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 812,107,574.17
Publicly Traded Company

ANNUAL REPORT

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

2016

21 March 2017

SONAE INDUSTRIA

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SONAE INDÚSTRIA

Management Report 2016

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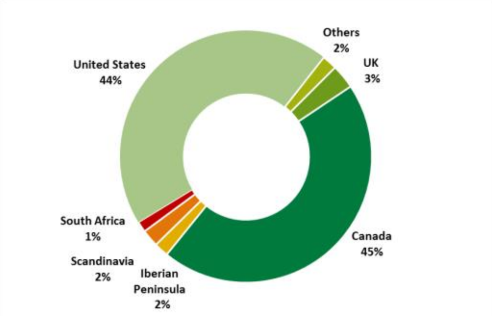
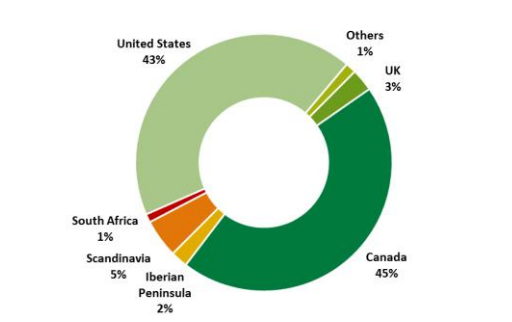
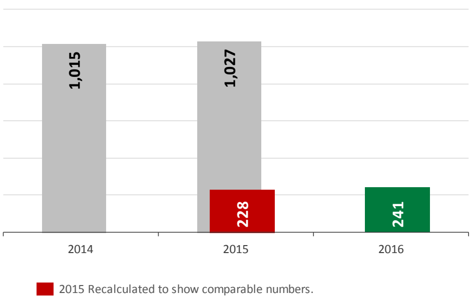


Turnover by Market - 2016



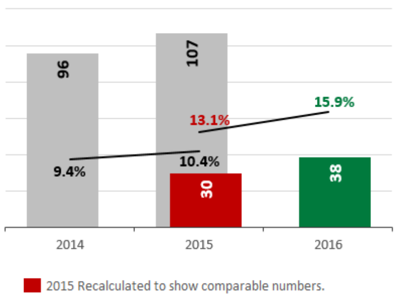
Turnover

Million Euros



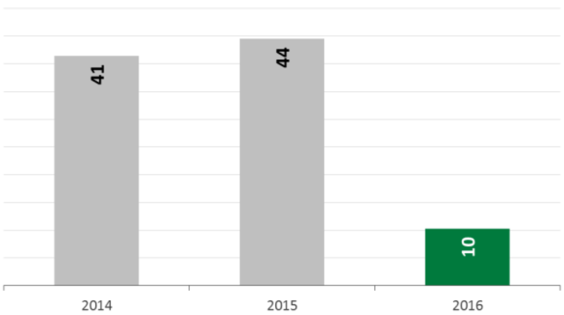
Recurrent EBITDA and % Turnover

Million Euros



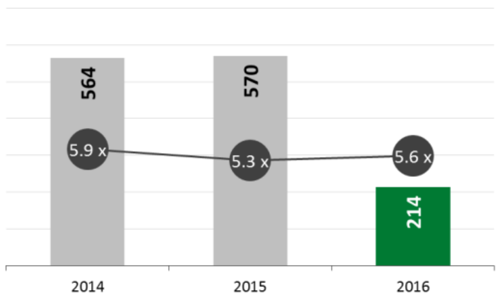
Working Capital

Million Euros



Net Debt and Net Debt to Recurrent EBITDA

Million Euros



CHAIRMAN'S MESSAGE

This has been an exciting and challenging year that has seen a transformational change for the Sonae Indústria Group, positioning it for the future as a more profitable and sustainable company following the conclusion of the partnership with Arauco in Sonae Arauco and the stronger results that have come through, following many years of industrial restructuring and continuous improvement.

The alliance with a professional industrial partner such as Arauco, will allow us to share our experiences and particular skills and increase the robustness of our European and South African operations enabling us to grow the business and improve its market positioning with higher focus on product differentiation and customer value.

As a result of the changes that have taken place during 2016, Sonae Indústria now has a dual role: operational management of its fully owned businesses (Tafisa Canada and Laminates & Components) and the management of a strategic partnership of Sonae Arauco.

The execution of the partnership with Arauco through a capital increase at Tafisa (now Sonae Arauco), together with the simultaneous refinancing of both Sonae Indústria and Sonae Arauco under improved terms, allowed for a material reduction in the Net Debt of both companies. As a result, Sonae Indústria Group now has a stronger and more sustainable capital structure.

As regards business performance, I am pleased to report that in 2016 we have been able to take advantage of the better overall market conditions and all three main business units performed better compared to last year driven primarily by improved results in the North American business and by the strong contribution from Sonae Arauco. Our Laminates & Components business also performed better than last year although profitability still needs to be improved. However, the end of 4Q16 saw a sudden and significant increase in the cost of chemical products that does not seem justified by the recovery in oil prices.

Considering our 50% share of Sonae Arauco's figures, at the end of December 2016, the proportional Recurrent EBITDA reached 90 million Euros and proportional Net Debt stood at 312 million Euros, implying a leverage ratio of 3.5x. This compares to a leverage ratio of 5.3x for Sonae Indústria at the end of 2015.

During the year we have made and have committed to make investments across a number of our production facilities to improve operational efficiency, capture market opportunities and make the businesses more efficient and sustainable. We have also invested in improving customer service quality levels. I would like to highlight the investment made in a fifth melamine surfacing line, which includes embossed and in-register capabilities, at our Lac-Mégantic plant in Canada. This investment has further improved our position in the higher value decorative product segments and strengthened our Canadian plant as a reference player in the North American market.

All these actions are driven by our aspiration to become the company of choice for our customers, suppliers and employees.

I would like to take this opportunity to thank our employees for their hard work and dedication, and I would like to thank all our stakeholders for their continued support of and confidence in, our Board of Directors and management team.

Paulo Azevedo
Chairman Sonae Indústria

1. About SONAE INDÚSTRIA

1.1. Business

Strategic Partnership with Arauco

At the end of November 2015, Sonae Indústria, SGPS, SA, announced it had entered into a strategic partnership agreement, with Inversiones Arauco Internacional, Limitada (Arauco), aiming to create a joint-venture involving its European and South African wood based panels and related operations.

The completion of this deal was subject to certain conditions which were fulfilled during the first five months of 2016 and on 31 May 2016 Sonae Indústria announced the completion of the strategic partnership with Arauco through "Sonae Arauco", a 50/50 joint-venture involving the referred 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 strategic partnership was consummated by Arauco subscribing an amount of 137.5 million Euros to a capital increase of Sonae Indústria's subsidiary Tableros de Fibras, S.A., which was renamed "Sonae Arauco, S.A.".

With this partnership, Sonae Indústria expects to build a stronger company in the European and South African markets and reinforce its 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.

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

Installed Production Capacity ('000 m^3)	
SONAE INDÚSTRIA	900
SONAE ARAUCO	4185

SONAE INDÚSTRIA

Portugal
- Maia *HPL*
- Vilela – Paredes *C*

Germany
- Horn *HPL + CPL + C*

Canada
- Lac-Mégantic *PB + MF*

SONAE ARAUCO

Portugal
- Castelo de Paiva *WV*
- Mangualde *MDF + VFB*
- Oliveira do Hospital *PB + MF + IMP*
- Sines *R+IMP*

Spain
- Linares *PB+MF+IMP*
- Valladolid *MDF+MF+DP*

Germany
- Beeskow *PB+MF+MDF*
- Eiweiler *MDF+MF+FL*
- Kaisersesch *IMP*
- Meppen *MDF*
- Nettgau *PB+OSB+MF*

South Africa
- Panbult *PB+MF*
- White River *PB+MDF+MF*

Sonae Indústria currently operates a total of 17 plants located in five countries on three continents, of which four plants[1] are fully owned businesses and the remaining 13 are part of the Sonae Arauco partnership, totalling 3,269 employees at the end of 2016. Considering only the fully onwed businesses (i.e. without Sonae Arauco contribution) turnover reached 241 million Euros in 2016.

[1] 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, currently a subsidiary of Sonae Arauco.

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. Wood-based panels thus have a positive effect on global warming 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 CO_2 emissions. At the end of their useful life, wood-based panels can be recycled and 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 CO_2 sources and assures CO_2 sinks and the storage of carbon. The reduction of CO_2 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 CO_2 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 CO_2 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 CO_2 emissions into the atmosphere.

AWARDS

BIG DATA - SPAIN

Sonae Arauco's Valladolid plant received an award for the **BEST BIG DATA BUSINESS INITIATIVE IN SPAIN 2016**, at the first DSAwards.

This award recognises the excellent work carried out in the development of Big Data usage, allowing the plant production processes to be adapted in real time to the results of analysed manufacturing data.

The DSAwards aim to recognize the best private and corporate initiatives in the field of Big Data and received more than 300 applications in this first year.

1.2. 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 the furniture and construction industries;

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

- And **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 shop-fitting and public spaces;

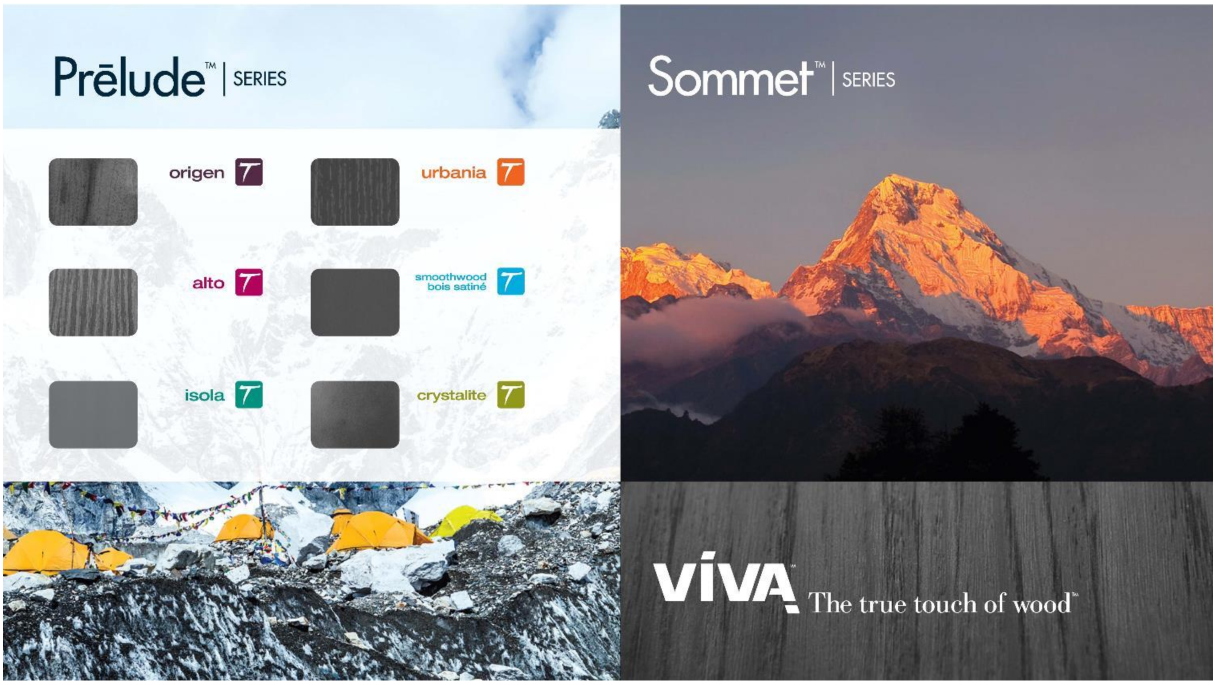
More than 50% of the “raw board” production is then transformed into value added products such as **melamine and wood veneer faced board, sandwich panels with laminates and accoustic panels.** These are used in a great variety of applications such as home and office furniture, kitchen and bath cabinets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

Decorative Products

A STRONGER RANGE OF DECORATIVE PRODUCTS IN NORTH AMERICA: Viva™ The true touch of wood™

In 2016, Tafisa Canada concluded an investment in a new melamine surfacing line with Embossed in-register (EIR) capabilities. The new line has unique caracteristics being able to produce 2 sided EIR in 2 sizes. Being an industry first in North America, it will allow Tafisa Canada to attack several different market segments such as kitchen and bath cabinets, closet organisers, offices and commercial segments.

Tafisa Canada leveraged on this investment to rebrand its portfolio of products, with two series of melamine faced products being created. The Prelude™ series includes the very successful legacy textures that Tafisa have brought to the market for last 25 years now. The Sommet™ series includes the new Viva™ texture Embossed In-register with 10 innovative designs, which really has the feel for “The true touch of wood”™ . The development of the Sommet Series™ will bring innovative products to the market benefiting from the capabilities of the new line, while the Prelude™ Series will continue to bring leading edge designs and textures.



The successful launch in August of our new VIVA™ collection was received with wide critical acclaim by customers. This launch is destined to be the most successful ever launch of a new collection by Tafisa Canada.

More information at www.tafisa.ca.

A COMPLETE RANGE OF DECORATIVE PRODUCTS IN EUROPE: INNOVUS®



INNOVUS® Decorative Products is the European brand for decorative products available in the same decors and finishes as decorative surfaced boards (Particleboard and MDF) and laminates and compacts. INNOVUS® Global Collection, with over 250 decorative choices, offers unlimited solutions and inspiration for all creative and productive needs.

The INNOVUS® collection also includes a comprehensive range of special products, namely:

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 and which offer was reinforced this year with the launch of the new color SAND GREY. 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 kitchen doors, living room furniture, doors 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 to as well as being used 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.

More information at www.innovus.co.

1.3. 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.

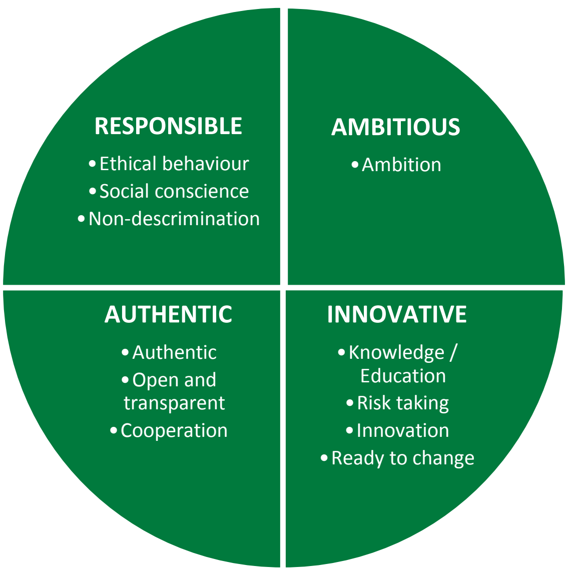
MISSION:

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.



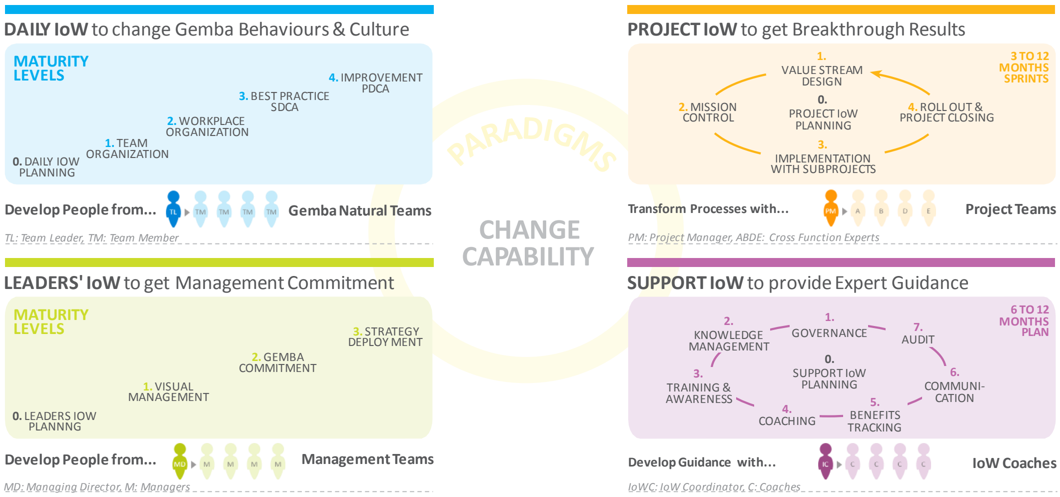
STRATEGIC GUIDELINES:

1) Continue to **improve the product mix and customer service and grow market share in North America**, leveraging on the recent investment in a fifth melamine surfacing line at our Canadian plant with a new embossed and in-register ViVa collection.
2) **Develop the Laminates & Components business** by looking for growth opportunities with existing and new customers and markets and by improving profitability levels.
3) **Support the development of Sonae Arauco business.**
4) **Seek for opportunities to monetize our real estate and equipment**, aiming at reducing the running costs of our inactive sites.

1.4. IMPROVING OUR WORK (IOW) INITIATIVE

The IoW initiative, Improving our Work, is a key pillar of Sonae's culture and way of working, as a powerful philosophy and methodology to seek productivity and quality, everyday, everywhere, by everyone, creating sustainable value for Sonae's stakeholders.

Based on the improvement cycle, the IoW Model has now a new approach, including a new pillar – Leaders IoW, with a specific goal – Get Management Commitment.



The IoW Model aims to develop Change Capability in an Organization, fostering behaviours changes and improvements in business processes, ensuring operational excellence, sustained by the four pillars below:

- **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

Sonae Industria embraced the IoW programme in an enthusiastic way, as the company believes this is the way to "Improve our Company".

After three years of implementation of its Continuous Improvement System (IoW Program), Sonae Indústria wants to move forward in the implementation approach.

The Daily IoW pillar is still our main focus, enabling all the teams to potentiate the use of IoW tools according to their specific needs and with focus on results. Internal and external customers satisfaction is our main driver. Natural teams (teams which have common goals and indicators) are implementing Daily IoW routines like standard meetings, and following up and working on each team's performance.

A huge effort has been placed in the training of our employees, ensuring a common language and increasing their skills. Specific training is being provided on the use of tools to solve the root cause of problems, having always as a basis the continuous improvement cycle – PDCA. Benefits tracking is starting to be present in the teams as a way to ensure an adequate and sustainable IoW implementation.

2016 was a year to consolidate what was already implemented and to review the implementation process based on the lessons learned during the past three years. As a next step we want to ensure that the improvements achieved are sustained and considered as part of the way of work.

1.5. 2016 KEY CORPORATE EVENTS

18 February 2016	FY15 consolidated results announced
7 April 2016	Announcement on resolutions taken by the Shareholder's Annual General Meeting
4 May 2016	1Q16 consolidated results announced
31 May 2016	Announcement of the completion of the strategic partnership with Arauco for the European and South African markets
8 June 2016	Announcement of changes in Corporate Governance structure and in Board membership
27 June 2016	Announcement of appointment of managing directors
21 September 2016	1H16 consolidated results announced Announcement of decision on disclosure of quarterly financial information
10 November 2016	9M16 consolidated results announced

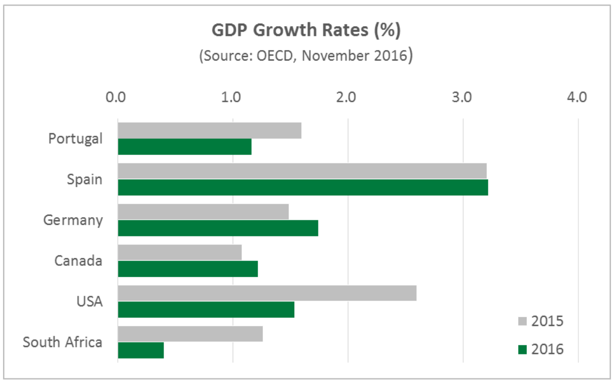
2. SECTOR REVIEW

Macroeconomic Context

2016 represented the fourth year of growth for the European Union economy which progressed at a moderate pace with private consumption as the main growth driver. The improved performance in the labour market combined with low inflation rates, pushed up real disposable income and increased the levels of consumer confidence creating more favorable conditions for higher levels of investment. The extension of an accommodative monetary policy targeting easier credit conditions (short-term interest rate for the Euro area continues to be negative) also contributed to the economic expansion. Notwithstanding, the support from lower commodity prices and the euro depreciation, which has been benefiting trading terms, seems to be fading.

As regards the U.S. economy, 2016 was another year of economic expansion, and private consumption was also the key driver of growth, supported by the good momentum in the labour market with sustained and relevant job creation.

Brief analysis by region:



- Iberian Peninsula macroeconomic conditions were overall positive considering the positive GDP[2] growth rates, especially in Spain where a 3.2% growth is expected, while Portugal experienced a much more modest growth (1.2%). The labour market continues to improve, although the high unemployment rates in both countries remain a key concern of economic policy. From a trade perspective, Portugal and Spain presented a surplus in the current account balance, in line with the last four years. The private consumption expenditure followed the more optimistic prospects and continued to increase, sustaining the economic expansion in this region. The residential construction sector, which is fairly correlated with the economic environment, kept the positive trend of 2015, as indicated by the building permits y.o.y. increases in both countries (21%[3] in Portugal and a more substantial growth in Spain, increasing by circa 33%[4]).

- Germany is expected to grow by 1.7% in 2016 (up by 0.2 p.p. vs. 2015), supported by a solid labour market and higher consumption levels. The resilient exports that characterize the German economy proceed to contribute to the persistent surplus in the current account balance which also supported the economic growth. The positive macroeconomic environment has been playing a crucial part in the residential construction sector steady recovery, fostering the consumption decisions, as evidenced by the significant y.o.y. increase in the number of building permits (up by circa 22%[5]).

- In North America, both Canada and USA continued to grow in 2016, notwithstanding the slowdown witnessed in the economic growth vs. last year in the U.S.. Accordingly, a 1.5% GDP growth is expected for the U.S. economy (below by 0.9 p.p. vs. 2015) and the Canadian economy is expected to have grown

[2] GDP: Gross Domestic Product.
[3] Source: Instituto Nacional de Estatística, January 2017 ("Nova habitação residencial", cumulative 11 months evolution until November 2016).
[4] Source: Ministerio de Fomento, January 2017 (Total "New Housing", cumulative 11 months evolution until November 2016).
[5] Source: German Federal Statistics Office, January 2017 ("Permits for new construction, dwelling", cumulative 11 months evolution until November 2016).

1.2%, slightly above 2015 level. The private consumption positive performance has been stimulating the economic growth in both countries, supported by a more robust labour market in the U.S. economy (Canada experienced a marginal increase in the unemployment rate in 2016). Accordingly, in Canada housing starts increased by circa 0.4%[6] y.o.y and in USA the number of housing starts increased by 5.6%[7] y.o.y.

For South Africa, OECD estimates point to a flat GDP growth of 0.4% (down by 0.9 p.p. vs. 2015). The electricity shortages, which affect the manufacturing, mining and service-sector activities, the low commodity prices and low consumer and business confidence, continue to be key constrains for the economic activity. In addition, the slow progress in delivering economic and social services in disadvantaged areas and the high unemployment that generates income inequality are major challenges to the economic policy. In parallel, the significant depreciation of South Africa currency is creating inflationary pressures that contributes to the negative gap in the current account balance.

All these factors combined lead to macroeconomic uncertainties, resulting in negative backdrop for the residential construction sector, as evidenced by the y.o.y. decrease of 9%[8] in the number of residential building permits.

Wood Based Panels

North America (Tafisa Canada)

<u>Demand by product</u>

In North America, the behaviour of the housing markets between Canada and the United States was quite different in 2016, naturally correlated with the macroeconomic conditions in each country. In Canada, the lower GDP growth impacted the construction sector, as the level of housing starts slightly increased by 0.4%, contrasting with a stronger growth in the level of U.S. housing starts with an 5.6% gain year on year to reach 17 million starts. Notwithstanding these different demand patterns, estimates released by the Composite Panel Association (CPA) forecasted that total North America particleboard shipments will have reduced by 1.4% in 2016 vs. 2015.

<u>Supply information</u>

Main investments by key industry players in North America announced since 2015:

- Arauco: USD 325 million investment in a new particleboard plant in Michigan (USA) with an expected capacity of 0.75 million m^3 which should start producing by the end of 2018 or early 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. Estimated commissioning in late 2018 or early 2019.

[6] Source: Canada Mortgage and Housing Corporation, March 2017 (“Building permits (units)”, cumulative 12 months evolution until December 2016).
[7] Source: United States Census Bureau, March 2017 (“Housing units started”, cumulative 12 months evolution until December 2016).
[8] Source: Statistics South Africa, January 2017 (“Building plans for residential buildings (number)”, cumulative 11 months evolution until November 2016).

• Swiss Krono: total investments of USD 230 million in its HDF/MDF plant, South Carolina (USA): 0.28 million m^3 MDF/HDF line and expansion of laminate flooring.

Europe (Sonae Arauco)

Demand by product

The apparent consumption of **particleboard** in the EPF[9] member countries was expected to have increased by 2.5% in 2016 to 28.5 million m^3.

The European demand for local **MDF** panels was expected[9] to have risen by 2.2% in 2016 to 10.9 million m^3. No decline in consumption is foreseen in any country.

After several years of contraction, in 2015 building activity experienced a slight improvement although the situation differed throughout Europe, as some Eastern European countries experienced, like in 2014, brighter developments of housing activity than the Western region. As a result, the overall European consumption of **OSB** is estimated[9] to have increased by 8% in 2015.

Supply information

Following an upturn in 2014, the European **particleboard** production in the EPF[9] member countries is estimated to have again increased in 2015 by 1.5% to 29.1 million m^3. The expectations for 2016, are also positive with +1.1% growth expected. These production levels remain far below the output peak of 37.8 million m^3 observed in 2007.

MDF production in Europe (excluding Turkey and Russia) is estimated[9] to have again grown by 2.7% in 2015, reaching a total of 11.8 million m^3. However, as in particleboard, this production level remains significantly lower than the peak of 13.3 million m^3 observed in 2007.

EPF calculations[9] reveal that European production of **OSB** rose by 3.9% in 2015 and exceeded 5 million m^3.

Considering specifically the markets where Sonae Indústria has an industrial presence in Europe through Sonae Arauco, in the Iberian Peninsula the most relevant increase in capacity in 2016 should be related with Kronospan investment to increase MDF capacity. In 2017 capacity should increase by circa 0.5 million m^3 partially as a result of an increase in particleboard capacity by Kronospan. For Germany, the total capacity in 2016 is estimated to have increased by circa 0.6 million m^3 essentially due to an investment by Rauch in particleboard capacity. Despite no increase in capacity being expected for 2017, some pressure from Polish additional capacity may be felt.

[9] EPF: European Panel Federation, Annual Report 2015/2016.

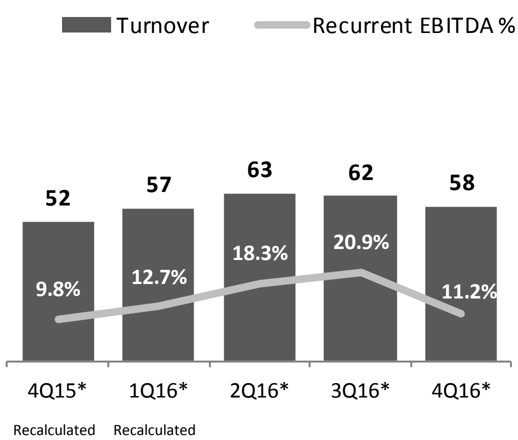
3. BUSINESS REVIEW

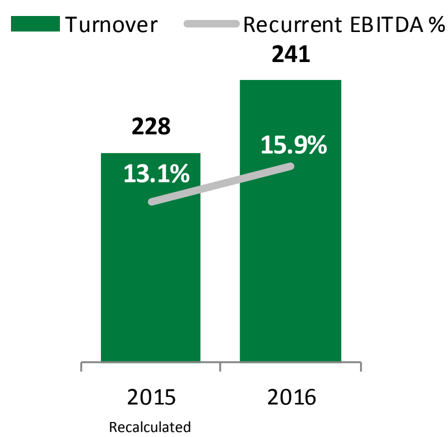
EXPLANATORY COMMENTS ON CONSOLIDATED INCOME STATEMENT

For 2016 the Consolidated Income Statement considers all the companies included in the consolidation perimeter of Sonae Arauco classified as Discontinued Operations until May 2016 and accounted by the Equity Method as of the 1 June 2016. Consolidated Income Statement figures for 2015 were recalculated to show as Discontinued Operations the results of all the companies included in the consolidation perimeter of Sonae Arauco. It should be noted that this is in addition to the results of the French industrial units Ussel (sold in March 2015) and Linxe (sold in July 2015), Pontecaldelas plant, in Spain, and Betanzos, in Spain (sold in April 2015) that had already been considered as Discontinued Operations in 2015.

3.1. TURNOVER & RECURRENT EBITDA

TURNOVER and RECURRENT EBITDA
Million euros





*Quarterly information unaudited.

Consolidated Turnover for 2016 reached circa 241 million Euros, up by 5.7% vs. 2015 (or by 12.9 million Euros), on a comparable basis. This performance is explained by the better results of the North American business and of the Laminates plant in Portugal the latter growing turnover by 44% when compared to 2015. It should be noted that the North American business experienced an increase in sales volumes and average selling prices y.o.y. and benefited, in the last quarter of the year, from the recent strategic investment in a fifth melamine surfacing line, which allowed it to strengthen its product mix with a higher share of melamine faced products.

Notwithstanding the positive performance when compared to last year, the depreciation of the Canadian dollar vs. the EUR during 2016 continued to negatively impact consolidated turnover. On a like for like basis, using exchange rates of 2015, consolidated turnover would have been circa 20 million Euros higher, representing an increase of 8.9%

2016 Recurrent EBITDA of 38.4 million Euros, an improvement of 8.5 million Euros vs. 2015, with an underlying **Recurrent EBITDA margin** of 15.9%, an improvement of 2.8 p.p. when compared to last year. Recurrent EBITDA in 4Q16 stood at 6.5 million Euros, 6.5 million Euros below the previous quarter, partially driven by the annual shutdown of line 2 at our North American plant and by the sudden increase in chemicals cost at year end. When compared with 4Q15, Recurrent EBITDA increased by 1.4 million Euros. 4Q16 Recurrent EBITDA margin was 11.2%, 1.4 p.p. above 4Q15.

3.2. CONSOLIDATED FINANCIAL PERFORMANCE

3.2.1 CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT Million euros	2015 Recalculated	2016	2016 / 2015	4Q15 Recalculated Unaudited	3Q16 Unaudited	4Q16 Unaudited	4Q16 / 4Q15	4Q16 / 3Q16
Turnover	**227.9**	**240.9**	**5.7%**	**52.3**	**62.1**	**58.2**	**11.2%**	**(6.2%)**
Other operational income	5.3	5.8	7.8%	1.1	1.0	1.2	5.4%	12.2%
EBITDA	28.6	38.3	34.0%	4.7	12.7	6.4	35.6%	(49.5%)
Non recurrent items	(1.3)	(0.1)	-	(0.4)	(0.3)	(0.1)	69.5%	-
Recurrent EBITDA	**29.9**	**38.4**	**28.5%**	**5.2**	**13.0**	**6.5**	**27.0%**	**(49.7%)**
Recurrent EBITDA Margin %	13.1%	15.9%	2.8 pp	9.8%	20.9%	11.2%	1.4 pp	-9.7 pp
Depreciation and amortisation	(13.6)	(12.1)	11.3%	(3.3)	(3.0)	(3.2)	3.3%	(4.0%)
Provisions and impairment Losses	(0.1)	(3.5)	-	(0.0)	0.1	(3.9)	-	-
Operational profit (EBIT)	**14.8**	**22.6**	**52.6%**	**1.5**	**9.8**	**(0.7)**	**(148.7%)**	**(107.2%)**
Net financial charges	(5.9)	(16.5)	-	(4.9)	(3.5)	(3.2)	33.8%	8.9%
o.w. Net interest charges	(3.0)	(13.1)	-	(4.1)	(2.5)	(2.5)	39.0%	(2.2%)
o.w. Net exchange differences	(0.3)	(0.1)	-	(0.0)	(0.2)	0.1	-	-
o.w. Net financial discounts	(1.6)	(1.8)	(12.0%)	(0.4)	(0.5)	(0.5)	(12.5%)	0.1%
Gains and losses in Joint-Ventures	0.0	5.5	-	0.0	3.1	(0.7)	-	(124.1%)
Profit before taxes (EBT)	**8.9**	**11.6**	**30.3%**	**(3.4)**	**9.3**	**(4.7)**	**(37.0%)**	**-**
Taxes	(3.9)	(8.6)	-	(0.1)	(3.1)	(1.7)	-	43.9%
o.w. Current tax	(4.1)	(8.9)	-	(0.0)	(3.1)	(1.4)	-	54.5%
o.w. Deferred tax	0.2	0.3	53.0%	(0.0)	0.0	(0.3)	-	-
Profit/(loss) from continued operations	**5.1**	**3.1**	**(39.2%)**	**(3.5)**	**6.2**	**(6.4)**	**(85.5%)**	**-**
Profit/(loss) from discontinued operations	(41.1)	7.9	-	(4.3)	0.0	38.7	-	-
Consolidated net profit/(loss) for the period	**(36.0)**	**11.0**	**-**	**(7.8)**	**6.2**	**32.3**	**-**	**-**
Losses (income) attrib. to non-contro. interests	(0.0)	0.0	-	0.0	0.0	0.0	-	-
Net profit/(loss) attrib. to Equity Holders	**(36.0)**	**11.0**	**-**	**(7.8)**	**6.2**	**32.3**	**-**	**-**

Consolidated **EBITDA** for 2016 reached 38.3 million Euros, circa 10 million Euros higher vs. last year, on a comparable basis. The group's consolidated performance was marginally but negatively impacted by **non-recurrent charges** in the amount of 0.1 million Euros.

Total **fixed costs** for 2016, on a like for like basis, increased slightly when compared to 2015, representing circa 17% of turnover.

Total **headcount for Sonae Indústria**, at the end of December 2016, was 485 FTE's excluding Sonae Arauco.

Depreciation and amortization charges for 2016 were 12.1 million Euros, which represents a reduction of 11.3% (or 1.5 million Euros), mainly explained by decreases in depreciation charges in our North American operation. On a quarterly basis, this item totalled 3.2 million Euros in 4Q16, in line with the values booked for 3Q16 and 4Q15.

Provisions and impairment losses for the full year 2016 totalled a net amount of 3.5 million Euros (up by 3.4 million Euros vs. 2015), mainly explained by the constitution, at year end, of impairment losses of tangible assets resulting from new external valuations of real estate properties owned by Sonae Indústria in the Iberian Peninsula. It should be noted that the release of provisions related to the legacy restructuring process in France totalled circa 0.5 million Euros for 2016.

Net financial charges during 2016 were of 16.5 million Euros, significantly higher than in 2015 on a comparable basis, explained by a 12.5 million Euros reduction in net interest income on loans to and from what were previously intra group companies, due to the fact that those loans (mostly loans from Sonae Indústria to Sonae Arauco companies) were fully repaid by 31 May 2016. In the quarter and when compared with the previous year, net financial charges improved by 1.6 million Euros due to the lower amount of net interest essentially as a result of lower Net Debt. When compared to the previous quarter, net financial charges improved by 0.3 million Euros, benefiting from more favourable net foreign exchange variations.

Gains and losses in Joint-Ventures, at the end of December 2016, amounted to 5.5 million Euros, corresponding to 50% of the consolidated net profit of Sonae Arauco since 1 June 2016.

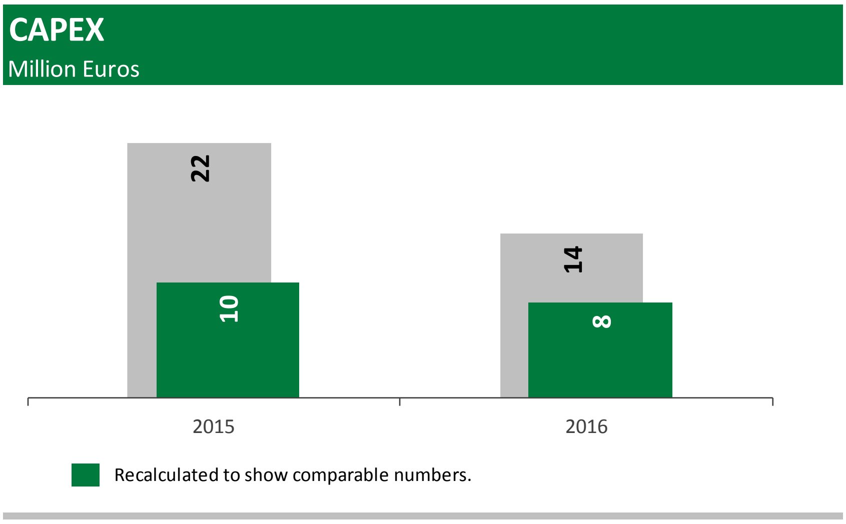
Current tax charges were 8.9 million Euros for the year, an increase of 4.8 million Euros, when compared to 2015, on a comparable basis. This result is explained by: (i) higher tax charges in Canada; and (ii) lower tax consolidation benefit in 2016 due to the deconsolidation of Sonae Arauco entities from the Portuguese tax consolidation perimeter during 2016. On a quarterly basis, the current tax charges amounted to 1.4 million Euros in 4Q16, 1.7 million Euros below previous quarter and 1.4 million Euros above vs. same period of last year.

The combination of the above factors led to a consolidated positive **Net Result** for **Continued Operations** of 3.1 million Euros during 2016, a decrease of 1.9 million Euros when compared to 2015. For the last quarter of the year, Sonae Indústria booked a net loss for Continued Operations of 6.4 million Euros, a deterioration of 2.9 million Euros vs. 4Q15 primarily driven by impairment losses and by the increase in taxes notwithstanding higher EBITDA and lower financial charges.

At the end of December 2016, the results of Discontinued Operations showed a **Net profit** of 7.9 million Euros, which contrasts to a net loss of 41.1 million Euros in 2015. This result comprises the following effects: (i) a positive net profit contribution of 5.8 million Euros from Sonae Arauco in the first five months of 2016; (ii) an accounting charge of 36.6 million euros registered in 1H16 resulting from the need to reclassify cumulative Translation Reserves related to Sonae Arauco companies from 'Other Comprehensive Income' to 'Other Reserves & Accumulated Earnings' due to partnership with Arauco and in accordance with IAS 21; and (iii) the recognition of a gain of 38.7 million Euros resulting from the difference between the implied "Fair Value" of the investment in Sonae Arauco as at 31 May 2016 of 186 million Euros and the provisional accounting value of 147.3 million Euros.

This led to a **Net Profit** of 11 million Euros for the full 2016, which represents an improvement of 47 million Euros vs. 2015, on a comparable basis.

3.2.2 CAPEX



Additions to Gross Tangible Fixed Assets reached 8.3 million Euros in 2016, which compares with 9.9 million Euros in 2015, on a like for like basis. During this period, the majority of the investments were executed in our North American plant, mainly explained by the investment in the new melamine press.

3.2.3 Consolidated Statement of Financial Position

EXPLANATORY COMMENTS ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position (CSFP) as at 31 December 2015 has not been recalculated so it considers all the companies in the then applicable consolidation perimeter of Sonae Indústria including those of Sonae Arauco. Therefore this CSFP is not comparable to that shown as at 30 September 2016 and as at 31 December 2016: as from June 2016, the CSFP represents the position of Sonae Indústria under the new perimeter with the 50% shareholding in Sonae Arauco equity accounted.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Million euros

	2015	9M16 Unaudited	2016
Non current assets	**757.8**	**313.4**	**352.8**
Tangible assets	628.8	147.5	148.1
Goodwill	80.9	0.3	0.3
Deferred tax asset	28.4	2.2	1.4
Other non current assets	19.8	163.3	203.0
Current assets	**243.2**	**48.4**	**44.7**
Inventories	98.0	17.9	18.1
Trade debtors	85.1	20.1	15.2
Cash and cash equivalents	28.9	3.9	4.8
Other current assets	31.2	6.4	6.6
Non-current assets held for sale	**1.5**	**1.5**	**1.5**
Total assets	**1,002.6**	**363.3**	**399.0**
Shareholders' Funds	**57.7**	**74.8**	**110.3**
Equity Holders	57.8	74.8	110.3
Non-controlling interests	(0.1)	0.0	0.0
Liabilities	**944.9**	**288.6**	**288.7**
Interest bearing debt	599.1	221.3	218.3
Non current	71.5	218.4	216.0
Current	527.6	2.9	2.3
Trade creditors	138.6	26.2	23.1
Other liabilities	207.2	41.0	47.3
Total Shareholders'Funds and liabilities	**1,002.6**	**363.3**	**399.0**
Net debt	**570.1**	**217.4**	**213.5**
Working Capital	**44.5**	**11.9**	**10.3**

Included in **Other Non-current assets,** is the investment in Joint-Ventures (50% of Sonae Arauco) in an amount of 196 million Euros, which is circa 40 million Euros higher than the book value of this investment in September 2016. This is principally explained by the 38.7 million Euros correction to the fair value of such investment based on an independent fairness opinion.

Consolidated **Working Capital** reached 10 million Euros, a decrease of 1.6 million Euros when compared to September 2016, mainly explained by the reduction in the trade debtors account in our Canadian operation.

When compared to December 2015 Working Capital showed a significant reduction of 34.2 million Euros reflecting the smaller consolidation perimeter in December 2016.

Net Debt stood at 213.5 million Euros at the end of December 2016, a decrease of circa 4 million Euros vs. September 2016 level. When compared with 2015 Net Debt reduced by circa 357 million Euros mostly due to the application of proceeds from the EUR 137.5 million Euros capital increase at Sonae Arauco level fully subscribed by Arauco to repay debt and to the deconsolidation of Sonae Arauco debt as a result of the related change in its shareholding structure.

