice-Chairman (Non-Executive)
- Albrecht Olof Lothar Ehlers (Non-Executive and Independent)
- Berta Maria Nogueira Dias da Cunha (Non-Executive and Independent)
- Isabel Sofia Bragança Simões de Barros (Non-Executive)
- Javier Vega de Seoane Azpilicueta (Non-Executive and Independent)
- José Joaquim Romão de Sousa (Non-Executive and Independent)
- George Christopher Lawrie (Managing Director)
- Louis Brassard (Managing Director)

In 2019, the Board of Directors appointed Javier Vega as lead independent director.

18. Distinction between executive and non-executive members of the Board of Directors and, in relation to non-executive members, identification of the members that may be considered as independent

Of the nine (9) Directors, two (2) are Managing Directors and seven (7) are non-executive members, as indicated in the previous paragraph.

It is Sonae Indústria's understanding that the number of non-executive Directors is adequate in relation to the size of the company, its shareholding structure and the level of complexity of the risks inherent to the company's activity, thus allowing the effective supervision and appraisal of the Managing Directors performance.

Among the non-executive Directors, four (4) are independent, as they comply with the independence criteria set out either by recommendation III.4 of the Corporate Governance Code released by IPCG or by Regulation 4/2013 of CMVM.

19. Professional qualifications and other relevant curricular information of each member of the Board of Directors

Paulo Azevedo (Chairman of the Board of Directors): holds a degree in Chemical Engineering from the Lausanne Polytechnic School (Switzerland) and a post-graduation in Business Studies (MBA) from the Oporto Business School (ex-EGP). He was CEO of Optimus – Telecomunicações S.A. between 1998 and 2000; CEO of Sonaecom, SGPS, S.A., between 2000 and 2007; CEO of Sonae SGPS, S.A. between May 2007 and April 2015; Chairman of the Board of Directors of Sonae SGPS, S.A. since April 2015 and co-CEO of Sonae SGPS up to April 2019. He holds a number of managerial and directorship roles in Efanor/Sonae Group.

Carlos Moreira da Silva (Vice-Chairman of the Board of Directors): degree in Mechanical Engineering – University of Porto, MSc in Management Sci. and Operational Research (University of Warwick – UK) and PhD in Management Sciences (University of Warwick – UK). He held several positions in companies of Sonae Group / Sonae Indústria Group between September 1988 and January 2000. In 2003, he was CEO of Sonae Indústria, SGPS, SA until April 2005, also holding other positions in other companies of Sonae Indústria Group. He was member of Advisory Board of 3i Spain (2005-2012), member of the Supervisory Board of Jerónimo Martins Dystrybcuja, SA (from 2009 to 2012) and Chairman of the Board of Directors of La Seda de Barcelona (2010-2014). Currently, he is Chairman of BA Group, member of the Board of Directors of Efanor Investimentos, SGPS, SA and of Sonae SGPS, SA.

Albrecht Ehlers (Independent): degree in Law from the University of Münster (Germany). From 1987 to 2000, he held various positions in the legal and human resources departments of Glunz AG, having been appointed in 1995 to join the Executive Board (Vorstand) of that company, with responsibilities in areas including human resources and legal departments. Between 2000 and 2004, he was senior vice-president of Hochtief AG (Germany) with particular responsibility in the areas of human resources and corporate services. From 2004 until 2009, he joined the Executive Board (Vorstand) of that company. Since 2010, he is Chancellor at the Technical University of Dortmund (Germany).

Berta Cunha (Independent): holds a degree in Economics by the University of Coimbra. She held various positions in Banco Português de Investimento, in the areas of Mergers and Acquisitions and Corporate Finance. Between 2002 and 2005, she was director of F. Turismo-Capital de Risco, SA. Between 2002 and 2018, she was director of Cosec - Companhia de Seguros de Crédito, SA.

Isabel Barros: holds a degree in Psychology by the University of Porto and an MBA by the EADA Business School Barcelona and Nagoya International School, Japan. Between 2007 and 2010, she was Senior Manager of Korn Ferry Hay Group; from 2011 to 2015 she was Talent Management & Development Director at Sonae; between 2016 and 2017, she was Human Resources Director at Sonae MC and, since 2017, she is Chief Human Resources Officer of Sonae MC.

Javier Vega (Independent): holds a degree in Mining Engineering by the Escuela Técnica Superior de Ingenieros de Minas of Madrid and a degree in Business Management from Glasgow Business School (UK). He was a member of the Board of Directors of several companies such as Robert Bosch, Red Eléctrica de España, SEAT and Grupo Ferrovial. Currently he is director of Sonae Arauco, SA and Chairman of the Board of Directors of DKV Seguros, Gestlink, SA and Vedegane, SA. He also currently holds other Board positions in other companies.

José Romão de Sousa (Independent): holds a BSc in Chemical and Industrial Engineering by IST, University of Lisbon (Portugal) and a PhD in Chemical Engineering by the Imperial College, London (UK). He has large industrial experience, particularly in chemical products (formaldehyde resins, adhesives and water-borne emulsion resins) and plastics industries (extrusion and calendaring of PVC, ABS and polyolefins). He held several management functions in the ProHolding Group (currently Promotor) and is the Non-Executive Chairman of several group companies and associated companies, including a new venture into biologic

fungicides. He has experience in the financial sector, namely in private equity, portfolio management and brokerage. Currently, he is Chairman of the Board of Directors of Promotor SGPS, SA, among other companies.

Christopher Lawrie (Managing Director): he has a BA (Honours) Degree in Business Studies and Finance at Greenwich University (UK). He has broad experience in investment banking, having worked with Schrodgers, BZW and Credit Suisse where he was Director of the Corporate Finance Division covering specifically Southern European Telecoms markets. In 2001, he joined Sonae/Efanor Group as CFO of Sonaecom and, in 2009, he was appointed CEO of Sonae Retail Properties. In 2013, he was appointed CFO of Sonae Indústria SGPS, SA, and is currently Managing Director and Chairman of the Management Committee.

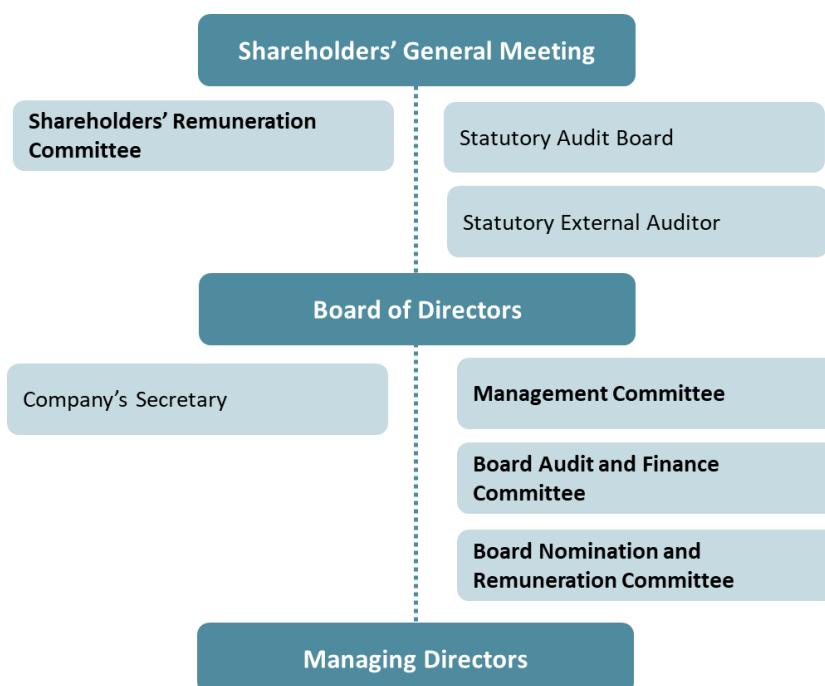
Louis Brassard (Managing Director): has a degree in Industrial Engineering by the Montreal Polytechnic School (Quebec, Canada). MBA in Finance and Marketing – University of Montreal. Since 1994, he held various positions in Sonae Indústria’s Group, and, currently, he is COO of Tafisa Canada and member of the Management Committee.

20. Significant family, professional or commercial relationships between members of the Board of Directors and qualified shareholders with more than 2% of the voting rights

Paulo Azevedo is a Director and shareholder of Efanor Investimentos SGPS, SA, to whom the control of the majority of the voting rights in Sonae Indústria is attributed. Carlos Moreira da Silva is a Director of Efanor Investimentos SGPS, SA.

21. Organisational charts with distribution of competencies of the various statutory bodies, committees and/or departments of the company, including information regarding delegation of competencies, particularly in what concerns the delegation of day-to-day company business

The responsibilities of the different governing bodies and committees of the company are distributed as follows:



The Board of Directors is conferred with the widest powers to manage and represent the Company under the terms of Portuguese law and as stipulated by the Company's Articles of Association.

The Board of Directors appointed two Managing Directors, whom were delegated the broadest managing powers of the company including all legal and statutory competences that are attributed to the Board of Directors, with exception of:

- a) appointing the Chairman of the Board;
- b) co-opting a substitute for a member of the Board;
- c) convening Shareholders' General Meetings;
- d) approving of any Reports and Accounts;
- e) granting any pledge, guarantee or charge over the company's assets;
- f) deciding to change the company's headquarters and to approve any share capital increases;
- g) deciding on mergers, de-mergers and modifications to the corporate structure of the company;
- h) approving the company's business plan and annual budget;
- i) deciding key features of personnel policies, and deciding on individual compensation for Executives and Senior Managers;
- j) defining or changing major accounting policies of any company included in the consolidation perimeter of Sonae Indústria Group;
- k) 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;
- l) 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;
- m) investing in any other company;
- n) making any other financial investment which exceeds the accumulated amount of 10,000,000 euros in any financial year, unless in the ordinary course of business, namely in short term investments of available cash;
- o) 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 2,000,000 euros) or affects the jobs of more than 100 employees;
- p) defining Sonae Indústria and Sonae Indústria Group strategy and general policies;
- q) defining the corporate structure of Sonae Indústria Group.
- r) entering into transactions with "Related Parties" (as set out by the International Accounting Standards adopted in accordance with EU regulation, except for Related Parties included in Sonae Indústria's consolidation perimeter), which amount, individually or aggregate, to an annual base value over 10 million euros.

Further to aforementioned delegation of powers, the Board of Directors is responsible, thus having the participation of its non-executive Directors, in the definition of (i) the strategy and general policies of Sonae Indústria and Sonae Indústria Group; (ii) the corporate structure of Sonae Indústria Group; and (iii) the approval of the business plan and annual budget of Sonae Indústria and Sonae Indústria Group companies.

The Board of Directors also appointed a Management Committee, composed of the Managing Directors, which meetings are also attended by persons responsible for the various corporate departments. The Management Committee's main objective is to support the Managing Directors in the functions that were delegated by the Board of Directors.

Notwithstanding the delegation of powers and the appointment of a Management Committee, all members of the Board of Directors have full access to corporate information and, at their best convenience, they may request it through the Management Committee.

b) Functioning

22. Availability and place of disclosure of the terms of reference of the Board of Directors

The Board of Directors is regulated by the functioning rules which can be read at:

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_pt_2.pdf (Portuguese version)

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_en_2.pdf (English version)

23. Number of meetings held and attendance rate of each member of the Board of Directors to those meetings

The Board of Directors held 10 meetings, in 2019, with the respective minutes of meetings recording all the deliberations made.

The attendance of all Board of Directors members to those meetings (physically, by electronic means or by representation) can be found in the following table:

Board Member	% Attendance
Paulo Azevedo	100
Carlos Moreira da Silva	100
Albrecht Ehlers	100
Berta Cunha	100
Isabel Barros	90
Javier Vega	100
José Romão de Sousa	90
Christopher Lawrie	100
Louis Brassard	100

The number of meetings held each year by the management bodies and their committees is available at:

<https://www.sonaeindustria.com/pt/governo-societario/orgaos-sociais-e-comissoes> (Portuguese version)

<https://www.sonaeindustria.com/en/corporate-governance/governing-bodies-and-committees> (English version)

24. Indication of the corporate bodies responsible for the assessment of the performance of the Executive Directors

The Board of Directors assesses its internal functioning every year, as well as its performance, the performance of its Committees and of the Managing Directors, namely in the scope of the defined strategy and the approved budget.

Notwithstanding the assessment done by the Board of Directors, the company's Shareholder's Remuneration Committee liaises with the Board Nomination and Remuneration Committee to assess the performance of the Managing Directors. This assessment considers the degree of compliance with the Key Performance Indicators of Business Activity, as further explained in section 69, and is relevant to determine the remunerations of these Directors.

25. Pre-defined criteria that are used to assess performance of the Executive Directors

The criteria to assess the performance of the Executive Directors are predefined, based on the performance indicators of the company, the working teams under their responsibility and their own individual performance. These criteria are further explained in the Remunerations section of this report.

The pre-determined criteria for evaluation of the Executive Directors are the following: objective criteria related to the degree of successful implementation of initiatives and actions that were agreed for implementation in the year in question; and subjective criteria related to the contribution in terms of experience and knowledge to the discussions by the Board of Directors, the quality of preparation of meetings and the contribution to discussions of the Board of Directors and Committees, as well as the commitment to the success of the company, among others.

26. Availability of each member of the Board of Directors indicating offices held in other companies, inside and outside the Group, as well as other relevant activities held by those members during the financial year

The Managing Directors work full time on the management of Sonae Indústria and its subsidiaries.

In relation to the other members of the Board of Directors, apart from their roles as Board members they also exercised administrative or supervisory functions in the companies listed below.

DUARTE PAULO TEIXEIRA DE AZEVEDO

Positions in companies, directly or indirectly held by Sonae Indústria:

- Sonae Arauco, SA (Chairman of the Board of Directors)

Positions in other companies:

- Efanor Investimentos, SGPS, SA (Director)
- Sonae – SGPS, SA (Chairman of the Board of Directors)
- Sonae Capital, SGPS, SA (Chairman of the Board of Directors)
- Imparfin – Investimentos e Participações Financeiras, SA (Director)
- Migracom, SA (Chairman of the Board of Directors)
- Efanor – Serviços de Apoio, SA (Director)
- OKUK, Lda. (Manager)
- BA Glass I – Serviços de Gestão e Investimentos, SA (Director)

CARLOS MOREIRA DA SILVA

Positions in companies, directly or indirectly held by Sonae Indústria:

- Sonae Arauco, SA (Director)

Positions in other companies:

- BA Glass I - Serviços de Gestão e Investimentos, S.A. (Chairman of the Board of Directors)
- BA Glass, BV (Director)
- Fim do Dia, SGPS, SA (Chairman of the Board of Directors)
- Lynx Finance GP, LLC (Director)
- Efanor Investimentos, SGPS, SA (Director)
- Teak, BV (Director)
- Sonae SGPS, SA (Director)

ALBRECHT EHLERS

Positions in companies, directly or indirectly held by Sonae Indústria:

- Sonae Arauco Deutschland GmbH (Chairman of the Supervisory Board – “Aufsichtsrat”)

Positions in other companies:

- Erich-Brost-Institut für Journalismus in Europa GmbH (Director)
- PROvendis GmbH (Supervisory Body and Shareholders Committee)
- Salus BKK (Chairman of the Supervisory Board - “Aufsichtsrat”)
- Invite GmbH (Vice – Chairman of the Supervisory Board - “Aufsichtsrat”)
- Durable Hunke & Jochheim GmbH & Co. KG (Chairman of the Supervisory Board)
- TechnologieZentrumDortmund GmbH (Member of the Shareholders Committee)
- Studierendenwerk Dortmund AÖR (Member of the Supervisory Board)
- University Alliance Ruhr
- Technische Universität Dortmund University (Chancellor)
- ClassiConn Dortmund GmbH & Co.KG (Member of the Shareholders Committee)
- TU Concept GmbH (Director)

ISABEL BARROS

Positions in other companies outside Sonae Indústria Group:

- Modelo Continente Hipermercados, SA (Director)
- Continente Hipermercados, SA (Director)
- Sonae MC, SGPS, SA (Director)

JAVIER VEGA

Positions in companies, directly or indirectly held by Sonae Indústria:

- Sonae Arauco, SA (Director)

Positions in other companies:

- DKV Seguros (Chairman of the Board of Directors)
- Gestlink, SA (Chairman of the Board of Directors)
- Vedegane, SA (Chairman of the Board of Directors)
- Fujitsu (Chairman of the Advisory Board)
- Atrevia (Member of the Advisory Board)

JOSÉ ROMÃO DE SOUSA

Positions in other companies outside Sonae Indústria Group:

- Promotor SGPS, SA (Chairman of the Board of Directors)
- CEV, SA (Chairman of the Board of Directors)
- Monte das Janelas Verdes – Sociedade Agrícola SA (Chairman of the Board of Directors)
- DIF-Informação Cambial e de Mercados, SA (Chairman of the Board of Directors)

GEORGE CHRISTOPHER LAWRIE

Positions in companies, directly or indirectly held by Sonae Indústria:

- Frases e Frações – Imobiliária e Serviços, SA (Director)
- Glunz (UK) Holdings, Ltd. (Director)
- Isoroy SAS (Director)
- Maiequipa – Gestão Florestal, SA (Director)
- Megantic BV (Director)

- Movelpartes – Componentes para a Indústria do Mobiliário, SA (Director)
- Novodecor (PTY) Ltd. (Director)
- Parcelas e Narrativas – Imobiliária, SA (Director)
- Poliface North America Inc. (Director)
- Sonae Arauco, SA (Director)
- Sonae Indústria de Revestimentos, SA (Director)
- Sonae Indústria – Management Services, SA (Director)
- Tafisa Canada Inc. (Director)
- Tafisa France, SAS (Director)

LOUIS BRASSARD

Positions in companies, directly or indirectly held by Sonae Indústria:

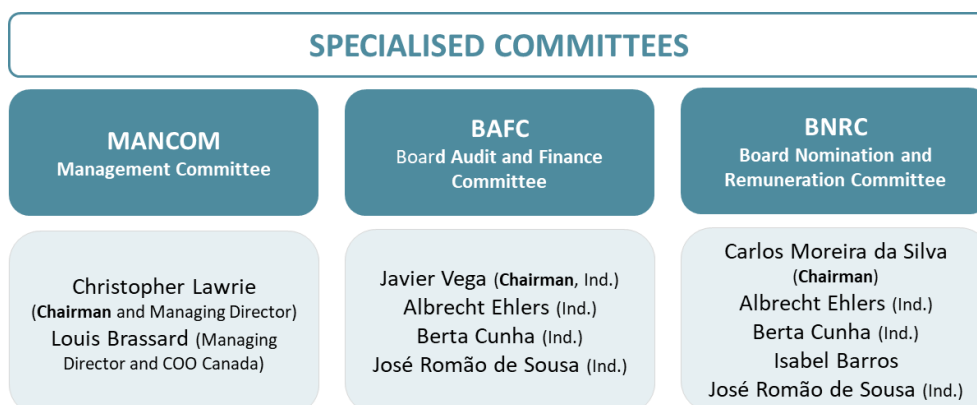
- Frases e Frações – Imobiliária e Serviços, SA (Director)
- Isoroy, SAS (Director)
- Megantic, BV (Director)
- Movelpartes – Componentes para a Indústria do Mobiliário, SA (Director)
- Parcelas e Narrativas – Imobiliária, SA (Director)
- Poliface North America Inc (Director)
- Sonae Indústria de Revestimentos, SA (Director)
- Sonae Indústria Management Services, SA (Director)
- Tafisa Canada Inc (Director)
- Tafisa France, SAS (Director)

c) Committees within the Management or Supervisory Bodies and Managing Directors

27. Identification of the Committees within the Board of Directors and place of disclosure of the terms of reference

The Board of Directors appointed two Managing Directors, George Christopher Lawrie and Louis Brassard. With the main objective of supporting the Managing Directors in the functions delegated by the Board of Directors, the Board of Directors appointed a Management Committee, composed of the two Managing Directors, which meetings are also attended by the persons responsible for the various corporate departments.

The Board of Directors also appointed two specialised committees, the Board Audit and Finance Committee (“BAFC”) and the Board Nomination and Remuneration Committee (“BNRC”).



The rules that regulate the functioning of the Management Committee and the terms of reference of the BAFC and BNRC can be read on the company website, through the following links:

Management Committee:

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_pt_10.pdf (Portuguese version)

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_en_10.pdf (English version)

BAFC:

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_pt_4.pdf (Portuguese version)

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_en_4.pdf (English version)

BNRC:

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_pt_7.pdf (Portuguese version)

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_en_7.pdf (English version)

In addition to the Committees held, the non-executive directors meet twice a year, being the first part of the meetings attended only by independent non-executive directors and the second part of the meetings by all non-executive directors.

The objectives of these meetings are to review the role of the Board of Directors, ensuring that it is clear for all attendees; improve the functioning of the Board of Directors and its Committees; review the level of Corporate Governance; help the non-executive directors to work as a team; and ensure that the non-executive directors are comfortable in the performance of their duties.

In 2019, two non-executive directors meetings were held.

28. Composition of the Executive Committee and/or the identification of the Managing Director(s)

The Managing Directors of the company are Christopher Lawrie and Louis Brassard.

29. Indication of the competencies of each Board Committee and summary of the main activities performed

The Board of Directors appointed three committees with specialised expertise.

MANAGEMENT COMMITTEE (“MANCOM”)

The Management Committee is composed by the two Managing Directors:

- Christopher Lawrie (Chairman – Managing Director);
- Louis Brassard (Managing Director – COO Tafisa Canada);

The Managing Directors, within the respective delegation of powers, should discuss in a MANCOM meeting any of the following matters:

- entering into any financial operations;
- sale and purchase, long-term financial lease or any other investments in tangible fixed assets where the individual transaction value is in excess of 1,000,000 euros;
- purchasing or subscribing new shares in the share capital of any subsidiary company where the cumulative amount exceeds 5,000,000 euros in any financial year;

- making any other financial investments which exceed the cumulative amount of 1,000,000 euros in any financial year, unless in the ordinary course of business, namely in short term investments of available cash;
- reorganisations of Sonae Indústria Group, including any increase or decrease of share capital, mergers, liquidations and changes in the bylaws.
- control of implementation by Sonae Indústria Group of the strategic guidelines defined by the Board of Directors;
- control of Sonae Indústria Group's financing and accounting;
- control of the operational activities of the Sonae Indústria Group;
- analysis of new business opportunities.

The MANCOM must provide, in a timely and appropriate manner, the information requested by members of Sonae Indústria's management and supervisory bodies, by facilitating access to all Sonae Indústria information and employees in order to allow the members of those bodies to perform the appraisal of the company performance, situation and development perspectives.

The Chairman of the MANCOM must:

- guarantee that all information regarding the activity and decisions of the MANCOM is disclosed to the members of the Board of Directors;
- ensure that all matters outside the scope of the Managing Directors' competencies are submitted to the approval of the Board of Directors;
- send all MANCOM minutes to the Chairman and Vice-Chairman of the Board of Directors.

Over the course of 2019, the MANCOM met on eleven occasions and the respective minutes have been drafted.

BOARD AUDIT AND FINANCE COMMITTEE ("BAFC")

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

- Javier Vega (Chairman; Independent);
- Albrecht Ehlers (Independent);
- Berta Cunha (Independent);
- José Romão de Sousa (Independent).

The BAFC normally meets at least five times a year and is responsible for:

- reviewing the financial statements and earnings announcements to be disclosed to the market and to report its findings to the Board of Directors;
- advising the Board of Directors in matters related to the appropriateness and accuracy of the internal information provided by the managing directors, including the internal control systems used by the company;
- analysing risk management, internally control, businesses and processes;
- reviewing the results of internal and external audits;
- following the trends in the main financial ratios and changes in formal and informal ratings of the company, including reports from rating agencies;
- analysing and advising on any changes in accounting policies and practices;
- reviewing compliance with accounting standards;
- verifying compliance with legal and statutory obligations, in particular within the financial domain.
- analysing business continuity assumptions;
- analysing relevant financial exposure in the treasury area;
- analysing and advising in relation to corporate governance.

The BAFC also does a self-assessment, integrated in the periodical self-assessment processes carried out by the Board of Directors (including the request for comments to other Members of the Board of Directors).

Over the course of 2019, the BAFC held six meetings and the respective minutes have been drafted and forwarded to all members of the Board of Directors.

The number of directors in the BAFC is considered adequate according to the company size and to the relevance of its financial matters, thus allowing them to efficiently perform their roles.

Responsibilities attributed to BAFC as a specialised committee of the Board of Directors are developed in terms of company management and do not override the functions of the Statutory Audit Board, as a supervisory body. The BAFC is a committee within the Board of Directors and according to the powers it was delegated, it is responsible for an in-depth analysis of the financial statements, analysis of internal and external audit works, risk management processes and the performance of the key financial ratios, among other areas. It also issues recommendations for final deliberation at the Board of Directors, thereby improving its operational functioning.

BOARD NOMINATION AND REMUNERATION COMMITTEE (“BNRC”)

The BNRC is composed of the following Non-Executive Members:

- Carlos Moreira da Silva (Chairman);
- Albrecht Ehlers (Independent);
- Berta Cunha (Independent);
- Isabel Barros;
- José Romão de Sousa (Independent).

The BNRC has the following specialised competencies:

a) the BNRC will review and submit proposals and recommendations, on behalf of the Board, to the Shareholders’ Remuneration Committee in relation to the remuneration and other compensation of members of the Board and will review and approve proposals and recommendations, on behalf of the Board, in relation to the remuneration and other compensation for other top management of the Sonae Indústria Group;

b) the BNRC is responsible for the succession planning and nomination processes of Board members and other top management (members of senior management), for reviewing all remuneration and other compensation policies and proposals applicable to Board members and other Sonae Indústria top management and for monitoring Sonae Indústria’s talent management and contingency planning processes.

The BNRC liaises with Sonae Indústria’s Shareholders’ Remuneration Committee, since this is the only means which guarantees that the Shareholders’ Remuneration Committee has the necessary knowledge on the performance of every Director throughout the year. This is particularly important in the case of the Executive Directors, given that the Shareholders’ Remuneration Committee does not a closely view of each Director’s performance and, therefore, does not have the necessary knowledge to perform their functions in the most appropriate way. The BNRC may also be assisted by external entities, provided absolute confidentiality is ensured in relation to the information arising from that cooperation.

It is the BNRC’s responsibility to establish the criteria and requirements of the profile of the new governing bodies members, taking into account, namely, the diversity policy described in this report (part I, section F).

The BNRC seeks that the selection processes are performed in a transparent manner, as it believes that the greater clarity there is in the exchange of information and share of needs, the better interaction between all and the better results. This way, the conditions are created to identify the most meritorious candidates who

better adequate to the job specifications, always promoting the appropriate diversity, including gender diversity.

Over the course of 2019, the BNRC met on two occasions and the respective minutes have been drafted.

The BNRC is mainly composed by independent directors.

Directors must inform the Board of Directors of facts that may constitute or cause a conflict of interests between them and/or third parties and the Company. In the event a conflict of interest arises, the respective Director must provide all the information and clarifications requested by the other members of the Board of Directors and will not be allowed to participate in the deliberation regarding the subject under discussion.

Directors cannot practice, either as self-employed persons or acting for someone else, any activity which competes with Sonae Indústria, unless authorized by the Shareholders' General Meeting. As a rule, executive directors must not hold executive functions in companies outside the Group. Whenever they intend to do so, they must previously inform the Board of Directors.

In the beginning of each fiscal year, the company circulates through the members of the Board of Directors, the Statutory Audit Board and the Board of Directors Committees, the corporate calendar with the dates of the meetings that take place in that year, so that everyone is informed of the meeting dates of the different governing bodies and committees.

III. SUPERVISION

a) Composition

30. Identification of the supervisory body

The company's supervisory body is the Statutory Audit Board, which is elected at the Shareholders' General Meeting.

31. Composition of the Statutory Audit Board, indicating the minimum and maximum number of members, duration of the mandate, number of effective members, date of the first appointment and term of the mandate of each member

The Statutory Audit Board may comprise an even or odd number of members, with a minimum of three and a maximum of five, and with one or two substitutes depending on the number of members being either three or more, respectively. The members are elected for three-year mandates.

The current Statutory Audit Board was elected at the 2018 Shareholders' Annual General Meeting for the 2018-2020 mandate and has the following composition:

- António Augusto Almeida Trabulo – Chairman
- Óscar José Alçada da Quinta – Member
- Ana Luísa Nabais Aniceto da Fonte – Member
- Carla Manuela Geraldés – Substitute Member

It is Sonae Indústria's understanding that the number of members that compose the Statutory Audit Board is adequate to the company size and to the complexity of the risks inherent to its activity, thus allowing them to perform their role efficiently.

The current members of the Statutory Audit Board were elected for the first time on the following dates:

- António Augusto Almeida Trabulo – March 2015

- Óscar José Alçada da Quinta – May 2007, as substitute member and March 2015, as effective member
- Ana Luísa Nabais Aniceto da Fonte – May 2018
- Carla Manuela Geraledes – May 2018

32. Identification of the Statutory Audit Board members as applicable, that may be considered as independent, under the terms of Article 414, number 5 of the Companies Law

All members of the Statutory Audit Board comply with the rules of incompatibilities referred to in paragraph 1 of Article 414-A and the criteria of independence set out in paragraph 5 of Article 414, both of the Companies Law.

To ensure at all times the independence of its members, the Statutory Audit Board members, prior to being appointed, issued statements attesting that they: (i) did not incur in any of the incompatibilities set out in Article 414^º-A of the Companies Code and they were not in any situation that affects their independence, in accordance with paragraph 5 of Article 414^º of the same law and (ii) committed to immediately notify the company of anything that may lead to their loss of independence or to any incompatibility during their mandate.

The regulation of the Statutory Audit Board also states that if, during the course of their term of office, any situation related to loss of independence or incompatibility regarding any member of the Statutory Audit Board arises, the respective member shall immediately inform the Chairman of the Board of Directors. Any situation of legal incompatibility shall lead to forfeiture of the term of office of the Statutory Audit Board member.

33. Professional experience of the members of the Statutory Audit Board

ANTÓNIO AUGUSTO ALMEIDA TRABULO (Chairman of the Statutory Audit Board): degree in Economics – University of Porto, post-degree in Accounting and Corporate Finance – *Universidade Aberta* (Portugal), Diploma in *Suficiência Investigadora* in the field of Financial Economics and Accounting – University of Valladolid (Spain), Phd in Management and Business Administration – University of Valladolid (Spain), completed curricular part (in the final stages of completion Thesis), Statutory Auditor. Currently, he is a Statutory Auditor and Partner of Velosa, Silva, Marques e Trabulo, SROC.

ÓSCAR ALÇADA DA QUINTA (Statutory Audit Board Member): degree in Economics (University of Porto). He has held various roles in both administrative and financial departments of different companies (1982-1986) and since 1986 has provided audit services in the Official Statutory Auditors Association. In 1990, he was included in the List of Official External Auditors, a function which he works on exclusivity, initially on a stand-alone basis and subsequently as partner of Óscar Quinta, Canedo da Mota & Pires Fernandes, SROC.

ANA LUÍSA NABAIS ANICETO DA FONTE (Statutory Audit Board Member): degree in Business Administration and Management – *Universidade Católica Portuguesa*. From 2001 to 2016, she worked in several audit companies. Since 2016, she is a Statutory External Auditor. Since 2017, she is a Professor of Audit for the graduation studies in Management and for the master studies in Audit and Tax of the *Universidade Católica Portuguesa*.

CARLA MANUELA GERALDES (Statutory Audit Board Substitute Member): degree in Economics by the University of Porto. Since 2001, she is a Statutory External Auditor. From 1996 to 2003, she was Audit Manager in Deloitte and, since 2004, she is a partner of Crowe Horwath Portugal.

All members of the Statutory Audit Board have adequate competencies to exercise their respective functions.

b) Functioning

34. Existence and place for disclosure of the terms of reference of the Statutory Audit Board

The Statutory Audit Board has a functioning regulation that can be read at the company website, through the following links:

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_pt_3.pdf (Portuguese version)

https://www.sonaeindustria.com/fileManager/orgaos_sociais/pdf_en_3.pdf (English version)

35. Number of meetings held and attendance rate of each member of the Statutory Audit Board

In 2019, the Statutory Audit Board convened eight times. The minutes were drawn up registering the respective deliberations. The attendance of all members was 100% of the meetings, except for Óscar Quinta, whose attendance rate was 87.5%.

The number of annual meetings held by the supervisory body is available at:

<https://www.sonaeindustria.com/pt/governo-societario/orgaos-sociais-e-comissoes> (Portuguese version)

<https://www.sonaeindustria.com/en/corporate-governance/governing-bodies-and-committees> (English version)

36. Availability of each member of the Statutory Audit Board, indicating simultaneously offices held in other companies, inside and outside the Group, as well as other relevant activities held by those members during the financial year

The Statutory Audit Board members performed their roles together with other functions and roles listed below, as outlined in section 33.

Positions held by Statutory Audit Board members on 31 December 2019:

ANTÓNIO TRABULO

Positions in companies, directly or indirectly held by Sonae Indústria:

- Sonae Arauco Portugal, SA (Statutory Audit Board)

Positions in other companies:

- Sonae MC, SGPS, SA (Chairman of the Statutory Audit Board)
- Visabeira Infraestruturas, SA (Statutory Audit Board)
- Velosa, Silva, Marques e Trabulo, SROC (Director)
- ACAT – Consultoria de Gestão, Lda (Manager)
- Sonaecom-SGPS, SA (Statutory Audit Board Substitute Member)

ÓSCAR ALÇADA DA QUINTA

Positions in companies, directly or indirectly held by Sonae Indústria:

- Sonae Arauco Portugal, SA (Statutory Audit Board)

Positions in other companies:

- Sonaecom – SGPS, SA (Statutory Audit Board)
- BA Glass I – Serviços de Gestão e Investimentos, SA (Statutory Audit Board)
- Caetano – Baviera – Comércio de Automóveis, SA (Statutory Audit Board)
- Óscar Quinta, Canedo da Mota & Pires Fernandes, SROC (Director)

ANA LUÍSA NABAIS ANICETO DA FONTE

Positions in other companies outside Sonae Indústria Group:

- SDSR – SPORTS DIVISION SR, SA (Statutory Audit Board)
- NOS, SGPS, SA (Statutory Audit Board Substitute Member)
- Ana Fonte & Associados, SROC (Manager)

c) Responsibilities and Functions

37. Description of the procedures and criteria applicable to the involvement of the supervisory body in relation to hiring additional services of the External Auditor

If the company or any of its subsidiaries has the intention to hire the services of the External Auditor or any entities with which they have joint shareholdings or which are part of the same network, other than auditing services, the Statutory Audit Board must previously approve such hiring.

Thus, if Sonae Indústria or any Group subsidiary intends to hire services to the External Auditor or to any entity that is in a group relationship with it, the Statutory Audit Board must be previously informed, so that such hiring does not affect the independence of the External Auditor and does not, in the overall services provided, have a significant relevance when compared to the auditing services. The Statutory Audit Board must also ensure that the necessary conditions are in place to perform such services with autonomy and independence in relation to the ongoing audit services.

The regulation of Statutory Audit Board establishes that it must receive, on a quarterly basis, detailed information of all the amounts invoiced to Sonae Indústria Group by the Statutory External Auditor or by any member of its network, with information of the services rendered.

The Statutory External Auditor or any member of its network may not render any services forbidden by law to any company of the Group, no matter the location of the respective company head office.

38. Other roles of the supervisory body

The Statutory Audit Board's main responsibilities are as follows:

- a) supervising the company's management;
- b) overseeing the compliance with legal and regulatory requirements and with the rules issued by supervisory authorities, as well as the internal general procedures, rules and practices;
- c) preparing an annual report on the supervisory work performed and express an opinion on the report, accounts and other proposals submitted by the Board of Directors;
- d) convening the Shareholders' General Meeting, whenever the Chairman of the General Meeting fails to convene it when being obliged to do this;
- e) overseeing the effectiveness of the risk management, internal control and internal audit system, when applicable, being responsible for the assessment of the relevant operating procedures in respect to the existence of an adequate control environment, an efficient management of the

- respective activities through the appropriate risk management and the complete, prompt and reliable accounting and financial information, and an adequate system of supervision and communication;
- f) receiving communications of alleged irregularities presented by the company's shareholders, employees or others;
 - g) monitoring and overseeing the adequacy of the process of preparation and disclosure of financial information, including the adequacy of the accounting policies, estimates, forecasts, relevant information and their consistent application between accounting periods in a duly documented and released manner, as well as presenting recommendations or proposals to ensure its integrity;
 - h) selecting the statutory external auditor or the statutory external audit firm to be proposed for appointment to the Shareholders' General Meeting and recommend justifiably the preference for one of the selected companies;
 - i) overseeing and monitoring the independence of the statutory external auditor and, most importantly and according to the law, overseeing the adequacy and approve the hiring of other services either by the statutory external auditor or by any other entity in a relation of partnership or which is part of the same network, apart from the audit services being rendered;
 - j) supervising the revision to the Company's separate and consolidated accounting statements, particularly its execution, highlighting the factors that influenced the integrity of the process of preparation and release of the financial information, bearing in mind potential remarks and conclusions by the Portuguese Securities Market Commission (CMVM), as part of its role as the authority responsible for audit supervision;
 - k) informing the management body on the conclusions of the statutory audit work, explaining how it contributed to the integrity of the process of preparation and release of financial information, along with the role performed by the supervisory board over that process.

Besides the aforementioned responsibilities, the Statutory Audit Board must issue prior opinions on any transactions with related parties (as set out in the International Accounting Standards adopted according to EU regulations), in the terms set forth in section 91.

Any member of the Statutory Audit Board can:

- a) obtain from management the Company's accounting books, records and documentation for revision and verification, as well as verify the carrying amounts of any kind of assets, namely money, securities and goods;
- b) obtain from management or from any director, information or explanations regarding the Company's ongoing operations, activities or any of its businesses;
- c) under the terms established by law, obtain from a third party that has carried out operations on the Company's behalf, information they may need to explain those operations;
- d) attend board meetings, whenever deemed convenient.

The members of the Statutory Audit Board must promptly inform the Statutory Audit Board of any facts that may cause a conflict of interest between them and the Company.

The communication between the Statutory Audit Board and the Board of Directors will be assured by the Chairman of the Statutory Audit Board and by the member of the Board of Directors appointed for this purpose. Currently, this role has been attributed to the company CFO.

A member of the Statutory Audit Board who attends a meeting of the Board of Directors must previously inform the other members of his/her intention and, afterwards, they must brief the other members in relation to the items concerning the Statutory Audit Board discussed at such meetings.

In the event of a conflict of interest, the respective member of the Statutory Audit Board must provide all information and explanation requested by the other members, and will not be allowed to participate in the deliberation on the subject in question.

The regulation of the Statutory Audit Board establishes that the selection of the Statutory External Auditor to be proposed to the Shareholders' General Meeting must comprise a request made to international audit firms, with selection criteria that include resources and coordination ability, quality and dedication to field work, types, number and deadlines of reports to be issued, communication tools and cost of services.

The referred regulation also establishes the methodology of communication between the company and the Statutory External Auditor, imposing that the Statutory Audit Board must be the main interface between the Statutory External Auditor and the Company and the first recipient of the respective reports.

It is also responsibility of the Statutory Audit Board to present a proposal for the Statutory External Auditor remuneration and make sure that the Company provides adequate working conditions.

The Statutory External Auditor must cooperate with the Statutory Audit Board by providing information in respect to any relevant irregularities that affect the performance of its role, as well as any difficulties that may have arisen in the course of its work.

IV. STATUTORY EXTERNAL AUDITOR

39. Identification of the Statutory External Auditor and its representative partner

The Statutory External Auditor is Deloitte & Associados, Sociedade de Revisores Oficiais de Contas, SA, represented by António Manuel Martins Amaral or Nuno Miguel dos Santos Figueiredo.

40. Indication of the number of consecutive years the Statutory External Auditor works for the company and/or group

Deloitte & Associados, SROC, S.A. was elected at the Annual General Meeting of 2018 for the mandate 2018-2020.

41. Other services provided to the company by the Statutory External Auditor

In 2019, Deloitte did not provide other services to Sonae Indústria Group companies.

V. EXTERNAL AUDITOR

42. Identification of the External Auditor

The External Auditor of the company is Deloitte & Associados, Sociedade de Revisores Oficiais de Contas, SA, represented by António Manuel Martins Amaral or Nuno Miguel dos Santos Figueiredo, registered in the CMVM under nr. 20161389.

43. Permanence of functions

Deloitte is the External Auditor of the company since May 2018.

44. Policy and periodicity of rotation of the External Auditor and its representative

Sonae Indústria will, at least, comply with the law regarding the rotation of the External Auditor and of the respective Statutory External Auditor partner. A cost benefit analysis of the rotation and an assessment to guarantee the independence of both will always be performed.

45. Indication of the governing body responsible for the appraisal of the External Auditor and periodicity of such appraisal

The Statutory Audit Board monitors the performance and execution of the works conducted by the External Auditor throughout each financial year, meeting with him whenever it deems fit. Moreover, the Statutory Audit Board assesses, on a yearly basis, the global performance of the External Auditor, including an appraisal on his independence.

In the event of a just cause for the dismissal of the External Auditor, the Statutory Audit Board must propose its dismissal.

46. Identification of the works, other than auditing, performed by the External Auditor in the company and/or other companies in relation of domain, as well as indication of the internal procedures in place for the approval of such services and indication of the reasons that led to such hiring

During 2019, no services other than audit related were hired to the External Auditor.

47. Indication of the annual remuneration paid by the company, and/or companies in relation of domain or group, to the External Auditor and to other individuals or companies belonging to the same network and discrimination of the percentage

Sonae Indústria and its subsidiaries in a controlling or in a group relationship paid Deloitte the following amounts in 2019:

By the company	
Audit related services (€)	25,309€ / 19.02 %
Other reliability services (€)	500 € / 0.37%
By other group entities	
Auditing services (€)	107,282€ / 80.61%

C. INTERNAL ORGANISATION

I. ARTICLES OF ASSOCIATION

48. Rules applicable to the amendment of the company's Articles of Association (Article 245-A, number 1, paragraph h))

The rules applicable to amendments made to the company's Articles of Association are established by law. It is the Shareholders' General Meeting's responsibility to decide on the amendment of the Articles of Association. However, the Board of Directors can decide to change the registered office within the national territory, as well as deliberate on increases in the company's share capital through new cash injections up to three hundred fifty million euros, on one or more times.

II. REPORTING OF IRREGULARITIES

49. Tools and policy for reporting of irregularities

Sonae Indústria has a Code of Conduct that includes a policy for the communication of irregularities, which is available at the company website, www.sonaeindustria.com. Sonae Indústria's Code of Conduct and policy for communication of irregularities aims to create the climate and means for its employees and service providers to express their concerns about any behaviour or decision that they believe does not respect the company's ethics or Code of Conduct. The company elected an Ethics Committee, composed of the Chairman of the Board Audit and Finance Committee and the head of the Group's legal department, which is responsible for receiving any communication of irregularity, for initiating and supervising the investigation of all alleged irregularities. The Ethics Committee is composed of Javier Vega and Júlia Moreira da Silva.

Any information on an alleged irregularity should be sent via e-mail or post to one of the following addresses:

By e-mail: ethics.committee@sonaeindustria.com

By post: Sonae Indústria SGPS, S.A.
Ethics Committee
Lugar do Espido, Via Norte
Apartado 1096
4470-177 Maia
Portugal

When requested, a meeting may be scheduled to clarify the possible situation with the Ethics Committee.

Each irregularity communication will be received by the Ethics Committee, which is responsible for initiating and supervising the investigation of all denounced situations. Once the inquiry is concluded and if the reported irregularity corresponds to wrongful conduct, the Ethics Committee shall notify the employee's hierarchical responsible or the service provider's employer so that corrective actions and / or disciplinary proceedings are applied.

As the company wishes to encourage good faith, reporting of any alleged irregularity while avoiding damage to the reputation of innocent persons initially indicated as allegedly suspect of wrongful misconduct, anonymous reports are not accepted. The investigation will be conducted in a confidential manner and the company ensures that there will be no discriminatory or retaliatory action against any employee or service provider who reports an alleged irregularity in good faith. If any employee or service provider believes that he or she has been subject to retaliation for reporting or participating in an investigation, he/she should immediately report such perceived retaliation to the Ethics Committee.

The company provides a form to report irregularities on its intranet.

The Ethics Committee informs the Statutory Audit Board of any reported denunciation.

The company maintains records of all complaints and situations that were investigated and the respective findings, which are available for consultation by the statutory bodies and the Ethics Committee.

The **Code of Conduct** of Sonae Indústria contains a set of standards based on our shared values that govern the activities of Sonae Indústria. It applies to everyone employed by the Group, including members of the statutory bodies of Group companies, managing directors, senior executives, employees and people whose status is equivalent to that of employees, such as temporary staff and service providers. The Code of Conduct sets out guidance on those matters of business ethics to be complied with by all employees and service providers when carrying out their professional duties.

Sonae Indústria adheres to and actively promotes the highest ethical standards of professional conduct at all levels of the Group. Commitment to standards of conduct must emanate from the top. Therefore, Sonae Indústria's top managers are expected to set an example for the rest of the organisation through their actions, by actively leading the adoption and by monitoring the enforcement of these standards. As such, the senior managers must guarantee, in their area of responsibility, strict compliance with the law, permanently monitoring such compliance, and clearly explaining to their employees that the transgression of any law will have both legal and disciplinary consequences.

It is particularly important that a commitment to these standards of conduct is accepted by all employees and service providers at all Group companies, wherever they operate. Country operations are also required to adopt appropriate principles and actions to deal with specific ethical issues that may arise in their own countries.

The Code of Conduct of Sonae Indústria was defined in such a way that clearly explains the conduct to be followed with all stakeholders, as well as to connect it with the company's values. The Code of Conduct is structured in the following way:

RELATIONS WITH EMPLOYEES AND SERVICE PROVIDERS

- Knowledge sharing and personal development
- Innovation and initiative
- Respect, accountability and cooperation
- Confidentiality and responsibility
- Sustainability
- Conflict of interest
- Health and safety at work
- Social conscience
- Communication
- Compliance

RELATIONS WITH SHAREHOLDERS AND OTHER INVESTORS

- Value creation
- Transparency
- Compliance

RELATIONS WITH GOVERNMENTS AND LOCAL COMMUNITIES

- Ethical behaviour
- Social conscience
- Tax statement
- Environmental awareness

RELATIONS WITH BUSINESS PARTNERS

- Customer focus
- Integrity
- Ethical behaviour
- Transparency

RELATIONS WITH COMPETITORS

- Enforcement of competition laws
- Ethical behaviour

The complete Code of Conduct can be found at the company website, www.sonaeindustria.com.

III. INTERNAL CONTROL AND RISK MANAGEMENT

50. Individuals, bodies or committees responsible for the internal audit and/or the implementation of internal control systems

Internal Audit and Risk Management for Sonae Indústria are currently provided by the Internal Audit and Risk Management team of Sonae Arauco that reports its activities and findings to the Board Audit and Finance Committee and to the Statutory Audit Board.

The support of Sonae Arauco's team to Tafisa Canada must comply with behavioural best practices regarding antitrust regulations for North America business, which led to the internalisation, by Tafisa Canada, of some of the Internal Audit and Risk Management activities and of the Operational Risk Management functions. For the same reason, Sonae Arauco and Tafisa Canada Information Technology (IT) systems are segregated. It should also be noted that in respect of accounting and administrative functions, Tafisa Canada keeps its independence, as Canada was never included in the scope of the Shared Services Centre (which is under the responsibility of Sonae Arauco).

Internal Control and Risk Management are important parts of Sonae Indústria's culture and are integrated into the management processes and responsibilities of all Group employees, at all levels of the organization. This is supported by Group transversal functions, notably Risk Management, Internal Audit and Planning and Management Control, with specialised teams.

The mission of **Risk Management** is to support the companies in achieving their business objectives through a structured and systematic approach of identifying and managing risks and opportunities. It has also the objective to promote the consistency of principles, concepts, methodologies and tools to evaluate and manage the risks of all business units.

The mission of **Internal Audit** is to identify and evaluate, in a systematic and independent way, the correct functioning of the risk management and internal control systems, as well as the implementation effectiveness and efficiency of the controls and mitigation actions. It must also inform and alert the Board Audit and Finance Committee and the Statutory Audit Board of the more relevant observations and recommendations, identifying improvement opportunities.

The **Planning and Management Control (PMC)** department promotes and supports the integration of the risk management activities in the planning and management control processes of the companies. This department, supported by robust information systems, prepares analysis and reports containing operational, financial and compliance-related information. Through its Procedural Manual, it ensures and defines a set of rules and procedures relative to the planning processes, reporting, management accounts and investment approval process.

Ongoing monitoring activities of control are in place, namely approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Pertinent information is identified, captured and communicated within a form and time frame which enables employees to fulfil their responsibilities.

Sonae Indústria has its own corporate team responsible for Planning and Management Control in parallel with Sonae Arauco team and each business unit has in its team a controller which ensure that procedures of the group are properly implemented.

As with Internal Audit & Risk Management, Accounting, Administration and Transaction Services are provided by Sonae Arauco centralised accounting back-office and **Shared Service Centre (SSC)** providing accounting and administration services for all Sonae Indústria affiliates with the exception of Tafisa Canada, thus helping to guarantee alignment of policies and strengthening of procedures and controls.

The reliability and integrity risks of the accounting and financial information are also evaluated and reported by the External Audit activity.

Sonae Indústria has a reasonable level of confidence in the internal control framework which is currently in place. Communication of the Vision, Values and Principles throughout the organization reinforces the importance in terms of ethical behaviour. The existence of the Code of Conduct, of the whistleblower tool (reporting of irregularities) and the Ethics Committee enhance the control culture of the organisation.

At Sonae Arauco there is also a Code of Ethics aiming at reinforcing the awareness of Sonae Arauco's Vision, Values and Principles and encouraging the good conduct of its employees.

The Internal Audit and Risk Management team integrates and participates periodically in the meetings and activities of two "Sonae companies' committees" (groups composed of representatives from several Sonae companies): the Audit Committee and the Risk Management Consulting Group. The participation in these bodies contributes to the strengthening of processes and to the increased effectiveness of the internal audit and risk management activities of the companies that are represented.

51. Explanation of the hierarchical and functional reporting lines to other corporate governing bodies or committees

It is the responsibility of the Board of Directors to define, at all times, the objectives related with the assumption of risks, as well as to create the necessary structures and services to ensure that the internal control and risk management system works properly. For this purpose, the Board of Directors, through the Board Audit and Finance Committee, monitors the activities of Internal Audit and Risk Management.

The planning of annual activities, along with the analysis of the activity carried out are presented to the Statutory Audit Board, which enables this body to monitor and advise on the defined risk policy, namely by proposing other activities, evaluating the accuracy of the resources allocated to those activities, etc..

The Statutory Audit Board advises on its performance and connection with other governing bodies and company departments in its annual report and opinion, disclosed together with other financial statements.

The Internal Audit and Risk Management reports to the Statutory Audit Board and the Board Audit and Finance Committee. These bodies can, at their discretion, request meetings to discuss and review internal audit and risk management matters and can also request information or clarifications whenever they wish.

The competences of the Statutory Audit Board include reviewing the effectiveness of the risk management system as well as that of the internal control and audit systems. The Statutory Audit Board has access to all the information whenever it deems necessary and can liaise with the head of the department, receiving the reports related to those activities.

The company CFO reports into the Statutory Audit Board meetings and updates them on the company and group activities, either through a presentation of the main facts occurred or reporting any potential changes to the company strategy, so that the Statutory Audit Board is capable of monitoring and advising on such activities.

The Statutory External Auditor reviews the effectiveness and operation of the internal control mechanisms according to work plan aligned with the Statutory Audit Board, to whom it also reports its findings.

52. Existence of other functional areas with competencies in terms of risk control

Sonae Indústria's culture is based on integrity and ethical values, as outlined in the company's Code of Conduct, which emanate from the top with the example thus being set by management.

The different governing bodies were born from a management philosophy and operating style based on a strong organizational structure with adequate assignment of authority and responsibilities. Solid Human Resources policies and procedures and the existence of the Code of Conduct are enshrined in such structure.

Sonae Indústria faces a variety of external and internal risks that must be assessed and for this purpose the company has installed a culture of prevention and early detection. Additionally, it is also each functional area of the Group the responsibility of controlling and monitoring of the risks inherent to each function.

53. Identification and description of the main types of risk (economic, financial and legal) the company may be subject to in the exercise of its activities.

The production of wood-based panels is an industrial activity that is exposed to various types of risks. Consequently, risk management is a key concern of the company and Sonae Indústria is active in the implementation of standards and best practices and in the selection of systems aimed at reducing risks.

MACROECONOMIC INFLUENCES

Description of the risk: Sonae Indústria's activity is reliant on the general macroeconomic environment and on the developments of the markets in which it operates. Part of the products produced by Sonae Indústria's subsidiaries are commodities, having the nature of durable goods and are mainly intended for the construction and furniture sectors. The Group's operational activity is, therefore, cyclical, being positively correlated with general economic cycles and, in particular, with the evolution of the construction and furniture sectors. Thus, the activity of Sonae Indústria and its subsidiaries businesses can be negatively affected by periods of economic recession, in particular by a drop in household consumption levels. In turn, these levels are influenced, among other factors, by wage policies and unemployment levels, as well as prevailing confidence and social protection levels. The availability of credit in the economy is also relevant for Sonae Indústria Group's business due to its potential impact on the property market. Equally, possible political and/or social and/or religious tensions in any of the markets may have a material impact on Sonae Indústria Group's operations and financial situation that is impossible to estimate.

Mitigating actions: Sonae Indústria, through its subsidiaries, has a strong presence in international markets, having as most important markets the Eurozone, North America (namely Canada and the United States) and South Africa. These markets have different macroeconomic, political and social profiles and, as such, are likely to react differently to any global economic and financial crisis, thus potentially reducing the overall volatility. The launch of innovative and non-commodity products and long term partnerships with key customers are important initiatives to mitigate this risk.

COMPETITION

Description of the risk: The activity developed by Sonae Indústria faces significant challenges in the worldwide sector of wood based panels industry, as it is subject to hard competition in all the markets in which it is present (namely in Iberian Peninsula, Germany, North America and South Africa). This could have adverse effects on the Group's financial situation and results to the extent that the increase of production capacity, new competing industrial units and/or the adoption of a more aggressive pricing policy by competitors, could lead to a reduction in turnover and/or the need to review prices by Sonae Indústria's subsidiaries, with a knock-on effect on the profitability and sustainability of its operations.

Mitigating actions: Sonae Indústria's diversified assets and geographical exposure to various European markets, along with the North American and South African markets, and also other markets through exports, also contributes to potentially reduce these risks. In addition, the increased focus on higher added value products as a way of differentiating and the effort to contain costs as part of the strategy already being

implemented, could protect the competitive position of Sonae Indústria and allow it to further progress in its objectives of being recognised as a reference player in the wood-based panels sector.

COST STRUCTURE RISKS

Description of the risk: Since the industrial activity in the sector is dependent on considerably large industrial units, Sonae Indústria's consolidated cost structure has a significant fixed component, i.e. not dependent on sales volume and upon which the Group can only act through restructuring or efficiency increase initiatives. An insufficient turnover or gross margin on sales to offset fixed costs could determine losses to be registered by Sonae Indústria and its subsidiaries.

On the other hand, the variable cost structure of Sonae Indústria's subsidiaries, notably in the case of raw materials, mainly wood, chemicals and air-dried paper, is exposed to external factors (that are outside the company's control), with a positive or negative impact on the availability of such raw materials and their purchase price. In particular, the risk associated with access to wood, the raw material essential to the production process, in terms of suitable quantity, type, quality and price, may impact not only the subsidiaries ability to provide its customers with products according to agreed time frames and conditions, but could affect expected profitability when it comes to setting a sale price for its products. In an extreme scenario, the inability to buy wood in sufficient quantities could lead to a temporary interruption in production at the affected industrial unit, with knock-on effects on operational profitability.

Mitigating actions: To mitigate the risk of fixed costs not covered, there is a continuous development and implementation of initiatives and actions to diversify products and markets, as well initiatives to increase efficiency and cost reduction at industrial operations. Regarding variable costs, the Group have diversified their supply sources and the types of wood used, namely through recycling waste, and introducing different types of wood and alternative by-products.

TECHNOLOGICAL RISKS

Description of the risk: The ability of Sonae Indústria to develop and offer higher added value products on competitive terms at global level is an increasingly crucial objective in the current context of the wood-based materials sector. This is dependent on technological developments, which may be difficult to predict and monitor.

Mitigating actions: Sonae Indústria monitors and seeks to anticipate technological advances and to predict the receptiveness of new products that could affect its business and the results of its operations.

CYBERSECURITY

Description of the risk: The risk of digital attacks on systems, networks, and programs of operational technology (OT) and information technology (IT). OT cybersecurity: costly production outages leading to financial losses, catastrophic safety failures and environmental damage leading to potential liability issues, and theft of intellectual property leading to loss of competitive advantage. IT cybersecurity: exposure to harm or loss resulting from breaches of or attacks on information systems, risk events resulting from malicious or unintentional acts and coming from sources outside or inside the company.

Mitigating actions: Continuous development and implementation of initiatives to protect systems, networks, devices and data from cyber-attacks. Implementation of different awareness and training actions about cybersecurity, involving systems users.

OPERATIONAL RISKS

Description of the risk: Sonae Indústria's activities are subject to certain operational risks, especially with respect to the industrial production activities. There are multiple factors which may interrupt production and have potentially negative effects on operations and, consequently, its financial situation and results. The production of wood-based panels is an industrial activity with significant operational risks arising from fire

and explosions incidents and from accidents with employees (namely trampling situations, dust explosions, hot work, exposure to hazardous material) (health and safety).

Mitigating actions: Operational risk management is a key concern of the company and there is a continuous implementation of standards and best practices and selection of systems that are capable of reducing industrial risks.

FINANCIAL RISKS

The Group is exposed to a variety of financial risks including credit risk, capital risk and liquidity risk.

Credit Risk

Description of the risk: The credit risk is related to receivables from customers, i.e. the risk that a customer is late in paying or does not pay for the goods and services acquired.

Mitigating actions: There are credit risk control systems and procedures developed to maximize the effective collection of the receivables from customers in accordance with the agreed conditions. Sonae Indústria makes use of credit insurance, as a tool to mitigate this risk, in all regions where it is present. In specific situations (for certain customers) where we are not able to contract credit insurance to mitigate this risk, alternative and/or complementary solutions (such as bank guarantees, letters of credit and confirming, among others) are explored in order to achieve the largest possible turnover volumes in an environment of minimum and controlled risk. If it is not possible to obtain sufficient risk coverage for a specific customer or operation, a detailed internal process has been developed with the objective of analysing every particular aspect of such business, so an informed and complete and approved decision can be taken over a possible own risk-taking situation, escalating the decision to higher management levels.

It should be noted that none of Sonae Indústria customers, including Sonae Arauco customers represents more than 7.3% of its aggregate turnover (considering 100% of Sonae Arauco turnover).

Capital Risk

Description of the risk: The capital structure of Sonae Indústria, determined by the proportion of the company equity and net debt is managed in order to ensure the continuity and development of its operations considering also efficiency criteria in financing costs.

Mitigating actions: Sonae Indústria closely monitors its capital structure, identifying risks, opportunities and the necessary measures for the achievement of those objectives.

Liquidity risk

Description of the risk: Liquidity risk arises when a company does not have the cash or the financing required to properly carry on its business activities on time, implement its strategy and meet its payment obligations when due, while avoiding the need for having to obtain funding under unfavourable terms. The existence of financial covenants in Sonae Indústria financing agreements is also a possible cause of liquidity risk since breach of the financial ratios may lead to an event of default in the respective financing agreements, which could lead to their termination, including the early repayment of debt.

Mitigating actions: Liquidity risk management at Sonae Indústria comprises mainly: consistent financial planning, diversification of financing sources, diversification of debt maturities, and arrangements to secure committed credit facilities with relationship banks. Also with the goal of mitigating liquidity risk there is a continuous monitoring of the financial ratios agreed in order to anticipate potential non-compliance situations and implement corrective measures in advance.

BUSINESS CONTINUITY RISKS

Description of the risk: Some of the businesses developed by Sonae Indústria may require additional investment, the conditions of which could depend on the financial framework, on its current indebtedness level and by the evolutions of its activity and that of its subsidiaries. Financing of the additional component may be obtained through its own and/or external capital. Sonae Indústria cannot guarantee that these funds, if necessary, will be obtained, or that they will be subject to the predicted conditions. If there is a need for external capital, the macroeconomic and financial framework could present constraints both at the available liquidity level and at the financing cost level, which may affect or preclude access to credit. Even under a recovery context, the speed and manner in which this takes place is subject to considerable uncertainty, meaning the financing of Sonae Indústria and/or of its subsidiaries possible future investments cannot be guaranteed.

Mitigating actions: Actions referred above to mitigate macroeconomic and financial risks.

ECONOMIC RISKS

The **economic risks** that Sonae Indústria is exposed to include: interest rate risk and foreign exchange risk.

Interest rate risk

Description of the risk: Interest rate risk depends on the proportion of floating rate debt and the consequent cash flows related to interest payments.

Mitigating actions: As a general rule, Sonae Indústria does not hedge its exposure to floating interest rates through financial derivatives. This approach is based on the principle of the existence of a positive correlation between the interest rate levels and the “operating cash flow before net interest charges” which creates a natural hedge on the “operating cash flow after net interest charges” for Sonae Indústria. As an exception to this general rule, Sonae Indústria Group may engage into interest rates derivatives, and in this case, the following principles should be observed: (i) derivatives should not be used for trading, profit making, or speculative purposes; (ii) engage preferably in derivative transactions with Investment Grade financial institutions; (iii) match exact periods, settlement dates and base interest rate of the underlying exposures; and (iv) maximum financial charges (aggregate of the derivative and the underlying exposure) should be known and limited on the inception of the hedging period. The inefficiencies, whenever they exist, are booked under the financial results item of the consolidated income statement.

In December 2019, Sonae Indústria issued a Subordinated Bond Loan of 50 million Euros, with a maturity of 10 years and a fixed interest rate.

Foreign exchange risk

Description of the risk: Foreign exchange risk exposure is due to the fact that Sonae Indústria is a geographically diversified group, present in three different continents, and as such subject to transactions and balances denominated in pound sterling, South African rand, Canadian dollar, American dollar, Swiss franc and Polish zloty. The Consolidated Statements of Financial Position and Income Statement are exposed to the risk of a change in the value of capital invested in subsidiaries outside the Eurozone. Sonae Indústria's subsidiaries are exposed to the risk associated with commercial transactions made in currencies other than their local currency.

Transaction risk arises when there is exchange risk related to a cash flow in other than a subsidiary local currency.

Currency conversion risk emerges from the fact that, when preparing the Group's consolidated accounts, the financial statements of the subsidiaries denominated in currencies other than that of the consolidated accounts (euro), must be converted into euros. As exchange rates vary between accounting periods and as the value of the subsidiaries' assets do not match their liabilities, volatility in the consolidated accounts arise as a result of conversion in different periods at different exchange rates.

Mitigating actions: The Group companies cash flows are largely denominated in the respective subsidiary local currency. This is valid independently of the nature of the cash flows, i.e.: operating or financial, and provides a degree of natural hedging, reducing the Group's transaction risk. Aligned with this reasoning, Sonae Indústria's subsidiaries only contract debt that is denominated in the respective local currency. Additionally, whenever there are relevant business flows in a currency different from the subsidiary local currency, a natural hedge strategy may be implemented, if feasible from a business perspective, seeking to offset purchases (payments) or sales (receivables) in that currency with sales (receivables) and purchases (payments) in the same currency for similar amounts. In situations where there is a relevant exchange risk as a result of operational activity involving currencies other than the local currency of each subsidiary which cannot be naturally hedged, the exchange risk must, as a general rule, be mitigated by the subsidiary exposed to the exchange rate risk contracting foreign exchange derivatives.

LEGAL AND REGULATORY RISKS

Description of the risk: The activities of Sonae Indústria and its subsidiaries and affiliated companies are, as industrial activities, subject to regulatory frameworks in a number of areas, including national regulations, European Union directives and international agreements, by which Sonae Indústria is bound and which may influence its management and strategic decisions. Indeed, Sonae Indústria, through its subsidiaries and affiliated companies, is subject not only to different legal frameworks in different countries as diverse as Canada, Germany, Portugal, South Africa and Spain, but also to legislation in different areas, such as industrial and forestry, environmental, labour, hazardous materials transportation, health and safety, construction and housing, urban planning, among others. Possible changes to regulations, legislation, or changes in interpretation on the part of competent authorities, could lead to increased adjustment costs, namely industrial and operational, or, in the limit, constricting the respective operating income. In addition, the non-compliance with such regulations could lead to operational restrictions, investment needs or even the revocation of licences, authorization or permits or in sanctions.

It is worth referring that formaldehyde is naturally produced by the body, being a critical molecule for the formation of proteins and quickly metabolised. Formaldehyde is also naturally emitted by vegetation (leaves and wood) - up to 10 million tons per year globally. More than 11 million tons per year of formaldehyde is naturally formed via secondary atmospheric reactions.

In 2015, formaldehyde was reclassified as a carcinogenicity Cat 1B substance, when present above certain values, which results in new challenges for the wood-based products industry. This reclassification triggered new obligations under various European and Portuguese legislations and opened the way for potential actions under European registration, evaluation, authorisation and restriction of Chemicals, known as the REACH regulation.

However, this reclassification focus on the potential occurrence of an extremely rare form of cancer in Europe (nasopharyngeal), and a comprehensive risk assessment for workers and consumers demonstrated its safe use.

Sonae Indústria's affiliates are represented in the EPF (European Panel Federation) where regulatory affairs are discussed. Key concerns to the business, still in discussion, are VOC (Volatile organic compound) requirements, formaldehyde, titanium dioxide and melamine reclassification processes. Depending on the conclusions in these dossiers the impact on the wood based panel market can be significant therefore this will be closely monitored.

Mitigating actions: continuous monitoring of legal and regulatory requirements and its changes and training to update knowledge. When needed, legal and tax advice is also provided by outsourced resources selected

from firms with established reputation and which have the highest standards of competency, ethics and experience. Establishment and disclosure of written policies and procedures on relevant legal or regulatory matters to ensure compliance.

HUMAN RESOURCES

Description of the risk: Lack of necessary knowledge, skills, experience or adapting capacity of key resources, may threaten business model execution and prevent critical business objectives to be achieved and risks reduced to an acceptable level. The incapacity to retain key human resources can lead to high "replacement" costs.

Mitigating actions: Implementation of different initiatives and actions to develop, retain and recruit people at the different levels of the organization. Continuous training and education actions and development of initiatives to improve communication with all employees. The commitment of Sonae Indústria to shifting from legal compliance to international best practices in health and safety, is also an action to retain and attract people.

54. Description of the process for identification, evaluation, monitoring, control and management of risks

For further information on mitigation and management of risks see also topic 53.

The management of risks is an important part of Sonae Indústria's culture and is mainly supported by Internal Audit and Risk Management activities.

Internal Audit is an independent and objective activity, which aims helping Sonae Indústria to achieve its goals by participating in the process of value creation. It uses a systematic and structured approach to evaluate and improve the effectiveness of risk management, internal control procedures and corporate governance.

Internal Audit operates in accordance with International Standards for the Professional Practice of Internal Auditing, established by the Institute of Internal Auditors, including its Code of Ethics.

Internal Audit reports to the Board Audit and Finance Committee and to the Statutory Audit Board. These Boards are responsible for overseeing the effectiveness of the internal audit function.

The planning of the activity of Internal Audit is essentially developed based on a prior assessment of the systematic business risks of Sonae Indústria. An annual plan of Internal Audit activity is submitted to and discussed with the Board Audit and Finance Committee and to the Statutory Audit Board.

Descriptive reports of the activity of Internal Audit are prepared and sent to the Board Audit and Finance Committee and to the Statutory Audit Board of Sonae Indústria, including the summary of significant internal control deficiencies and shortcomings in procedures and policies set by company.

The existing reporting system ensures regular feedback, a proper review of the activities and the possibility to adjust the plan of activities to emerging needs.

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

Internal Audit and Risk Management services, including Operational Risk Management, for Sonae Indústria companies, except for Tafisa Canada that has internalised these functions, are provided by teams at Sonae Arauco.

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.

The risk management is part of the **Internal Audit & Risk Management** function.

This department is focused in the promotion of a culture of risk awareness throughout the organization and in the coordination of risk management activities and respective reporting of results. It is also responsible for implementing the Enterprise Wide Risk Management (EWRM) methodology, detecting, assessing and prioritising the risks and their potential impact on the organisation's activities.

The company risk model aggregates the risks in two major categories (Business Processes Risks and Business Environment Risks) and quantifies the relevance (impact on EBITDA and operating efficiency) and the probability (frequency of the event or scenario occurring) of the critical risks.

The management of financial risks incorporated into the business process risks is carried out and monitored within the scope of the finance function.

The risk management also cooperates with the insurance management, whose goal is to bring about more efficient and effective management of the different insurance policies, in order to mitigate insurance risks.

The general approach seeks to assure a suitable and balanced coverage of the operational risk by transferring it to the company's insurance partners. Sonae Indústria developed various insurance programs to transfer the risk to the market, aiming to cover:

- property damage (including machinery breakdown) and business interruption;
- damages in transportation;
- damages caused to third parties (product, public and environmental liability);
- credit risk;
- working accidents.

Sonae Indústria contracts insurance policies as a back up to its risk management processes that better approach specific risks and topics and is committed to improve its assets protection and prevention levels in order to reinforce the partnership with the insurance market.

The production of wood-based panels is an industrial activity with a significant operational risk arising from fire and explosion. Accordingly, the protection of core assets, as well as programs for prevention loss of income are constant concerns of Sonae Indústria.

Sonae Indústria kept the focus on the **Continuous Improvement Programme** supported by a specialised Continuous Improvement Team of Sonae Arauco, which promotes the implementation of continuous improvement best practices that lead to higher efficiency and productivity levels in the group, gradually implementing a cultural change in the company's employees. The objective is to involve all employees in developing a faster and more efficient way to work, not only in the industrial areas, but also in commercial and supporting activities of the company.

OPERATIONAL RISK MANAGEMENT:

Given the already mentioned operational risks associated to such an industrial activity as that of Sonae Indústria, protection of assets is essential to ensure business continuity and prevent negative impacts, including financial impacts. Constant evaluation of the exposures and of how the operating risks can be reduced to an acceptable level are mandatory activities.

In 2019, Risk Management activities at Sonae Arauco, kept aiming to improvements targeted on the Thermal oil systems and dust explosion protection. It is expected that the focus on this particular areas will be maintained in the upcoming years given its importance, and relevance, with regards to the asset protection and business continuity. During 2019 an additional attention was also given to the External Insurance Audits and its follow up.

Corporate Operational Risk Standards (CORS)

Corporate Operational Risk Standards are an important tool for a clear guidance and for standardization of the Hazards Management program. These principles were developed with reference to international standards such as NFPA¹ and/or FM² data sheets, bringing together the best protection engineering practices for the wood industry. These standards were validated in coordination with external experts and specialists from risk management and insurance market fields.

The Corporate Operational Risk Standards (CORS) are divided in three areas:

1. Management Programs and Procedures:

- industry best practices in loss prevention involving the human element;
- preparation for emergencies;
- management programs (maintenance, inspections equipment, training, contractors, housekeeping).

2. Fire Protection Systems:

- reference to internationally recognised standards, mainly NFPA;
- general requirements in fire detection and protection in industrial premises, fire water supply specifications and building materials characteristics;
- integration of a component for surveillance practices (hardware).

3. Special Hazards:

- world class developed knowledge in fire detection and protection inherent to the wood based panels industry: wet and dry particle handling and transport, dryers, hot presses, etc.;
- specific issues, such as thermal and hydraulic oil installations, electrical cabinets and rooms or transformers.

In 2019 Sonae Arauco initiated a formal revision of its CORS to update the requirements to current practices which is expected to be concluded by the end of 2020.

Inspections

External Risk Inspections

In 2019, there was a follow up on the external risk recommendations in the industrial units.

Internal Risk Inspections

During 2019, regular internal visits were performed focused on specific problems and follow up of issues previously identified.

Risk Plan

In addition to the recommendations issued by the external risk engineers, each industrial unit has further measures to be implemented in order to comply with the corporate guidelines, with the recommendations resulting from internal and external inspections and (in the case of Sonae Arauco) with the Corporate Operational Risk Standards.

¹ National Fire Protection Association.

² Factory Mutual.

55. Main components of the internal control systems and risk management adopted by the company in relation to the process of disclosure of financial information (Article 245-A, number 1, paragraph m))

For Sonae Indústria, the **internal control** system implemented, that also covers the process of preparation, management and disclosure of financial information, is a transversal set of procedures implemented by the Group's executive governing bodies, supported by principles of coherence, consistency, transparency, accountability, honesty, integrity, reliability and relevance, aiming to assure the reliability and the accuracy of the financial information, the compliance with accounting rules and regulations, whilst promoting operational effectiveness. The internal control system monitors the application of management best practices and procedures, the compliance with the management established policies and aims to provide reasonable assurance in the preparation of the company's financial statements, in accordance with the adopted accounting standards and the mandatory applicable reporting frameworks while ensuring the quality of the financial reporting.

In this global internal control system, the Group's first point of control is associated with the organization, procedures and tasks related with process of decision-making and execution, which translate, in a systematic, controlled and validated way, in the authorizations of the operations by management.

Sonae Indústria aims to ensure that those management transactions turn into procedures and movements related with accounting and financial records which, consequently, are elaborated in a way to allow a reasonable level of certainty that such transactions are executed in accordance with a general or specific management authorization, that transactions are registered in order to enable the adequate preparation of the financial statements in accordance with the generally accepted accounting standards and to keep an adequate accounting record of the company financial situation. The accounting evidence of the company financial situation is compared, in frequent time intervals, with existing assets and liabilities and appropriate measures are taken whenever relevant material differences are registered.

The reliability, independence, integrity and the opportunity of the financial information are guaranteed not only by the clear separation between who executes the operations, prepares the information and its internal users (and naturally external users), but also by the realization of several control activities throughout the process of preparation, validation and disclosure of financial information.

The internal control system for the accounting and preparation and disclosure of financial information includes the following key controls:

- The process of reporting financial information is documented. The risks, tasks and associated controls are identified, individualized and segregated, being properly established and approved the criteria for its preparation and disclosure, which are periodically reviewed;
- The utilization of consistent accounting principles in compliance with the rules in force, which are explained in the notes to the financial statements and are present in the company formal document – "Group's Accounting Policies" – is updated and validated by the Board Audit and Finance Committee and approved by the Board of Directors;
- The plans, procedures and records of Group companies allows a reasonable assurance that the transactions are executed only with proper authorization, approved by management, registered in compliance with accounting standards and subject to internal audit procedures, also ensuring that the Group companies maintain a proper record of its assets with their existence reconciled with the accounting records, being adopted appropriate measures always when differences are verified;
- The financial, accounting and management information is reviewed regularly by the management of each business unit and by the persons in charge of the results' centres, ensuring continuous monitoring and related budget control;

- During the process of preparation and review of financial information, detailed schedules are set out and shared with the areas involved, being all documents reviewed in detail, including the review of principles used, verifying the accuracy of the information and its consistency with principles and policies defined in the “Group’s Accounting Policies” document and used in previous periods;
- With regard to the individual companies, with the exception of Tafisa Canada that performs its own accounting records, accounting records are ensured by the Sonae Arauco Shared Services Centre that guarantees the control and consistency in recording business processes transactions and the recording of the assets, liabilities and equity accounts balances. The financial statements are prepared by the different functions of administrative services, in the different geographies. Compliance with the rules and the schedule mentioned above ensures the consistent respect for criteria and the early detection of any potential deviation or inaccuracy in the records. Financial statements are prepared by chartered accountants of each company and reviewed by Planning and Management Control, Consolidation, the Statutory External Auditor and by the supervisory bodies;
- Consolidated financial statements are prepared on a monthly basis. This process represents an additional control of the reliability of financial information, as regards the consistent application of accounting principles, cut-off procedures and control of related parties transactions and balances;
- In the assessment process of the company risk, the Management Committee permanently identifies the relevant risks to the preparation of the financial statements in order to ensure an appropriate and real image of the company situation in every moment. A monthly detailed analysis of the financial statements aims to ensure that these reflect the risks, events and external and internal circumstances that impacted the reporting period;
- The Management Report is prepared by the Investors Relations Department with contributions and reviews made by several business and supporting departments. The Corporate Governance Report is also prepared by the same department in cooperation with the Legal Department;
- The Group financial statements are prepared under the supervision of the Management Committee. The documents that constitute the Annual Report and Accounts are sent for review and approval by Sonae Indústria Board of Directors, after being previously verified with the Statutory External Auditor and reviewed by the Board Audit and Finance Committee. Once approved, the documents are sent to the Statutory External Auditor, who issues the accounts legal certification and audit report, both object of a detailed analysis and deliberation by the Statutory Audit Board;
- The process of preparing separate and consolidated financial information and the Management Report is supervised by the Statutory Audit Board and by the Board Audit and Finance Committee of the Board of Directors. These bodies meet, at least, quarterly to review the individual and consolidated financial statements. The Statutory External Auditor presents the main conclusions of the work carried out regarding the annual financial information, directly to the Statutory Audit Board and to the Board Audit and Finance Committee. Promptly and when something material happens with relevant impact in the accounts, the Statutory External Auditor meets with the Statutory Audit Board to discuss and validate the implications of those situations in the results’ announcements;
- Internal rules applicable to the disclosure of financial information aim to warrant that information is disclosed to the market in a timely manner, in order to prevent information asymmetry.

Among the risks that may materially affect the financial and accounting report preparation, the following are worth highlighting:

- Accounting estimates – major accounting estimates are described in the notes to the financial statements. Estimates are based on information made available during the preparation of the financial statements and in the best knowledge and experience of past and present events;

- Balances and transactions with related parties – balances and transactions with related parties are disclosed in the notes to the financial statements. These transactions are related mainly to the operational recurrent activities of the Group, and to the granting and obtaining of loans under arm's length conditions and supported in good transfer pricing practices;
- Compliance and updating of rules and accounting policies – the accounting policies produced by the different regulators are permanently being updated. Financial statements are presented according to the most recent versions of rules and accounting policies, whenever it impacts the disclosure of the financial information reports, to prevent incompleteness, inaccuracy or ill-time of the financial statements, as referred in the notes to the financial statements;
- New, revised or discontinued information systems – the adoption of new information systems or its constant updates could impact the timely presentation of the financial information and even its reliability and consistency. The permanent update of the decision-making information systems is accompanied by multidisciplinary internal and external teams that provide an adequate control environment. In turn, the company risk of not having an effective and redundant information and technology infrastructure in the processes scope used to define, develop, keep and operate a timely and adequate treatment information environment, could lead to information loss and/or in the availability of the systems to report the information in a complete manner and on time. To minimize this potential risk, the Group has been developing and implementing information technology solutions that allow to face this risk in a more controlled way;
- Fraud and human errors – the fraud situation in which an individual or a group of people in collusion, namely those with higher management responsibility positions, engages in fraud practices related with the financial information preparation can be hard to detect, depending on the hierarchical level of the intervenient. The existence of different information internal recipients, namely the top management level, the Planning and Management Control, the Investor Relations Department and local teams allows successive and redundant controls which enable the identification of potential fraud and human errors situations. Fraud is also understood as a key audit matter by the Statutory External Auditor and specific procedures are developed in order to assure the inexistence of any material misstatement in the financial information, providing an additional control point for the preparation of that information;
- Cost/benefit relation of the internal control process – the implementation of an internal control system related with the preparation and disclosure of financial information can represent a cost that has to be assessed in terms of benefit. There must be a direct relation between benefits (security) that the company aims to achieve with the internal control system implementation and the reasonable security that this may provide. The business processes optimization, which includes the process of preparation and disclosure of business information, has been permanently analysed and updated, in terms of processes optimization and internal control environment;
- Company's less common transactions – sometimes company's less common transactions occur and, because they are exceptional, they could not be timely detected and identified by the internal control system as it may not be prepared to deal with it. When an exceptional situation occurs, it is immediately identified at local or consolidated level, analysed by the several internal departments and, if need be, the Statutory External Auditor and/or experts are requested to confirm it.

IV. INVESTOR RELATIONS

56. Department responsible for investor relations, composition, roles, information made available by the department and contact details

Sonae Indústria has its own Investor Relations Department, which is responsible for managing the relationship between the Company and shareholders, investors, analysts and market authorities, including CMVM (the Portuguese Securities Market Commission).

Each quarter, the Investor Relations Department is responsible for coordinating the preparation of an earnings announcement to be issued to the market and provides statements whenever necessary to disclose or clarify any relevant fact or event that could affect the share price. The Investor Relations Department is available at all times to respond to any general questions posed by the market. The Company is available to meet investors, either at road shows or in one-on-one meetings upon request, or by participating in conferences.

Sonae Indústria's Investor Relations Department comprises one staff member. Its manager is João Mangericão. The Department may be contacted by e-mail to investor.relations@sonaeindustria.com or by phone at +351 220 106 359.

In addition to the compliance of all legal obligations regarding the disclosure of information to the market, this department ensures timely disclosure of information to its shareholders, investors and to the markets in general.

57. Representative for the Relations with Capital Markets

Sonae Indústria's legal representative for Relations with Capital Markets is its Managing Director George Christopher Lawrie, who can be contacted via the Investor Relations Department or, alternatively, directly by e-mail to chris.lawrie@sonaeindustria.com.

58. Information on the volume and time of response to information requests received during the year or pending from previous years

The company keeps a record of the requests made to the Investor Relations Department and how each request was dealt with. In 2019, the Department received 23 contacts and requests for clarification from investors, of which 1 were non-resident. In overall terms, the average response time to the information requests from investors was less than 48 hours. No information requests from earlier years are pending.

V. WEBSITE

59. Website address

The company's website is www.sonaeindustria.com.

60. Place where information on the firm, public company status, registered office and the remaining information is available set out in Article 171 of the Portuguese Companies Law

Information on the company's firm, the quality of publicly traded company, headquarters and other elements mentioned in Article 171 of the Companies Code is available at:

<https://www.sonaeindustria.com/pt/governo-societario/identificacao-da-sociedade> (Portuguese version)

<https://www.sonaeindustria.com/en/corporate-governance/corporate-details> (English version)

61. Place where the company's Articles of Association and terms of reference of the governing bodies and/or committees are available

The company's Articles of Association are available at:

<https://www.sonaeindustria.com/pt/governo-societario/estatutos-da-sociedade> (Portuguese version)
<https://www.sonaeindustria.com/en/corporate-governance/company-statutes> (English version)

The functioning regulations of the Board of Directors, Management Committee and the Statutory Audit Board, as well as the terms of reference of the BAFC and of the BNRC are available at:

<https://www.sonaeindustria.com/pt/governo-societario/orgaos-sociais-e-comissoes> (Portuguese version)
<https://www.sonaeindustria.com/en/corporate-governance/governing-bodies-and-committees> (English version)

62. Place where information regarding the identification of the members of the governing bodies, the representative for the Relations with the Capital Markets, the Investor Relations Department or its equivalent, respective roles and contact details is available

The identification of the members of the company's governing bodies is available at:

<https://www.sonaeindustria.com/pt/governo-societario/orgaos-sociais-e-comissoes> (Portuguese version)
<https://www.sonaeindustria.com/en/corporate-governance/governing-bodies-and-committees> (English version)

Information about the representative for the Relations with the Capital Markets is available at:

<https://www.sonaeindustria.com/pt/governo-societario/representante-relacoes-mercado> (Portuguese version)
<https://www.sonaeindustria.com/en/corporate-governance/market-relations-representative> (English version)

Information about the Investor Relations Department is available at:

<https://www.sonaeindustria.com/pt/investidores/departamento-relacoes-investidores> (Portuguese version)
<https://www.sonaeindustria.com/en/investor/investor-relations-department> (English version)

63. Place for disclosure of the company financial statements, which must be available for at least five years, as well as the half-year calendar of corporate events, released at the beginning of each semester, which must include dates of Shareholders' General Meetings and dates of release of annual, half-year and, if applicable, quarterly results

The company's accounting documents are available at:

<https://www.sonaeindustria.com/pt/investidores/relatorios-e-contas> (Portuguese version)
<https://www.sonaeindustria.com/en/investor/management-reports> (English version)

The half-year schedule of company events is available at:

<https://www.sonaeindustria.com/pt/investidores/calendario-financeiro> (Portuguese version)
<https://www.sonaeindustria.com/en/investor/financial-calendar> (English version)

64. Place for disclosure of the notice of General Meeting and all the preparatory and subsequent information

The notifications convening the General Meetings and all the preparatory and subsequent meeting information are available at:

<https://www.sonaeindustria.com/pt/governo-societario/assembleias-gerais> (Portuguese version)

<https://www.sonaeindustria.com/en/corporate-governance/general-meetings> (English version)

65. Place for the release of the historic records of all resolutions approved at the Shareholders' General Meetings, the percentage of share capital represented and the results of the votes cast, all in relation to the last three years

The record of the deliberations made in the General Meetings, capital represented and the results of the votes are available at:

<https://www.sonaeindustria.com/pt/governo-societario/assembleias-gerais> (Portuguese version)

<https://www.sonaeindustria.com/en/corporate-governance/general-meetings> (English version)

D. REMUNERATIONS

I. COMPETENCIES FOR APPROVAL OF REMUNERATIONS

66. Details of the powers for establishing the remuneration of the governing bodies, Executive Committee members and of the company persons discharging managerial responsibilities

As defined in the company Articles of Association, the Shareholders' General Meeting is responsible for establishing the remuneration of the members of the governing bodies or for electing a committee for this purpose. As for the members of the Board of Directors, the Shareholder's Remuneration Committee liaises with the Board Nomination and Remuneration Committee. This is the only way the Shareholder's Remuneration Committee gets the necessary knowledge about the performance of each Director, and especially the Executive Directors, throughout the year.

II. REMUNERATIONS COMMITTEE

67. Composition of the remunerations committee, including identification of the individuals or companies who have been retained to support the decision process and information regarding the independence of each member and advisor

Sonae Indústria's Shareholders' Remuneration Committee is appointed at the Shareholders' General Meeting for a three-year term and was elected at the Shareholders' General Meeting held on 9 May 2018 for the mandate 2018-2020. Currently, this committee comprises Efanor Investimentos - SGPS, SA, represented by Duarte Paulo Teixeira de Azevedo, by Imparfin, Investimentos e Participações Financeiras, SA, represented by José Fernando Oliveira de Almeida Côte-Real and by Professor José Manuel Neves Adelino.

Professor José Manuel Neves Adelino is an independent member of the Shareholder's Remuneration Committee.

The participation of Paulo Azevedo at the Shareholders' Remuneration Committee, who is also Chairman of the Board of Directors, is in representation of shareholder interests in the Shareholders' Remuneration Committee, as he intervenes in that capacity. Paulo Azevedo does not participate in the discussion nor is present in the moment of the meeting in which his own remuneration is discussed therefore ensuring the necessary impartiality and transparency.

The Shareholders' Remuneration Committee may retain specialised consulting services whenever it deems convenient and within budget limits. The Shareholders' Remuneration Committee must ensure that the services are performed with independence and that the respective consultants will not be rendering other services to Sonae Indústria or to other companies in a relationship of control or group without prior consent.

During 2019, no company was hired to assist the Shareholders' Remuneration Committee nor the Board Nomination and Remuneration Committee. For benchmarking the salary level of Board of Directors members, these Committees use multi-company studies prepared by international consultants present in Portugal which are available in the market.

Paulo Azevedo was present at the Shareholders' General Meeting held in 2019.

68. Experience and knowledge of the members of the Shareholders' Remuneration Committee in remuneration policy issues

The representative of Imparfin, José Côrte Real, works in Human Resources area of Efanor Group; his extensive knowledge and vast experience in Human Resources, namely in what concerns remuneration policies, contribute very positively to the work of the Shareholders' Remuneration Committee.

III. REMUNERATION STRUCTURE

69. Description of the remuneration policy of the management and supervisory bodies as mentioned in Article 2 of Law nr. 28/2009, dated 19 June

At the Shareholders' General Meeting held in 2019, the Shareholder's Remuneration Committee presented a declaration concerning the remuneration and compensation policy of the governing bodies and the persons discharging managerial responsibilities.

The remuneration and compensation policy to be applied to the statutory governing bodies of Sonae Indústria and other senior management complies with the European guidelines, the Portuguese law and the Corporate Governance Code released in 2018 by the Portuguese Institute of Corporate Governance (IPCG), and is based on the understanding that initiative, competence and commitment are the essential foundations for good performance and that the latter must be aligned with the medium and long term interests of the company, in order to achieve sustainability.

In the definition of the remuneration and compensation policy of members of the Company's statutory bodies, the main objective is to seize talent with high performance level, which represents a relevant and material contribution to the sustainability of the Company's businesses. The remuneration policy is set out based on comparisons made with market and practices of comparable companies and with information collected by market studies prepared by specialised consultants in Portugal and other European countries, in particular those prepared by Hay Group.

With that in mind, the remuneration parameters of statutory bodies are set and periodically reviewed in accordance with remuneration practices of comparable national and international companies, aligning, the maximum target amounts to be paid to members of the statutory bodies with market practices, both in individual and aggregate terms, differentiating on an individual and positive manner the members of statutory bodies according to, amongst others, the respective profile and curriculum, the nature and job description and the responsibilities of the relevant statutory body and of the member itself, and the direct correlation degree between individual performance and businesses performance.

To determine the global market reference values, it is considered the average of values applicable to top management in Europe. The companies considered as peers for remuneration purposes are those included in the group of companies which are listed in Euronext Lisbon, and the maximum potential amounts to be paid to members of the statutory bodies are the following, according to market references:

Board of Directors	Components		Market positioning	Circumstances in which remuneration is due
Executive Directors	Fixed	<i>Base remuneration</i>	<i>Median</i>	<i>N/A</i>
	Variable	<i>Short term variable component</i>	<i>Third quartile</i>	<i>Compliance with objective and subjective KPIs</i>
		<i>Medium term variable component</i>		<i>Compliance with objective KPIs</i>
		<i>Long term variable component</i>		<i>Compliance with objective KPIs</i>
Non Executive Directors	Fixed	<i>Remuneration</i>	<i>Median</i>	<i>N/A</i>
Statutory Audit Board	Fixed	<i>Remuneration</i>	<i>Median</i>	<i>N/A</i>
Statutory External Auditor	Fixed	<i>Remuneration</i>	<i>Median</i>	<i>N/A</i>

The fixed remuneration of Directors is determined according to their level of responsibility, is subject to annual review and is placed in the median position in comparable circumstances.

Besides the fixed remuneration, the executive directors participate on an incentives plan, with a variable component, which is divided in three elements, one of short term, one of medium term and another of long term nature. The total remuneration is positioned in the median position, in respect to the fixed remuneration, in the third quartile in respect to the variable component, and the total remuneration is positioned between the median and the third quartile in comparable circumstances.

The fixed remuneration and the incentives plan are approved by the Shareholders' Remuneration Committee in coordination with the Board Nomination and Remuneration Committee.

The incentives plan awarded to Executive Directors is subject to maximum percentage limits and is determined by pre-established and measurable performance criteria - performance indicators - agreed with each Executive Director for each financial year.

This incentives plan is established based on a set of performance indicators at business level, mainly of economic and financial nature, also designated "Key Performance Indicators of Business Activity" (or Business KPIs) and also at individual level, "Personal Key Performance Indicators" (or Personal KPIs).

The content of the performance indicators and their specific weight in determining actual remuneration awarded ensure the alignment of Executive Directors with the strategic objectives defined for the organisation and the compliance with the laws that apply to the company's activities.

The award of the incentives plan is based on an individual performance assessment made by the Shareholders' Remuneration Committee, in coordination with the Board Nomination and Remuneration Committee. This assessment takes place after the results of the company are known.

Thus, for each financial year, an evaluation is made of business activity and of the individual performance and contributions to the collective success which, obviously, impacts the awards of the fixed and variable components of the remuneration package of each Executive Director.

In applying the Remuneration and Compensation Policy, consideration is given to roles and responsibilities performed in affiliated companies.

The company's Remuneration and Compensation Policy incorporates the principle of not providing any compensation to members of the Board of Directors or members of other statutory governing bodies, related with the termination of a mandate, whether such termination occurs at the end of the respective mandate, or there is an early termination for any reason or on any basis, without prejudice of the company's obligation to comply with the applicable law.

The Remuneration and Compensation Policy does not include any additional benefits policy, particularly retirement benefits, in favour of the members of the governing bodies or other "Senior Management", without prejudice of the Shareholders' Remuneration Committee having the option to proceed with the payment of part of the amounts due through the attribution of retirement saving plans.

To ensure the effectiveness and transparency of the objectives of the Remuneration and Compensation Policy, the Executive Directors have not, and will not, enter into agreements with the company or third parties that have the effect of mitigating the risk inherent in the variability of their remuneration awarded by the company.

For the company's statutory governing bodies, the approved policy establishes the following:

EXECUTIVE DIRECTORS (EDs)

The Remuneration and Compensation Policy for the Executive Directors (EDs) includes, in the way it is structured, control mechanisms, taking into account the connection to personal and collective performance, to prevent behaviours that involve excessive risk-taking. This objective is also reinforced by the fact that each Key Performance Indicator (KPI) is limited to a maximum value.

The remuneration of EDs normally includes two components: (i) a fixed component, which includes a Base Remuneration paid with reference to one year period (remuneration is paid in 12 months) and an annual responsibility allowance and, (ii) a variable component which comprises three elements: (ii.1) a first element of Short Term, awarded in the first half of the year following the year to which it relates (the "Performance Year"), subject to the accomplishment of the objectives fixed for the Performance Year, paid immediately after its award, (ii.2) a second element of Medium Term, awarded in the first half of the year to which it relates, subject to the accomplishment of the objectives in each year until its payment and paid after a three years deferral period, and (ii.3) a third element of Long Term, awarded in the first half of the year following the year to which it relates, subject to the accomplishment of the objectives fixed in each of the following five years and paid five years after its award.

- (i) The fixed component of the remuneration (FR) of the EDs is based on the personal competences and level of responsibility of the function exercised by each ED and is reviewed annually. Each ED is attributed a classification named internally as Management Level ("Grupo Funcional"). EDs are classified under one of the following Management Levels: "Group Leader", "Group Senior Executive" and "Senior Executive". The Management Levels are structured according to Hay's international model for the classification of corporate functions, thereby facilitating market comparisons as well as helping to promote internal equity.
- (ii) The variable component of the remuneration (VR) is designed to motivate and reward the EDs to achieve predetermined objectives and reinforce the alignment of the EDs with the shareholders' interests and increasing their awareness of the importance of their performance in a sustainable manner on the overall success of the organisation. These objectives should be based on indicators of company performance, of the working teams under their responsibility and of their own personal performance. This variable component will be awarded after the annual accounts are closed and after their performance evaluation has been completed.

a) Short Term Variable Bonus

The target value of the Short Term Variable Bonus (STVB) is equivalent to a maximum of 1/3 of the target value of the total variable component.

The amount of the variable bonus of EDs without a specific geographic responsibility is based on the company consolidated KPI's achievement, resulting 60% from the Operational Cash Flow, 20% from Fixed Costs and 20% from continuous improvement performance indicators to be approved by the Shareholders' Remuneration Committee. Thereafter, a multiplication factor will be applied. This multiplication factor results from the individual performance assessment and can range between 0 and 150% according to the individual performance classification attributed to the relevant ED.

Regarding EDs with geographic responsibility, the calculation is similar to the previously described but the company's consolidated Operational Cash Flow has a weight of 10%, the weight of the relevant geography represents the 70%, allocated as follows: (i) 40% to the EBITDA, 10% to Working Capital, and (iii) 20% to Fixed Costs, and the remaining 20% depend on continuous improvement performance indicators, namely related to the performance of the working teams under the responsibility of the ED, approved by the Shareholders' Remuneration Committee. The multiplication factor resultant from the individual performance assessment is applied in the same way.

b) The Medium Term Variable Bonus (deferred for three years)

The Medium Term Variable Bonus (MTVB) of the EDs is limited to a maximum of one third of the target value of the total variable component, and is intended to strengthen the alignment of the EDs with the strategic objectives of the company and the interests of the shareholders. The payment of the amount awarded is deferred for three years and adjusted proportionally in the year it relates to and in the following two years, in the portion of one third in each year. The indicator to be used is the increase of the theoretical value of the shareholders' funds (calculated using a multiple of Recurrent EBITDA).

c) The Long Term Variable Bonus (deferred for five years)

The Long Term Variable Bonus (LTVB) is designed to increase awareness of the importance of a sustainable performance on the overall success of the organisation. The maximum amount of this bonus, in euros, is equivalent to the Short Term Variable Bonus awarded, will be deferred for a five years period and will only be due if the company registers consolidated profits in all years during the deferral period and if such profits are, in each year, in an amount equal or higher than 20% of the consolidated shareholders' funds registered in the beginning of the year they respect to.

Considering all the elements of short, medium and long term of the variable component, the target values set in advance are in the range of 50%-70% of the total annual remuneration (fixed remuneration and variable component target value).

In respect to the calculation of the results and in respect to the Short-term Variable Bonus and to the Medium Term Variable Bonus, the total amount receivable is limited to the minimum 0% and the maximum of 250% of the total target value set in advance for those variable components.

The payments can be made by any means of termination of an obligation as set forth in the law and in the company's Articles of Association, at the Shareholders' Remuneration Committee criteria, which may, namely, at its free criteria, fix the receipt of any of the parts of the variable component through the sale of shares of Sonae Indústria, SGPS, S.A. at a discount. Such discount corresponds to a contribution to the acquisition of shares that will be supported by the persons to whom the variable component remuneration was awarded, which shall correspond to a percentage of the trading price of the shares, at the date of the share transmission, up to a maximum percentage of 5% of such value.

The right of receiving the deferred parts of the variable component remuneration expires if the contractual link between the Director and the company ceases before its vesting date.

However, this right will remain valid in case of permanent incapacity or death of the Director, in which case the payment is made to himself/herself or to his/her legal successor on the vesting date.

In case of retirement of the Director, the awarded right can be exercised in the respective vesting date.

NON-EXECUTIVE DIRECTORS (NEDs)

The remuneration of the Non-Executive Members of the Board of Directors (NEDs) is based on market comparables and is structured as follows: (i) a fixed remuneration (of which approximately 15% depends on attendance at Board of Directors and Board Committees meetings); (ii) an annual responsibility allowance. Fixed remuneration may be increased by up to 5% for those NEDs serving as Chairman at any Board Committee. There is no variable remuneration attributed as a bonus.

In relation to the other statutory governing bodies and members of senior management, the policy establishes the following:

STATUTORY AUDIT BOARD

The remuneration of the members of the company's Statutory Audit Board is based exclusively on a fixed component, which includes an annual responsibility allowance. The levels of remuneration are determined by taking into consideration the company's situation and by benchmarking against the market.

STATUTORY EXTERNAL AUDITOR

The company's Statutory External Auditor is remunerated in accordance with normal fee levels for similar services, benchmarked against the market, under the supervision of the Statutory Audit Board and the Board Audit and Finance Committee.

BOARD OF THE SHAREHOLDERS' GENERAL MEETING

The remuneration of the members of the Board of the Shareholders' General Meeting correspond to a fixed amount, based on the company's situation and benchmarked against the market.

SENIOR MANAGEMENT

Under the terms of paragraph 25, number 1 of Article 3^o of EU Regulation 596/2014, dated 16 April, in addition to the members of the statutory governing bodies mentioned above, Senior Management also includes top management who have regular access to Privileged information directly or indirectly related to the Company and have the power to take managerial decisions affecting the future developments and business prospects of the Company.

The remuneration policy applicable to other individuals who, under the terms of the law, are considered to be Senior Management, shall be equivalent to the one adopted for other managers with the same function and responsibility level, without awarding of any additional benefits other than those inherent to the respective Management Level.

The Executive Directors of Sonae Indústria's subsidiary companies are also eligible to be awarded the variable component, as well as, and in accordance with the remuneration policy approved by the Board of Directors, the employees who are entitled to the incentives plan in the scope of that policy.

The remuneration policy approved by the Shareholders' General Meeting in 2019 also includes the remuneration defined at that date for the non-executive members of the Board of Directors for the mandate 2018-2020, without prejudice of the Shareholders' Remuneration Committee to amend them, as well as the remunerations of the executive Directors in 2018.

The policy also includes the statement of the Shareholders' Remuneration Committee by which, in the attribution of the total remuneration, this Committee applied, on a regular and ordinary manner, the

principles and rules of the Remuneration and Compensation Policy of the Statutory Governing Bodies and Senior Management approved at the Shareholders' General Meeting on 9 May 2018, as detailed below:

- a) The fixed remuneration awarded to the Board members is the median of the market values and takes into account the level of responsibility of the respective Board member;
- b) The non-executive directors were not awarded any variable remuneration;
- c) The STVB corresponds to the performance of Executive Directors according to the terms described in the policy, and includes the weighing of the achievement of the individual and business KPIs previously defined, after the results of the company are closed and the performance appraisal is carried out;
- d) The MTVB was awarded as set out in the policy and its payment is deferred for three years and adjusted proportionally in the year to which it relates and in the following two years, in order to align the executive directors interests with the Company's strategic objectives and the shareholders' interests;
- e) The LTVB was awarded as set out in the policy and its payment is deferred for five years and is due only if the Company registers positive consolidated results in every year of the deferral period and if, in each year, those results are equal or above 20% of the consolidated Shareholders' Funds;
- f) There are no agreements that determine the award of compensations to the Board members related with the termination of a mandate or that consider the possibility of requesting the refund of a variable remuneration, without prejudice of the Company's obligation to comply with the applicable law.