Total **Shareholders' Funds** continued to strengthen, reaching 110.3 million Euros at the end of December 2016, 35.6 million Euros above September 2016 value mostly due to the effect of booking Sonae Arauco at fair value as explained before. When compared to December 2015, total shareholder's funds increased by 52.6 million Euros which benefits not only from the booking of Sonae Arauco at fair value but also to the positive net results of Sonae Indústria during 2016.

3.3. INDIVIDUAL RESULTS OF SONAE INDÚSTRIA, SGPS

Sonae Indústria, SGPS, SA, as the holding company of the Group, generated on its individual accounts, a negative Net Result of 129,563,123.55 Euros for 2016.

This negative Net Result is essentially explained by Net Financial Results of -12,553,002 Euros, Taxes of -2,228,183 Euros and by Results related with investments in subsidiaries and joint ventures of -113,804,445 Euros. The latter includes an impairment loss of circa 214.1 million Euros, resulting from a correction to the fair value of the investment in Sonae Arauco based on an independent fairness opinion, and 100.3 million Euros of other net positive results (mostly related with dividends from subsidiaries) also booked under Results related with investments in subsidiaries and joint ventures.

3.4. 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 129,563,123.55 Euros in the individual accounts, be transferred to retained earnings.

It also proposes that the referred to amount of 129,563,123.55 Euros and part of the retained earnings of the previous years, in the amount of 139,627,368.09 Euros, totalizing the amount of 269,190,491.64 Euros, are covered with free reserves in the amount of 20,145,629.80 Euros, merger reserves in the amount of 245,913,105.07 Euros and legal reserves in the amount of 3,131,756.77 Euros, in the total amount of 269,190,491.64 Euros.

Considering that the amount of the company shareholders' funds is below half of its share capital, the Board of Directors will, in the terms of the applicable law, request the inclusion of a point in the agenda of the Annual Shareholders' General Meeting to inform the shareholders of the existing situation and for them to take the measures they consider convenient. The Board of Directors will propose a share capital reduction.

3.5. PROPORTIONAL INDICATORS (UNAUDITED PROFORMA)

EXPLANATORY COMMENTS ON PROPORTIONAL INDICATORS

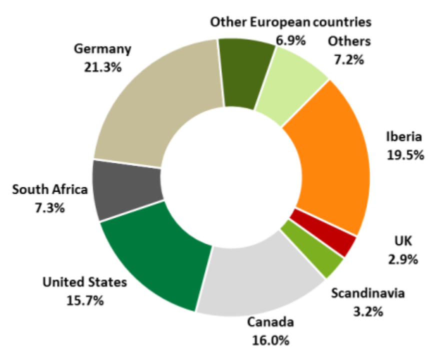
Due to the fact that in the audited accounts, one of Sonae Indústria's main assets (its 50% shareholding in Sonae Arauco) is accounted by the Equity method since 1 June 2016, in order to provide a more comprehensive view of Sonae Indústria's underlying business, financial results, financial leverage and valuation analyses, unaudited proforma Proportional Indicators are also presented.

Proportional Indicators consider the full contribution of the wholly owned businesses and the proportional consolidation of the 50% contribution from Sonae Arauco. Proportional Indicators are proforma because they consider the proportional consolidation of Sonae Arauco companies since the 1st of January of 2015, not after the 31st of May of 2016 when the partnership was setup. Proportional Indicators for 2015 are not presented since Balance Sheet figures for that period are not comparable (Sonae Arauco partnership was setup in 31 May 2016).
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.

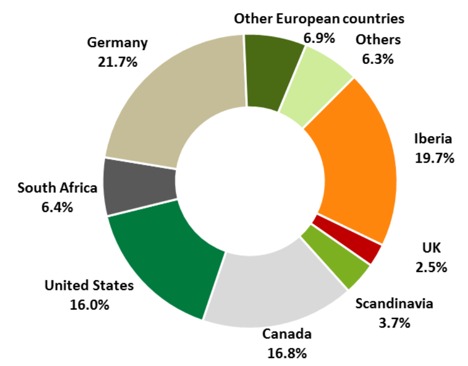
FINANCIAL INDICATORS (unaudited and proforma)	2016
Proportional Turnover	639
Proportional Rec. EBITDA	90
Proportional Rec. EBITDA margin	14.1%
LEVERAGE	
Proportional Net Debt	312
Proportional Leverage (Net Debt / LTM Rec. EBITDA)	**3.5 x**
LOAN TO VALUE	
Net Debt of Sonae Indústria	214
Asset Value	527
LTV (Net Debt of Sonae Indústria / Asset Value)	**41%**

During 2016, Sonae Indústria continued to achieve further deleveraging resulting from the higher level of Recurrent EBITDA on the one hand and debt reduction on the other. At the end of December 2016, **Net Debt to LTM Recurrent EBITDA (proportional)** stood at 3.5x, which represents a reduction of 0.1x vs. September 2016. On the other hand, **Loan to Value** remained at 41% at the end of December 2016, the same value booked for September 2016.

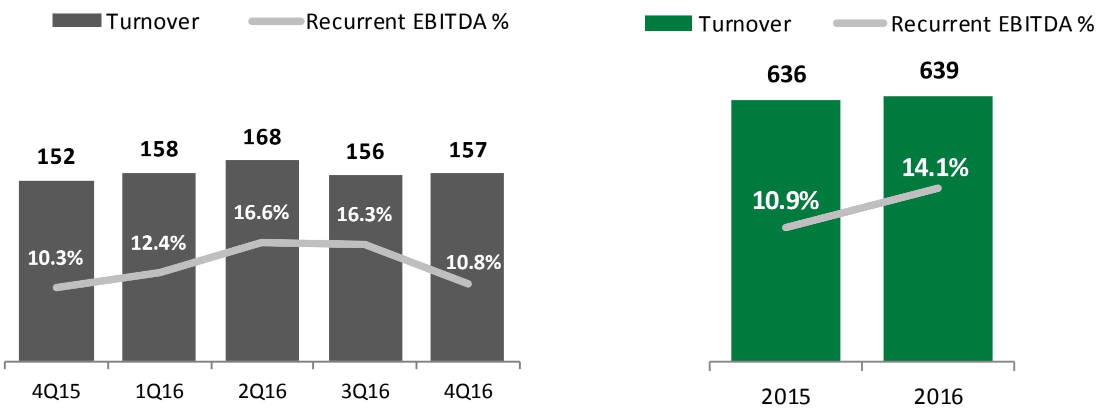
PROPORTIONAL TURNOVER BY DESTINATION MARKET – 2015



PROPORTIONAL TURNOVER BY DESTINATION MARKET – 2016



PROPORTIONAL TURNOVER and RECURRENT EBITDA (unaudited and proforma)
Million euros



Proportional Turnover for 2016 reached circa 639 million Euros, up by 0.5% when compared to 2015, on a comparable basis. This top line performance is mainly explained by the improvements witnessed in the North American business, with higher **sales volumes** and **average selling prices** y.o.y. This operation benefited, in the last quarter of the year, from the recent strategic investment in a fifth melamine surfacing line, which allowed it to strengthen its product mix with a higher share of melamine faced products. Sonae Arauco turnover was kept relatively stable, when compared to 2015: **sales volumes** in the Iberian Peninsula and Germany experienced a slight increase, when compared to 2015, although the positive volume effect was compensated by the y.o.y. decreases in **average selling prices** (in Euro terms) experienced in all the regions where it operates.

The **average unitary variable costs per m^3** experienced a significant decrease y.o.y. in Canada and in all regions where Sonae Arauco operates (considering the evolution in Euro terms), a reflection of a more efficient industrial footprint. This result was achieved, in both cases, mainly due to positive contributions from chemicals, wood and electricity input costs.

Total **headcount for Sonae Indústria** at the end of December 2016, was of 3,269 FTEs including 100% of Sonae Arauco operations.

3.6. OUTLOOK FOR 2017

In North America we will look to extend our market share in value added products continuing to leverage on the actions taken during 2016 including the completion of the investment in a fifth melamine surfacing line and the launch of our new ViVa collection.

For our Laminates and Components business we will seek to improve profitability levels and to complete the investment approved last year for a new edging line in our Components business in Portugal.

At Sonae Arauco we will focus on consolidating our partnership with Arauco and on supporting value creating investments in our plants including the upgrade and modernization of the few remaining plants with daylight presses.

With the continuous support from our key stakeholders, we expect to be able to reinforce the company's long term growth commitment and its competitive position in the wood based panels industry.

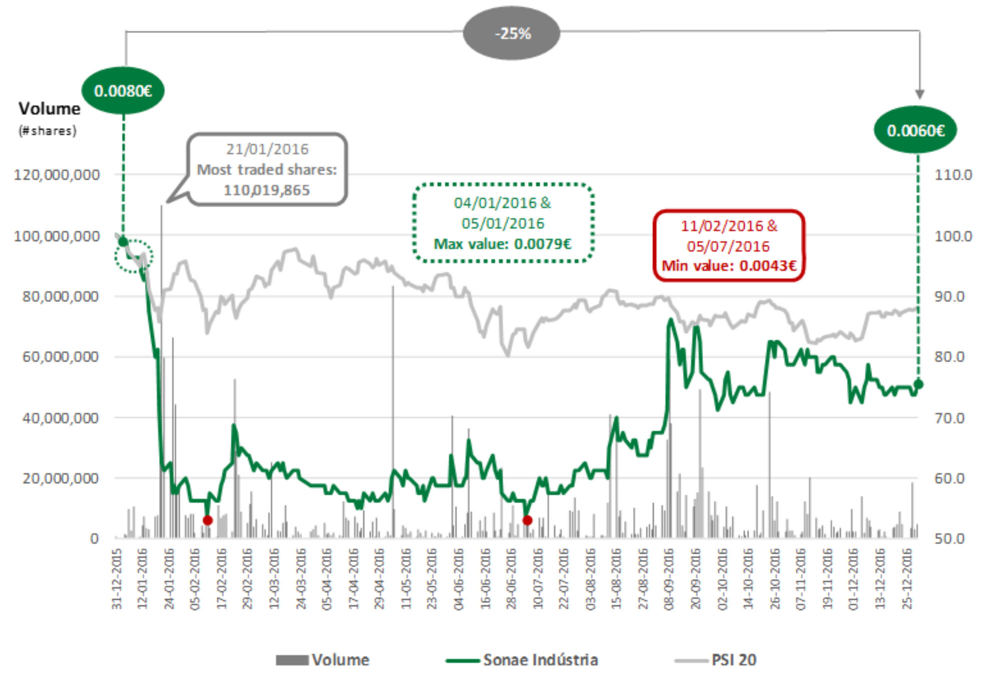
3.7. INFORMATION ON SHAREHOLDINGS AND SHARE PERFORMANCE

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

Share performance

ISIN Code	**PTS3P0AM0017**
Bloomberg Code	**SONI**
Reuters Code	**SONI.LS**

	2013	2014	2015	**2016**
Share Capital	700,000,000.00	812,107,574.17	812,107,574.17	**812,107,574.17**
Total number of shares	140,000,000	11,350,757,417	11,350,757,417	**11,350,757,417**
Net Results	-78,045,917	-115,720,185	-36,004,592	**11,008,954**
Net Results per share	-0.557	-0.010	-0.003	**0.001**
Dividends per share	0.000	0.000	0.000	**0.000**
Prices				
Year High	0.6630	0.8660	0.0097	**0.0079**
Year Low	0.4500	0.0059	0.0058	**0.0043**
Year Average	0.5559	0.4552	0.0077	**0.0054**
Share price as at 31-Dec	0.5630	0.0064	0.0080	**0.0060**
Market Capitalization as at 31-Dec	78,820,000	72,644,847	90,806,059	**68,104,545**
Average trading volumes per day (shares)	413,413	4,390,031	8,037,786	**8,455,716**



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

During 2016, 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 25% from the end of 2015 until the end of 2016. It should be noted that the performance in the second half of 2016 was considerably better with an increase of 33% on Sonae Indústria's share price.

The highest daily turnover in Sonae Indústria shares was registered on 21 January (110,019,865) shares.

The minimum share price during 2016 was registered in two different sessions: 11 February and 5 July (0.0043€). On the other hand, the maximum share price was achieved on two consecutive sessions: 4 and 5 January (0.0079€).

Regarding liquidity, Sonae Indústria's share had, during 2016, an average turnover of 8,455,716 shares per day.

3.8. 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 2016, the company did not hold any own shares.

3.9. 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.

3.10. SUBSEQUENT EVENTS

There have been no relevant subsequent events.

4. RISK MANAGEMENT

4.1. 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 is to guarantee the effective collection of its operating receivables, according to the most reduced payment terms commercially adequate, 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).

b) Other 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 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.

4.2. 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.

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.

4.3. 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, SA is and intends to continue being recognised for 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.

4.4. OPERATIONAL RISKS

The production of wood-based panels is an industrial activity with a significant operational risk, which arises 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 best practices and in the selection of 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 the Corporate Governance Report.

5. CORPORATE RESPONSIBILITY (UNAUDITED)

Note: information in this section aggregate numbers consider 100% of Sonae Arauco also in 2016.

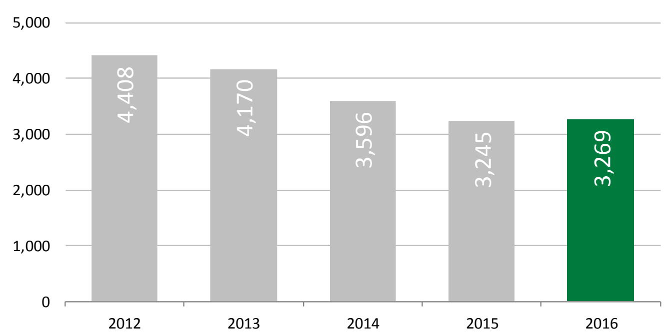
Note: information in this section includes full Sonae Arauco activity which means that aggregate data consider 100% of Sonae Arauco figures also in 2016.

5.1. SOCIAL REPORT

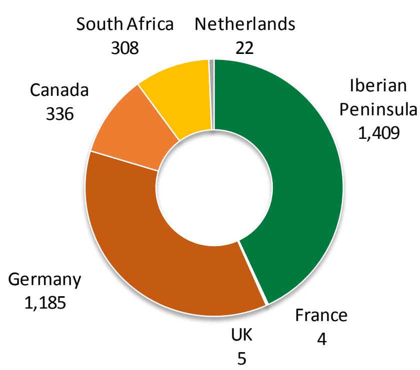
PEOPLE

At Sonae Indústria, we believe that people are the support 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. Each employee is an individual and it is this diversity that makes up the richness in Sonae Indústria's culture. We have expressed our commitment towards our people in the corporate values of Cooperation, Non-discrimination and Health and Safety.

Number of Employees (excluding Trainees)

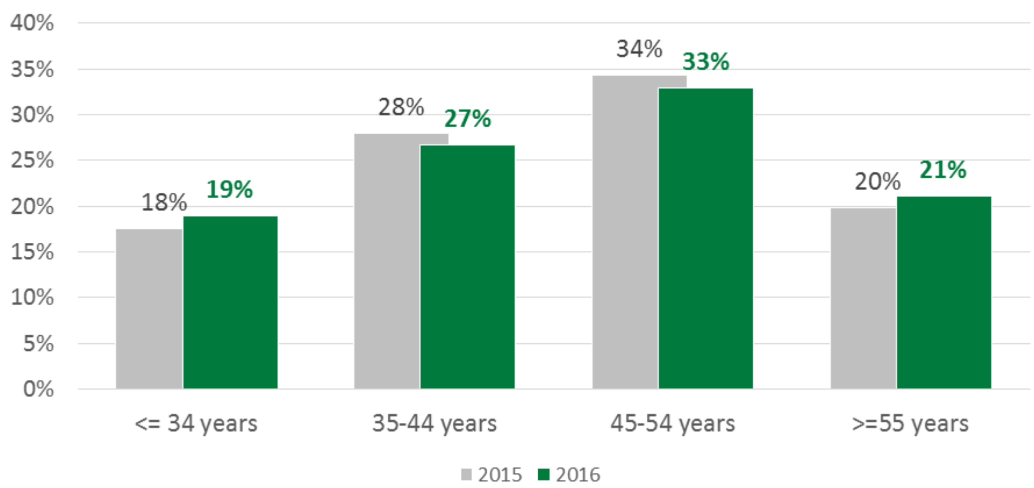


Employees per country (excluding Trainees)



At the end of 2016 and considering 100% of Sonae Arauco, Sonae Indústria employed 3,269 people in 8 different countries. Since 2012 and until 2015, the number of employees had been reducing which was mostly explained by the sale of plants in France (Auxerre, Le Creusot, Ussel and Linxe) and Spain (Betanzos) and by the streamlining of the group support structures. By the end of 2015, the restructuring plan was concluded and during 2016 Sonae Indústria mantained a stable headcount structure.

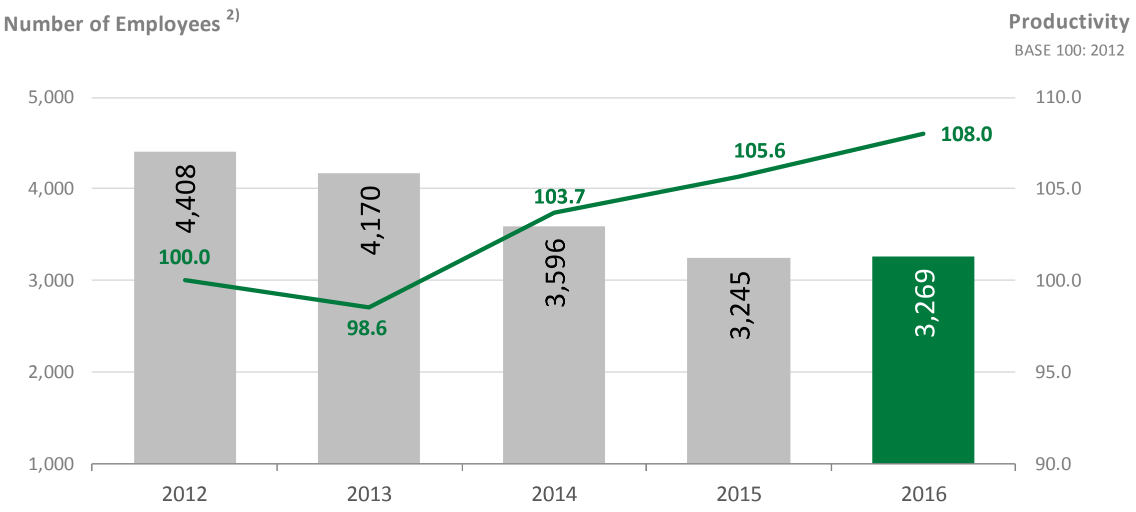
Workforce by age group



The most representative age group at Sonae Indústria (including 100% of Sonae Arauco) ranges between 45 and 54 years (corresponding to 33% of the total employees). It should also be noted that women represent circa 17% of the total workforce, exactly the same percentage as recorded in 2015.

Productivity (1)

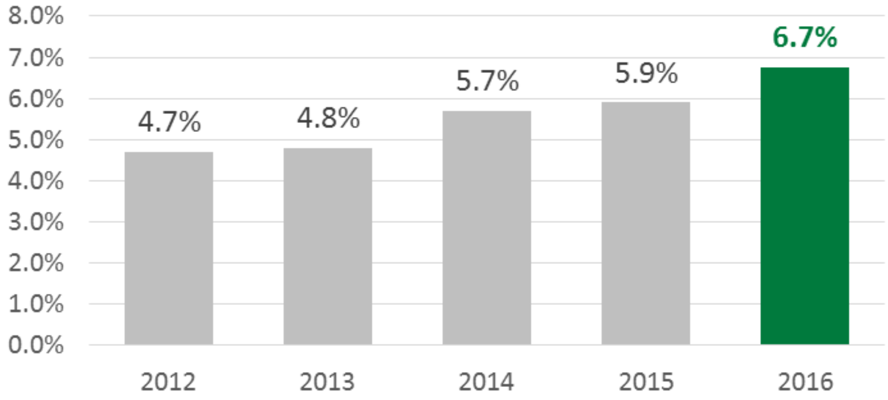
Over the last years, productivity has been strongly increasing, particularly driven by the restructuring process that the Company went through until 2015.



1) Productivity based on the aggregate figures, i.e., including 100% of Sonae Arauco turnover and FTE's

2) FTE's Excluding Trainees   Number or Employees   Productivity

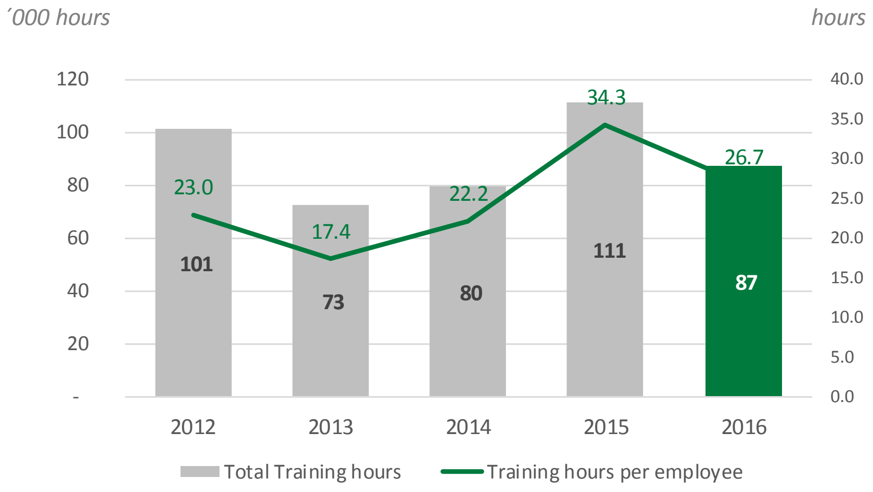
Absenteeism rate (%)



Absenteeism had been increasing over the last years, mainly due to long-term leaves. Sonae Indústria has an ageing workforce with the consequent growing rate of prolonged absences due to natural diseases.

In face of these results, in 2014, Sonae Indústria took the decision to set up a working group to adress this subject in order to reduce the abseenteism levels in a responsible way. The group has already identified some corrective measures which started to be implemented during 2016, and that are expected to have a more visible effect in the coming years.

Total Training hours and Training hours by employee



In 2015 the number of training hours per employee increased significantly, representing the highest figure of the last five years. This was mainly the result of the IoW (Improving our Work) implementation and the associated training initiatives, which involve a significant number of participants and training hours. These continuous improvement programmes were in the past supported by external entities and are now develop through internal training activities and best practices sharing in specific forums. As a large portion of Sonae Indústria's employees are already trained in IoW, in 2016 the number of training hours returned to a standard training hours proportion, more based on functionally oriented training needs.

PARTNERSHIPS WITH UNIVERSITIES

With the objective of developing and improving the characteristics of our products and to build a Centre for Research, Development and Innovation, we have developed a partnership with four Portuguese universities; *Faculdade de Engenharia da Universidade do Porto* (FEUP), *Escola Superior Tecnológica de Viseu* (ESTV), *Universidade de Aveiro* (UA) and *Universidade Nova de Lisboa* (UNL), as well as with three research Institutes, *Associação Rede de Competência em Polímeros* (ARCP), *Pólo de Inovação em Engenharia de Polímeros* (PIEP) and *Centro de Nanotecnologia e Materiais Técnicos, Funcionais e Inteligentes* (CENTI). This partnership provides the basis for product and process innovation in the group and encourages the proximity between our company and the university community. At the moment, and within a competences framework defined, the main objectives of our research centre are the following:

- G0 – New polymers, fundamental investigation;
- G1 – Resins – industrial control and monitoring;
- G2 – Wood based panels – development of new products, analysis of physical and mechanical characteristics, and performance evaluation of gluing systems;
- G3 – Impregnated papers and laminates – impregnation, performance characterization, development of new products / processes;
- G4 – Emissions – analysis of VOC[10] emissions, in particular the formaldehyde ones.

With the above objectives in mind, Sonae Indústria, has through one of its subsidiaries, a series of facilities and equipment in the university's campus.

[10] Volatile organic compound emissions.

With this partnership Sonae Indústria has privileged access to equipment and techniques, knowledge of the researchers, development of new technologies and methodologies 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 become involved in 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.

The company also opens the doors of both its head office and manufacturing plants to high school and university students, allowing the students to have a brief insight of the daily tasks performed at these locations, and to have a better understanding of Sonae Indústria's business.

"T-SHIRT" - PORTUGAL

In Portugal, the T-Shirt voluntary programme has been active since 2008, continuously supporting the local community where the industrial are located, through the implementation of initiatives and campaigns to increase awareness among employees by involving them in community issues.

The T-shirt programme gives all company employees the opportunity to put on the socially responsible t-shirt and spend as much as three working days every year doing volunteer work. The days are funded by the company to encourage such activities.

During the month of December the usual Christmas Campaign was held and once again employees showed their solidarity by donating food and baby diapers which were collected and offered to local institutions.

Throughout the year, Portuguese manufacturing units offered various donations to schools, institutions and universities. Products were also distributed to institutions such as schools, local fire departments, social and cultural associations, Rotary clubs and sport associations.

"T-SHIRT" - SPAIN

Within the 2016 social responsibility program, Valladolid plant collaborated with two children's sports clubs which guarantee the appropriate sports and personal training of children and promote responsibility, commitment and sportsmanship. Aid was also granted to a choir who participate in different orchestral projects and charitable concerts for Harambee (International solidarity project promoting educational initiatives in Africa) and Cáritas in Spain.

In Spain the Operación Kilo, was once again held and a total of 336kg of food was collected from all the employees and donated to Banco de Alimentos de Valladolid, Banco de alimentos de Segovia and to the Cruz Roja in Tres Cantos.

SOCIAL RESPONSIBILITY PROGRAMMES IN GERMANY

In Germany, once again various contributions were made to institutions such as local Fire Brigades, schools and youth associations, amongst others.

This year a new activity was introduced. An Open Day was held in Meppen where the company invited the employee's children to join them at work for a day.

This initiative aims to promote the approximation of children with their parent's working environment, let the children see their parent's work place, make them understand the importance of a profession in a playful and fun way, to transmit educational values with playful activities and appreciate the time and quality of life and by doing so, increase motivation and the sense of belonging to the company.

SOCIAL RESPONSIBILITY PROGRAMMES IN CANADA

In 2016, Tafisa Canada upheld its engagement towards the Fondation du *Centre de Santé et de Services Sociaux du Granit* (Health and Social Services Foundation). The Foundation's main objective is to help maintain and improve health care services provided to the entire population of Lac-Mégantic and surrounding communities. For every dollar donated by an employee, Tafisa contributed an equal amount to the organization.

A group of employees participated in the the Enbridge® Ride to Conquer Cancer® which is an epic, two-day cycling event spanning over 200 kilometres. The money raised helps fund cancer research and care at the Segal Cancer Centre at the Jewish General Hospital and throughout Quebec. Another group participated in the Relay for Life organized by the Canadian Cancer Society. The public gathering, spanning a night, is organized to raise funds to improve cancer survival, decrease the incidence of cancer, and improve the quality of life for cancer patients and their caretakers. For both events, Tafisa Canada made donations on behalf of the employees in support of their endeavours.

Aware of how important it is to nurture a shared sense of belonging and highlight what the community can achieve together, Tafisa Canada maintained a strong presence during community events through sponsorhips and the active participation of its employees in the activities.

CORPORATE SOCIAL INVESTMENT INITIATIVES IN SOUTH AFRICA (CSI)

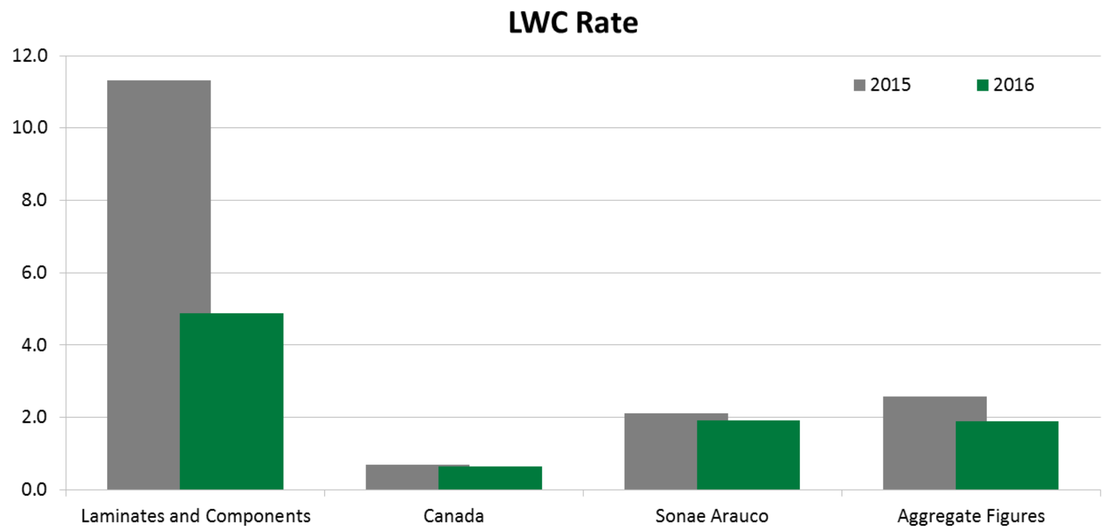
In South Africa, Sonae Novobord engaged in several actions, not only through financial assistance, but also through active partnerships, promoting and participating in awareness campaigns. The main focuses are Education (including bursaries and skills), providing education initiatives to teachers, and Worldwide Fund for Nature (WWF).

- During 2016, Sonae Novobord CSI Committee maintained their focus on youth education and clear development and assistance was given to schools.
- For the 3rd year, six teachers were selected to attend the Teachers Creativity Conference.
- Support to "Friends of Alex", a food sponsorship programme for disadvantaged pre-primary school children.
- Furntech: 36 pupils from disadvantaged backgrounds have graduated and completed their 1-year apprenticeship program, and are now able to open their own woodwork businesses or gain employment in the wood manufacturing sector - a great achievement for all these students.
- Founder member with Ligbron High School of the E-Learning LES system, registered as a trademark in 2016. The LES® system allows 23 840 students from 31 schools in different provinces to have access to learning via electonic medium.

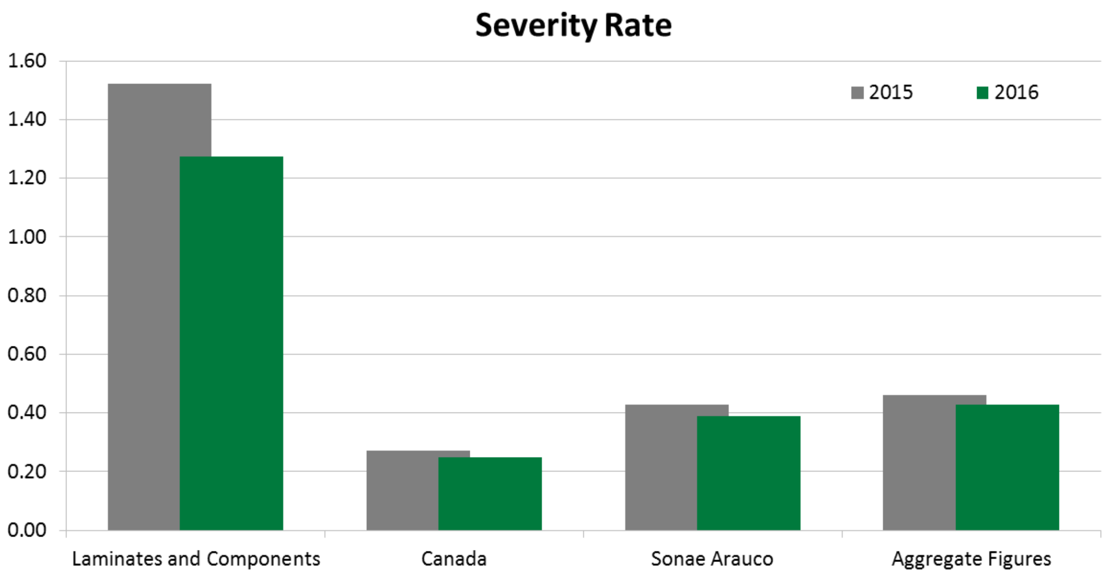
The CSI committee is comprised of 5 members, of which the chairperson is independently appointed. The remaining members of the team are Sonae Novobord employees who manage this portfolio in conjunction with their own job responsibilities.

KEY HEALTH AND SAFETY PERFORMANCE INDICATORS

The chart below represents the country-wide and global Lost Workday Cases (LWC) rate[11]:



Sonae Indústria's overall LWC rate improved 26% (compared with 2015 rate) with reductions achieved in all businesses: extremely good results by Laminates and Components (reduction of 57%) but Canada (- 4%) and Sonae Arauco (- 9%) also improved.



The decrease in the Severity Rate is the result of less days lost due to injuries. This means that the events registered during 2016 were less severe, therefore, there was a positive impact on the performance of the Sonae

[11] **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 injuriy and illnesses is a LWC regardless of the time between injury and decease as a consequence 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).

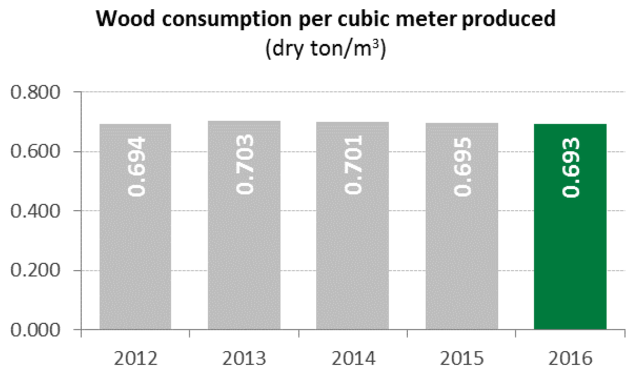
Industria Severity rate[12] indicator (reduction of 7% when compared with previous year). When compared to 2015, Laminates and Components had a very good result achieving and improvement of 16%. Canada and Sonae Arauco also reported improved results (reduction of 8% and 9% respectively).

5.2. ENVIRONMENTAL REPORT

Wood Consumption (dry ton / m^3)

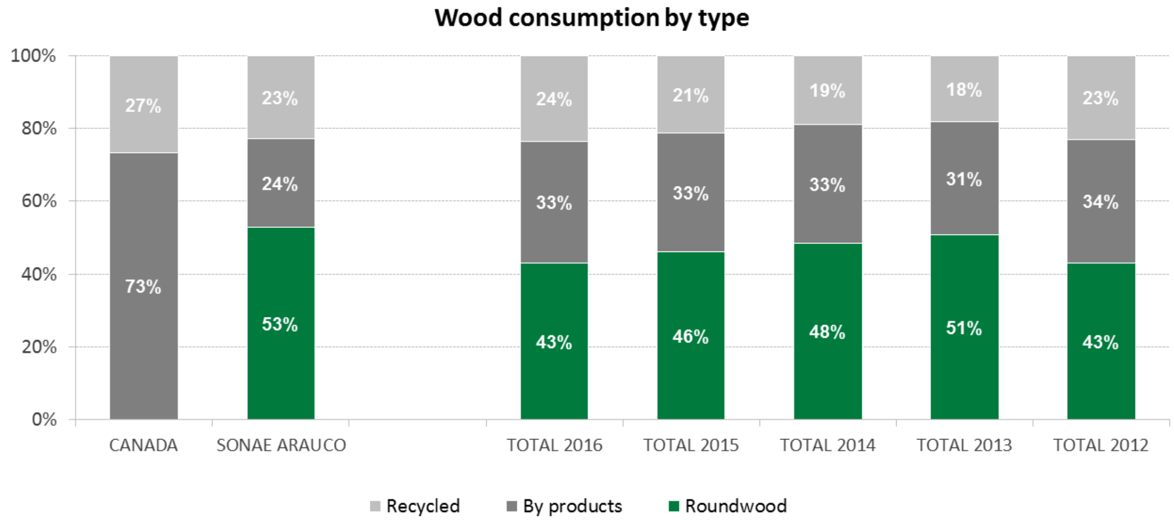
Wood is Sonae Indústria's primary raw material, considering the business in Canada and Sonae Arauco. As a major user of this natural, renewable and recyclable material, we believe that using recycled wood and wood by-products in our production is part of our sustained contribution towards mitigating 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, which illustrate our continuous efforts within this key operational area.



Global specific wood consumption for Sonae Indústria's portfolio was slightly lower when compared to 2015 and one of the best performances of the last years despite total production output in 2016 being higher than in the previous year. This reflets the effort that has been done in more efficient industrial operations with clear focus on the reduction of ineficiencies.

[12] **Severity Rate** = Number of workdays lost due to LWC*1,000 / Number of hours worked.



Sonae Indústria global wood supply mix for the board operations continues to reveal the trend of the last years with an increase of recycled material in detriment of roundwood.

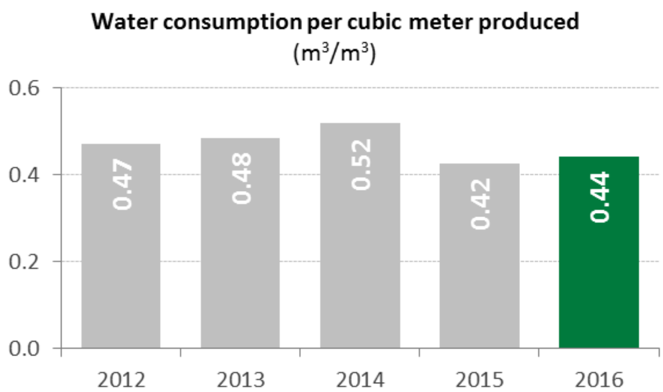
In 2016 incorporation of recycled material reached 24% (increase of 3 p.p. compared with 2015). This effect was mainly due to Sonae Arauco operations, in particular, by the increase in the German sites where recycled wood consumption grew 17 p.p. when compared with previous year. The growth was possible due to developments done in the cleaning installation equipment in Nettgau, which allowed for an increase in the capacity to process recycled wood. Also in the Iberian Peninsula's there was an increase in the recycled material intake, in line with past years trend, particularly in Oliveira do Hospital site. Canada operation maintained the level of incorporation of recycled and by products within the same values of 2015.

Water Consumption (m^3/m^3)

Municipal, surface and underground water

Sonae Indústria's board production process require water. Therefore it is part of the company's environmental objectives to continuously make sustained efforts to re-use treated wastewater and to measure and reduce the levels of water consumption as much as possible.

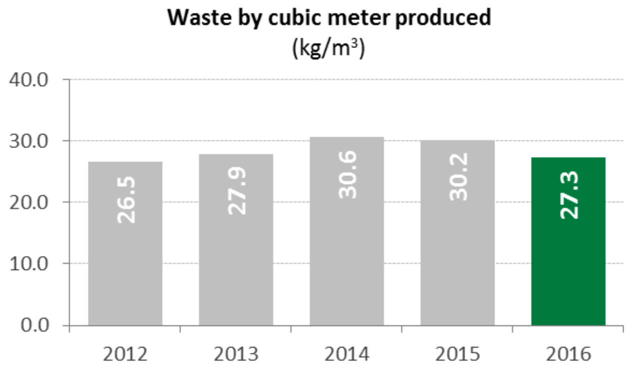
Specific water consumption has increased, when compared with 2015, mainly due to the effect of the increase of MDF production in the global production portfolio of the past year.



Waste Generation (kg/m³)

Hazardous and non-hazardous waste

The global indicator on specific waste generation registered a decrease of almost 10% when compared to 2015 performance.



Management systems

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 for Sonae Indústria affiliates and subsidiaries, at the end of 2016, was the following:

	Quality	Environment	Energy	Forest products chain-of-custody		Health & Safety
	ISO 9001	ISO 14001	ISO 50001	PEFC	FSC	OHSAS 18001
Maia*	✓	✓		✓	✓	
Vilela**	✓			✓	✓	
Hörn	✓	✓	✓	✓	✓	✓
Lac-Mégantic	✓	✓			✓	✓
Mangualde	✓	✓	✓	✓	✓	✓
Oliveira do Hospital	✓	✓	✓	✓	✓	✓
Sines***	✓	✓		✓	✓	
Castelo de Paiva****	✓	✓		✓	✓	✓
Linares	✓	✓		✓	✓	✓
Valladolid	✓	✓		✓	✓	✓
Cuellar*****	✓	✓		✓	✓	✓
Meppen	✓	✓	✓	✓	✓	✓
Eiweiler	✓	✓	✓	✓	✓	✓
Nettgau	✓	✓	✓	✓	✓	✓
Beeskow	✓	✓	✓	✓	✓	✓
Kaisersesch******	✓	✓	✓	✓	✓	✓
Panbult	✓	✓			✓	✓
White River	✓	✓			✓	✓

* HPL plant
** components plant
*** resins plant & paper impregnation
**** wood venner plant
***** sawmill
****** paper impregnation

6. CLOSING REMARKS AND ACKNOWLEDGEMENTS

Activity carried out by the Non-Executive Board Members

All Non-Executive Board Members of Sonae Indústria form part 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, giving guidance to the company about them and making proposals to the Board of Directors. Beyond the participation in Board committees, Non-Executive Board Members are actively participating in meetings of the Board of Directors, where they discuss and question 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 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.