70. Information on how the remuneration is structured, so that the interests of the members of the management body are aligned with the long-term interests of the company, how it is related to the performance evaluation and how it discourages the excessive assumption of risks

With regard to Non-Executive Directors, the attribution of only a fixed remuneration, as explained in the previous point, allows the interests of these Directors to be matched to the long-term interests of the company.

As for the Executive Directors, the attribution of remuneration comprising a fixed component and a variable component, the latter calculated in line with a series of specifically weighted performance indicators, ensures that the Executive Directors' interests are aligned with the long-term interests of the company and discourages risk taking. The result of the performance assessment of each of the Executive Directors serves as a multiplier factor of the other defined KPIs (for a more detailed explanation of how the different KPIs work, see the previous point).

The company has an internal regulation that defines the scope and rules applicable to the Medium Term Variable Bonus.

71. Reference to the existence of a variable component of the remuneration and information regarding the potential impact of the performance evaluation on the variable component

As mentioned in the two previous points, the remuneration of the Executive Directors comprises a variable component, whereby the performance assessment impacts on this part of the remuneration (for more detailed explanation of the impact of the performance assessment on the variable remuneration component see point 69).

72. Deferred payment of the variable component remuneration, identifying the deferral period

The Medium Term Variable Bonus is deferred for a three-year period and the Long Term Variable Bonus is deferred for a five-year period.

73. Criteria for the attribution of variable remuneration in the form of shares, retention of shares by Executive Directors, potential agreements over shares, namely hedging or risk transfer agreements, respective limit, and relation to the total annual remuneration

The remuneration policy approved at the Annual General Meeting, in 2019, does not contemplate the remuneration in the form of shares. To ensure the effectiveness and transparency of the Remuneration and Compensation Policy, the Executive Directors have not entered and should not enter into agreements with the company or with third parties with the objective of mitigating the risk inherent to the variability of the remuneration that is fixed by the company.

74. Criteria for the attribution of variable remuneration in the form of options and indication of the deferral period

The company does not attribute options.

75. Main parameters and assumptions of any system of annual bonuses and other non-monetary benefits

The parameters and assumptions of the annual bonus system are outlined in the remuneration policy mentioned in point 69 above.

76. Main characteristics of the complementary long-term or advanced retirement plans for Directors and date of approval at the Shareholders' General Meeting for each individual

The company has not implemented any supplementary pension or early retirement regime.

The company's articles of association do not include any provision regarding directors pension benefits, thus the approved remuneration and compensation policy does not include any pension system, without prejudice of the Shareholders' Remuneration Committee being able to proceed with the payment of part of the amounts due through the attribution of retirement saving plans.

IV. DISCLOSURE OF REMUNERATION

77. Indication of the total annual remuneration, both in aggregate and individual terms, of the members of the management bodies, paid by the company, including fixed and variable compensation and, for the latter, describing the different remuneration components involved

2019	Total Fixed Annual Remuneration		Total Short Term Variable Bonus		Total Medium Term Variable Bonus		Total Long Term Variable Bonus		Total	
	2018	2019	2018 (a)	2019 (b)	2018 (c)	2019 (d)	2018 (e)	2019 (f)	2018	2019
Paulo Azevedo	51,800.00	51,800.00							51,800.00	51,800.00
Javier Vega	29,140.00	54,890.00							29,140.00	54,890.00
Albrecht Ehlers (g)	40,600.00	40,600.00							40,600.00	40,600.00
Carlos Moreira da Silva	31,700.00	31,700.00							31,700.00	31,700.00
José Romão de Sousa	28,700.00	28,700.00							28,700.00	28,700.00
Berta Cunha (h)	19,733.33	28,700.00							19,733.33	28,700.00
Isabel Barros (h)	17,600.00	24,700.00							17,600.00	24,700.00
Christopher Lawrie	251,600.00	261,600.00	113,212.92 ⁽¹⁾	107,950.00 ⁽³⁾	120,000.00	125,000.00	113,212.92	107,950.00	598,025.84	602,500.00
Louis Brassard (i)	189,420.86	199,561.55	82,338.62 ⁽²⁾	118,619.20 ⁽⁴⁾	91,537.60	96,340.05	82,338.62	118,619.20	445,635.70	533,140.00
Total Board of Directors	660,294.19	722,251.55	195,551.54	226,569.20	211,537.60	221,340.05	195,551.54	226,569.20	1,262,934.87	1,396,730.00

(a) Relative to 2018, amount approved and paid in 2019.

(b) Relative to 2019, estimated value considering actual KPI achievement and pending approval by the Shareholder's Remuneration Committee.

(c) The initial amount related to 2018 is deferred for three years and adjusted proportionally in the year to which it relates and in the two subsequent years, in the proportion of one third in each year. The indicator to be used is the increase of the theoretical value of the shareholders' funds (calculated using a multiple of Recurrent EBITDA).

(d) The initial amount related to 2019 is deferred for three years and adjusted proportionally in the year to which it relates and in the two subsequent years, in the proportion of one third in each year. The indicator to be used is the increase of the theoretical value of the shareholders' funds (calculated using a multiple of Recurrent EBITDA).

(e) Relative to 2018, amount equal to the Short Term Variable Bonus allocated is deferred for five years and will only be due if the company registers consolidated profits in all the years of the deferred period and if, in each year, those profits are equal or higher than 20% of the consolidated shareholders' funds registered in the beginning of the year to which they relate.

(f) Relative to 2019, amount equal to the Short Term Variable Bonus allocated is deferred for five years and will only be due if the company registers consolidated profits in all the years of the deferred period and if, in each year, those profits are equal or higher than 20% of the consolidated shareholders' funds registered in the beginning of the year to which they relate.

(g) Out of the amount paid in 2018, 28.300 euros were paid by Sonae Indústria and 12,300 euros by Sonae Arauco Deutschland GmbH.

Out of the amount earned in 2019, 28.300 euros were paid by Sonae Indústria and 12,300 euros by Sonae Arauco Deutschland GmbH.

(h) Relative to 8 months of 2018

(i) Values in euros correspondent to the values in Canadian dollars paid by Tafisa Canada

(1) Fixed from the target value of 120,000 euros.

(2) Fixed from the target value of 91,537.60 euros.

(3) Fixed from the target value of 125,000 euros.

(4) Fixed from the target value of 127,932.70 euros.

78. Compensation of any kind paid by other companies in relation of domain or group, or subject to a common domain

The amounts paid by other Group companies are shown on the table above.

79. Remuneration paid in the form of participation in the company's results and/or bonuses

The bonuses paid to the Executive Directors are outlined on the table in point 77 above.

80. Indemnities paid or due to former Executive Directors resulting from the termination of their responsibilities during the financial year

No indemnity was paid to former Executive Directors upon termination of their functions during the year.

81. Indication of the total annual remuneration, both in aggregate and individual terms, of the Statutory Audit Board

In 2019, the members of the Statutory Audit Board earned the following remuneration:

STATUTORY AUDIT BOARD REMUNERATION (EUROS)

Statutory Audit Board member

António Trabulo (Chairman)	9,900
Óscar Quinta	7,900
Ana Fonte	7,900
TOTAL	25,700

82. Indication of the remuneration for the reference year of the Chairman of the Board of the General Meeting

In 2019, the Chairman of the Board of the Shareholders' General Meeting earned the total remuneration of 5,000 euros.

V. AGREEMENTS WITH IMPACT ON REMUNERATION

83. Contractual restrictions applied to the compensation due by ungrounded dismissal of Director and its relation with the variable component of the remuneration

The Remuneration and Compensation Policy approved by the Shareholders' General Meeting maintains its principle of not awarding compensation to the Directors upon termination of their mandate, notwithstanding mandatory compliance by the company with the legal stipulations in force concerning this matter. This principle is the legal instrument deemed adequate to prevent that the early termination of mandate leads to the payment of any compensation beyond that set out in the law.

84. Reference to the existence and description, indicating the amounts involved, of agreements between the company and members of the management bodies and other officers ('dirigentes'), in accordance to the terms of Article 248-B, number 3, of the Securities Code, which foresee compensation in case of resignation, ungrounded dismissal or termination of the work contract subsequent to a change in the company control (Article 245-A, number 1, paragraph I))

Compliant with the approved Remuneration and Compensation Policy, no agreements were signed between the company and the Directors or "*Dirigentes*" that stipulate indemnity in the event of resignation, dismissal without justification or termination of the employment relationship following a change in the control of the company.

VI. SHARE PLANS OR STOCK OPTIONS PLANS

85. Identification of the plan and of the respective recipients

The current remuneration policy approved at the Annual Shareholders' General Meeting does not contemplate any variable remuneration in the form of share attribution.

86. Description of the plan

There is no remuneration plan in the form of share attribution.

87. Option rights for the acquisition of shares (stock options), whose beneficiaries are company employees.

The company does not have plans to attribute share purchase options.

88. Internal control tools to be used in a potential participation in the share capital by company employees, so that the voting rights are not directly exercised by them (Article 245-A, number 1, paragraph e))

No control mechanisms are in place regarding an employee participation system in the company's share capital.

E. TRANSACTIONS WITH RELATED PARTIES

I. CONTROL MECHANISMS AND PROCEDURES

89. Mechanisms implemented by the company to monitor transactions with related parties

The mechanisms implemented by the company for the purpose of controlling transactions with related parties are thorough, transparent and in strict compliance with the market competition rules. Such transactions are subject to specific administrative procedures that are regulated by regulatory impositions, namely transfer pricing policies, or by the voluntary adoption of internal verification and control systems.

Every month, all transactions and operational balances with related parties are identified and verified by a specific team of the Shared Services Centre, which renders services to the company, and validated with administrative teams of related entities when it refers to external operations.

Less recurrent transactions are subject to an ad-hoc and more detailed analysis by the company's appropriate departments or by the services providers (always with the participation of the Tax area in order to ensure compliance with the existing transfer pricing policies) to support the possible transaction values. In the case of an asset transfer/sale, these assets are subject to an external and independent evaluation to support the respective transaction.

The Board of Directors amended the terms of the delegation of powers to the Managing Directors, by excluding from that delegation of powers all transactions of Sonae Indústria with "Related Parties" (as set out in the International Accounting Standards adopted in the EU, except for the Related Parties within Sonae Indústria consolidation perimeter), involving a value, individual or aggregate, with an annual base over 10 million euros.

The minimum individual and aggregate value of the transactions with related parties which must be approved by the Board of Directors has been determined by the Statutory Audit Board's regulation in respect of transactions with related parties which must be subject to the opinion of the Statutory Audit Board.

90. Indication of the transactions which were monitored in the reference year

Sonae Indústria did not carry out any transactions with members of the Board of Directors nor with the Statutory Audit Board members.

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

The Statutory Audit Board issued an opinion in relation to two transactions with related parties, which have been approved by the Board of Directors:

- a financial transaction with Efanor Investimentos, SGPS, SA, Sonae Indústria's majority shareholder, by which Efanor loaned Sonae Indústria € 50,000,000. This transaction aimed to allow the refinancing of Sonae Indústria's main secured loan and ended once the subordinated bond loan described in the next paragraph was issued;
- a subordinated bond loan whose first tranche, in the amount of € 50,000,000 was totally subscribed by Efanor Investimentos, SGPS, SA, with a duration of 10 years and a fixed interest rate of 7%.

91. Description of the procedures and criteria applicable to the intervention of the supervisory body for the purpose of previous assessment of the transactions to be carried out between the company and the holders of a qualified shareholding, or entities related thereto, in accordance to the terms of Article 20 of the Securities Code.

With exception of transactions with related parties included in the company consolidation perimeter, in the scope of their respective activities, any related parties transactions with individual or aggregate value higher than 10 million euros, on a yearly basis, must be subject to prior opinion of the Statutory Audit Board. The request for an opinion must be accompanied by all the elements required to allow a comparative analysis with the market and how potential conflicts of interest will be managed.

Any transactions that have been completed with related parties must result from a comparative process.

II. INFORMATION CONCERNING TRANSACTIONS

92. Indication of the section in the financial statements documents where the information regarding related parties transactions is made available

The information in relation to related parties transactions may be found in point nr. 33 of the Notes to the Consolidated Financial Statements.

F. DIVERSITY POLICY IN MANAGEMENT AND SUPERVISORY BODIES

Sonae Indústria recognizes that diversity in the composition of its management and supervisory bodies, especially in respect of the Board of Directors, boosts creativity and supports informed decision making based on different perspectives.

Sonae Indústria aims to combine in its management and supervisory bodies a diverse set of competencies, knowledge, experiences and relevant perspectives, together with a knowledge of its business and a high integrity, so that the members of those government bodies effectively fulfil their responsibilities.

Therefore, the members of these governing bodies shall have the required academic qualifications for the exercise of their respective functions. In particular, we will strive to have members of the Board of Directors, that have combined competencies in different professions and industrial areas in order to ensure informed decision making.

As an international Group, it is expected that the Board of Directors comprises persons of different nationalities and, consequently, different cultures, usually persons who are born native in one of the countries in which Sonae Indústria is present. This way, it is possible to bring to the Board of Directors the cultural and social perspective of such countries.

In relation to the members of the Statutory Audit Board, it is always expected that they have the qualifications required by law, such as knowledge of auditing and/or accounting which are considered to be the most relevant for the exercise of their respective duties.

Age is not considered a determining factor for the choice of the members of these government bodies.

Sonae Indústria recognizes and supports the regime of balanced distribution of men and women in management and supervisory bodies of listed companies, published on 1 August 2017. At the Shareholders' General Meeting held in May 2018, the proposal presented complied with the established in the law, in respect to the proportion of persons of each gender in the management and supervisory bodies, with the Board of Directors being now constituted by seven male members and two female members and the

Statutory Audit Board by two male members and two female members, being one of them a substitute member.

PART II - ASSESSMENT OF THE CORPORATE GOVERNANCE

1. Identification of the corporate governance code adopted

Sonae Indústria, SGPS, SA adopted the 2018 Corporate Governance Code of the Portuguese Institute of Corporate Governance published at <https://cam.cgov.pt/>.

2. Analysis of compliance with the Corporate Governance Code adopted

Sonae Indústria did not comply with two of the recommendations of the aforementioned Corporate Governance Code, during the 2019 exercise, being the non-compliance explained at the end of this item. Besides fulfilling the legal requirements and recommendations of the referred Code, Sonae Indústria, being aware of the importance of good corporate governance for business and for its shareholders, constantly seeks to adopt best practices in all areas in which operates, and as such prepared its own Code of Conduct, which can be found on the company's website www.sonaeindustria.com.

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
I. GENERAL PROVISIONS		
I.1. Company's relationship with investors and disclosure		
<p>I.1.1. The company should establish mechanisms to ensure, in a suitable and rigorous form:</p> <ul style="list-style-type: none"> a) the production, b) management and c) timely disclosure <p>of information to its governing bodies, shareholders, investors and other stakeholders, financial analysts, and to the market in general.</p>	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	<p>50 and 55</p> <p>55</p> <p>29, 56 to 58</p>
I.2. Diversity in the composition and functioning of the company's governing bodies		
<p>I.2.1. Companies should establish standards and requirements regarding the profile of new members of their governing bodies, which are suitable according to the roles to be carried out, hence:</p> <ul style="list-style-type: none"> a) besides from individual attributes (such as competence, independence, integrity, availability, and experience), b) these profiles should take into consideration diversity requirements, with particular attention to gender diversity which may contribute to a better performance of the governing body and to the balance of its composition. <p>I.2.2. The company's managing and supervisory boards, as well as their committees, should have internal regulations — namely regarding the performance of their duties, their Chairmanship, periodicity of meetings, their functioning and the duties of their members -, and detailed minutes of the meetings of each of these bodies should be carried out.</p> <ul style="list-style-type: none"> a) Internal regulations: <ul style="list-style-type: none"> a.1) Board of Directors a.2) Statutory Audit Board a.3) Board Committees b) Prepare detailed minutes of meetings: <ul style="list-style-type: none"> b.1) Board of Directors b.2) Statutory Audit Board b.3) Board Committees <p>I.2.3. The internal regulations of the governing bodies – the managing body, the supervisory body and their respective committees - should be disclosed, in full, on the company's website.</p> <ul style="list-style-type: none"> i) Managing body ii) Supervisory body iii) Board Committee 	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	<p>16 and Chapter F</p> <p>16 and Chapter F</p> <p>22</p> <p>34</p> <p>27</p> <p>29</p> <p>29</p> <p>29</p> <p>22 and 61</p> <p>27 and 61</p> <p>34 and 61</p>

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
<p>I.2.4. The composition, the number of annual meetings of the managing and supervisory bodies, as well as of their committees, should be disclosed on the company's website.</p> <p>a) composition of governing bodies and Board Committees b) number of meetings held</p> <p>I.2.5. The company's internal regulations should provide for the existence and ensure the functioning of mechanisms to detect and prevent irregularities, as well as the adoption of a policy for the communication of irregularities (whistleblowing) that guarantees the suitable means of communication and treatment of those irregularities, but safeguarding the confidentiality of the information transmitted and the identity of its provider, whenever such confidentiality is requested.</p> <p>a) In the internal regulations, provide mechanisms for detection and prevention of irregularities; b) Adoption of a whistleblowing policy.</p>	<p>Compliant Compliant</p> <p>Compliant Compliant</p>	<p>62 35</p> <p>50 to 52 and 54 49</p>
<p>I.3. Relationship between the company bodies</p>		
<p>I.3.1. The bylaws, or other equivalent means adopted by the company, should establish mechanisms that, within the limits of applicable laws, permanently ensure that the members of the managing and supervisory boards are provided access to all the information and company's collaborators, in order to appraise the performance, current situation and perspectives for further developments of the company, namely including minutes, documents supporting decisions that have been taken, calls for meetings, and the archive of the meetings of the managing board, without impairing the access to any other documents or people that may be requested for information.</p> <p>I.3.2. Each of the company's boards and committees should ensure the timely and suitable flow of information, especially regarding the respective calls for meetings and minutes, necessary for the exercise of the competences, determined by law and the bylaws, of each of the remaining boards and committees.</p>	<p>Compliant</p> <p>Compliant</p>	<p>21, 29 and 38</p> <p>29 and 38</p>
<p>I.4. Conflicts of interest</p>		
<p>I.4.1. The duty should be imposed, to the members of the company's boards and committees, of promptly informing the respective board or committee of facts that could constitute or give rise to a conflict between their interests and the company's interest</p> <p>I.4.2. Procedures should be adopted to guarantee that the member in conflict does not interfere in the decision-making process, without prejudice to the duty to provide information and other clarifications that the board, the committee or their respective members may request.</p>	<p>Compliant</p> <p>Compliant</p>	<p>29 and 38</p> <p>29 and 38</p>

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
I.5. Related party transactions		
<p>I.5.1. The managing body should define, in accordance with a previous favourable and binding opinion of the supervisory body, the type, scope and minimum individual or aggregate value of related party transactions that:</p> <ul style="list-style-type: none"> i) require the previous authorization of the managing board, ii) and those that, due to their higher value, require an additional favourable report of the supervisory body. 	<p>Compliant Compliant</p>	<p>89 and 90 90 and 91</p>
<p>I.5.2. The managing body should report to the supervisory body all the transactions in the scope of Recommendation I.5.1., at least every six months.</p> <ul style="list-style-type: none"> i) which require previous authorization of the managing body; ii) and those that, due to their higher value, require an additional favourable report of the supervisory body. 	<p>Compliant Not Applicable (to the extent that the business value is the same)</p>	<p>89 and 91</p>
II. SHAREHOLDERS AND GENERAL MEETINGS		
<p>II.1. The company</p> <ul style="list-style-type: none"> a) should not set an excessively high number of shares to confer voting rights; and b) it should make its choice clear in the corporate governance report every time its choice entails a diversion from the general rule: that each share has a corresponding vote. 	<p>Compliant Not applicable</p>	<p>13</p>
<p>II.2. The company shall not adopt mechanisms that turn decision making by its shareholders (resolutions) more difficult, specifically, by setting a quorum higher than that established by law.</p>	<p>Compliant</p>	<p>14</p>
<p>II.3. The company should implement adequate means for the exercise of voting rights through postal votes, including by electronic means.</p>	<p>Compliant</p>	<p>12</p>
<p>II.4. The company should implement adequate means in order for its shareholders to be able to digitally participate in general meetings.</p>	<p>Non-compliant</p>	<p>See explanation below</p>
<p>II.5. The bylaws, which specify the limitation of the number of votes that can be held or exercised by a sole shareholder, individually or in coordination with other shareholders, should equally provide that, at least every 5 years the amendment or maintenance of this rule will be subject to a shareholder resolution without increased quorum in comparison to the legally established and in that resolution, all votes cast will be counted without observation of the imposed limits.</p>	<p>Not applicable</p>	

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
<p>II.6. The company should not adopt mechanisms that imply payments or assumption of fees in the case of the transfer of control or the change in the composition of the managing body, and which are likely to harm the free transferability of shares and a shareholder assessment of the performance of the members of the managing body.</p> <p>a) in case of transfer of control; or b) change in the composition of the managing body.</p>	<p>Compliant Compliant</p>	<p>4 4</p>
III. NON-EXECUTIVE MANAGEMENT AND SUPERVISION		
<p>III.1. Without prejudice of the legal powers of the Chair of the managing body, if he/she is not independent, the independent directors should appoint a coordinator (lead independent director), from amongst them, namely, to: (i) act, when necessary, as an interlocutor near the chair of the board of directors and the other directors, (ii) make sure there are the necessary conditions and means to carry out their functions; and (iii) coordinate the independent directors in the assessment of the performance of the managing body, as established in recommendation V.1.1..</p>	<p>Compliant</p>	<p>17</p>
<p>III.2. a) The number of non-executive members in the managing body, as well as b) the number of members of the supervisory body and c) the number of the members of the committee for financial matters should be suitable for the size of the company and the complexity of the risks intrinsic to its activity, but sufficient to ensure, with efficiency, the duties which they have been attributed.</p>	<p>Compliant Compliant Compliant</p>	<p>18 31 29</p>
<p>III.3. In any case, the number of non-executive directors should be higher than the number of executive directors.</p>	<p>Compliant</p>	<p>17, 18, 21 and 28</p>
<p>III.4. Each company should include a number of non-executive directors that corresponds to no less than one third, but always plural, who satisfy the legal requirements of independence. For the purpose of this recommendation, an independent person is an individual who is not associated with any specific group of interest of the company, nor under any circumstance is likely to affect his/her impartiality of analysis or decision, namely due to: i) having carried out functions in any of the company's bodies for more than 9 years, either on a consecutive or non-consecutive basis; ii) having been a prior staff member of the company or of a company which is considered to be in a controlling or group relationship with the company in the last three years; iii) having, in the last three years, provided services or established a</p>	<p>Compliant</p>	<p>17 and 18</p>

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
<p>significant business relationship with the company or a company which is considered to be in a controlling or group relationship, either directly or as a shareholder, director, manager or officer of the legal person; iv) having been a beneficiary of remuneration paid by the company or by a company which is considered to be in a controlling or group relationship other than the remuneration resulting from the exercise of a director's duties; v) having lived in a non-marital partnership or having been the spouse, relative or any first degree next of kin up to and including the third degree of collateral affinity of company directors or of natural persons who are direct or indirect holders of qualifying holdings, or vi) having been a qualified holder or representative of a shareholder of qualifying holding.</p>		
<p>III.5. The provisions in paragraph (i) of recommendation III.4. do not inhibit the qualification of a new director as independent if, between the termination of his/her functions in any of the company's bodies and the new appointment, a period of 3 years has elapsed (cooling-off period).</p>	Not applicable	
<p>III.6. a) Non-executive directors should participate in the definition, by the managing body, of the strategy, main policies, business structure and decisions that should be deemed strategic for the company due to their amount or risk,</p>	Compliant	21
<p>b) as well as in the assessment of the accomplishment of these actions.</p>	Compliant	24, 29 and 69
<p>III.7. The supervisory body should, within its legal and statutory competences, collaborate with the managing body in defining the strategy, main policies, business structure and decisions that should be deemed strategic for the company due to their amount or risk, as well as in the assessment of the accomplishment of these actions.</p>	Not applicable	
<p>III.8. The supervisory body, in observance of the powers conferred to it by law, should, in particular, monitor, evaluate, and pronounce itself in relation to:</p> <p>a) the strategic guidelines and</p> <p>b) the risk policy</p> <p>defined by the managing body.</p>	Compliant Compliant	51 38 and 51
<p>III.9. Companies should create specialised internal committees that are adequate to their dimension and complexity, separately or cumulatively covering matters of</p> <p>a) corporate governance,</p> <p>b) remuneration and performance assessment, and</p> <p>c) appointments.</p>	Compliant Compliant Compliant	29 29 29

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
<p>III.10. a) Risk management systems, b) internal control systems and c) internal audit systems should be structured in terms adequate to the dimension of the company and the complexity of the inherent risks of the company's activity.</p> <p>III.11. The supervisory body and the committee for financial affairs should supervise the effectiveness of a) the risk management systems, b) internal control systems and c) internal audit systems and propose adjustments where they are deemed to be necessary.</p> <p>III.12. The supervisory body must: a) issue an opinion on the work plans and resources of the internal auditing service, including the control of compliance with the rules applied to the company (compliance services) and of internal audit, b) be the recipient of the reports prepared by these services, at least regarding matters related with approval of accounts, the identification and resolution of conflicts of interest, and the detection of potential irregularities.</p>	<p>Compliant Compliant Compliant</p> <p>Compliant Compliant Compliant</p> <p>Compliant Compliant</p>	<p>50 to 52 50 to 52 50 to 52</p> <p>29, 38 and 51 29, 38 and 51 29, 38 and 51</p> <p>38, 51, 54 and 55 54</p>
<p>IV. EXECUTIVE MANAGEMENT</p>		
<p>IV.1. The managing body should approve, by internal regulation or equivalent: a) the rules regarding the action of the executive directors; and b) how these are to carry out their executive functions in entities outside the group.</p> <p>IV.2. The managing body should ensure that the company acts consistently with its objectives and does not delegate powers, namely, in what regards: a) the definition of the strategy and main policies of the company; b) the organisation and coordination of the business structure; c) matters that should be considered strategic in virtue of the amounts involved, the risk, or special characteristics.</p> <p>IV.3. The managing body should: a) set objectives in matters of risk assumption and b) look after their accomplishment.</p>	<p>Compliant Compliant</p> <p>Compliant Compliant Compliant</p> <p>Compliant Compliant</p>	<p>29 29</p> <p>21 21 21</p> <p>51 and 52 51 and 52</p>

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
IV.4. The supervisory board should be internally organised, implementing mechanisms and procedures of periodic control that seek to guarantee that risks which are effectively incurred by the company are consistent with the company's objectives, as set by the managing body.	Compliant	38 and 51
V. EVALUATION OF PERFORMANCE, REMUNERATION AND APPOINTMENT		
V.1. Annual performance evaluation		
V.1.1. The managing body should annually evaluate <ul style="list-style-type: none"> a) its performance, as well as b) the performance of its committees and c) delegated directors, taking into account the accomplishment of the company's strategic plans and budget plans, the risk management, the internal functioning and the contribution of each member of the body to these objectives, as well as the relationship with the company's other bodies and committees.	Compliant Compliant Compliant	24 24 24
V.1.2. The supervisory body should supervise the company's management, especially, by assessing every year the accomplishment of the company's strategic plans and of the budget, the risk management, the internal functioning and the contribution of each member of the body to these objectives, as well as the relationship with the other company's bodies and committees.	Compliant	38 and 51
V.2. Remuneration		
V.2.1. The remuneration should be set by a committee, the composition of which should ensure its independence from management.	Compliant	66 and 67
V.2.2. The remuneration committee should approve: <ul style="list-style-type: none"> a) at the beginning of each term of office, execute, and annually confirm the company's remuneration policy for the members of its boards and committees, including the respective fixed components, and b) As to executive directors or directors periodically invested with executive duties, in the case of the existence of a variable component of remuneration, the committee should also approve, execute, and confirm the respective criteria of attribution and measurement, the limitation mechanisms, the mechanisms for deferral of payment, and the remuneration mechanisms based on the allocation of options and shares of the company. 	Compliant Compliant	69 69

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
<p>V.2.3. The statement on the remuneration policy of the managing and supervisory bodies, pursuant to article 2 of Law no. 28/2009 of 19 June, should additionally include the following information:</p> <ul style="list-style-type: none"> i) the total remuneration amount listed by each of its components, the relative proportion of fixed and variable remuneration, an explanation of how the total remuneration complies with the company's remuneration policy, including how it contributes to the company's performance in the long run, and information about how the performance requirements were applied; ii) remunerations from companies that belong to the same group as the company; iii) the number of shares and options on shares granted or offered, and the main conditions for the exercise of those rights, including the price and the exercise date; iv) information on the possibility to request the reimbursement of variable remuneration; v) information on any deviation from the procedures for the application of the approved remuneration policies, including an explanation of the nature of the exceptional circumstances and the indication of the specific elements subject to derogation; vi) information on the enforceability or non-enforceability of payments claimed in regard to the termination of office by directors. 	<p>Compliant</p> <p>Compliant</p> <p>Not applicable</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	<p>69</p> <p>69</p> <p></p> <p>69</p> <p>69</p> <p>69</p>
<p>V.2.4. For each term of office, the remuneration committee should also approve the directors' pension benefit policies, when provided for in the bylaws, and the maximum amount of all compensations payable to any member of a board or committee of the company due to the respective termination of office.</p>	<p>Not applicable</p>	<p></p>
<p>V.2.5. In order to provide information or clarifications to shareholders, the chair or, in case of his/her impediment, another member of the remuneration committee should be present at the annual general meeting, as well as at any other, whenever the respective agenda includes a matter linked with the remuneration of the members of the company's boards and committees or, if such presence has been requested by the shareholders.</p>	<p>Compliant</p>	<p>67</p>
<p>V.2.6. Within the company's budgetary limitations, the remuneration committee should:</p> <ul style="list-style-type: none"> a) be able to decide, freely, on the hiring, by the company, of necessary or convenient consulting services to carry out the committee's duties. b) ensure that the services are provided independently and that the respective providers do not provide other services to the company, or to others in controlling or group relationship, without the express authorization of the committee. 	<p>Compliant</p> <p>Compliant</p>	<p>67</p> <p>67</p>

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
V.3 Directors' remuneration		
V.3.1. Taking into account the alignment of interests between the company and the executive directors, a part of their remuneration should be of a variable nature, reflecting the sustained performance of the company, and not stimulating the assumption of excessive risks.	Compliant	69 and 70
V.3.2. A significant part of the variable component should: a) be partially deferred in time, for a period of no less than three years, b) thereby connecting it to the confirmation of the performance sustainability in the terms defined by the company's internal regulation.	Compliant	69 to 72
	Compliant	69 to 72
V.3.4. When variable remuneration includes the allocation of options or other instruments directly or indirectly dependent on the value of shares, the start of the exercise period should be deferred in time for a period of no less than three years.	Not applicable	
V.3.5. The remuneration of non-executive directors should not include components dependent on the performance of the company or on its value.	Compliant	69
V.3.6. The company should be provided with suitable legal instruments so that the termination of a director's time in office before its term does not result, directly or indirectly, in the payment to such director of any amounts beyond those foreseen by law, and the company should explain the legal mechanisms adopted for such purpose in its governance report.	Compliant	83 and 84
V.4. Appointments		
V.4.1. The company, in terms considered adequate but in a demonstrable form, should promote that proposals for the appointment of the members of the company's governing bodies are accompanied by a justification in relation to the suitability of the profile, skills and curriculum vitae to the duties to be carried out.	Non-compliant	See explanation below
V.4.2. The overview and support to the appointment of members of senior management should be attributed to a nomination committee, unless this is not justified by the company's size.	Compliant	29
V.4.3. This nomination committee includes a majority of non-executive, independent members.	Compliant	29

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
<p>V.4.4. The nomination committee should make its terms of reference available, and should foster, to the extent of its powers, transparent selection processes that include effective mechanisms of identification of potential candidates, and that those chosen for proposal are those who present a higher degree of merit, who are best suited to the demands of the functions to be carried out, and who will best promote, within the organization, a suitable diversity, including gender diversity.</p>	Compliant	29
VI. RISK MANAGEMENT		
<p>VI.1. The managing body should debate and approve a) the company's strategic plan and b) the company risk policy, which should include a definition of the levels of risk considered acceptable.</p>	Compliant Compliant	21 50 to 52
<p>VI.2. Based on its risk policy, the company should establish a system of risk management, identifying i) the main risks it is subject to in carrying out its activity; ii) the probability of occurrence of those risks and their respective impact; iii) the devices and measures to adopt towards their mitigation; iv) the monitoring procedures, aiming at their accompaniment; and v) the procedure for control, periodic evaluation and adjustment of the system.</p>	Compliant Compliant Compliant Compliant Compliant	50 to 55 50 to 55 50 to 55 50 to 55 50 to 55
<p>VI.3. The company should annually evaluate: a) the level of internal compliance and the performance of the risk management system b) perspectives for amendments of the structures of risk previously defined.</p>	Compliant Compliant	54 54
VII. FINANCIAL STATEMENTS AND ACCOUNTING		
VII.1. Financial information		
<p>VII.1.1. The supervisory body's internal regulation should impose the obligation to supervise the suitability of the preparation process and the disclosure of financial information by the managing body, including suitable accounting policies, estimates, judgments, relevant disclosure and its consistent application between financial years, in a duly documented and communicated form.</p>	Compliant	38

RECOMMENDATION*	DEGREE OF COMPLIANCE	CORPORATE GOVERNANCE REPORT
VII.2. Statutory audit of accounts and supervision		
VII.2.1. Through the use of internal regulations, the supervisory body should define: <ul style="list-style-type: none"> i) the criteria and the process of selection of the statutory auditor; ii) the methodology of communication between the company and the statutory auditor; iii) the monitoring procedures destined to ensure the independence of the statutory auditor; iv) the services, besides those of accounting, which may not be provided by the statutory auditor. 	Compliant	37 and 38
	Compliant	37 and 38
	Compliant	37 and 38
	Compliant	37 and 38
VII.2.2. The supervisory body, <ul style="list-style-type: none"> a) should be the main interlocutor of the statutory auditor in the company and the first recipient of the respective reports, b) is responsible for the remuneration proposal of the Statutory External Auditor. 	Compliant	38
	Compliant	38
VII.2.3. The supervisory body should annually assess the services provided by the statutory auditor, their independence and their suitability in carrying out their functions, and propose their dismissal or the termination of their service contract by the competent body when this is justified for due cause.	Compliant	45
VII.2.4. The statutory auditor should, within their powers verify: <ul style="list-style-type: none"> a) the application of policies and systems of remuneration of governing bodies, b) the effectiveness and the functioning of the mechanisms of internal control, and c) report any irregularities to the supervisory body. 	Not applicable	
	Compliant	51
	Compliant	38 and 51
VII.2.5. The statutory external auditor should collaborate with the supervisory body by immediately providing information on the detection of any irregularities relevant to the accomplishment of the duties of the supervisory body, as well as any difficulties encountered whilst carrying out their duties.	Compliant	38

* According to the table of multiple recommendations prepared by the Executive Committee for the Monitoring and Supervising of the Code, (“Comissão Executiva de Acompanhamento e Monitorização do Código”), whenever the recommendations apply.

EXPLANATION FOR NON-COMPLIANCE WITH RECOMMENDATIONS

RECOMMENDATION II.4. – Sonae Indústria’s articles of association determine that the Shareholders General Meetings can take place using telematic means, as long as the respective tools, the authenticity of the

declarations and the security of communications are in place. However, Sonae Indústria did not implement such means given the low adherence to postal vote, including by electronic means, the disproportionate of costs associated with telematic system and, finally, the fact that there were no requests to-date from shareholders to digitally participate in the general meeting. The alternative tools which are available, such as electronic vote and postal vote, the company considers that all means necessary and adequate to the participation in the general meetings are in place. However, Sonae Indústria will closely monitor the requests of its shareholders and will implement that tool when deemed necessary.

RECOMMENDATION V.4.1. – Taking into account that the final version of the Corporate Governance Code was only published at the end of the first quarter of 2018, Sonae Indústria could not implement this recommendation in relation to the proposal of the appointment of the company’s governing bodies for the new mandate presented in its Shareholders’ General Meeting held on 9 May. Sonae Indústria expresses, in advance, its intention to comply with this recommendation in the future.

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SEPARATE FINANCIAL STATEMENTS

Separate Statement of Financial Position

Separate Income Statement

Separate Statement of Comprehensive Income

Separate Statement of Changes in Shareholders' Funds

Separate Statement of Cash Flows

Notes to the Financial Statements

Sonae Indústria,SGPS,SA
SEPARATE STATEMENTS OF FINANCIAL POSITION
(Amounts expressed in EUR)

ASSETS	Notes	31.12.19	31.12.18
NON CURRENT ASSETS:			
Tangible fixed assets	4	37.195,00	5,02
Investment in subsidiaries and joint ventures	5/6	449.388.487,81	450.723.285,65
Other financial Investments	5/6	1.360,00	122.625,30
Other non current assets	5/8	11.550.996,09	20.025.496,09
Total Non Current Assets		<u>460.978.038,90</u>	<u>470.871.412,06</u>
CURRENT ASSETS			
Trade debtors	5/9	50.854,01	84.055,96
Other current debtors	5/9	2.606.212,28	1.505.975,35
Current tax asset	9	515.129,79	565.705,29
Other current assets	5/10	388.908,14	482.430,55
Cash and cash equivalents	5/11	781.753,81	31.319,24
Total Current Assets		<u>4.342.858,03</u>	<u>2.669.486,39</u>
Total Assets		<u><u>465.320.896,93</u></u>	<u><u>473.540.898,45</u></u>
SHAREHOLDER'S FUNDS AND LIABILITIES			
SHAREHOLDER'S FUNDS:			
Share Capital		253.319.797,26	253.319.797,26
Legal reserve		1.807.489,48	1.807.489,48
Other reserves and accumulated earnings		30.572.699,22	33.898.338,25
Total Shareholder's Funds	12	<u>285.699.985,96</u>	<u>289.025.624,99</u>
NON CURRENT LIABILITIES			
Subordinated bonds	5/13	49.938.115,70	
Unsubordinated bonds	5/13	7.951.240,33	
Bank loans - long term - net of current portion	5/13	94.578.685,91	151.370.782,54
Provisions	18	8.688.727,00	4.000.000,00
Lease creditors - long term - net of current portion	5/17	20.452,24	
Total Non Current Liabilities		<u>161.177.221,18</u>	<u>155.370.782,54</u>
CURRENT LIABILITIES			
Current portion of non-current bank loans	5/13		14.000.000,00
Bank loans - short term	5/13	4.550.000,00	2.135.021,73
Trade creditors	5/14	175.228,52	148.839,27
Current portion of long term lease creditors	5/17	17.321,83	
Other current creditors	5/15	3.909.149,70	4.638.157,11
Current tax payable	15	68.931,62	23.848,50
Other taxes and contributions payable	15	30.549,06	16.732,42
Other current liabilities	5/16	510.048,13	615.047,05
Provisions	18	9.182.460,93	7.566.844,84
Total Current Liabilities		<u>18.443.689,79</u>	<u>29.144.490,92</u>
Total Liabilities		<u>179.620.910,97</u>	<u>184.515.273,46</u>
Total Shareholder's Funds and Liabilities		<u><u>465.320.896,93</u></u>	<u><u>473.540.898,45</u></u>

The notes are an integral part of the separate financial statements



Sonae Indústria,SGPS,SA
SEPARATE INCOME STATEMENT

(Amounts expressed in EUR)

	Notes	31.12.19	31.12.18
Operating Income:			
Services rendered	22	302.854,08	281.423,88
Other income and gains	23	6.718.936,86	87.978,45
Total operating income		<u>7.021.790,94</u>	<u>369.402,33</u>
Operating Costs:			
External supplies and services		-790.012,78	-548.598,88
Staff expenses	20/21	-783.604,72	-613.374,97
Depreciation and Amortization	4	-15.557,73	-60,00
Provisions and impairment losses	18	-13.018.768,03	-8.291.125,92
Other expenses and losses	23	-6.843.664,18	-109.658,35
Total operating costs		<u>-21.451.607,44</u>	<u>-9.562.818,12</u>
Operating profit/(loss)		-14.429.816,50	-9.193.415,79
Financial profit/(loss)	24	<u>-7.132.170,99</u>	<u>-7.478.782,38</u>
Financial expenses		-7.825.455,03	-8.520.690,47
Financial income		693.284,04	1.041.908,09
Results related on investments in subsidiaries and joint ventures	25	<u>18.241.848,10</u>	<u>16.635.399,61</u>
Profit/(Loss) before taxation		-3.320.139,39	-36.798,56
Corporate income tax - current tax	26	-5.499,64	-125.352,22
Corporate income tax - deferred tax	26		-281.811,03
Net Profit/(loss) from continuing operations, after taxation		-3.325.639,03	-443.961,81
Profit/(loss) for the period	27	<u><u>-3.325.639,03</u></u>	<u><u>-443.961,81</u></u>
Profit (loss) per Share			
From continuing operations			
Basic	27	<u>-0,07325</u>	<u>-0,00978</u>
Diluted	27	<u>-0,07325</u>	<u>-0,00978</u>

SEPARATE STATEMENT OF PROFIT (LOSS) FOR THE PERIOD AND COMPREHENSIVE INCOME

(Amounts expressed in EUR)

		31.12.19	31.12.18
Net profit/(loss) for the period	12/27	-3.325.639,03	-443.961,81
		<u>0,00</u>	<u>0,00</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>-3.325.639,03</u></u>	<u><u>-443.961,81</u></u>

The notes are an integral part of the separate financial statements



Sonae Indústria,SGPS,SA
SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS` FUNDS
(Amounts expressed in EUR)

	Share capital	Legal reserve	Other Reserves and accumulated earnings	Total shareholder's funds
<u>NOTES</u>				
Balance as at 1 January 2019	253.319.797,26	1.807.489,48	33.898.338,25	289.025.624,99
Total comprehensive income				
Net profit /(loss) for the period			-3.325.639,03	-3.325.639,03
Total			-3.325.639,03	-3.325.639,03
Balance as at 31 December 2019	12 253.319.797,26	1.807.489,48	30.572.699,22	285.699.985,96
Balance as at 1 January 2018	253.319.797,26	0,00	36.149.789,54	289.469.586,80
Appropriation of previous year's net profit / (loss)		1.807.489,48	-1.807.489,48	
Total comprehensive income				
Net profit /(loss) for the period			-443.961,81	-443.961,81
Total			-443.961,81	-443.961,81
Balance as at 31 December 2018	12 253.319.797,26	1.807.489,48	33.898.338,25	289.025.624,99

The notes are an integral part of the separate financial statements

SONAE INDÚSTRIA, SGPS, S.A.
SEPARATE STATEMENTS OF CASH FLOWS
(Amounts expressed in EUR)

OPERATING ACTIVITIES	Notes	2019		2018	
Receipts from trade debtors		335.893		371.057	
Payment to trade creditors		686.448		602.362	
Payments to staff		970.883		1.104.250	
Net cash flow from operations		-1.321.438		-1.335.555	
Payment/(receipt) of corporate income tax		4.018		13.681	
Other receipts/ (payments) relating to operating activities		-72.310		-5.887	
Net cash flow from operating activities [1]			-1.397.766		-1.355.123
INVESTMENTS ACTIVITIES:					
Cash receipts arising from:					
Loans granted to related parties - medium and long term	8	9.898.500		2.970.617	
Loans granted to related parties - short term	9.2.1			3.502.864	
Dividends	25	23.636.729	33.535.229	17.725.747	24.199.228
Cash payments arising from:					
Investments	6	3.938.818		3.049.729	
Loans granted to related parties - short term	8	1.498.600			
Loans granted to related parties - medium and long term	9.2.1	1.424.000			
Cash compensation	23	6.714.262	13.575.680	4.710.000	7.759.729
Net cash flow from investing activities [2]			19.959.549		16.439.499
FINANCIAL ACTIVITIES					
Cash receipts arising from:					
Interest and similar income		1.045.160		908.644	
Subordinated bonds	13.2	50.000.000			
Unsubordinated bonds	13.2	8.000.000			
Loans obtained	13.2	1.473.050.000		1.645.685.022	
Loans obtained from related parties - short term	13.2	16.886.600	1.548.981.760	22.434.954	1.669.028.620
Cash payments arising from:					
Interest and similar charges		7.976.413		8.872.013	
Finance lease		14.974			
Loans obtained	13.2	1.541.235.022		1.651.751.145	
Loans obtained from related parties - short term	13.2	17.566.700		23.493.854	
Others			1.566.793.109	45.003	1.684.162.015
Net cash used in financing activities [3]			-17.811.349		-15.133.395
Net increase in cash and cash equivalents (4) = (1)+(2)+(3)			750.435		-49.019
Cash and cash equivalents - at the beginning of the period	11		31.319		80.338
Cash and cash equivalents - at the end of the period	11		781.754		31.319
Net increase / (decrease) in cash and cash equivalents			750.435		-49.019

The notes are an integral part of the separate financial statements

SONAE INDÚSTRIA, SGPS, S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2019

(Amounts expressed in Euros)

1. Introduction

SONAE INDÚSTRIA, SGPS, S.A. head-office is at Lugar do Espido, Via Norte, 4470-177 Maia, Portugal.

The Company's shares are listed on NYSE Euronext.

Separate financial statements are presented as required by the Commercial Companies Code. As permitted by Decree-Law no. 158/2009 of July 13, the separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRS - EU). Consolidated financial statements are also presented, in accordance with current legislation.

The Company's main activity is the management of shareholdings (note 6).

2. Main Accounting Policies

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

2.1. Basis of Preparation

Management assessed the Company's ability to operate on a continuous basis, based on all relevant information, facts and circumstances of a financial, commercial or other nature, including events subsequent to the reference date of the financial statements, available on the future. As a result of the evaluation, Management concluded that the Company has adequate resources to maintain its activities, with no intention of ceasing its activities in the short term, and considered it appropriate to use the assumption of continuity of operations in the preparation of the financial statements.

These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with Interpretations issued by the IFRS Interpretations Committee (IFRS IC), applicable to the period beginning 1 January 2019 and endorsed by the European Union.

In the year ended 31 December 2019, the following standards and interpretations, which had been endorsed by the European Union, became effective:

IAS 19 (amendment), Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling;

IAS 28 (amendment), Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019). The amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investments in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9, being subject to impairment expected credit loss model prior to any impairment test of the investment as a whole;

IFRS 9 (amendment), Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019). The amendment introduces the possibility to classify certain financial assets with negative

compensation features at amortized cost, provided that specific conditions are fulfilled, instead of being classified at fair value through profit or loss;

IFRS 16 (new), Leases (effective for annual periods beginning on or after 1 January 2019). This new standard replaces the IAS 17 with a significant impact on the accounting by lessees that are now required to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for all lease contracts, except for certain short-term leases and for low-value assets. The definition of a lease contract also changed, being based on the "right to control the use of an identified asset";

Annual Improvement 2015 – 2017, (effective for annual periods beginning on or after 1 January 2019). The 2015-2017 annual improvements affects: IAS 23, IAS 12, IFRS 3 and IFRS 11.

IFRIC 23 (new), Uncertainty over Income Tax Treatments (effective for annual periods beginning 1 January 2019). This is an interpretation of IAS 12 - Income tax referring to the measurement and recognition requirements to be applied when there is uncertainty as to the acceptance of an income tax treatment by the tax authorities. In the event of uncertainty as to the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities under IAS 12 rather than IAS 37 - Provisions, contingent liabilities and contingent assets, based on the expected value or the most probable value. The application of IFRIC 23 may be retrospective or retrospective modified.

The effects from the application of IFRS 16 are detailed on note 3. The remaining amendments to the standards from 1 January 2019 did not have significant effects on these financial statements.

At 31 December 2019, the following standards and interpretations had been issued by IASB and had been endorsed by the European Union, but had not been applied as they only become effective in later periods:

Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020). This amendment contains changes to several standards, whose references to the Conceptual Framework have been updated.

IAS 1 and IAS 8 (amendment), Definition of Material (effective for annual periods beginning on or after 1 January 2020). Under this amendment, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the user of financial statements make on the basis of those financial statements;

At 31 December 2019, the following standards, effective in future years, had been issued by IASB but still had not been endorsed by the European Union:

IFRS 3 (amendment), Business Combinations (effective for annual periods beginning on or after 1 January 2020). This amendment is still subject to endorsement by the European Union. This amendment clarifies that to be considered a business combination, an acquired set of activities and assets must include, at minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;

IFRS 17 (new), Insurance contracts (effective for annual periods beginning 1 January 2021). This standard is still subject to endorsement by the European Union. This standard will revoke IFRS 4 – Insurance contracts and applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a complete "building block approach" or "premium allocation approach". The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is of retrospective application;

IFRS 9, IAS 39 and IFRS 7 (amendments), Interest rate benchmark reform (effective 1 January 2020).

The company does not expect any significant effect on its future financial statements from the application of these amendments to IFRSs.

The company financial statements have been prepared from the books and accounting records on a going concern basis and under the historical cost convention, except for some financial instruments stated at fair value.

2.2. Investments in subsidiaries and joint ventures

Assets and liabilities of each subsidiary and joint venture are recorded at cost less any impairment losses. Financial investments in subsidiaries and joint ventures are tested for imparity when appropriate. If an impairment loss exists, it is recorded as a cost.

Subsidiaries are all entities (including special purpose entities) over which the Sonae Indústria, has the power to govern the financial and operating policies of those normally associated with the control, directly or indirectly, more than half of the voting rights.

Sonae Indústria has control over the subsidiaries in situations where cumulatively: i) it has power over the subsidiary; ii) is exposed to, or is entitled to, variable results through its relationship with the investee; iii) has the ability to use its power over the investee to affect the amount of its results.

Joint ventures are entities from which Sonae Indústria has joint control with another partner under a particular economic activity (represented by a contractual agreement)

Beyond the recognition of the impairment of the investment in subsidiary/joint ventures, Sonae Indústria recognize additional losses if incurred obligations or has made payments on behalf of subsidiary / joint ventures.

Entities that qualify as subsidiaries and as joint ventures are listed in Note 6.