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

21 March 2017,

The Board of Directors,

____________________	____________________
Paulo Azevedo	Carlos Moreira da Silva
____________________	____________________
Albrecht Ehlers	José Romão de Sousa
____________________	____________________
Javier Vega	Christopher Lawrie
____________________	
Louis Brassard	

APPENDICES TO THE MANAGEMENT REPORT AND QUALIFIED SHAREHOLDINGS

APPENDIX REGARDING ARTICLE 447 OF THE COMPANY LAW

		Acquisitions		Sales		Position at 31.12.2016	Balance at 31.12.2016
	Date	amount	€ average value	amount	€ average value		amount
Duarte Paulo Teixeira de Azevedo							
Efanor Investimentos, SGPS, SA **(1)**						Minoritary	
Migracom, SA **(2)**						Dominant	

		Acquisitions		Sales		Position at 31.12.2016	Balance at 31.12.2016
	Date	amount	€ average value	amount	€ average value		amount
(1) Efanor Investimentos, SGPS, SA							
Sonae Indústria, SGPS, SA							4,842,637,142
Pareuro, BV **(3)**						Dominant	
(2) Migracom, SA							
Sonae Indústria, SGPS, SA							9 732 857
Imparfim, Investimentos e Participações Financeiras, SA **(4)**						Minoritary	
(3) Pareuro, BV							
Sonae Indústria, SGPS, SA							2 932 687 752
(4) Imparfin, Investimentos e Participações Financeiras, SA							
Sonae Indústria, SGPS, SA							30 098 752

* Tobias de Azevedo ceased being a person closely connected with Paulo Azevedo, once the grounds set forth in paragraph a) of no. 4 of art. 248-B of the Securities Code no longer applies

APPENDIX REGARDING ARTICLE 448 OF THE COMPANY LAW

	Number of shares at 31.12.2016
Efanor Investimentos, SGPS, SA	
Sonae Indústria,SGPS, SA	4,842,637,142
Pareuro, BV	Dominated
Pareuro, BV	
Sonae Indústria, SGPS, SA	2,932,687,752

QUALIFIED SHAREHOLDINGS

Complying with Article 8, no.1 b) of the CMVM Regulation nº 05/2008

Shareholder	No. of shares	% Share Capital	% Voting rights
Efanor Investimentos, SGPS, SA (1)			
Directly	4,842,637,142	42.6636%	42.6636%
By Pareuro, BV (controlled by Efanor Investimentos, SGPS, SA)	2,932,687,752	25.8369%	25.8369%
By Maria Margarida CarvalhaisTeixeira de Azevedo (Director of Efanor Investimentos, SGPS, SA)	1,010	0.000009%	0.000009%
By Migracom,SA (Company controlled by Efanor Investimentos, SGPS, SA´s Director, Duarte Paulo Treixeira de Azevedo)	9,732,857	0.0857%	0.0857%
By Linhacom, SA (Company controlled by Efanor Investimentos, SGPS, SA´s Director, Maria Cláudia Teixeira de Azevedo)	2,507,400	0.0221%	0.0221%
Total allocation	7,787,566,161	68.6083%	68.6083%

(1) Under the terms of of paragraph b) of no. 1 of Article 20 and of no. 1 of Article 21 of the Portuguese Securities Code, Belmiro Mendes de Azevedo, is the ultimate beneficial owner, since he is the controlling shareholder of Efanor Investimentos SGPS, SA, which, in its turn, is the dominant company of Pareuro BV.

On 22 February 2016, 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 1,702,620,000 shares representative of 15% of the share capital and voting rights of Sonae Indústria, SGPS, S.A., exercisable on 30 April 2018. Thereafter, the referred to company informed Sonae Indústria that the call option will be performed by physical settlement and that 98.725% of its share capital is held by TEAK Capital, B.V., in which Carlos Moreira da Silva holds shares that grant him 40% of the voting rights and Fernanda Arrepia (married with him with separation of people and property) holds shares that grant her 45% of the voting rights.

STATEMENT ISSUED UNDER THE TERMS AND FOR THE PURPOSE OF SUB-PARAGRAPH C) OF NO. 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), no. 1, Article 245 of the Portuguese Securities Code, the Board members of Sonae Indústria, SGPS, SA 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 dully 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.

____________________________	____________________________
Duarte Paulo Teixeira de Azevedo	Carlos António da Rocha Moreira da Silva
____________________________	____________________________
Albrecht Olof Luther Ehlers	José Joaquim Romão de Sousa
____________________________	____________________________
Javier Vega de Seoane Azpilicueta	George Christopher Lawrie
____________________________	
Louis Brassard	

GLOSSARY

Asset Value	Asset Value is calculated as follows: [6.8 x LTM Recurrent EBITDA of fully consolidated business (100%)] + [market value of inactive sites real estate properties owned 100% by Sonae Indústria, according to external valuations] + [50% x (6.8 x LTM Recurrent EBITDA of Sonae Arauco – Sonae Arauco Net Debt)]
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); *management accounts concept*
Gross Debt	Bank loans + Debentures + Obligations under finance leases + other loans + Loans from related parties
Headcount	Total number of internal FTEs, excluding trainees
Loan to Value	Net Debt of Sonae Indústria / Asset value
LTM	Last Twelve Months
Net Debt	Gross Debt - Cash and cash equivalents
Proportional: Turnover, Recurrent EBITDA (unaudited, proforma)	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.
Proportional Leverage (unaudited, proforma)	Proportional Net Debt / Proportional LTM Recurrent EBITDA
Proportional Net Debt (unaudited, proforma)	Proportional Net Debt considers the full contribution of the Net Debt 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
Working Capital	Inventories + Trade Debtors – Trade Creditors

Sonae Indústria, SGPS, SA
Publicly Listed Company
Share Capital € 812 107 574.17
Maia Commercial Registry and Tax Number 506 035 034

SONAE INDÚSTRIA

CORPORATE GOVERNANCE REPORT

2016

21 March 2017

CONTENTS

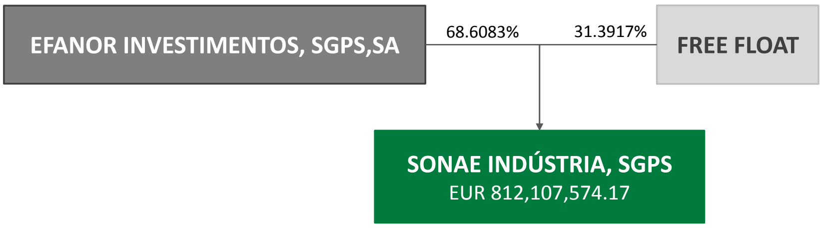
PART I – MANDATORY INFORMATION ON SHAREHOLDER STRUCTURE, ORGANISATION AND CORPORATE GOVERNANCE

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 812,107,574.17 euros and is represented by 11,350,757,417 ordinary nominal 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 of 31 December 2016, the company did not own any of own shares.

4. Relevant shareholders' agreements which come into force, are amended or cancelled in the event of change of control by means of a public offer, the resulting effects thereof, whose disclosure is not adverse to the company, except when the company is specifically obliged to disclose that information due to legal requirements (Article 245-A, number 1, paragraph j))

As of 31 December 2016, loans from financial institutions, in a total amount of circa 181 million euros (85% of the consolidated net debt), contained provisions which grant to the respective creditors the option to request the early repayment of debt in the event of a change in shareholder ownership.

	Million € [1]	No. Contracts
Total	**181**	**4**

1) Liabilities at their nominal value.

The shareholders agreement subscribed by Sonae Indústria and Inversiones Arauco International, Ltda, (Arauco) relative to Sonae Arauco, SA, confers the right to Arauco to exercise a call option over the full amount of Sonae Arauco shares owned by Sonae Indústria, in case of change of the current shareholder control of Sonae Indústria, as well as it confers a call option to Sonae Indústria in case of change of the current shareholder control of Arauco.

5. 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.

6. 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

7. 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 (*)			
Directly	4,842,637,142	42.6636%	42.6636%
By Pareuro, BV (controlled by Efanor Investimentos, SGPS, SA)	2,932,687,752	25.8369%	25.8369%
By Maria Margarida CarvalhaisTeixeira de Azevedo (Director of Efanor)	1,010	0.000009%	0.000009%
By Migracom, SA (company controlled by Efanor's Director, Paulo Azevedo)	9,732,857	0.0857%	0.0857%
By Linhacom, SA (company controlled by Efanor's Director, Cláudia Azevedo)	2,507,400	0.0221%	0.0221%
	7,787,566,161	68.6083%	68.6083%

(*) Under the terms of paragraph b) of no. 1 of Article 20 and of no. 1 of Article 21 of the Portuguese Securities Code, Belmiro Mendes de Azevedo is the ultimate beneficial owner, since he is the controlling shareholder of Efanor Investimentos SGPS, SA, which, in its turn, is the dominant company of Pareuro BV.

On 22 February 2016, 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 1,702,620,000 shares representative of 15% of the share capital and voting rights of Sonae Indústria, SGPS, S.A., exercisable on 30 April 2018. Thereafter, the referred to company informed Sonae Indústria that the call option will be performed by physical settlement and that 98.725% of its share capital is held by, TEAK Capital, B.V.in which Carlos Moreira da Silva holds shares that grant him 40% of the voting rights and Fernanda Arrepia (married with him with separation of people and property) holds shares that grant her 45% of the voting rights.

8. Indication of the number of shares and bonds held by members of the management and Supervisory Board

The Sonae Indústria directors detained the following company shares as of 31 December 2016:

	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	9,732,857
Migracom, SGPS, SA (3)	Dominant	Imparfin, Invest. e Part. Financ., SA (4)	Minoritary
(1) Efanor Investimentos, SGPS, SA		(4) Imparfim, Invest. e Part. Financ., SA	
Sonae Indústria, SGPS, SA	4,842,637,142	Sonae Indústria, SGPS, SA	30,098,752
Pareuro, BV (2)	Dominant		
(2) Pareuro, BV			
Sonae Indústria, SGPS, SA	2,932,687,752		

9. Special powers of the managing bodies, namely in respect to 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 one thousand and two hundred million euros, one or more times, through cash injections under the terms established by the law. These powers were renewed at the General Meeting held on 4 April 2014 and may be exercised over a period of five years from that date, notwithstanding the General Meeting decision to renew these powers again.

The Board of Directors under the use of the powers that were attributed to it has decided in 2014, with the favourable opinion of the Supervisory Board, to proceed with a share capital increase in an amount up to 150 million euros, limited to the subscriptions collected, which were in the amount of 112,107,574.17 euros.

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.

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 31 March 2015, for the mandate 2015-2017 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.

The Article 23º-C of the Securities Code, added, establishes 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 law and the statutes.

Under the terms of 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 on 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 votes can only be considered when sent to the company's headquarters by registered post with acknowledgement 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 its head offices.

Sonae Indústria Articles of Association stipulate that the 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 General Meeting held in 2016, but it was not used.

The preliminary information for the General Meeting and the proposals submitted by the Board of Directors are 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 of 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

The 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 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.

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 2016 Sonae Indústria's Board of Directors was constituted by seven Directors, with one vacant position. All its members were elected at the Annual General Meeting held on 31 March 2015 for the 2015-2017 mandate, with the exception of Louis Brassard that was co-opted by the Board of Directors at the meeting held on 8 June 2016, to fill the open position resulting from the resignation of Rui Manuel Gonçalves Correia as Director of the company. Kurt Jan Bergmann also resigned as Director of the company in June 2016.

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;
- 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, ceased to hold the position of Director of the company on 28 April 2009, having been co-opted until the end of the current mandate (2015-2017), on 8 June 2016.

On 31st December 2016 the Board of Directors of Sonae Indústria was composed of:

- Duarte Paulo Teixeira de Azevedo – Chairman (Non-Executive)
- Carlos António da Rocha Moreira da Silva – Deputy Chairman (Non-Executive and Independent)

- Albrecht Olof Lothar Ehlers (Non-Executive and Independent)
- 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)

As previously mentioned, Rui Manuel Gonçalves Correia and Kurt Jan Bergmann, resigned in June 2016 as Directors of the company, having the Board of Directors proceeded to the co-optation of Louis Brassard, also in the month of June.

Also in June 2016, the Executive Committee was extinguished and Christopher Lawrie and Louis Brassard were appointed Managing Directors.

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

Among the seven (7) Directors, two (2) are Managing Directors and five (5) are non-executive members, as indicated in the previous item.

Among the non-executive Directors, four (4) are independent, also as indicated in previous item.

19. Professional qualifications and other relevant curricular information of each of the members 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-graduate degree in Business Studies (MBA) from the Oporto Business School (ex-EGP). Was CEO of Optimus – Telecomunicações S.A. between 1998 and 2000; CEO of Sonaecom between 2000 and 2007; CEO of Sonae SGPS, S.A. between May 2007 and April 2015; Chairman of the Board of Directors and Co-CEO of Sonae SGPS, S.A. since April 2015. Holds a number of managerial and directorship roles in the Efanor/Sonae Group.

Javier Vega (Independent): obtained a degree in Mining Engineering by the Escuela Técnica Superior de Ingenieros of Minas of Madrid and 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 performs other Board positions.

Albrecht Ehlers (Independent): lawyer; law degree from the University of Münster (Germany). From 1987 to 2000 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 several areas including human resources and legal department. 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 holds functions of chancellor at the Technical University of Dortmund (Germany).

Carlos Moreira da Silva (Deputy Chairman of the Board of Directors and Independent): degree in Mechanical Engineering – Universidade do Porto, MSc in Management Sci. and Operational Research (University of Warwick – UK) and PhD in Management Sciences (University of Warwick – UK). Auxiliary professor of Faculdade de Engenharia of U.P. between November 1982 and March 1987, director of EDP, Electricidade de Portugal, E.P. (between March 1987 and August 1988), occupied several positions in companies of Sonae Group / Sonae Indústria Group between September 1988 and January 2000, having, thereafter, in 2003, occupied the position of CEO of Sonae Indústria, SGPS, SA until April 2005, as well as in other companies of Sonae Indústria Group. Was member of Advisory Board of 3i Spain (2005-2012), member of the Supervisory Board of Jerónimo Martins Dystrybucja, SA (2009 to 2012) and Chairman of the Board of Directors of La Seda de Barcelona (2010-2014). Currently exercises position of Chairman of BA Group and is member of the Board of Directors of Banco BPI.

José Romão de Sousa (Independent): holds a BSc in Chemical and Industrial Engineering – IST, Universidade de Lisboa (Portugal) and a PhD in Chemical Engineering – Imperial College, University of London (UK). Large experience in the manufacturing industry, in particular in the areas of chemicals (formaldehyde resins, adhesives and water-borne emulsion resins) and plastics (Vinyl and polyolefin extrusion and calendaring). Has had several management functions in the ProHolding Group, being still today Non-Executive Chairman of several group companies and associated companies, including a new venture into biologic fungicides. Experience in the financial sector, namely in private equity, portfolio management and stock broker company. Currently, is Chairman of the Board of Directors of Promotor SGPS, SA and Epoli-Espumas de Polietileno SA, among other companies.

Christopher Lawrie (Managing Director): BA (Honours) Degree in Business Studies and Finance of Greenwich University (UK). He has broad experience in investment banking, having worked with Schroders, 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, later, he was appointed CEO of Sonae Retail Properties. In 2013, he was appointed CFO of Sonae Indústria, and is currently Managing Director and Chairman of the Management Committee.

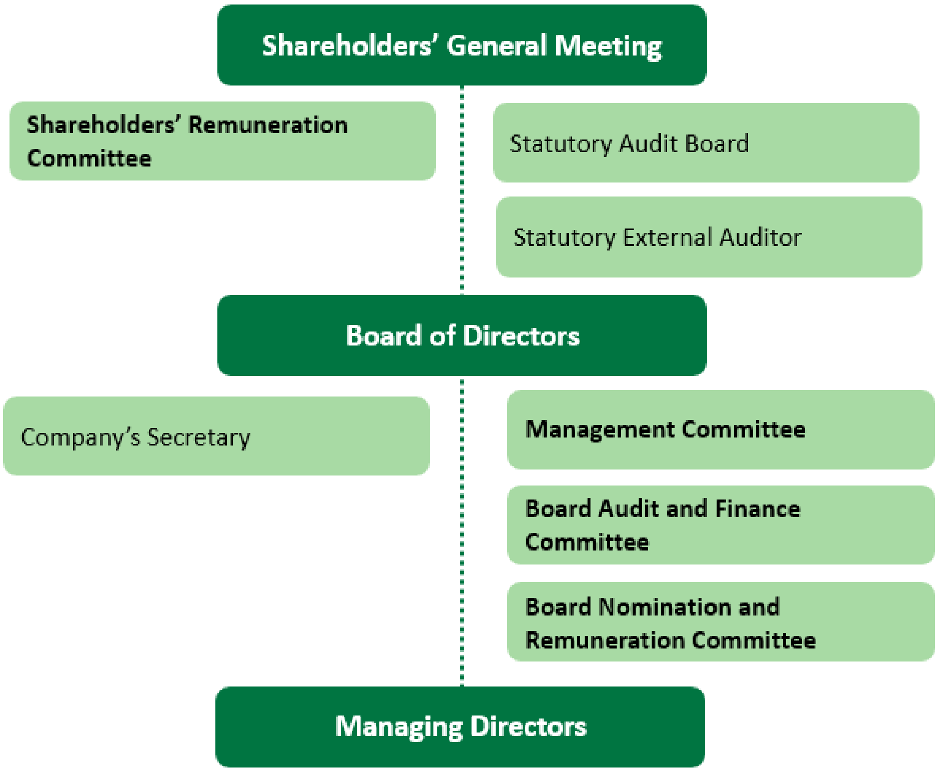
Louis Brassard (Managing Director): degree in Industrial Engineering – Montreal Polytechnic School (Quebec, Canada). MBA in Finance and Marketing – University of Montreal. Since 1994 in Sonae Indústria's Group, where he held various positions, is current COO of Tafisa Canada and member of the Management 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 the son of Belmiro de Azevedo, who, under the terms of paragraph b) of nr. 1 of Article 20 and of nr. 1 of Article 21 of the Portuguese Securities Code, is the ultimate beneficial owner, since he is the controlling shareholder of Efanor Investimentos SGPS, SA, which, in her turn, is the dominant company of Pareuro BV.

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 is split as follows:



Until 8 June 2016, Sonae Indústria had an Executive Committee, in which the Board of Directors had delegated the broadest managing powers of the company. With the completion of the partnership with Arauco and the consequent reduction of the activities of the company, with a higher weight of its financial holding perspective, the Executive Committee was extinguished and the Board of Directors appointed Managing Directors, in which it 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.

The Board of Directors appointed also a Management Committee, composed by the Managing Directors and by the COO of Laminates & Components. The Management Committee has the main objective of support the Managing Directors in the functions that were delegated by the Board of Directors.

b) Functioning

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

The Board of Directors and the Management Committee are regulated by the functioning rules that can be read at the company website www.sonaeindustria.com.

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

The Board of Directors convened 10 times in 2016, with the respective minutes recording all the deliberations made. The attendance of the Board of Directors members to those meetings was the following (physical, electronic means or by representation):

Board of Directors' member	% assiduity
Paulo Azevedo	100%
Carlos Moreira da Silva	100%
Albrecht Ehlers	100%
Javier Vega	100%
José Romão de Sousa	100%
Christopher Lawrie	100%
Louis Brassard*	100%
Rui Correia**	75%
Jan Bergmann**	75%

*elected on 8/06/2016

**resigned from the position on 8/06/2016

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

The company's Shareholder's Remuneration Committee, in connection with the Board of Nomination and Remuneration Committee assessed the performance of the Executive Directors.

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

The performance assessment criteria 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 as follows: 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.

The other members of the Board of Directors currently perform their roles of members as of the Board of Directors and the supervisory bodies of other companies, as 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,S.A. (Director)
- Sonae – SGPS, S.A. (Chairman of the Board of Directors)
- Sonae Center Serviços II, S.A. (Chairman of the Board of Directors)
- Sonae Investimentos – SGPS, S.A. (Chaiman of the Board of Directors)
- Sonae MC – Modelo Continente, SGPS, S.A. (Chairman of the Board of Directors)
- Sonae Sierra, SGPS, S.A. (Chairman of the Board of Directors)
- Sonae Specialized Retail, SGPS, S.A. (Chairman of the Board of Directors)
- Sonae Capital, SGPS, S.A. (Chairman of the Board of Directors)
- Imparfin – Investimentos e Participações Financeiras, S.A.
- Migracom, S.A. (Chairman of the Board of Directors)

CARLOS MOREIRA DA SILVA:

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

- Sonae Arauco, SA

Positions in other companies:

- BA GLASS I - Serviços de Gestão e Investimentos, S.A. (Chairman of the Board of Directors)
- BA GLASS, BV
- Banco BPI, SA
- Fim do Dia, SGPS, S.A. (Chairman of the Board of Directors)
- Lynx Finance GP, LLC

ALBRECHT EHLERS:

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

- Glunz AG (Supervisory Board Chairman – "Aufsichtsrat")

Positions in other companies:

- Erich-Brost-Institut für Journalismus in Europa GmbH
- PROvendis GmbH (Supervisory Body)
- Salus BKK (Supervisory Body Chairman - "Aufsichtsrat")
- Invite GmbH (Deputy – Chairman of the Supervisory Body - "Aufsichtsrat")
- Durable Hunke & Jochheim GmbH & Co. KG (Chairman of the Supervisory Board)
- TechnologieZentrumDortmund GmbH (Member of the Shareholders Committee)
- Studierendenwerk Dortmund AöR
- University Alliance Ruhr

JAVIER VEGA:

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

- Sonae Arauco, SA

Positions in other companies:

- DKV Seguros (Chairman)

- Gestlink, SA (Chairman)
- Inversiones Vedegane, S.A. (Chairman)

JOSÉ ROMÃO DE SOUSA:

Positions in other companies:

- Promotor SGPS, S.A. (Chairman)
- Epoli-Espumas de Polietileno, S.A. (Chairman)
- Epoli (Czechia) sro (Chairman)
- CEV – Consumo em Verde Biotecnologia das Plantas SA (Chairman)
- Comverde SA (Chairman)
- Monte das Janelas Verdes – Sociedade Agrícola S.A. (Chairman)

GEORGE CHRISTOPHER LAWRIE:

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

- Frases e Frações – Imobiliária e Serviços, SA
- Glunz (UK) Holdings, Ltd.
- Isoroy SAS
- Maiequipa – Gestão Florestal, S.A.
- Megantic BV
- Movelpartes – Componentes para a Indústria do Mobiliário, SA
- Novodecor (PTY) Ltd.
- Parcelas e Narrativas – Imobiliária, SA
- Poliface North America Inc.
- Serradora Boix, SL
- Sonae Arauco, SA
- Sonae Indústria de Revestimentos, SA
- Sonae Indústria – Management Services, SA
- Spanboard Products, Ltd.
- Tafisa Canada Inc.
- Tafisa UK, Ltd. (in liquidation)
- Tafisa France, SAS

LOUIS BRASSARD:

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

- Isoroy, SAS

- Megantic, BV
- Poliface North America Inc
- Tafisa Canada Inc
- Tafisa France, SAS

c) Committees within the Management and 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, 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 one Management Committee, composed by the two Managing Directors and by the COO of Laminates & Components.

The Board of Directors also appointed two specialised committees, the Board Audit and Finance Committee and the Board Nomination and Remuneration Committee. The Social Responsibility, Environment and Ethics Committee was extinguished on June 2016.

The rules that regulate the functioning of the Board of Directors and the rules that regulate the functioning of the Management Committe can be read on the company website, through the following links:

- Board of Directors:

  http://www.sonaeindustria.pt/file_bank/investor/BoD%20Regulation%20ENG_2015_FV.pdf

  http://www.sonaeindustria.com/file_bank/investor/BoD%20Regulation%20ENG_22062016.pdf

- Management Committee:

  http://www.sonaeindustria.com/file_bank/investor/Regul%20Mancom%20PT_22062016.pdf

  http://www.sonaeindustria.com/file_bank/investor/ManCom%20Regulation%20ENG_22062016.pdf

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. On 8 June 2016 the Social Responsibility, Environment and Ethics Committee was extinguished.

Management Committee (MANCOM)

The Management Committee is composed by the two Managing Directors and by the COO of Laminates & Components:

- Christopher Lawrie (Chairman – Managing Director)
- Louis Brassard (Managing Director – COO Tafisa Canada)
- Frederico Moniz (COO Laminates & Components)

The MANCOM is responsible for supporting the Managing Directors, within the respective delegation of powers, carrying out the following functions:

- 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.

Prior to any decision on the following matters, the Managing Directors shall obtain the previous and non-binding opinion of the MANCOM, about:

- 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 euro;
- purchasing or subscribing new shares in the share capital of any subsidiary company where the cumulative amount exceeds 5,000,000 euro in any financial year;
- making any other financial investments which exceed the cumulative amount of 1,000,000 euro 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.

The MANCOM shall provide in a timely and appropriate manner the information requested by members of any Statutory Governing Bodies of the company.

The Chairman of the MANCOM shall:

- 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 MANCOM competencies, as well as all matters that although within the MANCOM competencies the MANCOM members have not reached an agreement on, are submitted to the Board of Directors for a decision;
- send all MANCOM minutes to the Deputy Chairman.

Over the course of 2016, the MANCOM met on nine occasions, with the respective minutes having been drafted.

Board Audit and Finance Committee ("BAFC")

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

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

Carlos Moreira da Silva left this committee on 8 June 2016.

The BAFC normally meets at least five times yearly 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;
- 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.

Over the course of 2016, the BAFC held five meetings with the respective minutes having been drafted.

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 its empowerment 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, Independent)
- José Romão de Sousa (Independent)
- Albrecht Ehlers (Independent)

Committee meetings are normally held at least twice a year. The BNRC's main functions are to review and submit proposals and recommendations on behalf of the Board of Directors to the Shareholder's Remuneration Committee in relation to the remuneration and other compensations of Board members. Additionally, it analyses and approves proposals and recommendations on behalf of the Board of Directors in relation to the remuneration and other compensations for other senior executives of the Sonae Indústria Group, depending on the activity performed by them.

The BNRC liaises with the Sonae Indústria Shareholders' Remuneration Committee since this is the only means through which to guarantee 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 closely shadow the performance of every Director and therefore does not have the necessary knowledge that enables them to perform their functions in the best way. The BNRC may also be assisted by external entities provided absolute confidentiality is ensured in relation to the information obtained arising from that cooperation.

Over the course of 2016, the BNRC met on three occasions with the respective minutes having been drafted.

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 with one or two substitutes appointed, 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 2015 Shareholders' Annual General Meeting for the 2015-2017 mandate and has the following composition:

- Manuel Heleno Sismeiro – Chairman
- Óscar José Alçada da Quinta -Member
- António Augusto Almeida Trabulo – Member
- Paulo Manuel Carvalho da Silva – Substitute member

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

- Manuel Heleno Sismeiro – April 2009
- Óscar José Alçada da Quinta – May 2007, as substitute member and March 2015 as effective member
- António Augusto Almeida Trabulo – March 2015
- Paulo Manuel Carvalho da Silva – March 2015

32. Independence 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 members of the Statutory Audit Board prior to their appointment, such members issued statements attesting that: (i) not to incur in any of the incompatibilities provided in Article 414º-A of the Companies Law as well as they were not in any situation that affects their independence in accordance with paragraph 5 of Article 414º of the same law; (ii) committed themselves to immediately notify the company of anything that may lead to their loss of independence or to any incompatibility during their mandate.

The Statutory Audit Board Regulation 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 should immediately communicate this to 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

MANUEL HELENO SISMEIRO (Chairman of the Statutory Audit Board): degree in Finance, SCEF (Portugal), Accountant, ICL (Portugal). Currently he is a specialist consultant in the areas of internal audit and internal control and is Chairman of the Statutory Audit Board of OCP Portugal Produtos Farmacêuticos SA, Sonae Indústria, SGPS, SA and Sonae Capital, SGPS, SA. Prior to this he was a partner at Coopers & Lybrand and Bernardes, Sismeiro & Associados and from 1998 to 2008 at PricewaterwhouseCoopers - auditors and Statutory External Auditor and responsible for the audit and official review in various activity sectors. He was also responsible for managing the office of those companies at Porto and Director of Audit Division in the period of 1998 – 2002 as well as member of the management board at PricewaterhouseCoopers.

OSCAR ALÇADA DA QUINTA (Statutory Audit Board Member): degree in Economics (University of Porto). He has held various functions in both the administrative and financial departments of different companies (1982-1986) and since 1986 has provided services within the external audit of the Official Statutory Auditors Association. Through this activity 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 but subsequently as partner of Óscar Quinta, Canedo da Mota & Pires Fernandes, SROC.

ANTÓNIO AUGUSTO ALMEIDA TRABULO (Statutory Audit Board Member): degree in Economics – University of Porto, Postgraduate Course in Accounting and Corporate Finance – Open University (Portugal), Sufficiency Researcher Diploma in the field of Economics Financiera y Contabilidad – University of Valladolid (Spain), Phd Course in Management and Business Administration – University of Valladolid (Spain), completed curricular part (in the final stages of completion Thesis), Statutory Auditor. Currently exerts functions of Statutory Auditor, partner of the company Velosa, Silva, Marques and Trabulo, SROC.

PAULO MANUEL CARVALHO DA SILVA (Statutory Audit Board Substitute-Member): bachelor of Accounting and Administration – ISCAP, Bachelor Customs Expert – ISCAP, Degree in Administration and T. Customs – ISCAP, CEOG course of Católica University. Since 1992, is member of the company Velosa, Silva, Marques and Trabulo, SROC.

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 rules regulating how the Statutory Audit Board functions can be read at the company website, through the following links:

http://www.sonaeindustria.com/file_bank/investor/Regulamento%20do%20Conselho%20Fiscal_PT_FINAL.pdf

http://www.sonaeindustria.com/file_bank/investor/Statutory%20Audit%20Board%20Regulation_EN_FINAL.pdf

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

In 2016 the Statutory Audit Board convened seven times. The minutes were drawn up recording the respective deliberations. All the members attended 100% of the meetings.

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 exercised their roles in conjunction with the functions listed below, as outlined in section 33.

Functions exercised by Statutory Audit Board members as of 31 December 2016:

Manuel Heleno Sismeiro

In companies outside the Sonae Indústria's Group

- Sonae Capital, SGPS, SA (Statutory Audit Board)
- Sonae, SGPS, SA (Statutory Audit Board)
- OCP Portugal Produtos Farmacêuticos SA (Chairman of the Statutory Audit Board)
- Segafredo Zanetti (Portugal) SA (Chairman of the Shareholder's General Meeting)

Óscar Alçada da Quinta

In companies outside the Sonae Indústria's Group

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

António Trabulo

In companies outside the Sonae Indústria's Group

- Sonae Investimentos, SGPS, SA (Statutory Audit Board member)
- VAA – Grupo Vista Alegre Atlantis, SGPS, S.A. (Statutory Audit Board member)
- Velosa, Silva, Marques e Trabulo, SROC (Director)
- ACAT – Consultoria de Gestão, Lda (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 to perform such services with autonomy and independence from the executed under the audit process are in place.

38. Other roles of the supervisory body

The Statutory Audit Board main responsibilities are as follows:

a) supervising the company's management;
b) overseeing compliance with legal and regulatory requirements and the company's Articles of Association;
c) verifying that the books of account, accounting records and supporting documentation are correctly maintained;
d) verifying, when considered convenient and in a manner considered as appropriate, the extent of cash and stocks of any kind of goods or other values belonging to the company or received as a guarantee or deposit;
e) verifying the accuracy of the documents used in the presentation of accounts;
f) verifying if the accounting policies and criteria used by the company are conducive to a true and fair view of the financial position and results of its operations;
g) 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;
h) convening the Shareholders' General Meeting, whenever the Chairman of the General Meeting fails to convene it when being obliged to do this;
i) overseeing the effectiveness of the risk management, internal control and internal audit system, if they exist, without violating their independence;
j) receiving communications of alleged irregularities presented by the company's shareholders, employees or others;
k) appointing and hiring services from experts to help one or more members in the exercise of their duties. The hiring of and fees for these experts should bear in mind the complexity of the matters involved and the financial position of the company;
l) overseeing the process of preparation and disclosure of financial information and present recommendations or proposals to guarantee their integrity;
m) select the statutory external auditors or the audit company to be proposed to the Shareholders' General Meeting for election and recommend justifiably the preference for one of them;
n) overseeing the work performed by the statutory external auditor in the company's individual and consolidated financial statements, namely its execution, taking into account any findings and conclusions of the Portuguese Securities Market Commission (CMVM), as the competent authority for the audit supervision;
o) verifying and monitoring the independence of the statutory external auditor, namely in relation to additional services provided;
p) complying with any other functions required by law and by the company's Articles of Association;
q) approving the hiring of the statutory external auditor or of any entities that are in a participation relationship with it or that are part of the same network, to render services other than audit services.
r) informing the management body on the results of the statutory audit and explain how it has contributed to the integrity of the preparation and disclosure of financial information processes, as well as explaining the role that the statutory external auditor had in that process;

Besides those responsibilities the Statutory Audit Board must issue prior opinion on any transaction with shareholders or entities with whom they are in any relationship, under Article 20 of the Securities Code (reference shareholders), in the terms set forth in section 91.

The Statutory Audit Board's Report, available on the company website together with the other accounting documents, details the supervisory activity carried out, with no constraints detected.

IV. STATUTORY EXTERNAL AUDITOR

39. Identification of the Statutory External Auditor and its representative partner

The Statutory External Auditor is PricewaterhouseCoopers & Associados, SROC, Lda, represented by Hermínio António Paulos Afonso.

40. Indication of the number of consecutive years the Statutory External Auditor works for the company and/or group

PricewaterhouseCoopers has been the statutory external auditor of the company since the Annual General Meeting of 2006, and is currently undertaking its fourth three-year mandate.

41. Other services provided to the company by the Statutory External Auditor

In 2016 PricewaterhouseCoopers provide other compliance and assurance services to any Sonae Indústria subsidiaries.

V. EXTERNAL AUDITOR

42. Identification of the External Auditor

The External Auditor of the company is PricewaterhouseCoopers & Associados, SROC, Lda, represented by Hermínio António Paulos Afonso, registered in the CMVM under nr. 9077.

43. Permanence of functions

PricewaterhouseCoopers has been the External Auditor of the company since 2006. Its current representative, Hermínio Afonso, has represented it since 20 September 2011.

44. Policy and periodicity of rotation of the External Auditor and its representative

Sonae Indústria had adopted the principle of not proceeding with the rotation of the External Auditor at the end of its third mandate, only if the Statutory Audit Board concluded that, if the External Auditor is kept in functions beyond the before mentioned period, that would not collide with its independence, and if the cost-benefit analysis of this replacement would be in favour of the renewal of the mandate.

In the proposal presented at 2015 Shareholders' Annual General Meeting to appoint the Statutory External Auditor of the company, the Statutory Audit Board considered that the quality of the work performed and the accumulated experience in the sector of activity that Sonae Indústria is part of, both of the statutory audit firm which election is proposed as well as of the entities belonging to the same network in the countries where Sonae Indústria holds, direct or indirectly, affiliated companies, that are included in her consolidated accounts and where such entities are External Auditors of Sonae indústria's affiliated companies constituted an asset that must be taken into account. Having contemplated those facts and the extent of the burden to be supported by Sonae Indústria in an eventual replacement, it was recommended the permanence of such statutory audit firm in the exercise of her functions. The Shareholders' Annual General Meeting has approved the presented proposal.

Further to the publication of Law nr. 140/2015 of 7 September, Sonae Indústria shall, at least, comply with the provisions of the referred to law, as well as it complies with the law regarding the Statutory External Auditor partner, always performing an assessment to guarantee that the independence of both is maintained.

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 period, meeting with him whenever it deems fit. Moreover, the Statutory Audit Board evaluates, on a yearly basis, the global performance of the External Auditor, including an appraisal on its independence.

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 2016 no subsidiary of Sonae Indústria hired other services to the External Auditor. If the company or any of its subsidiaries intends to hire such services, these must be approved by the Statutory Audit Board.

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 that are in controlling or in a group relationship paid PricewaterhouseCoopers the following amounts in 2016:

By the company	
Auditing services (€)	12,176 € / 5.99 %

By other group entities	
Auditing services (€)	189,084€ / 92.98%
Other reliability guarantee services (€)	2,093 € / 1.03%

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 of the Articles of Association are established by law. It is up to the Shareholders' General Meeting 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 one thousand and two hundred 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 the irregularities communication policy, which is available at the website www.sonaeindustria.com. Sonae Indústria's Code of Conduct and irregularities communication policy 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. With the extinction, in June 2016, of the Social Responsibility, Environment and Ethics Committee, its Ethics subcommittee was also extinguished and therefore it was established that any denunciations received would be forwarded to the Chairman of the Statutory Audit Board that, together with the other members of the Statutory Audit Board, has the responsibility of initiating investigations and monitoring the denunciations.

The documents available in the company's website describing the irregularities communication policy are being updated in order to contemplate the necessary changes.

Any information on a suspected 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.
Chairman of the Statutory Audit Board
Lugar do Espido, Via Norte
Apartado 1096
4470-177 Maia Codex
Portugal

Each irregularity communication will be received by the Chairman of the Statutory Audit Board, who is responsible for initiating and supervising the investigation of all denounced situations. Once the research is concluded and if the reported irregularity corresponds to wrongful conduct, the Chairman of the Statutory Audit Board, shall notify the situation to the superior of the employee 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 suspected 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 Chairman of the Statutory Audit Board.

The company provides a means by which to report irregularities on its intranet.

The company maintains a record of all complaints and cases investigated as well as their findings which is be available for consultation by the statutory bodies and External Auditor.

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 site 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

General considerations on changes occurred during 2016

Following the setting up of the partnership with Arauco through Sonae Arauco, Internal Audit and Risk Management for Sonae Indústria excluding Tafisa Canada are currently being managed with the support of the Internal Audit and Risk Management team that now is part of Sonae Arauco and that report its activities to the Board Audit and Finance Committee and to the Statutory Audit Board.

Furthermore, in order to comply with best practice behaviour regarding anti trust regulations for North America business, the Internal Audit and Risk Management and the Operational Risk Management functions for Tafisa Canada have been internalised by Tafisa Canada. For the same reason Sonae Arauco and Tafisa Canada Information Technology (IT) systems have been segregated and Tafisa Canada is moving to a more independent IT infrastructure. It should also be noted that in respect of accounting and administrative functions Tafisa Canada keeps its independence as before as Canada was never included in the scope of the Shared Services Centre (which is now 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 of the Group.

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, on a regular basis, the Board of Directors 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, produces reports containing operational, financial and compliance-related information. Through its Procedural Manual, 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 keeps a corporate team responsible for Planning and Management Control in parallel with Sonae Arauco team.

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 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 although this will be reviewed during 2017 in the light of the new Sonae Arauco partnership. 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 and of the Whistle-blower tool (reporting of irregularities) enhance the control culture of the organisation.

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 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, though the Board Audit and Finance Committee, monitors the activities of Internal Audit and Risk Management.

The Internal Audit and Risk Management reports into the Statutory Audit Board and the Board Audit and Finance Committee, whose chairman is an Independent Director. Meetings are held with each of these bodies to discuss and review internal audit and risk management matters, at least twice a year. Both the Statutory Audit Board and the Board Audit and Finance Committee can 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 Statutory Audit Board is presented with the internal audit and risk management annual plan of activities, and may issue its opinion on it, in addition to the suitability of the resources allocated to the different activities.

The 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 is based on integrity and ethical values, as outlined in the company's Code of Conduct, which emanate from the top down with the example then being set by management.

The different governing bodies have been born from a management philosophy and operating style based on a strong organizational structure with adequate assignment of authority and responsibilities. Sound Human Resource 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. An Enterprise-Wide Risk Management Framework was developed and is updated periodically. 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.

- **Macroeconomic risks**

Sonae Indústria's activity is reliant upon the macroeconomic environment and the profile of the markets in which it operates. Sonae Indústria's subsidiaries' products are fundamentally 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 sectors mentioned. Thus, Sonae Indústria's and its subsidiaries' businesses can be negatively affected by periods of economic recession, in particular by a drop in household consumption levels which, in turn, are influenced, among other things, 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. Sonae Indústria, through its subsidiaries, has a strong presence in international markets, where it produces and sells, contributing almost 80% of its consolidated turnover. Its most important markets are 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 reacting differently to the global economic and financial crisis. In fact, the rate at which the various markets emerge from the current crisis depends on variables outside of Group's control. 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.

- **Competition**

The activity developed by Sonae Indústria through its subsidiaries faces stiff competition in all the markets in which it is present (namely in Iberian Peninsula, Germany, Canada and South Africa),which could have adverse effects on the Group's financial situation and results to the extent that new competing factories and/or the adoption of a more aggressive pricing policy by these 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. Based on Sonae Indústria's diversified assets and geographical exposure to various European markets, but also the North American and South African markets, and also others through exports, 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 the Company and allow it to achieve its objectives of being recognised as a reference player in the wood-based panels sector.

- **Business continuity risks**

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 current macroeconomic and financial framework involves a set of constraints, namely a lack of liquidity and the resulting increase in spreads charged to the companies, 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.

- **Cost structure risks**

Since industrial activity in the sector is dependent on considerably large factory 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 that could be sustained by Sonae Indústria and its subsidiaries.

On the other hand, the variable cost structure of the subsidiaries of Sonae Indústria, 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, could have ramifications not only for the subsidiaries ability to provide its customers with products according to agreed time frames and conditions, but could also affect expected profitability when it comes to setting a sale price for its products. In an extreme scenario, the inability to access wood in sufficient quantities could lead to a temporary interruption in production at the industrial unit in question, with knock-on effects for operational profitability. To mitigate this risk, Sonae Indústria's subsidiaries 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**

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. Failure by Sonae Indústria to monitor and anticipate technological advances, or to predict the receptiveness of new products, could affect its business and the results of its operations.

- **Operational risks**

Sonae Indústria's activities are subject to certain operational risks, especially with respect to industrial production of its subsidiaries. There are multiple factors, not directly controllable by Sonae Indústria nor by its subsidiaries, which may interrupt production and have potentially negative effects on operations and, consequently, its financial situation and results. The manufacture of wood-based panels is an industrial activity that entails high operational risk due to the possibility of accidents involving fire or explosions. As a result, the management of operational risk is a central concern of the Company, which takes an active stance in terms of implementing regulations and best practice, as well as selecting systems capable of reducing industrial risks. In addition, flawed policies for the management and control of operational risks could affect the Group's business and operational results.