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 Fixed 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 revaluated 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:

Other Machinery	5<x<20
Office Equipment	4

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

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 company and if their cost can be reliably measured.

Development expenses are recognized as an intangible asset if the company demonstrates technical feasibility and intention to complete the asset, its ability to sell or use it and the probability that the asset

will generate future economic benefits. Development expenses which do not fulfil 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 ranges from three to six years.

2.5. Accounting for leases

Until 31 December 2018, lease contracts were classified as (i) a finance lease if the risks and rewards incidental to ownership lay with the lessee and (ii) as an operating lease if the risks and rewards incidental to ownership do not lay with the lessee.

Whether a lease was classified as finance or operating lease depended on the substance of the transaction rather than the form of the contract.

Tangible assets used by the company under finance lease contracts as well as the corresponding liabilities were recorded on the Statement of Financial Position for the lower of fair value of leased assets and the amount of minimum lease payments.

In addition, interest included in rents, depreciation and impairment losses were recognized on the Income Statement as expenses of the period they related to.

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

From 1 January 2019, after IFRS 16 became effective, the company recognizes on the Statement of Financial Position those tangible assets used by the company under lease contracts, except for leases classified as low value leases or short-term leases, whose lease payments are recognized as an expense on the Income Statement on a straight line basis over the lease term.

The right-of-use asset is recognized for its cost under Tangible fixed assets, on the Statement of Financial Position, when the assets becomes available for use by the company. At the same time, the lease liability is recognized under Lease creditors, on the Statement of Financial Position, for the present value of lease payments.

The company uses and incremental borrowing rate to calculate the present value of lease payments. This incremental borrowing rate is calculated using the market yield curves for each functional currency, added up by a spread which corresponds to the average cost of debt of the company with external borrowings.

Depreciation and impairment losses of right-of-use assets are calculated and recognized as set out on note 2.3 for tangible fixed assets, taking into consideration the nature of the underlying asset. Whenever there is no reasonable certainty as to the acquisition of leased assets upon end of contract, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term .

The lease term is the period over which the contract is enforceable. To determine the period over which the contract is enforceable, the company takes into consideration not only the penalties contractually defined but also the economic consequences of terminating the contact for both the lessee and the lessor.

Interest included in lease payments, depreciation and impairment losses are recognized on the Income Statement as expenses of the period they related to.

At 31 December 2019 and 31 December 2018, the company did not hold any position in which it acted as a lessor.

The effects arising from the application of IFRS 16 – Leases from 1 January 2019 are detailed on note 3.

2.6. Impairment of non-current assets

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 on the income statement under provisions and impairment losses.

The recoverable amount is the higher of an asset's fair value net of costs incurred on sale 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 on 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 normally recognized 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 capitalized as part of the cost of the qualifying asset. Borrowing costs are capitalized 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 capitalization.

2.8. Provisions

Provisions are recognized when, and only when, the company 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.

Provisions are reviewed on the date of each report and are adjusted to reflect the best estimate at that date.

In situations where it is estimated to have a significant period of time between the onset of the obligation and the related expenditure, the provision is recorded at its present value.

The increase and use or reversal of provisions are recognized in the caption "Provisions and impairment losses" in the income statement.

2.9. Financial Assets and Financial Liabilities

Financial assets and financial liabilities are initially recognized at their fair value, except for Trade debtors which do not contain a significant financing component, which are initially measured at their transaction prices. Transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability are added to the fair value of an instrument which is not measured at fair value through profit or loss.

Financial assets can be subsequently classified into the following categories:

- i) Financial assets measured at amortized cost;
- ii) Financial assets measured at fair value through other comprehensive income;
- iii) Financial assets measured at fair value through profit or loss

Classification of financial assets into these categories is done on the basis of the Group's business model for managing financial assets and on the contractual characteristics of the financial assets.

Financial liabilities can be subsequently classified into the following main categories:

- i) Financial liabilities measured at amortized cost;
- ii) Financial liabilities measured at fair value through profit or loss;

These financial assets and liabilities are stated on the Separate Statement of Financial Position under different classes of assets and liabilities, in accordance with the nature of each instrument.

The company holds the following financial instruments, which may be either financial assets or financial liabilities:

a) 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). The impairment losses are recognized in "Impairment loss in costumers".

The impairment losses are recorded when the company has objective evidence that part or the whole amount receivable will not be paid and as long as the loss can be reliably estimated.

To this end, the company takes into account market information that demonstrates that the customer is in breach of its responsibilities as well as historical information on overdue and unpaid balances.

Impairment losses are measured at an amount equal to the expected credit losses over the life of the asset, including situations where the credit risk did not increase during the accounting period. The expected credit losses are calculated collectively for accounts receivable recorded in the caption Customers, in the statement of financial position.

The amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the financial assets original effective interest rate.

The receivables are recorded as currents assets, except when its maturity is greater than twelve months from the balance sheet date, situation when they are classified as non-current assets.

b) 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.

c) 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.

d) Trade accounts payable

Debts to suppliers and other debts to third parties are initially recorded at fair value, which corresponds to their nominal value, since they do not bear interest and the effect of the financial discount is considered immaterial.

e) Derivative instruments

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

Derivatives classified as cash flow hedging instruments may be used by the company mainly to hedge interest rate risks on loans obtained (Interest Rate Swap contracts) and exchange rate risks (Forward contracts). Conditions established for these cash flow hedging 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.

The inefficiencies, if any, are accounted under Financial Income or Financial Expenses on the Income statement.

The company'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 that may be used by the company are initially accounted for at fair value. Changes in fair value of these cash flow hedge instruments are recorded in equity under the caption Hedging reserves, included in Reserves and retained earnings on the statement of financial position, and then recognized in the income statement over the same period in which the hedged instrument affects income statement.

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.

Derivative instruments are stated on the Statement of Financial Position under Other non-current assets, other current assets, other non-current liabilities and other current liabilities.

For the periods presented, the company has no financial instruments traded derivatives.

f) Equity Instruments

The equity instruments that represent a residual interest in assets after deduction of liabilities and are recorded at the amount received net of any costs of issuance.

g) Own shares

The own shares are recorded at acquisition cost as a deduction from equity. Gains or losses on the sale of own shares are recorded in other reserves included in other reserves and retained earnings.

h) 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 statement of cash flows, cash and equivalents also include bank overdrafts, which are included in the balance sheet item borrowings.

2.10. Liability for medium and long term incentives plan

Each year the Company granted their employees that belong to a functional group classified as Executive or above a compensation which is related to the value added in the previous period for the shareholders, to be paid, after a 3-year period if the executive is in the company.

The liability is recorded in the Other Non Current and Current Liabilities item of the Statement of Financial Position, and Personnel Expenses, of the Income Statement by nature, linearly over the period of deferral of the payment.

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, 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 the Company, considering the interim period profit and using the estimated effective average annual income tax rate.

The Special Group Tax Regime exist since 2006 and includes the following companies: Sonae Indústria de Revestimentos, S.A., Maiequipa – Gestão Florestal, S.A., Movelpartes – Componentes para a Indústria do Mobiliário, S.A., Frases e Frações – Imobiliária e Serviços, S.A., Sonae Indústria – Management Services, S.A. and Parcelas e Narrativas – Imobiliária, 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 remeasured using the tax rates that have been 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 closing date a review is made of the deferred tax assets recognised, which are reduced whenever their future use is no longer probable.

Deferred tax liabilities are recognized on all taxable temporary differences, except for: i) the initial recognition of goodwill, or ii) the initial recognition of assets and liabilities that do not result from a business combination and that do not affect the accounting or tax result at the date of transaction. However, regarding temporary taxable differences related to investments in subsidiaries, they should not be recognized in so far as: i) the parent company has the ability to control the period of the reversal of the temporary difference and ii) it is probable that the temporary difference will not reverse in the near future.

Deferred tax assets and liabilities are recorded in the Income statement, except if they relate to items directly recorded in other comprehensive income, in which case the corresponding deferred tax is recorded therein.

In situations where such positions may be questioned by the Tax Authorities within the scope of their competences, as their interpretation is different from that of the Company, this situation is subject to review. If such re-analysis reconfirms the position of the Company, concluding that the probability of losing a given tax proceeding is less than 50%, the Company treats the situation as a contingent liability, ie no tax amount is recognized given that the most likely decision is that there is no place for paying any tax. In situations where the probability of loss is greater than 50%, a provision is recognized, or if payment has been made, the associated cost is recognized.

2.13. Revenue recognition and accrual basis

Revenue is recognized in relation with contracts with customers: (i) that have been approved (orally or in writing) by all the parties; (ii) for which the company can identify each party's rights regarding the goods and services to be transferred; (iii) for which the company can identify the payment terms of goods and services to be transferred; (iv) that have commercial substance; and (v) for which it is probable that the company will collect the consideration to which it is entitled for the goods and services transferred to the customer.

Revenue is recognized for each performance obligation included in a contract with customers that have the characteristics set out above, when the customer is invoiced. There are no significant differences, if any, between the moment the invoice is issued and the moment the customer obtains control of the goods and services transferred, which typically occurs upon shipment or delivery. Performance obligations are generally satisfied at a point in time.

The revenue from services provided by the company, management services, is recorded in the section Services rendered.

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.

The dividends received from investments in subsidiaries, associates and joint ventures are recognized as income in the period they are assigned to the partners or shareholders.

Interests earned from loans are recorded in the period to which they relate, having regard to the period up to the end of each year.

2.14. 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 Income statement as the difference between the sale price and the net book value at date of sale or write-off, under the captions Other income and gains and Other expenses and losses.

2.15. Balances and transactions expressed in foreign currencies

Exchange gains and losses arising from differences between exchange rates on transaction date and those prevailing at the date of collection, payment or the date of the financial statements, are recorded as income or expenses of the period, in case of operating transactions, or as finance income and expenses, in case of financial transactions, on the Income Statement. Exchange differences related to non-monetary assets or liabilities whose change in fair value is directly recognized in equity are also recognized under equity.

	31.12.2019	31.12.2018
GBP	0,8508	0,8945

2.16. Subsequent events

Events after the closing date that provide additional information about conditions that existed at the Statement of Financial Position date are reflected in the financial statements (adjusting events). Events after the closing date that are non-adjusting events are disclosed in the notes to the financial statements, when material.

2.17. Risk management

a) Credit Risk Management Policy

i) Receivables (Customers)

Sonae Indústria credit Risk derives mainly from account receivables items related with its operating activity.

The main objective of Sonae Indústria credit risk management is to guarantee the effective collection of its operating receivables, according to the most commercially adequate reduced payment terms, while maintaining the level of debtor's impairments as low possible.

In order to mitigate credit Risk related with potential customers defaulting on payment of outstanding receivables, Sonae Indústria have:

- established a Committee to analyse and monitor, on a quarterly basis, credit risks;
- implemented common proactive and preventive credit management procedures and processes, supported by IT systems;
- established appropriate risk coverage mechanisms (for example, credit insurance, letters of credit, bank guarantees).

To foster the sharing of experiences, the alignment of procedures and practices and to ensure the enforcement of sound controlling rules, Sonae Arauco (a joint venture – note 6) promotes the "Customer's Credit Risk Management Forum".

At Sonae Indústria, SGPS, credit risk is small, since customers are only related entities.

ii) Other financial assets, other than receivables

In addition to its operating activities and the related trade debtor balances, the company has other financial assets, which are mainly associated with its cash management activities and with deposits in financial institutions. As a result of these bank movements and balances, credit risk arises from the potential counterparty default by the applicable financial institutions. This risk is, nevertheless, considered as low due to the limited duration and amounts typically involved in bank deposits and to the credit profile of the financial institutions used by Group companies.

In Sonae Indústria, SGPS, credits on related entities in the form of loans are more relevant, although credit risk is also small.

b) Market Risk Management Policy

i) Interest Rate Risk

Due to the significant proportion of floating rate debt, and of the consequent cash flows related to interest payments, Sonae Indústria is exposed to interest rate risk, as a general rule, it does not cover its exposure to changes in interest rates by means of financial derivatives. This approach is based on the principle that there is a positive correlation between interest rate levels and "operating cash flow before net interest", which creates natural coverage at the level of "operating cash flow after net interest" for the Sonae Indústria.

As an exception to this general rule, Sonae Indústria may engage in certain interest rate derivatives solely aimed at hedging existing risks exposures and only to the extent that the risks and valuation of such derivatives can be accurately assessed by the company.

ii) Other Price Risks

As at 31st December 2019, Sonae Indústria did not hold material investments classified as "other financial investments".

c) Liquidity Risk Management Policy

At Sonae Indústria, liquidity risk management aims to ensure that the company obtains, in a timely basis, the financing required to properly carry on its business activities, implement its strategy and meet its payment obligations when due, under the most favorable terms and conditions. The liquidity risk is analyzed in note 19.1.

For this purpose, the company's liquidity management comprises:

- consistent financial planning and cash flow forecasting at country and consolidated levels with different time horizons (weekly, monthly, annual and business plan);
- diversification of financing sources;
- diversification of debt maturities issued in order to avoid excessive concentration of debt repayments in short periods of time;
- negotiation of (committed and uncommitted) credit facilities, commercial paper programmes and other facilities with relationship banks to ensure the right balance between satisfactory liquidity and adequate commitment fees;
- active access and management of subsidiaries cash positions and cash flows taking into account the Group's objectives on liquidity.

d) Capital Risk

The capital structure of Sonae Indústria, determined by the proportion of the company equity and net debt is managed in order to ensure the continuity and development of its operations considering also efficiency criteria in financing costs.

Sonae Indústria periodically monitors its capital structure, identifying risks, opportunities and the necessary measures for the achievement of those objectives.

Sonae Indústria (accounting) net gearing (Net Debt / Shareholders Funds – based consolidated accounts) at the end of 2019 was of 1.6x or 1.2x, depending on whether the Subordinated Bonds issued during 4Q19 are, respectively, included or excluded in the Net Debt figure (vs. 1.4x in 2018).

2.18 Judgments and estimations

The most significant estimations included in these financial statements refer to:

- a) Impairment tests on investment in subsidiaries and joint ventures;
- b) Impairment analysis of accounts receivable ;
- c) Adjustments to assets and provisions;
- d) Calculation of income tax .

These estimations were based on the best available information at the date these financial statements were prepared and were based on the knowledge and experience of present and past events. Notwithstanding, some situations may occur in future periods, which were not included in present estimations, as they were not foreseeable. Changes to estimations after these financial statements date will be, prospectively, corrected through Income Statement, in accordance with IAS 8.

Main estimations and assumptions relating to future events included in these financial statements are described in the correspondent notes.

2.19 Fair value of assets and liabilities

If an active market is available, market price is used for determining asset and liability fair value. This corresponds to level 1 of fair value hierarchy, as defined in IFRS 13 – Fair Value measurement.

If an active market is not available, valuation techniques generally used in the market are utilized, based on market assumptions. The resulting fair value corresponds to level 2 of fair value hierarchy, as defined in IFRS 13.

When these techniques use mostly or exclusively unobservable information, the resulting fair value corresponds to level 3 or fair value hierarchy, as defined on the aforementioned standard.

2.20 Relevant Events

Nothing special to point out.

3. Comparability of financial statements

The comparability of the financial statements as at 31 December 2019 and 31 December 2018 was affected by the application of IFRS 16 – Leases from 1 January 2019 (note 2.1). This new standard changed the companies accounting policy for leases as set out on note 2.5.

3.1 Transition procedures to IFRS 16

Under IFRS 16, leases previously classified as operating leases are stated under Tangible fixed assets and Lease creditors, on the Statement of Financial Position, except for low-value and short-term leases, for which there was no change in accounting. This change took place on 1 January 2019 (transition date) and was handled in accordance with the transition provisions of IFRS 16, which consisted in:

- Recognizing, at 1 January 2019, a lease liability for each lease contract previously classified as operating lease which is not a low-value lease or a short-term lease under the provisions of IFRS 16. This lease liability is stated under Lease creditors, on the Statement of Financial Position and corresponds to the present value at this date of the remaining lease payments of each lease. That value was thereafter changed by the capital amortization relating to these leases;
- At the same date, a right-of-use asset was recognized under Tangible fixed assets, on the Statement of Financial Position, for the same amount recognized under Lease creditors. The carrying amount of the right-of-use asset was thereafter changed by the related depreciation, which begins on 1 January 2019 and ends on the earlier of the end of the asset's useful life or the end of the lease term, unless there is reasonable certainty as to the acquisition of leased assets upon end of contract, in which case the right-of-use asset is depreciated as set out on note 2.3;
- The present value of the lease liability was calculated using an incremental borrowing rate, which took into consideration the lease term of each contract. This incremental borrowing rate was calculated using market yield curves for each functional currency, added up by a spread which corresponds to the average cost of debt of company with external borrowings. All the contracts with the same lease term used the same incremental borrowing rate, 4,4199%;
- The lease term defined for each contract included in this transition is the period over which the contract is enforceable. To determine this period, the company took into consideration not only the penalties contractually defined but also the economic consequences of terminating the contract, for both the lessee and the lessor;
- Leases previously classified as operating leases which were classified as low-value or short-term leases under IFRS 16 and leases previously classified as finance leases did not undergo any transition procedure;
- For leased transport equipment, the company used the practical expedient allowed by IFRS 16 consisting in not separating the lease component and the non-lease component of lease payments;
- The company did not restate the comparative financial statements, as it applied the simplified transition option;
- This transition only included contracts in which the company acts as a lessee.

3.2 Comparability of financial statements at 1 January 2019

On transition date (1 January 2019), the company recognized a right-of-use asset and a lease liability amounting to EUR 29.000.

The amount of minimum lease payments under operating leases disclosed on the notes to the financial statements of the company for the twelve-month period ended 31 December 2018 can be reconciled with the lease liability recognized on transition date as follows:

Value of operating leases as of December 31, 2018	2.204
Current value of minimum payments for operating leases as of December 31, 2018	2.204
Leased buildings included in leasing creditors from 01.01.2019 and not included in 12.3	25.706
Extension of existing lease terms to 31.12.2018	1.090
Liabilities for leases as of 31.12.2018 - 01.01.2019	29.000

Lease contracts with a lease term of one year, renewable in case of no opposition from any of the parts to the contract: until 2018, these contracts were not taken into consideration for disclosure purposes. Under IFRS 16, lease term was defined taking into consideration the foreseeable economic consequences of not renewing the contracts and therefore these contracts were not anymore classified as short-term ones;

The reconciliation line includes a large quantity of irrelevant situations, of which the most significant was the minimum lease payments disclosed until 2018 did not include the practical expedient allowed by IFRS 16 consisting in not separating the lease component and the non-lease component of a lease payment.

4 Tangible Assets

During the periods ended 31 December 2019 and 2018, movements in tangible assets, accumulated depreciation and impairment losses were as follows:

	31.12.19				
	Land and buildings	Machinery and equipment	Equipamento de transporte	Office equipment	Total
Gross asset:					
Opening balance		38.099		133.355	171.454
Inicial recognition	25.706		3.294		29.000
Acquisitions			23.748		23.748
Disposals		-38.099	-3.294	-133.355	-174.748
Closing Balance	25.706	0	23.748	0	49.454
Accumulated depreciation imp.losses					
Opening balance		38.094		133.355	171.449
Depreciations for the period	5.609	5	9.944	0	15.558
Disposals		-38.099	-3.294	-133.355	-174.748
Closing Balance	5.609	0	6.650	0	12.259
Carrying amount	20.097	0	17.098	0	37.195
	31.12.18				
	Land and buildings	Machinery and equipment		Office equipment	Total
Gross asset:					
Opening balance		38.099		133.355	171.454
Closing Balance	0	38.099		133.355	171.454
Accumulated depreciation imp.losses					
Opening balance		38.069		133.320	171.389
Depreciations for the period		25		35	60
Closing Balance	0	38.094		133.355	171.449
Carrying amount	0	5		0	5

This Tangible Fixed Assets, given their age and the fact that they no longer exist physically, were written off.

As of December 31, 2019, Tangible Fixed Assets fully related to assets under right of use. The movement in the gross value of the assets under right of use, as well as in the respective accumulated depreciation and impairment losses, was as follows:

	31.12.19		
	Land and buildings	Transport equipment	Total
Gross asset:			
Opening balance	0	0	0
Initial recognition	25.706	3.294	29.000
Acquisitions		23.748	23.748
Disposals		-3.294	-3.294
Closing Balance	25.706	23.748	49.454
Accumulated depreciation imp.losses			
Opening balance	0	0	0
Depreciations for the period	5.609	9.944	15.553
Disposals	0	-3.294	-3.294
Closing Balance	5.609	6.650	12.259
Carrying amount	20.097	17.098	37.195

5. Financial Instruments

As of December 31, 2019 and 2018, the assets and liabilities recognized in the statement of financial position correspond to the following financial instruments:

	notes	Assets at amortized Cost		Assets out of scope of IFRS 9	Total
		Cost	Sub-total		
31.12.19					
Non current assets					
Other financial investments	6	1.360	1.360		1.360
Other non current assets	8	11.550.996	11.550.996		11.550.996
Current assets					
Customers	9	50.854	50.854		50.854
Other current debtors	9	2.606.212	2.606.212		2.606.212
Other current assets	10	68.570	68.570	320.338	388.909
Cash and cash equivalents	11	781.754	781.754		781.754
Total		15.059.746	15.059.746	320.338	15.380.084
31.12.18					
Non current assets					
Other financial investments	6	122.625	122.625		122.625
Other non current assets	8	20.025.496	20.025.496		20.025.496
Current assets					
Customers	9	84.056	84.056		84.056
Other current debtors	9	1.505.975	1.505.975		1.505.975
Other current assets	10	22.765	22.765	459.665	482.430
Cash and cash equivalents	11	31.319	31.319		31.319
Total		21.792.237	21.792.237	459.665	22.251.902

	notes	Other financial Liabilities	Sub-total	Liabilities out of scope of IFRS 9	Total
31.12.19					
Non current liabilities					
Subordinated bonds	13	49.938.116	49.938.116		49.938.116
Unsubordinated bonds	13	7.951.240	7.951.240		7.951.240
Bank loans - long term - net of short current portion	13	94.578.686	94.578.686		94.578.686
Lease creditors - long term - net of short current portion	17	20.452	20.452		20.452
Current liabilities					
Current portion of long term bank loans	13	4.550.000	4.550.000		4.550.000
Trade creditors	14	175.229	175.229		175.229
Current portion of long term lease creditors	17	17.322	17.322		17.322
Other current creditors	15	3.909.032	3.909.032	118	3.909.150
Other current liabilities	16	510.048	510.048		510.048
Total		161.650.125	161.650.125	118	161.650.243

		Other financial Liabilities	Sub-total	Liabilities out of scope of IFRS 9	Total
31.12.18					
Non current liabilities					
Bank loans - net of current portion	13	151.370.783	151.370.783		151.370.783
Current liabilities					
Bank loans - currente position of non current liabilities	13	14.000.000	14.000.000		14.000.000
Bank loans	13	2.135.022	2.135.022		2.135.022
Trade creditors	14	148.839	148.839		148.839
Other current creditors	15	4.638.157	4.638.157		4.638.157
Other current liabilities	16	615.047	615.047		615.047
Total		172.907.847	172.907.847		172.907.847

6. Investments in subsidiaries, joint venture and other investments

At 31 December 2019 and 31 December 2018, details of investments were as follows:

	31.12.19		31.12.18	
	Non current	Current	Non current	Current
Investment in subsidiaries				
Opening balance at 1 January	248.501.537	-	245.451.809	-
Other increase	3.938.658	-	3.049.729	-
Closing balance for the period	252.440.195	-	248.501.537	-
Accumulated impairment losses	-30.425.276	-	-25.151.820	-
	222.014.919	-	223.349.717	-
Investment in joint ventures				
Opening balance at 1 January	1.087.764.828	-	1.087.764.828	-
Closing balance for the period	1.087.764.828	-	1.087.764.828	-
Accumulated impairment losses	-860.391.259	-	-860.391.259	-
	227.373.569	-	227.373.569	-
	449.388.488	-	450.723.286	-

6.1 Investments in subsidiaries

6.1.1 Movement of the period

During 2019, the following movements were recorded to cover the losses recorded in the subsidiaries in 2018:

Subsidiaries	Value
Increases	3.938.658
- Loss Cover	3.938.658
- Movelpartes - Componentes para a Indústria do Mobiliário, S.A.	939.653
- Sonae Indústria de Revestimentos, S.A.	1.440.468
- Frases e Frações - Imobiliária e Serviços, S.A.	1.370.250
- Sonae Indústria - Management Services, S.A.	188.287

As of December 31, 2019 and 2018, receipts and payments of financial investments may be detailed as follows:

Subsidiaries	31 december 2019		31 december 2018	
	Receipts	Payments	Receipts	Payments
- Sonae Indústria de Revestimentos, S.A.		1.440.468		
- Frases e Frações - Imobiliária e Serviços ,S.A.		1.370.250		600.005
- Sonae Indústria - Management Services, S.A.		188.287		89.582
- Movelpartes - Componentes para a Indústria do Mobiliário, S.A.		939.653		1.338.241
- Parcelas e Narrativas - Imobiliária, S.A.				1.021.901
	0	3.938.658	0	3.049.729

6.1.2 Valuation of financial investments

At 31 December 2018, Sonae Industria, SGPS had the following investments in subsidiaries companies:

Subsidiaries	% Share	Acquisition Value	Accumulated Impairment Losses	Net Value	2019		2018	
					Shareholder's Funds	Net profit	Shareholder's Funds	Net profit
Maiequipa - Gestão Florestal, S.A.	100,00%	3.438.885	903.123	2.535.761	2.514.892	-166.211	2.738.825	-90.347 a)
Movelpartes - Componentes para Indústria	100,00%	11.575.827	8.810.509	2.765.318	328.585	-1.051.734	418.486	-939.653 a)-b)
Sonae Indústria de Revestimentos, S.A.	100,00%	19.993.296	12.476.620	7.516.676	7.024.174	-889.392	6.601.393	-1.440.468 a)-b)
Frases e Frações - Imobiliária e Serviços, S.A.	100,00%	6.609.944	5.734.683	875.261	494.643	-505.357	-370.250	-1.370.250 a)
Parcelas e Narrativas - Imobiliária, S.A.	100,00%	3.092.796	2.070.895	1.021.901	1.381.352	-731.903	2.113.255	1.363.255 a)
Sonae Indústria - Management Services, S.A.	100,00%	429.446	429.446	0	-182.461	-203.553	-159.896	-188.286 a)
Glunz UK	100,00%	1	0	1	-47.713	-18.338	-27.407	-50.038
Megantic BV	100,00%	207.300.000	0	207.300.000	69.187.614	7.519.515	73.396.624	9.482.139 c)
		252.440.195	30.425.276	222.014.919				

a) It is estimated that the amount by which the cost of acquisition of the financial interests is higher than its recoverable amount, and impairment losses were recognized in the year: 203.064 euros in Maiequipa – Gestão Florestal ,S.A., 2.281.090 euros in Sonae Indústria de Revestimentos, S.A., 2.016.444 euros in Movelpartes - Componentes para a Indústria do Mobiliário ,S.A., 494.989 euros in Frases e Frações - Imobiliária e Serviços, S.A., and 277.869 euros in Sonae Indústria - Management Services, S.A. (Note 18).

b) Impairment tests were performed on December 31 and November 30, 2019, related to Sonae Indústria de Revestimentos S.A. and Movelpartes - Componentes para a Indústria do Mobiliário, S.A. respectively, which consisted of determining the value of use using the discounted cash flow method. For this purpose, operating cash flow projections were made for a period of 5 years, subsequently extrapolated through perpetuity and restated at the closing date of these financial statements. The discount rates used correspond to the weighted average cost of capital (WACC) rates, recalculated using the Capital Asset Pricing Model (CAPM) methodology for each reportable segment, after taxes. These rates consider market specificities by incorporating different risk factors as well as the 10-year risk-free interest rate of 10-year German Treasury Bonds plus a risk premium in Portugal. The use of a 5-year period for the projection of cash flows took into account the extent and intensity of the economic cycles to which the group activity is subject. The cash flows considered are based on the Group's Business Plan, which includes projections updated annually in order to incorporate the developments occurring in the markets in which the Group operates.

c) Impairment tests were performed on November 30, 2019, related to the company Tafisa Canada Inc., which consisted of determining the value in use using the discounted cash flow method. For this purpose, operating cash flow projections were made for a period of 5 years, subsequently extrapolated through perpetuity and restated at the closing date of these financial statements. The discount rates used correspond to the weighted average cost of capital (WACC) rates, recalculated using the Capital Asset Pricing Model (CAPM) methodology for each reportable segment, after taxes. These rates consider market specificities by incorporating different risk factors as well as the 10-year risk-free interest rate on Canada's Treasury Bonds. The use of a period of 5 years for the projection of cash flows took into account the extent and intensity of the business cycles to which the group activity is subject. The cash flows considered are based on the Group's Business Plan, which includes projections updated annually in order to incorporate the developments occurring in the markets in which the Group operates.

The amounts referring to shareholders' equity and net income related to the subsidiary Megantic, BV, relate to Tafisa Canada, Inc, the only subsidiary and relevant asset of Megantic, BV.

Assumptions used:

2019	SIR	Movelpartes	Tafisa Canadá
Discount rate (after-tax)	6,69%	6,69%	6,34%
Sales (CAGR)	6,74%	16,44%	4,43%
Growth rate on Perpetuity	1,4	1,4	1,00%
Period	5 años	5 años	5 años
Test Conclusions	Impairment	Impairment	No impairment

2018	SIR	Movelpartes	Tafisa Canadá
Discount rate (after-tax)	7,61%	7,61%	7,03%
Sales (CAGR)	6,86%	18,54%	4,58%
Growth rate on Perpetuity	1,00%	1,00%	1,00%
Period	5 años	5 años	5 años
Test Conclusions	No impairment	No impairment	No impairment

Sensitivity Analysis			
SONAE INDÚSTRIA DE REVESTIMENTOS	DCF SIR	Turnover increase by CAGR of 4,50%	EBIT % Turnover reduction /year of the plan by 0,50 p.p.
Turnover CAGR (2019 - Perpetuity)	6,74%	4,50%	6,74%
EBIT % Turnover Average (2019 - Perpetuity)	1,03%	1,03%	0,60%
ADJUSTED DCF	7.516.476	7.228.366	5.948.927
	Impairment	Impairment	Impairment

MOVELPARTES	DCF MOV	Turnover increase by CAGR of 12,00%	EBIT % Turnover reduction /year of the plan by 0,50 p.p.
Turnover CAGR (LTM'19 - Perpetuity)	16,44%	12,00%	16,44%
EBIT % Turnover Average (LTM'19 - Perpetuity)	-2,93%	-2,93%	-3,36%
ADJUSTED DCF	2.765.318	2.085.342	2.242.064
	Impairment	Impairment	Impairment

Following the tests performed, it was necessary to record impairment losses, as per note 6.1.2 a).

6.2 Investments in joint ventures

Joint control of Sonae Arauco, S. A. was established by contract entered into in 2016 by Sonae Indústria, SGPS, S.A. and Arauco Internacional Limited, a company of Arauco Group and is reflected on a joint decision making at the appropriate management levels of Sonae Arauco. Contractual provisions established that Sonae Indústria, SGPS, S.A. assumes certain legal and tax contingencies of Sonae Arauco and subsidiaries which relate to the period before the joint venture was set up. As a consequence, Sonae Arauco, S.A. has the right to be reimbursed by the total amount of payments done by the company or its subsidiaries with relation to the aforementioned contingencies, as well as relating to some businesses specifically referred to in the said agreement. The processes in progress understood to be relevant for the purposes of disclosure are referenced in Note 28, the note of the Board of Directors of Sonae Indústria SGPS, S.A., is in Note 18, for the said contingencies and payments to be made to the former subsidiary.

At December 31, 2019 and 2018 the Company held the following investment in a joint venture, included in Investments in Subsidiaries and Joint Ventures:

Joint Venture	% Share	Acquisition Value	Accumulated Impairment Losses	Net Value	2019		2018	
					Shareholder's Funds	Net profit	Shareholder's Funds	Net profit
Sonae Arauco, S.A.	50,00%	1.087.764.828,16	860.391.259,16	227.373.569	248.595.125	1.329.099	254.913.274	23.953.497

As of December 31, 2019 and December 31, 2018, receipts and payments of financial investments may be detailed as follows:

Joint Venture	31 december 2019		31 december 2018	
	Receipts	Payments	Receipts	Payments
- Sonae Arauco, S.A. (Nota 28)		6.714.262		0
	0	6.714.262	0	0

The amount of payments made in 2019 and was already provisioned in 2018, refers to the amounts paid under the agreement referred to in the above paragraph.

As of December 31, 2019 and 2018, the recoverable value of the investment in Sonae Arauco, S.A., was estimated based on the following assumptions:

2019	Cash Generating Rules			
	Portugal	Espanha	Alemanha	Africa do Sul
Discount rate (after tax) (a)	6,03%	5,98%	4,96%	12,59%
Growth rate on perpetuity (b)	1,42%	1,46%	1,88%	5,28%
Growth rate c):				
Total net income	4,28%	3,33%	2,57%	8,30%
Cost of goods sold and materials consumed	3,64%	2,82%	3,47%	7,24%
Cash Flows projected over	5 years	5 years	5 years	5 years

(a) weighted average cost of capital (WACC) rates calculated using the CAPM methodology (after tax values)
(b) Growth rate used to extrapolate cash flows in perpetuity
(c) Composite average growth rate, including perpetuity

2018	Cash Generating Rules			
	Portugal	Espanha	Alemanha	Africa do Sul
Discount rate (after tax) (a)	6,74%	6,38%	5,37%	13,35%
Growth rate on perpetuity (b)	1,00%	1,00%	1,00%	1,00%
Growth rate c):				
Total net income	2,03%	2,93%	0,92%	3,90%
Cost of goods sold and materials consumed	2,01%	2,92%	1,14%	3,32%
Cash Flows projected over	5 years	5 years	5 years	5 years

(a) weighted average cost of capital (WACC) rates calculated using the CAPM methodology (after tax values)
(b) Growth rate used to extrapolate cash flows in perpetuity
(c) Composite average growth rate, including perpetuity

Following the tests carried out, it was not necessary to record impairment losses.

6.3 Other Financial Investments

At December 31, 2019 and December 31, 2018, other financial investments is detailed as follows and refers to financial holdings that do not meet the criteria to be classified as subsidiaries or associates:

	31.12.19		31.12.18	
	Non current	Current	Non current	Current
Other financial investments				
Opening balance at 1 January	122.625	-	122.625	-
Other increase	160	-	0	-
Accumulated impairment losses	-12.1425	-	-	-
Closing balance for the period	1.360	-	122.625	-

The payment made in 2019 of 160 euros, concerns an additional benefit granted to Sonae Re Société Anonyme.

During the year, impairment losses were recorded in relation to the units held by the company (Note 18):

Entidade	2019			2018		
	Acquisition Value	Accumulated Impairment Losses	Net Value	Acquisition Value	Accumulated Impairment Losses	Net Value
Shares INEGI	109.976	109.976	0	109.976	0	109.976
Shares CTIMM	5.986	5.986	0	5.986	0	5.986
Shares PIEP	5.000	5.000	0	5.000	0	5.000
Shares BIOMASSA	297	297	0	297	0	297
Shares Sonae RE, Société Anonyme	1.360	0	1.360	1.200	0	1.200
Deposit guarantee	167	167	0	167	0	167
	122.785	121.425	1.360	122.625	0	122.625

7. Deferred taxes

Details of deferred tax asset at 31 December 2019 and 31 December 2018 were as follows:

<u>DEFERRED TAXES - BALANCE</u>					
		31.12.19		31.12.18	
		Assets	Liabilities	Assets	Liabilities
Others		0	-	0	-
		0	-	0	-
<u>DEFERRED TAXES - FLOWS</u>					
		31.12.19		31.12.18	
		Assets	Liabilities	Assets	Liabilities
Opening Balance		0	-	281.811	-
Others				-281.811	
	Sub-total (Note 28)	0	-	-281.811	-
Closing Balance		0	-	0	-

In 2018, deferred tax assets related to tax benefits were canceled, as there is no prospect of their recoverability.

In 2019, there are the following tax benefits obtained:

Benefit tax	Year of Production	Value (euros)	Year of Expiry
Sifide	2013	79.939	2019
Sifide	2014	48.332	2022
Sifide	2015	21.349	2023
Sifide	2016	60.567	2024
Sifide	2017	105.260	2025
Sifide	2018	176.498	2026
Rfai	2017	692.968	2027
Rfai	2018	193.790	2028

In 2019, no deferred tax asset was recorded on the tax losses generated by the Special Tax Group of Companies (about 2.607.629 euros) because there is no prospect of recoverability.

For 2019, there are the following deductible tax losses:

Year of Production	Value (euros)	Deadline for deduction
2016	4.659.090	2028
2017	4.434.206	2022
2018	3.520.592	2023

8. Other Non-Current Assets

Details of Other Non-Current Assets at 31 December 2019 and 31 December 2018 were as follows:

	31.12.19	31.12.18
Loans granted to group companies (Note 2.2 e 20)	11.550.996	20.025.496
	11.550.996	20.025.496
Accumulated Impairment Losses	11.550.996	20.025.496

Decomposition of the loans granted and their variation in the period:

2019		Inicial	Increase	Decrease	Final balance
Companies		balance 2019	2019	2019	2019
Maiequipa - Gestão Florestal,S.A.		599.880	82.000	0	681.880
Movelpartes - Componentes para a Indústria do Mobiliário		3.925.000	0	2.196.000	1.729.000
Glunz UK		359.000	0	150.500	208.500
Frases e Frações - Imobiliária e Serviços,S.A.		5.860.567	360.000	2.176.300	4.044.267
Parcelas e Narrativas - Imobiliária,S.A.		9.281.049	982.000	5.375.700	4.887.349
Total (Note 20)		20.025.496	1.424.000	9.898.500	11.550.996

2018		Inicial	Increase	Decrease	Final balance
Companies		balance 2018	2018	2018	2018
Maiequipa - Gestão Florestal,S.A.		532.880	67.000		599.880
Movelpartes - Componentes para a Indústria do Mobiliário		906.000	3.925.000	906.000	3.925.000
Glunz UK		0	718.000	359.000	359.000
Frases e Frações - Imobiliária e Serviços,S.A.		6.498.567		638.000	5.860.567
Parcelas e Narrativas - Imobiliária,S.A.		10.348.666		1.067.617	9.281.049
Total (Note 20)		18.286.113	4.710.000	2.970.617	20.025.496

In compliance with the article no 5, no. 4 of Decree-Law no. 495/88 of December 30, added by article no 1 of Decree-Law no. 318/94 of December 24, it is informed that loans contracts were entered into during the period ended December 31 of 2019 with the companies Maiequipa - Gestão Florestal, S.A., Frases e Frações – Imobiliária e Serviços,.S.A and Parcelas e Narrativas - Imobiliária, S.A..

Loans granted to Group companies have a medium and long term maturity and they yield interest at an average rate of 4,85 %.

The loans are subject to interest rate conditions but do not provide conditions for repayment, that is to say, repayment is made through the availabilities of each of the companies, and it is not possible at this moment to predict its date, nor is it expected that its reimbursement occurs next year.

9. Trade, Other Current Debtors and Current Tax Assets

9.1) At 31 December 2019 and 31 December 2018, details of Current Trade Debtors were as follows:

	31.12.19	31.12.18
Current customer accounts	50.854	84.056
Current customer with impairment	163	0
	<u>51.017</u>	<u>84.056</u>
Impairment losse in customers	163	
	<u>50.854</u>	<u>84.056</u>

At 31 December 2019 and 31 December 2018, the detail of trade debtors' maturities was as follows:

	31.12.19	31.12.18
Not due	28.140	62.786
Due and not impaired		
< 30 days	22.714	21.107
> 90 days		163
	<u>22.714</u>	<u>21.270</u>
Due and impaired		
180-360 dias	163	
	<u>51.017</u>	<u>84.056</u>

9.2) At 31 December 2019 and 31 December 2018, details of Other Current Trade Debtors were as follows:

	31.12.19	31.12.18
Group companies -interest (note 20)	591.182	988.862
Group companies -current Income Tax (note 20)	28.658	29.569
Group companies -loans (Note 9.2.1)	1.985.900	487.300
	<u>2.605.740</u>	<u>1.505.732</u>
Other debtors (Note 9.2.2)	472	244
Total	<u><u>2.606.212</u></u>	<u><u>1.505.975</u></u>

9.2.1) Loans granted and their variation in the period:

2019				
Companies	Inicial balance	Increase 2019	Decrease 2019	Final balance 2019
Maiequipa - Gestão Florestal,S.A.	14.500	100.700	-109.200	6.000
Movelpartes - Componentes para a Indústria do Mobiliário,S.A.	0	3.941.800	-2.759.600	1.182.200
Glunz UK	0	40.000	0	40.000
Frases e Frações - Imobiliária e Serviços,S.A.	402.500	1.742.800	-1.387.600	757.700
Parcelas e Narrativas - Imobiliária, S.A.	70.300	1.387.200	-1.457.500	0
Sonae Indústria - Management Services, S.A.	0	162.200	-162.200	0
Total (Note 20)	<u>487.300</u>	<u>7.212.500</u>	<u>-5.713.900</u>	<u>1.985.900</u>

2018				
Companies	Inicial balance	Increase 2018	Decrease 2018	Final balance 2018
Maiequipa - Gestão Florestal,S.A.	9.000	98.000	-92.500	14.500
Movelpartes - Componentes para a Indústria do Mobiliário,S.A.	3.677.500	985.000	-4.662.500	0
Glunz UK	303.664	479.000	-782.664	0
Frases e Frações - Imobiliária e Serviços,S.A.		985.500	-583.000	402.500
Parcelas e Narrativas - Imobiliária, S.A.		551.800	-481.500	70.300
Total (Note 20)	<u>3.990.164</u>	<u>3.099.300</u>	<u>-6.602.164</u>	<u>487.300</u>

In compliance with the article no 5, no. 4 of Decree-Law no. 495/88 of December 30, added by article no 1 of Decree-Law no. 318/94 of December 24, it is informed that financial transaction contracts were entered into during the period December 2018 with the companies Maiequipa – Gestão Florestal, S.A, Movelpartes – Componentes para a Indústria do Mobiliário, S.A., Glunz UK, Frases e Frações – Imobiliária e Serviços, S.A., Parcelas e Narrativas – Imobiliária, S.A. and Sonae Indústria – Management Services, S.A..

Financial transactions granted to Group companies have a short term maturity and they yield interest at an average rate of 4,85 %.

9.2.2) At 31 December 2019 and 31 December 2018, detail of Others Debtors maturities was as follows:

	ADVANCE CREDITORS		TRADE CREDITORS (ASSET BALANCES)		TOTAL DEBTORS	
	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18
Due and not impaired						
< 30 days		91	204		204	91
30 - 90 days				153	0	153
> 90 days			268		268	0
	<u>0</u>	<u>91</u>	<u>471</u>	<u>153</u>	<u>472</u>	<u>244</u>

9.3) At 31 December 2019 and 31 December 2018, Other Current Tax Assets were as follows:

	31.12.19	31.12.18
Current tax asset		
Income Tax	515.130	565.705
	<u>515.130</u>	<u>565.705</u>

10. Other Current Assets

Details of Other Current Assets at 31 December 2019 and 31 December 2018 were the following:

	31.12.19	31.12.18
Accrued revenue	68.570	22.765
Deferred costs	320.338	459.665
Assets out of Scope of IFRS 9	320.338	459.665
	388.908	482.431

The item accrued revenue refers to interest receivable from loans granted to its subsidiaries.

The item deferred costs refers to the deferral of costs with guarantees and bank charges.

11. Cash and Cash equivalents

At 31 December 2019 and 31 December 2018 detail of Cash and cash equivalents was the following:

	31.12.19	31.12.18
Cash at Hand	500	500
Deposits	781.254	30.819
Cash & Cash Equivalent in balance sheet	781.754	313.19
Bank Overdrafts (1)	78.1754	135.022
	78.1754	166.341

(1) In Statement of Financial Position-Non Current bank loans (Note 13)

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

12. Shareholders' Funds

On December 31, 2019, the Company's capital, fully subscribed and paid up, amounted to Eur 253.319.797,26 is represented by 45.403.029 common shares, book-entry and nominative, with no par value.

The shares representing the share capital, on the dates of December 31, 2019 and 2018, do not confer the right to any fixed remuneration.

As of December 31, 2019 and 2018, the company and its subsidiaries did not hold any of their own shares.

The following entities had more than 20% of the subscribed capital on 31 December 2019:

Entity	%
Efanor Investimentos, SGPS, S. A.	42,66
Pareuro BV	25,84

Shareholder's Funds Detail:

	2019	2018
Share Capital	253.319.797	253.319.797
Legal Reserve	1.807.489	1.807.489
Other reserves and accumulated earnings	30.572.699	33.898.338
Free Reserve	33.898.338	34.342.300
Net Income	-3.325.639	-443.962
	285.699.986	289.025.625

Legal Reserve: Commercial legislation establishes that at least 5% of annual net profit has to be intended to strengthen the legal reserve until it represents at least 20% of the capital. This reserve is not distributable to not be in the event of the liquidation of the company, but can be used to absorb losses, after exhausted the other reserves, or incorporated into the capital.

Free Reserves: Relating to profits earned in previous years and are available for distribution, provided it is not necessary to cover losses.

13. Loans obtained

13.1) Loans

At 31 December 2019 and 31 December 2018 Sonae Indústria, SGPS, S.A had the following outstanding loans:

	NOTES	31.12.19				31.12.18			
		Amortised cost		Nominal Value		Amortised cost		Nominal Value	
		Current	Non Current	Current	Non Current	Current	Non Current	Current	Non Current
Loans - Commercial Paper	13	4.550.000	94.578.686	4.550.000	95.500.000	16.000.000	151.370.783	16.000.000	152.100.000
Subordinated bond	13		49.938.116		50.000.000				
Unsubordinated bond	13		7.951.240		8.000.000				
Bank Overdrafts	11					135.022		135.022	
Gross Debt		4.550.000	152.468.042	4.550.000	153.500.000	16.135.022	151.370.783	16.135.022	152.100.000
Cash & Cash Equivalent in balance sheet	11	781.754		781.754		313.19		313.19	
Net Debt		3.768.246	152.468.042	3.768.246	153.500.000	16.103.702	151.370.783	16.103.702	152.100.000
Total Net Debt		156.236.288		157.268.246		167.474.485		168.203.702	

The loans (nominal value) have the following repayment schedule:

	31.12.19	31.12.18
2019		16.135.022
2020	4.550.000	46.100.000
2021	8.000.000	103.000.000
2022	30.500.000	3.000.000
2023	30.000.000	
2024	35.000.000	
2029	50.000.000	
	158.050.000	168.235.022

The average interest rates of each class of debt stated in the previous table were as follows:

	2019	2018
Loans - Commercial Paper	4,504%	4,568%
Bond Loan	2,365%	
Subordinated Bond Loan	7,012%	

In the calculation of these average interest rates, bank overdrafts were not considered due to the immateriality of the amounts involved.

1. Subordinated Bond Loan

Company	Loan	Contract date	Maturity (with reference to 31.12.2019)	Currency	Outstanding principal at 31.12.2019 (Eur)	Outstanding principal at 31.12.2018 (Eur)
Sonae Indústria, SGPS, S.A.	Bond Loan 1)	december 2019	december 2029	EUR	€ 50.000.000	N/A
Additional notes						
1) The contract has a fixed interest rate.						

As of December 31, 2019, Efanor Investimentos, SGPS, S. A. (final parent company of Sonae Indústria, SGPS, S. A.) held all subordinated bonds issued by the Company, with a nominal value of 50,000,000 euros.

2. Unsubordinated Bond

Company	Loan	Contract date	Maturity (with reference to 31.12.2019)	Currency	Outstanding principal at 31.12.2019 (Eur)	Outstanding principal at 31.12.2018 (Eur)
Sonae Indústria, SGPS, S.A.	Bond Loan 1)	october 2019	october 2022	EUR	€ 8.000.000	N/A
Additional notes						
1) The contract has a variable interest rate.						
In this contract, Sonae Indústria, SGPS, S.A. is obliged to ensure a minimum level of Financial Autonomy ("Total Equity / Total Assets"). For this purpose, the total amount of Equity includes loans from shareholders and similar loans. This ratio is tested annually, from December 31, 2019 (inclusive) until the end of the financing, based on the Company's consolidated financial statements, and failure to do so may lead to the early maturity of the loan. "						
There is a voluntary mortgage on the Vilela property presented by the subsidiary Frases e Fractions - Imobiliária e Serviços, S.A. associated with this bond loan.						

As of December 31, 2019, Sonae Indústria estimates that there are no significant differences between the book value of the debt items, namely the subordinated bond loan, and respect for fair value.

3. Bank Loans 1) 2)

Company	Loan	Contract date	Maturity (with reference to 31.12.2019)	Currency	Outstanding principal at 31.12.2019 (Eur)	Outstanding principal at 31.12.2018 (Eur)
Sonae Indústria, SGPS, S.A.	Commercial paper programme	june 2013	june 2023 Note: programme without subscription guarantee	EUR	€ 0	€ 2.000.000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	july 2014	repaid between may 2020 and may 2022 3)	EUR	€ 6.800.000	€ 8.100.000
Sonae Indústria, SGPS, S.A.	Commercial paper programme 4)	may 2016	repaid between december 2020 and december 2024 5)	EUR	€ 79.500.000	€ 136.500.000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	july 2016	april 2021 8)	EUR	€ 2.000.000	€ 4.000.000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	december 2016	repaid on october 2019, by agreement between the parts 6)	EUR	n/a	€ 7.500.000
Sonae Indústria, SGPS, S.A.	Commercial paper programme 7)	june 2018	repaid between december 2019 and june 2021	EUR	€ 6.750.000	€ 10.000.000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	february 2019	february 2022	EUR	€ 5.000.000	n/a
Additional notes						
1) The aforementioned loans pay interest at variable rate						
4) The shares of subsidiaries Megantic B.V. e Tafisa Canada Inc., shares held by Megantic BV, were pledged as collateral for this loan. In this agreement, Sonae Indústria, SGPS, S.A. is obliged to maintain a certain maximum level of financial debt calculated based on the Company's separate financial statements, also committing itself to a maximum "Net Debt/Ebitda" ratio for Tafisa Canadá Inc. calculated based on the separate financial statements of this subsidiary. Failure to comply with any of these ratios may lead to the anticipated maturity of the loan						
5) In December 2019, the financing term was extended with maturity to be carried over to December 2024 (with reductions in the maximum nominal amount between December 2020 and December 2024) and with an amount in the maximum initial nominal amount of EUR 90 million.						
6) By agreement between the parties, in October 2019 this financing was revoked, and all the outstanding amounts were repaid.						
7) Under this financing, Sonae Indústria, SGPS, S.A. is obliged to maintain a ratio of financial autonomy ("Total Equity/Total Assets"). This ratio is tested annually from december 31, 2018 until the end of the financing based on the Company's consolidated financial statements, and its failure may lead to the early maturity of this loan.						
8) There is a voluntary mortgage on the properties of Alcanede and Rebordosa presented by the subsidiary Frases e Fractions - Imobiliária e Serviços, S.A. associated with this loan.						
Subsequent Events						
2) With effect from January 2020, two commercial paper programs were formalized with maximum nominal amounts of 10 and 5 million euros (total 15 million euros), with maturity in January 2024.						
3) In January 2020, by agreement between the parties, changes were made to the financing contract including its maturity, which was carried over to January 2025 (with reductions in the maximum amount between July 2020 and January 2025).						