- **Financial risks**

The main **financial risk** that Sonae Indústria as a business is exposed to is the **credit risk** associated with its customer portfolio. The credit risk is related to receivables from customers, i.e. the risk that due to lack of liquidity a customer is late in paying or does not pay for the goods and services acquired. Sonae Indústria Group's credit risk control systems are, above all, related to receivables from customers, having as main purpose to guarantee the effective collection of the receivables from customers in accordance with the agreed conditions. Among other procedures implemented by Sonae Indústria to mitigate this risk, Sonae Indústria makes use of credit insurance, as a mandatory tool to mitigate this risk, in all regions where it is present and such insurance is available. In specific situations where we are not able to contract credit insurance to mitigate this risk, alternative and/or complementary solutions (like bank guarantees, letters of credit and confirming, among others) are explored together with our clients 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 decision can be taken over a possible own risk-taking situation.

It should be noted that none of Sonae Indústria customers, including Sonae Arauco customers represents more than 7% of its aggregate turnover (considering 100% of Sonae Arauco turnover).

The existence of **financial covenants** in Sonae Indústria financing agreements also represents a financial risk. Sonae Indústria main financing agreement includes a maximum Net Debt to EBITDA ratio calculated on the basis of Tafisa Canada annual audited accounts from 31 December 2016 onwards and also a limitation on Sonae Indústria (individual accounts) maximum financial indebtedness. On a different loan Sonae Indústria commits to a minimum level of "Shareholders Funds to Total Assets", calculated on its annual audited consolidated accounts. The non-compliance with these 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 the associated financial debt.

- **Economic risks**

The **economic risks** that Sonae Indústria is exposed to include: interest rate risk, foreign exchange risk and liquidity risk.

Interest rate risk depends on the proportion of floating rate debt and the consequent cash flows related to interest payments. 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 is 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.

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. 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.

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.

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. 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 a view to mitigating liquidity risk, it is Sonae Indústria’s target to exclude whenever possible on its loan agreements financial ratios based on profitability indicators such as Net Debt to EBITDA. This objective takes into account the cyclicality of the wood based panels business which translates into highly variable profitability levels with impact on such type of financial ratios at the different stages of the business cycle.

- **Legal and regulatory risks**

Regarding **legal risks**, the main risk of the Group's businesses relates to legislative changes that may occur at the level of the activity (environmental law and labour, among others) that can encumber the activity to such an extent that its profitability may be affected.

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 but also to legislation in different areas, such as industrial and forestry, environmental, labour, health and safety, construction and housing, urban planning, among others. 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. Possible changes to regulations, legislation, or changes in interpretation on the part of competent authorities, the position of authorities or difficulties in complying with new laws and regulations could lead to increased adjustment costs, namely industrial and operational, or, in the limit, constricting the respective operating income, which could have an adverse impact on Sonae Indústria and its subsidiaries activity and operating results. It should be highlighted the on-going regulatory changes of both REACH[1], on the reclassification of formaldehyde as dangerous substance and of the European Industrial Emissions Directive[2] in the definition of the best practices in the wood based panels sector. In the reclassification of formaldehyde – substance used in the manufacturing process of urea-formaldehyde resins, which are the bonding agent of the vast majority of the products manufactured by the Sonae Indústria – there is already a recommendation to reclassify this substance as "category 1B carcinogen" (presumed to have carcinogenic potential for humans, classification largely based on animal evidence)[3].This substance reclassification has entered into force from 1 January 2016 onwards. This reclassification may have consequences both in the definition of the emission standards of Sonae Indústria's industrial operations, and on the restrictive levels of concentration of formaldehyde in the workplace environments. These changes may lead to additional investments needs in Sonae Indústria's manufacturing units. Although a general ban on the utilization of formaldehyde may be a possible theoretical scenario, it is not considered a likely one, being more foreseeable that such regulatory changes result in restrictions as the ones previously described. As for the definition of the best possible practices in the wood based panels sector, Sonae Indústria considers that additional investment may be required to comply with such practices, in a period between two to four years, with the aim of incorporating some of those practices in the activities where they are not currently considered.

54. Description of the process for identification, evaluation, monitoring, control and management of risks

The management of risks is an important part of Sonae Indústria's culture and is mainly supported by Internal Audit and Risk Management functions.

Internal Audit is an independent and objective activity, which aims helping Sonae Indústria to achieve their goals by participating in the process of value creation. 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 into to the Board Audit and Finance Committee (BAFC) and to the Statutory Audit Board.

The planning of the activity of Internal Audit is essentially developed based on a prior assessment of the systematic business risks of Sonae Indústria. The 2016 annual plan of Internal Audit activity was approved in advance by the Executive Committee and submitted to the Board Audit and Finance Committee (BAFC) and to the Statutory Audit Board.

Descriptive reports of the activity of Internal Audit are periodically prepared and sent to the Board Audit and Finance Committee (BAFC) and to the Statutory Audit Board of Sonae Industria, which includes the summary of significant internal control deficiencies and shortcomings in procedures and policies set by company.

The reporting system implemented ensures regular feedback, a proper review of the activities and the possibility to adjust the plan of activities to emerging needs.

Board Audit and Finance Committee (BAFC) and the Statutory Audit Board are responsible for overseeing the effectiveness of the internal audit function. Accordingly, Internal Audit has developed a quality assurance and quality promotion, which includes ongoing analysis and regular and periodic evaluations of the quality conducted internally and externally.

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.

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[1] *Registration, Evaluation, Authorisation and Restriction of Chemicals*; Regulation (CE) n. 1907/2006, of 18 December or Decree-law n. 293/2009, of 13 October.
[2] Directive n. 2010/75/EU.
[3] In experiences performance on animals in relation to which there are enough evidence to support carcinogenicity consequences to animals (presumed carcinogenic for humans).

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. 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 business risks into three categories (Business Division Risk, Business Process Risks and Risk Information for Decision Making) and contains the quantification of the relevance (impact on EBITDA and operating efficiency) as well as probability (frequency of the event or scenario occurring) of the critical risks for Sonae Indústria.

The management of financial risks, incorporated into the business process risks is carried out and monitored within the ambit of the finance function.

The risk management also cooperates in the insurance management, whose goal is to bring about more efficient and effective management of the Group's different insurance policies, in order to mitigate insurance risks.

The general approach that is in place seeks to assure a suitable and balanced coverage of the operational risk through its transfer to our reinsurance panel. Sonae Indústria developed various insurance programs to place the risk, aiming to cover:

- property damage (including machinery breakdown) and business interruption;
- damage in transports;
- damage caused to third parties (product, public and environmental liability);
- credit risk;
- work accidents.

Sonae Indústria contracts insurance policies as a support to its processes of risk management that better approach specific risks and topics and is committed to improve its assets protection and prevention levels 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. Consequently, the operational risk management is assigned to a specific department, active in the implementation of standards and the choice of systems that are capable of reducing industrial unit risks.

Internal Audit and Risk Management services, including Operational Risk Management, for all Sonae Indústria companies, except for Tafisa Canada that has internalised these functions, are provided by teams at Sonae Arauco.

Operational Risk Management

Proper management of operational risks is required to prevent industrial accidents. This is a key component of the Group culture and is present in all management processes, forming part of the delegated responsibility of managers and employees at all levels.

Operational 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.
The activities and projects developed during 2016 aimed to achieve a risk controlled environment targeting protection increase of core assets as well as a reinforcement in loss prevention activities.

Operational Risk Management services for all Sonae Indústria companies are provided by teams at Sonae Arauco with the only exception being Tafisa Canada that has internalised this function and has dedicated and independent teams.

Sonae Indústria has also established an ongoing **Continuous Improvement Programme** supported by a specialist Continuous Improvement Team at Sonae Arauco which promotes the implementation of continuous improvement best practices, which lead to higher efficiency and productivity levels in the group, gradually implementing a cultural change in the company's employees. Its objective is to promote throughout all people a faster and more efficient way of work, not only in the industrial areas, but also in commercial and support activities of the company.

Operational Risk Management: 2016 review

Several operational risk management activities were developed in 2016 keeping the focus on the five structural pillars that were defined to further improve the overall safety performance: Training Programme, Hazards' Management, Process Improvement, Incident Investigation & Reporting and Integrated Audits. These were the basis of the actions launched and implemented in 2016. Considering the operational risks of the company industrial processes, particular attention was given to the Hazards Management and Process Improvement pillars during the last year.

Corporate Operational Risk Standards (CORS)

The CORS are an important contributor of the Hazards Management program. These principles were developed with reference to international standards such as NFPA[4] and/or FM[5] data sheets, bringing together the best engineering protective practices against fire at Sonae Indústria, and in the wood industry. These standards were validated with external experts and specialists from the risk management and insurance market fields. They aim to ensure standardisation of processes and procedures in all geographies in an effort to improve operational risk management by leaving little or no room for uncertainty.

The Corporate Operational Risk Standards (CORS) are divided into three areas:

1. Management Programs and Procedures:

- best industry practices in loss prevention involving the human element;
- preparation for emergencies;
- management of programs (maintenance, equipment inspections, training, contractors, housekeeping).

2. Fire Protection Systems:

- reference to international recognised standards, mainly NFPA;
- general requirements in fire detection and protection of industrial premises, fire water supply specifications and building materials characteristics;
- integration of 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.

With the objective of complementing the above, specific standards that define the ideal protection per type of industrial equipment have been developed. in cooperation with the Group Technology team. This reinforcement of the Hazards Management pillar reflects equipment suppliers' best-practices and recommendations. These standards expedite the investment approval process, as the industrial already have the specifications necessary for the installation, thus promoting the standardization of the systems.

[4] National Fire Protection Association.
[5] Factory Mutual.

Under the scope of Process Improvement pillar and to prevent the risk of explosions several significant investments have been done in different industrial sites throughout 2016. This is the materialization of a program which was defined after a technical evaluation of the existing protection measures.

INSPECTIONS

External Risk Inspections

Industrial units in each geography are evaluated by risk engineers from the insurance companies that are responsible for the insurance policies in place in each country. Depending on the geography and on the insurance companies, this process of risk evaluation can be either performed on an annual or quarterly basis.

These evaluation results are then translated into recommendations scheduled in the Risk Plan of each industrial unit.

Internal Risk Inspections

Following the change to local programs, and to define an evaluation criterion between all industrial units, a common internal evaluation process for Safety, Operational Risk Management and Environment area was implemented.

The visits results are reported and a follow-up of the identified commendations is performed.

Risk Plan

Each individual site defines a set of measures to be taken towards achieving full compliance with the Corporate Operational Risk Standards, with corporate directives published and with recommendations that result from the internal risk inspections. The main objectives encompass:

- improving Sonae Indústria's installations risk standard with a view to increasing employee and asset safety, and avoiding eventual periods of business interruption;
- obtaining a payback reflected in the insurance premiums (demonstration of real and tangible commitment to loss prevention);
- forming the basis for preparation of the annual budget for investment in Loss Prevention measures and establishing priorities based on the impact on Loss Prevention.

55. Main elements 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 implemented **internal control** environment that also covers the process of preparation and disclosure of financial information, is a transversal set of procedures implemented by the Group executive governing bodies, supported in principles of coherence, consistency, transparency, accountability, honesty, integrity, reliability and relevance, aiming to verify the reliability and the accuracy of the financial information, the compliance with accounting rules and regulations, without letting to promote the operational effectiveness. The internal control system seeks to ensure the good management practises and procedures, the compliance with the management established policies and to obtain reasonable assurance relating to the preparation of financial statements, in accordance with adopted accounting principles, and warranting the quality of financial reporting.

In this internal control system, the Group's first point of control is associated with organization, procedures and with the tasks related with the decision processes and execution which they end up to translate, in a systematic, controlled and validated way, in the authorizations of the operations by management.

It is then tried to ensure that those management operations translate into procedures and movements related with accounting and financial records which, in result, are elaborated in a way to allow a reasonable level of certainty that operations are executed in accordance with a general or specific management authorization, that operations are registered in order to enable an appropriate financial statements preparation in accordance with the generally accepted accounting principles 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 existent assets and liabilities and appropriate measures are taken so that relevant material differences are verified.

The reliability, independence, integrity and the opportunity of the financial information are guaranteed through the clear separation between who executes the operations, prepares the information and its internal users (and naturally external), and even through 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 permanently 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 a proper authorization approved by management, and recorded in compliance with accounting principles, 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 profit centres, ensuring continuous monitoring and related budget control;
- during the process of preparation and review of financial information, detailed schedules are established 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 consistence with principles and policies defined in the "Group's Accounting Policies" document and followed in previous periods;
- with regard to the separate entities, 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 consistent recording of 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. Compliance with the rules and the schedule mentioned above, guarantees the consistent respect of criteria and the early detection of any potential deviation or inaccuracies in records. Financial statements are prepared by chartered accountants of each company and reviewed by Planning and Management Control, Consolidation, Statutory External Auditor and by Sonae Indústria's Statutory Audit Board;
- 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 impact the report period.
- the Management Report is prepared by the Investors Relations Department and contributed to, and reviewed by, several business and support 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 the Sonae Indústria Board of Directors, after being preliminarily verified with the Statutory External Auditor. Once approved, the documents are sent to the Statutory External Auditor who issues the accounts legal certification and its 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 quarterly to review the individual and consolidated financial statements. The Statutory Auditor presents the main conclusions of the work carried out regarding the yearly 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 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 updated rules and accounting policies – the accounting policies produced by the different regulators are permanently updated. Financial statements are presented according with the last available versions and whenever such 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 information systems or reviewed or its discontinuity – 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 result in information loss and/or in the availability of the systems to report the information in a complete way and in time. To minimize this risk, the Group has been developing and implementing information technology solutions that allows 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;
- 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. It has to exist a direct relationship 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 subject of analysis and permanent update, in terms of processes

optimization and internal control environment, existing an effective responsibility in the company with that objective and included in the Information and Technology Department;

- Company's less common transactions – sometimes company´s less common transactions occur and because they are exceptional, they could not be detected and timely signalized by the internal control system once this could not be prepared to overcome it. When this exceptional situation happens, it is immediately identified at local or consolidated level, analysed by the several internal departments and, if it is the case, with external confirmation usually with the External Auditor and/or experts.

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, responsible for managing the relationship between the Company and shareholders, investors, analysts and market authorities including the 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-to-one meetings upon request, or by participating at conferences.

Sonae Indústria's Investor Relations Department comprises one staff member. Its manager is João Mangericão. The Department may be contacted, by e-mail: investor.relations@sonaeindustria.com or by telephone: +351 220 100 655.

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: 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 2016, the Department received contacts and requests for clarification from 11 individuals and entities, of which 2 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:

http://www.sonaeindustria.com/page.php?ctx=2,0,27 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,27 (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:

http://www.sonaeindustria.com/page.php?ctx=2,0,31 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,31 (English version)

The functioning regulations of the Board of Directors, Executive Committee and Statutory Audit Board are available at:

http://www.sonaeindustria.com/page.php?ctx=2,0,109 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,109 (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 identity of the members of the company's governing bodies is available at:

http://www.sonaeindustria.com/page.php?ctx=2,0,29 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,29 (English version)

Information about the representative for the Relations with the Capital Markets is available at:

http://www.sonaeindustria.com/page.php?ctx=2,0,30 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,30 (English version)

Information about the Investor Relations Department is available at:

http://www.sonaeindustria.com/page.php?ctx=2,0,55 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,55 (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:

http://www.sonaeindustria.com/page.php?ctx=2,0,42 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,42 (English version)
http://web3.cmvm.pt/sdi/emitentes/emit_contas.cfm?num_ent=%25%23D%3FT%21%3D%3C%20%0A

The half-yearly schedule of company events is available at:

http://www.sonaeindustria.com/page.php?ctx=2,0,53 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,53 (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 information and information subsequent to the meetings are available at:

http://www.sonaeindustria.com/page.php?ctx=2,0,147 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,147 (English version)
http://web3.cmvm.pt/sdi/emitentes/emit_convocatorias.cfm?num_ent=%25%23D%3FT%21%3D%3C%20%0A

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:

http://www.sonaeindustria.com/page.php?ctx=2,0,147 (Portuguese version)
http://www.sonaeindustria.com/page.php?ctx=1,0,147 (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 Articles of Association of the company, 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 talks to the Board Nomination and Remuneration Committee. Only as such can the Shareholder's Remuneration Committee gain 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 by the Shareholders' General Meeting for a three-year term and was elected at the Shareholders' General Meeting held on 31 of March 2015 for the mandate 2015-2017. Currently this committee is composed by 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 Côrte-Real and by the 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, corresponds to the 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 payment is discussed therefore ensuring the necessary impartiality and transparency.

No company was hired to assist the Shareholders' Remuneration Committee nor the Board Nomination and Remuneration Committee. For the benchmark 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.

68. Experience and knowledge of the members of the Shareholders' Remuneration Committee in remuneration policy issues

The representative of Imparfin, José Côrte Real, works for the Efanor Group on Human Resources' area; his extensive knowledge and vast experience in Human Resources, namely in regard to remuneration policy 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 General Meeting held in 2016, 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 European guidelines, Portuguese law and the recommendations of the Portuguese Securities Market Commission (CMVM) and is based on the understanding that initiative, competence and commitment are the essential foundations for good performance and that the latter should be aligned with the medium and long term interests of the company, in order to achieve sustainability.

In determining the remuneration policy comparisons are made with market studies available in Portugal and other European markets, including those prepared by the specialised consultant Hay Group. Comparisons are also made with remuneration practice of comparable companies issuers of securities listed at the stock market.

The fixed remuneration of the Directors is fixed in function of 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, other of medium term and other of long term. The total remuneration is placed in the respect to the fixed remuneration in the median, and in the ninth deciles in respect to the variable component, being the total remuneration placed in the third quartile in comparable circumstances.

The fixed remuneration and the incentives plan are decided 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 an economic and financial nature, also named by "Key Performance Indicators of Business Activity" (or Business KPIs), as also at individual level named as "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, which is 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 performance and individual 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 contemplating any compensation to members of the Board of Director, or to 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 system, 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.

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 represent a relevant and material contribution to the sustainability of the company's businesses. With that in mind, remuneration parameters of statutory bodies are set and periodically reviewed in accordance with remuneration practices of comparable national and international companies, aligning, in individual and aggregate terms, the maximum target amounts to be paid to members of the statutory bodies, with market practices, 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 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, being the maximum potential amounts to be paid to members of the statutory bodies the following, according to market references:

Board of Directors	**Components**		**Market Positioning**	**Circumstances when the amounts are due**
Executive Directors	Fixed	*Base Remuneration*	*Median*	*N/A*
	Variable	*Short Term Variable Component*	*Ninth Deciles*	*Compliance with objective and subjective KPIs*
		Medium Term Variable Component		*Compliance with objective KPIs*
		Long Term Variable Component		*Compliance with objective KPIs*
Non-Executive Directors	Fixed	*Remuneration*	*Median*	*N/A*
Statutory Audit Board	Fixed	*Remuneration*	*Median*	*N/A*
Statutory External Auditor	Fixed	*Remuneration*	*Median*	*N/A*

The company will not assume any contractual responsibilities which are based on and have as effect the enforceability of any payments regarding dismissal or termination of functions of directors, notwithstanding the legal responsibility regime applicable to the dismissal of directors without due cause.

As 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 involves excessive risk-taking. This objective is also reinforced by the fact that each Key Performance Indicator 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, (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 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) The Short Term Variable Bonus

The target value of the Short Term Variable Bonus equals, the maximum, to 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, resulting 50% from the Operational Cash Flow, 30% from Fixed Costs and 20% of the other performance indicators to be annually defined 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 with the individual performance classification attributed to the relevant ED.

Regarding EDs with geographic responsibility, the calculation is similar to the previously described but the combine result of the company's Operational Cash Flow and consolidated Fixed Costs has a weight of 25%, of which 15% for the Operational Cash Flow and 10% for Fixed Costs, the weight of the relevant geography represents the 55%, of which 35% is allocated to the Operational Cash Flow and 20% to Fixed Costs, and the remaining 20% depend on the other performance indicators, namely related to the performance of the working teams under the responsibility of the ED, to be annually defined 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 1/3 of the target value of the total variable component, is designed to reinforce 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 usedis 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 the awareness of the importance of performance in a sustainable manner on the overall success of the organisation. The amount of this bonus in euros is equal 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 deferred 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 range between 50% and 70% of the total annual remuneration (fixed remuneration and variable component target value).

In respect to the calculation of the results the total value awarded is limited to the minimum 0% and the maximum of 200% of the total target value set in advance.

The payments may be made by any of the forms 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, who 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. a discount. This discount corresponds to a contribution to the acquisition of shares that will be supported by the persons to whom 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 receipt of the deferred parts of the variable component remuneration expires if the contractual link between the member and the company ceases before its vesting date.

However, this right will remain valid in case of permanent incapacity or death of the member, in which case the payment is made to the member himself or to his/her heirs on the vesting date.

In case of retirement of the member, 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) shall be based on market comparables, and be structured as follows: (1) a fixed remuneration (of which approximately 15% depends on attendance at Board of Directors and Board Committee meetings); (2) an annual responsibility allowance. Fixed remuneration may be increased by up to 5% for those NEDs serving as Chairman of any Board Committee. There is no remuneration as variable bonus.

Statutory Audit Board ("Conselho Fiscal")

The remuneration of the members of the company's Statutory Audit Board shall be based exclusively on fixed amounts, which include 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 shall be 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 shall correspond to a fixed amount, based on the company's situation and benchmarked against the market.

Persons Discharging Managerial Responsibilities

Under the terms of paragraph 3 of Article 248.º - B of the Portuguese Securities Code, in addition to the members of the statutory governing bodies mentioned above, Persons Discharging Managerial Responsibilities also includes individuals who have regular access to privileged information and are involved in taking management and business strategy decisions at the company.

The remuneration policy applicable to other individuals who, under the terms of the law, are considered to be Persons Discharging Managerial Responsibilities, shall be equivalent to the one adopted for other managers with the same level of function and responsibility, without awarding of any other additional benefits in addition to those which result from 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, through that policy, are entitled to the incentives plan are also eligible for the award of the referred to component.

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 the 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).

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 General Annual Meeting of 2016 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 explanation of the annual bonus system are outlined in the remuneration policy in point 69.

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.

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

2016	Total Fixed Annual Remuneration		Total Short Term Variable Bonus		Total Medium Term Variable Bonus		Total Long Term Variable Bonus		Total	
	2015	2016	2015 (a)	2016 (b)	2015 (c)	2016 (d)	2015 (e)	2016 (f)	**2015**	**2016**
Paulo Azevedo	45,685	51,800							**45,685**	**51,800**
Javier Vega	29,565	29,940							**29,565**	**29,940**
Albrecht Ehlers (g)	40,860	41,400							**40,860**	**41,400**
Carlos Moreira da Silva	30,900	35,400							**30,900**	**35,400**
José Romão de Sousa (h)	24,125	30,600							**24,125**	**30,600**
Cristopher Lawrie	223,220	223,220	121,712 (1)	108,228 (4)	108,258	108,258	121,712	108,228	**574,902**	**547,934**
Louis Brassard (i)		108,315		116,907 (5)		71,686		116,907	**0**	**413,815**
Rui Correia (j)	276,900	125,000	173,138 (2)		165,000		173,138		**788,176**	**125,000**
Jan Bergmann (k)	250,000	105,208	123,670 (3)		150,000		123,670		**647,340**	**105,208**
Total of Board of Directors	**921,255**	**750,883**	**418,520**	**225,135**	**423,258**	**179,944**	**418,520**	**225,135**	**2,181,553**	**1,381,097**

(a) Relative to 2015, amount approved and paid in 2016.

(b) Relative to 2016, estimated value subject to real KPI achievement but pending approval by the Shareholder's Remuneration Committee.

(c) The initial amount related to 2015 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 2016 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 2015, 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 2016, 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 2015, 28,560 euros were paid by Sonae Indústria and 12,300 euros by Glunz AG.

Out of the amount earned in 2016, 29,100 euros were paid by Sonae Indústria and 12,300 euros by Glunz AG.

(h) Relative to nine months of 2015.

(i) Relative to seven months in 2016. Values in euros correspondent to the values in Canadian dollars.

(j) The remuneration of 2016 respects to five months.

(k) The remuneration of 2016 respects to five months / amounts fully paid by Glunz AG.

(1) Fixed from the target value of 108,258 euros.

(2) Fixed from the target value of 110,000 euros.

(3) Fixed from the target value of 100,000 euros.

(4) Fixed from the target value of 108,258 euros.

(5) Fixed from the target value of 92,167 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 companies in the Group are shown in the table in point 77.

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 in the table in point 77.

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 the 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 2016 the members of the Statutory Audit Board earned the following remuneration:

Statutory Audit Board member	Remuneration/Euros
Manuel Heleno Sismeiro (Chairman)	9,900
António Trabulo	7,900
Óscar Quinta	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 2016 the Chairman of the Board of the 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 in the 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.

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 l))

No agreements were signed between the company and the Directors that stipulated 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 purposes of controlling transactions with related parties are thorough, transparent and in strict compliance with the market's competition rules. Such transactions are subject to specific administrative procedures that are regulated by rules, namely rules governing transfer prices or the voluntary adoption of internal verification and control systems.

Monthly, all transactions and operational balances with related parties are identified and verified by a proper team of the Shared Services Centre that renders services to the company and validated with administrative teams of related entities when it refers to external operations.

The less recurrent transactions are subject to an ad-hoc and 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 transfer prices policies in force) to support the possible transaction values. In the case of an asset transfer/alienation, these are also subject to an external and independent assessment.

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.

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.

Any transaction with shareholders or entities with whom they are in any relationship, under Article 20 of the Securities Code (reference shareholders), greater than 10 million euros, should 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.

Transactions that have been contracted with reference shareholders shall be a result of a competitive process and when lower than 10 million euros will be exempt from the prior opinion of the Statutory Audit Board but will need to be reported to the Statutory Audit Board under the procedures mentioned below.

The Sonae Indústria Chairman of the Management Committee is responsible for reporting to the Statutory Audit Board:

1) on a quarterly basis, all transactions with reference shareholders that exceed 1 million euros and any other transactions that are deemed to be particularly “sensitive” by management;
2) on a yearly basis transactions with reference shareholders with accumulated annual values that exceed 5 million euros.

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 relative to related parties’ transactions may be found in Note nr. 36 of the Notes to the Consolidated Financial Statements.

PART II – ASSESSMENT OF THE CORPORATE GOVERNANCE

1. IDENTIFICATION OF THE CORPORATE GOVERNANCE CODE ADOPTED

Sonae Indústria, SGPS, SA adopted the Corporate Governance Code published by CMVM (the Portuguese Securities Market Commission) in 2013, which is posted at www.cmvm.pt.

The decision to select the Corporate Governance Code of the CMVM is justified by the fact that it guarantees a suitable degree of shareholder protection and corporate governance transparency, and is also the Governance Code that the investors are most familiar with.

2. ANALYSIS OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ADOPTED

Sonae Indústria complied with all recommendations of the Corporate Governance Code aforementioned during the 2016 exercise. 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. VOTING AND CORPORATE CONTROL		
I.1 Companies should encourage their shareholders to attend and vote at General Meeting sand shall not set an excessively large number of shares required for the entitlement of one vote, and implement the means necessary to exercise the right to vote by mail and electronically.	**Comply**	**12 and 13**
I.2 Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than that provided for by law.	**Comply**	**14**
I.3 Companies shall not establish mechanisms intended to cause mismatching between the right to receive dividends or the subscription of new securities and the voting right of each common share, unless duly justified in terms of long-term interests of shareholders.	**Comply**	**12**
I.4 The company's Articles of Association that provide for the restriction of the number of votes that may be held or exercised by a single shareholder, either individually or in concert with other shareholders, shall also foresee for a resolution by the General Assembly (five years interval), on whether that statutory provision is to be amended or prevails - without super quorum requirements as to the one legally in force - and that in said	**Comply**	**13**

RECOMMENDATION	Degree of compliance	Corporate Governance report
resolution, all votes issued be counted, without applying said restriction.		
I.5 Measures that require payments or assumption of fees by the company in the event of change of control or change in the composition of the Board and that which appear likely to impair the free transfer of shares and the free assessment by shareholders of the performance of Board members, shall not be adopted.	**Comply**	**4**
II. SUPERVISION, MANAGEMENT AND AUDITING		
II.1 Supervision and Management		
II.1.1. Within the limits established by law, and except for the small size of the company, the Board of Directors shall delegate the daily management of the company and said delegated powers shall be identified in the Annual Report on Corporate Governance.	**Comply**	**21, 27 and 28**
II.1.2. The Board of Directors shall ensure that the company acts in accordance with its objectives, and shall not delegate its own responsibilities as regards the following: i) definition of the strategy and general policies of the company; ii) definition of the business structure of the Group; iii) decisions considered strategic due to the amount, risk and particular characteristics involved.	**Comply**	**21**
II.1.3 The General and Supervisory Board, in addition to its supervisory duties, shall take full responsibility at corporate governance level, whereby through the statutory provision or by equivalent means, shall enshrine the requirement for this body to decide on the strategy and major policies of the company, the definition of the corporate structure of the Group and the decisions that shall be considered strategic due to the amount or risk involved. This body shall also assess compliance with the strategic plan and the implementation of key policies of the company.	**Not applicable**	
II.1.4. Except for small-sized companies, the Board of Directors and the General and Supervisory Board, depending on the model adopted, shall create the necessary committees in order to: a) Ensure a competent and independent assessment of the performance of the Executive Directors and its own overall performance, as well as of other committees; b) Reflect on the system structure and governance practices adopted, verify its efficiency and propose to the competent bodies, measures to be implemented with a view to their improvement.	**Comply**	**15 and 27 to 29**
II.1.5. The Board of Directors or the General Supervisory Board, depending on the applicable model, should set goals in terms of risk-taking and create systems for their control to ensure that the risks effectively incurred are consistent with those goals.	**Comply**	**50 to 52**

RECOMMENDATION	Degree of compliance	Corporate Governance report
II.1.6 The Board of Directors shall include a number of non-executive members ensuring effective monitoring, supervision and assessment of the activity of the remaining members of the Board.	**Comply**	**17 and 18**
II.1.7. Non-Executive Directors shall include an appropriate number of independent members, taking into account the adopted governance model, the size of the company, its shareholder structure and the respective free float .The independence of the members of the General and Supervisory Board and members of the Audit Committee shall be assessed as per the law in force. The other members of the Board of Directors are considered independent if the member is not associated with any group with specific interests in the company nor is under any circumstance likely to affect an exempt analysis or decision, particularly due to: *a.* Having been an employee at the company or at a company holding a controlling or group relationship, in the past three years; *b.* Having, in the past three years, provided services or established a commercial relationship with the company or company with which it is in a controlling or group relationship, either directly or as a partner, board member, manager or director of a legal person; *c.* Being paid by the company or by a company with which it is in a controlling or group relationship other than the remuneration arising from the exercise of the role of a board member; *d.* Living with a partner or a spouse, relative or any first degree next of kin up to and including the third degree of collateral affinity of board members or individuals who are, directly or indirectly, holders of qualifying holdings; *e.* Being a qualifying shareholder or a representative of a qualifying shareholder.	**Comply**	**18**
II.1.8. When Board members that carry out executive duties are requested by other Board members shall provide the information requested in a timely and appropriate manner to the request.	**Comply**	**29**
II.1.9. The Chairman of the Executive Board or of the Executive Committee shall submit, as applicable, to the Chairman of the Board of the Directors, the Chairman of the Statutory Audit Board, the Chairman of the Audit Committee, the Chairman of the General and Supervisory Board and the Chairman of the Financial Matters Committee, the convening notices and minutes of the respective meetings.	**Not applicable**	
II.1.10 If the Chairman of the Board of Directors has an executive role, said body shall appoint, from amongst its members, an independent member to ensure the coordination of the work of	**Not applicable**	

RECOMMENDATION	Degree of compliance	Corporate Governance report
other non-executive members and the conditions so that body can make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination.		
II.2. Auditing		
II.2.1 Depending on the applicable model, the Chairman of Statutory Audit Board, the Chairman of the Audit Committee or the Chairman of the Financial Matters Committee shall be independent in accordance with the applicable legal standard and shall have the necessary skills to carry out the respective duties.	**Comply**	**32 and 33**
II.2.2 The auditing body shall be the main interface between the External Auditor and the first recipient of the relevant reports, and is responsible, inter alia, for proposing the respective remuneration and ensuring that proper conditions for the provision of services are provided within the company.	**Comply**	**45**
II.2.3 The auditing body shall assess the External Auditor on an annual basis and propose to the competent body its dismissal or termination of the contract as to the provision of their services when there is a valid basis for said dismissal.	**Comply**	**45**
II.2.4. The auditing body shall assess the functioning of the internal control systems and risk management and propose adjustments as may be deemed necessary.	**Comply**	**51**
II.2.5. The Audit Committee, the General and Supervisory Board and the Statutory Audit Board decide on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the company (compliance services), and should be recipients of reports made by these services at least in what concerns matters related to accounting, identification or resolution of conflicts of interest and detection of potential improprieties..	**Comply**	**51**
II.3 Remuneration Setting		
II.3.1 All members of the Remuneration Committee or alike shall be independent from the executive board members and shall include at least one member with knowledge and experience in matters of remuneration policy.	**Comply**	**67 and 68**
II.3.2 Any natural or legal person that provides or has provided services in the past three years to any structure under the Board of Directors, to the Board of Directors itself, or who has a current relationship with the company or a company consultant shall not be hired to assist the Remuneration Committee in the performance of its duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	**Comply**	**67**
II.3.3 A statement on the remuneration policy of the management and supervisory bodies referred to in Article 2 of Law nr. 28/2009 dated 19 June, shall also include the following:	**Comply**	**69**

RECOMMENDATION	Degree of compliance	Corporate Governance report
a) Identification and details of the criteria for determining the remuneration paid to the members of the governing bodies; b) Information regarding the maximum potential, in individual terms, and the maximum potential, in aggregate form, to be paid to the members of corporate bodies, and identify the circumstances whereby these maximum amounts may be payable; c) Information regarding the enforceability or unenforceability of payments for the dismissal or termination of appointment of board members.		
II.3.4 The Approval of plans for the allotment of shares and/or options to acquire shares based on share price variation to board members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said plan.	**Not applicable**	
II.3.5 Approval of any retirement benefit scheme established for members of corporate bodies shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said system.	**Not applicable**	
III. REMUNERATIONS		
III.1 The remuneration of the executive board members shall be based on actual performance and shall discourage taking on excessive risk.	**Comply**	**69**
III.2 The remuneration of non-executive board members and the remuneration of the members of the auditing body shall not include any component dependent on the company performance or of its value.	**Comply**	**69**
III.3 The variable component of the remuneration shall be reasonable overall in relation to the fixed component of the remuneration and maximum limits shall be set for all components.	**Comply**	**69**
III.4 A significant part of the variable remuneration shall be deferred for a period not less than three years and its payment shall depend on the continued positive performance of the company during said period.	**Comply**	**69 and 72**
III.5 Members of the Board of Directors shall not enter into contracts with the company or with third parties which intend to mitigate the risk inherent to the remuneration variability set by the company.	**Comply**	**69**
III.6 The Executive Directors shall keep the company's shares that were allotted by virtue of variable remuneration schemes, up to twice the value of total annual remuneration, except for those shares that must be sold for the payment of taxes on the gains of said shares, until the end of their mandate.	**Comply**	**69**

RECOMMENDATION	Degree of compliance	Corporate Governance report
III.7 When the variable remuneration includes stock options, the beginning of the exercise period shall be deferred for a period of not less than three years.	**Not applicable**	
III.8 When the dismissal of a board member is not due to serious breach of duties nor to the unfitness for the normal exercise of the functions but, yet, is due to an inadequate performance, the company shall be endowed with the adequate and necessary legal instruments so that any damages or compensation beyond that which is legally due, is unenforceable.	**Comply**	**83**
IV. AUDIT		
IV.1 The External Auditor, within the scope of its duties, shall verify the implementation of remuneration policies and systems of the corporate bodies, as well as the efficiency and effectiveness of the internal control mechanisms and report any shortcomings to the company's Supervisory Board.	**Comply**	**51**
IV.2 The company or any entity with which it maintains a controlling relationship shall not engage the External Auditor or any entity with which it finds itself in a group relationship or that incorporates the same network, for services other than audit services. If there are reasons for hiring such services - which must be approved by the auditing body and must be explained in the Annual Corporate Governance Report - said services should not exceed 30% of the total value of services rendered to the company.	**Comply**	**46 and 47**
IIV.3 Companies shall support the rotation of auditors after two or three terms whether these are four or three year mandates, respectively. The continuance beyond this period must be based on a specific opinion of the Supervisory Board that explicitly considers the conditions of auditor independence and the benefits and costs of replacement.	**Comply**	**44**
V. CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS		
V.1 The company's business with holders of qualifying holdings or entities with which they are in any type of relationship pursuant to Article 20 of the Portuguese Securities Code shall be conducted during normal market conditions.	**Comply**	**90**
V.2 The supervisory body or the auditing body shall establish procedures and criteria that are required to define the relevant level of significance of business with holders of qualifying holdings - or entities with which they are in any of the relationships described in Article 20/1 of the Portuguese Securities Code - thus significant relevant business is dependent upon prior opinion of that body.	**Comply**	**91**
VI. INFORMATION		

RECOMMENDATION	Degree of compliance	Corporate Governance report
VI.1 Companies shall provide, via their websites, in both Portuguese and English languages, access to information on their progress as regards the economic, financial and governance state of play.	**Comply**	**59 to 65**
VI.2 Companies shall ensure the existence of an investor support and market liaison office which responds to requests from investors in a timely manner and which keeps record of the submitted requests and their processing.	**Comply**	**56 and 58**

SEPARATE FINANCIAL STATEMENTS

SONAE INDUSTRIA

SONAE INDUSTRIA

Sonae Indústria-SGPS,SA

SEPARATE STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2016 AND 2015

(Values in EUR)

ASSETS	Notes	31.12.16	31.12.15
NON CURRENT ASSETS:			
Tangible fixed assets	3	265	703
Investment in subsidiaries and join ventures	5	419.431.549	664.493.068
Investment available for sale	´5/4	122.990	122.922
Deferred tax asset	6	223.353	2.652.466
Other non current assets	´7/4	9.412.467	284.895.781
Total Non Current Assets		429.190.623	952.164.940
CURRENT ASSETS			
Trade debtors	´8/4	176.451	25.423
Other current debtors	´8/4	12.546.236	11.272.734
Current tax asset	8	826.041	1.311.088
Other current assets	´9/4	495.976	102.685
Cash and cash equivalents	´10/4	161.532	164.408
Total Current Assets		14.206.235	12.876.338
Total Assets		443.396.859	965.041.278

SHAREHOLDER'S FUNDS AND LIABILITIES	Notes	31.12.16	31.12.15
SHAREHOLDER'S FUNDS:			
Share Capital		812.107.574	812.107.574
Legal reserve		3.131.757	3.131.757
Other reserves and accumulated earnings		-561.919.534	-432.356.410
Other accumulated comprehensive income		-23.641	225.852
Total Shareholder's Funds	11	253.296.157	383.108.773
NON CURRENT LIABILITIES			
Bank loans - net of current portion	´12/4	179.422.837	4.873.284
Pension Fund Liabilities	13	91.528	
Other non current liabilities	14	1.399.949	
Total Non Current Liabilities		180.914.314	4.873.284
CURRENT LIABILITIES			
Current portion of non-current bank loans	´12/4		7.536.111
Current bank loans	´12/4	1.750.000	212.354.481
Current portion of non-current non covertible debentures	´12/4		147.987.525
Trade creditors	´15/4	167.285	185.374
Other current creditors	´16/4	5.792.204	206.170.531
Current tax liability	16	83.885	489.624
Other taxes and contributions	16	28.832	34.613
Other current liabilities	´17/4	1.364.183	2.300.962
Total Current Liabilities		9.186.388	577.059.221
Total Liabilities		190.100.702	581.932.505
Total Shareholder's Funds and Liabilities		443.396.859	965.041.278

The notes are an integral part of the individual financial statements

Sonae Indústria-SGPS,SA

SEPARATE INCOME STATEMENTS

FOR THE PERIODS ENDED AT 31 DECEMBER 2016 AND 2015

(Values in EUR)

	Notes	31.12.16	31.12.15
Operating Income:			
Services rendered	23	458.768	0
Other income and gains	24	5.378.428	229.308
Total operating income		5.837.196	229.308
Operating Costs:			
External supplies and services		-583.381	-828.587
Staff expenses	21/22	-2.791.407	-1.222.140
Depreciation and Amortization	3	-438	-636
Other expenses and losses	24	-3.385.464	-386.153
Total operating costs		-6.760.690	-2.437.517
Operating profit/(loss)		-923.493	-2.208.209
Financial profi/(loss)	25	-12.553.002	1.332.878
Financial expenses		-16.389.028	-17.939.500
Financial income		3.836.027	19.272.377
Results related on investments in subsidiaries and join ventures	18/26	-113.804.445	-232.471.666
Profit/(Loss) before taxation		-127.280.940	-233.346.997
Corporate income tax - current tax	27	146.930	2.622.628
Corporate income tax - deferred tax	´7/27	-2.429.114	-2.090.560
Net Profit/(loss) from continuing operations, after taxation		-129.563.124	-232.814.929
Profit/(loss) for the period	28	-129.563.124	-232.814.929
Profit (loss) per Share			
Excluding Descontinued operations			
Basic	28	-0,01141	-0,02051
Diluted	28	-0,01141	-0,02051

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIODS ENDED AT 31 DECEMBER 2016 AND 2015

(Values in EUR)

		31.12.16	31.12.15
Net profit/(loss) for the period	11	-129.563.124	-232.814.929
Other comprehensive income			
Actuarial gains / (losses) on benefit pension plans		-23.641	
Other comprehensive income for the period, net of tax		-225.852	48.642
		-249.493	48.642
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		- 129 812 616	- 232 766 287

The notes are an integral part of the individual financial statements

Sonae Indústria-SGPS,SA

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS` FUNDS AT 31 DECEMBER 2016 AND 2015

(Values in EUR)

					Accumulated other comprehensive income			
		Share capital	Legal reserve	Other Reserves and accumulated earnings	Actuarial gains / (losses) on benefit pension plans	Other comprehensive income for the period	**Subtotal**	**Total shareholder's funds**
	NOTES	11	11	11				
Balance as at 1 January 2016		812 107 574	3 131 757	-432 356 410		225 852	225 852	383 108 773
Total comprehensive income								
Net profit / Loss for the period	11			- 129 563 124				- 129 563 124
Other comprehensive income					- 23 641		- 23 641	- 23 641
Total				- 129 563 124	- 23 641		- 23 641	- 129 586 765
Others						- 225 852	- 225 852	- 225 852
Balance as at 31 December 2016	11	812 107 574	3 131 757	-561 919 534	- 23 641	225 852	202 211	253 296 157
Balance as at 1 January 2015		812 107 574	3 131 757	-199 435 133		177 210	177 210	615 981 407
Total comprehensive income								
Net profit / Loss for the period	11			- 232 814 929				- 232 814 929
Other comprehensive income						48 642	48 642	48 642
Total				- 232 814 929		48 642	48 642	- 232 766 287
Others				- 106 348				- 106 348
Balance as at 31 December 2015	11	812 107 574	3 131 757	-432 356 410		225 852	225 852	383 108 773

The notes are an integral part of the individual financial statements

SONAE INDÚSTRIA,SGPS,S.A.

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED AT 31 DECEMBER 2016 AND 2015

(Values in EUR)

OPERATING ACTIVITIES	Notes	2016		2015	
Receipts from trade debtors		307.741		-567	
Payment to trade creditors		310.659		1.729.411	
Payments to staff		1.336.033		1.175.910	
Net cash flow from operations		**-1.338.951**		**-2.905.889**	
Payment/(receipt) of corporate income tax		-2.164.243		-633.399	
Other receipts/ (payments) relating to operating activities		971.233		92.864	
Net cash flow from operating activities [1]			**1.796.525**		**-2.179.625**
INVESTMENTS ACTIVITIES:					
Cash receipts arising from:					
Investments		36.604.032			
Loans granted to related parties		429.601.447		304.196.781	
Tangible fixed assets and intangible assets					
Dividends	26	101.472.142	567.677.621	258.962	304.455.743
Cash payments arising to:					
Investments	5	191.247.624		144.431.770	
Loans granted to related parties		176.564.844		212.441.000	
Tangible fixed assets and intangible assets			367.812.468		356.872.770
Net cash flow from investing activities [2]			**199.865.153**		**-52.417.027**
FINANCIAL ACTIVITIES					
Cash receipts arising from:					
Interest and similar charges		21.966.739		2.628.520	
Increase in share capital					
Loans obtained		929.754.000	951.720.739	1.293.733.981	1.296.362.501
Cash payments arising from:					
Interest and similar costs		16.432.367		17.851.953	
Dividends				20.334	
Loans obtained		1.136.952.925		1.223.763.752	
Others			1.153.385.292		1.241.636.039
Net cash used in financing activities [3]			**-201.664.554**		**54.726.462**
Net increase in cash and cash equivalents (4) = (1)+(2)+(3)			-2.876		129.810
Cash and cash equivalents - opening balance	10		164.408		34.598
Cash and cash equivalents - close balance	10		161.532		164.408
Net increase / decrease in cash and cash equivalents			-2.876		129.810

The notes are an integral part of the individual financial statements

SONAE INDÚSTRIA, SGPS, S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2016

(Amounts expressed in Euros)

1. Introduction

SONAE INDÚSTRIA, SGPS, S.A. is based at Lugar do Espido, Via Norte, Apartado 1096, 4470-177 Maia, Portugal.

The Company's shares are listed on NYSE Euronext.

2. Main Accounting Policies

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

2.1. Basis of Preparation

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 2016 and endorsed by the European Union.

2.1.1. In the year ended 31 December 2016 the following standards and interpretations, which have been endorsed by European Union, became effective:

IAS 1 (amendment), Presentation of Financial Statements (effective for periods beginning on or after 1 January 2016). This amendment contains guidance relating to materiality and aggregation, presentation of subtotals, structure of financial statements, disclosure of accounting policies and presentation of items of other comprehensive income which arise from investments measured using equity method;

IAS 16 (amendment), Tangible Fixed Assets, and **IAS 38** (amendment), Intangible Assets: allowed methods for calculating depreciation and amortization (effective for periods beginning on or after 1 January 2016). In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset;

IAS 16 (amendment), Tangible Fixed Assets, and **IAS 41** (amendment), Agriculture: 'Bearer Plants' (effective for periods beginning on or after 1 January 2016). This amendment defines the concept of bearer plant and transfers this type of asset from the scope of IAS 41 – Agriculture to the one of IAS 16 – Tangible Assets, with the related effect on measurement. However, biologic assets produced by these plants are kept in the scope of IAS 41 – Agriculture;

IAS 19 (amendment), Employee Benefits (effective for periods beginning on or after 1 February 2015). This narrow scope amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service;

IAS 27 (amendment), Separate Financial Statements (effective for periods beginning on or after 1 January 2016). These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements;

Annual improvements 2010- 2012(effective for periods beginning on or after 1 February 2015). These amendments include changes from the 2010-2012 cycle of the annual improvements project, that affect the following standards: IFRS 2 - Share-based Payment, IFRS 3 - Business Combinations, IFRS 8 - Operating Segments, IFRS 13 - Fair Value Measurement, IAS 16 - Property, Plant and Equipment, IAS 24 - Related Parties Disclosures and IAS 38 - Intangible Assets;

Annual improvements 2012- 2014 (generally effective for periods beginning on or after 1 January 2016). This amendment cycle includes changes to the following standards: IFRS 5 – Non-current Assets Available for Sale and Discontinued Operations, IFRS 7 – Financial Instruments: Disclosures, IAS 19 – Employee Benefits and IAS 34 – Interim Financial Reporting.

The application of these standards did not produce any significant effects on these financial statements.

2.1.2. At 31 December 2016, 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 on later periods:

IFRS 9 (new), Financial instruments (effective for annual periods beginning on or after 1 January 2018). IFRS 9 replaces the guidance in IAS 39, regarding: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of credit impairment (through the expected credit losses model); and (iii) the hedge accounting requirements and recognition;

IFRS 15 (new), Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018). This new standard, applies only to contracts with customers to provide goods or services, and requires an entity to recognise revenue when the contractual obligation to deliver the goods or services is satisfied and by the amount that reflects the consideration the entity is expected to be entitled to, following a five step approach.

2.1.3. At 31 December 2016, the following standards, effective 1 January 2016 or later, had been issued by IASB but still had not been endorsed by the European Union:

IAS 7 (amendment**),** Statement of Cash Flows – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment introduces an additional disclosure about the changes in liabilities arising from financing activities, disaggregated between cash changes and non-cash changes and how it reconciles with the reported cash flows from financing activities, in the Cash Flow Statement;

IAS 12 (amendment), Income taxes – Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when temporary deductible differences exist and how to assess recoverability of deferred tax assets when restrictions exist in the tax law;

IAS 40 (amendment), Transfers of Investment property (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies when assets are transferred to, or from investment properties, the evidence of the change in use is required. A change of management intention in isolation is not enough to support a transfer;

IFRS 2 (amendment), Classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications to a share-based payment plan that change the classification an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority;

IFRS 4 (amendment), Insurance contracts (Applying IFRS 4 with IFRS 9) transactions (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment allows companies that issue insurance contracts the option to recognise in Other Comprehensive Income, rather than Profit or Loss the volatility that could rise when

IFRS 9 is applied before the new insurance contract standard is issued. Additionally, it is given an optional temporary exemption from applying IFRS 9 until 2021, to the companies whose activities are predominantly connected with insurance, not being applicable at consolidated level;

IFRS 15 (amendment) Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018). These amendments are still subject to endorsement by European Union. These amendments refer to additional guidance for determining the performance obligations in a contract, the timing of revenue recognition from a license of intellectual property, the review of the indicators for principal versus agent classification, and to new practical expedients to simplify transition;

IFRS 16 (new), Leases (effective for annual periods beginning on or after 1 January 2019). This standard is still subject to endorsement by European Union. 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 2014 - 2016, (generally effective for annual periods beginning on or after 1 January 2017). These improvements are still subject to endorsement by European Union. The 2014-2016 annual improvements impacts: IFRS 1, IFRS 12 and IAS 28;

IFRIC 22 (new), Foreign currency transactions and advance consideration (effective for annual periods beginning on or after 1 January 2018). This interpretation is still subject to endorsement by European Union. An Interpretation to IAS 21 ‘The effects of changes in foreign exchange rates’ it refers to the determination of the “date of transaction” when an entity either pays or receives consideration in advance for foreign currency denominated contracts”. The date of transaction determines the exchange rate used to translate the foreign currency transactions.

The Company does not estimate any significant effect to arise from the application of these standards.

The financial statements have been prepared from the books and accounting records.

2.2. <u>Investments in subsidiaries and join ventures</u>

Assets and liabilities of each subsidiary and join venture company are measured at their fair value at the date of acquisition. Financial investments in subsidiaries and join 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.

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 / join ventures, Sonae Indústria recognize additional losses if incurred obligations or has made payments on behalf of subsidiary / join ventures.

Entities that qualify as subsidiaries and as join ventures are listed in Note 5.

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.

Intangible assets are recognized only if they are identifiable and it is probable that they will result in future economic benefits to the company, are controlled by it and it can reasonably measure its value.

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 3 to 6 years.

2.5. Accounting for leases

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

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

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

2.6. Impairment of non- current assets

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

2.8. Provisions

Provisions are recognized when, and only when, the 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.
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.

2.9. Financial Instruments

a) Investments

Investments are classified into the following categories:

- Investments measured at fair value through profit or loss
- Available-for-sale investments

Investments measured at fair value through profit or loss includes the investments held for trading by the company to be sold within a short period of time. They are classified as current assets in the statement of financial position.

Available-for-sale investments are stated as non-current assets except if they are intended to be sold within the next 12 months as from the balance sheet date.

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

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

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

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

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

b) Accounts receivable

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

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.

c) Classification as equity or liability

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

d) Loans

Loans are recorded as liabilities at their nominal value, net of up-front fees and commissions related to the issuance of those instruments. Financial expenses are calculated based on the effective interest rate and are recorded in the income statement on an accruals basis, in accordance with the accounting policy defined in Note 2.14. The portion of the effective interest charge relating to up-front fees and commissions, if not paid in the period, is added to the book value of the loan.

e) Trade accounts payable

Accounts payable are stated at their nominal value.

f) Derivatives

The company uses 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 hedge instruments (Swaps) are used by the company mainly to hedge interest risks on loans obtained. Conditions established for these cash flow hedge instruments are identical to those of the corresponding loans in terms of base rates, calculation rules, rate setting dates and repayment schedules of the loans and for these reasons they qualify as perfect hedges. Inefficiencies that may arise are recorded on the 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 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.

The fair value of these financial instruments is calculated with resource to derivative valuation software and was based on the present value, at report date, of future cash flows of both the fixed and variable legs of the derivative instrument.

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.

These derivative instruments, over which no hedge accounting was applied, are initially stated at cost, if any, and then adjusted to their fair value.
When embedded derivatives exist, they are accounted for as separate derivatives when the risks and the characteristics are not closely related to economic risks and characteristics of the host contract, and this is not stated at fair value. Gains and losses are taken through the Income statement.

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

g) 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.

h) 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.

i) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at banks, term deposits and other treasury applications which mature in less than three months and 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. Pension Fund Liabilities

The company has a defined benefit plan, with a fund constituted, managed by a third party and calculated in accordance with International Accounting Standard 19, based on actuarial studies carried out by an independent entity. It covers workers hired up to December 31, 1994 who, from the time of retirement until the end of their lives, will receive a monthly income corresponding to 20% of their salary at the time of retirement. The covered workers have the possibility to choose to receive an amount at the time of retirement, as an alternative to the monthly income.

2.11. 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. This compensation consists in granting a number of the Company's shares, which may choose, on payment date, to deliver the shares or to pay the corresponding amount, taking into consideration the market price of the shares on payment date.

This liability was stated on the Statement of Financial Position under Other reserves, and is stated on the Income Statement under Staff expenses, on a straight line basis over the deferral period, taking into consideration the fair value of granted shares on grant date.

If the employee ceases functions during the period over which payment of previously recognized liabilities is deferred, liabilities will be derecognized from the Statement of Financial Position against Staff expenses on Income Statement.

During the year ended December 31, 2016, the Company reconfigured this remuneration scheme, which did not include the attribution of own shares and included a cash benefit to be paid in the same time horizon. The obligation to deliver the shares previously allocated was converted into a pecuniary obligation, taking into account the value of the shares at the date of conversion of the obligation.

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,

2.12. 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.

2.13. 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 includes the following companies: Sonae Indústria de Revestimentos, S.A.,Maiequipa – Gestão Florestal, S.A., Movelpartes – Componentes para a Industria de Mobiliário, S.A.,and Frases e Frações – Imobiliária e Serviços,S.A.

In 2016, the Taxation Group reduced in 7 companies: Euroresinas - Indústrias Químicas, SA, Ecociclo - Energia e Ambiente, SA, Sonae Indústria PCDM SA, Siaf Energia, SA, Imoplamac - Gestão de Imóveis, SA, Agloma Investimentos, SGPS, SA, and Somit Imobiliária, SA, since all these companies were sold. Entered 1 new company, Frases e Fractions – Imobiliária e Serviços, S.A. constituted at the end of 2015.

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

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except those relating to: i) the initial recognition of goodwill, or ii) the initial recognition of assets and liabilities that do not result in a business combination and at the time the transaction does not affect accounting profit nor taxable profit. In respect of taxable temporary differences associated with investments in subsidiaries should not be recognized to the extent that: i) the parent company is able to control the timing of the reversal of the temporary difference and ii) it is probable that the temporary difference not reverse in the foreseeable future.

2.14. Revenue recognition and accrual basis

Revenue from services rendered is recognised in the Income statement taking into consideration the stage of completion of the transaction at the report date.

As of 2011, the management services started to be performed by another company of the group reason why no value in the line of the revenue was recognized.

From 2016, with the restructuring, these services were once again provided by the company.

The dividends received from investments in subsidiaries and associates 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.

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

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

2.15. 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 caption Other Operating Profits and Losses.

2.16. Balances and transactions expressed in foreign currencies

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

2.17. Subsequent events

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

2.18. Risk management

a) Credit Risk Management Policy

i) Receivables (Customers)

Sonae Indústria Credit Risk derives mainly from its 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 negotiated payment terms.

In order to mitigate Credit Risk related with potential Customers default on payment of outstanding receivables, Sonae Indústria :

- Has in place proactive, active and reactive credit management processes and procedures, backed by advanced information systems;
- Establish and review credit limits for their Customers, daily monitoring effective exposure to their Customers;
- Has protection tools in place, such as credit insurance policies, letters of credit and bank guarantees, where operationally necessary and economically viable;
- Make use of credit rating agencies;
- Make use of legal proceedings in order to recover bad debt, if applicable.

ii) Other financial assets, other than receivables

In addition to its operating activities, Sonae Indústria has financial assets, related mainly with its activities involving Financial Institutions, such as cash deposits, financial investments and derivatives with positive market value. As a result, Credit Risk arises from the potential counterparty default from these Financial Institutions.

As a rule, Sonae Indústria preferably engage in financial operations with Investment Grade Financial Institutions. On the other hand, generally speaking, exposure related with this type of financial assets is widely spread and short lived.

b) Market Risk Management Policy

i) <u>Interest Rate Risk</u>

As a result of the relevant portion of floating rate debt on Sonae Indústria report and the consequent cash flows related to interest payments, the company is exposed to interest rate risk, and it is particularly exposed to the risk of variation of Euro interest rates, as most of its floating rate debt is denominated in Euro.

As a general rule, Sonae Indústria, does not hedge its exposure to floating interest rates.

As an exception to its general rule, Sonae Indústria may engage into interest rates derivatives. If this is the case, the following is observed:

- Derivatives are not used for trading, profit making, or speculative purposes;

- The Company only engage in derivative transactions with Investment Grade Financial Institutions;

- Derivatives match exact periods, settlement dates and base interest rate of the underlying exposures;

- Maximum financial charges on the aggregate of the derivative and the underlying exposures are always known and limited on the inception of the hedging period;

- Quotes from at least two Financial Institutions are considered before closing any interest rate hedging deal (Note 20.2.1).

ii) <u>Other Price Risks</u>

As at 31st december 2016, Sonae Indústria did not hold material investments classified as “available-for-sale”.

c) Liquidity Risk Management Policy

Liquidity risk management in Sonae Indústria aims to ensure that the company is able to timely obtain the financing required to properly carry on its business activities, implement its strategy, and meet its payments obligations when due, under the most favourable terms and conditions.
For this purpose, 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 the maturities of the debt issued in order to avoid excessive concentration of debt repayments in short periods of time;

- arrangement of committed (and uncommitted) credit facilities, commercial paper programs, and other facilities with relationship banks, ensuring the right balance between satisfactory liquidity and adequate commitment fees;

- Active management of the subsidiaries' liquidity positions and cash flows, in order to ensure that financial flows occur within the terms and conditions established, namely with respect to intra-group flows and that directly impact the accounts of Sonae Indústria.

2.19 Judgments and estimations

The most significant estimations included in these financial statements refer to:

a) Impairment tests on tangible and intangible assets ;
b) Impairment analysis of accounts receivable ;
c) Adjustments to assets, namely fair value adjustments;
d) Calculation of provisions and pension liabilities;
e) 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 profit or loss in accordance with IAS 8.

Main estimations and assumptions relating to future events included in these financial statements are described in the correspondent notes.

2.20 Fair value of assets and liabilities

In determining the fair value of an asset or liability if an active market exists, the market price is applied. This is level 1 of the fair value hierarchy as defined in IFRS 13 - Fair Value Measurement. If an active market is not available, generally accepted valuation techniques are used, 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.

2.21 Relevant Events

Further to the announcement made on 30 November of 2015, Sonae Indústria, SGPS, S.A. ("**Sonae Indústria**") announces that it has completed the strategic partnership agreement with Inversiones Arauco Internacional, Limitada, a company belonging to Arauco group ("**Arauco**"). This 50/50 partnership involves the existing European and South African wood based panels and related operations of Sonae Indústria, namely all its production facilities of wood based panels, chemicals and paper impregnation, but excludes Sonae Indústria's operations in North America and the laminates and components business, which will continue to be fully owned by Sonae Indústria.

The partnership was consummated by Arauco subscribing 137.5 million Euros to a capital increase of Sonae Indústria's subsidiary Tableros de Fibras, S.A., renamed "Sonae Arauco, S.A." ("**Sonae Arauco**").

The completion of this transaction was subject to certain conditions, among others: (i) the clearance of the competent Competition Authorities; (ii) the execution of certain internal transactions, agreed between Sonae Indústria and Arauco, to achieve the required business perimeter for the partnership; and (iii) certain amendments to the existing debt facilities of Sonae Indústria group; all of which were entirely fulfilled before or on 31 May 2016.

As a result of this transaction, Sonae indústria has reduced its consolidated net debt to an estimated amount of less than 240 million Euros. In addition to the refinancing of the Canadian operations, Sonae Indústria has agreed new medium term financing facilities with its major creditor banks totalling circa 180 million Euros, with a 5-year final maturity, and has also secured short term facilities with a number of other creditor banks, thus ensuring an adequate financing package.

Sonae Indústria is confident that this partnership reinforces its long term growth commitment in the wood based panels industry, as the combination of two strong, reputable and well-established companies in the sector will enable Sonae Arauco to leverage on the strengths of each one to build a stronger company in the European and South African markets.

As part of this restructuring, the shares of Taiber, Tableros Aglomerados Ibéricos, SL, Sonae Indústria - Produção e Comercialização de Derivados de Madeira, S.A., Euroresinas - Indústrias Quimicas, S.A., Somit Imobiliária, S.A., Imoplamac – S.A. and Agloma Investimentos, SGPS, S.A. (Note 5) were sold, which generated a net capital gain of Euro 2.141.544 (Note 24).

Impairment losses recorded in prior years, related to the subsidiaries Ecociclo - Energia e Ambiente, S.A. and Sonae Indústria - Produção e Comercialização de Derivados de Madeira, S.A., amounting to Euro 691.359 and Euro 1.447.861 were also reversed respectively.

3. Tangible Assets

During the periods ended 31 December 2016 and 2015, movements in tangible assets, accumulated depreciation and impairment losses were as follows:

	31.12.16			
	Machinery and equipment	Office equipment	Advances on account of tangible assets	Total
Gross asset:				
Opening balance	38.099	133.355		171.454
Closing Balance	38.099	133.355	0	171.454
Accumulated depreciation and impairment losses				
Opening balance	37.985	132.766		166.188
Depreciations for the period	44	394		438
Closing Balance	38.029	133.160		171.189
Carrying amount	70	195	0	265

	31.12.15			
	Machinery and equipment	Office equipment	Advances on account of tangible assets	Total
Gross asset:				
Opening balance	38.099	133.355		171.454
Capital expenditure				0
Closing Balance	38.099	133.355	0	171.454
Accumulated depreciation and impairment losses				
Opening balance	37.941	132.174		166.188
Depreciations for the period	44	592		636
Closing Balance	37.985	132.766		170.751
Carrying amount	114	589	0	703

4. Financial Instruments

As of December 31, 2016 and 2015, the assets and liabilities recognized in the statement of financial position correspond to the following categories:

FINANCIAL INVESTMENTS

	notes	Loans and receivables	Assets at fair value through profit or loss	Hedge derivatives	Available-for-sale assets	Sub-total	Assets out of scope of IAS39	Total
31.12.16								
Non current assets								
Available for sale investments	5				122.990	122.990		122.990
Other non current assets	7	9.412.467				9.412.467		9.412.467
Current assets								
Customers	8	176.451				176.451		176.451
Other current debtors	8	12.546.236				12.546.236		12.546.236
Other current assets	9						495.976	495.976
Cash and cash equivalents	10	161532				161532		161532
Total		22.296.686			122.990	22.419.676	495.976	22.915.652
31.12.15								
Non current assets								
Available for sale investments	5				122.922	122.922		122.922
Other non current assets	7	284.895.781				284.895.781		284.895.781
Current assets								
Customers	8	25.423				25.423		25.423
Other current debtors	8	11.272.734				11.272.734		11.272.734
Other current assets	9						102.685	102.685
Cash and cash equivalents	10	164.408				164.408		164.408
Total		296.358.346			122.922	296.481268	102.685	296.583.953

	notes	Liabilities at fair value through profit or loss	Hedge derivatives	Other financial Liabilities	Sub-total	Liabilities out of scope of IAS 39	Total
31.12.16							
Non current liabilities							
Bank loans - net of current portion	12			179.422.837	179.422.837		179.422.837
Other current liabilities	14				0	1399.949	1399.949
Current liabilities							
Bank loans	12			1750.000	1750.000		1750.000
Debentures	12						
Trade creditors	15			167.285	167.285		167.285
Other current creditors	16			5.792.204	5.792.204		5.792.204
Other current liabilities	17					1.364.183	1.364.183
Total				187.132.326	187.132.326	2.764.132	189.896.458
31.12.15							
Non current liabilities							
Bank loans - net of current portion	12			4.873.284	4.873.284		4.873.284
Current liabilities							
Bank loans	12			219.890.592	219.890.592		219.890.592
Debentures	12			147.987.525	147.987.525		147.987.525
Trade creditors	15			185.374	185.374		185.374
Other current creditors	16			206.170.531	206.170.531		206.170.531
Other current liabilities	17					2.300.962	2.300.962
Total				579.107.306	579.107.306	2.300.962	581408.268

5. Investments

At 31 December 2016 and 31 December 2015, details of investments were as follows:

	31.12.16		31.12.15	
	Non current	Current	Non current	Current
Investment in subsidiaries				
Opening balance at 1 January	275.462.311	-	64.635.222	-
Acquisition over the period	3.832.080	-	211.077.089	-
Disposals over the period	-34.462.488	-	-250.000	-
Closing balance for the period	244.831.903	-	275.462.311	-
Accumulated impairment losses	-21.308.888	-	-20.091.600	-
	223.523.015	-	255.370.711	-
Investment in join ventures				
Opening balance at 1 January	1.087.554.828	-	946.900.147	-
Acquisition over the period	845.476	-	140.654.681	-
Disposals over the period		-		-
Closing balance for the period	1.088.400.304	-	1.087.554.828	-
Accumulated impairment losses	-892.491.770	-	-678.432.472	-
	195.908.534	-	409.122.356	-
Investments held for sale				
Fair value at 1 January	122.922	-	122.922	-
Acquisition over the period	68	-	0	-
Fair value at the end of the period	122.990	-	122.922	-
	419.554.539	-	664.615.990	-

Investments in subsidiaries

5.1 Movement of the period

During the year 2016, the acquisitions and disposals were as follow:

Subsidiaries	Value
Increases	3.832.080
- Acquisitions	**105.001**
- Glunz UK (80.000.000 shares)	1
- Agloma Imobiliária y Servicios, S.L. (5.000 shares)	5.000
- Parcelas e Narrativas - Imobiliária, S.A. (10.000 shares)	50.000
- Sonae Indústria - Management Services, S.A. (10.000 shares)	50.000
- Share capital increase	**950.000**
- Frases e Frações - Imobiliária e Serviços ,S.A.(190.000 shares)	950.000
- Loss Cover	**2.777.079**
- Movelpartes - Componentes para a Indústria do Mobiliário,S.A.	470.570
- Parcelas e Narrativas - Imobiliária, S.A.	632.627
- Frases e Frações - Imobiliária e Serviços ,S.A.	1.673.882
Disposals	**34.462.488**
- Taiber, Tableros Alglomerados Ibéricos S.L.	65.292
- Sonae Indústria - Produção e Comercialização de Derivados de Madeira,S.A.	3.497.787
- Euroresinas - Indústrias Quimicas,S.A.	18.169.378
- Somit Imobiliária,S.A.	10
- Imoplamac - Gestão de Imóveis,S.A.	6.000.000
- Siaf Energia,S.A.	5.000
- Ecociclo - Energia e Ambiente, S.A.	1.720.021
- Agloma Investimentos,SGPS,S.A.	5.000.000
- Agloma Imobiliária y Servicios, S.L.	5.000

As a result of the disposals of the participations, a net capital gain of 2.141.544 euros was generated.

As of December 31, 2016 and 2015, receipts and payments of financial investments may be detailed as follows:

Subsidiaries	31 december 2016		31 december 2015	
	Receipts	Payments	Receipts	Payments
- Taiber, Tableros Alglomerados Ibéricos S.L.	65.292			30.600
- Sonae Indústria - Produção e Comercialização de Derivados de Madeira,S.A.	3.497.787			
- Sonae Indústria de Revestimentos,S.A.				264.465
- Euroresinas - Indústrias Quimicas,S.A.	18.169.378			502.769
- Sonae Indústria - Management Services, S.A.			250.000	
- Somit Imobiliária,S.A.	10			
- Imoplamac - Gestão de Imóveis,S.A.	6.000.000			
- Siaf Energia,S.A.	5.000			
- Ecociclo - Energia e Ambiente, S.A.	1.720.021			
- Agloma Investimentos,SGPS,S.A.	5.000.000			
- Agloma Imobiliária y Servicios, S.L.	5.000	5.000		
- Parcelas e Narrativas - Imobiliária, S.A.		682.627		
- Sonae Indústria - Management Services, S.A.		50.000		
- Glunz UK		1		
- Megantic BV				207.300.000
- Movelpartes - Componentes para a Indústria do Mobiliário,S.A.		470.570		2.929.254
- Frases e Frações - Imobiliária e Serviços ,S.A.		2.623.882		50.000
	34.462.488	3.832.080	250.000	211.077.089

5.2 Valuation of financial investments

At 31 December 2016, Sonae Industria, SGPS had the following investments in subsidiaries companies:

Subsidiaries	% Share	Acquisition Value	Accumulated Impairment Losses	Net Value	Shareholder´s Funds	Net profit	
Maiequipa - Gestão Florestal,S.A.	100,00%	3.438.885	962.785	2.476.100	2.807.100	-131.298	a)
Movelpartes - Componentes para Industria do Mobiliário,S.A.	100,00%	8.132.481	6.794.065	1.338.416	343.237	-1.165.452	a)-b)
Sonae Industria de Revestimentos,S.A.	100,00%	22.552.828	10.195.530	12.357.298	12.396.117	1.223.932	a)-b)
Frases e Frações - Imobiliária e Serviços,S.A.	100,00%	2.673.882	2.673.882	0	-965.808	-3.605.185	a)-c)
Parcelas e Narrativas - Imobiliária,S.A.	100,00%	682.627	682.627	0	-638.268	-1.320.895	a)-c)
Sonae Indústria - Mangement Services,S.A.	100,00%	50.000	0	50.000	-51.577	-101.577	
Glunz UK	100,00%	1	0	1	-19.476	-19.476	
Megantic BV	100,00%	207.300.000	0	207.300.000	77.914.168	20.192.454	
Sonae RE, Societé Anonyme	0,04%	1.200	0	1.200	1.235.160	-10.060	
		244.831.903	**21.308.888**	**223.523.015**			

a) The values recorded for the participation in Maiequipa - Gestão Florestal S.A., Sonae Industria Revestimentos S.A., Movelpartes – Componentes para a Indústria de Mobiliário, S.A., Frases e Frações – Imobiliária e Serviços,S.A., and Parcelas e Narrativas – Imobiliária,S.A. were estimated to be higher than their recoverable value, therefore the company recognized impairment losses (note 18) in previous years.

b) Impairment tests carried out at 30 november 2016 for Sonae Indústria de Revestimentos, S.A. (12.357.298 euros) and Movelpartes – Componentes para a Indústria do Mobiliário, S,A. (1.338.416 euros), consisted in determining the recoverable amount using the discounted cash flow method. Operating cash flows were projected over an five-year period, thereafter extrapolated using perpetuity and discounted to 30 november 2016. Weighted Average Cost of Capital, before tax, calculated through

CAPM (Capital Asset Pricing Model) methodology for each reportable segment, was used as discount rates. These rates include specific market features and include different risk factors as well as risk-free interest rates of ten year bonds in Germany added a risk premium in each country considered. An five-year period was used for projecting cash flows on the grounds of the extension and intensity of the economic cycles affecting the Group companies activity. Projected cash flows are based on the Group companies business plan and are updated annually so as to include changes in the economic outlook of each market where the Group is conducting business.

Assumptions used:

2016

	SIR	Movelpartes
Discount rate (pre-tax)	11,68%	9,31%
Sales (CAGR)	0,40%	10,30%
Growth rate on Perpetuity	1,00%	1,00%
Period	5 anos	5 anos
Test Conclusions	No impairment	No impairment

2015

	SIR	Movelpartes
Discount rate (pre-tax)	9,74%	9,22%
Sales (CAGR)	4,70%	2,90%
Growth rate on Perpetuity	1,00%	1,00%
Period	8 anos	8 anos
Test Conclusions	No impairment	Impairment

Following the tests carried out, no adjustment to existing impairment losses was necessary.

c) The valuations carried out on 12.31.2016 on land and buildings belonging to Frases e Frações - Imobiliária e Serviços, S.A. and Parcelas e Narrativas - Imobiliária, S.A. in order to determine the market value (settlement) of these properties led to the registration of impairments in these subsidiaries that have a negative impact on their equity. As a result, Sonae Indústria recorded impairment losses on all of these participations, in the amount of 3.356.309 euros (Nota 26).

5.3 <u>Investments in join ventures</u>

<u>During the year 2016, the acquisitions were as follow:</u>

Join Venture	Value
Increases	**845.476**
- Sonae Arauco, S.A. - Acquisition of 4 shares	210.000
- Sonae Arauco, S.A. - Capital contribution	635.476

As of December 31, 2016 and 2015, receipts and payments of financial investments may be detailed as follows:

Join Venture	31 december 2016		31 december 2015	
	Receipts	Payments	Receipts	Payments
- Sonae Arauco,S.A.		845.476		140.654.681
	0	845.476	0	140.654.681

Fair value of the investment in Sonae Arauco, S.A., was estimated with reference to 31 May 2016. This fair value was estimated based on these assumptions:

	Cash Generating Rules			
	Península Ibérica	Alemanha	Africa do Sul	Euroresina s.S.A
Discount rate (pre-tax)	9,4%	8%	14,0%	9,4%
Growth rate on perpetuity	2,0%	2,0%	5,5%	2,0%
Growth rate (CAGR 2016-2020):				
Total net income	2,2%	2,8%	5,1%	3,0%
Cost of goods sold and materials consumed	2,9%	3,5%	6,5%	3,0%
EBITDA	-0,6%	0,3%	0,1%	4,5%

CAGR - Compound Average Growth Rate

At December 31, 2016, the Company held the following investment in a joint venture, included in Investments in Subsidiaries and Joint Ventures:

Join Venture	% Share	Acquisition Value	Accumulated Impairment Losses	Net Value	Shareholder´s Funds	Net profit
Sonae Arauco, S.A.	50,00%	1088.400.304	892.491770	195.908.534	304.382.319	72.320.550

An impairment loss in the amount of 214.059.298 euros was recorded for the join venture Sonae Arauco, S.A. (Note 26).

5.4 Investments avaiable for sale

Available-for-sale investment consists of financial undertakings which do not fulfil the criteria to be stated as subsidiaries or as associates and is detailed as follows:

	31.12.16	31.12.15
Shares INEGI	109.976	109.976
Shares CTIMM	5.986	5.986
Shares PIEP	5.000	5.000
Shares PINUS	1496	1496
Shares BIOMASSA	297	297
Deposir guarantee	167	167
Compensation Fund	68	
	122.990	122.922

6. Deferred taxes

Details of deferred tax asset at 31 December 2016 and 31 December 2015 were as follows:

DEFERRED TAXES - BALANCE

	31.12.16		31.12.15	
	Assets	Liabilities	Assets	Liabilities
Net losses carried forward	0	-	1.511.726	-
Others	223.353	-	1.140.740	-
	223.353	-	2.652.466	-

DEFERRED TAXES - FLOWS

	31.12.16		31.12.15	
	Assets	Liabilities	Assets	Liabilities
Opening Balance	2.652.466	-	4.743.026	-
Net losses carried forward	-1.511.726	-	-1.252.545	-
Others	-917.388		-838.015	
Sub-total (Note 25)	-2.429.114	-	-2.090.560	-
Closing Balance	223.353		2.652.466	-

The amount included in Others concerns SIFIDE to deduct tax benefits in the coming years The variation in the period refers to the cancellation of the SIFIDE tax benefit of Sonae Indústria - Produção e Comercialização de Derivados de Madeira, S.A. and Euroresinas - Indústrias Químicas, S.A., which were sold and consequently left the Special taxation group.

The total deferred tax asset was canceled in relation to the tax losses carried forward in 2013 in the amount of 11.364.311 euros and which expire in 2018, taking into account the change verified in 2016 in the Special taxation group. The potencial tax credit is 2.386.505 euros.

7. Other Non-Current Assets

Details of Other Non-Current Assets at 31 December 2016 and 31 December 2015 were as follows:

	31.12.16	31.12.15
Loans granted to group companies (Nota 2.2 e 21)	9.412.467	284.895.781
	9.412.467	284.895.781
Accumulated Imparment Losses (Nota 18)		
	9.412.467	284.895.781

Loans granted at the end of the period

Companies	Final Balance
Maiequipa - Gestão Florestal,S.A.	445.900
Movelpartes - Componentes para a Indústria do Mobiliário,S.A.	906.000
Frases e Frações - Imobiliária e Serviços,S.A.	8.060.567
	9.412.467

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, loans contracts were entered into during the period ended

December 31 of 2016 with the companies Maiequipa - Gestão Florestal, S.A., Frases e Frações - Imobiliária e Serviços, S.A. and Sonae Arauco, S.A..

Loans granted to Group companies have a medium and long term maturity and they yield interest at an average rate of 4.878 %.

No repayment terms are provided, only for interest rate. The repayment is made by availabilities, and is not expected that the repayment will occur on one year.

8. Trade and Other Current Debtors

At 31 December 2016 and 31 December 2015, details of Current Trade Debtors were as follows:

	31.12.16	31.12.15
Current customer accounts	176.451	25.423
	176.451	25.423

At 31 December 2016 and 31 December 2015, the detail of trade debtors' maturities was as follows:

	31.12.16	31.12.15
Not due	124.020	24.606
Due and not impaired		
< 30 days	52.431	0
> 90 days		818
	52.431	818
	176.451	25.423

At 31 December 2016 and 31 December 2015, details of Other Current Trade Debtors were as follows:

	31.12.16	31.12.15
Group companies -nterest (note 21)	94.202	3.209.190
Group companies -current Income Tax (note 21)	346.644	2.999.626
Group companies -loans (Note 21)	12.055.959	5.033.000
Others	15.000	
	12.511.805	11.241.816
Other debtors	34.431	30.917
	12.546.236	11.272.734

Financial transactions at the end of the period:

Companies	Final Balance
Maiequipa - Gestão Florestal,S.A.	13.000
Movelpartes - Componentes para a Indústria do Mobiliário,S.A.	209.000
Glunz UK	602.026
Parcelas e Narrativas - Imobiliária, S.A.	11.231.933
	12.055.959

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, financial transaction contracts were entered into during the period December 2016 with the companies Maiequipa - Gestão Florestal, S.A, Movelpartes – Componentes para a Indústria de Mobiliário, S.A., Glunz UK, Parcelas e Narrativas - Imobiliária, S.A. and Frases e Frações - Imobiliária e Serviços, S.A..

Financial transactions granted to Group companies have a short term maturity and they yield interest at an average rate of 4.878 %.

At 31 December 2016 and 31 December 2015, detail of Others Debtors maturities was as follows:

	AGEING OF ADVANCE CREDITORS		AGEING OF TRADE CREDITORS (ASSET BALANCES)		TOTAL DEBTORS	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
Due and not impaired						
< 30 days			959	7.768	959	7.768
30 - 90 days		23.150			0	23.150
> 90 days	25.492		7.980		33.472	0
	25.492	23.150	8.939	7.768	34.431	30.917

9. Other Current Assets

Details of Other Current Assets at 31 December 2016 and 31 December 2015 were the following:

	31.12.16	31.12.15
Accrued revenue	342 077	29 283
Deferred costs	153 900	73 403
	495 976	102 685

The item accrued revenue refers to interest receivable from loans granted to its subsidiaries.

10. Cash and Cash equivalents

At 31 December 2016 and 31 December 2015 detail of Cash and cash equivalents was the following:

	31.12.16	31.12.15
Cash at Hand	1.889	1.113
Deposits	159.643	163 295
Cash & Cash Equivalent in balance sheet	161.532	164 408
Bank Overdrafts (1)		(9.999.481)
	161.532	(9.835.073)

(1) In Statement of Financial Position- Current bank loans (Note 12)

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.

11. Shareholders' Funds

Share Capital

The share capital, is 812.107.574,17 Euros and was comprised of 11 350 757 417 common shares, without face value. At 31 December 2016 and 2015, shares are not entitled to any fixed income. At the same date, neither the Company nor any of its affiliates held any shares in the Company.

The following entities had more than 20% of the subscribed capital on 31 December 2016:

Entity	%
Efanor Investimentos, SGPS, S. A.	42,66
Pareuro BV	25,83

Shareholder's Funds Detail:

	2016	2015
Share Capital	**812.107.574**	**812.107.574**
Legal Reserve	**3.131.757**	**3.131.757**
Other reservs and accumulated earnings	**-561.919.534**	**-432.356.410**
Free Reserve	20.145.630	20.145.630
Other Reserves	245.913.105	245.913.105
Accumulated Earnings	-698.415.145	-465.600.216
Net Income	-129.563.124	-232.814.929
Other accumulated comprehensive Income	**-23.641**	**225.852**
	253.296.157	383.108.773

Considering that the company's equity is less than half of the share capital, the Board of Directors will, under the terms of the law, request to include a point on the agenda of the Annual General Meeting in order to inform the shareholders of the situation,they shall take the measures they deem appropriate, and the Board of Directors shall propose a reduction of the share capital.

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.

Other Reserves and Accumulated Earnings

Free Reserves: Relating to profits earned in previous years and are available for distribution, provided it is not necessary to cover losses.

Other Reserves: Includes reserves of the merger of previous years, in amount 245.913.105 Euros, which, in terms of Portuguese legislation are not distributable, can be incorporated into the capital.

<u>Accumulated Earnings</u>: The change of this item relates to the loss recorded in 2015.

<u>Other Accumulated Comprehensive Income</u>

<u>Shares Plan</u>:

The existing shares were canceled since, during the year ended December 31, 2016, the Company reconfigured this remuneration scheme, which ceased to include the attribution of shares of the Company and included a cash benefit to be paid In the same time horizon. The obligation to deliver the shares previously allocated was converted into a pecuniary obligation, taking into account the value of the shares at the date of conversion of the obligation.

With this change, the liability recorded under “Reserves – Deferred Premium” and included in the balance sheet item “Other Comprehensive income” was transferred to “Other Non Current Liabilities” and “Other Current Liabilities”.

<u>Others Reserves</u>:

Refers to the actuarial gains/(losses), related to the Pension Liabilities in the year 2016 in the amount of (23.641) euros.