N/A - Loans that did not exist as of December 31, 2019 or December 31, 2018.

The amounts detailed in the previous tables correspond to the nominal value of the loans.

As of December 31, 2019, the ratios associated with the aforementioned loans complied with the contractually established limits.

13.2) Cash Flows

The financial liabilities (nominal value) derived from the financing activities disclosed in note 13.1 and note 20, were as follows:

<u>Separate Statements of Financial Position</u>	31.12.2019				Closing Balance
	Opening balance	Increase	Decrease	Others	
Non-Current Liabilities:					
Bank loans - net of current portion	152.100.000			-56.600.000	95.500.000
Subordinated bonds		50.000.000			50.000.000
Unsubordinated bonds		8.000.000			8.000.000
Current Liabilities:					
Current portion of non-current bank loans	14.000.000			-9.450.000	4.550.000
Current bank loans	2.135.022	1.473.050.000	1.541.235.022	66.050.000	
Current loans from subsidiaries	4.086.100	16.886.600	17.566.700		3.406.000
Total	172.321.122	1.547.936.600	1.558.801.722	0	161.456.000

<u>Separate Statements of Cash Flows</u>	Cash receipts from	Cash payments to
Financing activities		
Loans obtained	1.539.936.600	1.558.801.722
Total	1.539.936.600	1.558.801.722

<u>Separate Statements of Financial Position</u>	31.12.2018				Closing Balance
	Opening balance	Increase	Decrease	Others	
Non-Current Liabilities:					
Bank loans - net of current portion	160.651.145	1.612.800.000	1.612.751.145	-8.600.000	152.100.000
Current Liabilities:					
Current portion of non-current bank loans	11.900.000	21.000.000	27.500.000	8.600.000	14.000.000
Current bank loans	1.750.000	11.885.022	11.500.000		2.135.022
Current loans from subsidiaries	5.145.000	22.434.954	23.493.854		4.086.100
Total	179.446.145	1.668.119.976	1.675.244.999	0	172.321.122

<u>Separate Statements of Cash Flows</u>	Cash receipts from	Cash payments to
Financing activities		
Loans obtained	1.668.119.976	1.675.244.999
Total	1.668.119.976	1.675.244.999

14. Trade Creditors

At 31 December 2019 and 31 December 2018 all amounts recorded under this item resulted from normal operations.

Trade creditor maturities were as follows:

	31.12.19	31.12.18
To be paid		
< 90 days	151.335	146.709
90 - 180 days	23.894	1.347
> 180 days	-	782
Total	175.229	148.838

15. Other Creditors and Other taxes and contributions

15.1) At 31 December 2019 and 31 December 2018 details of Others Creditors were as follows:

	31.12.19	31.12.18
Other Creditors		
Group companies -current Income Tax (Note 20)	131.102	181.107
Loans from group companies (Note 20)	3.406.000	4.086.100
Others	371.930	370.951
Financial Instruments	3.909.032	4.638.157
Others Creditors	118	
Total	3.909.150	4.638.157

Loans from Group companies is related with Sonae Indústria de Revestimentos,S.A. , it has a short term maturity and an average interest rate of 2,7 % .

Loans obtained and their variation in the period:

2019				
Companies	Inicial balance 2019	Increase 2019	Decrease 2019	Final balance 2019
Sonae Indústria de Revestimentos,,S.A	3.978.000	15.177.200	-15.749.200	3.406.000
Movelpartes - Componentes para a Indústria do Mobiliário,S.A.	0	767.000	-767.000	0
Glunz UK	0	355.000	-355.000	0
Sonae Indústria - Management Services, S.A.	108.100	587.400	-695.500	0
Total (Note 20)	4.086.100	16.886.600	-17.566.700	3.406.000

2018				
Companies	Inicial balance 2018	Increase 2018	Decrease 2018	Final balance 2018
Sonae Indústria de Revestimentos,,S.A	5.054.500	16.270.054	-17.346.554	3.978.000
Movelpartes - Componentes para a Indústria do Mobiliário,S.A.		3.702.000	-3.702.000	0
Glunz UK		350.000	-350.000	0
Frases e Frações - Imobiliária e Serviços,S.A.				0
Parcelas e Narrativas - Imobiliária, S.A.		1.272.500	-1.272.500	0
Sonae Indústria - Management Services, S.A.	90.500	840.400	-822.800	108.100
Total (Note 20)	5.145.000	22.434.954	-23.493.854	4.086.100

In compliance with the article no 5, no. 4 of Decree-Law no. 495/88 of December 30, added by article no 1 of Decree-Law no. 318/94 of December 24, it is informed that financial transaction contracts were entered into during the period December 2019 with the company Sonae Indústria de Revestimentos, S.A..

The maturity of other debts to third parties is as follows:

	< 90 days	90 - 180 days	> 180 days	Total
31.12.19				
Subsidiaries	131.102	0	3.406.000	3.537.102
Other Current Maturity of Creditors	120	0	371.810	371.930
	<u>131.222</u>	<u>0</u>	<u>3.777.810</u>	<u>3.909.032</u>
31.12.18				
Subsidiaries	4.159.107		108.100	4.267.207
Other Current Maturity of Creditors			370.951	370.951
	<u>4.159.107</u>	<u>0</u>	<u>479.051</u>	<u>4.638.157</u>

15.2) At 31 December 2019 and 31 December 2018, details of Current tax liability and Other taxes and contributions were as follows:

	31.12.19	31.12.18
Current tax liability	68.932	23.849
Tax retention	68.932	23.849
Other taxes and contributions	30.549	16.732
Value Added Tax	18.232	4.908
Social Security Contributions	12.301	11.825
Others	16	126
Total	99.481	40.581

16. Other Current Liabilities

At 31 December 2019 and 31 December 2018 this item had the following detail:

	31.12.19	31.12.18
Accrued Costs		
Personal expenses	134.625	367.671
Accrued financial expenses	215.966	203.359
External supplies & services	159.457	44.016
	<u>510.048</u>	<u>615.047</u>
Liabilities out of scope of IFRS9	0	0
	<u>510.048</u>	<u>615.047</u>

17. Leasing

As of December 31, 2019, the maturity of leasing creditors, according to IFRS16, has the following detail:

	Maturity of Lease Creditors
	31.12.19
Due in 2020	17.322
Due in 2021	10.978
Due in 2022	5.906
Due in 2023	3.568
	37.774
Lease Creditors - current portion	17.322
Lease Creditors - long term	20.452
	37.774

18. Provisions and Accumulated Impairment Losses

Changes in provisions and accumulated impairment losses during the period ended December, 31 2019 and December, 31 2018 were the following:

31.12.2019

Description	Opening Balance	Increase	Utilization	Reclassification	Closing Balance
Accumulated impairment losses on investments (Note 6)	885.543.079	5.273.456			890.816.535
Accumulated impairment losses on other investments (Note 6)		121.425			121.425
Trade debtors provision		163			163
Non current provisions	4.000.000	9.182.461		-4.000.000	9.182.461
Current provisions	7.566.845	3.836.144	6.714.262	4.000.000	8.688.727
	897.109.924	18.413.649	6.714.262	0	908.809.311

31.12.2018

Description	Opening Balance	Increase	Utilization	Reversion	Closing Balance
Accumulated impairment losses on investments (Note 6)	884.452.732	1.090.347			885.543.079
Non current provisions	0	4.000.000			4.000.000
Current provisions	3.275.719	4.291.126			7.566.845
	887.728.451	9.381.473	0	0	897.109.924

Impairment losses were recognized in the year 2019: 203.064 euros in Maiequipa – Gestão Florestal ,S.A., 2.281.090 euros in Sonae Indústria de Revestimentos, S.A., 2.016.444 euros in Movelpartes - Componentes para a Indústria do Mobiliário ,S.A., 494.989 euros in Frases e Frações - Imobiliária e Serviços, S.A., and 277.869 euros in Sonae Indústria - Management Services, S.A.(Note 6.1.2).

A provision for other risks and charges was created with the subsidiary Sonae Indústria - Management Services, S.A., in the amount of 182.460,93 euros.

Provisions were created for other risks and charges in the year, in the amount of 13.018.605 euros, of which 9.182.461 euros were recorded in Non Current Liabilities and 3.836.144 euros in Current Liabilities. The amount of provisions as of December 31, 2018, is associated with contingencies assumed in the process of loss of control of the Group now designated by Sonae Arauco, associated with contingencies of alleged violation of competition laws and an estimate for other expenses with right of return by the said entity (Note 6.2).

As described in Note 28, Sonae Indústria SGPS assumed the obligation to compensate Sonae Arauco for certain losses incurred by several companies of Sonae Arauco Group.

19. Financial Risks

19.1. Liquidity Risk

The liquidity risk described on note 2.17, c), related to gross debt referred to on note 13, can be analysed as follows:

2019				2018			
Liquidity Risk				Liquidity Risk			
	Maturity of gross debt	Interest	Total		Maturity of gross debt	Interest	Total
2019			0	2019	16.135.022	6.022.335	22.157.357
2020	4.550.000	6.436.669	10.986.669	2020	46.100.000	4.782.642	50.882.642
2021	8.000.000	6.189.534	14.189.534	2021	103.000.000	1.707.184	104.707.184
2022	30.500.000	5.983.763	36.483.763	2022	3.000.000	34.058	3.034.058
2023	30.000.000	5.345.278	35.345.278	2023			0
2024	35.000.000	4.512.812	39.512.812	2024			0
2025	0	3.548.611	3.548.611	2025			0
2026	0	3.548.611	3.548.611	2026			0
2027	0	3.548.611	3.548.611	2027			0
2028	0	3.558.333	3.558.333	2028			0
2029	50.000.000	3.548.611	53.548.611	2029			0
	158.050.000	46.220.833	204.270.833		168.235.022	12.546.218	180.781.240

The interest amounts indicated in the previous tables were calculated based on the interest rates in effect at December 31, 2019 and 2018 for each of the outstanding amounts. The amount indicated for 2020 (2019) in the gross debt maturity profile includes, in addition to the scheduled debt repayments, the amortization of the amounts considered in the end 2019 debt (2018) for which the debt commitment is less than one year.

The maturity profile of the remaining financial instruments is included in the respective explanatory notes.

19.2. Market risk

19.2.1 Interest rate risk

In the interest rate risk analysis in Note 2.17 b), the effect that would have been produced in the results for 2019 and 2018 was calculated, in the event of a + 0.75% change in relation to the interest rates and of -0.75% in relation to the interest rates fixed during those years.

Sensitivity Analysis						
2019				2018		
	"Notional"	Effect in Profit and Loss (Euros)		"Notional"	Effect in Profit and Loss (Euros)	
		0,75%	-0,75%		0,75%	-0,75%
Gross Debt						
Group	- 3.406.000	-30.966	30.966	- 4.086.100	- 43.278	43.278
External	- 108.050.000	- 981.508	981.508	- 168.235.022	- 1.195.448	1.195.448
	- 111.456.000	- 1.012.474	1.012.474	- 172.321.122	- 1.238.727	1.238.727
Loans to group companies	13.536.896	105.581	- 105.581	20.512.796	160.792	- 160.792
	13.536.896	105.581	- 105.581	20.512.796	160.792	- 160.792
		- 906.893	906.893		- 1.077.934	1.077.934

Considering the Euribor 6M as a benchmark for the level of interest rates in the Euro, an increase of 0.75 percentage points corresponds to 11,2 times the standard deviation of that variable in 2019 (84,4 times in 2018).

20. Related Parties

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

Balance	Accounts Receivable		Accounts Payable		Other Creditors		Other non Currents Assets		Other debtors	
	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18
- ZYEvolution	50.854	83.892	118.918	117.334	3.512.237	4.240.818	11.550.996	20.025.496	581.180	1.479.344
- Sonae Arauco France		36.463	14.403	17.110						
- Sonae Arauco Portugal	1.439	1.439	12.639	13.913						
- Maiequipa			5.558	5.558	7.608	8.644	681.880	599.880	19.884	40.888
- Movepartes	1.814	1.757			28.974	39.871	1.729.000	3.925.000	99.078	189.711
- Sonae Industria Revestimentos	2.173	2.019	10.877	10.109	3.472.796	4.081.438				
- Sonaecenter II			25.743	19.518						
- Sonae ,sgps			49.000	49.000						
- Sind - Management services						108.100				3.181
- Sonae Arauco Deustchland				1.347						
- Solinca investimentos Turisticos			494	602						
- Nos			149	122						
- Imosede			55	55						
- Tafisa Canadá	45.428	42.214								
- Glunz UK							208.500	359.000		
- Frases e Frações					1.718	1.718	4.044.267	5.860.567	232.974	699.015
- Parcelas e Narrativas					1.141	1.047	4.887.349	9.281.049	229.244	546.548

Transactions	Sales & Services Rendered		Purchases & Acquired Services		Interest Income		Interest Expenses	
	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18
- ZYEvolution	302.855	281.424	293.855	139.386	684.044	1.031.740	279.344	120.612
- Sonae Arauco France			35.402	13.910				
- Sonae Arauco Portugal			122.703	-36.463				
- Maiequipa				142.609				
- Movepartes	9.086	8.443			32.149	28.038		4.810
- Efanor,SGPS					140.520	203.999		
- Sonae RP			1.120				173.333	
- Sonae Industria Revestimentos	21.200	19.700	8.648	2.576			105.834	115.265
- Sonaecenter II			63.236	73.034				
- Sonae ,sgps			50.000	50.000				
- Sind - Management services					274	60	177	537
- Sonae Arauco				-121.976				
- Sonae Arauco Deustchland			504	1.347				
- Solinca investimentos Turisticos			2.636	4.097				
- Nos			8.644	9.702				
- Imosede			540	550				
- Tafisa Canadá	272.569	253.281						
- Glunz UK					15.781	16.064		
- Frases e Frações			422		252.139	304.450		
- Parcelas e Narrativas					243.181	479.129		

Revenues and expenses recorded as a result of transactions with related parties refer to the operating activity and were carried out under conditions comparable to transactions carried out in the market between independent parties.

20.2 The expenses with remuneration of the Board of Directors of the Company are detailed as follows:

	2019	2018
Short term benefit	617.020	555.750
	617.020	555.750

21. Remuneration Supervisory Board

Remuneration of the Supervisory Board, General Assembly and Remuneration Committee is detailed as follow:

	2019	2018
Supervisory Board	25.700	26.200
General Assembly	7.000	7.000
Remuneration Committee	5.000	5.000
Total remuneration	37.700	38.200

Fees of Audit company, Deloitte & Associados, SROC,S.A. is detailed as follows:

Total Fees related to audit and legal certification of the accounts	25.309
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The remuneration policy of the members of the board of directors and supervisory board, as well as the annual amount earned by their members in an individual are presented in the report of government in society .

22. Services Provided

Services provided are as follows:

	2019	2018
Management Service	302.854	281.424
TOTAL	302.854	281.424

23. Other Operational Income and Losses

Other operating income are detailed as follows:

	31.12.19	31.12.18
Other Operation Income	31.12.19	31.12.18
Reversal of provision for other cha	6.714.262	0
Others	4.675	87.978
	6.718.937	87.978

Other operating losses are detailed as follows:

	31.12.19	31.12.18
Other Operation Losses	31.12.19	31.12.18
Taxes	129.245	108.628
Indemnity paid	6.714.262	0
Others	157	1.030
	6.843.664	109.658

In 2019, a provision created in previous years was reversed for other risks and charges, in the same amount as the payment made to Sonae Arauco (item - "indemnities paid"), to cover contingencies as described in note 28.

24. Financial Results

	31.12.19	31.12.18
Financial expenses:		
Interest expenses (Note 19 e 20)	6.414.253	6.719.053
Exchange Losses	0	45.269
Others	1.411.202	1.756.368
Financial expenses	7.825.455	8.520.690
Financial results	-7.132.171	-7.478.782
	693.284	1.041.908
Financial income		
Interest income (Note 20)	684.044	1.032.393
Exchange Gains	0	266
Others	9.240	9.249
	693.284	1.041.908

25. Income or losses related on investments in subsidiaries and join ventures

In 2019 and 2018 the company had the following investment results:

	2019	2018
Dividends	23.636.729	17.725.747
Sonae Arauco, S.A.	5.986.729	6.406.347
Megantic, B.V.	17.650.000	11.319.400
Gains related with investments	<u>23.636.729</u>	<u>17.725.747</u>
Registration of impairment	-5.394.881	-1.090.347
Registration of impairment of participation of Movelpartes, S.A. (Note 6)	-2.016.444	-90.347
Registration of impairment of participation of Maiequipa, S.A. (Note 6)	-203.064	
Registration of impairment of participation of Sir, S.A. (Note 6)	-2.281.090	-1.000.000
Registration of impairment of participation of Sims, S.A. (Note 6)	-277.869	
Registration of impairment of participation of Frases e Frações, S.A. (Note 6)	-494.989	
Registration of impairment of participation of others investments (Note 6)	-12.1425	
Losses related with investments	<u>-5.394.881</u>	<u>-1.090.347</u>
Profit/(loss) on other investments	<u>18.241.848</u>	<u>16.635.400</u>

26. Taxes

The income and deferred taxation recorded at 31 December 2019 and 31 December 2018 were:

	31.12.19	31.12.18
Current tax	-5.434	-3.952
Deferred tax (Note 6)	0	-281.811
	<u>-5.434</u>	<u>-285.763</u>
Current tax - Prior Year adjustment	-66	-121.400
	<u>-5.500</u>	<u>-407.163</u>
Current tax	-5.500	-125.352
Deferred tax	0	-281.811

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

	2019	2018
Net income/(loss) before tax	-3.320.139	-36.799
Tax rate	21%	21%
Expectable tax	<u>-697.229</u>	<u>-7.728</u>
Impairment loss of financial assets	1.132.925	228.973
Reversal impairment loss of financial ass	-1.409.995	0
Provisions	2.733.941	1.741.136
Dividends	-4.963.713	-3.722.407
Current tax at special rate	5.434	3.952
Non-deductible financial charges	1.275.622	1.318.486
Reversal deferred tax asset recognize	0	281.811
Deferred tax asset unrecognize	1.929.590	469.527
Others	-1.141	-27.987
	<u>5.434</u>	<u>285.763</u>

27. Earnings Per Share

Earnings per share were calculated as follows:

	31.12.19	31.12.18
Net Profit (loss)		
Net Profit / (loss) considered to calculate base earnings per share (Periodic Net Profit/(loss))	- 3 325 639	- 443 962
Net Profit/(loss) considered diluted earnings per share	- 3 325 639	- 443 962
Number of Shares		
Weighted average number of shares used to calculate basic earning per share	45 403 029	45 403 029
Weighted average number of shares used to calculate diluted earnings per share	45 403 029	45 403 029
Basic and diluted earnings per share	-0,07325	-0,00978

During 2019, no effect from discontinued operations was recorded.

28. Contingencies

In October 2010, Sonae Indústria, SGPS, S.A. received a notice of assessment from tax authorities according to which the loss resulting from the dissolution of its subsidiary Socelpac, SGPS, S.A. in 2006, amounting to 74 million euros, should be considered at 50% for tax calculation purposes. The company filed a lawsuit challenging this interpretation.

The subsidiary Sonae Indústria de Revestimentos, S.A. rendered surety of 2.271.000 euros in favor of tax authorities for suspension of tax enforcement procedures initiated against Sonae Indústria, SGPS, S.A., having been brought court challenges against the respective settlement.

The subsidiary Maiequipa – Gestão Florestal, S.A. rendered surety of 1.242.746 euros in favor of tax authorities for suspension of tax enforcement procedures initiated against Sonae Indústria, SGPS, S.A., having been brought court challenges against the respective settlement.

Sonae Indústria, SGPS, S.A. presented bank guarantees of 9.286.997 euros to suspend tax enforcement procedures initiated by tax authorities, having been brought court challenges against the respective settlement, with the exception of the process IRC 2015, which to date only a graceful complaint has been filed

According to the information available on this date, the Board of Directors considers that the probability of a negative outcome is low, thus no adjustment was done to current tax and deferred tax asset recognized in these separate financial statements.

The guarantee of Sonae Indústria, SGPS, S.A. provided to the Social Security Institute in the amount of 321.858 euros to guarantee the contingency that Sonae Arauco Portugal, S.A. has with this entity still.

Former subsidiary Sonae Arauco Deutschland GmbH (formerly Glunz AG) and other German producers of wood-based panels are involved in certain litigation procedures filed by some customers for damages resulting from alleged breaches of competition law, after which former subsidiaries Sonae Arauco Deutschland GmbH (formerly Glunz AG) and GHP GmbH received, in March 2010, a statement of objections from the German Competition Authority. Some of these processes were resolved from 2015 to 2018 and their respective effects were recognized on the individual financial statements of each company and on the consolidated financial statements of the joint venture Sonae Arauco, S. A. (in which perimeter of consolidation these former subsidiaries are included) for the respective periods. As of the end of 2019, there were two processes still outstanding. One of which the complaint was submitted specifically to the former subsidiaries Sonae Arauco Deutschland GmbH e GHP GmbH with a maximum contingency (based on claimed values) of EUR 31.5 million. In the other pending case, these subsidiaries are jointly involved with other German producers and the maximum contingency (based on claimed values) amounted to EUR 26 million as at 31 December 2019. According to the opinion of these former subsidiaries' lawyers, at the closing date of these consolidated financial statements, it is not possible to reliably estimate the outcome of the proceedings in progress or the amount of any payments that may be established. Under the terms of

the agreement for the subscription of Sonae Arauco, S. A. shares, entered into in 2015 by Sonae Arauco, S. A., Sonae Indústria SGPS S. A. and the Arauco Group, Sonae Indústria, SGPS, S. A. assumes the obligation to compensate Sonae Arauco, S. A. for any losses resulting from these proceedings.

Darbo SAS, a former subsidiary of Sonae Indústria, SGPS, S.A located in France, was sold on 3 July 2015 to a subsidiary of Gramax Capital and was excluded from the Group's consolidated financial statements on that date. This company's insolvency was requested at the Trade Court of Dax, in France, in September 2016, and was declared by that court to be liquidated, in October of that year.

Following that case, one hundred and ten former employees of Darbo filed various lawsuits with the Labour Court of Dax, in France, against, among others, Sonae Indústria, SGPS, SA and Gramax Capital, through which they claim compensation for alleged dismissal without fair reason, for a total amount of EUR 13 653 917.28. The same former employees also filed a lawsuit at the Civil Court of Dax against the seller and buyer companies and against Sonae Indústria, SGPS, SA, through which they claim annulment of the sale of Darbo SAS and the payment of compensation for alleged damages suffered, in the same amount claimed before the Labour Court of Dax (EUR 13 653 917.28).

In relation to one hundred and five former employees of Darbo, in July 2019 the Labour Court of Dax judged that Sonae Indústria SGPS and two Gramax Capital companies have the joint and several obligation to pay compensation to those employees in a total amount of c. 3.6 million euros on the grounds of the existence of 'co-employment'. The court also ordered Sonae Indústria SGPS and two Gramax Capital companies to reimburse the French "Pôle Emploi" (unemployment insurance organisation) any amounts of compensations it could have paid to those employees. Sonae Indústria SGPS appealed such decisions considering there are no grounds for the co-employment thesis. In January 2020, the court, in relation to the lawsuit of five former employees of Darbo, handed down a sentence in the same direction and on the same grounds, with the amount of the sentence being around 950 thousand euros. Sonae Indústria appealed this decision

29. Subsequent events

The worldwide propagation of COVID-19 in the first months of 2020 is having a significant material negative human, social, economic and financial impacts.

The extraordinary measures imposed by the authorities in the several regions where Sonae Indústria conducts its business (namely Europe, North America and South Africa) have also had a significant impact not only on daily lives of people but also on businesses including Sonae Indústria operations.

Accordingly, during the last few days and as a result of the Covid-19 pandemic the following developments have taken place:

- Sonae Arauco has temporarily shut down its industrial units in Spain and South Africa, countries where legal provisions set out by local authorities to fight the pandemic currently prevent the continuation of activity for most businesses;
- Our North American business has partially and temporarily shut down its industrial activity in Lac Mégantic, Canada (in accordance with legal provisions set out by local authorities to fight the pandemic);

The possibility of interrupting temporarily the activity of other industrial units is currently being evaluated, taking into account the reduction in orders from our customers due to the scaling back or temporary shut down of their activities and the possible disruption of the supply of raw materials. The continuation of our other operations could also be conditioned by additional measures imposed by governments with the aim of mitigating the Covid-19 pandemic.

Due to the uncertainty, not only on the Covid-19 pandemic duration period but also on its impact in the global economy, Sonae Indústria cannot estimate the impact on the company's results, but we envisage that it will be important.

Sonae Indústria will take all possible actions, within the limitations imposed by this pandemic crisis, to mitigate the effects of any temporary shutdowns and also to restart any temporarily closed down operations as soon as the conditions allow.

30. Financial Statements Approval

These financial statements were approved by the Board of Directors and authorised for issuance 31 of March 2020.



CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Changes in Shareholders' Funds

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

SONAE INDÚSTRIA, S.G.P.S., S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019 AND 31 DECEMBER 2018

(Amounts expressed in Euros)

ASSETS	Notes	31.12.2019	31.12.2018
NON-CURRENT ASSETS			
Tangible fixed assets	3, 9	153 648 978	135 704 644
Goodwill	13	347 082	347 082
Intangible assets	10	68 755	86 449
Investment properties	11	5 499 237	5 750 140
Biological assets	12	238 894	
Investment in joint ventures	5, 8	209 128 627	212 459 264
Other investments	6, 7, 8	19 829	133 952
Other non-current assets	6, 15	1 095 969	
Total non-current assets		<u>370 047 371</u>	<u>354 481 531</u>
CURRENT ASSETS			
Inventories	16	21 961 930	18 224 036
Trade debtors	6, 7, 17	14 079 419	12 302 439
Other current debtors	6, 7, 18	1 054 515	124 360
Current tax asset		2 345 193	2 506 968
Other taxes and contributions	20	1 783 339	1 552 714
Other current assets	6, 7, 19	2 281 415	2 033 291
Cash and cash equivalents	6, 7, 21	7 059 662	10 624 192
Total current assets		<u>50 565 473</u>	<u>47 368 000</u>
Non-current assets held for sale	12	131 070	
TOTAL ASSETS		<u>420 743 914</u>	<u>401 849 531</u>
SHAREHOLDERS' FUNDS AND LIABILITIES			
SHAREHOLDERS' FUNDS			
Share capital	22	253 319 797	253 319 797
Legal reserve	22	1 807 489	1 807 489
Other reserves and accumulated earnings	22	(186 140 089)	(172 733 307)
Accumulated other comprehensive income	22	58 331 221	53 139 528
Total shareholders' funds attributable to equity holders of Sonae Indústria		<u>127 318 418</u>	<u>135 533 507</u>
TOTAL SHAREHOLDERS' FUNDS		<u>127 318 418</u>	<u>135 533 507</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Subordinated bonds	6, 7, 23	49 938 116	
Unsubordinated bonds	6, 7, 23	7 951 240	
Bank loans - net of current portion	6, 7, 23	146 393 538	188 102 256
Lease creditors - net of current portion	3, 23	3 335 541	491 753
Post-retirement liabilities	27	904 548	785 667
Other non-current liabilities	6, 7, 26	6 654 222	1 128 038
Deferred tax liability	14	20 957 005	18 883 485
Provisions	31	7 137 752	1 778 290
Total non-current liabilities		<u>243 271 962</u>	<u>211 169 489</u>
CURRENT LIABILITIES			
Current portion of non-current bank loans	6, 7, 23	5 755 509	15 192 246
Current bank loans	6, 7, 23	830 938	2 136 274
Current portion of non-current lease creditors	3, 6, 7, 23	1 790 941	529 015
Trade creditors	6, 7, 28	26 026 430	21 567 484
Current tax liability		29 812	29 283
Other taxes and contributions	29	580 396	490 083
Other current liabilities	6, 7, 30	11 823 152	11 926 431
Provisions	31	3 316 356	3 275 719
Total current liabilities		<u>50 153 534</u>	<u>55 146 535</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>420 743 914</u>	<u>401 849 531</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 INCOME STATEMENT

FOR THE PERIODS ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018

(Amounts expressed in Euros)

	Notes	31.12.2019	31.12.2018
Sales	37	228 500 563	218 781 711
Services rendered	37	1 486 041	1 392 246
Change in value of biological assets	12, 37	(145 199)	
Other income and gains	34, 37	4 240 249	8 225 377
Cost of sales	16, 37	(127 189 314)	(122 579 602)
Increase / (decrease) in production	37	1 997 447	2 127 584
External supplies and services	3, 37	(52 211 400)	(49 825 897)
Staff expenses	37	(27 148 274)	(25 213 411)
Depreciation and amortisation	3, 9, 10, 11	(15 930 215)	(13 090 365)
Provisions and impairment losses (increase / reduction)	31, 37	(5 719 226)	91 055
Other expenses and losses	35, 37	(3 451 748)	(3 647 577)
Operating profit / (loss)	37	4 428 924	16 261 121
Financial income	38	695 759	660 983
Financial expenses	3, 38	(12 175 674)	(12 222 705)
Gains and losses in joint ventures	5	(2 864 147)	12 500 537
Gains and losses in investments	31	(121 425)	
Net profit/(loss) before taxation		(10 036 563)	17 199 936
Taxation	14, 39	(3 332 786)	(6 171 466)
Consolidated net profit / (loss) for the period		<u>(13 369 349)</u>	<u>11 028 470</u>
Attributable to:			
Equity holders of Sonae Industria		<u>(13 369 349)</u>	<u>11 028 470</u>
Consolidated net profit/(loss) per share:			
Basic	40	<u>(0.2945)</u>	<u>0.2429</u>
Diluted	40	<u>(0.2945)</u>	<u>0.2429</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 STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIODS ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018

(Amounts expressed in Euros)

	Notes	31.12.2019	31.12.2018
		<hr/>	<hr/>
Consolidated net profit / (loss) for the period (a)		(13 369 349)	11 028 470
Consolidated other comprehensive income			
Items that may be subsequently transferred to profit or loss			
Change in currency translation reserve	22	4 310 299	(2 646 090)
Amounts reclassified to profit or loss in the period			81 145
Group share of other comprehensive income of joint ventures	5, 22	828 064	(2 731 548)
Items that may not be subsequently transferred to profit or loss			
Revaluation of tangible fixed assets	9, 22	3 019 692	
Remeasurements of defined benefit plans	22, 27	(53 999)	79 438
Group share of other comprehensive income of joint ventures	5, 22	(2 112 145)	3 475 808
Income tax relating to items that will not be reclassified	14, 22	(800 218)	
Consolidated other comprehensive income for the period, net of tax (b)		5 191 693	(1 741 247)
Total consolidated comprehensive income for the period (a) + (b)		(8 177 656)	9 287 223
Total consolidated comprehensive income attributable to:			
Equity holders of Sonae Industria		(8 177 656)	9 287 223

The notes are an integral part of the consolidated financial statements

The board of directors

SONAE INDÚSTRIA, S.G.P.S., S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018

(Amounts expressed in Euros)

	Share capital	Legal reserve	Other Reserves and accumulated earnings	Accumulated other comprehensive income	Total shareholders' funds attributable to the equity holders of Sonae Indústria	Total shareholders' funds
Notes				22		
Balance as at 1 January 2019	253 319 797	1 807 489	(172 733 307)	53 139 528	135 533 507	135 533 507
Total consolidated comprehensive income for the period						
Consolidated net profit/(loss) for the period			(13 369 349)		(13 369 349)	(13 369 349)
Consolidated other comprehensive income for the period				5 191 693	5 191 693	5 191 693
Total			(13 369 349)	5 191 693	(8 177 656)	(8 177 656)
Others			(37 433)		(37 433)	(37 433)
Balance as at 31 December 2019	<u>253 319 797</u>	<u>1 807 489</u>	<u>(186 140 089)</u>	<u>58 331 221</u>	<u>127 318 418</u>	<u>127 318 418</u>
Notes				22		
Balance as at 1 January 2018	253 319 797		(182 494 467)	55 287 278	126 112 608	126 112 608
Total consolidated comprehensive income for the period						
Consolidated net profit/(loss) for the period			11 028 470		11 028 470	11 028 470
Consolidated other comprehensive income for the period				(1 741 247)	(1 741 247)	(1 741 247)
Total			11 028 470	(1 741 247)	9 287 223	9 287 223
Tranference to Other reserves and accumulated earnings			206 632	(206 632)		
Transferred to Legal reserve		1 807 489	(1 807 489)			
Others			333 547	(199 871)	133 676	133 676
Balance as at 31 December 2018	<u>253 319 797</u>	<u>1 807 489</u>	<u>(172 733 307)</u>	<u>53 139 528</u>	<u>135 533 507</u>	<u>135 533 507</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 STATEMENT OF CASH FLOWS
FOR THE PERIODS ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018

(Amounts expressed in Euros)

	Notes	31.12.2019	31.12.2018
OPERATING ACTIVITIES			
Receipts from trade debtors		226 921 492	219 639 912
Payments to trade creditors		(176 824 819)	(169 153 283)
Payments to staff		(27 390 662)	(26 139 045)
Net cash flow from operations		22 706 011	24 347 584
Payment / (receipt) of corporate income tax		(2 759 581)	(6 706 508)
Other receipts / (payments) relating to operating activities		(569 270)	1 315 820
Net cash flow from operating activities (1)		<u>19 377 160</u>	<u>18 956 896</u>
INVESTMENT ACTIVITIES			
Cash receipts arising from:			
Tangible fixed assets and intangible assets		1 408 941	7 106 164
Investment subventions		915 280	366 141
Dividends		5 986 729	6 406 347
		<u>8 310 950</u>	<u>13 878 652</u>
Cash Payments arising from:			
Investments		(7 302)	(3 466)
Tangible fixed assets and intangible assets		(14 803 818)	(10 265 475)
Others	5	(6 714 262)	
		<u>(21 525 382)</u>	<u>(10 268 941)</u>
Net cash used in investment activities (2)		<u>(13 214 432)</u>	<u>3 609 711</u>
FINANCING ACTIVITIES			
Cash receipts arising from:			
Interest and similar income		28 247	18 638
Subordinated bonds	23	50 000 000	
Unsubordinated bonds	23	8 000 000	
Bank loans	23	1 489 546 585	1 642 449 920
		<u>1 547 574 832</u>	<u>1 642 468 558</u>
Cash Payments arising from:			
Interest and similar charges		(9 988 748)	(10 365 362)
Loans obtained	23	(1 545 129 985)	(1 647 588 599)
Leases - repayment of principal	23	(2 632 912)	(515 642)
		<u>(1 557 751 645)</u>	<u>(1 658 469 603)</u>
Net cash used in financing activities (3)		<u>(10 176 813)</u>	<u>(16 001 045)</u>
Net increase/(decrease) in cash and cash equivalents resulting from cash flows (4) = (1) + (2) + (3)		<u>(4 014 085)</u>	<u>6 565 562</u>
Cash and cash equivalents at the beginning of the period (a)	21	10 487 918	4 084 771
Cash and cash equivalents at the end of the period (b)	21	<u>6 228 724</u>	<u>10 487 918</u>
Net increase/(decrease) in cash and cash equivalents (b) - (a)		(4 259 194)	6 403 147
Effect of foreign exchange rate in cash and cash equivalents (c)		(245 109)	(162 415)
Net increase/(decrease) in cash and cash equivalents resulting from cash flows (b) - (a) - (c)		<u>(4 014 085)</u>	<u>6 565 562</u>

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 YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Euros)

1. INTRODUCTION

SONAE INDÚSTRIA, SGPS, S.A., whose head-office is at Lugar do Espido, Via Norte, 4470-177 Maia, Portugal, is the parent company of a group of companies as detailed in note 4 (“Group”).

Sonae Indústria, SGPS, S.A. is included in the perimeter of consolidation of Efanor Investimentos, SGPS, S.A., which is both its immediate and ultimate parent company.

The shares of the company are listed on NYSE Euronext Lisbon.

The main activity of the Group is the production and commercialization of wood-based panels and derivative products, through industrial plants and commercial facilities located in Portugal, Canada and South Africa (note 41).

2. MAIN ACCOUNTING POLICIES

The main accounting policies adopted in preparing the accompanying consolidated financial statements in a consistent way for all disclosed periods are as follows:

2.1. Basis of Preparation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with Interpretations issued by the IFRS Interpretations Committee (IFRS IC), applicable to the period beginning 1 January 2019 and endorsed by the European Union.

2.1.1. In the year ended 31 December 2019, the following standards and interpretations, which have been endorsed by European Union, became effective:

IAS 19 (amendment), Plan Amendment, Curtailment or Settlement. If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling;

IAS 28 (amendment), Long-term Interests in Associates and Joint Ventures. The amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investments in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9, being subject to impairment expected credit loss model prior to any impairment test of the investment as a whole;

IFRS 9 (amendment), Prepayment Features with Negative Compensation. The amendment introduces the possibility to classify certain financial assets with negative compensation features at amortized cost, provided that specific conditions are fulfilled, instead of being classified at fair value through profit or loss;

IFRS 16 (new), Leases. This new standard replaces the IAS 17 with a significant impact on the accounting by lessees that are now required to recognise a lease liability reflecting future lease payments and a "right-of-

use asset" for all lease contracts, except for certain short-term leases and for low-value assets. The definition of a lease contract also changed, being based on the "right to control the use of an identified asset";

Annual Improvement 2015 – 2017. The 2015-2017 annual improvements affects: IAS 23, IAS 12, IFRS 3 and IFRS 11.

IFRIC 23 (new), Uncertainty over Income Tax Treatments. This is an interpretation of IAS 12 - Income tax referring to the measurement and recognition requirements to be applied when there is uncertainty as to the acceptance of an income tax treatment by the tax authorities. In the event of uncertainty as to the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities under IAS 12 rather than IAS 37 - Provisions, contingent liabilities and contingent assets, based on the expected value or the most probable value. The application of IFRIC 23 may be retrospective or retrospective modified.

The effects from the application of IFRS 16 are detailed on note 3. The remaining amendments to the standards from 1 January 2019 did not have significant effects on these consolidated financial statements.

2.1.2. At 31 December 2019, the following standards and interpretations had been issued by IASB and had been endorsed by the European Union, but had not been applied as they only become effective in later periods:

Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020). This amendment contains changes to several standards, whose references to the Conceptual Framework have been updated.

IAS 1 and IAS 8 (amendment), Definition of Material (effective for annual periods beginning on or after 1 January 2020). Under this amendment, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the user of financial statements make on the basis of those financial statements.

The Group does not expect any significant effect on its future consolidated financial statements from the application of these amendments to IFRS.

2.1.3. At 31 December 2019, the following standards, effective 1 January 2019 or later, had been issued by IASB but still had not been endorsed by the European Union:

IFRS 3 (amendment), Business Combinations (effective for annual periods beginning on or after 1 January 2020). This amendment is still subject to endorsement by the European Union. This amendment clarifies that to be considered a business combination, an acquired set of activities and assets must include, at minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;

IFRS 17 (new), Insurance contracts (effective for annual periods beginning 1 January 2021). This standard is still subject to endorsement by the European Union. This standard will revoke IFRS 4 – Insurance contracts and applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a complete "building block approach" or "premium allocation approach". The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is of retrospective application;

IFRS 9, IAS 39 and IFRS 7 (amendments), Interest rate benchmark reform (effective 1 January 2020). These amendments are still subject to endorsement by the European Union.

The Group does not expect any significant effect on its future consolidated financial statements from the application of these amendments to IFRS.

The accompanying consolidated financial statements have been prepared from the books and accounting records of the companies included in the consolidation (note 4) and the joint ventures held by the Group (note 5), adjusted in the consolidation process whenever necessary, on a going concern basis and under the historical cost convention, except for biological assets and financial instruments, which are

stated at fair value (notes 2.7 and 2.14, respectively), and land and buildings, which are stated for their revalued amounts, as described on note 2.3.

Management assessed the Group's capacity to keep on as a going concern using all relevant financial, commercial and other information, facts and circumstances, including subsequent events which were available at the reference date of these consolidated financial statements. As a result of this assessment, Management came to the conclusion that the Group has adequate resources to keep its activities and that there is no intention to cease activities at short term, therefore considering adequate the preparation of these consolidated financial statements under a going concern basis.

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 holds control, directly or indirectly, were included in these consolidated financial statements using the full consolidation method.

The Group holds control of entities when it fulfils all the following conditions: (i) power over the entity; (ii) exposure, or rights, to returns from its involvement with the entity; and (iii) the ability to use its power over the entity to affect the amount of its own returns.

Equity and comprehensible income attributable to minority shareholders are shown separately, under the caption Non-controlling Interests, in the Consolidated Statement of Financial Position and in the Consolidated Income Statement, respectively.

Comprehensive income and the remaining items of net shareholders' funds are attributed to the holders of non-controlling interests, according to their interest, even if this caption turns negative.

Assets and liabilities of each Group company are measured at their fair value at the date of acquisition. Any excess of the acquisition cost plus the non-controlling holders' share in the fair value of acquired assets and liabilities or, alternatively, plus the fair value of non-controlling holders' investment in the acquired subsidiary, over the Group's interest in the fair value of the identifiable net assets acquired is recognized as goodwill (note 2.2.c and 13). If the difference between the acquisition cost plus the non-controlling holders' share in the fair value of acquired assets and liabilities or, alternatively, plus the fair value of non-controlling holders' investment in the acquired subsidiary and the fair value of the identifiable net assets acquired is negative, this difference is recognized as income in profit or loss for the period of acquisition, after reassessment of the estimated fair value of identified net assets. Non-controlling interests include their proportion of the fair value of net identifiable assets and liabilities or, alternatively, the fair value of their investment in the subsidiary acquired.

The results of Group companies acquired or disposed of during the period are included in the Consolidated Income Statement from the effective date control is gained or up to the effective date control is lost, 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.

Entities included in these consolidated financial statements are listed on note 4.

b) Financial Investments in joint ventures and in associates

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, which reflects on the governance structure of these entities) and in associates (companies where the Group exercises significant influence through the participation on financial and operational decisions but does not hold its control or joint-control – usually corresponding to holdings

between 20% and 50% in a company's share capital) are accounted for on these consolidated financial statements in accordance with the equity method.

Under the equity method, investments are recorded at acquisition cost, under Investments in joint ventures or Investments in associates, on the Consolidated Statement of Financial Position, then adjusted by the amount corresponding to the Group's share of changes in equity (including net profit or loss) of the entity, against losses or profits in the period or against other comprehensive income for the period and against dividends received.

The excess value resulting from the difference between the acquisition cost and the fair value of the assets and liabilities of the entity, at the time of acquisition, is recorded under Investments in joint ventures or Investments in associates, on the Consolidated Statement of Financial Position. 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.

Adjustments to the financial statements of the entity are performed, whenever necessary, in order to adapt accounting policies to those used by the Group.

The Group conducts an annual assessment of its investment in Sonae Arauco joint venture, using external experts, in situations where justified, and any impairment losses that are shown to exist are recorded. When impairment losses recorded in previous years cease to exist, they are reversed (note 8).

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

Gains on transactions with joint ventures or associates are eliminated proportionately to the Group's interest in these entities, against the carrying amount of investment. Losses are also eliminated, as long as it does not reflect an impairment situation.

Investments in joint-venture companies are detailed on note 5. At 31 December 2019, there were no investments in associates.

c) Goodwill

The excess of the acquisition cost plus the non-controlling holders' share in the fair value of acquired assets and liabilities or, alternatively, plus the fair value of non-controlling holders' investment in the acquired subsidiary, over the Group's interest in the fair value of the identifiable net assets acquired is recognized as goodwill (note 13).

Goodwill arising on the consolidation of subsidiaries located in foreign countries is accounted for on the functional currency of these subsidiaries and is then translated into the Group's reporting currency (euro) at the exchange rate of the closing date of these consolidated financial statements. Exchange rate differences arising from this translation are stated as Translation Reserve in Other accumulated comprehensive income.

Goodwill is not amortized, but it is subject to impairment tests on an annual basis. Impairment losses identified in the period are disclosed on the Consolidated Income Statement under Provisions and Impairment Losses, and cannot be reversed.

If the difference between the acquisition cost plus the non-controlling holders' share in the fair value of acquired assets and liabilities or, alternatively, plus the fair value of non-controlling holders' investment in the acquired subsidiary, and the fair value of the identifiable net assets acquired over cost is negative, this difference is recognized as income in profit or loss for the period of acquisition, after reassessment of the estimated fair value.

d) Translation of financial statements of foreign companies

Assets and liabilities in the individual financial statements of subsidiaries with a functional currency other than euro are translated to euro using exchange rates at the closing date of these consolidated financial statements. 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 Other accumulated comprehensive income. Exchange rate differences that originated prior to 1 January 2004 (date of transition to IFRS) were written-off through Other reserves and accumulated 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 closing date of these consolidated financial statements.

Whenever a subsidiary with a functional currency other than euro is sold or liquidated, the respective accumulated exchange rate differences are reclassified on the Consolidated Income Statement as a gain or loss on the disposal.

Exchange rates used on translation to euro of foreign subsidiaries are listed below:

	31.12.2019		31.12.2018	
	Closing rate	Average rate	Closing rate	Average rate
Great Britain Pound	0.8508	0.8768	0.8945	0.8847
South African Rand	15.7778	16.1551	16.4582	15.5715
Canadian Dollar	1.4598	1.4852	1.5605	1.5294
American Dollar	1.1234	1.1193	1.1450	1.1799

Source: Bloomberg

2.3. Tangible fixed assets

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

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

Land and buildings are recognized for their revalued amounts, net of accumulated depreciation, in case of buildings, and impairment losses.

Increase in tangible fixed assets arising from revaluation is recognized through Other comprehensive income for the period revaluation occurs, on the Consolidated Statement of Comprehensive Income.

Further revaluation will be carried out and determined by independent appraisal whenever revalued amounts significantly differ from the carrying amount of revalued assets, never exceeding a five-year period between two successive revaluations.

The Group separately recognizes and depreciates the components of tangible fixed assets whose useful lives are significantly different from the related main asset's ones and the components that can only be used in connection with a specific asset.

These components are depreciated separately on the basis of their useful lives.

Repair and maintenance expenses are recognized in profit or loss in the period they occur.

Depreciation is calculated on a straight line basis, from the date the asset is available for use in the location and conditions to be operated in the manner intended by the Board of Directors, 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	20 - 40
Plant & Machinery	2 - 25
Vehicles	5
Tools	5
Fixtures and Fittings	4 - 10
Other Tangible Assets	5

Tangible assets in progress represent fixed assets still under construction/development and are stated at acquisition cost net of impairment losses. These assets are transferred to the captions of tangible fixed assets, according to their nature, and are depreciated from the date they are available for use.

Residual values, useful lives and the depreciation method are assessed annually.

2.4. Intangible assets

Intangible assets are stated at acquisition cost, net of accumulated amortization and accumulated impairment losses. Intangible assets are only recognized 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 recognized as an expense recorded on the Consolidated Income Statement when it is incurred (note 36).

Expenditure on development is recognized 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 from the date the asset is available for use, over the expected useful life, which ranges from three to six years.

2.5. Accounting for leases

Until 31 December 2018, lease contracts were classified as (i) finance leases if the risks and rewards incidental to ownership were transferred to the lessee and (ii) operating leases if the risks and rewards incidental to ownership were not transferred to the lessee.

Whether a lease was classified as finance or operating lease depended on the substance of the transaction rather than the form of the contract.

Tangible assets used by the Group under finance lease contracts as well as the corresponding liabilities were recorded on the Consolidated Statement of Financial Position for the lower of fair value of leased assets and the amount of minimum lease payments. In addition, interest included in lease payments, depreciation and

impairment losses were recognized on the Consolidated Income Statement as expenses of the period they related to. Depreciation and impairment losses were calculated and recognized as set out on note 2.3 for tangible fixed assets. Whenever there was no reasonable certainty as to the acquisition of leased assets upon end of contract, the depreciation period of leased assets was the lower of estimated useful life and leasing period.

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

From 1 January 2019, when IFRS 16 became effective, the Group recognizes on the Consolidated Statement of Financial Position those tangible assets used by the Group under lease contracts (right-of-use assets), except for leases classified as low value leases or short-term leases, whose lease payments are recognized as an expense on the Consolidated Income Statement on a straight-line basis over the lease term.

Right-of-use assets are recognized for their cost under Tangible fixed assets, on the Consolidated Statement of Financial Position, when the assets becomes available for use by the Group. At the same time, lease liabilities are recognized under Lease creditors, on the Consolidated Statement of Financial Position, for the present value of lease payments set to be paid over the lease term.

The Group uses incremental borrowing rates to calculate the present value of lease payments. These incremental borrowing rates were calculated using the yield curves of each functional currency of subsidiaries included in the consolidation added up by a spread (including commissions) implicit in the debt of Group companies.

Depreciation and impairment losses of right-of-use assets are calculated and recognized as set out on note 2.3 for tangible fixed assets, taking into consideration the nature of the underlying asset. Whenever there is no reasonable certainty as to the acquisition of leased assets upon end of contract, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term .

The lease term is the period over which the contract is non-cancellable. To determine this period, the Group takes into consideration not only the penalties

contractually defined but also the economic consequences of terminating the contact for both the lessee and the lessor.

Interest included in lease payments, depreciation and impairment losses are recognized as expenses of the period they related to, on the Consolidated Income Statement. Interest expenses are presented under financing activities, on the Consolidated Statement of Cash Flows.

Payments of leases classified as low value or short term are recognized as expenses, on the Consolidated Income Statement, on a straight-line basis, and presented under operating activities, on the Consolidated Statement of Cash Flows. The Group classifies leases as low value when the purchase price of the underlying asset as new is equal or lower than EUR 1 000. The Group classifies a lease as short term when lease term is equal or under one year.

At 31 December 2019 and 31 December 2018, the Group did not hold any position in which it acted as a lessor, except for intragroup leases, which were eliminated in these consolidated financial statements.

The effects arising from the application of IFRS 16 – Leases from 1 January 2019 are detailed on note 3.

2.6. Investment Properties

Investment properties are recorded at acquisition cost net of depreciation and of accumulated impairment losses. They comprise mostly land and buildings of operations which were discontinued and for which the Group has established lease contracts with third parties.

Useful lives and the depreciation method are the ones set out in note 2.3. for tangible fixed assets.

2.7. Biological assets

The Group recognizes as biological assets tree plantations during their process of biological transformation, which takes place from planting or acquisition to the date of harvest or disposal. These assets are measured at fair value less estimated costs to sell. There are, however, situations in which the Group may use the cost as an approximation to fair value, namely when:

- An irrelevant biological transformation has occurred since the moment of initial recognition;
- The effect of biological transformation on fair value is considered to be irrelevant.

Changes in fair value are recognized under Change in value of biological assets, on the Consolidated Income Statement.

When the biological assets are intended for use by the Group, on harvest date they are transferred to Inventories, on the Consolidated Statement of Financial Position.

In situations where biological assets are intended to be sold and a transaction is expected to take place within less than twelve months from the reporting date, these assets are stated under Non-current assets held for sale, on the Consolidated Statement of Financial position.

2.8. Non-current assets held for sale

Non-current assets are stated under Non-current assets held for sale, on the Consolidated Statement of Financial Position, if their carrying amounts will be recovered mainly through a sale transaction rather than through continuing use.

Carrying amount will be recovered through sale when non-current assets are available for immediate sale in their present conditions and the probability of concluding a sale transaction in the following twelve months is high.

Non-current assets held for sale may be either an individual asset or a disposal group when a group of assets is included in the same sale transaction. Disposal groups may include current assets and liabilities as long as they are included in the same sale transaction. Current and non-current assets and liabilities are stated on the Consolidated Statement of Financial Position under Non-current assets held for sale and Liabilities directly associated with non-current assets held for sale, respectively.

Non-current assets held for sale and disposals groups are measured at the lower of cost and fair value less estimated costs to sell.

Depreciation of depreciable assets ceases after classification as Non-current assets held for sale.

2.9. Government and other public entities 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 recognized on the Consolidated Income Statement in accordance with the relevant expense.

Grants related to depreciable assets are disclosed as Other non-current liabilities on the Consolidated Statement of Financial Position and are recognized on a straight line basis on the Consolidated Income Statement over the expected useful lives of those assets.

2.10. Impairment of non-current assets, except for deferred taxes

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

Assets are assessed for impairment individually. In case of tangible fixed assets that cannot autonomously produce cash flows, impairment is assessed for the cash-generating unit to which the asset is assigned. Whenever a cash-generating unit includes intangibles assets without defined useful life, impairment is assessed, irrespective of events that may indicate that the carrying amount of the cash-generating unit may not be recoverable.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized on the Consolidated Income Statement under Provisions and impairment losses. For tangible fixed assets that were revalued, occurring impairment losses are recognized under Revaluation of tangible fixed assets, on the Consolidated Statement of Comprehensive Income, until the revaluation effect is offset. Any additional impairment is recognized on the Consolidated 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.

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 on the Consolidated Income Statement under Provisions and impairment losses. 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. Impairment losses on goodwill are not reversible.

2.11. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying tangible and intangible assets are capitalized as part of the cost of the qualifying asset. Borrowing costs are capitalized 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.

The remaining borrowing costs are recognized as an expense in the period in which they are incurred.

2.12. 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, respectively.

2.13. 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.

When a significant time delay occurs between the onset of the obligation and the related expenditure, related provision is recognized for its present value.

Provisions are reviewed and adjusted at the reporting 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.

Increase and utilization or reversal of provisions are recognized under Provisions and Impairment losses on the Consolidated Income Statement.

2.14. Financial assets, financial liabilities and equity instruments

Financial assets and financial liabilities are initially recognized at their fair value, except for Trade debtors which do not contain a significant financing component, which are initially measured at their transaction prices. Transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability are added to the fair value of an instrument which is not measured at fair value through profit or loss.

Financial assets can be subsequently classified into the following categories:

- i) Financial assets measured at amortized cost;

A financial asset is measure at amortized cost if both of the following conditions are met:

- a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) Financial assets measured at fair value through other comprehensive income;

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

iii) Financial assets measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Financial liabilities can be subsequently classified into the following main categories:

- i) Financial liabilities measured at amortized cost;
- ii) Financial liabilities measured at fair value through profit or loss;

These financial assets and liabilities are stated on the Consolidated Statement of Financial Position under different classes of assets and liabilities, in accordance with the nature of each instrument.

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.

The Group holds the following financial instruments, which may be either financial assets, financial liabilities or equity instruments:

a) Accounts receivable

Receivables are initially recognized at the transaction price, unless they contain a significant financing component, in which case they are initially recognized at fair value. Receivables are subsequently recognized at amortized cost and stated on the Consolidated Statement of Financial Position stated net of accumulated impairment losses.

Impairment losses are measured for an amount equal to the asset's lifetime expected credit loss even if credit risk has not increased in the period. Expected credit losses are calculated collectively for receivables stated under Trade debtors, on the Consolidated statement of Financial Position.

Credit risk of Trade debtors is considered low until a credit becomes overdue by 90 days. When a receivable meets this threshold, its lifetime's expected credit losses are calculated on an individual basis and any additional impairment loss is recognized if the lifetime expected credit loss increased.

Trade debtors are considered as defaulted when amounts receivable are aged 180 days or more.

Receivables stated under Trade debtors are written-off when the Group has no expectation of being paid the amounts due. This may happen after internal judgement or when debtors are judicially ruled as bankrupted and no recovery is expected.

Lifetime expected credit losses are calculated for the parent company and for each of the Group's subsidiaries by dividing the amount of impairment losses recognized at the end of the last four years or otherwise the annual fixed amount of the credit insurance deductible, if higher, by the aggregated net amount of the invoices, debit notes and credit notes issued over the last four years. This represented an weighted average credit loss rate of 0.089% at 31 December 2019.

Increases and reversions of impairment losses of accounts receivable are stated under Provisions and impairment losses, on the Consolidated Income Statement.

Accounts receivable are stated on the Consolidated Statement of Financial Position as current assets unless they mature after twelve months from the balance sheet date, in which case they will be stated as non-current assets.

b) Loans

Loans are initially recorded as liabilities at their fair value, which generally corresponds to nominal value, net of up-front fees and commissions (transaction costs) related to the issuance of those instruments. They are subsequently measured at amortized cost using the effective interest method, which uses the effective interest rate to calculate interest expenses, recorded on the Consolidated Income Statement on an accruals basis, in accordance with the accounting policy defined on note 2.11.

c) Derivatives

The Group may use 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 hedging instruments may be used by the Group mainly to hedge interest rate risks on loans obtained (Interest Rate Swap contracts) and exchange rate risks (Forward contracts). Conditions established for these cash flow hedging 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. The inefficiencies, if any, are accounted under Financial income or Financial expenses, on the Consolidated Income 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 transaction being hedged is highly probable.

Cash flow hedge instruments that may be used by the Group to hedge the exposure to changes in interest and exchange rates are initially accounted for at cost, if any, which corresponds to its fair value, and subsequently adjusted to their corresponding fair value. Changes in fair value of these cash flow hedge instruments are recorded under Other Comprehensive Income, on the Consolidated Statement of Comprehensive Income, and under Accumulated other comprehensive income, on the Consolidated Statement of Financial Position, and then recognized in the Consolidated Income Statement over the same period in which the hedged instrument affects profit or loss.

The accounting of hedging 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 Accumulated other comprehensive income are transferred to profit or loss of the period or added to the carrying amount of the asset that resulted from the hedged forecast transaction. Subsequent changes in the revaluations are recorded in the Consolidated Income Statement.

The Group may also use financial instruments with the purpose of cash flow hedging, that essentially refer to exchange rate hedging (Forwards contracts) of loans and commercial operations. These forwards do not qualify for hedge accounting due to uncertainty on the effective date of its underlying transactions. Notwithstanding, they significantly mitigate the effect on loans and accounts receivable denominated in foreign currencies of changes in exchange rates which the Group intends to hedge.

In some derivative transactions the Group does not apply hedge accounting, although they intend to hedge cash-flows. They are initially accounted for at cost, and subsequently adjusted to the corresponding fair value, determined by specialized software (under the terms described on note 24). Changes in fair value of these instruments are recognized in the Consolidated Income Statement.

Derivative instruments are stated on the Consolidated Statement of Financial Position under Other current assets and Other current liabilities (note 24).

d) Trade creditors

Trade creditors and other accounts payable are initially recorded at fair value, which corresponds to its nominal value, as no interest is paid and financial discount is deemed to be not relevant.

e) 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 Current bank loans on the Consolidated Statement of Financial Position.

f) 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 Other reserves, under Other reserves and accumulated earnings.

2.15. Post-employment benefits

As referred to in note 27, some of the Group companies are committed to provide benefits to their employees when they get retired. 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".

Remeasurements include (i) actuarial gains or losses arising from experience adjustments and from changes in demographic and financial assumptions; (ii) the return on plan assets, excluding amounts which are included in net interest on the net defined benefit liability; and (iii) any change in the effect of the asset ceiling, excluding amounts which are included in the net interest on the net defined benefit liability; and are recognized through Other comprehensive income, on the Consolidated Statement of Comprehensive Income.

Net interest, included on the net defined benefit liability, is the change in this liability during the period that arises from the passage of time.

Past service costs are recorded immediately through profit or loss for the period.

Defined benefit liabilities recorded at the closing balance sheet date reflect the present value of obligations for defined benefit plans net of the fair value of net assets of the pension fund.

2.16. 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 in the notes to the financial statements when future economic benefits are probable.

2.17. 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, in accordance with the tax rules in force in the respective country of incorporation, considering the period net 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 recognized 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 recognized and expected to reverse in the same

period. At each closing date a review is made of the deferred tax assets recognized, which are reduced whenever their future use is no longer probable.

Deferred tax liabilities are recognized on all taxable temporary differences, except for: i) the initial recognition of goodwill; or ii) the initial recognition of assets and liabilities that do not result from a business combination and that do not affect the accounting or tax result at the date of transaction. However, regarding temporary taxable differences relating to investments in subsidiaries, they should not be recognized in so far as: (i) the parent company has the ability to control the period of reversal of the temporary difference; and (ii) it is likely that the temporary difference will not reverse in the near future.

Deferred tax assets and liabilities are recorded on the Consolidated Income Statement, except if they relate to items directly recorded in Other comprehensive income, in which case the corresponding deferred tax is recorded therein.

The amount of taxes recognized in the consolidated financial statements corresponds to the Group's understanding of the tax treatment applicable to specific transactions, with liabilities related to income taxes or other types of taxes being recognized based on the interpretation that is made and that is understood to be the most appropriate.

In situations where such positions may be challenged by the Tax Authorities, within the scope of their competences, as they have different interpretations from those of the Group, such situations are subject to review. If such a reanalysis reconfirms the Group's position, if it is concluded that the probability of losing a particular tax proceeding is less than 50%, the Group treats the situation as a contingent liability - no tax amount is recorded given that the most probable decision is that no tax will be paid. In situations where it is concluded that the probability of loss is greater than 50%, a provision is recognized, or if payment has been made, the associated cost is recorded.

2.18. Revenue recognition and accrual basis

Revenue is recognized in relation with contracts with customers: (i) that have been approved (orally or in writing) by all the parties; (ii) for which the Group can identify each party's rights regarding the goods and services to be transferred; (iii) for which the Group can identify the payment terms of goods and services to be transferred; (iv) that have commercial substance; and (v) for which it is

probable that the Group will collect the consideration to which it is entitled for the goods and services transferred to the customer.

Revenue is recognized for each performance obligation included in a contract with customers that have the characteristics set out above, when the customer is invoiced. There are no significant differences, if any, between the moment the invoice is issued and the moment the customer obtains control of the goods and services transferred, which typically occurs upon shipment or delivery. Performance obligations are generally satisfied at a point in time.

Revenue from sale of goods and products arising from the Group's main activity are recognized under Sales, on the Consolidated Income Statement. Sales of all remaining products are recognized under Other income and gains (Supplementary revenue). Revenue from services rendered by the Group are recognized under Services rendered.

Other current assets and Other current liabilities include income and expenses of the reporting year which will only be invoiced and settled 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 recognized in the Consolidated Income Statement.

Goods and products sold by the Group result mostly from its main activity, which is the production of wood based panels and derivatives. Group's products have technical specifications which are defined in accordance with existing law, internal and external standards. These technical specifications may be accessed by the customers on the Group's website or upon request. If products sold do not meet the technical specifications assumed by the Group or if they have any damage, the customer can claim a refund or a product replacement. The Group does not assume any time-limited warranty for its products (warranties against production defects that are extended over a specific period of time).

The Group has not recognized as an asset any costs incurred in fulfilling contracts with customers.

Contracts with customers entered into by the Group do not contain a significant financing component.

2.19. 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 Consolidated Income Statement as the difference between the sale price and the net book value at date of sale or write-off, under the captions Other income and gains and Other expenses and losses.

2.20. Balances and transactions expressed in foreign currencies

Transactions are recorded on individual financial statements of subsidiaries on their functional currency, using applicable exchange rates on transaction date.

At each closing 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 exchange rates on transaction date and those prevailing at the date of collection, payment or the date of the financial statements, are recorded as operating income or expenses of the period, in case of operating transactions, or as finance income and expenses, in case of financial transactions, on the Consolidated Income Statement. Exchange differences related to non-monetary assets or liabilities whose change in fair value is directly recognized in equity are also recognized under equity.

When the Group wants to reduce currency exposure, it negotiates hedging currency derivatives (note 2.14.c)).

2.21. Liability for medium term incentive plan

Each year, the Company and its subsidiaries grant their employees that belong to a functional group classified as Executive or above a compensation which is related to the value added in the previous year for the shareholders, to be paid after a 3-year period in case the executive is still in the company.

This compensation, which consists in a monetary obligation, is stated under Other non-current liabilities and Other current liabilities, on the Consolidated Statement of Financial Position.

2.22. Subsequent events

Events after the closing date that provide additional information about conditions that existed at the Consolidated Statement of Financial Position date are reflected in the consolidated financial statements (adjusting events). Events after the closing date that are non-adjusting events are disclosed in the notes to the consolidated financial statements, when material.

2.23. Segment information

At the reporting date, reportable segments are assessed on the basis of the internal reporting system of financial information (note 41).

2.24. Judgments and estimations

The most significant estimations included or disclosed in these consolidated financial statements refer to:

- a) Useful lives of tangible, intangible assets and investment properties (notes 2.3, 2.4, 2.5, 2.6, 9, 10 and 11);
- b) Impairment analysis of accounts receivable (notes 17 and 18);
- c) Adjustments to assets, namely fair value adjustments and, relating to inventories, write-down to net realizable value (note 7, 12, 16 and 31);
- d) Calculation of post-employment liabilities (notes 27);
- e) Calculation of provisions and impairment losses on intangible assets and tangible fixed assets (note 31);
- f) Calculation of income tax (note 39);
- g) Quantification of contingencies (note 42);
- h) Assessment of impairment indications.

These estimations were based on the best available information at the date these consolidated financial statements were prepared and were based on the knowledge and experience of present and past events. Notwithstanding, some situations may occur in future periods, which were not included in present

estimations, as they were not foreseeable. Changes to estimations after these financial statements date will be prospectively corrected through the Consolidated Income Statement, in accordance with IAS 8.

Main estimations and assumptions relating to future events included in these consolidated financial statements are described in the correspondent notes.

2.25. Disclosure of non-recurring items

The Group discloses non-recurring items included under operating captions, except under amortization, depreciation, provisions and impairment losses, but including impairment losses on trade debtors, aiming to assist the readers of its consolidated financial statements to better assess the trend of future results.

Non-recurring items include those events that are infrequent, unusual, exceptional, unique or residual, therefore not expected to occur regularly in the context of the Group's normal activity. In particular, the Group classifies as non-recurring items reimbursements from insurance, expenditure related to fines and penalties and income or expenses related to or following the discontinuing of assets, including:

- Gains or losses on sale or write-off of tangible fixed assets or intangible assets;
- Restructuring expenses;
- Termination expenses;
- Income and expenses of an entity or part of an entity that was internally classified as inactive.

All items that are not classified as non-recurring are therefore classified as recurring.

2.26. Fair value of assets and liabilities

If an active market is available, market price is used for determining asset and liability fair value. This corresponds to level 1 of fair value hierarchy, as defined in IFRS 13 – Fair Value measurement.

If an active market is not available, valuation techniques generally used in the market are utilized, based on market assumptions. The resulting fair value corresponds to level 2 of fair value hierarchy, as defined in IFRS 13. When these techniques use mostly or exclusively unobservable information, the resulting fair value corresponds to level 3 of fair value hierarchy, as defined on the aforementioned standard.

2.27. Risk management

a) Credit Risk

i) Receivables (Customers)

Sonae Indústria credit risk derives mainly from account receivables items associated with its operating activity.

The main objective of Sonae Indústria Credit Risk Management policy is to guarantee the effective collection of its operating receivables, according to the most commercially adequate reduced payment terms, while maintaining the level of debtors' impairments as low as possible.

In order to mitigate credit risk related with potential customers defaulting on payment of outstanding receivables, Group companies have:

- established a Committee to analyse and monitor, on a quarterly basis, credit risks;
- implemented common proactive and preventive credit management procedures and processes, supported by IT systems;
- established appropriate risk coverage mechanisms (for example, credit insurance, letters of credit, bank guarantees).

To foster the sharing of experiences, the alignment of procedures and practices and to ensure the enforcement of sound controlling rules, Sonae Arauco (a joint venture – note 5) promotes the "Customer's Credit Risk Management Forum".

ii) Other financial assets, other than receivables

In addition to its operating activities and the related trade debtor balances, Group companies have other financial assets, which are mainly associated with its cash management activities and with deposits in financial institutions. As a result of these bank movements and balances, credit risk

arises from the potential counterparty default by the applicable financial institutions. This risk is, nevertheless, considered as low due to the limited duration and amounts typically involved in bank deposits and to the credit profile of the financial institutions used by Group companies.

b) Market Risk

i) Interest Rate Risk

Due to the significant proportion of floating rate debt and the consequent cash flows related to interest payments, the company is exposed to interest rate risk.

As a general rule, Sonae Indústria does not hedge its exposure to floating interest rates. This approach is based on the principle of the existence of a positive correlation between the interest rate levels and the “operating cash flow before net interest charges”, which creates a natural hedge on the “operating cash flow after net interest charges” for Sonae Indústria.

As an exception to this general rule, Sonae Indústria may engage in certain interest rates derivatives, solely aimed at hedging existing risk exposures and only to the extent that the risks and valuation of such derivatives can be accurately assessed by the company. Sonae Indústria subsidiaries do not engage in interest rate derivatives for trading, speculative or profit making purposes.

In December 2019, Sonae Indústria issued subordinated bonds with 10-year maturity and subject to a fixed rate, amounting to EUR 50 million (notes 23.1 and 33.1).

ii) Foreign Exchange Risk

As a geographically diversified Group, present in three different continents, Sonae Indústria is exposed to foreign exchange risk. Consolidated Statements of Financial Position and Profit and Loss are exposed to foreign exchange translation risk and Sonae Indústria subsidiaries are exposed to foreign exchange risk of both translation and transaction type.

As a Group rule, whenever possible and economically viable, subsidiaries aim to offset assets and liabilities denominated in the same foreign currency, thus mitigating exchange risks.

Also as a rule, in situations where relevant exchange risk arises from trade in a currency other than that of the subsidiary, exchange risk should be mitigated through the use of short term forward exchange rate agreements contracted by the subsidiary exposed to such risk. Sonae Indústria subsidiaries do not engage in forward exchange rate agreements for trading, speculative or profit making purposes.

As a policy, translation risk in connection with the conversion of the equity investments in foreign non-euro subsidiaries is not hedged, as these are considered long-term investments. Also, it is assumed that hedging transactions would not add value in the long term. Gains and losses related to the translation at different exchange rates of assets and liabilities of foreign non-euro subsidiaries are accounted as equity under the "Other Accumulated Comprehensive Income".

iii) Liquidity Risk

Liquidity risk management in Sonae Indústria aims to ensure that the company can obtain, on a timely basis, the financing required to properly carry on its business activities, implement its strategy and meet its payment obligations when due, under the most favourable terms and conditions.

For this purpose, liquidity management at the Group comprises:

- consistent financial planning and cash flow forecasting at country and consolidated levels with different time horizons (weekly, monthly, annual and business plan);
- diversification of financing sources;
- diversification of debt maturities issued in order to avoid excessive concentration of debt repayments in short periods of time;
- negotiation of (committed and uncommitted) credit facilities, commercial paper programmes and other facilities with relationship banks to ensure the right balance between satisfactory liquidity and adequate commitment fees;
- active access and management of subsidiaries cash positions and cash flows taking into account the Group's objectives on liquidity.

Liquidity risk is analysed in note 25.

c) Capital risk

The capital structure of Sonae Indústria, determined by the proportion of the company equity and net debt is managed in order to ensure the continuity and development of its operations considering also efficiency criteria in financing costs.

Sonae Indústria periodically monitors its capital structure, identifying risks, opportunities and the necessary measures for the achievement of those objectives.

Sonae Indústria (accounting) net gearing (Net Debt / Shareholders Funds) at the end of 2019 was of 1.6 or 1.2, depending on whether the Subordinated Bonds issued during the period ended 31 December 2019 are, respectively, included or excluded in the Net Debt figure (1.4 in 2018).

3. COMPARABILITY OF FINANCIAL STATEMENTS

The comparability of the consolidated financial statements as at 31 December 2019 and 31 December 2018 was affected by the application of IFRS 16 – Leases from 1 January 2019 (note 2.1.1.). This new standard changed the Group's accounting policy for leases as set out on note 2.5.

3.1. Transition procedures to IFRS 16

Under IFRS 16, leases previously classified as operating leases were recognized under Tangible fixed assets and Lease creditors, on the Consolidated Statement of Financial Position, except for low-value and short-term leases, for which there was no change in accounting. This change took place on 1 January 2019 (transition date) and was handled in accordance with the transition provisions of IFRS 16, which consisted in:

- Recognizing, at 1 January 2019, a lease liability for each lease contract previously classified as operating lease which is not a low-value lease or a short-term lease under the provisions of IFRS 16. This lease liability is stated under Lease creditors, on the Consolidated Statement of Financial Position and corresponds to the present value at the said date of the remaining lease

payments of each lease. That value was thereafter changed by the capital amortization relating to these leases;

- At the same date, a right-of-use asset was recognized under Tangible fixed assets, on the Consolidated Statement of Financial Position, for the same amount recognized under Lease creditors. The carrying amount of the right-of-use asset was thereafter changed by the related depreciation, which begins on 1 January 2019 and ends on the earlier of the end of the asset's useful life or the end of the lease term, unless there is reasonable certainty as to the acquisition of leased assets upon end of contract, in which case the right-of-use asset is depreciated as set out on note 2.3;

- The present value of the lease liability was calculated using an incremental borrowing rate, which took into consideration the lease term of each contract. This incremental borrowing rate was calculated as described on note 2.5. All the contracts of a Group company with the same lease term used the same incremental borrowing rate. The consolidated weighted average incremental borrowing rate used on transition date was 3.4%;

- The lease term defined for each contract included in this transition is the period over which the contract is enforceable. To determine this period, the Group took into consideration not only the penalties contractually defined but also the economic consequences of terminating the contract, for both the lessee and the lessor. In situations where these consequences are considered to be significant to the lessor and to the lessee and the lessor is an external entity, the Group defines a lease term which is related to its expectation of use of the asset. If the lessor is a related party not included in the consolidation, the Group defines a lease term which corresponds to the asset's remaining useful life, which may be reduced if any impairment occurs;

- Leases previously classified as operating leases which were classified as low-value or short-term leases under IFRS 16 and leases previously classified as finance leases did not undergo any transition procedure;

- Leases which were not classified as short-term ones but which reached its term during 2019 were included in the transition procedures.

- For leased transport equipment, the Group used the practical expedient allowed by IFRS 16 consisting in not separating the lease component and the non-lease component of lease payments;
- The Group did not restate any prior period accounts as simplified transition was used;
- This transition only included contracts in which the Group acts as a lessee.

3.2. Comparability of financial statements at 1 January 2019

On transition date (1 January 2019), the Group recognized a consolidated right-of-use asset and a consolidated lease liability amounting to EUR 6 296 280.

The amount of minimum lease payments under operating leases disclosed on the notes to the consolidated financial statements of Sonae Indústria for the twelve-month period ended 31 December 2018 can be reconciled with the lease liability recognized on transition date (1 January 2019) as follows:

Amount of minimum payments under operating leases disclosed on 31.12.2018	7 030 353
Present value of minimum payments under operational leases disclosed on 31.12.2018	6 490 215
Others	(193 935)
Lease creditors on 31.12.2018 - 01.01.2019	<u>6 296 280</u>

3.3. Comparability of financial statements at 31 December 2019

If this standard had not been applied on transition date, the consolidated financial statements at 31 December 2019 would be stated as follows:

ASSETS	31.12.2019	Effect of IFRS 16	31.12.2019 without effect of IFRS16	31.12.2018
NON-CURRENT ASSETS				
Tangible fixed assets	153 648 978	4 801 512	148 847 466	135 704 644
Goodwill	347 082		347 082	347 082
Intangible assets	68 755		68 755	86 449
Investment properties	5 499 237		5 499 237	5 750 140
Biological assets	238 894		238 894	
Investment in joint ventures	209 128 627		209 128 627	212 459 264
Other investments	19 829		19 829	133 952
Other non-current assets	<u>1 095 969</u>		<u>1 095 969</u>	
Total non-current assets	<u>370 047 371</u>	<u>4 801 512</u>	<u>365 245 859</u>	<u>354 481 531</u>
CURRENT ASSETS				
Inventories	21 961 930		21 961 930	18 224 036
Trade debtors	14 079 419		14 079 419	12 302 439
Other current debtors	1 054 515		1 054 515	124 360
Current tax asset	2 345 193		2 345 193	2 506 968
Other taxes and contributions	1 783 339		1 783 339	1 552 714
Other current assets	2 281 415		2 281 415	2 033 291
Cash and cash equivalents	<u>7 059 662</u>		<u>7 059 662</u>	<u>10 624 192</u>
Total current assets	<u>50 565 473</u>		<u>50 565 473</u>	<u>47 368 000</u>
Non-current assets held for sale	<u>131 070</u>		<u>131 070</u>	
TOTAL ASSETS	<u>420 743 914</u>	<u>4 801 512</u>	<u>415 942 402</u>	<u>401 849 531</u>

SHAREHOLDERS' FUNDS AND LIABILITIES

SHAREHOLDERS' FUNDS				
Share capital	253 319 797		253 319 797	253 319 797
Legal reserve	1 807 489		1 807 489	1 807 489
Other reserves and accumulated earnings	(186 140 089)	(94 795)	(186 045 294)	(172 733 307)
Accumulated other comprehensive income	<u>58 331 221</u>	<u>(758)</u>	<u>58 331 979</u>	<u>53 139 528</u>
Total shareholders' funds attributable to equity holders of Sonae Indústria	<u>127 318 418</u>	<u>(95 553)</u>	<u>127 413 971</u>	<u>135 533 507</u>
TOTAL SHAREHOLDERS' FUNDS	<u>127 318 418</u>	<u>(95 553)</u>	<u>127 413 971</u>	<u>135 533 507</u>
LIABILITIES				
NON-CURRENT LIABILITIES				
Subordinated bonds	49 938 116		49 938 116	
Unsubordinated bonds	7 951 240		7 951 240	
Bank loans - net of current portion	146 393 538		146 393 538	188 102 256
Lease creditors - net of current portion	3 335 541	3 227 342	108 199	491 753
Post-retirement liabilities	904 548		904 548	785 667
Other non-current liabilities	3 404 222		3 404 222	1 128 038
Deferred tax liability	20 957 005		20 957 005	18 883 485
Provisions	<u>10 387 752</u>		<u>10 387 752</u>	<u>1 778 290</u>
Total non-current liabilities	<u>243 271 962</u>	<u>3 227 342</u>	<u>240 044 620</u>	<u>211 169 489</u>
CURRENT LIABILITIES				
Current portion of non-current bank loans	5 755 509		5 755 509	15 192 246
Current bank loans	830 938		830 938	2 136 274
Current portion of non-current lease creditors	1 790 941	1 669 723	121 218	529 015
Trade creditors	26 026 430		26 026 430	21 567 484
Current tax liability	29 812		29 812	29 283
Other taxes and contributions	580 396		580 396	490 083
Other current liabilities	15 073 152		15 073 152	11 926 431
Provisions	<u>66 356</u>		<u>66 356</u>	<u>3 275 219</u>
Total current liabilities	<u>50 153 534</u>	<u>1 669 723</u>	<u>48 483 811</u>	<u>55 146 535</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES	<u>420 743 914</u>	<u>4 801 512</u>	<u>415 942 402</u>	<u>401 849 531</u>

	31.12.2019	Effect of IFRS 16	31.12.2019 without effect of IFRS16	31.12.2018
Sales	228 500 563		228 500 563	218 781 711
Services rendered	1 486 041		1 486 041	1 392 246
Change in value of biological assets	(145 199)		(145 199)	
Other income and gains	4 240 249		4 240 249	8 225 377
Cost of sales	(127 189 314)		(127 189 314)	(122 579 602)
Increase / (decrease) in production	1 997 447		1 997 447	2 127 584
External supplies and services	(52 211 400)	2 053 809	(54 265 209)	(49 825 897)
Staff expenses	(27 148 274)		(27 148 274)	(25 213 411)
Depreciation and amortisation	(15 930 215)	(1 918 694)	(14 011 521)	(13 090 365)
Provisions and impairment losses (increase / reduction)	(5 719 226)		(5 719 226)	91 055
Other expenses and losses	<u>(3 451 748)</u>		<u>(3 451 748)</u>	<u>(3 647 577)</u>
Operating profit / (loss)	4 428 924	135 115	4 293 809	16 261 121
Financial income	695 759		695 759	660 983
Financial expenses	(12 175 674)	(229 910)	(11 945 764)	(12 222 705)
Gains and losses in joint ventures	(2 864 147)		(2 864 147)	12 500 537
Gains and losses in investments	<u>(121 425)</u>		<u>(121 425)</u>	
Net profit/(loss) before taxation	(10 036 563)	(94 795)	(9 941 768)	17 199 936
Taxation	<u>(3 332 786)</u>		<u>(3 332 786)</u>	<u>(6 171 466)</u>
Consolidated net profit / (loss) for the period	<u>(13 369 349)</u>	<u>(94 795)</u>	<u>(13 274 554)</u>	<u>11 028 470</u>

4. 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 2019 and 31 December 2018 are as follows:

COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD				TERMS FOR INCLUSION
		31.12.2019		31.12.2018		
		Direct	Total	Direct	Total	
Frases e Frações - Imobiliária e Serviços, SA	Maia (Portugal)	100.00%	100.00%	100.00%	100.00%	a)
Glunz UK Holdings, Ltd.	Liverpool (United Kingdom)	100.00%	100.00%	100.00%	100.00%	a)
Glunz UKA GmbH	Meppen (Germany)	100.00%	100.00%	100.00%	100.00%	a)
Isoroy, SAS	La Garenne-Colombes (France)	100.00%	100.00%	100.00%	100.00%	a)
Maiequipa - Gestão Florestal, SA	Maia (Portugal)	100.00%	100.00%	100.00%	100.00%	a)
Megantic B.V.	Amsterdam (The Netherlands)	100.00%	100.00%	100.00%	100.00%	a)
Movelpartes - Comp. para a Indústria do Mobiliário, SA	Paredes (Portugal)	100.00%	100.00%	100.00%	100.00%	a)
Novodecor (Pty) Ltd	Woodmead (South Africa)	100.00%	100.00%	100.00%	100.00%	a)
Parcelas e Narrativas - Imobiliária, SA	Maia (Portugal)	100.00%	100.00%	100.00%	100.00%	a)
Poliface North America	Lac-Mégantic (Canada)	100.00%	100.00%	100.00%	100.00%	a)
Sonae Indústria - Management Services, S. A.	Maia (Portugal)	100.00%	100.00%	100.00%	100.00%	a)
Sonae Indústria - Soc. Gestora de Participações Sociais, SA	Maia (Portugal)	Parent	Parent	Parent	Parent	Parent
Sonae Indústria de Revestimentos, SA	Maia (Portugal)	100.00%	100.00%	100.00%	100.00%	a)
Tafisa Canada Inc	Lac-Mégantic (Canada)	100.00%	100.00%	100.00%	100.00%	a)
Tafisa France S.A.S.	La Garenne-Colombes (France)	100.00%	100.00%	100.00%	100.00%	a)

a) Majority of voting rights;

The direct percentage of capital held refers to the direct investment of a group company in the subsidiary.

The total percentage of capital held relates to the direct and indirect ownership percentage held by the parent.

5. JOINT VENTURES

The joint ventures, their head offices, percentage of share capital held on 31 December 2019 and 31 December 2018 are as follows:

COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD				TERMS FOR INCLUSION
		31.12.2019		31.12.2018		
		Direct	Total	Direct	Total	
Sonae Arauco, S.A.	Madrid (Spain)	50.00%	50.00%	50.00%	50.00%	
Agepan Eiweiler Management, GmbH	Eiweiler (Germany)	100.00%	50.00%	100.00%	50.00%	a)
Agloma Investimentos, SGPS, S. A.	Maia (Portugal)	100.00%	50.00%	100.00%	50.00%	a)
Aserraderos de Cuellar, S.A.	Madrid (Spain)	100.00%	50.00%	100.00%	50.00%	a)
Ecocido, Energia e Ambiente, S. A.	Maia (Portugal)	100.00%	50.00%	100.00%	50.00%	a)
Euroresinas - Indústrias Químicas, S.A.	Maia (Portugal)	100.00%	50.00%	100.00%	50.00%	a)
GHP Glunz Holzwerkstoffproduktions GmbH	Meppen (Germany)	100.00%	50.00%	100.00%	50.00%	a)
Imoplamac – Gestão de Imóveis, S. A.	Maia (Portugal)	100.00%	50.00%	100.00%	50.00%	a)
Impaper Europe GmbH	Meppen (Germany)	100.00%	50.00%	100.00%	50.00%	a)
Laminate Park GmbH & Co. KG	Eiweiler (Germany)	50.00%	25.00%	50.00%	25.00%	b)
Somit – Imobiliária, S.A.	Mangualde (Portugal)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco Beeskow GmbH	Meppen (Germany)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco Deutschland GmbH	Meppen (Germany)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco Espana - Soluciones de Madera, S. L.	Madrid (Spain)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco France SAS	La Garenne-Colombes (France)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco Maroc SARL	Casablanca (Morocco)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco Netherlands B. V.	Woerden (The Netherlands)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco Portugal, S.A.	Mangualde (Portugal)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco South Africa (Pty) Ltd.	Woodmead (South Africa)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco Suisse, S.A.	Tavannes (Switzerland)	100.00%	50.00%	100.00%	50.00%	a)
Sonae Arauco (UK), Ltd.	Liverpool (United Kingdom)	100.00%	50.00%	100.00%	50.00%	a)
Taiber, Tableros Aglomerados Ibéricos, S.L.	Madrid (Spain)	100.00%	50.00%	100.00%	50.00%	a)
Tecnologías del Medio Ambiente, S.A.	Madrid (Spain)	100.00%	50.00%	100.00%	50.00%	a)
Tecmasa. Reciclados de Andalucía, S. L.	Madrid (Spain)	50.00%	25.00%	50.00%	25.00%	b)
Tool, GmbH	Meppen (Germany)	100.00%	50.00%	100.00%	50.00%	a)

a) Company included in the consolidation perimeter of Sonae Arauco, S.A.;

b) Company whose investment is recognized on the consolidated financial statements of Sonae Arauco, S.A. using the equity method, as it is classified as a joint venture of this company.

The direct percentage of capital held refers to the direct investment of a group company in the subsidiary.

The total percentage of capital held relates to the direct and indirect ownership percentage held by the parent.

Level one fair value of investment in these companies is not available as shares representing their share capital are not listed.

5.1. Information about the joint control of joint ventures

Joint control of Sonae Arauco, S. A. was established by contract entered into in 2015 by Sonae Indústria, SGPS, S. A. and Arauco Internacional Limitada, a company of Arauco Group (Chile) and is reflected on a joint decision making at the appropriate management levels of Sonae Arauco

Contractual provisions established that Sonae Indústria, SGPS, S. A. assumes certain legal and tax contingencies of Sonae Arauco and subsidiaries which relate to the period before the joint venture was set up. As a consequence, Sonae Arauco, S. A. has the right to be reimbursed by the total amount of payments done by the company or its subsidiaries with relation to the aforementioned contingencies, as well as relating to some businesses specifically referred to in the said agreement. Provisions, on the Consolidated Statement of Financial Position, included, at 31 December 2019, an estimation of the obligations already transferred to Sonae Indústria, S. A. (note 31). The ongoing contingencies regarded as relevant for disclosure purposes are described on note 42.

5.2. Information about the financial statements of joint ventures

Net assets and net profit/loss for these jointly-controlled companies, whose share was recognized on these consolidated financial statements under equity method, as stated on note 2.2.b), are detailed as follows:

ASSETS	Sonae Arauco - Consolidated	
	31.12.2019	31.12.2018
NON-CURRENT ASSETS:		
Tangible fixed assets	525 840 178	478 585 861
Goodwill	7 232 769	7 018 942
Intangible assets	4 271 105	3 450 984
Investment in associates		1 853 097
Investment in joint ventures	245 601	221 210
Other investments	1 148 923	1 094 615
Deferred tax asset	28 340 938	25 562 366
Other non-current assets	<u>1 378 571</u>	<u>50 618</u>
Total non-current assets	<u>568 458 085</u>	<u>517 837 693</u>
CURRENT ASSETS:		
Inventories	92 089 685	92 074 961
Trade debtors	68 345 339	70 252 657
Other current debtors	2 920 848	32 489 623
Current tax asset	4 096 737	2 597 399
Other taxes and contributions	7 697 942	12 276 732
Other current assets	4 696 823	7 881 968
Cash and cash equivalents	<u>12 232 705</u>	<u>20 234 918</u>
Total current assets	<u>192 080 079</u>	<u>237 808 258</u>
TOTAL ASSETS	<u>760 538 164</u>	<u>755 645 951</u>
SHAREHOLDERS' FUNDS AND LIABILITIES		
SHAREHOLDERS' FUNDS:		
Share capital	20 118 630	20 118 630
Share premium	127 440 685	127 440 685
Legal reserve	4 023 726	4 023 726
Other reserves and accumulated earnings	112 733 854	116 483 837
Accumulated other comprehensive income	<u>(15 721 770)</u>	<u>(13 153 604)</u>
Total shareholders' funds attributable to equity holders of Sonae Arauco	<u>248 595 125</u>	<u>254 913 274</u>
TOTAL SHAREHOLDERS' FUNDS	<u>248 595 125</u>	<u>254 913 274</u>
LIABILITIES:		
NON-CURRENT LIABILITIES:		
Bank loans - net of current portion	228 740 236	228 936 468
Lease creditors - net of current portion	12 431 358	2 394 234
Other loans	6 154 607	2 704 611
Post-retirement liabilities	28 966 339	24 214 492
Other non-current liabilities	8 840 222	6 830 830
Deferred tax liability	31 953 713	32 264 977
Provisions	<u>8 884 565</u>	<u>9 845 714</u>
Total non-current liabilities	<u>325 971 040</u>	<u>307 191 326</u>
CURRENT LIABILITIES:		
Current portion of non-current bank loans	5 889 539	2 430 400
Current bank loans	2 533 833	7 084 821
Current portion of non-current lease creditors	3 932 220	6 811 429
Other loans	635 291	820 192
Trade creditors	100 255 316	99 206 078
Current tax liability	6 961 825	10 209 319
Taxes and other contributions payable	4 981 670	4 220 102
Other current liabilities	55 282 305	62 759 010
Provisions	<u>5 500 000</u>	
Total current liabilities	<u>185 971 999</u>	<u>193 541 351</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES	<u>760 538 164</u>	<u>755 645 951</u>

Sonae Arauco - Consolidated		
	31.12.2019	31.12.2018
Sales	758 730 482	793 331 966
Services rendered	8 693 769	5 944 370
Other income and gains	28 034 790	75 859 115
Cost of sales	(361 980 731)	(406 990 772)
Increase / (decrease) in production	(1 568 628)	8 354 965
External supplies and services	(218 881 700)	(219 085 284)
Staff expenses	(133 097 053)	(129 410 231)
Depreciation and amortisation	(49 084 805)	(44 103 785)
Provisions and impairment losses (increase / reduction)	(3 535 087)	(9 009 707)
Other expenses and losses	<u>(8 648 068)</u>	<u>(8 148 133)</u>
Operating profit / (loss)	18 662 969	66 742 504
Financial expenses	(18 397 181)	(22 068 080)
Financial income	2 068 350	3 143 615
Gains and losses in associates	246 903	129 365
Gains and losses in joint ventures	24 391	(17 494 018)
Gains and losses in other investment	<u>13 655</u>	<u>(93 340)</u>
Net profit/(loss) from continuing operations, before taxation	2 619 087	30 360 047
Taxation	<u>(1 289 988)</u>	<u>(6 406 550)</u>
Consolidated net profit / (loss) from continuing operations, after taxation (a)	1 329 099	23 953 497
Adjustments to the Group's accounting policies (b)	<u>(343 130)</u>	<u>1 047 576</u>
Net profit/(loss) from continuing operations - adjusted (a) + (b)	985 969	25 001 073
Group's share in net profit/(loss) [(a) + (b)] x 0.5	492 984	12 500 537
Items that may be subsequently transferred to profit or loss		
Change in currency translation reserve	2 099 829	(5 463 097)
Change in fair value of cash flow hedge derivatives	(443 696)	
Items that may not be subsequently transferred to profit or loss		
Remeasurements of defined benefit plans	(5 441 418)	(144 944)
Income tax relating to items that will not be reclassified	<u>1 217 123</u>	<u>90 137</u>
Other comprehensive income (c)	(2 568 162)	(5 517 904)
Adjustments to the Group's accounting policies (d)		7 006 424
Other comprehensive income - adjusted (c) + (d)	(2 568 162)	1 488 520
Group's share in other comprehensive income (c) x 0.5	(1 284 081)	744 260

5.2.1. Relevant effects occurred in the period ended 31 December 2019 in the companies classified as joint-ventures of Sonae Indústria, SGPS, S. A.:

In October 2017, industrial plants of Mangualde and Oliveira do Hospital, which are controlled by Sonae Arauco, S. A., a company 50%-owned by Sonae Indústria, SGPS, S. A., were hit by serious wild fires that affected central Portugal. As a consequence, wood yards, the exposed equipment within the wood yards and the electrical and cabling systems were significantly damaged, forcing these plants to stop operating. Operation was fully resumed in the first half of 2018, after reconstruction works were carried out.

Both plants are subject to a Group property damage and business interruption insurance policy, under which Sonae Arauco has received compensation for the reinstatement costs of the buildings and machinery and business interruption losses.

In the period ended 31 December 2019, Sonae Arauco was paid the last portion of the insurance compensation agreed with the insurers, which amounted to EUR 32 005 488. The total insurance compensation paid amounted to EUR 76 446 222. The corresponding gain was recognized in the consolidated accounts of Sonae Arauco of 2017 (EUR 16 940 254), 2018 (EUR 56 098 220) and 2019 (EUR 3 407 748).

In the period ended 31 December 2019, Sonae Arauco announced the intention to cease, until the end of 2020, all remaining activities at the Horn site (Germany), which is held by GHP GmbH, a subsidiary of Sonae Arauco, S. A.. As a consequence, a provision for EUR 7 700 000 was recognized in the consolidated financial statements of Sonae Arauco for the period ended 31 December 2019.

The consolidated net profit of Sonae Arauco Group is recognized using the equity method in the Consolidated Income Statement of Sonae Indústria for 50% of its amount, under Gains and losses in joint ventures, which therefore include 50% of the abovementioned effects.

5.2.2. Adjustments to comply with the Group's accounting policies

In the period ended 31 December 2018, Sonae Indústria carried out some adjustments to the consolidated other comprehensive income of Sonae Arauco, S. A. in order to make it compliant with the Group's accounting policies, which include EUR 4 027 000 relating to the revaluation of land and buildings as at 31 December 2018. This amount corresponds to the net carrying amount of land and buildings of Sonae Arauco Group deducted from the corresponding deferred taxes (the appraised value corresponds to level 3 of the fair value hierarchy). This revaluation was not done in the consolidated financial statements of Sonae Arauco, S. A. for the period ended 31 December 2018, which follow the cost model for subsequent measurement of all classes of tangible fixed assets. Furthermore, this revaluation required an adjustment to the consolidated net profit of Sonae Arauco for the period ended 31 December 2019 relating to the depreciation of revalued tangible fixed assets, which amounted to EUR -343 130.

5.3. Gains and losses in joint ventures, on the Consolidated Income Statement is detailed as follows:

	31.12.2019	31.12.2018
Group's share in net profit/(loss)	492 984	12 500 537
Other effects in joint ventures	<u>(3 357 131)</u>	<u>12 500 537</u>
	<u>(2 864 147)</u>	<u>12 500 537</u>

In the period ended 31 December 2019, Other gains and losses in joint ventures include 50% of certain expenses incurred by the joint venture Sonae Arauco, S.A. which, under the partnership agreement entered into with the Arauco Group, are contractually transferred to Sonae Indústria, SGPS, SA. The effect on net profit of the amount corresponding to the remaining 50% of these expenses were recognized through equity method.

5.4. Reconciliation of the carrying amount of investment in Sonae Arauco, S. A.

At 31 December 2019 and 31 December 2018, the carrying amount of the investment of Sonae Indústria, SGPS, S. A. in Sonae Arauco, S. A. is detailed as follows:

	31.12.2019	31.12.2018
Consolidated shareholders' funds of Sonae Arauco	248 595 125	254 913 274
Ownership interest	50%	50%
Group's share of shareholders' funds	124 297 563	127 456 637
Goodwill included in the investment	80 975 627	80 975 627
Effect of revaluation of tangible fixed assets (net of deferred tax)	3 855 437	4 027 000
	<u>209 128 627</u>	<u>212 459 264</u>

6. FINANCIAL INSTRUMENTS

In the Consolidated Statements of Financial Position at 31 December 2019 and 31 December 2018, the following financial instruments are included:

31.12.2019	Assets at amortized cost	Assets at fair value through profit or loss	Sub-total	Assets out of scope of IFRS 9	Total
Non-current assets					
Other investments	19 829		19 829		19 829
Other non current assets	1 095 969		1 095 969		1 095 969
Current assets					
Customers	14 079 419		14 079 419		14 079 419
Other current debtors	1 054 515		1 054 515		1 054 515
Other current assets	384 181		384 181	1 897 234	2 281 415
Cash and cash equivalents	7 059 662		7 059 662		7 059 662
Total	<u>23 693 575</u>		<u>23 693 575</u>	1 897 234	<u>25 590 809</u>

	Assets at amortized cost	Assets at fair value through profit or loss	Sub-total	Assets out of scope of IFRS 9	Total
31.12.2018-Restated					
Non-current assets					
Other investments	133 952		133 952		133 952
Current assets					
Customers	12 302 439		12 302 439		12 302 439
Other current debtors	124 360		124 360		124 360
Other current assets	321 549	27 676	349 225	1 684 066	2 033 291
Cash and cash equivalents	10 624 192		10 624 192		10 624 192
Total	23 506 492	27 676	23 534 168	1 684 066	25 218 234

	Liabilities at amortized cost	Liabilities at fair value through profit or loss	Sub-total	Liabilities out of scope of IFRS 9	Total
31.12.2019					
Non-current liabilities					
Subordinated bonds	49 938 116		49 938 116		49 938 116
Unsubordinated bonds	7 951 240		7 951 240		7 951 240
Bank loans - net of current portion	146 393 538		146 393 538		146 393 538
Other non-current liabilities				3 404 222	3 404 222
Current liabilities					
Current portion of non-current bank loans	5 755 509		5 755 509		5 755 509
Current bank loans	830 938		830 938		830 938
Trade creditors	26 026 430		26 026 430		26 026 430
Other current liabilities	14 321 399	143 493	14 464 892	608 260	15 073 152
Total	251 217 170	143 493	251 360 663	4 012 482	255 373 145

	Liabilities at amortized cost	Liabilities at fair value through profit or loss	Sub-total	Liabilities out of scope of IFRS 9	Total
31.12.2018-Restated					
Non-current liabilities					
Bank loans - net of current portion	188 102 256		188 102 256		188 102 256
Other non-current liabilities	103 005		103 005	1 025 033	1 128 038
Current liabilities					
Current portion of non-current bank loans	15 192 246		15 192 246		15 192 246
Current bank loans	2 136 274		2 136 274		2 136 274
Trade creditors	21 567 484		21 567 484		21 567 484
Other current liabilities	11 610 860	5 621	11 616 481	309 950	11 926 431
Total	238 712 125	5 621	238 717 746	1 334 983	240 052 729

Assets and liabilities out of the scope of IFRS 9 consist essentially of accounts receivable from and payable to the State and items of deferrals. In the consolidated financial statements for the period ended 31 December 2018, this group of assets and liabilities also included accounts receivable and payable to employees and accruals. The information for the previous period was restated following this change in classification which occurred in the period ended 31 December 2019

There are no financial assets offset against financial liabilities.

7. FAIR VALUE

Use of fair value in the preparation of these consolidated financial statements may be summarized as follows:

7.1. Financial assets and liabilities

	Financial assets				Total	Description of used valuation techniques
	Measured at fair value		Not measured at fair value			
	Level of fair value	Amount	Fair value quantified	Fair value not quantified*		
31.12.2019						
Non-current assets						
Other investments	-	-	19 829	-	19 829	-
Other non current assets	-	-	1 095 969	-	1 095 969	-
Current assets						
Customers	-	-	14 079 419	-	14 079 419	-
Other current debtors	-	-	1 054 515	-	1 054 515	-
Other current assets	-	-	384 181	-	384 181	note 19, 24
Cash and cash equivalents	-	-	7 059 662	-	7 059 662	-
Total			23 693 575		23 693 575	

31.12.2018 - Restated

Non-current assets						
Other investments	-	-	133 952	-	133 952	-
Current assets						
Customers	-	-	12 302 439	-	12 302 439	-
Other current debtors	-	-	124 360	-	124 360	-
Other current assets	2	27 676	321 549	-	349 225	note 19, 24
Cash and cash equivalents	-	-	10 624 192	-	10 624 192	-
Total		27 676	23 506 492		23 534 168	

	Financial liabilities				Total	Description of used valuation techniques
	Measured at fair value		Not measured at fair value			
	Level of fair value	Amount	Fair value quantified	Fair value not quantified*		
31.12.2019						
Non-current liabilities						
Subordinated bonds	-	-	49 938 116	-	49 938 116	-
Unsubordinated bonds	-	-	7 951 240	-	7 951 240	-
Bank loans - net of current portion	-	-	146 393 538	-	146 393 538	-
Current liabilities						
Current portion of non-current bank loans	-	-	5 755 509	-	5 755 509	-
Current bank loans	-	-	830 938	-	830 938	-
Trade creditors	-	-	26 026 430	-	26 026 430	-
Other current liabilities	2	143 493	14 321 399	-	14 464 892	note 24, 30
Total		143 493	251 217 170		251 360 663	
31.12.2018 - Restated						
Non-current liabilities						
Bank loans - net of current portion	-	-	188 102 256	-	188 102 256	-
Other non-current liabilities	-	-	103 005	-	103 005	-
Current liabilities						
Current portion of non-current bank loans	-	-	15 192 246	-	15 192 246	-
Current bank loans	-	-	2 136 274	-	2 136 274	-
Trade creditors	-	-	21 567 484	-	21 567 484	-
Other current liabilities	2	5 621	11 610 860	-	11 616 481	note 24, 30
Total		5 621	238 712 125		238 717 746	

* As it is estimated to not materially differ from carrying amounts.