12. <u>Loans</u>

At 31 December 2016 and 31 December 2015 Sonae Indústria SGPS, S.A had the following outstanding loans:

		31.12.16				31.12.15			
		Amortised cost		Nominal Value		Amortised cost		Nominal Value	
	NOTES	Current	Non Current	Current	Non Current	Current	Non Current	Current	Non Current
Loans - Commercial Paper	a)	1.750.000	179.422.837	1.750.000	180.900.000	140.850.000	4.513.293	140.850.000	5.050.000
Bank Loans	a)					69.041.111	359.991	69.041.111	833.333
Debentures	b)					147.987.525		150.000.000	
Bank Overdrafts						9.999.481		9.999.481	
Gross Debt		1.750.000	179.422.837	1.750.000	180.900.000	367.878.118	4.873.284	369.890.592	5.883.333

The loans (nominal value) have the following repayment schedule, not considering the reclassifications mentioned below in notes a)

:

	31.12.16	31.12.15
2016		116.615.592
2017	1.750.000	10.383.333
2018	1.900.000	79.475.000
2019	38.000.000	84.600.000
2020	44.000.000	84.700.000
	97.000.000	
	182.650.000	375.773.925

The average interest rates of each class of debt stated in the previous table were as follows:

	2016	2015
Bank Loans	6,450%	6,682%
Debentures	5,370%	4,535%
Loans - Commercial Paper	4,614%	4,781%

In the calculation of these average interest rates, bank overdrafts were not considered due to the immateriality of the amounts involved. The average rate of obligations shown in the previous table for the year 2016 excludes the effect of the registration of pre-deferred initial financing costs of 1.9 million euros in the second quarter of 2016 due to its early repayment as part of the refinancing process for the implementation of the partnership in Sonae Arauco, S.A..

a) Bank Loans

Loan	Contract date	Maturity (with reference to 31.12.2016)	Currency	Outstanding principal at 31.12.2016 (EUR)	Outstanding principal at 31.12.2015 (EUR)
Bank loan	August 2010	fully repaid in July 2016, by agreeement between the parties	EUR	0	€ 1.944.444
Commercial paper programme	September 2010	fully repaid in June 2016, as per contract	EUR	€ 0	€ 12.500.000
Commercial paper programme	June 2013	June 2018 Note: programme without subscription guarantee	EUR	€ 1.500.000	€ 13.650.000
Commercial paper programme	July 2014	to be repaid from December 2015 to June 2018 5)	EUR	€ 0	€ 8.350.000
Commercial paper programme	August 2014	2)	EUR	€ 0	€ 93.900.000
Bank loan	October 2014	2)	EUR	€ 0	€ 7.930.000
Commercial paper programme	February 2015	2)	EUR	€ 0	€ 12.500.000
Bank loan	June 2015	2)	EUR	€ 0	€ 60.000.000
Commercial paper programme	October 2015	fully repaid in October 2016, as per contract	EUR	€ 0	€ 5.000.000
Bank loan	December 2015	fully repaid in January 2016, as per contract	EUR	€ 0	€ 9.999.481
Commercial paper programme 3)	May 2016	to be repaid from May 2019 to May 2021	EUR	€ 175.000.000	N/A
Commercial paper programme	July 2016	to be repaid from January 2018 to July 2019	EUR	€ 4.900.000	N/A
Commercial paper programme	July 2016	to be repaid from July 2017 to July 2018	EUR	€ 1.250.000	N/A
Commercial paper programme 4)	December 2016	to be repaid from June 2018 to December 2019	EUR	€ 0	N/A

Notes
1) The aforemenioned loans pay interest at variable rate.
2) By agreement between the parties, these loans were revoked with effect from end of May 2016, and all outstanding amounts have been repaid.
3) The shares of subsidiaries Megantic BV and Tafisa Canada Inc were pledged as collateral for this loan.
In 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, also committing itself to a maximum "Net Debt / EBITDA" ratio for Tafisa Canada Inc 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) Under this financing, Sonae Indústria SGPS, SA pledged the shares of its subsidiary Parcelas e Narrativas - Imobiliária, SA as collateral. Under this agreement, Sonae Indústria, SGPS, SA is obliged to maintain a ratio of Financial Autonomy ("Total Equity / Total Assets"). This ratio is tested annually from December 31, 2016 until the end of the financing, based on the Company's consolidated financial statements, and its failure may lead to the early maturity of the loan.

Subsequent Events
5) In January 2017, by agreement between the parties, the maximum nominal amount of this financing increased to EUR 7 500 000 euros and its maturity moved to January 2020 (to be repaid from July 2018 to January 2020).

b) Bond Issues

Company(ies)	Loan	Contract date	Maturity (with reference to 31.12.2016)	Currency	Outstanding principal at 31.12.2016 (EUR)	Outstanding principal at 31.12.2015 (EUR)
Sonae Indústria, SGPS, S.A.	Sonae Industria / 2014 - 2020 bonds	October 2014	fully repaid in May 2016, by agreement between the parties	EUR	€ 0	€ 150.000.000

Notes
1) The aforemenioned loan pay interest at variable rate.

13. Pension Fund Liabilities

The company has a defined benefit plan, with a fund constituted, managed by a third party and calculated in accordance with International Accounting Standard 19, based on actuarial studies carried out by an independent entity. The employees of the company are hired until December 31, 1994, who, from the time of retirement until the end of their life, will receive a monthly income corresponding to 20% of their salary at the time of retirement. The covered workers have the possibility to choose to receive an amount at the time of retirement, as an alternative to the monthly income. The 2.5% actuarial technical rate used in the calculation of defined benefit liability was derived from the yield curves of the eurozone's high quality zero-coupon corporate bonds, plus a spread determined on the basis of ITraxx Europe Main index.

During the year 2016, several people were transferred to Sonae Indústria as well as the responsibility for the payment of a future benefits plan, in accordance with the aforementioned assumptions.

The actuarial assumptions were as follows:

- Pension Growth Rate:	0%
- Fund Yield Rate:	7%
- Actuarial Technical Rate:	2,5%
- Expected Wage Growth Rate:	3%
- Mortality Table:	TV88/90

The movement occurred in the year ended December 31, 2016 in the present value of defined benefit obligations can be broken down as follows:

	31.12.2016
(+) Initial balance of the present value of defined benefit obligations	
(+) Interest cost	3 779
(+) Cost of currente service	4 334
Resulting from experience adjustments	11 574
(-) Transfer worker	109 567
Others	17 592
(=) Final balance of the presente value of defined benefit obligations	146 846

The movement occurred in the year ended December 31, 2016 in the present value of defined benefit obligations can be broken down as follows:

	31.12.2016
(+) Inicial balance of the fair value of plan assets	
(+) Interest income	1 516
(+) Remessing	2 097
(-) Transfer worker	40 503
Others	11 203
(=) Final balance of the fair value of plan assets	55 320

During 2016, the fair value of plan assets recorded the following movements:

	31.12.2016
(+) Present value of defines benefits obligations	146 846
(-) Fair value of plan assets	55 320
(=) Defined benefit liability	91 528

14. Others Non Current Liabilities

At 31 December 2016 and 31 December 2015 details of this item were as follows:

	31.12.16	31.12.15
Accrued Costs		
Personal expenses	1.399.949	
Liabilities out of scope of IFRS7	1 399 948	

The amount entered in the "Personal expenses" relates to the company's responsibility for the medium and long-term incentive plan recorded on a straight-line basis over the payment deferral period granted in 2015 and 2016.

15. Trade Creditors

At 31 December 2016 and 31 December 2015 all amounts recorded under this item resulted from normal operations. Trade creditor maturities were as follows:

	31.12.16	31.12.15
To be paid		
< 90 days	164.590	142.925
90 - 180 days		13.835
> 180 days	2.695	28.614
	167.285	185.374

16. Other Creditors and State & Other Public Entities

At 31 December 2016 and 31 December 2015 details of Others Creditors were as follows:

	31.12.16	31.12.15
Other Creditors		
Group companies -current Income Tax (Note 20)	272.805	984.526
Group companies - others operations	635.476	
Loans from group companies (Note 20)	4.541.000	18.616.000
Other Creditors - financial investments (Note 20)		186.570.000
Others	342.915	
Financial Instrumets	5.792.196	206.170.526
Others Creditors	8	5
	5.792.204	206.170.531

Loans from Group companies is related with Sonae Indústria de Revestimentos,S.A.,have a short term maturity and they yield interest at an average rate of 1,568 %.

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, financial transaction contracts were entered into during the period December 2016 with the companies Sonae Indústria de Revestimentos, S.A. and Frases e Frações - Imobiliária e Serviços, S.A..

The amount recorded in 2015 under the item "Financial investments" was settled in 2016 after Sonae Arauco entered into capital and settled debt between Sonae Arauco and Sonae Indústria.

The maturity of other debts to third parties is as follows:

31.12.16	< 90 days	90 - 180 days	> 180 days	Total
Subsidiaries	908.281		4.541.000	5.449.281
Other Current Maturity of Creditors	342.915	-	-	342.915
	1.251.196	0	4.541.000	5.792.196

31.12.15	< 90 days	90 - 180 days	> 180 days	Total
Subsidiaries	984.526		18.616.000	19.600.526
Maturity of Current Assets Supplliers	186.570.000			186.570.000
	187.554.526	0	18.616.000	206.170.526

At 31 December 2016 and 31 December 2015, details of State and Other Public entities were as follows:

	31.12.16	31.12.15
Current tax liability	**83 885**	**489 624**
Income Tax	51.549	460.545
Tax retention	32.335	29.079
Other taxes and contributions	**28.832**	**34.613**
Value Added Tax	9.942	17.462
Social Security Contributions	18.639	17.151
Others	251	
Liabilities out of scope of IFRS7	112.716	524.237

17. Other Current Liabilities

At 31 December 2016 and 31 December 2015 this item had the following detail:

	31.12.16	31.12.15
Accrued Costs		
Personal expenses	463.242	269.472
Insurances	0	2.851
Accrued financial expenses	722.928	1.776.999
External supllies & services	178.013	251.641
Liabilities out of scope of IFRS7	1 364 183	2 300 962

18. Provisions and Accumulated Impairment Losses

Changes in provisions and accumulated impairment losses during the period ended December, 31 2016 and December, 31 2015 were the following:

31.12.2016

Description	Opening Balance	Increase	Utilization	Reversion	Closing Balance
Accumulated imparment losses on investments (Note 5)	698.524.071	217.415.807	2.139.220		913.800.658
Non current provisions (Note 13)		91.528			91.528
	698.524.071	217.507.335	2.139.220	0	913.892.185

31.12.2015

Description	Opening Balance	Increase	Utilization	Reversion	Closing Balance
Accumulated imparment losses on investments (Note 5)	465.793.444	232.730.628			698.524.071
	465.793.444	232.730.628	0	0	698.524.071

Impairment losses are offset against the corresponding asset on Statement of Financial Position. Increase in impairment losses relates as described (note 26).

19. Operating Leases

At the balance sheet date, the company had irrevocable operating lease contracts with the following payment maturities:

	31.12.16	31.12.15
Maturing in em 2016		25.071
Maturing in em 2017	31.308	13.224
Maturing in em 2018	25.059	13.224
Maturing in em 2019	10.410	1.102
	66.777	52.621

20. Financial Risks

20.1. Liquidity Risk

The liquidity risk described on note 2.18., b), related to gross debt referred to on note 12, can be analysed as follows:

	2016 Liquidity Risk				2015 Liquidity Risk		
	Maturity of Gross Debt	Interests	Total		Maturity of Gross Debt	Interests	Total
2016			0	2016	116.615.592	14.809.928	131.425.520
2017	1.750.000	7.111.757	8.861.757	2017	10.383.333	12.798.213	23.181.546
2018	1.900.000	7.056.751	8.956.751	2018	79.475.000	11.538.647	91.013.647
2019	38.000.000	6.187.883	44.187.883	2019	84.600.000	7.421.313	92.021.313
2020	44.000.000	4.561.050	48.561.050	2020	84.700.000	3.199.300	87.899.300
2021	97.000.000	1.555.233	98.555.233				
	182.650.000	**26.472.674**	**209.122.674**		**375.773.925**	**49.767.401**	**425.541.326**

The calculation of interest in the previous table was based on interest rates at 31 December 2016 and 2015 applicable to each item of debt. Gross debt maturing in 2017 (2016) includes scheduled repayment of debt along with the repayment of debt as at end 2016 (2015) which is maturing within less than one year.

Maturities for the remaining financial instruments are stated on the respective notes.

20.2. Market risk

20.2.1 . Interest rate risk

The analysis of interest rate risk, described on note 2.18., a), i), consisted in calculating the way net profit before tax would have been impacted on 2016 and 2015 if there would have been a change of +/- 0,75 percentage point in actual interest rates of the corresponding period.

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Sensitivity Analysis

	2016			2015		
	"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	-4.541.000	-172.978	172.978	-18.616.000	-104.064	104.064
External	-182.650.000	-970.223	970.223	-357.844.444	-2.054.901	2.054.901
	-187.191.000	-1.143.201	1.143.201	-376.460.444	-2.158.965	2.158.965
Financial Instruments						
Derivates	-	-	-	-	-	-
	-	-	-	-	-	-
Loans to group companies	21.468.426	514.981	-514.981	274.520.029	2.789.286	-2.789.286
Treasury Aplications	-	-	-	-	-	-
	21.468.426	514.981	-514.981	274.520.029	2.789.286	-2.789.286
		-628.220	**628.220**		**630.321**	**-630.321**

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 16,6 times the standard deviation of that variable in 2016 (14,3 times in 2015).

The interest amounts were calculated based on interest rates in effect at 31 December 2016, for each of the values in debt.

21. Related Parties

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

Balance	Accounts Receivable		Accounts Payable		Other Creditors		Other non Currents Assets		Other debtors	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
	176.451	24.606	110.197	129.760	5.449.281	206.170.526	9.412.467	287.895.781	12.496.815	11.226.816
- Agloma Investimentos						104.529				1.137.738
- Ecociclo						800.175				50.794
- Euroresinas	1.763					10.298.214				172.123
- Imoplamac						15.330		9.356.000		3.485.852
- SInd-pcdm	39.615	23.714	11.170	53.538		235.275		17.642.400		3.482.942
- Maiequipa			5.558		8.416	9.317	445.900	1.200.900	49.448	65.670
- Movelpartes	1.710	892			63.027	1.072.051	906.000	906.000	263.192	64.990
- Somit Imobiliária						9.350		517.500		244.016
- Siaf Energia						3.356.691				95.227
- Sonae Industria Revestimentos	3.205		10.109		4.742.363	3.699.594			338.037	84.833
- Sonae ,sgps			49.000	49.000						
- Sind - Management services										
- Sonae Arauco	25.296				635.476	186.570.000		3.236.871		1.762.632
- Taiber								255.036.110	-5.884	
- Raso Viagens Turismo										
- Solinca investimentos Turisticos			150	140						
- Sonaecenter II			27.813	20.200						
- Sonae RP				997						
- SC-Consultadoria				6						
- Imosede				221						
- Herco Consultoria risco				5.658						
- Frases e Frações										580.000
- Tafisa Canadá	104.862									
- Nos			739							
- Mds Consulting			5.658							
- Frases e Frações							8.060.567		4.576	
- Glunz UK									615.513	
- Parcelas e Narrativas									11.231.933	

Transactions	Sales & Services Rendered		Purchases & Acquired Services		Interest Income		Interest Expenses	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
	458.769	0	205.994	186.682	3.699.690	19.238.604	245.480	267.282
- Agloma Investimentos					203	14.694		
- Ecociclo						16.937	3.443	7.863
- Euroresinas	10.032					125.033	54.362	93.582
- Imoplamac					58.949	444.297		
- SInd-pcdm	58.823		100.137	32.344	221.419	1.269.035		
- Maiequipa					39.067	64.710		
- Movelpartes	4.655				45.888	66.354	6.409	4.771
- Somit Imobiliária					5.025	66.304		12.585
- Siaf Energia							13.353	60.191
- Sonae Industria Revestimentos	18.242						65.403	88.290
- Sonaecenter II			41.748	9.493				
- Sonae ,sgps			50.000	50.000				
- Sind - Management services				22.146		-144		
- Sonae Arauco			46		194.793	1.762.632		
- Taiber					2.484.083	15.408.752		
- Raso Viagens Turismo				64.402				
- Solinca investimentos Turisticos			1.137	1.038				
- Nos			9.956	7.839				
- Sonae RP				-1486				
- Imosede			2.970	900				
- Tafisa Canadá	367.017							
- Glunz UK					13.477			
- Megantic							100.608	
- Frases e Frações					295.093		1.812	
- Parcelas e Narrativas					341.693		90	

Remuneration of the Board of Directors of the Company paid is detailed as follows:

	2016	2015
Total Fixed salaries	554.359	719.310
Total Bonus	341.306	277.121
	895.665	996.431

In the item "Personnel expenses" in the income statement in addition to the remuneration paid includes estimates of the company's liability for the short, medium and long-term incentive plan amounting to € 1.670.851.

22. Remuneration Supervisory Board

Remuneration of the Supervisory Board, General Assembley and Remuneration Committee is detailed as follow:

	2016	2015
Total Fixed salaries	37.700	38.975

Fees Paid to the Audit company PricewatherhouseCoopers is detailed as follows:

Total Fees related to audit and legal certification of the accounts	12.176

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 .

23. Services Provided

Services provided are as follows:

	2016	2015
Corporate Finance Service	161595	
Legal Service	133.744	
Management Control Service	92.834	
Other	70.595	
TOTAL	458.768	

In June 2016, several functional areas passed to society, which debited its services to other related entities for whom they rendered services.

24. Other Operational Income and Expenses

Other operating income and costs are detailed as follows:

Other Operation Gains	31.12.16	31.12.15
Supplementary revenue	29.861	1.931
Gains on disposal of non current investments	5.243.699	125.235
Others	104.868	102.142
	5.378.428	229.308

Other Operation Losses	31.12.16	31.12.15
Losses on disposal of non current investments	3.102.155	
Taxes	225.649	140.314
Others	57.661	245.839
	3.385.464	386.153

"Gains on disposal of non current investments" refers to the accounting gains recorded in connection with the sale of Agloma Investimentos, SGPS, S.A. and Imoplamac - Gestão de Imóveis, S.A.to Sonae Indústria – Produção e Comercialização de Derivados de Madeira,S.A..

"Losses on disposal of non current investments" refers to the accounting losses recorded in connection with the sale of the subsidiaries: Euroresinas - Indústrias Químicas, SA, Ecociclo - Energia e Ambiente, SA, Sonae Indústria - Produção e Comercialização de Derivados de Madeira, SA , Agloma Imobiliária y Servicios, SL And Taiber, Tableros Agglomerados Ibéricos, S.L., to Sonae Indústria – Produção e Comercialização de Derivados de Madeira,S.A..

25. Financial Results

	31.12.16	31.12.15
Financial expenses:		
Interest expenses (Note 20 e 21)	14.806.655	17.091.800
Exchange Losses	80.205	
Others	1.502.169	847.699
Financial expenses	16.389.028	17.939.499
Financial results	-12.553.002	1.332.878
	3.836.027	19.272.377
Financial income		
Interest income (Note 21)	3.699.569	19.272.377
Exchange Gains	38.570	
Others	97.888	
	3.836.027	19.272.377

26. Results related on investments in subsidiaries and join ventures

In 2016 and 2015 the company had the following investment results:

	2016	2015
Dividends	**101.472.142**	**258.962**
Agloma - Investimentos,SGSPS,S.A.		258.046
Sonae Indústria de Revesyimentos,S.A.	230.893	0
Siaf Energia,S.A.		781
Somit Imobiliaria SA		135
Sonae Arauco,S.A.	75.013.749	0
Megantic, B.V.	26.227.500	
Reversal of Impairment	**2.139.220**	**0**
Reversal of Impairment of participation of Ecociclo,S.A.(Note 5)	691.359	0
Reversal of Impairment of paraticipation of SindPCDM,S.A.(Note 5)	1.447.861	0
Gains related with investments	103.611.362	258.962
Registration of impairment	**-217.415.807**	**-231.730.628**
Registration of impairment of participation of Movelpartes,S.A.(Note 5)		-2.806.495
Registration of impairment of participation of Sonae Arauco,S.A.(Note 5)	-214.059.298	-228.232.774
Registration of impairment of participation of Ecociclo,S.A.(Note 5)		-691.359
Registration of impairment of participation of Frases e Frações,S.A.(Note 5)	-2.673.882	
Registration of impairment of participation of Parcelas e Narrativas,S.A.(Note 5)	-682.627	
Losses related with investments	-217.415.807	-231.730.628
Profit/(loss) on other investments	-113.804.445	-231.471.666

27. Taxes

The income and deferred taxation recorded at 31 December 2016 and 31 December 2015 were:

	31.12.16	31.12.15
Current tax	295.095	2.539.082
Deferred tax (Note 6)	(2.429.114)	(2.090.560)
	(2.134.019)	448.522
Current tax - Prior Year adjustment	(148.165)	83.546
	(2.282.183)	532.068
Current tax	146.930	2.622.628
Deferred tax	(2.429.114)	(2.090.560)

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

	2016	2015
Net income/(loss) before tax	-127.280.940	-233.346.997
Tax rate	21%	21%
Expectable tax	26.728.997	49.002.869
Impairment loss of financial assets	-45.657.319	-48.873.432
Dividends	21.309.150	54.190
Capital gains and losses	449.724	
Current tax at special rate	-9.057	-9.093
Non-deductible financail charges	-2.415.607	
Deferred tax asset unrecognize	-2.429.114	
Others		300.498
	-110.792	-26.510
	-2.134.019	448.522
Effective rate	1,7%	0,2%

28. Earnings Per Share

Earnings per share were calculated as follows:

	31.12.16	31.12.15
Net Profit (loss)		
Net Profit / (loss) considered to calculate base earnings per share (Periodic Net Profit/(loss))	- 129 563 124	- 232 814 929
Net Profit/(loss) considered diluted earnings per share	- 129 563 124	- 232 814 929
Number of Shares		
Weighted average number of shares used to calculate basic earning per share	11 350 757 417	11 350 757 417
Weighted average number of shares used to calculate diluted earnings per share	11 350 757 417	11 350 757 417
Basic and diluted earnings per share	-0,01141	-0,02051

During 2016, no effect from discontinued operations was recorded.

29. 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 Euros 74 million, should be considered at 50% for tax calculation purposes. The company filed a lawsuit challenging this interpretation. 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 consolidated financial statements.

The subsidiary Sonae Indústria de Revestimentos, S.A. rendered surety of Euros 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, with the exception of procedures referring to 2013, for which a formal complaint was filed.

The subsidiary Maiequipa – Gestão Florestal, S A. rendered surety of Euros 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, S.A. presented bank guarantees of Euros 7.550.355 to suspend tax enforcement procedures initiated by tax authorities, having been brought court challenges against the respective settlement.

Sonae Indústria, SGPS, S. A. rendered surety of Euros 5.049.804 and Euros 321.858 in favour of "Instituto de Segurança Social" (Social Security Institute) to secure contingent liabilities of former subsidiary Sonae Indústria – Produção e Comercialização de Derivados de Madeira, S. A. to this entity. A formal complaint was filed against these contingent liabilities.

Former subsidiary 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 Glunz AG and GHP GmbH received, in March 2010, a statement of objections from the German Competition Authority. Some of these processes were resolved during the years 2015 and 2016 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). Under the terms of the agreement for the subscription of Sonae Arauco, S. A. shares, entered into by Sonae Indústria SGPS SA and the companies of the Arauco Group, Inversiones Arauco Internacional Limitada and Celulosa Arauco y Constitucion SA, any losses resulting from these proceedings will be reimbursed by Sonae Indústria SGPS SA. For the cases still in progress, the complaints submitted specifically to the former subsidiaries Glunz AG and GHP GmbH amount to a maximum contingency of Euros 31.5 million. There are other cases in which these former subsidiaries are jointly involved with other German producers and whose maximum contingency amounts to Euros 65.2 million. According to the opinion of our 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.

30. Financial Statements Approval

These financial statements were approved by the Board of Directors and authorised for issuance on 21 of March 2017.

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 2016 AND 31 DECEMBER 2015

(Amounts expressed in Euros)

ASSETS	Notes	31.12.2016	31.12.2015
NON CURRENT ASSETS:			
Tangible fixed assets	9, 11, 34	148 065 694	628 779 728
Goodwill	14	347 082	80 884 032
Intangible assets	12	270 689	4 203 028
Investment properties	9, 13	6 251 947	6 450 977
Investment in associates	6, 10		1 493 139
Investment in joint ventures	5, 10	195 908 535	5 695 259
Investment available for sale	8, 9, 10	130 821	1 155 713
Deferred tax asset	15	1 364 497	28 358 134
Other non current assets	8,16	442 298	804 270
Total non current assets		352 781 563	757 824 280
CURRENT ASSETS:			
Inventories	18, 34	18 138 293	98 007 573
Trade debtors	8, 19, 34	15 193 129	85 053 009
Other current debtors	8, 20	303 310	13 202 016
Current tax asset		1 090 204	2 799 769
Other taxes and contributions	22	3 246 215	4 811 295
Other current assets	8, 9, 21, 27	1 951 835	10 406 656
Cash and cash equivalents	8, 23	4 795 077	28 924 470
Total current assets		44 718 063	243 204 788
Non-current assets held for sale	17	1 535 588	1 535 588
TOTAL ASSETS		399 035 214	1 002 564 656
SHAREHOLDERS`FUNDS, NON-CONTROLLING INTERESTS AND LIABILITIES			
SHAREHOLDERS`FUNDS:			
Share capital	24.1	812 107 574	812 107 574
Legal reserve	24.2	3 131 757	3 131 757
Other reserves and accumulated earnings	24.3	- 759 319 894	- 801 248 687
Accumulated other comprehensive income	24.4	54 418 718	43 785 859
Total shareholders' funds attributabble to equity holders of Sonae Indústria		110 338 155	57 776 503
Non-controlling interests	25		- 106 611
TOTAL SHAREHOLDERS`FUNDS		110 338 155	57 669 892
LIABILITIES:			
NON CURRENT LIABILITIES:			
Bank loans - net of current portion	8, 26	214 868 703	53 413 866
Finance lease creditors - net of current portion	8, 9, 26	1 132 741	16 749 594
Other loans	26		1 325 632
Post-retirement liabilities	30	1 110 071	26 578 632
Other non current liabilities	8	3 554 341	33 589 842
Deferred tax liability	15	20 754 938	55 427 496
Provisions	34	1 933 644	9 355 417
Total non current liabilities		243 354 438	196 440 479
CURRENT LIABILITIES:			
Current portion of non-current bank loans	8, 26	390 967	178 706 758
Current bank loans	8, 26	1 500 000	153 596 265
Current portion of non-current non-convertible bonds	8, 26		147 987 525
Current portion of non-current finance lease creditors	8, 9, 26	417 272	5 669 033
Other loans	26		41 619 187
Trade creditors	31	23 050 212	138 586 348
Current tax liability		2 422 190	1 508 253
Other taxes and contributions	32	699 465	7 018 495
Other current liabilities	8, 27, 33	16 862 515	72 606 959
Provisions	34		1 155 462
Total current liabilities		45 342 621	748 454 285
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		399 035 214	1 002 564 656

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 AT 31 DECEMBER 2016 AND 31 DECEMBER 2015

(Amounts expressed in Euros)

	Notes	31.12.2016	31.12.2015
Sales	40	239 555 683	226 793 783
Services rendered	40	1 301 165	1 079 710
Other income and gains	37, 40	5 756 786	5 342 673
Cost of sales	40	125 721 669	126 355 237
(Increase) / decrease in production	40	537 841	315 460
External supplies and services	40	49 498 574	48 500 744
Staff expenses	40	27 872 095	25 092 897
Depreciation and amortisation	11, 12, 13	12 065 676	13 608 100
Provisions and impairment losses (increase / reduction)	34	3 546 011	120 973
Other expenses and losses	38	4 733 384	4 387 190
Operating profit / (loss)	40	22 638 384	14 835 565
Financial expenses	41	21 213 172	26 240 842
Financial income	41	4 707 115	20 343 109
Gains and losses in joint ventures	5	5 512 158	
Net profit/(loss) from continuing operations, before taxation		11 644 485	8 937 832
Taxation	42	8 565 782	3 875 513
Consolidated net profit / (loss) from continuing operations, afer taxation		3 078 703	5 062 319
Profit / (loss) from discontinued operations, after taxation	43	7 930 251	- 41 067 552
Consolidated net profit / (loss) for the period		11 008 954	- 36 005 233
Attributable to:			
Equity Holders of Sonae Industria			
Continuing operations		3 078 703	5 005 589
Discontinuing operations		7 930 251	- 41 010 181
Equity Holders of Sonae Industria		11 008 954	- 36 004 592
Non-controlling interests			
Continuing operations			56 730
Discontinuing operations			- 57 371
Non-controlling interests			- 641
Profit/(Loss) per share			
Fom continuing operations:			
Basic	44	0.0003	0.0004
Diluted	44	0.0003	0.0004
From discontinued operations:			
Basic	44	0.0007	- 0.0036
Diluted	44	0.0007	- 0.0036

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 AT 31 DECEMBER 2016 AND 31 DECEMBER 2015

(Amounts expressed in Euros)

	Notes	31.12.2016	31.12.2015
Net consolidated profit / (loss) for the period (a)		**11 008 954**	**- 36 005 233**
Other consolidated comprehensive income			
Items that may be subsequently transferred to profit or loss			
Change in currency translation reserve		4 275 995	- 14 629 590
Change in fair value of available-for-sale financial assets		8 508	8 528
Group share of other comprehensive income of joint ventures	5	4 416 002	
Items that may not be subsequently transferred to profit or loss			
Remeasurements of defined benefit plans		- 149 140	240 357
Group share of other comprehensive income of joint ventures	5	- 1 313 640	
Income tax relating to items that will not be reclassified			- 48 000
Other consolidated comprehensive income for the period, net of tax (b)		**7 237 725**	**- 14 332 705**
Total consolidated comprehensive income for the period (a) + (b)		**18 246 679**	**- 50 337 938**
Total consolidated comprehensive income attributable to:			
Equity holders of Sonae Industria		18 246 679	- 50 336 776
Non-controlling interests			- 1 162
		18 246 679	**- 50 337 938**
Other comprehensive income reclassified to profit or loss in the period	24.4	**- 36 592 671**	

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 2016 AND 31 DECEMBER 2015

(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	Non controlling interests	Total shareholders' funds
Notes			24.3	24.4			
Balance as at 1 January 2016	812 107 574	3 131 757	- 801 248 687	43 785 859	57 776 503	- 106 611	57 669 892
Total consolidated comprehensive income for the period							
Net consolidated profit/(loss) for the period			11 008 954		11 008 954		11 008 954
Other consolidated comprehensive income for the period				7 237 725	7 237 725		7 237 725
Total			11 008 954	7 237 725	18 246 679		18 246 679
Medium term incentive plan			- 166 190		- 166 190		- 166 190
Change in method			35 060 569	-35 060 569			
Tranferred to Net consolidated profit/(loss) for the period				36 592 671	36 592 671		36 592 671
Others			-3 974 540	1 863 032	-2 111 507	106 611	- 2 004 896
Balance as at 31 December 2016	812 107 574	3 131 757	-759 319 894	54 418 718	110 338 155		110 338 155

	Share capital	Legal reserve	Other Reserves and accumulated earnings	Accumulated other comprehensive income	Total shareholders` funds attributable to the equity holders of Sonae Indústria	Non-controlling interests	Total shareholders' funds
Notes			24.3	24.4			
Balance as at 1 January 2015	812 107 574	3 131 757	-767 474 878	63 365 293	111 129 746	- 262 099	110 867 647
Total consolidated comprehensive income for the period							
Net consolidated profit/(loss) for the period			-36 004 592		- 36 004 592	- 641	- 36 005 233
Other consolidated comprehensive income for the period				-14 332 184	- 14 332 184	- 521	- 14 332 705
Total			-36 004 592	-14 332 184	-50 336 776	- 1 162	-50 337 938
Medium term incentive plan			39 028		39 028		39 028
Change in ownership percentage			- 914 847	150 137	- 764 710	156 650	- 608 060
Transferred to Accumulated earnings			899 838	- 899 838			
Others			2 206 764	-4 497 549	- 2 290 785		- 2 290 785
Balance as at 31 December 2015	812 107 574	3 131 757	-801 248 687	43 785 859	57 776 503	- 106 611	57 669 892

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 2016 AND 31 DECEMBER 2015

(Amounts expressed in Euros)

	Notes	31.12.2016	31.12.2015
OPERATING ACTIVITIES			
Receipts from trade debtors		548 207 712	1 048 155 395
Payments to trade creditors		436 529 074	832 431 811
Payments to staff		78 109 973	159 242 660
Net cash flow from operations		33 568 665	56 480 924
Payment / (receipt) of corporate income tax		5 528 064	8 742 423
Other receipts / (payments) relating to operating activities		- 941 559	- 6 945 209
Net cash flow from operating activities (1)		27 099 042	40 793 292
INVESTMENT ACTIVITIES			
Cash receipts arising from:			
Investments		240	
Tangible fixed assets and intangible assets		2 208 917	8 257 926
Investment properties			1 295 290
Investment subventions			118 777
Dividends			9 500
Non-current assets held for sale			3 039 998
Increase in share capital (Sonae Arauco, SA)	3	137 500 000	
		139 709 157	12 721 491
Cash Payments arising from:			
Investments		219 469	5 373 571
Tangible fixed assets and intangible assets		14 731 599	25 582 926
Investment properties		131 191	
		15 082 259	30 956 497
Net cash used in investment activities (2)		124 626 898	- 18 235 006
FINANCING ACTIVITIES			
Cash receipts arising from:			
Interest and similar income		414 066	722 684
Loans obtained	26.5	1 182 770 925	1 471 693 025
Increase in share capital			168 502
		1 183 184 991	1 472 584 211
Cash Payments arising from:			
Interest and similar charges		26 054 507	34 633 530
Loans obtained	26.5	1 311 613 957	1 448 257 179
Finance leases - repayment of principal		3 322 952	4 661 365
Others			36 031
		1 340 991 416	1 487 588 105
Net cash used in financing activities (3)		- 157 806 425	- 15 003 894
Net increase in cash and cash equivalents (4) = (1) + (2) + (3)		- 6 080 485	7 554 392
Effect of foreign exchange rate		- 7 318	2 246 997
Cash and cash equivalents at the beginning of the period		15 808 205	10 500 810
Cash and cash equivalents of excluded companies, at 31.05.2016		4 939 961	
Cash and cash equivalents at the end of the period	23	4 795 077	15 808 205

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 2016

(Amounts expressed in Euros)

1. INTRODUCTION

SONAE INDÚSTRIA, SGPS, SA, whose head-office is at Lugar do Espido, Via Norte, Apartado 1096, 4470-909 Maia, Portugal, is the parent company of a group of companies as detailed in notes 4 to 6 ("Group"). The Group's operations and business segments are described in Note 45.

Sonae Indústria, SGPS, SA is included in the perimeter of consolidation of Efanor Investimentos, SGPS, SA, 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 of wood based panels and derivative products through industrial plants and commercial facilities located in Portugal, Canada and South Africa.

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 2016 and endorsed by the European Union.

2.1.1. In the year ended 31 December 2016 the following standards and interpretations, which have been endorsed by European Union, became effective:

IAS 1 (amendment), Presentation of Financial Statements (effective for periods beginning on or after 1 January 2016). This amendment contains guidance relating to materiality and aggregation, presentation of subtotals, structure of financial statements, disclosure of accounting policies and presentation of items of other comprehensive income which arise from investments measured using equity method;

IAS 16 (amendment), Tangible Fixed Assets, and **IAS 38** (amendment), Intangible Assets: allowed methods for calculating depreciation and amortization (effective for periods beginning on or after 1 January 2016). In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset;

IAS 16 (amendment), Tangible Fixed Assets, and **IAS 41** (amendment), Agriculture: 'Bearer Plants' (effective for periods beginning on or after 1 January 2016). This amendment defines the concept of bearer plant and transfers this type of asset from the scope of IAS 41 – Agriculture to the one of IAS 16 – Tangible Assets, with the related effect on measurement. However, biologic assets produced by these plants are kept in the scope of IAS 41 – Agriculture;

IAS 19 (amendment), Employee Benefits (effective for periods beginning on or after 1 February 2015). This narrow scope amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service;

IAS 27 (amendment), Separate Financial Statements (effective for periods beginning on or after 1 January 2016). These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements;

IFRS 10 (amendment), Consolidated Financial Statements, **IFRS 12** (amendment), Disclosure of Interests in Other Entities, and **IAS 28** (amendment), Investments in Associates and Joint Ventures: 'Investment entities – exemption from consolidation' (effective for periods beginning on or after 1 January 2016). This amendment specifies that an intermediate holding company which is a subsidiary of an investment entity is exempted from consolidation. Furthermore, the optional use of equity method under IAS 28 is extensible to an entity which not being an investment entity, holds an interest in an associate or joint venture which qualifies as investment entity;

IFRS 11 (amendment), Joint Arrangements (effective for periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business;

Annual improvements 2010-2012 (effective for periods beginning on or after 1 February 2015). These amendments include changes from the 2010-2012 cycle of the annual improvements project, that affect the following standards: IFRS 2 - Share-based Payment, IFRS 3 - Business Combinations, IFRS 8 - Operating Segments, IFRS 13 - Fair Value Measurement, IAS 16 - Property, Plant and Equipment, IAS 24 - Related Parties Disclosures and IAS 38 - Intangible Assets;

Annual improvements 2012-2014 (generally effective for periods beginning on or after 1 January 2016). This amendment cycle includes changes to the following standards: IFRS 5 – Non-current Assets Available for Sale and Discontinued Operations, IFRS 7 – Financial Instruments: Disclosures, IAS 19 – Employee Benefits and IAS 34 – Interim Financial Reporting.

The application of these standards did not produce any significant effects on these consolidated financial statements.

2.1.2. At 31 December 2016, 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 on later periods:

IFRS 9 (new), Financial instruments (effective for annual periods beginning on or after 1 January 2018). IFRS 9 replaces the guidance in IAS 39, regarding: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of credit impairment (through the expected credit losses model); and (iii) the hedge accounting requirements and recognition;

IFRS 15 (new), Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018). This new standard, applies only to contracts with customers to provide goods or services, and requires an entity to recognise revenue when the contractual obligation to deliver the goods or services is satisfied and by the amount that reflects the consideration the entity is expected to be entitled to, following a five step approach.

The Company does not estimate any significant effect to arise from the application of these standards.

2.1.3. At 31 December 2016, the following standards, effective 1 January 2016 or later, had been issued by IASB but still had not been endorsed by the European Union:

IAS 7 (amendment**),** Statement of Cash Flows – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment introduces an additional disclosure about the changes in liabilities arising from financing activities, disaggregated between cash changes and non-cash changes and how it reconciles with the reported cash flows from financing activities, in the Cash Flow Statement;

IAS 12 (amendment), Income taxes – Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when temporary deductible differences exist and how to assess recoverability of deferred tax assets when restrictions exist in the tax law;

IAS 40 (amendment), Transfers of Investment property (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies when assets are transferred to, or from investment properties, the evidence of the change in use is required. A change of management intention in isolation is not enough to support a transfer;

IFRS 2 (amendment), Classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications to a share-based payment plan that change the classification an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority;

IFRS 4 (amendment), Insurance contracts (Applying IFRS 4 with IFRS 9) transactions (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment allows companies that issue insurance contracts the option to recognise in Other Comprehensive Income, rather than Profit or Loss the volatility that could rise when IFRS 9 is applied before the new insurance contract standard is issued. Additionally, it is given an optional temporary exemption from applying IFRS 9 until 2021, to the companies whose activities are predominantly connected with insurance, not being applicable at consolidated level;

IFRS 15 (amendment) Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018). These amendments are still subject to endorsement by European Union. These amendments refer to additional guidance for determining the performance obligations in a contract, the timing of revenue recognition from a license of intellectual property, the review of the indicators for principal versus agent classification, and to new practical expedients to simplify transition;

IFRS 16 (new), Leases (effective for annual periods beginning on or after 1 January 2019). This standard is still subject to endorsement by European Union. 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 2014 - 2016, (generally effective for annual periods beginning on or after 1 January 2017). These improvements are still subject to endorsement by European Union. The 2014-2016 annual improvements impacts: IFRS 1, IFRS 12 and IAS 28;

IFRIC 22 (new), Foreign currency transactions and advance consideration (effective for annual periods beginning on or after 1 January 2018). This interpretation is still subject to endorsement by European Union. An Interpretation to IAS 21 'The effects of changes in foreign exchange rates' it refers to the determination of the "date of transaction" when an entity either pays or receives consideration in advance for foreign currency denominated contracts". The date of transaction determines the exchange rate used to translate the foreign currency transactions.

The Company does not estimate any significant effect to arise from the application of these standards.

The accompanying consolidated financial statements have been prepared from the books and accounting records of the companies included in the consolidation (Note 4) on a going concern basis and under the historical cost convention, except for financial instruments, which are stated at fair value (Note 2.13), and land and buildings, which are stated for their revalued amounts, as described on note 2.3.

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, directly or indirectly, control, 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.d and 14). 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. 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 of acquisition or up to the effective date of disposal, as appropriate.

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

Entities included in these consolidated financial statements are listed on note 4.

b) <u>Financial Investments in joint ventures and in associates</u>

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 but does not establish financial and operational policies – usually corresponding to holdings between 20% and 50% in a company's share capital) are accounted for in accordance with the equity method.

Under the equity method, investments are recorded at cost, 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.

An assessment of investments in joint ventures and in associated companies is performed when there is an indication that the asset might be impaired. Any impairment loss is disclosed on the Consolidated Income Statement. Impairment losses recorded in prior years that are no longer justifiable are reversed.

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

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.

Joint-venture companies are detailed in note 5 and associates are detailed in note 6.

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 14).

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 balance sheet date. Exchange rate differences arising from this translation are disclosed 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 denominated in foreign currencies in the individual financial statements of foreign companies are translated to Euro using exchange rates at the balance sheet date. Profit and loss and cash flows are converted to Euro using the average exchange rate for the period. Exchange rate differences originated after 1 January 2004 are recorded as equity under Translation Reserves in 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 balance sheet date.