7.2. Investment properties

Investment properties are recognized at cost as referred to on note 2.6. Their fair value is disclosed on note 11 and corresponds to the third level of fair value hierarchy.

7.3. Tangible fixed assets

Land and buildings are recognized for their revalued amounts, which was determined as at 31.12.2019. The accounting policy regarding the periodicity of revaluation of these assets is stated on note 2.3.

The revalued amount of land and buildings is disclosed on note 9 and corresponds to the second level of fair value hierarchy.

7.4. Biological assets

Biological assets, including the component stated under Non-current assets held for sale, on the Consolidated Statement of Financial position, are recognized at fair value, which is disclosed on note 12. This fair value corresponds to the second level of the fair value hierarchy.

Fair value hierarchy is described on note 2.26.

8. INVESTMENTS

At 31 December 2019 and 31 December 2018 details of Investments are as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Investment in joint ventures		
Opening balance	212 459 264	205 616 464
Effect of equity method	2 656 092	13 249 147
Dividends	<u>(5 986 729)</u>	<u>(6 406 347)</u>
Closing balance	<u>209 128 627</u>	<u>212 459 264</u>
	<u>31.12.2019</u>	<u>31.12.2018</u>
Other investments		
Opening balance	137 941	134 476
Acquisition	<u>7 303</u>	<u>3 465</u>
Closing balance	145 244	137 941
Accumulated impairment losses	<u>125 415</u>	<u>3 989</u>
Net other investments	<u>19 829</u>	<u>133 952</u>

The Group carried out and impairment analysis of its investment in Sonae Arauco joint venture with reference to 31 December 2019, which used independent

appraisals of assets located in Portugal, Spain and South Africa. This analysis did not show any impairment loss to be recognized on the financial statements for the period ended 31 December 2019.

Other investments consist of equity instruments of external entities and contributions to a social security fund. They are recognized at cost, less impairment losses, which is estimated to not materially differ from their fair value.

9. TANGIBLE FIXED ASSETS

In the periods ended 31 December 2019 and 31 December 2018, movements in tangible fixed assets, accumulated depreciation and impairment losses were as follows:

	31.12.2019							
	Land and Buildings	Plant and Machinery	Vehicles	Tools	Fixtures and Fittings	Other Tangible Fixed Assets	Tangible Fixed Assets under construction	Total tangible fixed assets
Gross cost								
Opening balance	89 748 157	261 542 564	2 679 485	96 237	3 452 656	344 407	5 583 497	363 447 003
Capital expenditure	3 154 026		3 553 373		4 921		17 178 962	23 891 282
Disposals	(2 729 000)	(2 778 907)	(143 994)	(30 090)	(323 927)	(7 759)		(6 013 677)
Revaluation	5 398 224							5 398 224
Transfers and reclassifications	1 273 785	7 025 424	94 126		126 040	9 655	(8 529 030)	
Exchange rate effect	4 921 492	16 481 410	220 803		127 414	70	528 664	22 279 853
Closing balance	101 766 684	282 270 491	6 403 793	66 147	3 387 104	346 373	14 762 093	409 002 685
Accumulated depreciation and impairment losses								
Opening balance	37 580 404	185 363 671	1 483 939	95 255	2 998 318	220 772		227 742 359
Depreciations for the period	2 855 770	10 999 347	1 597 969	654	144 931	30 760		15 629 431
Impairment losses for the period - through P/L		5 389						5 389
Disposals	(1 482 063)	(2 425 929)	(102 133)	(30 090)	(322 994)	(7 759)		(4 370 968)
Revaluation	2 378 532							2 378 532
Exchange rate effect	2 102 482	11 661 116	105 032		100 281	53		13 968 964
Closing balance	43 435 125	205 603 594	3 084 807	65 819	2 920 536	243 826		255 353 707
Carrying amount	58 331 559	76 666 897	3 318 986	328	466 568	102 547	14 762 093	153 648 978
	31.12.2018							
	Land and Buildings	Plant and Machinery	Vehicles	Tools	Fixtures and Fittings	Other Tangible Fixed Assets	Tangible Fixed Assets under construction	Total tangible fixed assets
Gross cost								
Opening balance	97 133 999	262 567 210	2 581 162	96 237	3 478 555	214 703	7 907 292	373 979 158
Capital expenditure					155 701		10 446 939	10 602 640
Disposals	(4 760 609)	(3 592 193)	(637 247)		(310 791)			(9 300 840)
Transfers and reclassifications	(4 591)	11 418 563	820 513		198 676	129 886	(12 574 108)	(11 061)
Exchange rate effect	(2 620 642)	(8 851 016)	(84 943)		(69 485)	(182)	(196 626)	(11 822 894)
Closing balance	89 748 157	261 542 564	2 679 485	96 237	3 452 656	344 407	5 583 497	363 447 003
Accumulated depreciation and impairment losses								
Opening balance	38 343 362	183 688 922	1 893 568	94 601	3 282 682	206 119		227 509 254
Depreciations for the period	2 409 078	9 980 104	277 057	654	80 597	14 751		12 762 241
Impairment losses for the period - through P/L		55 225						55 225
Disposals	(2 102 648)	(2 210 298)	(637 247)		(306 908)			(5 257 101)
Exchange rate effect	(1 069 388)	(6 150 282)	(49 439)		(58 053)	(98)		(7 327 260)
Closing balance	37 580 404	185 363 671	1 483 939	95 255	2 998 318	220 772		227 742 359
Carrying amount	52 167 753	76 178 893	1 195 546	982	454 338	123 635	5 583 497	135 704 644

In accordance with the accounting policy set out on note 2.3, as at 31 December 2019, the Group carried out a revaluation of land and buildings, based on an independent appraisal. As a consequence of this revaluation, the net carrying amount of land and buildings was increased by EUR 3 019 692 though other

comprehensive income. Depreciation charge for the period was not affected by this revaluation.

The valuation methods used comprise the market method and the cost method, which were applied under the assumption that these assets will keep being used as they are currently. Market method consists in comparing subject assets with similar assets recently sold or which are up for sale, taking into consideration differences that may affect value. Cost method consists in using the replacement cost of an asset as an indicator of its market value. The value resulting from this valuation corresponds to the second level of fair value hierarchy.

Exchange rate effect results mainly from the translation into euro of tangible fixed assets of subsidiaries whose functional currency is the Canadian Dollar (CAD).

During 2019 and 2018 no interest paid or any other financial charges were capitalized, in accordance with conditions defined on note 2.11.

At 31 December 2019, mortgaged tangible fixed assets amounted to EUR 138 121 229 (EUR 120 743 778 at 31 December 2018) as collateral for loans amounting to EUR 60 291 056 (EUR 37 259 448 at 31 December 2018).

On the same date, there were no commitments to the acquisition of tangible fixed assets.

At 31 December 2019, gross cost of totally depreciated or impaired tangible fixed assets amounted to EUR 95 065 665 (EUR 82 691 975 at 31 December 2018). In addition, tangible fixed assets which were inactive at 31 December 2019 amounted to EUR 2 510 402 (2 573 411 at 31 December 2018). These assets were not stated as Non-current assets held for sale as the required conditions for such a classification were not met.

Right-of-use assets relating to assets used under leases, recognized under Tangible fixed assets, on the Consolidated Statement of Financial Position as at 31 December 2019, were detailed as follows:

	31.12.2019				
	Land and Buildings	Plant and Machinery	Vehicles	Fixtures and Fittings	Total tangible fixed assets
Gross cost					
Opening balance	5 121 453	194 104	575 053	183 245	6 073 855
Capital expenditure	3 154 026		3 553 373	4 921	6 712 320
Disposals			(31 580)		(31 580)
Transfers and reclassifications	(5 121 453)	(203 951)	(320 318)	(35 868)	(5 681 590)
Exchange rate effect	3 628	9 847	93 232	12 081	118 788
Closing balance	<u>3 157 654</u>		<u>3 869 760</u>	<u>164 379</u>	<u>7 191 793</u>
Accumulated depreciation and impairment losses					
Opening balance	768 601	65 850	363 395	37 242	1 235 088
Depreciations for the period	806 090		1 272 597	42 038	2 120 725
Disposals			(19 603)		(19 603)
Transfers and reclassifications	(875 550)	(69 191)	(320 318)	(35 868)	(1 300 927)
Exchange rate effect	1 946	3 341	40 426	2 653	48 366
Closing balance	<u>701 087</u>		<u>1 336 497</u>	<u>46 065</u>	<u>2 083 649</u>
Carrying amount	<u>2 456 567</u>		<u>2 533 263</u>	<u>118 314</u>	<u>5 108 144</u>

Amounts disclosed under Transfer and reclassifications refer to leased assets which were acquired by the Group, therefore ceasing to be classified as leases.

Capital expenditure net of depreciation for the period ended 31 December 2019 mostly includes the effect of transition to IFRS 16 (note 3.1). This amount is different from the amount disclosed on note 3.2 because the former includes the depreciation of leased assets which were recognized under Tangible fixed assets on the previous year.

Assets used under finance leases, recognized under Tangible fixed assets, on the Consolidated Statement of Financial Position as at 31 December 2018, were detailed as follows:

	31.12.2018				
	Land and Buildings	Plant and Machinery	Vehicles	Fixtures and Fittings	Total tangible fixed assets
Gross cost					
Opening balance	5 121 453	201 410	1 203 070	283 139	6 809 072
Capital expenditure				152 139	152 139
Disposals			(596 250)	(243 584)	(839 834)
Exchange rate effect		(7 306)	(31 767)	(8 449)	(47 522)
Closing balance	<u>5 121 453</u>	<u>194 104</u>	<u>575 053</u>	<u>183 245</u>	<u>6 073 855</u>
Accumulated depreciation and impairment losses					
Opening balance	661 651	54 887	927 371	282 725	1 926 634
Depreciations for the period	106 950	13 217	55 138	3 577	178 882
Disposals			(596 250)	(243 584)	(839 834)
Exchange rate effect		(2 254)	(22 864)	(5 476)	(30 594)
Closing balance	<u>768 601</u>	<u>65 850</u>	<u>363 395</u>	<u>37 242</u>	<u>1 235 088</u>
Carrying amount	<u>4 352 852</u>	<u>128 254</u>	<u>211 658</u>	<u>146 003</u>	<u>4 838 767</u>

10. INTANGIBLE ASSETS

During 2019 and 2018, movements in intangible assets, accumulated amortization and impairment losses were as follows:

31.12.2019										
	Development Costs		Patents, Royalties And Other Rights		Software		Assets Under Development		Total intangible assets	Total
	Non-internally generated	Non-internally generated	Internally generated	Non-internally generated	Non-internally generated	Internally generated	Non-internally generated			
Gross cost:										
Opening balance		40 493	89 514	1 808 679	119 823	12 477	27 494	1 808 679	262 307	2 070 986
Capital expenditure					(550)				27 494	27 494
Disposals									(550)	(550)
Transfers and reclassifications				40 603		(40 603)		40 603	(40 603)	
Exchange rate effect				96 610		632		96 610	632	97 242
Closing balance	40 493	89 514	1 945 892	119 273				1 945 892	249 280	2 195 172
Accumulated depreciation and impairment losses										
Opening balance	40 493	75 187	1 749 034	119 823			1 749 034	235 503	6 074	1 984 537
Amortization for the period		6 074	43 807		(550)		43 807	6 074	(550)	49 881
Disposals									(550)	(550)
Exchange rate effect				92 549			92 549			92 549
Closing balance	40 493	81 261	1 885 390	119 273			1 885 390	241 027	632	2 126 417
Carrying amount		8 253	60 502				60 502	8 253		68 755

31.12.2018											
	Development Costs		Patents, Royalties And Other Rights		Software		Assets Under Development		Total intangible assets	Total	
	Non-internally generated	Non-internally generated	Internally generated	Non-internally generated	Internally generated	Non-internally generated	Internally generated	Non-internally generated			
Gross cost:											
Opening balance	40 493	89 514	1 849 333	119 823			11 474	12 730	1 849 333	249 830	2 099 163
Capital expenditure									11 474	12 730	24 204
Transfers and reclassifications					11 474		(11 474)				
Exchange rate effect					(52 128)			(253)	(52 128)	(253)	(52 381)
Closing balance	40 493	89 514	1 808 679	119 823			12 477	1 808 679	262 307	2 070 986	
Accumulated depreciation and impairment losses											
Opening balance	40 493	69 112	1 726 755	119 823				1 726 755	229 428	1 956 183	
Amortization for the period		6 075	71 146					71 146	6 075	77 221	
Exchange rate effect			(48 867)					(48 867)		(48 867)	
Closing balance	40 493	75 187	1 749 034	119 823				1 749 034	235 503	1 984 537	
Carrying amount		14 327	59 645				12 477	59 645	26 804	86 449	

At 31 December 2019, gross cost of totally amortized or impaired intangible assets amounted to EUR 1 997 986 (EUR 1 869 845 at 31 December 2018).

11. INVESTMENT PROPERTIES

During 2019 and 2018 movements in investment properties, accumulated depreciation and impairment losses were as follows:

	31.12.2019		31.12.2018	
	Cost	Total	Cost	Total
Gross cost:				
Opening balance	<u>37 254 929</u>	<u>37 254 929</u>	<u>37 254 929</u>	<u>37 254 929</u>
Closing balance	<u>37 254 929</u>	<u>37 254 929</u>	<u>37 254 929</u>	<u>37 254 929</u>
Accumulated depreciations and impairment losses:				
Opening balance	31 504 789	31 504 789	31 253 886	31 253 886
Charge for the period	<u>250 903</u>	<u>250 903</u>	<u>250 903</u>	<u>250 903</u>
Closing balance	<u>31 755 692</u>	<u>31 755 692</u>	<u>31 504 789</u>	<u>31 504 789</u>
Carrying amount	<u>5 499 237</u>	<u>5 499 237</u>	<u>5 750 140</u>	<u>5 750 140</u>

	31.12.2019	31.12.2018
Rents from investment properties	388 550	400 460
Direct operating costs	291 755	268 478

At the closing date of these consolidated financial statements, Investment properties included the land and the buildings of Betanzos industrial plant, in Spain, which have been leased to third parts. These assets are recognized at historical cost. Fair value was calculated through independent appraisal with reference to 31 December 2018 and amounted to EUR 6.9 million . Valuation methods used included the market method and the cost method. This fair value corresponds to a level three of fair value hierarchy. At 31 December 2019, the Group estimated that these assets' fair value was not significantly different from the valuation carried out at the aforementioned date.

Revenue from investment properties is recognized under Services rendered on the Consolidated Income Statement.

12. BIOLOGICAL ASSETS

During the period ended 31 December 2019, the Group presented under Biological assets, on the Consolidated Statement of Financial Position, tree plantations, according to the accounting policy presented in note 2.7. Until 31 December 2018, these assets were presented under Inventories, on the Consolidated Statement of

Financial Position. The Group considers that this change in accounting policy allows a more appropriate presentation of these assets, taking into account their nature. The information for the period ended December 31, 2018 has not been restated, as the Group considers the amounts involved to be materially irrelevant.

Biological assets that the Group expects to sell over a period of twelve months after 31 December 2019 are presented under Non-current assets held for sale, on the Consolidated Statement of Financial Position.

As of December 31, 2019, biological assets had the following detail:

	<u>31.12.2019</u>	
	Biological assets	Non-current assets held for sale
Opening balance	515 163	
Change in value	(145 199)	
Reclassifications	<u>(131 070)</u>	131 070
Closing balance	<u>238 894</u>	<u>131 070</u>

Biological assets are recognized at fair value, which is calculated using market prices and takes into consideration the growth stage of the trees. It corresponds to the second level of fair value hierarchy.

13. GOODWILL ARISING ON CONSOLIDATION

During 2019 and 2018, movements in goodwill arising on consolidation were as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Gross value:		
Opening balance	<u>347 082</u>	<u>347 082</u>
Closing balance	<u>347 082</u>	<u>347 082</u>
Carrying amount	<u>347 082</u>	<u>347 082</u>

Goodwill stated on the Consolidated Statement of Financial Position refer to subsidiaries disclosed on note 5. Due to the reduced value of goodwill, the Company decided not to carry out an impairment analysis of its value in the year ended 31 December 2019.

14. DEFERRED TAXES

At 31 December 2019 and 31 December 2018, deferred tax assets and liabilities were detailed according to underlying temporary differences as follows:

	Deferred Tax Liabilities	
	31.12.2019	31.12.2018
Harmonisation Adjustments	17 874 830	16 590 835
Revaluation of Tangible Fixed Assets	2 998 499	2 292 370
Other Temporary Differences	83 676	280
	<u>20 957 005</u>	<u>18 883 485</u>

	Deferred tax assets	Deferred tax liabilities	
	31.12.2018	31.12.2019	31.12.2018
Opening balance	1 462 160	18 883 485	20 568 786
Effect on profit or loss of continuing operation			
Changes in temporary differences affecting profit or loss			
Harmonisation adjustments		137 042	(895 615)
Provisions not allowed for tax purposes	(51 556)		
Impairment of Assets	(1 059 442)		
Revaluation of tangible assets		(218 506)	(86 376)
Tax losses carried forward	(63 407)		
Other temporary differences	(281 811)	83 381	(1 005)
Subtotal (note 39)	(1 456 216)	1 917	(982 996)
Effect on other comprehensive income			
Changes in temporary differences affecting other comprehensive income			
Revaluation of tangible fixed assets		800 218	
Subtotal		800 218	
Effect of currency translation	(5 944)	1 271 385	(702 305)
Closing balance		<u>20 957 005</u>	<u>18 883 485</u>

Harmonization adjustments refer to the difference between amortization and depreciation for accounting and for tax purposes.

In accordance with International Financial Reporting Standards, the Group annually assesses deferred tax asset related to tax losses carried forward on the basis of cash flows projected over a five-year period. Taking into consideration these projection, in the period ended 31 December 2018, the Group decided to reverse all of its deferred tax assets as recoverability was not assured.

At 31 December 2019 and 31 December 2018, tax losses for which no deferred tax asset was recognized are detailed as follows:

To be used until	31.12.2019		31.12.2018	
	Tax loss carried forward	Tax credit	Tax loss carried forward	Tax credit
2019			119 987	23 997
2020	125 939	25 188	125 939	25 188
2021	123 549	24 710	123 549	24 710
2022	5 721 436	1 188 629	5 721 436	1 188 629
2023	3 977 128	830 631	456 536	91 307
2024	12 488 658	2 621 905	71 379	14 276
2026	122 117	24 423	122 117	24 423
2027	77 211	15 775	77 209	15 775
2028	5 590 570	1 173 401	5 528 711	1 161 029
	28 226 608	5 904 662	12 346 863	2 569 334
Without time limit	767 290 349	202 404 808	761 541 680	201 403 290
Total	795 516 957	208 309 470	773 888 543	203 972 624

The amounts presented as a tax credit refer to the deferred tax asset that was not recorded in these consolidated financial statements, as the conditions required by International Financial Reporting Standards for that were not met. In the future, this deferred tax asset may be recorded, in part or by the total above quantified amount, if conditions required by International Financial Reporting Standards are fulfilled.

With regard to tax losses carried forward without time limit to be used, at 31 December 2019 there were EUR 653 600 825 related to subsidiaries located in France (EUR 653 393 692 at 31 December 2018). These subsidiaries' activity is of little significance, so the Group considers the probability of using these tax losses to be remote.

15. OTHER NON-CURRENT ASSETS

At 31 December 2019, details of Other non-current assets on the Consolidated Statements of Financial Position were as follows:

	31.12.2019	
	Gross Value	Net Value
Other debtors	1 095 969	1 095 969
Financial Instruments	1 095 969	1 095 969
Total	1 095 969	1 095 969

The amount stated under Other debtors relates to an investment subvention which was granted but still not received.

16. INVENTORIES

At 31 December 2019 and 31 December 2018, details of Inventories on the Consolidated Statements of Financial Position were as follows:

	31.12.2019	31.12.2018
Merchandise	7 054	321 312
Finished and intermediate products	11 787 290	9 259 282
Products and working in progress	104 671	640 028
Raw Materials and Consumables	<u>10 858 204</u>	<u>8 937 726</u>
	22 757 219	19 158 348
Accumulated write-down to net realizable value of inventories (Note 31)	<u>795 289</u>	<u>934 312</u>
	<u><u>21 961 930</u></u>	<u><u>18 224 036</u></u>

	31.12.2019		31.12.2018	
	Merchandise	Raw Materials and Consumables	Merchandise	Raw Materials and Consumables
Opening balance	321 312	8 937 726	1 467 476	8 496 688
Exchange rate effect	16 239	494 291	(72 346)	(247 521)
Purchases	11 031 798	117 352 084	12 150 099	110 133 889
Other changes	(3 402)			
Closing balance	<u>7 054</u>	<u>10 858 204</u>	<u>321 312</u>	<u>8 937 726</u>
Change in inventories	11 358 893	115 925 897	13 223 917	109 445 330
Write-down to net realizable value of inventories		(95 476)		(89 645)
Total	11 358 893	115 830 421	13 223 917	109 355 685
Cost of sales - Consolidated Income Statement	<u>127 189 314</u>		<u>122 579 602</u>	

Inventories consist mainly of wood, raw boards, faced boards and chemical products.

17. TRADE DEBTORS

At 31 December 2019 and 31 December 2018, details of Trade debtors on the Consolidated Statements of Financial Position were as follows:

	31.12.2019			31.12.2018		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Trade Debtors	14 194 785	115 366	14 079 419	12 423 906	121 467	12 302 439

	31.12.2019	31.12.2018
Not due	<u>11 643 854</u>	<u>9 690 753</u>
Due		
0 - 30 days	1 945 284	2 152 908
30 - 90 days	180 976	149 803
90 - 180 days	37 033	308 743
180 - 360 days	253	1 709
+ 360 days	<u>387 385</u>	<u>119 990</u>
	<u>2 550 931</u>	<u>2 733 153</u>
Total	<u>14 194 785</u>	<u>12 423 906</u>

18. OTHER CURRENT DEBTORS

At 31 December 2019 and 31 December 2018, details of Other current debtors on the Consolidated Statements of Financial Position were as follows:

	31.12.2019		31.12.2018 - Restated	
	Gross Value	Net Value	Gross Value	Net Value
Other debtors	924 199	924 199	24 270	24 270
Related parties			<u>16 413</u>	<u>16 413</u>
Subtotal	<u>924 199</u>	<u>924 199</u>	40 683	40 683
Other debtors	<u>130 316</u>	<u>130 316</u>	<u>83 677</u>	<u>83 677</u>
Subtotal	130 316	130 316	83 677	83 677
Financial Instruments	<u>1 054 515</u>	<u>1 054 515</u>	<u>124 360</u>	<u>124 360</u>
Total	<u>1 054 515</u>	<u>1 054 515</u>	<u>124 360</u>	<u>124 360</u>

AGEING OF OTHER DEBTORS AND RELATED PARTIES

	31.12.2019	31.12.2018
Not due	<u>895 740</u>	<u>7 972</u>
Due		
0 - 30 days	11 206	23 845
30 - 90 days	16 101	996
+ 90 days	<u>1 152</u>	<u>7 870</u>
	<u>28 459</u>	<u>32 711</u>
Total	<u>924 199</u>	<u>40 683</u>

19. OTHER CURRENT ASSETS

At 31 December 2019 and 31 December 2018, details of Other current assets on the Consolidated Statements of Financial Position were as follows:

	31.12.2019		31.12.2018 - Restated	
	Gross Value	Net Value	Gross Value	Net Value
Derivatives instruments			27 676	27 676
Subtotal			27 676	27 676
Debtors from income accruals	384 181	384 181	321 549	321 549
Subtotal	384 181	384 181	321 549	321 549
Financial Instruments	384 181	384 181	349 225	349 225
Deferred expenses	1 897 234	1 897 234	1 684 066	1 684 066
Assets out of scope of IFRS 9	1 897 234	1 897 234	1 684 066	1 684 066
Total	2 281 415	2 281 415	2 033 291	2 033 291

The amount included in the previous table relates to derivative financial instruments recognized at fair value through profit or loss (note 24).

Deferred expenses include EUR 957 474 related to insurance expenses (EUR 879 309 at 31 December 2018) and EUR 418 349 related to expenses with financial instruments (EUR 499 921 at 31 December 2018).

20. OTHER TAXES AND CONTRIBUTIONS (CURRENT ASSETS)

At 31 December 2019 and 31 December 2018, details of Other taxes and contributions on the Consolidated Statements of Financial Position were as follows:

	31.12.2019	31.12.2018
Other taxes and contributions		
Value Added Tax	508 595	568 018
Others	1 274 744	984 696
	1 783 339	1 552 714

21. CASH AND CASH EQUIVALENTS

At 31 December 2019 and 31 December 2018, the detail of Cash and Cash Equivalents on the Consolidated Statements of Financial Position and on the Consolidated Statements of Cash Flows was as follows:

	31.12.2019	31.12.2018
Cash at Hand	6 439	5 840
Bank Deposits and Other Treasury Applications	<u>7 053 223</u>	<u>10 618 352</u>
Cash and Cash Equivalents on the Consolidated Statement of Financial Position	7 059 662	10 624 192
Bank Overdrafts	<u>830 938</u>	<u>136 274</u>
Cash and Cash Equivalents on the Consolidated Statement of Cash Flows	<u>6 228 724</u>	<u>10 487 918</u>

At 31 December 2019, cash and cash equivalents held in a currency other than the Group's functional currency amounted to EUR 5 721 029 (EUR 4 492 541 at 31 December 2018).

At 31 December 2019, bank deposits and other treasury applications amounted to EUR 7 053 223 (EUR 10 618 352 at 31 December 2018). On that date, there was one sort-term bank deposit of more than EUR 1 000 000, made in a financial institution with a rating level of P-1 (Moody's).

22. SHAREHOLDERS' FUNDS

Consolidated shareholders' funds consist of the following items:

22.1. SHARE CAPITAL

At 31 December 2019 and 31 December 2018, the Company's share capital, which was fully underwritten and paid, amounted to EUR 253 319 797.26 and was represented by 45 403 029 ordinary, registered and nominative shares, without nominal value.

The following entities hold more than 20% of share capital, at 31 December 2019:

Entity	%
Efanor Investimentos, SGPS, S. A.	42.66
Pareuro BV	25.84

At 31 December 2018 and 31 December 2017, shares are not entitled to any fixed income.

22.2. LEGAL RESERVE

The caption Legal reserve includes the parent company's reserve set up in accordance with articles 295 and 296 of the Portuguese Company Law. In accordance with these legal provisions, at least 5% of the annual net profit (of the parent company) must be used to increase the legal reserve until it represents no less than 20% of share capital (of the parent company). This reserve cannot be distributed, unless the Company is dissolved, but it can be used to off set accumulated losses after all other reserves were fully used, and to increase share capital.

In the period ended 31 December 2019, legal reserve was not increased.

22.3. OTHER RESERVES AND ACCUMULATED EARNINGS

This caption includes:

- Reserves set up by the parent company and the Group's share of reserves set up by subsidiaries included in consolidation in accordance with statutory rules or by proposition of the respective Board of Directors, approved in the General Shareholders' Meeting;
- The parent company's net profits or losses of previous years and the subsidiaries' share thereon whose application was not carried out;
- The parent company's net profit or loss of the current period and the subsidiaries' share thereon;
- Consolidation adjustments to any of the aforementioned components.

22.4. OTHER ACCUMULATED COMPREHENSIVE INCOME

This caption includes:

- Currency translation reserves resulting from the conversion to Euros of subsidiaries' financial statements which are expressed in a different functional currency;
- Hedging derivative instruments (note 24);
- Remeasurement of defined benefit obligations (note 27);
- Revaluation of tangible fixed assets (notes 2.3, 2.10 and 9);
- Group's share in accumulated other comprehensive income of joint ventures;
- Consolidation adjustments to any of the aforementioned components.

	Accumulated other comprehensive income						
	Atributable to the parent's shareholders						
	Currency translation	Revaluation Reserve	Remeasurements on defined benefit plans	Share of Other Comprehensive Income of Joint Ventures		Income tax related to components of other comprehensive income	Total
Which may be subsequently transferred to profit or loss				Which may not be subsequently transferred to profit or loss			
Balance as at 1 January 2019	4 159 959	11 957 399	(6 633)	1 067 932	38 530 418	(2 569 547)	53 139 528
Consolidated other comprehensive income for the period	4 310 299	3 019 692	(53 999)	828 064	(2 112 145)	(800 218)	5 191 693
Balance as at 31 December 2019	8 470 258	14 977 091	(60 632)	1 895 996	36 418 273	(3 369 765)	58 331 221

	Accumulated other comprehensive income						
	Atributable to the parent's shareholders						
	Currency translation	Revaluation Reserve	Remeasurements on defined benefit plans	Share of Other Comprehensive Income of Joint Ventures		Income tax related to components of other comprehensive income	Total
Which may be subsequently transferred to profit or loss				Which may not be subsequently transferred to profit or loss			
Balance as at 1 January 2018	6 873 920	12 164 031	(86 071)	3 850 335	35 054 610	(2 569 547)	55 287 278
Consolidated other comprehensive income for the period	(2 564 945)		79 438	(2 731 548)	3 475 808		(1 741 247)
Transferred to Other reserves and accumulated earnings		(206 632)					(206 632)
Others	(149 016)			(50 855)			(199 871)
Balance as at 31 December 2018	4 159 959	11 957 399	(6 633)	1 067 932	38 530 418	(2 569 547)	53 139 528

At 31 December 2019 and 31 December 2018, Currency translation reserve refers mostly to the subsidiary Tafisa Canada Inc..

Income tax related to components of other comprehensive income relates to items that will not subsequently be transferred to profit or loss.

23. LOANS

As at 31 December 2018 and 31 December 2017 Sonae Indústria had the following outstanding loans:

	31.12.2019			
	Amortized cost		Nominal value	
	Current	Non-current	Current	Non-current
Subordinated bonds		49 938 116		50 000 000
Unsubordinated bonds		7 951 240		8 000 000
Current portion of non-current bank loans	5 755 509		5 755 509	
Bank loans	830 938	146 393 538	830 938	147 559 519
Obligations under leases	1 790 941	3 335 541	1 790 941	3 335 541
Gross debt	8 377 388	207 618 435	8 377 388	208 895 060

	31.12.2018			
	Amortized cost		Nominal value	
	Current	Non-current	Current	Non-current
Current portion of non-current bank loans	15 192 246		15 192 246	
Bank loans	2 136 274	188 102 256	2 136 274	189 112 411
Obligations under leases	529 015	491 753	529 015	491 753
Gross debt	17 857 535	188 594 009	17 857 535	189 604 164

The maturity schedule of these loans is detailed on note 25.

The average interest rates of each class of debt stated in the previous table were as follows:

	2019	2018
Subordinated bonds	7.01%	
Unsubordinated bonds	2.37%	
Bank loans	4.32%	4.35%

Bank overdrafts were not included in the calculation of average interest rates as they amounted to irrelevant values. Subordinated bonds are subject to fixed interest rate.

At 31 December 2019, the total amount of outstanding debt in respect of which the creditors have the possibility to consider as due, in the event of a shareholder

change, was approximately 146 million euros (70% of the carrying amount of net consolidated debt).

Sonae Indústria estimates that there were no significant differences between the carrying amount of its debt, including the subordinated bonds, and the respective fair value, as at 31 December 2019.

23.1. BONDS

At 31 December 2019, details of issued bonds were as follows:

Company(ies)	Loan	Contract date	Maturity (with reference to 31.12.2019)	Currency	Outstanding principal at 31.12.2019 (EUR)
Sonae Indústria, SGPS, S.A.	Subordinated bonds ¹⁾	December 2019	December 2029	EUR	50 000 000
Sonae Indústria, SGPS, S.A.	Unsubordinated bonds ²⁾	October 2019	October 2022	EUR	8 000 000
Total				EUR	58 000 000

- 1) These subordinated bonds are subject to fixed interest rate;
- 2) These unsubordinated bonds are subject to variable interest rates. Under this agreement, Sonae Indústria, SGPS, S. A. is obliged to maintain a minimum level of Financial Autonomy (Total Net Equity / Total Assets). For this purpose, total Net Equity includes loans from shareholders and similar loans. This ratio is tested annually from 31 December 2019 until the end of the loan, based on the Company's consolidated financial statements, and its failure may lead to early maturity of this loan.

23.2. BANK LOANS

Bank loans presented in the table in note 23 include "Non-current Bank Loans – net of the current portion". "Current portion of Non-current Bank Loans" and "Current Bank Loans" on the Consolidated Statement of Financial Position and their composition as at 31 December 2019 and 31 December 2018 is detailed in the following table:

Company	31.12.2019			Total
	Non current	Current		
		Short term portion	Short term	
Sonae Indústria-SGPS,SA	95 500 000	4 550 000		100 050 000
Tafisa Canada Inc.	50 059 519	205 509	830 938	51 095 966
Sonae Indústria de Revestimentos,SA	2 000 000	1 000 000		3 000 000
	147 559 519	5 755 509	830 938	154 145 966

31.12.2018

Company	Non-current	Current		Total
		Short term portion	Short term	
Sonae Indústria-SGPS,SA	152 100 000	14 000 000	2 135 022	168 235 022
Tafisa Canada Inc.	34 012 411	192 246		34 204 657
Sonae Industria de Revestimentos,SA	3 000 000	1 000 000		4 000 000
Isoroy SAS			1 252	1 252
	<u>189 112 411</u>	<u>15 192 246</u>	<u>2 136 274</u>	<u>206 440 931</u>

Figures on the previous table correspond to the nominal values of bank loans disclosed on note 23.

Non-current bank loans, the related short term portion and current bank loans are detailed as follows:

Company(ies)	Loan	Contract date	Maturity (with reference to 31.12.2019)	Currency	Outstanding principal at 31.12.2019 (EUR)	Outstanding principal at 31.12.2018 (EUR)
Tafisa Canada Inc.	Bank loan (Revolving) ¹⁾	July 2011	October 2023	CAD	50 291 056	33 259 448
Sonae Indústria, SGPS, S.A.	Commercial paper programme	June 2013	June 2023 Note: programme without subscription guarantee	EUR		2 000 000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	July 2014	to be repaid from May 2020 to May 2022 ²⁾	EUR	6 800 000	8 100 000
Sonae Indústria, SGPS, S.A.	Commercial paper programme ³⁾	May 2016	to be repaid from December 2020 to December 2024 ⁴⁾	EUR	79 500 000	136 500 000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	July 2016	April 2021	EUR	2 000 000	4 000 000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	December 2016	fully repaid in October 2019, by agreement between the parties ⁵⁾	EUR		7 500 000
Sonae - Indústria de Revestimentos, S. A.	Bank loan	September 2017	to be repaid from March 2019 to September 2022	EUR	3 000 000	4 000 000
Sonae Indústria, SGPS, S. A.	Commercial paper programme ⁶⁾	June 2018	to be repaid from December 2019 to June 2021	EUR	6 750 000	10 000 000
Sonae Indústria, SGPS, S. A.	Commercial paper programme	February 2019	February 2022	EUR	5 000 000	N/A
Others				EUR	804 910	1 081 483
Total				EUR	154 145 966	206 440 931

- 1) There is an obligation under this contract to fulfil two financial ratios calculated based on the individual financial statements of Tafisa Canada Inc: Financial Liabilities / (Net Equity + Financial Liabilities) and EBITDA / Cash outflows regarding net interest and similar charges. These ratios are tested quarterly until the end of the loan and failure may lead to early repayment of this loan.
- 2) In January 2020, both parts to this contracts agreed on changing some provisions thereon, including its maturity, which was extended to January 2025 (maximum amounts are to be reduced from July 2020 to January 2025).
- 3) The shares of subsidiaries Megantic BV and Tafisa Canada Inc were pledged as collateral for this loan. Under this agreement, Sonae Indústria, SGPS, SA is obliged to maintain a certain maximum level of Financial Debt calculated based on the Company's individual financial statements, excluding subordinated loans held or subscribed by shareholders, also committing itself to a maximum Net Debt / EBITDA ratio for Tafisa Canada Inc, which is calculated based on the individual financial statements of this subsidiary. Failure to comply with any of these ratios may lead to the anticipated maturity of the loan;

- 4) In December 2019, both parts to this contract agreed upon extending the maturity of this contract to December 2024 and on changing the maximum initial nominal amount to EUR 90 million (this amount will be reduced from December 2020 to December 2024);
- 5) In October 2019, both parts agreed upon revoking this contract and the outstanding amount was totally repaid;
- 6) Under this agreement, Sonae Indústria, SGPS, S. A. is obliged to maintain a minimum level of Financial Autonomy (Total Net Equity / Total Assets). This ratio is tested annually from 31 December 2018 until the end of the programme, based on the Company's consolidated financial statements, and its failure may lead to early maturity of this loan.

Figures on the previous table correspond to the nominal value of bank loans disclosed on note 23.

The aforementioned contracts are subject to variable interest rates.

At 31 December 2019, the aforementioned ratios associated with existing loans fulfilled the contractually established limits.

Effective January 2020, two commercial paper programmes were agreed upon with maximum nominal amounts of Eur 10 million and EUR 5 million (total Eur 15 million), maturing January 2024.

At 31 December 2019, in addition to mortgaged tangible fixed assets disclosed on note 9, there were other assets amounting to EUR 36 645 370 (EUR 27 549 025 at 31 December 2018) which were pledged as collateral for the Group's liabilities. These assets consisted mostly in inventories and accounts receivable.

23.3. CASH FLOWS

Amounts stated under cash receipts arising from loans obtained and cash payment arising from loans obtained, on financing activities of the Consolidated Statement of Cash Flows include the rollover of commercial paper programmes detailed on note 23.2.

Financial liabilities (nominal value) arising from financial activities, which are disclosed on note 23, are detailed as follows:

31.12.2019						
Consolidated Statement of Financial Position						
	Opening balance	Increase	Decrease	Exchange rate effect	Others	Closing balance
Non-current liabilities:						
Subordinated bonds		50 000 000				50 000 000
Unsubordinated bonds		8 000 000				8 000 000
Bank loans - net of current portion	189 112 412	14 476 595	3 029 985	2 580 507	(55 580 010)	147 559 519
Lease creditors - net of current portion	491 753	6 712 320	2 632 912	35 639	(1 271 259)	3 335 541
Current liabilities:						
Current portion of non-current bank loans	15 192 246		1 000 000	13 263	(8 450 000)	5 755 509
Current bank loans	2 136 274	1 475 750 463	1 541 100 000	14 192	64 030 009	830 938
Current portion of non-current lease creditors	529 015			25 955	1 235 971	1 790 941
Total	207 461 700	1 554 939 378	1 547 762 897	2 669 556	(35 289)	217 272 448
Movements which do not affect cash flows:						
Lease creditors - net of current portion	(-)	6 712 320				
Overdrafts (classified under Cash and cash equivalents on the Consolidated Statement of Cash Flows)	(-)	680 473				
Total		1 547 546 585	1 547 762 897			
Consolidated Statement of Cash Flows						
		Cash receipts from	Cash payments to			
Financing activities:						
Subordinated bonds		50 000 000				
Unsubordinated bonds		8 000 000				
Bank loans		1 489 546 585	1 545 129 985			
Lease creditors			2 632 912			
Total		1 547 546 585	1 547 762 897			

31.12.2018						
Consolidated Statement of Financial Position						
	Opening balance	Increase	Decrease	Exchange rate effect	Others	Closing balance
Non-current liabilities:						
Bank loans - net of current portion	199 012 843	8 499 920	7 955 882	(1 264 663)	(9 179 806)	189 112 412
Finance lease creditors - net of current portion	898 793	152 139	477 304	(7 576)	(74 299)	491 753
Current liabilities:						
Current portion of non-current bank loans	11 949 858		32 680	(4 738)	3 279 806	15 192 246
Current bank loans	1 750 000	1 634 086 274	1 639 600 000		5 900 000	2 136 274
Current portion of non-current finance lease creditors	500 227		41 368	(4 143)	74 299	529 015
Total	214 111 721	1 642 738 333	1 648 107 234	(1 281 120)		207 461 700
Movements which do not affect cash flows:						
Finance lease creditors - net of current portion	(-)	152 139				
Overdrafts (classified under Cash and cash equivalents on the Consolidated Statement of Cash Flows)	(-)	136 274				
Others	(-)		2 993			
Total		1 642 449 920	1 648 104 241			
Consolidated Statement of Cash Flows						
		Cash receipts from	Cash payments to			
Financing activities:						
Loans obtained		1 642 449 920	1 647 588 599			
Finance lease creditors			515 642			
Total		1 642 449 920	1 648 104 241			

24. FINANCIAL DERIVATIVES

The fair value of derivative instruments is stated as follows:

	Other current assets	Other current liabilities	
	31.12.2018	31.12.2019	31.12.2018
Exchange rate forwards (notes 19 and 30)	27 676	143 493	5 621
	27 676	143 493	5 621

24.1. Exchange rate forwards

In the periods ended 31 December 2019 and 31 December 2018, the Group contracted exchange rate forwards to hedge exchange rate risks on forecast operating and financing transactions where the Group acts as debtor or as creditor. The Group does not use hedge accounting for these derivative instruments as it is estimated that such use would not significantly affect its consolidated financial statements.

These derivative instruments are recognized at fair value through profit or loss. When hedged items are related to the group's operating activity, changes in fair value of these derivatives are recognized under Other income and gains (note 34) or under Other expenses and losses (note 35). When hedged items are related to the Group's financing activity, changes in fair value of these derivatives are recognized under Financial income or Financial expenses (note 38), on the Consolidated Income Statement.

The fair value of exchange rate forwards was determined using derivative valuation software and external appraisals when software do not allow some derivatives to be valued, and consisted in updating the receivable/payable amount at maturity date to the closing date of the consolidated financial statements (level 2 of fair value hierarchy). Receivable/payable amount, which was used for valuing, corresponds to the amount denominated in foreign currency multiplied by the difference between the contracted exchange rate and the market exchange rate at the maturity date that was determined at valuation date (forward exchange rate determined between valuation and maturity date using market information).

	31.12.2019	31.12.2018
Other income and gains (note 34)	122 378	348 089
Other expenses and losses (note 35)	294 350	269 504
Net effect	(171 972)	78 585

Derivative instruments recognized at fair value through profit or loss held by the Group at 31 December 2019 fully mature within the following twelve-month period.

24.2. Derivatives at fair value through reserves

In 2019 and 2018 no derivative financial instruments at fair value through reserves were contracted.

25. FINANCIAL RISKS

25.1. Liquidity risk

Liquidity risk described in note 2.27, b) related to the nominal value of gross debt referred to in note 23, can be analysed as follows:

	31.12.2019			31.12.2019		
	Maturity of bank loans and bonds (note 23)	Interest	Total	Maturity of Lease creditors (nota 23)	Interest	Total
2020	6 586 447	8 240 588	14 827 035	1 790 941	166 424	1 957 365
2021	9 205 509	7 951 182	17 156 691	1 479 030	102 967	1 581 997
2022	31 705 509	7 722 567	39 428 076	960 299	55 601	1 015 900
2023	79 648 501	6 778 512	86 427 013	896 212	16 565	912 777
2024	35 000 000	4 512 812	39 512 812			
2025		3 548 611	3 548 611			
2026		3 548 611	3 548 611			
2027		3 548 611	3 548 611			
2028		3 558 333	3 558 333			
2029	50 000 000	3 548 611	53 548 611			
	<u>212 145 966</u>	<u>52 958 438</u>	<u>265 104 404</u>	<u>5 126 482</u>	<u>341 557</u>	<u>5 468 039</u>

	31.12.2018		
	Maturity of gross debt (note 23)	Interest	Total
2019	17 857 535	7 282 428	25 139 963
2020	47 695 293	6 004 065	53 699 358
2021	104 280 952	2 880 533	107 161 485
2022	4 192 246	1 183 534	5 375 780
2023	33 435 673	942 666	34 378 339
	<u>207 461 699</u>	<u>18 293 226</u>	<u>225 754 925</u>

The calculation of interest in the previous table was based on interest rates at 31 December 2019 and 31 December 2018 applicable to each item of debt. Gross debt maturing in 2020 (2019) includes scheduled repayment of debt along with

the repayment of debt as at end 2019 (2018) which is maturing within less than one year.

Maturities for the remaining financial instruments are stated on the respective notes.

25.2. Market risk

25.2.1. Interest rate risk

The analysis of interest rate risk, described on note 2.27, b), consisted in calculating the way net profit before tax for 2019 and 2018 would have been impacted if there would have been a change of +0.75 or -0.75 percentage points in interest rates that were determined for the corresponding periods:

Sensitivity Analysis						
2019			2018			
"Notional" (Euros)	Effect in Profit and Loss (Euros)		"Notional" (Euros)	Effect in Profit and Loss (Euros)		
	0.75 pp	-0.75 pp		0.75 pp	-0.75 pp	
Gross Debt						
EUR	161 659 004	(1 000 862)	1 000 862	172 933 910	(1 222 132)	1 222 132
CAD	50 486 962	(308 106)	308 106	34 527 789	(241 615)	241 615
	<u>212 145 966</u>	<u>(1 308 968)</u>	<u>1 308 968</u>	<u>207 461 699</u>	<u>(1 463 747)</u>	<u>1 463 747</u>

On the sensitivity analysis disclosed on the previous table, the effect on profit and loss excludes bank overdrafts and borrowings which are not subject to change in interest rate. Nevertheless, debt notional disclosed includes bank overdrafts and borrowings which are not subject to change in interest rate.

Considering Euribor 6 months as a reference indicator for Euro interest rates, a change of 0.75 percentage points corresponds to 11.2 times the standard deviation of that variable in 2019 (84.4 times in 2018).

25.2.2. Exchange rate risk

With respect to exchange rate risk, described in note 2.27., b), the following calculations were performed:

a) Sensitivity analysis of amounts denominated in a currency other than the functional currency of each company included in the consolidation, by considering a change of +1% and -1% in actual 2019 and 2018 closing exchange rates of each currency against the Euro.

i) Loans (-) net of treasury applications (+)

At 31 December 2019 and 31 December 2018, the Group had no outstanding loans or treasury applications held in a currency other than the functional currencies of its subsidiaries.

ii) Other balances: net assets (+) and net liabilities (-)

	Amount held in foreign currency		Eur equivalent		Sensitivity analysis (EUR)			
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	2019		2018	
					-1%	1%	-1%	1%
USD	3 451 574	1 823 848	3 072 419	1 592 876	(30 724)	30 724	(15 929)	15 929
ZAR	21 095 032	14 043 629	1 337 003	853 291	(13 370)	13 370	(8 533)	8 533
GBP	5 286	(8 213)	6 213	(9 181)	(62)	62	92	(92)

Sensitivity refers to the effect that -1% and 1% changes in closing exchange rates for 2019 and 2018 financial years would have on net exchange differences disclosed on notes 34, 35 e 38.

b) Sensitivity analysis of existing derivatives to hedge the exchange rate risk set out in the previous point, by considering a change of +1% and -1% in actual 2019 and 2018 closing exchange rates of each currency against the Euro:

i) Loans net of treasury applications

At 31 December 2019 and 31 December 2018, the Group had derivatives to hedge outstanding loans or treasury applications held in a currency other than the functional currencies of its subsidiaries.

ii) Other balances: net assets (+) and net liabilities (-)

	Amount held in foreign currency		Eur equivalent		Sensitivity analysis (EUR)			
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	2019		2018	
					-1%	1%	-1%	1%
ZAR	19 648 389	14 357 909	1 245 315	872 387	12 453	(12 453)	8 724	(8 724)

Sensitivity refers to the effect that -1% and 1% changes in closing exchange rates for 2019 and 2018 financial years would have on the hedging of the amounts identified on a).

25.2.3. Credit risk

Credit risk described on note 2.27, a) is mostly reflected through the amount stated in Trade Debtors (note 17) and Other current debtors (note 18).

The Group discloses the ageing of financial assets in the related notes.

The Group estimates that the maximum exposure to the credit risk does not differ significantly from the carry amount disclosed on the related notes. However, the Group contracts credit insurance for most of its receivables, significantly reducing its exposure to credit risk.

The Group estimates that there are no relevant differences between the carrying amount of Trade debtors and Other current debtors and the respective fair value.

26. OTHER NON-CURRENT LIABILITIES

At 31 December 2019 and 31 December 2018 details of Other non-current liabilities were as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u> Restated
Accrued expenses		
Personnel expenses		103 005
Financial instruments		103 005
Other creditors	<u>3 404 222</u>	<u>1 025 033</u>
Liabilities out of scope of IFRS 9	<u>3 404 222</u>	<u>1 025 033</u>
Total	<u>3 404 222</u>	<u>1 128 038</u>

Other creditors include EUR 3 404 221 (EUR 888 506 at 31 December 2018) related to deferred investment subventions

27. POST RETIREMENT 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.

Present value of defined benefit liabilities associated are evaluated every year through actuarial reports and based on the "Projected Unit Credit" methodology. Actuarial assumptions employed on the last report prepared at 31 December 2019 and 31 December 2018 were:

	Portugal	
	31.12.2019	31.12.2018
<u>Mortality table</u>	TV 88/90	TV 88/90
<u>Salary growth rate</u>	3.00%	3.00%
<u>Return on fund</u>	2.75%	3.80%
<u>Actuarial technical rate</u>	2.50%	2.75%
<u>Pension growth rate</u>	0.00%	0.00%

Benefit plans set up in previous periods by several Group companies are as follows:

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 an independent entity. Employees of three companies hired until 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. Employees may choose to be paid a lump sum instead of a monthly amount.

The actuarial discount rate of 2.5% used for calculating the defined benefit liability of Portuguese subsidiaries was obtained from the yield curves of high quality zero coupon government bonds from the Euro Zone, plus a spread, determined based on iTaxx Europe Main index.