Whenever a foreign company is sold or liquidated, accumulated exchange rate differences are recorded on the Consolidated Income Statement as a gain or loss on the disposal.
Exchange rates used on translation of foreign group, jointly controlled and associated companies are listed below:

	31.12.2016		31.12.2015	
	Closing rate	Average rate	Closing rate	Average rate
Great Britain Pound	0.8562	0.7763	0.7340	0.7257
South African Rand	14.4571	17.2325	16.9520	14.0885
Canadian Dollar	1.4188	1.4647	1.5116	1.4163
American Dollar	1.0541	1.1061	1.0887	1.1089
Swiss Franc	1.0739	1.0972	1.0835	1.0670

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 revaluated 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, which will thereafter be transferred to Other reserves and accumulated earnings to match the effect of depreciating or selling the assets.

Further revaluation will be carried out 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 Property Plant and Equipment 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, 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 depreciation 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 39).

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 3 to 6 years.

2.5. Accounting for leases

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

Whether a lease is classified as finance or operating lease depends 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 are 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 rents, depreciation and impairment losses are recognized on the Consolidated Income Statement as expenses of the period they relate to. Depreciation and impairment losses are calculated and recognized as set out in note 2.3 for tangible fixed assets. Whenever there is no reasonable certainty as to the acquisition of leased assets upon end of contract, the depreciation period of leased assets will be the lower of estimated useful life and leasing period.

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

2.6. Investment Properties

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

Useful lives and the depreciation method are the ones set out in note 2.3. for tangible assets.

2.7. 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.

2.8. Government grants

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

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

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

2.9. Impairment of non-current assets, except for deferred taxes

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

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 (note 34). 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 (note 14).

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 through other 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 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. Impairment losses on goodwill are not reversible.

2.10. 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.

2.11. 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.

2.12. 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 of provisions are recognized under Provisions and Impairment losses on the Consolidated Income Statement.

2.13. Financial Instruments

a) Investments

Investments are classified into the following categories:

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

Investments measured at fair value through profit or loss include the investments held for trading acquired by the Group to be sold within a short period of time. They are classified as current assets on the Consolidated Statement of Financial Position.

The Group classifies as available-for-sale the investments which cannot be regarded as investments measured at fair value through profit or loss or as held-to-maturity investments.

Available-for-sale investments are stated as non-current assets except if they are intended to be sold within the next 12 months as from the balance sheet date.

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

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

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

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

Changes in the fair value of investments measured at fair value through profit or loss are included on the Consolidated Income Statement for the period.

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

b) <u>Accounts receivable</u>

Receivables are initially stated at fair value, which corresponds to its nominal value, and stated on the Consolidated Statement of Financial Position deducted from any impairment losses recorded under the caption Impairment losses in accounts receivable, on the Consolidated Income Statement, and thereby reflect their net realisable value.

Impairment losses are recognized following objective evidence that part or the whole amount receivable will not be paid as long as the loss can be reliably estimated. For that, each group company takes into consideration market information showing that the customer is insolvent along with historical data of overdue and not paid amounts receivable.

Recognized impairment losses correspond to the difference between the carrying amount and the present value of the estimated cash flows, discounted at the original effective interest rate, which is nil whenever payment is expected to occur within less than twelve months.

Accounts receivable are stated on the Consolidated Statement of Financial Position as current assets unless they mature after twelve months as from the balance sheet date, in which case they will be stated as non-current assets.

c) Classification as equity or liability

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

d) Loans

Loans are recorded as liabilities at their nominal value, net of up-front fees and commissions related to the issuance of those instruments. Financial expenses are calculated based on the effective interest rate and are recorded on the Consolidated Income Statement on an accruals basis, in accordance with the accounting policy defined in note 2.10. The portion of the effective interest charge relating to up-front fees and commissions, if not paid in the period, is added to the book value of the loan.

e) Trade accounts payable

Accounts payable are initially at fair value, which corresponds to its nominal value, as no interest is paid and financial discount is deemed to be not relevant.

f) 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 hedge instruments (Swaps) are used by the Group mainly to hedge interest risks on loans obtained. Conditions established for these cash flow hedge instruments are identical to those of the corresponding loans in terms of base rates, calculation rules, rate setting dates and repayment schedules of the loans and for these reasons they qualify as perfect hedges. Inefficiencies that may arise are recorded on the 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 forecasted transaction that is being hedged is highly probable.

Cash flow hedge instruments used by the Group are initially accounted for at cost and subsequently adjusted to their corresponding fair value. Changes in fair value of these cash flow hedge instruments are recorded in equity under the caption Hedging reserves, included in Other Accumulated Comprehensive Income on the Consolidated Statement of Financial Position, and then reclassified to financial results on the Consolidated Income Statement over the same period in which the hedged instrument affects Income Statement.

The fair value of these financial instruments is calculated with resource to derivative valuation software as described on note 27.

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 under Other Accumulated 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 fair value are recorded in the Consolidated Income Statement.

In some cases derivative instruments were negotiated to hedge cash flows mainly related to exchange rate hedges (forwards) of loans and trade transactions which do not consist in perfect hedging relations therefore not qualifying for hedge accounting. 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.

These derivative instruments, over which no hedge accounting was applied, are initially stated at cost, if any, and then adjusted to their fair value. Changes in fair value, calculated with resource to specific software under the terms described on note 27, are accounted for as financial items on the Consolidated Income Statement.

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

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

Derivative instruments are stated on the Consolidated Statement of Financial Position under Other non-current assets, Other current assets, Other non-current liabilities and Other current liabilities.

g) Equity instruments

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

h) Own shares

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

i) Cash and Cash Equivalents

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

In the Consolidated Statement of Cash Flows, cash and cash equivalents also include bank overdrafts, which are included in Bank Loans on the Consolidated Statement of Financial Position.

2.14. Post-employment benefits

As referred to in note 30, 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 (actuarial gains or losses) arising from experience adjustments, from changes in demographic and financial assumptions and from the difference between the actual return on assets and the share in net interest are recognized through other comprehensive income, under Net Shareholders' Funds.

Net interest results from the product of discount rates, which are derived from high quality bonds, and the amount of liabilities deducted by the fair value of plan assets.

Past service costs are recorded immediately through profit or loss for the period.

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

2.15. Contingent assets and liabilities

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

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

2.16. <u>Income tax</u>

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

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

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

Deferred tax assets are 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 balance sheet 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, as regards 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.

2.17. <u>Revenue recognition and accrual basis</u>

Revenue from the sale of goods is recognized on the Consolidated Income Statement when the risks and benefits have been transferred to the buyer and the amount of the revenue can be measured reasonably. Sales are recognized net of sales taxes and discounts and other expenses arising from the sale, and are measured as the fair value of the amount received or receivable.

Revenue from services rendered is recognized on the Consolidated Income Statement taking into consideration the stage of completion of the transaction at the balance sheet date.

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

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

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

2.18. 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 caption Other Operating Profits and Losses.

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

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

When the Group wants to reduce currency exposure, it negotiates hedging currency derivatives (note 2.13.f).

2.20. 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. Until 31 December 2015, this compensation consisted in granting a number of the Company's shares. On payment date, the Company could choose to deliver the shares or to pay the corresponding amount, taking into consideration the market price of the shares on payment date.

This liability was stated on the Consolidated Statement of Financial Position under Other reserves, and was stated on the Consolidated Income Statement under Staff expenses, on a straight line basis over the deferral period, taking into consideration the fair value of granted shares on grant date.

In the period ended 31 December 2016, the Company redesigned this medium-term compensation system so as to cease attributing its shares, which were replaced by the payment of an amount in the same time horizon. Shares attributed until that date were converted into a cash equivalent, stated under Other non-current liabilities and Other current liabilities, on the Consolidated Statement of Financial Position, taking into consideration share price at conversion date.

2.21. Subsequent events

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

2.22. Segment information

At the reporting date reportable segments are assessed on the basis of the internal reporting system of financial information (note 45).

2.23. Judgments and estimations

The most significant estimations included in these consolidated financial statements refer to:

a) Useful lives of tangible and intangible assets (notes 2.3, 11, 12 and 13);
b) Impairment tests on cash-generating units to which goodwill was allocated (note 14);
c) Impairment analysis of accounts receivable (notes 19 and 20);
d) Adjustments to assets, namely fair value adjustments and, relating to inventories, write-down to net realizable value (note 9, 18 and 34);
e) Calculation of post-employment liabilities (notes 30);
f) Calculation of provisions and impairment losses on intangible assets and tangible fixed assets (note 34);
g) Calculation of income tax (note 42).

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 profit or loss 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.

2.24. Emission rights of carbon dioxide

The Group has industrial facilities located in several European countries, which are within the scope of the European Emission Trading Scheme.

The scheme consists of an allowance granted by the State where the facility is located, which is recognized in Other Intangible Assets and Deferred Gains, at the market value of the date it was granted. Deferred gains are transferred to Other Operating Revenues on a straight line basis over the period.

At 31 December 2016, an estimation of emissions produced in the period is recognized in Cost Accruals and Other Operating Costs.

On the following period, when emissions produced are definitely calculated, the amount previously recorded in Other Intangible Assets is written off against Cost Accruals for the rights delivered back to the State. When allowances are excessive and the remainder is sold, a gain or loss corresponding to the difference between cost and market value is recorded in Other Operating Revenues or Other Operating Costs.

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 Company's normal activity. In particular, the Group classify 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, generally accepted valuation techniques are used, 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.

2.27. Risk management

a) Credit Risk Management Policy

i) Receivables (Customers)

Sonae Indústria Credit Risk derives mainly from its 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 negotiated payment terms.

In order to mitigate Credit Risk related with potential Customers default on payment of outstanding receivables, Group companies exposed to this type of risk:

- Have in place proactive, active and reactive credit management processes and procedures, backed by advanced information systems;

- Have local commissions to analyse and follow up credit risk;

- Have teams exclusively dedicated to credit risk and collection of payments from customers;

- Establish and review credit limits for their Customers, daily monitoring effective exposure to their Customers;

- Have protection tools in place, such as credit insurance policies, letters of credit and bank guarantees, where operationally necessary and economically viable;

- Make use of credit rating agencies;

- Make use of legal proceedings in order to recover bad debt, if applicable.

ii) Other financial assets, other than receivables

In addition to its operating activities, Group companies have financial assets, related mainly with its activities involving Financial Institutions, such as cash deposits, financial investments and derivatives with positive market value. As a result, Credit Risk arises from the potential counterparty default from these Financial Institutions.

As a rule, Group companies preferably engage in financial operations with Investment Grade Financial Institutions. On the other hand, generally speaking, exposure related with this type of financial assets is widely spread and short lived.

b) Market Risk Management Policy

i) Interest Rate Risk

As a result of the relevant portion of floating rate debt on Sonae Indústria Consolidated Statement of Financial Position and the consequent cash flows related to interest payments, the company is exposed to interest rate risk, and it is particularly exposed to the risk of variation of Euro interest rates, as most of its floating rate debt is denominated in Euro.

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. The rationale behind this principle is as follows:

- Sonae Indústria is mainly exposed to the Euro area on its operating activity and, as referred before, it is also mainly exposed to the Euro currency in what concerns to its floating rate debt.

- Sonae Indústria operating activity is cyclical in the sense it is tied to business cycles of the overall economy and particularly of the construction sector (and also of the furniture sector on its own). This is mostly due to the nature of our products, and to the fact that they are commodity-like and durable goods, performing better when there are good economic conditions.

- Under regular economic circumstances, when there is a strong level of economic activity and demand, inflation tends to increase. Since nominal interest rates are a function of inflation and also because the European Central Bank (ECB) has as its main mission keeping price stability, it normally acts in order to relieve inflationary tensions by increasing interest rates. Opposite effects occur when there is a weak level of activity and demand, with low pressure on prices.

- When activity and demand are strong in the Euro Area, Sonae Indústria tends to have superior economic performance and operating cash flow generation. On the other hand, when economic conditions are strong, ECB tends to increase interest rates in order to refrain demand and avoid price increases, which is reflected on higher net interest charges for Sonae Indústria, creating a natural hedge on “operating cash flow after net interest charges”. The same principle (with opposite signs) applies on economic downturn situations.

- It is our understanding that, apart from the Euro interest rate, the same rationale applies to other interest rates to which Sonae Indústria is exposed such as the Pound Sterling, the Canadian Dollar or the South African Rand (while acknowledging that in emerging markets, interest rate behaviour is influenced by other effects not directly related with domestic economic conditions).

As an exception to its general rule, Sonae Indústria may engage into interest rates derivatives. If this is the case, the following is observed:

- Derivatives are not used for trading, profit making or speculative purposes;

- Group companies preferably engage in derivative transactions with Investment Grade Financial Institutions;

- Derivatives exactly match settlement dates and base interest rate of the underlying exposures;

- Maximum financial charges on the aggregate of the derivative and the underlying exposures are always known and limited on the inception of the hedging period;

- Quotes from at least two Financial Institutions are considered before closing any interest rate hedging deal.

ii) Foreign Exchange Risk

As a geographically diversified Group with subsidiaries located in three different continents, Sonae Indústria is exposed to foreign exchange risk. Statement of Financial Position and Income Statement are is exposed to foreign exchange translation risk and Sonae Indústria subsidiaries’ are exposed to foreign exchange risk of both translation and transaction type.

Foreign exchange risk relates to the possibility of registering gains or losses resulting from the change in exchange rates.

Transaction risk arises when there is exchange risk related to a cash flow in other than a subsidiary local currency. Sonae Indústria subsidiaries cash flows are largely denominated in the 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 currency hedging, reducing the Group's transaction risk. In line this rationale, as a principle, Sonae Indústria's subsidiaries financial debt is denominated in their local currency.

As a Group rule, whenever possible and economically viable, subsidiaries aim to offset assets and liabilities denominated in the same foreign currency.
Also as a rule, in situations where relevant exchange risk arises from trade in other than the subsidiary local currency, exchange risk should be mitigated through the use of short term forward exchange agreements performed by the subsidiary exposed to that risk. Sonae Indústria subsidiaries do not engage in forward exchange rate agreements with trading, speculative or profit making purposes.

Translation risk arises from the fact that for each accounting period, the financial statements of the subsidiaries denominated in other than Euro local currencies, must be translated or converted into Euro in order to prepare the consolidated financial statements of the Group. As exchange rates vary between periodical financial statements and the referred subsidiaries assets' do not match their liabilities, volatility in the consolidated accounts arises as a result of conversion at different exchange rates.

As a policy, translation risk in connection with the conversion of the Equity investments on foreign non Euro subsidiaries is not hedged as these are considered long-term investments and it is assumed that hedging will not add value in the long term. Gains and losses related to the translation at different exchange rates of Equity investments in foreign non Euro subsidiaries are accounted under the Translation Reserve, included in Accumulated other comprehensive income, on the Consolidated Statement of Financial Position.

Some Sonae Indústria subsidiaries concede or receive intercompany funding on currencies other than their local currency. Whenever this happens, intercompany funding is always denominated in the currency of the other Group counterparty. It is Sonae Indústria policy to hedge systematically the outstanding amount of this intercompany funding in order to reduce volatility on subsidiaries (and consolidated) financial statements. This volatility arises from the fact that, there is no offset of the Exchange Rate gain or loss registered in the profit and loss of the Group counterparty with the intercompany asset or liability denominated in other than its local currency (gain or loss registered as a result of the change in value of its foreign currency intercompany asset or liability), on the side of the other Group counterparty (and as a result, on the Consolidated accounts).

These intercompany loans hedges are done through forward exchange rate agreements, performed by the subsidiary exposed to the exchange rate risk and rolled over consistently on a semi-annual basis. Quotes from at least two Financial Institutions are considered before closing any of these foreign exchange hedging deals. These foreign exchange rate derivatives are also not used for trading, profit making, or speculative purposes.

Sensitivity analysis to interest rate risk and exchange rate risk is disclosed on note 28.

iii) Other Price Risks

At 31 December 2016, Sonae Indústria did not hold material investments classified as “available-for-sale”.

c) Liquidity Risk Management Policy

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) short term credit facilities, commercial paper programs and other facilities (such as a securitization of receivables) with relationship banks to ensure the right balance between satisfactory liquidity and adequate commitment fees.

- Active management of the subsidiaries' cash positions and cash flows, in order to ensure that financial flows occur within the terms and conditions established, namely with regard to intercompany flows, and that impact directly on Sonae Indústria's accounts.

Liquidity risk is analysed in note 28.

3. RELEVANT EVENTS

On 31 May 2016, Arauco Internacional Limitada, a company of the Arauco Group, acquired 50% of the shares of Tableros de Fibras, SA by fully subscribing EUR 137 500 000 to a share capital increase of Sonae Indústria SGPS' subsidiary Tableros de Fibras, SA. As a consequence, ownership interest in Tableros de Fibras, SA and its subsidiaries was reduced from 100% to 50%, which turned this company and its subsidiaries into joint ventures (note 5). As such, these companies were deconsolidated on this date (note 4). Investment in Tableros de Fibras, SA, which changed its denomination to Sonae Arauco, SA, is thereafter measured using equity method.

In accordance with the provisions of IFRS 5, as a consequence of this operation, companies deconsolidated (note 4) were classified as discontinued operations: net profit or loss for the five-month period ended 31 May 2016 and net profit or loss for the twelve-month period ended 31 December 2015 were included under Net profit / (loss) from discontinued operation, after taxation, on the Consolidated Income Statement (note 43). Net profit or loss of these companies recorded after 31 May 2016 was included under Gains or losses in joint ventures, on the Consolidated Income Statement, using equity method (note 5).

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 2016, 31 May 2016 and 31 December 2015 are as follows:

	COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD						TERMS FOR INCLUSION
			31.12.2016		31.05.2016		31.12.2015		
			Direct	Total	Direct	Total	Direct	Total	
	Agepan Eiweiler Management, GmbH	Eiweiler (Germany)	-	-	100.00%	50.00%	100.00%	99.98%	b)
1), 5)	Agloma Imobiliária y Servicios, SL	Madrid (Spain)	100.00%	100.00%	100.00%	100.00%	-	-	a)
	Agloma Investimentos, SGPS, S. A.	Maia (Portugal)	-	-	100.00%	50.00%	100.00%	99.87%	b)
	Aserraderos de Cuellar, S.A.	Madrid (Spain)	-	-	100.00%	50.00%	100.00%	99.87%	b)
	BHW Beeskow Holzwerkstoffe GmbH	Meppen (Germany)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Ecociclo, Energia e Ambiente, S. A.	Maia (Portugal)	-	-	100.00%	50.00%	100.00%	100.00%	b)
	Euroresinas - Indústrias Quimicas, S.A.	Maia (Portugal)	-	-	100.00%	50.00%	100.00%	100.00%	b)
	Frases e Frações - Imobiliária e Serviços, SA	Maia (Portugal)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	a)
	GHP Glunz Holzwerkstoffproduktions GmbH	Meppen (Germany)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Glunz AG	Meppen (Germany)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Glunz Service GmbH	Meppen (Germany)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Glunz UK Holdings, Ltd.	Knowsley (United Kingdom)	100.00%	100.00%	100.00%	100.00%	100.00%	99.86%	a)
	Glunz UkA GmbH	Meppen (Germany)	100.00%	100.00%	100.00%	100.00%	100.00%	99.86%	a)
	Impaper Europe GmbH	Meppen (Germany)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Imoplamac – Gestão de Imóveis, S. A.	Maia (Portugal)	-	-	100.00%	50.00%	100.00%	100.00%	b)
	Isoroy, SAS	Nanterre (France)	100.00%	100.00%	100.00%	100.00%	100.00%	99.86%	a)
	Maiequipa - Gestão Florestal, SA	Maia (Portugal)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	a)
	Megantic B.V.	Amsterdam (The Netherlands)	100.00%	100.00%	100.00%	100.00%	100.00%	99.86%	a)
	Movelpartes - Comp. para a Indústria do Mobiliário, SA	Paredes (Portugal)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	a)
	Novodecor (Pty) Ltd	Woodmead (South Africa)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	a)
	OSB Deustchland	Germany	-	-	100.00%	50.00%	100.00%	99.86%	b)

2)	Parcelas e Narrativas - Imobiliária, SA	Maia (Portugal)	100.00%	100.00%	100.00%	100.00%	-	-	a)
	Poliface North America	Baltimore (USA)	100.00%	100.00%	100.00%	100.00%	100.00%	99.86%	a)
	Racionalización y Manufacturas Florestales, S.A.	Madrid (Spain)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Sociedade de Iniciativa e Aproveit. Florestais – Energias, S.A.	Mangualde (Portugal)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Somit – Imobiliária, S.A.	Mangualde (Portugal)	-	-	100.00%	50.00%	100.00%	99.86%	b)
1)	Sonae Arauco France	Nanterre (France)	-	-	100.00%	50.00%	-	-	b)
3)	Sonae Indústria - Management Services, S. A.	Maia (Portugal)	100.00%	100.00%	-	-	-	-	a)
	Sonae Indústria – Prod. e Comerc. Derivados Madeira, S. A.	Mangualde (Portugal)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Sonae Indústria - Soc. Gestora de Participações Sociais, SA	Maia (Portugal)	Parent	Parent	Parent	Parent	Parent	Parent	Parent
	Sonae Indústria de Revestimentos, SA	Maia (Portugal)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	a)
	Sonae Industria (UK), Limited	Knowsley (United Kingdom)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Sonae Novobord (Pty) Ltd	Woodmead (África do Sul)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Sonae Tafibra International, B. V.	Woerden (The Netherlands)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Spanboard Products Ltd	Belfast (United Kingdom)	100.00%	100.00%	100.00%	100.00%	100.00%	99.86%	a)
4)	Sonae Arauco, S.A.	Madrid (Spain)	-	-	100.00%	50.00%	98.42%	99.86%	b)
	Tableros Tradema, S.L.	Madrid (Spain)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Tafiber. Tableros de Fibras Ibéricas, S.L.	Madrid (Spain)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Tafibra South Africa, Limited	Woodmead (África do Sul)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Tafisa Canadá Inc	Lac Mégantic (Canada)	100.00%	100.00%	100.00%	100.00%	100.00%	99.86%	a)
	Tafisa France S.A.S.	Nanterre (France)	100.00%	100.00%	100.00%	100.00%	100.00%	99.86%	a)
	Tafisa U.K, Ltd.	Knowsley (United Kingdom)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Taiber, Tableros Aglomerados Ibéricos, S.L.	Madrid (Spain)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Tafibra Suisse, SA	Tavannes (Switzerland)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Tecnologias del Medio Ambiente, S.A.	Barcelona (Spain)	-	-	100.00%	50.00%	100.00%	99.86%	b)
	Tool, GmbH	Meppen (Germany)	-	-	100.00%	50.00%	100.00%	99.86%	b)

a) Majority of voting rights;

b) Company deconsolidated as a consequence of the share capital increase in Sonae Arauco, SA, on 31 May 2016 (note 3);

1) Company incorporated March 2016;

2) Company incorporated May 2016;

3) Company incorporated in October 2016;

4) Former Tableros de Fibras, SA, which was classified as a joint venture as a consequence of its share capital increase on 31 May 2016 (note 3);

5) Company sold December 2016.

Following the increase in share capital by Sonae Arauco SA (formerly denominated as Tableros de Fibras, SA) on 31 May 2016, companies identified as b) were deconsolidated as they were classified as joint ventures on that date (note 5).

Companies identified as a) were included in consolidation using the global integration method, as described on note 2.2.a).

Percentage of capital held in subsidiaries which were disposed of refer to the date these entities were deconsolidated.

5. JOINT VENTURES

The joint ventures, their head offices, percentage of share capital held on 31 December 2016 and 31 December 2015 are as follows:

	COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD				
			31.12.2016		31.12.2015		
			Direct	Total	Direct	Total	
1)	Sonae Arauco, SA	Madrid (Spain)	50.00%	50.00%	-	-	
	Agepan Eiweiler Management, GmbH	Eiweiler (Germany)	50.00%	50.00%	-	-	c)
	Agloma Investimentos, SGPS, S. A.	Maia (Portugal)	50.00%	50.00%	-	-	c)
	Aserraderos de Cuellar, S.A.	Madrid (Spain)	50.00%	50.00%	-	-	c)
	BHW Beeskow Holzwerkstoffe GmbH	Meppen (Germany)	50.00%	50.00%	-	-	c)
	Ecociclo, Energia e Ambiente, S. A.	Maia (Portugal)	50.00%	50.00%	-	-	c)
	Euroresinas - Indústrias Quimicas, S.A.	Maia (Portugal)	50.00%	50.00%	-	-	c)
	GHP Glunz Holzwerkstoffproduktions GmbH	Meppen (Germany)	50.00%	50.00%	-	-	c)
	Glunz AG	Meppen (Germany)	50.00%	50.00%	-	-	c)
	Glunz Service GmbH	Meppen (Germany)	50.00%	50.00%	-	-	c)
	Impaper Europe GmbH	Meppen (Germany)	50.00%	50.00%	-	-	c)
	Imoplamac – Gestão de Imóveis, S. A.	Maia (Portugal)	50.00%	50.00%	-	-	c)
	Laminate Park GmbH & Co. KG	Eiweiler (Germany)	25.00%	25.00%	50.00%	49.93%	d)
	OSB Deustchland	Germany	50.00%	50.00%	-	-	c)
	Racionalización y Manufacturas Florestales, S.A.	Madrid (Spain)	50.00%	50.00%	-	-	c)
	Sociedade de Iniciativa e Aproveit. Florestais – Energias, S.A.	Mangualde (Portugal)	50.00%	50.00%	-	-	c)
	Somit – Imobiliária, S.A.	Mangualde (Portugal)	50.00%	50.00%	-	-	c)
	Sonae Arauco France	Nanterre (France)	50.00%	50.00%	-	-	c)
	Sonae Indústria – Prod. e Comerc. Derivados Madeira, S. A.	Mangualde (Portugal)	50.00%	50.00%	-	-	c)
	Sonae Novobord (Pty) Ltd	Woodmead (África do Sul)	50.00%	50.00%	-	-	c)
	Sonae Tafibra International, B. V.	Woerden (The Netherlands)	50.00%	50.00%	-	-	c)
	Sonae Industria (UK), Limited	Knowsley (United Kingdom)	50.00%	50.00%	-	-	c)
	Tableros Tradema, S.L.	Madrid (Spain)	50.00%	50.00%	-	-	c)
	Tafiber. Tableros de Fibras Ibéricas, S.L.	Madrid (Spain)	50.00%	50.00%	-	-	c)
	Tafibra South Africa, Limited	Woodmead (África do Sul)	50.00%	50.00%	-	-	c)
	Tafisa U.K, Ltd.	Knowsley (United Kingdom)	50.00%	50.00%	-	-	c)
	Taiber, Tableros Aglomerados Ibéricos, S.L.	Madrid (Spain)	50.00%	50.00%	-	-	c)
	Tafibra Suisse, SA	Tavannes (Switzerland)	50.00%	50.00%	-	-	c)
	Tecnologias del Medio Ambiente, S.A.	Barcelona (Spain)	50.00%	50.00%	-	-	c)
	Tecmasa. Reciclados de Andalucia, S. L.	Alcalá de Guadaira (Spain)	50.00%	50.00%	50.00%	49.93%	d)
	Tool, GmbH	Meppen (Germany)	50.00%	50.00%	-	-	c)

c) Company included in the consolidation perimeter of Sonae Arauco, SA.
d) Company whose investment is recognized on the consolidated financial statements of Sonae Arauco, SA. using the equity method, as it is classified as a joint venture of this company.
1) Former Tableros de Fibras, SA: company whose investment is measured using equity method following its classification as a joint venture, after the increase in share capital at 31 May 2016 (note 3).

Level one fair value of investment in these companies is not available as shares representing their share capital are not listed.

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:

	31.12.2016	31.12.2015	
	Sonae Arauco - Consolidated	Laminate Park	Tecmasa, Reciclados de Andalucia
Non-current assets	516 229 548	32 015 153	197 372
Current assets (without cash and cash equivalents)	181 815 850	17 960 425	191 209
Cash and cash equivalents	29 903 996	266 798	222 043
Non-current financial liabilities	203 267 808		
Other non-current liabilities	97 286 401	3 559 203	
Current financial liabilities	21 836 327	4 347 656	
Other current liabilities	176 328 523	31 443 090	108 501

	Sonae Arauco - Consolidated			Laminate Park	Tecmasa, Reciclados de Andalucia
	31.12.2016 (a)	31.05.2016 (b)	(a) - (b)	31.12.2015	
Operating revenues	837 545 719	356 059 307	481 486 412	80 635 714	427 081
Operating expenses	788 134 826	329 806 432	458 328 394	82 102 503	398 021
Depreciation and amortization	45 988 781	18 872 798	27 115 983	5 048 658	26 491
Interest income	674 217	318 751	355 466		
Interest expense	13 807 322	7 846 417	5 960 905	856 277	
Taxation	3 189 140	3 538 028	- 348 888		8 907
Net profit/(loss) from continuing operations	20 175 245	9 150 930	11 024 315	- 3 264 027	20 117
Profit/(loss) from discontinued operations, after ta	2 471 460	2 471 460			
Adjustments to the Group's accounting policies				- 32 807	- 1 816
Group's share on net profit/(loss)			**5 512 158**	**- 1 648 417**	**9 151**

Joint ventures Laminate Park and Tecmasa Andalucia were recognized on the consolidated financial statements of Sonae Arauco, SA using equity method, after 31 May 2016.

After being classified as a joint venture, Sonae Arauco, SA (formerly denominated as Tableros de Fibras, SA) and its subsidiaries were deconsolidated as of 31 May 2016 (notes 3, 4 and 5). The investment in Sonae Arauco, SA has been accounted using the equity method as from 31 May 2016. On the date of change of the accounting method, the investment was provisionally recognized at the accounting value resulting from the deconsolidation of Sonae Arauco companies from Sonae Indústria’s consolidated accounts, which was estimated at EUR 147 304 255. From 1 June 2016, this investment value changed due to the recognition of the Company’s share of the following: consolidated net profit of Sonae Arauco, SA; consolidated other comprehensive income for the period; and changes in the remainder of consolidated net shareholders’ funds of Sonae Arauco, SA, after being adjusted to comply with the accounting policies of Sonae Indústria and to eliminate the Company's share in gains or losses on transactions between both consolidation perimeters.

During the second half of 2016, Sonae Indústria, SGPS, SA considered it appropriate to promote an independent valuation of its investment in Sonae Arauco, SA in order to determine its fair value as of 31 May 2016 as the value agreed for the transaction, amounting to EUR 137 500 000, was not considered to reflect its fair value. The Group's previous performance (eight consecutive years of negative results) and its high indebtedness did not allow the value of Sonae Arauco, S. A. to be fully reflected in the agreed price. In 2016, the new prospects and the new financial and balance sheet situation that resulted from the creation of the joint venture determined, in the company's understanding, that the transaction value did not represent a proxy for the fair value of Sonae Arauco, S. A.. This perception was confirmed by an external independent valuation that determined a fair value of this joint venture with a value above the previously determined value for the transaction.

Fair value of the investment in Sonae Arauco, S. A., which was estimated to amount to EUR 185 981 068 with reference to 31 May 2016, was recognized at 31 December 2016, reflecting a gain of EUR 38 676 813 which corresponds to the difference between the aforementioned accounting value and the estimated fair value. This fair value was estimated based on these assumptions:

	Cash generating units			
	Iberian Peninsula	**Germany**	**South Africa**	**Euroresinas, SA**
Discount rate (pre-tax)	9.40%	8.00%	14.00%	9.40%
Growth rate on perpetuity	2.00%	2.00%	5.50%	2.00%
Growth rate (CAGR 2016 - 2020):				
Total net income	2.20%	2.80%	5.10%	3.00%
Cost of goods sold and materials consumed	2.90%	3.50%	6.50%	3.00%
EBITDA	-0.60%	0.30%	0.10%	4.50%

CAGR - Compound Average Growth Rate.

Due to positive results and positive other comprehensive income posted by Sonae Arauco, from 1 June 2016, at 31 December 2016 the investment in Sonae Arauco stood at EUR 195 908 535.

At 31 May 2016, deconsolidation of Sonae Arauco, S. A. and its subsidiaries had the following effect on the Consolidated Statement of Financial position:

	31.05.2016
	Sonae Indústria - Consolidated
Changes to consolidation perimeter:	
Non-current assets	- 589 149 477
Current assets (without cash and cash equivalents)	- 193 447 768
Cash and cash equivalents	- 13 648 414
Non-current financial liabilities	- 369 836 799
Other non-current liabilities	- 88 148 871
Current financial liabilities	- 14 743 205
Other current liabilities	- 176 212 529

At 31 December 2016, net assets of joint venture Sonae Arauco, S. A. still had not been adjusted for their fair value, for the purpose of equity method use. These effects will be identified until 31 May 2017.

6. INVESTMENTS IN ASSOCIATED COMPANIES

Associated companies, their head offices and the percentage of share capital held as at 31 December 2016 and 31 December 2015 are as follows:

COMPANY	HEAD OFFICE	PERCENTAGE OF CAPITAL HELD			
		31.12.2016		31.12.2015	
		Direct	Total	Direct	Total
Serradora Boix, SL	Barcelona (Spain)	-	-	31.25%	31.21%

Serradora Boix, S. L. is an associate company of Sonae Arauco, S. A. (former Tableros de Fibras, S. A.) whose investment was excluded from these consolidated financial statements following the exclusion of its holding company, as referred to on note 4.

On the consolidated financial statements for the period ended 31 December 2015, investment in this associate was recognized using the equity method, as disclosed on note 2.2.b).

The statement of financial position and the income statement of this associate which were used for equity method purposes in the period ended 31 December 2015 are detailed as follows:

	31.12.2015
Non-current assets	6 788 575
Current assets	7 314 753
Non-current liabilities	3 101 405
Current liabilities	5 868 129
Operating revenues	19 706 691
Operating expenses	18 673 820
Net profit/(loss) from continuing operations	1 032 871
Adjustments to the Group's accounting policies	-
Group's share on net profit/(loss)	246 384

Assets, liabilities and results stated on this table refer to the annual financial statements of this associate for the period preceding 31 December 2015. The effects of this time difference are not significant.

7. COMPARABILITY OF THE CONSOLIDATED FINANCIAL STATEMENTS

The comparability of the Consolidation Statement of Financial Position at 31 December 2016 and 31 December 2015 was affected by loss of control on companies mentioned on note 5 as follows:

ASSETS	31.12.2016	31.12.2015 Consolidation perimeter as at 31.12.2016	31.12.2015 Effect of changes in perimeter	31.12.2015
NON CURRENT ASSETS:				
Tangible fixed assets	148 065 694	159 486 497	- 469 293 231	628 779 728
Goodwill	347 082	347 081	- 80 536 951	80 884 032
Intangible assets	270 689	492 840	- 3 710 188	4 203 028
Investment properties	6 251 947		- 6 450 977	6 450 977
Investment in associates			- 1 493 139	1 493 139
Investment in joint ventures	195 908 535		- 5 695 259	5 695 259
Investment available for sale	130 821	127 122	- 1 028 591	1 155 713
Deferred tax asset	1 364 497	3 006 427	- 25 351 707	28 358 134
Other non current assets	442 298	459 938	- 344 332	804 270
Total non current assets	352 781 563	n/a	n/a	757 824 280
CURRENT ASSETS:				
Inventories	18 138 293	17 663 876	- 80 343 697	98 007 573
Trade debtors	15 193 129	13 247 716	- 71 805 293	85 053 009
Other current debtors	303 310	330 703	- 12 871 313	13 202 016
Current tax asset	1 090 204	2 021 731	- 778 038	2 799 769
Other taxes and contributions	3 246 215	1 737 318	- 3 073 977	4 811 295
Other current assets	1 951 835	3 070 477	- 7 336 179	10 406 656
Cash and cash equivalents	4 795 077	5 204 569	- 23 719 901	28 924 470
Total current assets	44 718 063	n/a	n/a	243 204 788
Non-current assets held for sale	1 535 588	1 535 588		1 535 588
TOTAL ASSETS	399 035 214	n/a	n/a	1 002 564 656

NET SHAREHOLDERS' FUNDS AND LIABILITIES				
TOTAL SHAREHOLDERS`FUNDS	110 338 155	n/a	n/a	57 669 892
LIABILITIES:				
NON CURRENT LIABILITIES:				
Bank loans - net of current portion	214 868 703	36 362 363	- 17 051 503	53 413 866
Finance lease creditors - net of current portion	1 132 741	1 544 674	- 15 204 920	16 749 594
Other loans			- 1 325 632	1 325 632
Post-retirement liabilities	1 110 071	899 293	- 25 679 339	26 578 632
Other non current liabilities	3 554 341	3 860 910	- 29 728 932	33 589 842
Deferred tax liability	20 754 938	21 466 844	- 33 960 652	55 427 496
Provisions	1 933 644	2 400 067	- 6 955 350	9 355 417
Total non current liabilities	243 354 438	n/a	n/a	196 440 479
CURRENT LIABILITIES:				
Current portion of non-current bank loans	390 967	110 681 020	- 68 025 738	178 706 758
Current bank loans	1 500 000	109 089 651	- 44 506 614	153 596 265
Current portion of non-current non-convertible bonds		147 987 525		147 987 525
Current portion of non-current finance lease creditors	417 272	393 960	- 5 275 073	5 669 033
Other loans		18 930	- 41 600 257	41 619 187
Trade creditors	23 050 212	21 520 943	- 117 065 405	138 586 348
Current tax liability	2 422 190	1 330 790	- 177 463	1 508 253
Other taxes and contributions	699 465	951 596	- 6 066 899	7 018 495
Other current liabilities	16 862 520	12 673 144	- 59 933 815	72 606 959
Provisions			- 1 155 462	1 155 462
Total current liabilities	45 342 621	n/a	n/a	748 454 285
LIABILITIES TOTAL	399 035 214	n/a	n/a	1 002 564 656

n/a – not applicable.

The Consolidated Statement of Financial Position at 31 December 2015 on the basis of the consolidation perimeter as at 31 December 2016 did not include any deconsolidation adjustments regarding the companies that stopped being consolidated under the full consolidation method as of 31 May 2016 (note 5).

8. FINANCIAL INSTRUMENTS

In the Consolidated Statements of Financial Position at 31 December 2016 and 31 December 2015, the following financial instruments are included:

31.12.2016	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale assets	Sub-total	Assets out of scope of IFRS 7	Total
Non current assets						
Available for sale investments			130 821	130 821		130 821
Other non current assets	442 298			442 298		442 298
Current assets						
Customers	15 193 129			15 193 129		15 193 129
Other current debtors	209 171			209 171	94 139	303 310
Other current assets					1 951 835	1 951 835
Cash and cash equivalents	4 795 077			4 795 077		4 795 077
Total	20 639 675		130 821	20 770 496	2 045 974	22 816 470

31.12.2015	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale assets	Sub-total	Assets out of scope of IFRS 7	Total
Non current assets						
Available for sale investments			1 155 713	1 155 713		1 155 713
Other non current assets	804 270			804 270		804 270
Current assets						
Customers	85 053 009			85 053 009		85 053 009
Other current debtors	11 961 779			11 961 779	1 240 237	13 202 016
Other current assets		491 159		491 159	9 915 497	10 406 656
Cash and cash equivalents	28 924 470			28 924 470		28 924 470
Total	126 743 528	491 159	1 155 713	128 390 400	11 155 734	139 546 134

31.12.2016	Liabilities at fair value through profit or loss	Liabilities at amortized cost	Sub-total	Liabilities out of scope of IFRS 7	Total
Non current liabilities					
Bank loans - net of current portion		214 868 703	214 868 703		214 868 703
Finance lease creditors - net of current portion		1 132 741	1 132 741		1 132 741
Other non current liabilities		2 000 000	2 000 000	1 554 341	3 554 341
Current liabilities					
Bank loans		1 890 967	1 890 967		1 890 967
Finance lease creditors		417 272	417 272		417 272
Trade creditors		23 050 212	23 050 212		23 050 212
Other current liabilities	431 254	3 673 936	4 105 190	12 757 325	16 862 515
Total	431 254	247 033 831	247 465 085	14 311 666	261 776 751

31.12.2015	Liabilities at fair value through profit or loss	Liabilities at amortized cost	Sub-total	Liabilities out of scope of IFRS 7	Total
Non current liabilities					
Bank loans - net of current portion		53 413 866	53 413 866		53 413 866
Finance lease creditors - net of current portion		16 749 594	16 749 594		16 749 594
Other loans		1 325 632	1 325 632		1 325 632
Other non current liabilities		8 471 304	8 471 304	25 118 538	33 589 842
Current liabilities					
Bank loans		332 303 023	332 303 023		332 303 023
Debentures		147 987 525	147 987 525		147 987 525
Finance lease creditors		5 669 033	5 669 033		5 669 033
Other loans		41 619 187	41 619 187		41 619 187
Trade creditors		138 586 348	138 586 348		138 586 348
Other current liabilities	41 908	14 460 243	14 502 151	58 104 808	72 606 959
Total	41 908	760 585 755	760 627 663	83 223 346	843 851 009

Assets and liabilities out of the scope of IFRS 7 consist essentially of accounts receivable from and payable to the State and the Group's employees and items of accruals and deferrals.

There are no financial assets offset against financial liabilities.