The average duration of the defined benefit obligation recognized by the Portuguese subsidiaries is 20 years.

An actuarial report calculated the liabilities of these companies on 31 December 2019 to be EUR 904 548 (EUR 785 667 at 31 de December 2018).

The main risk to which these defined benefit plans expose the Group is the liquidity risk. At 31 December 2019 assets funding the plans represented 36.65% (40.31% at 31 December 2018) of the defined benefit obligation. However, this risk is mitigated by the long average duration of the Group's defined benefit liabilities and by the fact that employees do not retain any right to benefits if they terminate work.

The main changes, during the periods ending 31 December 2019 and 31 December 2018, to the present value of the defined benefit obligations are presented as follows:

	31.12.2019		31.12.2018	
	Plan with fund	Total	Plan with fund	Total
(+) Opening balance of defined benefit obligations' present value	1 316 268	1 316 268	1 560 588	1 560 588
(+) Interest cost	36 197	36 197	42 916	42 916
(+) Current service cost	43 277	43 277	49 450	49 450
(+) Remeasurements:				
Due to change in financial assumptions	63 175	63 175		
Due to experience adjustments	(31 151)	(31 151)	(170 004)	(170 004)
(+) Recognised past service cost			(166 682)	(166 682)
(=) Closing balance of defined benefit obligations' present value	<u>1 427 766</u>	<u>1 427 766</u>	<u>1 316 268</u>	<u>1 316 268</u>

During 2019 and 2018 the fair value of the plan assets changed as follows:

	31.12.2019	31.12.2018
(+) Opening balance of plan assets	530 601	598 336
(+) Interest income	14 592	22 831
(+) Remeasurements	<u>(21 975)</u>	<u>(90 566)</u>
(=) Closing balance of plan assets	<u>523 218</u>	<u>530 601</u>

Funding assets do not include any assets occupied or used by the Group nor do they include any securities issued by the Company or its subsidiaries.

At 31 December 2019 and 31 December 2018, the amount of liabilities for defined benefits recognized in the Consolidated Statements of Financial Position is detailed as follows:

	31.12.2019	31.12.2018
(+) Present value of defined benefit obligation:	1 427 766	1 316 268
(-) Fair value of plan assets	<u>523 218</u>	<u>530 601</u>
(=) Defined benefit liability	<u><u>904 548</u></u>	<u><u>785 667</u></u>

Sensitivity of the defined benefit obligation is as follows:

	2019			2018		
	-0.5 pp	Valuation basis	+0.5 p	-0.5 pp	Valuation basis	+0.5 p
Defined benefit obligation	1 565 457	1 427 766	1 304 876	1 449 250	1 316 268	1 197 889

The valuation basis refers to the actuarial discount rate that was included in the actuarial assumptions disclosed herewith.

28. TRADE CREDITORS

At 31 December 2019 and 31 December 2018, Trade creditors stated on the Consolidated Statements of Financial Position had the following maturities:

	MATURITY OF TRADE CREDITORS	
	31.12.2019	31.12.2018
To be paid		
< 90 days	25 847 386	21 419 613
90 - 180 days	107 088	62 039
> 180 days	<u>71 956</u>	<u>85 832</u>
	<u><u>26 026 430</u></u>	<u><u>21 567 484</u></u>

29. OTHER TAXES AND CONTRIBUTIONS (CURRENT LIABILITIES)

At 31 December 2019 and 31 December 2018 Other taxes and contributions had the following composition:

	31.12.2019	31.12.2018
Other taxes and contributions		
Value Added Tax	31 338	5 498
Social Security Contribution	222 728	211 450
Others	<u>326 330</u>	<u>273 135</u>
	<u><u>580 396</u></u>	<u><u>490 083</u></u>

30. OTHER CURRENT LIABILITIES

At 31 December 2019 and 31 December 2018 Other current liabilities were composed of:

	31.12.2019	31.12.2018 Restated
Derivatives	143 493	5 621
Tangible fixed assets suppliers	4 622 908	1 955 451
Other creditors	428 932	531 520
Subtotal	5 195 333	2 492 592
Other creditors	497 142	473 106
Advances from trade debtors	31 017	9 760
Accrued expenses		
Insurances	16 369	19 068
Personnel expenses	3 991 959	3 912 764
Accrued financial expenses	242 484	229 540
Rebates	3 680 082	3 050 847
External supplies and services	375 632	391 968
Other accrued expenses	434 874	1 036 836
Subtotal	9 269 559	9 123 889
Financial instruments	14 464 892	11 616 481
Deferred income		
Investment subventions	471 735	161 013
Other deferred income	136 525	148 937
Liabilities out of scope of IFRS 9	608 260	309 950
Total	15 073 152	11 926 431

31.12.2019	< 90 days	90 - 180 days	> 180 days	Total
Derivatives	4 826	124 905	13 762	143 493
Maturity of current fixed assets' suppliers	3 925 819	679 089	18 000	4 622 908
Maturity of Other current creditors	428 932			428 932
	4 359 577	803 994	31 762	5 195 333

31.12.2018	< 90 days	90 - 180 days	> 180 days	Total
Derivatives		5 621		5 621
Maturity of current fixed assets' suppliers	1 903 225	52 226		1 955 451
Maturity of Other current creditors	500 458		31 062	531 520
	2 403 683	57 847	31 062	2 492 592

31. PROVISIONS AND ACCUMULATED IMPAIRMENT LOSSES

Movements occurred in provisions and accumulated impairment losses during the periods ended 31 December 2019 and 31 December 2018 were as follows:

Description	31.12.2019						
	Opening balance	Exchange rate effect	Increase	Utilization	Reversion	Other changes	Closing balance
Impairment losses:							
Investment properties	2 259 929						2 259 929
Tangible fixed assets	4 501 382		5 389			(926 887)	3 579 884
Intangible assets	19 242						19 242
Trade debtors	121 467	902	313 738			(320 741)	115 366
Subtotal impairment losses	6 902 020	902	319 127			(1 247 628)	5 974 421
Provisions:							
Litigations in course	583 290			(16 257)			567 033
Other	4 470 719		5 416 356				9 887 075
Subtotal provisions	5 054 009		5 416 356	(16 257)			10 454 108
Subtotal impairment losses and provisions	11 956 029	902	5 735 483	(16 257)		(1 247 628)	16 428 529
Other losses:							
Other investments	3 989		121 427				125 416
Write-down to net realizable value of inventories	934 312	18 096	146 072		(303 191)		795 289
Total	12 894 330	18 998	6 002 982	(16 257)	(303 191)	(1 247 628)	17 349 234

Description	31.12.2018						
	Opening balance	Exchange rate effect	Increase	Utilization	Reversion	Other changes	Closing balance
Impairment losses:							
Investment properties	2 259 929						2 259 929
Tangible fixed assets	6 306 154		55 224			(1 859 996)	4 501 382
Intangible assets	19 242						19 242
Trade debtors	417 227	(2 605)	102 930		(83 155)	(312 930)	121 467
Subtotal impairment losses	9 002 552	(2 605)	158 154		(83 155)	(2 172 926)	6 902 020
Provisions:							
Litigations in course	749 344			(166 054)			583 290
Other	4 510 315				(39 596)		4 470 719
Subtotal provisions	5 259 659			(166 054)	(39 596)		5 054 009
Subtotal impairment losses and provisions	14 262 211	(2 605)	158 154	(166 054)	(122 751)	(2 172 926)	11 956 029
Other losses:							
Investments	36 973 903					(36 969 914)	3 989
Write-down to net realizable value of inventories	950 946	(19 493)	226 375		(223 516)		934 312
Total	52 187 060	(22 098)	384 529	(166 054)	(346 267)	(39 142 840)	12 894 330

Impairment losses are offset against the corresponding asset on the Consolidated Statement of Financial Position.

Increase and utilization of provisions and impairment losses are stated on the Consolidated Income Statement as follows:

	31.12.2019			31.12.2018		
	Losses	Gains	Total	Losses	Gains	Total
Cost of sales	(38 786)	134 262	95 476	(50 624)	140 269	89 645
(Increase) / decrease in production	(107 286)	168 929	61 643	(175 751)	83 247	(92 504)
Provisions and impairment losses	(5 735 483)	16 257	(5 719 226)	(158 154)	249 209	91 055
Staff expenses					39 596	39 596
Profit / (loss) from investments	(121 427)		(121 427)			
Total (Consolidated Income Statement)	(6 002 982)	319 448	(5 683 534)	(384 529)	512 321	127 792

31.1. Impairment losses on tangible fixed assets

Movements occurred in impairment losses during the period ended 31 December 2019 and 31 December 2018 were as follows:

- Impairment losses recognized through profit or loss for 2019 and 2018 are included under "Increases" on the tables above;
- Impairment losses reverted in 2019 and 2018 are included under "Reversion" on the tables above;
- Other changes include reductions arising from disposal and write-off.

31.2. Provisions

At 31 December 2019, the amount of provisions could be detailed as follows:

- Provisions for ongoing litigations amounting to EUR 567 033 refer mostly to litigation with former workers of decommissioned industrial plants. This provision is stated under non-current liabilities.
- Other provisions include:

Provision amounting to EUR 1 195 000 for environmental liabilities. This provision is stated under non-current liabilities;

Provision amounting to EUR 7 125 719 for responsibilities which, under the terms of the Sonae Arauco, S. A. joint-venture agreement, are transferred to Sonae Indústria, SGPS, S. A. (note 5). In 2019, this provision was increased by EUR 3 850 000, which refer to obligations arising from the close down of Horn industrial plant, referred to on note 5.2.1. This provision is stated under current liabilities for EUR 3 250 000 and under non-current liabilities for EUR 3 875 719;

Provision amounting to EUR 1 500 000 which was set up in 2019 for legal contingencies which the Board of Directors decided to recognize. This provision is stated under non-current liabilities.

32. OPERATING LEASES

In the period ended 31 December 2019, the Group recognized under External Suppliers and Services, on the Consolidated Income Statement, rents related to leases classified as low-value or short-term leases amounting to EUR 228 139 (note 2.5).

Right-of-use assets recognized on the Consolidated Statement of Financial Position as at 31 December 2019 are detailed on note 9.

Maturities of Lease creditors recognized on Consolidated Statement of Financial Position as at 31 December 2019 are disclosed on note 25.1.

Effects arising from applying IFRS 16 and the related transition procedures are described on note 3.

33. RELATED PARTIES

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

Balances	<u>Accounts receivable</u>		<u>Accounts payable</u>	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Subsidiaries of the ultimate parent company	158 894	102 311	320 225	351 433
Joint ventures of Sonae Indústria, SGPS, S. A.	617 500	483 982	1 637 931	1 188 820

Transactions	<u>Income</u>		<u>Expenditure</u>	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Subsidiaries of the ultimate parent company	12 344	69 701	1 419 911	1 112 604
Joint ventures of Sonae Indústria, SGPS, S. A.	4 491 352	3 217 779	11 737 659	12 420 076

Income and expenses resulting from transactions with related parties, which are disclosed above, refer to operating activities and were carried out under arm's length conditions.

Furthermore, as at 31 December 2019, Efanor Investimentos, SGPS, S. A. (ultimate controlling entity of Sonae Indústria, SGPS, S. A.) held all subordinated bonds issued by the Company, with a nominal value of EUR 50 000 000.

33.2. Remuneration of the Board of Directors of the Company is detailed as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Short term benefits	<u>931 721</u>	<u>823 172</u>
	<u>931 721</u>	<u>823 172</u>

The amounts disclosed on the previous table relate to remunerations of the Board of Directors of Sonae Indústria, SGPS, S. A. which were recognized under Staff expenses, on the Consolidated Income Statements for the periods ended 31 December 2019 and 31 December 2018.

At 31 December 2019 and 31 December 2018 there were no post retirement liabilities attributed to the members of the board of directors.

33.3. During the periods ended 31 December 2019 and 31 December 2018, the Group recognized on its consolidated financial statements the following fees from audit company Deloitte & Associados, SROC, S. A. and respective international network:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Total fees related to audit of end year accounts	132 591	127 248
Total fees related to other reliability assurance services	500	
Total fees related to other services		<u>3 204</u>
	<u>133 091</u>	<u>130 452</u>

34. OTHER OPERATING INCOME

Details of Other operating income on the Consolidated Income Statement for the periods ended 31 December 2019 and 31 December 2018 are as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Gains on disp. and write off of invest. prop., tang. and intang. assets	326 603	3 748 097
Supplementary revenue	2 187 497	1 762 547
Investment subventions	468 421	503 641
Tax received		23 911
Positive exchange gains	859 900	1 168 441
Adjustment to fair value of financial instruments at fair value through profit or loss	122 378	348 089
Others	<u>275 450</u>	<u>670 651</u>
	<u>4 240 249</u>	<u>8 225 377</u>

Gains on tangible fixed assets recorded in the period ended 31 December 2018 refer mostly to the sale of land and buildings of former Solsona industrial plant, in Spain, which has been discontinued.

35. OTHER OPERATING EXPENSES

Details of Other operating expenses on the Consolidated Income Statement for 2019 and 2018 are as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Taxes	1 343 837	1 359 829
Losses on disposals of non current investments		83 667
Losses on disp. and write off of invest. prop., tang. and intang. assets	547 312	551 734
Negative exchange gains	1 025 950	1 181 059
Adjustment to fair value of financial instruments at fair value through profit or loss	294 350	269 504
Others	<u>240 299</u>	<u>201 784</u>
	<u>3 451 748</u>	<u>3 647 577</u>

36. RESEARCH AND DEVELOPMENT EXPENSES

During the period ended 31 December 2019, the Group recognized in several items of the Consolidated Income Statement research and development expenses amounting to EUR 261 250 (EUR 185 557 in 2018).

37. RECURRING AND NON-RECURRING ITEMS

Recurring and non-recurring operating items on the Consolidated Income Statement are detailed as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
	Recurring	Recurring
Sales	228 500 563	218 781 711
Services rendered	1 486 041	1 392 246
Change in value of biological assets	(145 199)	
Other income and gains	3 923 646	4 467 678
Cost of sales	(127 189 314)	(122 579 602)
Increase / (decrease) in production	1 997 447	2 127 586
External supplies and services	(51 797 596)	(49 347 378)
Staff expenses	(27 107 102)	(25 213 163)
Impairment losses in trade debtors - (increase)/reduction	(313 738)	(19 775)
Other expenses and losses	<u>(2 876 734)</u>	<u>(2 938 366)</u>
Recurring operating profit/(loss) before amortization, depreciation, provisions and impairment losses (except trade debtors)	<u>26 478 014</u>	<u>26 670 937</u>
Non-Recurring operating profit/(loss) before amortization, depreciation, provisions and impairment losses (except trade debtors)	<u>(713 387)</u>	<u>2 569 718</u>
Total operating profit/(loss) before amortization, depreciation, provisions and impairment losses (except trade debtors)	<u>25 764 627</u>	<u>29 240 655</u>

Classification of items as either recurring or non-recurring is done in accordance with criteria set out on note 2.25.

38. FINANCIAL RESULTS

Financial results for the periods ended 31 December 2019 and 31 December 2018 were as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Financial income:		
Interest income		
related to bank loans	22 465	12 175
Others		<u>653</u>
	<u>22 465</u>	<u>12 828</u>
Gains in currency translation		
related to loans	12 410	12 397
related to cash and cash equivalents	<u>571 736</u>	<u>540 471</u>
	584 146	552 868
Cash discounts obtained	83 378	89 502
Other finance gains	<u>5 770</u>	<u>5 785</u>
	<u>695 759</u>	<u>660 983</u>
Financial expenses:		
Interest expenses		
related to bank loans	(7 818 896)	(8 082 154)
related to bonds	(130 517)	
related to leases	(262 817)	(60 975)
related to loans from related parties	(173 333)	
others	<u>(4 621)</u>	<u>(2 206)</u>
	(8 390 184)	(8 145 335)
Losses in currency translation		
related to loans	(10 640)	(20 079)
related to cash and cash equivalents	<u>(601 291)</u>	<u>(529 144)</u>
	(611 931)	(549 223)
Cash discounts granted	(1 727 428)	(1 747 756)
Other finance losses	<u>(1 446 131)</u>	<u>(1 780 391)</u>
	<u>(12 175 674)</u>	<u>(12 222 705)</u>
Finance profit / (loss)	<u>(11 479 915)</u>	<u>(11 561 722)</u>

39. TAXES

Corporate income tax accounted for in 2019 and 2018 is detailed as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Current tax	3 330 869	5 698 246
Deferred tax	<u>1 917</u>	<u>473 220</u>
	<u>3 332 786</u>	<u>6 171 466</u>

Reconciliation of consolidated Net profit/(loss) from continuing operations, before tax, with taxation for the year may be detailed as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Consolidated net profit before tax	(10 036 563)	17 199 937
Tax rate	<u>21.00%</u>	<u>21.00%</u>
Expectable tax	(2 107 678)	3 611 987
Differences to foreign tax rates	544 273	511 376
Effect of provincial/municipal taxes		42 300
Consolidation adjustments	(968 586)	(2 490 098)
Permanent differences		
Non deductible costs	<u>1 256 888</u>	<u>1 352 178</u>
Non taxable profits	<u>(182 257)</u>	<u>(163 868)</u>
Tax losses carried forward		
Deferred tax asset not recognized (non compliance with IAS 12)	<u>2 725 878</u>	<u>854 757</u>
Utilization of tax losses carried forward whose deferred tax was not recognized in prior periods	<u>(1 270)</u>	
Deferred tax asset reverted (non compliance with IAS 12) - note 14		1 456 216
Tax withheld in foreign countries	934 368	1 534 046
Effect of change in tax rates	(245)	7 957
Others	1 131 414	(545 385)
Consolidated corporate income tax	<u>3 332 786</u>	<u>6 171 466</u>

The amount disclosed as Consolidation adjustments relates mainly to the share of the consolidated net profit of the joint venture Sonae Arauco, S.A, which was recorded in the consolidated financial statements for the periods ended 31 December 2019 and 31 December 2018 using the equity method.

In the period ended 31 December 2019, the amount stated as Others refers mostly to deferred tax asset on provisions which are not relevant for tax purposes, which were not recognized as the conditions required by the accounting standards were not met.

Group companies are subject to the following corporate income tax rates:

	<u>2019</u>		<u>2018</u>	
	<u>National</u>	<u>Provincial</u>	<u>National</u>	<u>Provincial</u>
Portugal	21.0%		21.0%	
Canada	15.0%	11.6%	15.0%	11.7%
South Africa	28.0%		28.0%	

40. EARNINGS PER SHARE

Earnings per share were calculated as follows:

	31.12.2019		31.12.2018	
	Net profit/(loss)		Net profit/(loss)	
	from continuing operations	total	from continuing operations	total
Net profit				
<i>Net profit considered to calculate base earnings per share (net loss attributable to equity holders of Sonae Indústria)</i>	(13 369 349)	(13 369 349)	11 028 470	11 028 470
<i>Net profit considered to calculate diluted earnings per share</i>	<u>(13 369 349)</u>	<u>(13 369 349)</u>	<u>11 028 470</u>	<u>11 028 470</u>
Number of shares				
<i>Weighted average number of shares used to calculate basic earnings per share</i>	45 403 029	45 403 029	45 403 029	45 403 029
<i>Weighted average number of shares used to calculate diluted earnings per share</i>	<u>45 403 029</u>	<u>45 403 029</u>	<u>45 403 029</u>	<u>45 403 029</u>
Basic earnings per share	<u>(0.2945)</u>	<u>(0.2945)</u>	<u>0.2429</u>	<u>0.2429</u>
Diluted earnings per share	<u>(0.2945)</u>	<u>(0.2945)</u>	<u>0.2429</u>	<u>0.2429</u>

41. SEGMENT INFORMATION

The main activity of the Group is the production and commercialization of wood based panels and derivative products through industrial plants and commercial facilities located in Portugal, Canada and South Africa.

The Company's system of internal report to the chief operating decision maker focus on type of business. Secondary activities are materially irrelevant as far as segmental report is concerned and the Group decided to present one only segment.

Consolidated revenue derives mostly from the production and sale of wood based panels and derivative products.

42. CONTINGENCIES

In October 2010 Sonae Indústria, SGPS, S. A. received a notice of assessment from tax authorities according to which the loss resulting from the dissolution of its subsidiary Socelpac, SGPS, S.A. in 2006, amounting to EUR 74 million, should be considered at 50% for tax calculation purposes. The company filed a lawsuit challenging this interpretation.

The subsidiary Sonae Indústria de Revestimentos, S. A. rendered surety of EUR 2 271 000 in favour of tax authorities for suspension of tax enforcement procedures initiated against Sonae Indústria, SGPS, SA, having been brought court challenges against the respective settlement.

The subsidiary Maiequipa – Gestão Florestal, S. A. rendered surety of EUR 1 242 746 in favour of tax authorities for suspension of tax enforcement procedures initiated against Sonae Indústria, SGPS, SA, having been brought court challenges against the respective settlement.

Sonae Indústria, SGPS, SA presented bank guarantees of EUR 9 286 997 to suspend tax enforcement procedures initiated by tax authorities, having been brought court challenges against the respective settlement, except for the process IRC 2015, for which only a complaint was filed, up until now.

According to the information available on this date, the Board of Directors considers that the probability of a negative outcome of the aforementioned lawsuits and complaint is low, thus no adjustment was done to the estimation of current tax recognized in these consolidated financial statements.

Surety rendered by Sonae Indústria, SGPS, S. A. in favour of “Instituto de Segurança Social” (Social Security Institute), amounting to EUR 321 858, to guarantee the contingency of Sonae Arauco Portugal, S. A. with that entity.

Former subsidiary Sonae Arauco Deutschland GmbH (formerly Glunz AG) and other German producers of wood-based panels are involved in certain litigation procedures filed by some customers for damages resulting from alleged breaches of competition law, after which former subsidiaries Sonae Arauco Deutschland GmbH (formerly Glunz AG) and GHP GmbH received, in March 2010, a statement of objections from the German Competition Authority. Some of these processes were resolved from 2015 to 2018 and their respective effects were recognized on the individual financial statements of each company and on the consolidated financial statements of the joint venture Sonae Arauco, S. A. (in which perimeter of consolidation these former subsidiaries are included) for the respective periods. As of the end of 2019, there were two processes still outstanding. One of which the complaint was submitted specifically to the former subsidiaries Sonae Arauco

Deutschland GmbH e GHP GmbH with a maximum contingency (based on claimed values) of EUR 31.5 million. In the other pending case, these subsidiaries are jointly involved with other German producers and the maximum contingency (based on claimed values) amounted to EUR 26 million as at 31 December 2019. According to the opinion of these former subsidiaries' lawyers, at the closing date of these consolidated financial statements, it is not possible to reliably estimate the outcome of the proceedings in progress or the amount of any payments that may be established. Under the terms of the agreement for the subscription of Sonae Arauco, S. A. shares, entered into in 2015 by Sonae Arauco, S. A., Sonae Indústria SGPS S. A. and the Arauco Group, Sonae Indústria, SGPS, S. A. assumes the obligation to compensate Sonae Arauco, S. A. for any losses resulting from these proceedings.

Darbo SAS, a former subsidiary of Sonae Indústria, SGPS, S.A located in France, was sold on 3 July 2015 to a subsidiary of Gramax Capital and was excluded from the Group's consolidated financial statements on that date. This company's insolvency was requested at the Trade Court of Dax, in France, in September 2016, and was declared by that court to be liquidated, in October of that year.

Following that case, one hundred and ten former employees of Darbo filed various lawsuits with the Labour Court of Dax, in France, against, among others, Sonae Indústria, SGPS, SA and Gramax Capital, through which they claim compensation for alleged dismissal without fair reason, for a total amount of EUR 13 653 917.28. The same former employees also filed a lawsuit at the Civil Court of Dax against the seller and buyer companies and against Sonae Indústria, SGPS, SA, through which they claim annulment of the sale of Darbo SAS and the payment of compensation for alleged damages suffered, in the same amount claimed before the Labour Court of Dax (EUR 13 653 917.28).

In relation to one hundred and five former employees of Darbo, in July 2019 the Labour Court of Dax judged that Sonae Indústria SGPS and two Gramax Capital companies have the joint and several obligation to pay compensation to those employees in a total amount of c. 3.6 million euros on the grounds of the existence of 'co-employment'. The court also ordered Sonae Indústria SGPS and two Gramax Capital companies to reimburse the French "Pôle Emploi" (unemployment insurance organisation) any amounts of compensations it could have paid to those employees. Sonae Indústria SGPS appealed such decisions considering there are no grounds for the co-employment thesis. In January 2020, the court, in relation

to the lawsuit of five former employees of Darbo, handed down a sentence in the same direction and on the same grounds, with the amount of the sentence being around EUR 950 000. Sonae Indústria appealed this decision

43. SUBSEQUENT EVENTS

The conditions precedent for the execution of the sale of power plant in Horn-Bad, Germany, previously held by GHP GmbH (subsidiary of Sonae Arauco, S. A.), were fulfilled during January 2020. Consequently, as foreseen in the sale and purchase agreements signed in December 2019, the ownership of this asset, as well the contractual relationship with all the employees in the operation, was transferred to the new owner with effects from 1 January 2020. Also during January 2020, the corresponding sale price of EUR 4.2 million Euros was received by Sonae Arauco Group.

The worldwide propagation of COVID-19 in the first months of 2020 is having material negative human, social, economic and financial impacts.

The extraordinary measures imposed by the authorities in the several regions where Sonae Indústria conducts its business (namely Europe, North America and South Africa) have also had a significant impact not only on daily lives of people but also on businesses including Sonae Indústria operations.

Accordingly, during the last few days and as a result of the Covid-19 pandemic the following developments have taken place:

- Sonae Arauco has temporarily shut down its industrial units in Spain and South Africa, countries where legal provisions set out by local authorities to fight the pandemic currently prevent the continuation of activity for most businesses;
- Our North American business has partially and temporarily shut down its industrial activity in Lac Mégantic, Canada (in accordance with legal provisions set out by local authorities to fight the pandemic);

The possibility of interrupting temporarily the activity of other industrial units is currently being evaluated, taking into account the reduction in orders from our customers due to the scaling back or temporary shut-down of their activities and the possible disruption of the supply of raw materials. The continuation of our

other operations could also be conditioned by additional measures imposed by governments with the aim of mitigating the Covid-19 pandemic.

Due to the uncertainty, not only on the Covid-19 pandemic duration period but also on its impact in the global economy, Sonae Indústria cannot estimate the impact on the company's results, but we envisage that it will be important.

Sonae Indústria will take all possible actions, within the limitations imposed by this pandemic crisis, to mitigate the effects of any temporary shutdowns and also to restart any temporarily closed down operations as soon as the conditions allow.

At the date of issuance of these consolidated financial statements, no other events have occurred after 31 December 2019 which might modify the consolidated financial statements at that date or warrant the inclusion of additional disclosures to the ones included in the notes to these consolidated financial statements.

44. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 31 March 2020, the Board of Directors of Sonae Indústria, SGPS, S. A. decided that these consolidated financial statements shall be submitted to approval at the Company's General Shareholders' Meeting.

STATUTORY EXTERNAL AUDITOR REPORT

STATUTORY AUDIT BOARD REPORT

STATUTORY AUDITOR'S REPORT

(Free translation of a report originally issued in Portuguese language: In case of doubt the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Sonae Indústria, SGPS, S.A. ("the Entity"), which comprise the statement of financial position as at 31 december 2019 (showing a total of Euro 465,320,896.93 and equity of Euro 285,699,985.96, including a net loss of Euro 3,325,639.03), the statement of profit and loss by nature, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the accompanying notes to the financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Sonae Indústria, SGPS, S.A. as at 31 december 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent from the Entity in accordance with the law and we have fulfilled other ethical requirements in accordance with the *Ordem dos Revisores Oficiais de Contas* code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis

We draw your attention to what is disclosed in note 29 of the notes to the separate financial statements, with regard to the potential impacts of recent events related to the epidemic caused by Covid-19 and its future impacts on the Entity's activity and the uncertainty about the temporal effects on the profitability of its activity, its financial situation and the recovery value of its assets, which at the date of this Audit Report have not been quantified, despite the disclosure that such impacts do not jeopardize, taking into consideration the information available to date, the going concern assumption used by the Entity in the preparation of the separate financial statements (Note 2.1).

Our opinion is not modified in relation to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
<p>Impairment of investments in subsidiaries, joint ventures and associates and changes in accounting policy (Notes 2.2., 6., 8. and 25. to the notes to the separate financial statements)</p> <p>As at 31 December 2019, Sonae Indústria, in its separate financial statements, has significant investments in subsidiaries and joint ventures, with a carrying amount of 234 million euros (including loans granted) and 227 million euros, respectively (Notes 6 and 8). The mentioned investments are accounted for at cost less impairment losses (Note 2.2.).</p> <p>As disclosed in Note 2.2., the Group recognizes impairment losses when impairment indicators are identified and the recoverable amount of a given asset or group of assets is lower than its carrying amount.</p> <p>The impairment analysis and the impairment tests involve complex judgements, based on business plans, which are supported in assumptions, such as discount rates, forecasted margins, short term and long term growth rates, capital expenditure plans as well as the demand behavior.</p> <p>In some situations, namely in subsidiaries with real estate assets, the group estimates fair value less costs to sell, by the use of valuations performed by specialists. Such valuations are also based on several assumptions and judgements.</p> <p>As a result of the analysis performed, the Group recognized, on its separate financial statements, as at 31 December 2019, impairment losses in the amount of 5.4 million Euro, in relation with investments in subsidiaries (Notes 6 and 25).</p> <p>Considering the materiality of the referred assets to the separate financial statements, the complexity of the valuation models used, based on estimates and assumptions based on economic and market values and the level of estimates involved in the measurement of impairment, we consider this area to be a key audit matter.</p>	<p>Our audit procedures included the evaluation of relevant controls in relation with the assessment of impairment indicators in what relates with non-current assets of the Entity, as well as review of the impairment tests, in the cases where impairment indicators in non-current assets were identified by the Entity.</p> <p>In what concerns the estimate of the recoverable amount used by the Entity in impairment evaluation, our procedures included:</p> <ul style="list-style-type: none"> • obtaining the valuation models used to determine the recoverable amount of each financial investment and test the clerical correction of those models; • review of the methodology used by the Entity to determine the value in use, namely its compliance with applicable accounting standards; • assessing the assumptions used in the referred models, involving, whenever deemed necessary Deloitte specialists to challenge those assumptions, namely discount rates, short term and long term growth rates used, in addition to projected cash flows; • meeting with management and other officers; <p>For the financial investment, associated with entities whose assets were subject to real estate appraisals, we assessed the assumptions used by the Entity and its specialists, as well as assessed the adequacy of the methodologies used comparing this year valuations with the accounting recognition.</p> <p>We evaluated the adequacy of disclosures made in relation with this matter.</p>

Litigation and legal contingencies

<p>(Notes 6.2., 18. and 28. to the notes to the separate financial statements)</p> <p>As described in Notes 6.2 and 28., the Entity holds a number of legal proceedings/contingencies, of which the most relevant are the lawsuits over entities held by Sonae Arauco, S.A. fully indemnifiable by Sonae Indústria SGPS, S.A. as contemplated in the share purchase agreement with the other partner of the joint venture. Among the aforementioned contingencies the most relevant ones, are the ones filed by employees of the former subsidiary, Darbo SAS, sold in 2015 and the anti-trust contingencies filed by some clients (Germany) for damages resulting from the alleged violation of competition regulations against subsidiaries of the joint venture, Sonae Arauco, SA, in Germany (Note 6.2. and 18.).</p> <p>In accordance with the information disclosed in Note 28., it is not possible to reliably estimate the outcome of some of these contingencies, namely referring to the former subsidiary of the Entity in France, Darbo SAS (maximum amount of, approximately, 4.6 million euros), despite recent court decisions (Note 28), and the ones related to the alleged violation of competition regulations in former subsidiaries of the Entity in Germany, up to a maximum of 31.5 million euros (of the total responsibility of Sonae Indústria) and 26 million euros (jointly responsibility with other German producers).</p>	<p>Our audit procedures regarding the assessment of such contingencies include the following:</p> <ul style="list-style-type: none"> • Since some of these contingencies refer to geographies that are audited by other audit firms, we issued audit instructions for the auditors of those entities in accordance with ISA 600 - Audits of Group Financial Statements (Including The Work of Component Auditors): <ul style="list-style-type: none"> ◦ We assessed the technical competence of the component auditors; ◦ We were involved in the planning process of the above mentioned audits and procedures in this area; ◦ We jointly reviewed and analysed these contingencies; • We obtained from the legal departments of Sonae Indústria and Sonae Arauco Groups, a list of ongoing contingencies and its assessment by management and have held discussions with lawyers in charge of the contingencies that have had developments during the year;
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<p>The classification of such litigations as contingent liabilities or as provisions, as well as their measurement, are matters involving a high degree of judgement and uncertainty, so there is a risk of the classification assumed and / or the estimates recorded may prove to be inadequate and the provisions contain material errors, therefore we consider this area to be a key audit matter.</p>	<ul style="list-style-type: none"> • We also obtained the legal confirmation letters, to our requests and to the auditors of the components, of the legal advisors of the Group; • We debated the assumptions and arguments that support the positioning of Management. <p>We evaluated the adequacy of disclosures made in relation with this matter.</p>
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Responsibilities of management and supervisory body for the financial statements

Management is responsible for:

- the preparation of financial statements that give a true and fair view of the Entity's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as adopted in the European Union (IFRSs);
- the preparation of a management report, including a corporate governance report, in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Entity's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Entity's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Entity's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to

the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter;
- provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements and the verification of the requirements as provided in numbers 4 and 5 of article 451^o of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

Pursuant to article 451.^o, n.^o 3, al. e) of the Portuguese Companies' Code ("Código das Sociedades Comerciais"), it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatements.

About the corporate governance report

Pursuant to article 451^o, number 4, of the Portuguese Company's Code ("Código das Sociedades Comerciais"), we conclude that the corporate governance report includes the elements required to the Entity under the terms of article 245.^o-A of the Portuguese Securities Code ("Código dos Valores Mobiliários"), and we have not identified any material misstatements on the information disclosed therein, which, accordingly, complies with the requirements of items c), d), f), h), i) and m) of that article.

On the non-financial information provided for in article 508-G of the Portuguese Company's Code

Pursuant to article 451, number 6, of the Portuguese Company's Code ("Código das Sociedades Comerciais"), we inform that the Entity has prepared non-financial information, under the terms of article 508-G of the Portuguese Company's Code, which has been included in the Management Report section "Non-financial information" included in the 2019 Annual Report.

On the additional matters provided in article 10 of Regulation (UE) 537/2014

Pursuant to article 10 of Regulation (UE) 537/2014 of the European Parliament and of the Council of April 16th, 2014, in addition to the key audit matters mentioned above, we also report on the following:

- We were appointed as auditors of the Entity in the shareholders' general assembly held on 9 may 2018 for a first mandate from 2018 to 2020.
- Management has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs, we maintained professional scepticism and we designed audit procedures to respond to the risk of material misstatements in the financial statements due to fraud. As a result of our work, we have not identified any material misstatement on the financial statements due to fraud.
- We confirm that the audit opinion issued is consistent with the additional report that we prepared and delivered to the Entity's supervisory body as at 31 march 2020.
- We declare that we have not provided any prohibited services as described in article 77, number 8, of the Ordem dos Revisores Oficiais de Contas statutes (Legal Regime of the Portuguese Statutory Auditors) and we have remained independent from the Entity in conducting the audit.

Porto, 31 March 2020

Deloitte & Associados, SROC S.A.
Representada por António Manuel Martins Amaral, ROC

STATUTORY AUDITOR'S REPORT

(Free translation of a report originally issued in Portuguese language: In case of doubt the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Sonae Indústria, SGPS, S.A. ("the Entity") and of its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 december 2019 (showing a total of Euro 420,743,914 and equity of Euro 127,318,418, including a net loss of Euro 13,369,349), the consolidated statement of profit and loss by nature, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Sonae Indústria, SGPS, S.A. as at 31 december 2019 and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent from the entities that constitute the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the *Ordem dos Revisores Oficiais de Contas* code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis

We draw your attention to what is disclosed in note 43 of the notes to the consolidated financial statements, with regard to the potential impacts of recent events related to the epidemic caused by Covid-19 and its future impacts on the Entity, its subsidiaries and investment on joint venture's activity and the uncertainty about the temporal effects on the profitability of its activity, its financial situation and the recovery value of its assets, which at the date of this Audit Report have not been quantified, despite the disclosure that such impacts do not jeopardize, taking into consideration the information available to date, the going concern assumption used by the Entity in the preparation of the consolidated financial statements (Note 2.1).

Our opinion is not modified in relation to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
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Valuation of investments in joint ventures

(Notes 2.2.b), 5., 8. and 42. to the notes to the consolidated financial statements)

As at 31 December 2019, Sonae Indústria holds a significant investment in a joint venture, Sonae Arauco, S.A., with a carrying amount of 209 million Euro (which includes Goodwill in the amount of approximately Euro 81 million – Note 5.4), having in the period, recognized, Losses related to joint ventures in the amount of 2.9 million Euro (Note 5.3).

The Group recognizes the interests in joint ventures in accordance with the equity method (Note 2.2.b)), hence there is a risk for those investments being incorrectly measured due to: (i) not recognition of possible impairment losses that might arise, and from (ii) misstatements on the financial statements of the subsidiaries of the Group.

In what concerns impairment analysis over the referred investment it is worth to mention:

- In accordance with its policies (Note 2.2.b)), the Group performs an evaluation of impairment indicators at the reporting date;
- As disclosed in Note 2.2.b) the Group recognizes impairment losses when the recoverable amount of a given asset or group of assets is lower than its carrying amount;
- As a result of its analysis, the Group concluded that there are no impairment indicators in the joint venture (Note 8).

In what refers to the analysis of the existence of errors in the preparation of Sonae Arauco's financial statements, it should be noted that the impairment tests carried out at the level of this component, in the various geographies, incorporate complex judgments, materialized in business plans, which are based on several assumptions, associated with discount rates, expected margins, short and long term growth rates, investment plans and customer demand behaviours. Due to the complexity involved, the impairment analysis, at the level of the joint venture, was validated by an independent external expert.

Additionally, as referred in Note 5 to the consolidated financial statements, the results of the joint venture, which were appropriated in 50% by Sonae Indústria, include significant amounts related with the recognition of provisions, in the amount of, approximately, 7.7 million Euros - non-proportional amounts (Notes 5.2.1. and 31.2), related with the communication of a joint venture subsidiary activity's shutdown process.

Considering the i) materiality of the referred assets and matters above mentioned to the consolidated financial statements; ii) the complexity in performance and analysis of the valuation models used, based on estimates and assumptions based on economic and market values and the level of estimates involved in the measurement of impairment; and iii) the materiality of the financial statements of the joint venture, financial statements of its subsidiaries and transactions with Sonae Indústria Group, we consider this area to be a key audit matter.

Our audit procedures included:

- Obtaining the financial statements of the joint venture and last available Auditors' Report;
- Validating the application of the equity method on the mentioned financial investment;
- Validating the impairment indicators associated with the Joint Venture;
- Verifying the valuation models used to determine the recoverable amount of non-current assets of the referred joint ventures, through (i) reviewing the clerical correction of the valuation model used; (ii) evaluation of the assumptions underlying the model, including the discount rates used, long-term growth rates and projected cash flows; and (iii) consultation with Deloitte's internal experts to critically assess the assumptions, discount rates and long-term growth rates used;
- Inquiry to management and other officers.

Given that, Sonae Arauco, S.A., is audited by other audit firms, we will issue audit instructions for the auditors of those entities in accordance with ISA 600 - Audits of Group Financial Statements (Including The Work of Component Auditors).

We assessed the technical competence of the component auditors and were involved in the Planning of the mentioned audits and, when considered relevant, reviewed the audit working papers assuring that the risks identified at group level were appropriately addressed. We reviewed the conclusion of the audit procedures to mitigate such risks, namely in what refers to internal control testing in the areas under analysis, and in what concerns revenue recognition.

We analysed the conclusions of the financial statements audit, reviewed the reports issued by the component auditors and discussed with them the main conclusions and supporting information.

We evaluated the adequacy of disclosures made in relation with this matter.

Litigation and legal contingencies

(Notes 5.1., 5.2., 31 and 42 to the notes to the consolidated financial statements)

As described in Notes 5.1., 5.2., 31. and 42., the Entity holds a number of legal proceedings / contingencies, of which the most relevant are the lawsuits over entities held by Sonae Arauco, S.A. fully indemnifiable by Sonae Indústria SGPS, S.A. as contemplated in the share subscription agreement with the other partner of the joint venture. Among the aforementioned contingencies the most relevant ones, filed by employees of the former subsidiary, Darbo SAS, sold in 2015 and the anti-trust contingencies filed by some customers (Germany) for damages resulting from the alleged violation of competition regulations against subsidiaries of the joint venture, Sonae Arauco, SA, in Germany (Notes 5.1, 5.2. and 42).

In accordance with the information disclosed in Note 42., it is not possible to reliably estimate the outcome of some of these contingencies, referring to the former subsidiary of the Entity in France, Darbo SAS (maximum amount of, approximately, 4.6 million euros), despite recent court decisions (Note 42), and related to the alleged violation of competition regulations in former subsidiaries of the Entity in Germany, up to a maximum of 31.5 million euros (of the total responsibility of Sonae Indústria) and 26 million euros (jointly responsibility with other German producers).

The classification of such litigations as contingent liabilities or as provisions as well as their measurement are matters involving a high degree of judgement and uncertainty, so there is a risk of the classification assumed and / or the estimates recorded may prove to be inadequate and the provisions contain material errors, therefore we consider this area to be a key audit matter.

Our audit procedures regarding the assessment of such contingencies include the following:

- Since some of these contingencies refer to geographies that are audited by other audit firms, we issued audit instructions for the auditors of those entities in accordance with ISA 600 - Audits of Group Financial Statements (Including The Work of Component Auditors):
 - We assessed the technical competence of the component auditors;
 - We were involved in the planning process of the above mentioned audits and procedures in this area;
 - We jointly reviewed and analysed these contingencies;
- We obtained from the legal departments of Sonae Indústria and Sonae Arauco Groups, a list of ongoing contingencies and its assessment by management and have held discussions with lawyers in charge of the contingencies that have had developments during the year;
- We also obtained the legal confirmation letters, to our requests and to the auditors of the components, of the legal advisors of the Group;
- We debated the assumptions and arguments that support the positioning of Management.

We evaluated the adequacy of disclosures made in relation with this matter.

Responsibilities of management and supervisory body for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as adopted in the European Union (IFRSs);
- the preparation of a management report, including a corporate governance report, in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter;
- provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements and the verification of the requirements as provided in numbers 4 and 5 of article 451º of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

Pursuant to article 451º, n.º 3, al. e) of the Portuguese Companies' Code ("Código das Sociedades Comerciais"), it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited

consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatements.

About the corporate governance report

Pursuant to article 451^o, number 4, of the Portuguese Company's Code ("*Código das Sociedades Comerciais*"), we conclude that the corporate governance report includes the elements required to the Entity under the terms of article 245.^o-A of the Portuguese Securities Code ("*Código dos Valores Mobiliários*"), and we have not identified any material misstatements on the information disclosed therein, which, accordingly, complies with the requirements of items c), d), f), h), i) and m) of that article.

On the non-financial information provided for in article 508-G of the Portuguese Company's Code

Pursuant to article 451, number 6, of the Portuguese Company's Code ("*Código das Sociedades Comerciais*"), we inform that the Entity has prepared non-financial information, under the terms of article 508-G of the Portuguese Company's Code, which has been included in the Management Report section "Non-financial information" included in the 2019 Annual Report.

On the additional matters provided in article 10 of Regulation (UE) 537/2014

Pursuant to article 10 of Regulation (UE) 537/2014 of the European Parliament and of the Council of April 16th, 2014, in addition to the key audit matters mentioned above, we also report on the following:

- We were appointed as auditors of Sonae Indústria, SGPS, S.A. (parent-company of the Group) in the shareholders' general assembly held on 9 may 2018 for a first mandate from 2018 to 2020.
- Management has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs, we maintained professional scepticism and we designed audit procedures to respond to the risk of material misstatements in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement on the consolidated financial statements due to fraud.
- We confirm that the audit opinion issued is consistent with the additional report that we prepared and delivered to the Group's supervisory body as at 31 march 2020.
- We declare that we have not provided any prohibited services as described in article 77, number 8, of the *Ordem dos Revisores Oficiais de Contas* statutes (Legal Regime of the Portuguese Statutory Auditors) and we have remained independent from the Group in conducting the audit.

Porto, 31 March 2020

Deloitte & Associados, SROC S.A.
Representada por António Manuel Martins Amaral, ROC

Report and Opinion of the Statutory Audit Board of Sonae Indústria

(Translation of the Portuguese original)

To the Shareholders of Sonae Indústria

1 – Report

1.1 – Introduction

In accordance with applicable legal and statutory standards and the mandate we have been conferred, the Statutory Audit Board prepared this report regarding the supervisory work carried out, along with the opinion in relation to the management report and further separate and consolidated financial statements of Sonae Indústria, S.G.P.S., S.A. as at 31 December 2019, which are the Board of Directors' responsibility.

1.2 – Supervision

During the period, the Statutory Audit Board, in the scope of his competences, has accompanied the Company's management and that of its subsidiaries, has examined the evolution of its activities, the regularity of the accounting records, the quality of the process of preparation and disclosure of the financial information, the accounting policies and the measurement criteria, as well as the compliance with the legal and statutory standards.

In the scope of his duties, the Statutory Audit Board held quarterly, ordinary meetings, and other extraordinary meetings, to discuss matters subject to his duties and competences. According to the nature of the matters under analysis, the meetings were attended by the Management team and by the managers responsible for Planning and Management Control, Administrative and Finance, Internal Audit and by the Statutory External Auditor. We have been in close contact with the Statutory External Auditor who kept us informed about the nature and conclusions of performed audit work. In addition, the Statutory Audit Board attended the meeting of the Board of Directors in which the Management Report and Accounts of the period were approved and, during the whole period, was granted access to all the documents and persons deemed adequate for the performance of his supervisory role.

Additionally, and in the scope of his competences, the Statutory Audit Board verified the effectiveness of the risk management and internal control systems, and assessed the planning and results of the internal and external auditors work, monitored the system for receiving and managing the communication of irregularities (whistle blowing), evaluated the process of preparation of the separate and consolidated accounts, informed the Board of Directors on the conclusions and quality of the work of the Statutory External Auditor and his participation in that process, and also in the scope of his duties, evaluated the competence and independence of the Statutory External Auditor and the External Auditor and supervised the definition of the respective remuneration.

In the course of the financial period, the Statutory Audit Board has paid particular attention to the accounting treatment of all operations that have materially impacted the evolution of the activity presented in the consolidated and separate financial position of Sonae Indústria SGPS, SA. Within the scope of his duties, the Statutory Audit Board examined the separate and consolidated statements of financial position, income statements, statements of comprehensive income, the statement of changes in shareholders' funds, the statement of cash flows and respective notes to these financial statements as at 31 December 2019, having received all the information and explanations requested to the Statutory External Auditor, as well as the Additional Audit Report set out in Article 24º of Law 148/2015, dated 09 September.

The Statutory Audit Board examined the recommendation I.5 of the Code of Corporate Governance issued by the Portuguese Institute of Corporate Governance (IPCG) in relation to the classification of the relevant level of transactions with qualified shareholders or entities associated with qualified shareholders as set out in paragraph 1 of Article 20º of the Securities Code ("Código de Valores Mobiliários") and identified the execution of two financing operations which classify as relevant transactions in the light of the aforementioned criteria, to which the Statutory Audit Board gave its favourable opinion, and no conflicts of interests were identified.

The Statutory Audit Board analysed recommendations I.2.2, I.2.3, 1,2,4, I.3.1,1.3.2, 1.5.1, 1.5.2, III.1.1, III.8 of the Code of Corporate Governance (with particular attention to the risk policy, in accordance and in the scope of his legal competences), III.11, III.12, IV.4, V.1.2 (with focus on the evaluation of budget compliance and risk management, according to and in the scope of his competences), VII.1.1,VII.2.1, VII.2.2 and VII. 2.3.

The Statutory Audit Board is fully composed by independent members in the context of the applicable legal criteria, with the professional skills required for the performance of the respective role. The members developed their competences and inter-relationship with the other statutory bodies and services of the Company in accordance with the legal and recommendatory principles and standards and have not received a report from the Statutory External Auditor on any irregularities or difficulties in carrying out the respective functions.

The Statutory Audit Board examined the Corporate Governance Report, attached to the Management Report in relation to the consolidated financial statements, under the terms and for the purpose of paragraph 5 of Article 420º of the Companies Code ("Código das Sociedades Comerciais") and confirmed that this report includes the elements referred in Article 245º - A of the Securities Code ("Código de Valores Mobiliários").

Additionally, and in the scope of his competencies, the Statutory Audit Board analysed the Management Report, including the Corporate Governance Report and the remainder reporting documents, separate and consolidated, prepared by the Board of Directors, and concluded that the information disclosed complies with the legal standards in force and is adequate for the appropriate understanding of the Company's results and that of the companies in its consolidation perimeter, and examined the Statutory External Auditor Report which is in agreement.

2 – Opinion

Further to the aforementioned terms, the Statutory Audit Board is the opinion that the Shareholders General Meeting has all conditions to approve:

- a) The Management Report;
- b) The separate and consolidated statements of financial position, income statements, statements of comprehensive income, the statement of changes in shareholders' funds, the statement of cash flows and respective notes to these financial statements as at 31 December 2019;
- c) The proposal for appropriation of results presented by the Board of Directors.

3 – Statement of Responsibility

In accordance with paragraph 1- a) of Article 8º of the Securities Market Commission (“CMVM”) regulation number 5/2008 and with paragraph 1-c) of Article 245º of the Securities Code (“Código de Valores Mobiliários”), we hereby inform that, to the extent of our knowledge, the information included in the separate and consolidated financial statements was prepared in compliance with the applicable accounting standards and reflect the true and appropriate image of the assets and liabilities, of the financial position and results of Sonae Indústria SGPS, SA and the companies in its consolidation perimeter, and that the Management Report truthfully reflects the businesses evolution, performance and financial position of Sonae Indústria SGPS, SA and its subsidiaries included in the consolidation perimeter and includes a description of the main risks and uncertainties they are confronted with. Moreover, it is hereby confirmed that the Corporate Governance Report complies with Article 245º-A of the Securities Code (“Código de Valores Mobiliários”).

Maia, 31 March 2020

The Statutory Audit Board

António Augusto Almeida Trabulo

Ana Luísa Nabais Aniceto da Fonte

Óscar José Alçada da Quinta