9. FAIR VALUE

Use of fair value in the preparation of these consolidated financial statements may be summarized as follows:

9.1. Financial assets and liabilities

	Financial assets					
	Measured at fair value		Not measured at fair value		Total	Description of used valuation techniques
	Level of fair value	Amount	Fair value quantified	Fair value not quantified*		
31.12.2016						
Non current assets						
Available for sale investments	**1**	130 821			130 821	note 10
Other non current assets	**-**			442 298	442 298	-
Current assets						
Customers	**-**			15 193 129	15 193 129	-
Other current debtors	**-**			209 171	209 171	-
Cash and cash equivalents	**-**			4 795 077	4 795 077	-
Total		130 821		20 639 675	20 770 496	
31.12.2015						
Non current assets						
Available for sale investments	**1**	818 462		337 251	1 155 713	note 10
Other non current assets	**-**			804 270	804 270	-
Current assets						
Customers	**-**			85 053 009	85 053 009	-
Other current debtors	**-**			11 961 779	11 961 779	-
Other current assets	**2**	491 159			491 159	note 21, 27
Cash and cash equivalents	**-**			28 924 470	28 924 470	-
		1 309 621		127 080 779	128 390 400	

* as it is estimated to not materially differ from carrying amount.

	Financial liabilities					
	Measured at fair value		Not measured at fair value		Total	Description of used valuation techniques
	Level of fair value	Amount	Fair value quantified	Fair value not quantified*		
31.12.2016						
Non current liabilities						
Bank loans - net of current portion	**-**			214 868 703	214 868 703	-
Debentures - net of currentportion	**-**					-
Finance lease creditors - net of current portion	**2**		1 132 741		1 132 741	note 26
Other non current liabilities	**-**			2 000 000	2 000 000	-
Current liabilities						
Bank loans	**-**			1 890 967	1 890 967	-
Finance lease creditors	**2**		417 272		417 272	note 26
Trade creditors	**-**			23 050 212	23 050 212	-
Other current liabilities	**2**	431 254		3 673 936	4 105 190	note 27, 33
Total		431 254	1 550 013	245 483 818	247 465 085	
31.12.2015						
Non current liabilities						
Bank loans - net of current portion	**-**			53 413 866	53 413 866	-
Finance lease creditors - net of current portion	**2**		15 204 920	1 544 674	16 749 594	note 26
Other loans	**-**			1 325 632	1 325 632	-
Other non current liabilities	**-**			8 471 304	8 471 304	-
Current liabilities						
Bank loans	**-**			332 303 023	332 303 023	-
Debentures	**-**			147 987 525	147 987 525	-
Finance lease creditors	**2**		4 024 048	1 644 985	5 669 033	note 26
Other loans	**-**			41 619 187	41 619 187	-
Trade creditors	**-**			138 586 348	138 586 348	-
Other current liabilities	**2**	41 908		14 460 243	14 502 151	note 27, 33
Total		41 908	19 228 968	741 356 787	760 627 663	

* as it is estimated to not materially differ from carrying amount.

9.2. Investment properties

Investment properties are recognized at cost as referred to on note 2.6. Their fair value is disclosed on note 13.

9.3. Tangible fixed assets

Land and buildings are recognized for their revalued amounts, which was determined as at 31.12.2013. 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 not significantly different from its cost.

9.4. Non-current assets held for sale

These assets are valued at fair value less estimated costs to sell, as described on notes 2.7, 17 and 34.

Fair value hierarchy is described on note 2.26.

10. INVESTMENTS

At 31 December 2016 and 31 December 2015 details of Investments are as follows:

	31.12.2016 Non current	31.12.2015 Non current
Investment in group companies excluded from consolidation		
Opening balance	36 969 914	36 969 914
Liquidation		
Closing balance	36 969 914	36 969 914
Accumulated impairment losses (Note 34)	36 969 914	36 969 914
Net investment in group companies excluded from consolidation		

	31.12.2016 Non current	31.12.2015 Non current
Investment in joint ventures		
Opening balance	5 695 259	7 326 715
Effect of change in perimeter (note 4)	-5 695 259	
Effect of equity method (note 5)	195 908 535	-1631456
Closing balance	195 908 535	5 695 259

	31.12.2016 Non current	31.12.2015 Non current
Investment in associated companies		
Opening balance	1 493 139	1 354 074
Effect of change in perimeter (note 4)	-1 493 139	
Effect of equity method (note 6)		139 065
Closing balance		1 493 139

	31.12.2016 Non current	31.12.2015 Non current
Available-for-sale investment		
Opening balance	1 171 674	1 144 569
Acquisition	5 042	18 579
Effect of change in perimeter (note 4)	-1 050 414	
Change in fair value	8 508	8 526
Closing balance	134 810	1 171 674
Accumulated impairment losses (Note 34)	3 989	15 961
Net available-for-sale investment	130 821	1 155 713

The amount included under Investment in group companies excluded from consolidation refers to the former subsidiary Tarnaise des Panneaux, held indirectly by Sonae Industria, SGPS, SA for 100% of its share capital. In 2001, this company filed for bankruptcy, which is still pending conclusion. Consequently control was lost and the company has been excluded from consolidation. The Consolidated Statement of Financial Position includes an impairment loss for the full amount of the investment.

Available-for-sale investment consists of financial undertakings which do not fulfil the criteria to be stated as investment in subsidiaries or associates. They are recognized at cost as no relevant difference to their fair value is estimated.

11. TANGIBLE ASSETS

In 2016 and 2015, movements in tangible assets, accumulated depreciation and impairment losses were as follows:

	31.12.2016							
	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	646 791 354	1 370 041 227	10 931 046	13 196 327	26 896 730	10 287 939	21 556 726	2 099 701 349
Changes in consolidation perimeter	- 545 967 605	-1 084 104 786	- 8 457 368	- 12 973 716	- 22 926 895	- 9 512 382	- 12 933 945	-1 696 876 697
Capital expenditure	149 455						13 319 373	13 468 828
Disposals	16 128 393	44 896 995	472 880	108 958	649 981	721 067		62 978 274
Transfers and reclassifications	1 632 069	14 330 704	469 620	14 704	169 205	162 105	- 18 391 798	- 1 613 391
Exchange rate effect	4 830 922	16 865 611	142 173	15 278	132 645	1 628	421 127	22 409 384
Closing balance	91 307 802	272 235 761	2 612 591	143 635	3 621 704	218 223	3 971 483	374 111 199
Accumulated depreciation and impairment losses								
Opening balance	377 423 482	1 034 831 385	10 313 762	12 541 503	25 818 573	9 218 418	774 498	1 470 921 621
Changes in consolidation perimeter	- 339 676 366	- 839 839 024	- 7 912 407	- 12 402 841	- 22 092 857	- 8 456 307	- 774 498	-1 231 154 300
Depreciations for the period	5 870 079	24 713 179	198 250	96 203	201 901	172 910		31 252 522
Impairment losses for the period - through profit or loss	3 478 160	550 325						4 028 485
Disposals	15 464 338	44 567 245	471 939	108 958	647 894	720 884		61 981 258
Transfers and reclassifications						- 7 874		- 7 874
Exchange rate effect	1 665 765	11 063 955	123 495	15 203	117 964	- 73		12 986 309
Closing balance	33 296 782	186 752 575	2 251 161	141 110	3 397 687	206 190		226 045 505
Carrying amount	58 011 020	85 483 186	361 430	2 525	224 017	12 033	3 971 483	148 065 694

	31.12.2015							
	Land and Buildings	Plant and Machinery	Vehicles	Tools	Fixtures and Fittings	Other Tangible Fixed Assets	Other Tangible Fixed Assets	Total tangible fixed assets
Gross cost:								
Opening balance	694 614 035	1 377 116 456	11 741 816	13 314 019	27 941 909	9 895 357	42 172 525	2 176 796 117
Capital expenditure		184 458		4 009			21 163 523	21 351 990
Disposals	1 957 603	6 953 789	744 358	67 224	3 936 000	152 593	3 286 943	17 098 510
Reclassifications as investment properties	- 37 123 738							- 37 123 738
Transfers and reclassifications	1 396 592	28 516 269	122 414	49 006	3 118 781	560 525	- 37 769 141	- 4 005 554
Exchange rate effect	- 10 137 932	- 28 822 167	- 188 826	- 103 483	- 227 960	- 15 350	- 723 238	- 40 218 956
Closing balance	646 791 354	1 370 041 227	10 931 046	13 196 327	26 896 730	10 287 939	21 556 726	2 099 701 349
Accumulated depreciation and impairment losses								
Opening balance	399 512 236	1 016 219 363	10 764 186	12 437 562	26 599 883	8 868 508	2 304 958	1 476 706 696
Depreciations for the period	11 295 161	48 901 305	456 370	262 521	414 069	368 453		61 697 879
Impairment losses for the period - through profit or loss	31 265	79 979					36	111 280
Disposals	226 069	6 238 087	726 747	62 928	3 936 185	144 444	1 530 496	12 864 956
Reclassifications as investment properties	- 30 134 419							- 30 134 419
Transfers and reclassifications		- 6 367 613	- 12 770	7 174	2 937 329	128 873		- 3 307 007
Exchange rate effect	- 3 054 692	- 17 763 562	- 167 277	- 102 826	- 196 523	- 2 972		- 21 287 852
Closing balance	377 423 482	1 034 831 385	10 313 762	12 541 503	25 818 573	9 218 418	774 498	1 470 921 621
Carrying amount	269 367 872	335 209 842	617 284	654 824	1 078 157	1 069 521	20 782 228	628 779 728

Changes in consolidation perimeter disclosed for the period ended 31 December 2016 refer to the tangible fixed assets and related accumulated depreciation and impairment losses of subsidiaries over which control was lost, at 31 May 2016 (notes 3 and 4).

In 2015, transfer and reclassifications include mainly tangible fixed assets reclassified as Non-current assets held for sale (nota 17).

Exchange rate effect results mainly from the translation into euro of tangible fixed assets of subsidiaries whose functional currency is the Canadian Dollar (CAD) (in the period ended 31 December 2015, Canadian Dollar (CAD) and South African Rand (ZAR).

During 2015 and 2014 no interest paid or any other financial charges were capitalized, in accordance with conditions defined on note 2.10.

At 31 December 2016, mortgaged Property, plant and equipment amounted to EUR 133 392 714 (EUR 299 596 935 at 31 December 2015) as collateral for loans amounting to EUR 39 578 123 (EUR 125 910 591 at 31 December 2015).

On the same date, there were no commitments to the acquisition of tangible fixed assets.

At 31 December 2016 and 2015 details of tangible fixed assets used by the Group under financial leases were as follows:

	31.12.2016						31.12.2015
	Opening balance	Changes in consolidation perimeter	Increases	Disposals	Other changes	Closing balance	Closing balance
Gross cost:							
Land and Buildings	27 240 330				- 22 118 877	5 121 453	27 240 330
Plant and Machinery	40 743 110	- 40 542 726			13 106	213 490	40 743 110
Vehicles	1 350 177			82 391	38 389	1 306 175	1 350 177
Fixtures and Fittings	313 751			6 063	20 326	328 014	313 751
Closing balance	69 647 368	- 40 542 726		88 454	- 22 047 056	6 969 132	69 647 368
Accumulated depreciation and impairment losses							
Land and Buildings	5 195 554		230 378		- 4 871 230	554 702	5 195 554
Plant and Machinery	26 590 337	- 27 727 497	1 178 822		2 269	43 931	26 590 337
Vehicles	1 315 898		35 377	82 391	37 291	1 306 175	1 315 898
Fixtures and Fittings	302 909		3 476	4 435	19 782	321 732	302 909
Closing balance	33 404 698	- 27 727 497	1 448 053	86 826	- 4 811 888	2 226 540	33 404 698
Carrying amount	36 242 670	- 12 815 229	- 1 448 053	1 628	- 17 235 168	4 742 592	36 242 670

Other changes relate to assets which were reclassified as own tangible fixed assets after being acquired.

Minimum payments of finance lease are stated in note 26.4.

12. INTANGIBLE ASSETS

During 2016 and 2015, movements in intangible assets, accumulated amortization and impairment losses were as follows:

31.12.2016

	Development Costs	Patents, Royalties And Other Rights	Software		Other Intangible Assets		Assets Under Development	Total intangible assets		Total
	Non internally generated	Non internally generated	Internally generated	Non internally generated	Internally generated	Non internally generated	Non internally generated	Internally generated	Non internally generated	
Gross cost:										
Opening balance	184 848	3 771 845	14 547 305	3 225 963	63 454	2 617 771	823 418	14 610 759	10 623 845	25 234 604
Changes in consolidation perimeter	- 106 423	- 4 188 115	- 12 987 840	- 3 143 141	- 63 454	- 2 331 407	- 439 663	- 13 051 294	- 10 208 749	- 23 260 043
Capital expenditure						741 705	306 089		1 047 794	1 047 794
Disposals	37 932	160 502							198 434	198 434
Transfers and reclassifications		655 455		36 332		- 1 028 069	- 689 844		- 1 026 126	- 1 026 126
Exchange rate effect		10 831	269 091	669				269 091	11 500	280 591
Closing balance	40 493	89 514	1 828 556	119 823				1 828 556	249 830	2 078 386
Accumulated depreciation and impairment losses										
Opening balance	184 848	3 288 639	13 289 422	2 552 490	63 454	1 652 723		13 352 876	7 678 700	21 031 576
Changes in consolidation perimeter	- 106 423	- 3 151 659	- 12 290 302	- 2 506 444	- 63 454	- 1 505 275		- 12 353 756	- 7 269 801	- 19 623 557
Amortization for the period		82 377	337 580	73 571		58 813		337 580	214 761	552 341
Disposals	37 932	160 502							198 434	198 434
Reversion of impairment losses for the						24 028			24 028	24 028
Transfers and reclassifications						- 182 233			- 182 233	- 182 233
Exchange rate effect		4 184	247 642	206				247 642	4 390	252 032
Closing balance	40 493	63 039	1 584 342	119 823				1 584 342	223 355	1 807 697
Carrying amount		26 475	244 214					244 214	26 475	270 689

31.12.2015

	Development Costs	Patents, Royalties And Other Rights	Software		Other Intangible Assets		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	Internally generated	Non internally generated	
Gross cost:											
Opening balance	184 848	3 520 925	15 529 611	2 619 273	63 454	5 412 187		1 380 615	15 593 065	13 117 848	28 710 913
Capital expenditure						1 649 684	5 413	740 632	5 413	2 390 316	2 395 729
Disposals		34 666	1 071 034	14 377		3 578 859			1 071 034	3 627 902	4 698 936
Transfers and reclassifications		298 453	407 532	621 872		- 865 241	- 5 413	- 1 297 829	402 119	- 1 242 745	- 840 626
Exchange rate effect		- 12 867	- 318 804	- 805					- 318 804	- 13 672	- 332 476
Closing balance	184 848	3 771 845	14 547 305	3 225 963	63 454	2 617 771		823 418	14 610 759	10 623 845	25 234 604
Accumulated depreciation and impairment losses											
Opening balance	162 110	3 150 027	14 050 169	2 308 918	63 454	1 168 302			14 113 623	6 789 357	20 902 980
Amortization for the period	22 738	142 726	573 084	258 119		141 150			573 084	564 733	1 137 817
Impairment losses for the period						343 271				343 271	343 271
Disposals			1 048 692	14 377					1 048 692	14 377	1 063 069
Transfers and reclassifications											
Exchange rate effect		- 4 114	- 285 139	- 170					- 285 139	- 4 284	- 289 423
Closing balance	184 848	3 288 639	13 289 422	2 552 490	63 454	1 652 723			13 352 876	7 678 700	21 031 576
Carrying amount		483 206	1 257 883	673 473		965 048		823 418	1 257 883	2 945 145	4 203 028

Changes in consolidation perimeter disclosed for the period ended 31 December 2016 refer to the intangible assets and related accumulated amortisation and impairment losses of subsidiaries over which control was lost, at 31 May 2016 (notes 3 and 4).

13. INVESTMENT PROPERTIES

During 2016 and 2015 movements in investment properties, accumulated depreciation and impairment losses were as follows:

	31.12.2016		31.12.2015	
	Cost	Total	Cost	Total
Gross cost:				
Opening balance	37 123 738	37 123 738	1 667 281	1 667 281
Increase	131 191	131 191		
Disposals			1 667 281	1 667 281
Reclassifications			37 123 738	37 123 738
Closing balance	37 254 929	37 254 929	37 123 738	37 123 738
Accumulated depreciations and impairment losses:				
Opening balance	30 672 761	30 672 761	442 583	442 583
Charge for the period	330 221	330 221	553 094	553 094
Disposals			457 335	457 335
Reclassifications			30 134 419	30 134 419
Closing balance	31 002 982	31 002 982	30 672 761	30 672 761
Carrying amount	6 251 947	6 251 947	6 450 977	6 450 977

	31.12.2016	31.12.2015
Rents from investment properties	216 344	250 000
Direct operating costs	171 891	14 731

At the closing date of these consolidated financial statements, Investment properties included the land and the buildings of Betanzos industrial plant, in Spain, which were leased after this plant was closed down, having been reclassified as investment properties during the period ended 31 December 2015. These assets are recognized for their cost. Fair value was determined at 31 December 2015 through independent appraisal and amounted to EUR 6.6 million (level two fair value). Fair value of the land was determined through extraction method, and fair value of the buildings was determined through sales comparison method. At 31 December 2016, Sonae Indústria estimated that fair value had not significantly changed.

14. GOODWILL ARISING ON CONSOLIDATION

During 2016 and 2015, movements in goodwill arising on consolidation were as follows:

	31.12.2016	31.12.2015
Gross value:		
Opening balance	82 584 032	83 796 717
Changes to consolidation perimeter	82 026 263	
Currency translation	- 210 687	-1 212 685
Closing balance	347 082	82 584 032
Accumulated impairment losses:		
Opening balance	1 700 000	1 700 000
Changes to consolidation perimeter	1 700 000	
Closing balance		1 700 000
Carrying amount	347 082	80 884 032

Changes to consolidation perimeter comprise goodwill arising on the consolidation of companies on which control was lost at 31 May 2016 (notes 3 and 4). As disclosed on these notes, since that date investment in Sonae Arauco, S. A. (former Tableros de Fibras, S. A.) has been measure using equity method, which requires any existing goodwill to be included in the carrying amount of Investments in joint ventures, on the Consolidated Statement of Financial Position (note 2.2.b).

At 31 December 2015, the Group carried out impairment tests on the carrying amount of Goodwill stated on the Consolidated Statement of Financial Position, along with sensitivity testing. These tests did not show any impairment, nor did they allow to foresee any possibility of future impairment on the remaining Goodwill at 31 December 2016, which is not relevant.

14.1. Impairment tests

Impairment tests to Goodwill carried out at 31 December 2015 mainly consisted in determining the recoverable amount of each cash-generating unit using the discounted cash flow method. In some cases, fair value less estimated costs to sell of specific assets was determined by independent appraisal.

Goodwill was allocated through cash-generating units, which were aggregated according to synergies generated by the respective business combinations.

Recoverable amounts are compared to the net assets of each cash-generating unit, including allocated goodwill and impairment losses detailed on note 34.

Calculation of recoverable amounts consisted in projecting operating cash flows over an eight-year period, thereafter extrapolated using perpetuity and discounted to 31 December 2016. Weighted Average Cost of Capital, before tax, calculated using CAPM (Capital Asset Pricing Model) methodology for each cash-generating unit, was used as discount rate. These rates include specific market features and include different risk factors as well as risk-free interest rates of ten-year German government bonds, to which a spread is added for each country where cash-generating units belong.

The use of an eight-year period for projecting cash flows has taken into consideration the extension and intensity of economic cycles to which the Group's activity is subject to.

Projected cash flows are based on the Group's business plan and are updated annually so as to include changes in the economic outlook of each market where the Group is conducting business.

31.12.2015

	Cash generating units		
	Iberian Peninsula	**Germany**	**South Africa**
Goodwill	71 460 679	3 588 414	5 834 939
Discount rate (pre-tax)	9.19%	7.68%	18.13%
Growth rate on perpetuity	1.00%	1.00%	1.00%
Growth rate (CAGR 2015 - 2023):			
Total net income	1.35%	1.27%	2.68%
Cost of goods sold and materials consumed	1.25%	1.32%	2.57%
Fixed costs	0.76%	0.61%	2.53%
Cash flows projected over	8-year period	8-year period	8-year period
Testing conslusions	No impairment	No impairment	No impairment

CAGR - Compound Average Growth Rate.

These impairment tests did not show any impairment loss to be recognized under Goodwill, at 31 December 2015.

14.2. Sensitivity tests

The Group carried out a sensitivity analysis to the recoverable amount of cash-generating units, which consisted in testing the sensitivity of recoverable amount to reasonable changes in key assumptions that most affect the present value of discounted cash flows.

Sensitivity test carried out on Iberian Peninsula cash-generating unit, whose goodwill accounted for 88% of goodwill recognized on the Consolidated Statement of Financial Position at 31 December 2015, is detailed as follows:

	Cash Generating Unit Iberian Peninsula (1)	Increase in WACC by 1.0 p.p. (2)	Annual increase in turnover by 1.0% (3)	Reduction in EBITDA/Turnover magin by 0.45 p.p. (4)	Annual increase in investment in tangible fixed assets by EUR 2 000 000 (5)
Weighted average cost of capital rate (WACC)	9.19%	10.19%	9.19%	9.19%	9.19%
Turnover CAGR [2015 ; Perpetuity] (6)	1.38%	1.38%	1.00%	1.38%	1.38%
Average EBITA/Turnover margin [2015 ; Perpetuity]	8.95%	8.95%	8.95%	8.50%	8.95%
Average investment in tangible fixed assets [2015 - perpetuity]	6 960 550	6 960 550	6 960 550	6 960 550	8 630 550
Present value of discounted cash flows	**251 731 446**	**227 757 276**	**232 355 045**	**230 557 618**	**235 115 100**
Fair value less estimated costs to sell (7)	**3 498 000**	**3 498 000**	**3 498 000**	**3 498 000**	**3 498 000**
Total recoverable amount	**255 229 446**	**231 255 276**	**235 853 045**	**234 055 618**	**238 613 100**
Conclusions of sensitivity analysis	**No impairment**	**No impairment**	**No impairment**	**No impairment**	**No impairment**

(1) Figures included in impairment test carried out on cash-generating unit Iberian Peninsula as at 31.12.2015 (reference table);

(2) Increase in weighted average cost of capital by 1 p. p. compared to reference table, *ceteris paribus*;

(3) A compound average growth rate of turnover of 1.00% was used instead of 1.38% that was used in reference table, *ceteris paribus*;

(4) An average EBITDA/Turnover margin of 8.5% was used instead of 8.95% that was used in reference table, *ceteris paribus*;

(5) Average annual investment in tangible fixed assets used in reference table was added up by EUR 2 000 000 each year, *ceteris paribus*;

(6) Compound average growth rate;

(7) Tangible fixed assets whose fair value less estimated costs to sell were determined by independent appraisal.

No impairment was identified as a result of this sensitivity test on Iberian Peninsula cash-generating unit.

Sensitivity test on South Africa cash-generating unit, whose goodwill accounted for 7.2% of goodwill recognized on the Consolidated Statement of Financial Position at 31 December 2015, is detailed as follows:

	Cash Generating Unit South Africa (1)	Increase in WACC by 1.0 p.p. (2)	Annual increase in turnover by 2.5% (3)	Reduction in EBITDA/Turnover magin by 0.45 p.p. (4)	Annual increase in investment in tangible fixed assets by EUR 1 000 000 (5)
Weighted average cost of capital rate (WACC)	18.13%	19.13%	18.13%	18.13%	18.13%
Turnover CAGR [2015 ; Perpetuity] (6)	2.68%	2.68%	2.50%	2.68%	2.68%
Average EBITA/Turnover margin [2015 ; Perpetuity]	14.56%	14.56%	14.56%	14.11%	14.56%
Average investment on tangible fixed assets [2015 - perpetuity]	2 549 063	2 549 063	2 549 063	2 549 063	3 384 063
Present value of discounted cash flows	**67 484 864**	**64 168 078**	**60 837 141**	**64 477 577**	**62 049 974**
Conclusions of sensitivity analysis	**No impairment**	**No impairment**	**No impairment**	**No impairment**	**No impairment**

(1) Figures included in impairment test carried out on cash-generating unit South Africa as at 31.12.2015 (reference table);

(2) Increase in weighted average cost of capital by 1 p. p. compared to reference table, *ceteris paribus*;

(3) A compound average growth rate of turnover of 2.50% was used instead of 2.68% that was used in reference table, *ceteris paribus*;

(4) An average EBITDA/Turnover margin of 14.11% was used instead of 14.56% that was used in reference table, *ceteris paribus*;

(5) Average annual investment in tangible fixed assets used in reference table was added up by EUR 1 000 000 each year, *ceteris paribus*;

(6) Compound average growth rate;

No impairment was identified as a result of this sensitivity test on generating unit South Africa.

Sensitivity test on Germany cash-generating unit, whose goodwill accounted for 4.4% of goodwill recognized on the Consolidated Statement of Financial Position, at 31 December 2015, used the same methodology and inputs that were used on the test carried out on Iberian Peninsula cash-generating unit. No impairment was identified as a result of this sensitivity test.

15. DEFERRED TAXES

At 31 December 2016 and 31 December 2015, deferred tax assets and liabilities were detailed according to underlying temporary differences as follows:

	Deferred Tax Assets		Deferred Tax Liabilities	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Harmonisation Adjustments			19 775 606	38 104 229
Provisions not Allowed for Tax Purposes	15 837	997 568		
Impairment of Assets	1 057 012	1 233 414		
Tax Losses Carried Forward	68 295	17 857 583		
Defined benefit plans		2 262 330		
Derecognized Tangible Fixed Assets		36 378		
Revaluation of Tangible Fixed Assets			977 511	14 655 358
Other Temporary Differences	223 353	5 970 861	1 821	2 667 909
	1 364 497	28 358 134	20 754 938	55 427 496

	Deferred tax assets		Deferred tax liabilities	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Opening balance	28 358 134	27 754 742	55 427 496	63 291 251
Effect on profit or loss of continuing operation:				
Changes in temporary differences affecting profit or loss:				
Harmonisation adjusments			- 1 990 643	- 2 345 769
Provisions not allowed for tax purposes	- 5 166	- 24 701		
Impairment of Assets	780 052	23 617		
Revaluation of tangible assets			- 13 373	24 971
Tax losses carried forward	- 1 511 727	- 1 252 545		
Others	- 917 387	- 838 012	- 62	512
Subtotal (note 21)	- 1 654 228	- 2 091 641	- 2 004 078	- 2 320 286
Effect on profit or loss of discontinued operations:				
Changes in temporary differences affecting profit or loss:				
Harmonisation adjusments			137 795	198 265
Provisions not allowed for tax purposes	- 116 222	161 834		
Impairment of Assets	- 256 828	- 2 203 484		
Tax losses carried forward	1 438 154	4 208 698		
Derecognized tangible assets	- 450	- 1 070		
Revaluation of tangible assets			1 886 522	- 2 309 156
Others	- 1 682 926	694 494	233 460	206 964
Subtotal	- 618 272	2 860 472	2 257 777	- 1 903 927
Effect on other comprehensive income:				
Changes in temporary differences affecting other comprehensive income:				
Others		48 000		
Subtotal		48 000		
Currency translation effect	48 864	- 213 439	1 606 740	- 3 639 542
Changes in consolidation perimeter	- 24 770 001		- 36 532 997	
Closing balance	1 364 497	28 358 134	20 754 938	55 427 496

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.

According to the estimation of taxable profit or deductible loss for the fiscal year 2016 and according to the tax returns for the fiscal year 2015, tax losses carried forward and the corresponding deferred tax asset are detailed as follows:

	31.12.2016		31.12.2015	
To be used until	Tax loss carried forward	Deferred tax asset	Tax loss carried forward	Deferred tax asset
2018			7 198 697	1 511 726
			7 198 697	1 511 726
Without time limit	243 910	68 295	59 140 176	16 345 857
Total	243 910	68 295	66 338 873	17 857 583

Furthermore, at 31 December 2016 and 31 December 2015, tax losses for which no deferred tax asset was recognized are detailed as follows:

To be used until	31.12.2016 Tax loss carried forward	31.12.2016 Tax credit	31.12.2015 Tax loss carried forward	31.12.2015 Tax credit
2016			208 307	41 661
2017	117 849	23 570	117 849	23 570
2018	11 447 823	2 403 207	83 512	16 702
2019	119 987	23 997	119 987	23 997
2020	125 844	25 169	125 844	25 169
2021	121 939	24 388	121 939	24 388
2022	1 287 230	257 446	1 287 230	257 446
2023	456 536	91 307	456 536	91 307
2024	71 379	14 276		
2027	33 325	6 998		
	13 781 912	2 870 358	2 521 204	504 240
Without time limit	767 282 034	237 367 433	1 872 632 371	546 616 931
Total	781 063 946	240 237 791	1 875 153 575	547 121 171

Deferred tax asset is offset against deferred tax liability in situations where:

i) The company which generates the respective temporary differences is legally entitled to offset current tax assets and liabilities; or

ii) Calculated deferred tax assets and liabilities are related with income tax payable to the same tax authority:

a) By a single entity; or
b) By different entities which intend to receive/pay tax on a net basis.

16. OTHER NON-CURRENT ASSETS

At 31 December 2016 and 31 December 2015, details of Other non-current assets on the Consolidated Statements of Financial Position were as follows:

	31.12.2016 Gross Value	31.12.2016 Net Value	31.12.2015 Gross Value	31.12.2015 Impairment	31.12.2015 Net Value
Trade debtors and other debtors	442 298	442 298	804 270		804 270
Loans to related parties			10 931 182	10 931 182	
Financial Instruments	442 298	442 298	11 735 452	10 931 182	804 270
Total	442 298	442 298	11 735 452	10 931 182	804 270

	AGEING OF NON CURRENT TRADE DEBTORS AND OTHER DEBTORS AND OF LOANS TO RELATED PARTIES	
	31.12.2016	31.12.2015
Not due	442 298	804 270
Total	442 298	804 270

17. NON-CURRENT ASSETS CLASSIFIED AS AVAILABLE FOR SALE

In December 2015, the assets (equipment) of Souselas industrial plant, in Portugal, which is inactive, were classified as Non-current assets held for sale as they were available for immediate sale and it was estimated that a sale transaction would be completed in a twelve-month period. At the closing date of these consolidated financial statements, the sale of these assets had not occurred although it is expected to be concluded over a short period of time.

At 31 December 2016 and 2015, assets recognized under Non-current assets held for sale and the corresponding liabilities, classified as Liabilities directly associated with non-current assets held for sale were detailed as follows:

	31.12.2016	31.12.2015
Tangible fixed assets	1 535 588	1 535 588
Non-current assets classified as held for sale	1 535 588	1 535 588

18. INVENTORIES

At 31 December 2016 and 31 December 2015, details of Inventories on the Consolidated Statements of Financial Position were as follows:

	31.12.2016	31.12.2015
Merchandise	1 562 647	6 265 965
Finished and intermediate products	7 667 357	34 934 682
Products and working in progress	587 122	710 410
Raw Materials and Consumables	9 231 599	60 497 525
	19 048 725	102 408 582
Accumulated losses on inventories (Note 34)	910 432	4 401 009
	18 138 293	98 007 573

Inventories consist mainly of wood, raw boards, faced boards and chemical products.

The comparability of amounts stated as of 31 December 2016 and 31 December 2015 is detailed on note 7.

19. TRADE DEBTORS

At 31 December 2016 and 31 December 2015, details of Trade debtors on the Consolidated Statements of Financial Position were as follows:

	31.12.2016			31.12.2015		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Trade Debtors	15 770 699	577 570	15 193 129	110 398 793	25 345 784	85 053 009

		31.12.2016	31.12.2015
Not due		11 933 384	75 066 082
Due and not impaired			
	0 - 30 days	2 468 345	5 685 626
	30 - 90 days	216 126	1 321 832
	' + 90 days	364 722	1 409 929
		3 049 193	8 417 387
Due and impaired			
	90 - 180 days	207 342	2 040 066
	180 - 360 days	126 980	347 692
	+ 360 days	453 800	24 527 566
		788 122	26 915 324
	Total	15 770 699	110 398 793

20. OTHER CURRENT DEBTORS

At 31 December 2016 and 31 December 2015, details of Other current debtors on the Consolidated Statements of Financial Position were as follows:

	31.12.2016		31.12.2015		
	Gross Value	Net Value	Gross Value	Impairment	Net Value
Other debtors	209 171	209 171	2 666 503	3 502	2 663 001
Related parties			9 298 779		9 298 779
Financial Instruments	209 171	209 171	11 965 282	3 502	11 961 780
Other debtors	94 139	94 139	1 240 236		1 240 236
Assets out of scope of IFRS 7	94 139	94 139	1 240 236		1 240 236
Total	303 310	303 310	13 205 518	3 502	13 202 016

	AGEING OF OTHER DEBTORS AND RELATED PARTIES	
	31.12.2016	31.12.2015
Not due		9 650 058
Due and not impaired		
0 - 30 days	150 423	883 052
30 - 90 days	15 372	243 392
+ 90 days	43 376	1 188 780
	209 171	2 315 224
Total	209 171	11 965 282

Other debtors (financial instruments) include amounts receivable from Trade creditors for EUR 154 885 (EUR 1 074 469 at 31 December 2015).

At 31 December 2015, Related parties comprised a loan to the jointly-controlled company Laminate Park GmbH & Co. KG amounting to EUR 9 271 164, which matured in June 2016 and paid interest at a market rate.

21. OTHER CURRENT ASSETS

At 31 December 2016 and 31 December 2015, details of Other current assets on the Consolidated Statements of Financial Position were as follows:

	31.12.2016		31.12.2015	
	Gross Value	Net Value	Gross Value	Net Value
Derivatives instruments			491 159	491 159
Financial Instruments			491 159	491 159
Accrued income	402 038	402 038	4 675 331	4 675 331
Deferred expenses	1 549 797	1 549 797	5 240 166	5 240 166
Assets out of scope of IFRS 7	1 951 835	1 951 835	9 915 497	9 915 497
Total	1 951 835	1 951 835	10 406 656	10 406 656

At 31 December 2016 and 31 December 2015, the Group did not hold any cash flow hedging derivative financial instruments. The amounts included in the previous table relate to derivative financial instruments recognized at fair value through profit or loss (note 27).

Accrued income included, at 31 December 2015, EUR 2 100 000 of estimated sales of electrical power.

Deferred expenses include EUR 827 000 related to insurance expenses (EUR 3 300 000 at 31 December 2015).

22. OTHER TAXES AND CONTRIBUTIONS (CURRENT ASSETS)

At 31 December 2016 and 31 December 2015, details of Other taxes and contributions on the Consolidated Statements of Financial Position were as follows:

	31.12.2016	31.12.2015
Other taxes and contributions:		
Value Added Tax	1 741 841	3 538 442
Social Security Contribution		68 407
Others	1 504 374	1 204 446
	3 246 215	4 811 295

23. CASH AND CASH EQUIVALENTS

At 31 December 2016 and 31 December 2015, 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:

	31.12.2016	31.12.2015
Cash at Hand	6 536	42 240
Bank Deposits and Other Treasury Applications	4 788 541	28 882 230
Cash and Cash Equivalents on the Consolidated Statement of Financial Position	4 795 077	28 924 470
Bank Overdrafts		13 116 265
Cash and Cash Equivalents on the Statement of Cash Flows	4 795 077	15 808 205

At 31 December 2016, cash and cash equivalents denominated in a currency other than the Group's functional currency amounted to EUR 3 338 195.

Bank deposits and other treasury applications, which amounted to EUR 4 788 541 at 31 December 2016, reflects a high level of dispersion across the Group's subsidiaries, which are located in different countries. There are only one deposit of more than EUR 1 000 000, made in a financial institution with a rating level of Aa1 (Moodys).

Bank overdrafts include credit balances on current accounts and are included in Bank loans under current liabilities on the Consolidated Statement of Financial Position (note 26.1).

24. SHAREHOLDERS' FUNDS

Consolidated net shareholders' funds consist of the following items:

24.1. SHARE CAPITAL

At 31 December 2016 and 31 December 2015, share capital, which was fully underwritten and paid, amounted to EUR 812 107 574.17 and was comprised of 11 350 757 417 common shares, without face value. At this date the Company did not held any own shares.

At 31 December 2016 and 31 December 2015, shares are not entitled to any fixed income.

24.2. LEGAL RESERVE

The caption Legal reserve includes the parent company's reserve set up in accordance with articles 295 and 296 of the Company Law. This reserve cannot be distributed to shareholders as it can only be used to increase share capital or against accumulated losses.

24.3. 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.

24.4. 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;

- Change in fair value of available-for-sale assets (note 10);

- Hedging derivative instruments (note 27);

- Remeasurement of defined benefit obligations (note 30);

- Revaluation of tangible fixed assets (notes 2.3, 2.9 and 11);

- 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	Available-for-sale financial assets	Revaluation Reserve	Remeasurements on defined benefit plans	Share of Other Comprehensive Income of Joint Ventures and Associates		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 2016	- 31 461 322	96 733	106 260 850	- 6 260 935		1 388 833	26 238 300	43 785 859
Other consolidated comprehensive income for the period	4 275 995	8 508		- 149 140	4 416 002	-1 313 640		7 237 725
Change in method		- 105 241	- 99 895 009	6 218 070	52 621	33 619 135	- 25 049 855	-35 060 569
Tranferred to Net consolidated profit/(loss) for the period	36 592 671							36 592 671
Others	1 706 713		1 343	- 87			- 155 063	1 863 032
Balance as at 31 December 2016	11 114 057		6 367 184	- 192 092	4 468 623	33 694 328	1 033 382	54 418 718

	Accumulated other comprehensive income Atributable to the parent's shareholders						
	Currency translation	Available-for-sale financial assets	Revaluation Reserve	Remeasurements on defined benefit plans	Share of Other Comprehensive Income of Joint Ventures and Associates	Income tax related to components of other comprehensive income	Total
					Which may not be subsequently transferred to profit or loss		
Balance as at 1 January 2015	-12 361 951	88 083	107 383 926	-6 520 334	1 386 912	26 611 343	63 365 293
Other consolidated comprehensive income for the period	-14 629 067	8 526		240 357		- 48 000	-14 332 184
Change in ownership percentage	16 053	124	136 171	30 234	1 921	34 366	150 137
Transferred to Accumulated earnings			-1 259 247			- 359 409	- 899 838
Others	4 486 357			- 11 192			-4 497 549
Balance as at 31 December 2015	-31 461 322	96 733	106 260 850	-6 260 935	1 388 833	26 238 300	43 785 859

At 31 December 2016, Currency translation reserve refers mostly to the subsidiary Tafisa Canada.

At 31 May 2016, translation reserve accumulated at this date of subsidiaries on which control was lost (note 4) was reclassified to profit or loss for EUR -36 592 671.

25. NON-CONTROLLING INTERESTS

Changes to this item during 2016 and 2015 were as follows:

	31.12.2016	31.12.2015
Opening balance	- 106 611	- 262 099
Net profit for the period attributed to non-controling interests		- 641
Other comprehensive income		- 521
Change in ownership percentage	106 611	156 650
Closing balance		- 106 611

26. LOANS

As at 31 December 2016 and 31 December 2015 Sonae Indústria had the following outstanding loans:

	31.12.2016				
	Amortised cost		Nominal value		Fair value adjustment - 2016
	Current	Non current	Current	Non current	
Bank loans	1 890 967	214 868 703	1 890 967	216 670 580	
Obligations under finance leases	417 272	1 132 741	417 272	1 132 741	
Gross debt	2 308 239	216 001 444	2 308 239	217 803 321	

	31.12.2015				
	Amortised cost		Nominal value		Fair value adjustment - 2015
	Current	Non current	Current	Non current	
Bank loans	332 303 023	53 413 866	333 573 440	53 648 577	
Debentures	147 987 525		150 000 000		
Obligations under finance leases	5 669 033	16 749 594	5 669 033	16 749 594	-2 416 319
Other loans	41 619 187	1 325 632	41 954 760	1 325 632	
Gross debt	527 578 768	71 489 092	531 197 233	71 723 803	-2 416 319

Column “Fair value adjustment” includes the adjustment which would have to be made in the period if the corresponding items were to be stated at fair value. Its calculation consisted in determining the lease rent that would be applicable if the leasehold were subject to a market interest rate (second level of fair value hierarchy). In the period ended 31 December 2016, this leasehold was excluded from consolidation as a consequence of the transaction referred to on notes 3 and 4.

The maturity schedule of these loans is detailed on note 28.

The average interest rates of each class of debt stated in the previous table were as follows:

	2016	2015
Bank loans	4.25%	4.90%
Debentures	5.37%	4.54%
Finance leases	5.30%	11.66%
Others	-	4.80%

Bank overdrafts were not taken into consideration for the calculation of these average interest rates as the amounts were irrelevant. The average interest rate for debentures disclosed in the above-mentioned table, for 2016, excluded the recognition of previously deferred upfront fees, which were recognized in the second quarter of 2016 for EUR 1,9 million , following the refinancing process which was undertaken in the context of the joint venture in Sonae Arauco, S. A..

At 31 December 2016, there were loans from several financial institutions with nominal value amounting approximately to EUR 181 million (representing 85% of the consolidated net debt), in respect of which the respective creditors have the possibility to consider the debt outstanding, in the case of a change in shareholder control.

26.1. Bank Loans

Bank loans (nominal value) presented in the table in note 26 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 2016 and 31 December 2015 is detailed in the following table:

	31.12.2016			
	Non current	**Current**		
Company		Short term portion	Short term	Total
Sonae Indústria-SGPS,SA	180 900 000	250 000	1 500 000	182 650 000
Tafisa Canada Inc.	35 770 580	140 967		35 911 547
	216 670 580	390 967	1 500 000	218 561 547

	31.12.2015				
	Non current	**Current**			
Company		Short term portion	Short term	Bank overdrafts	Total
Sonae Indústria-SGPS,SA	5 883 333	110 811 111	99 080 000	10 009 616	225 784 060
Tafisa-Tableros de Fibras, SA		65 000 000	2 400 000		67 400 000
Taiber, Tableros Aglomerados Ibéricos,SL			39 000 000		39 000 000
Tafisa Canada Inc.	30 630 674	466 430			31 097 104
Sonae Novobord (Pty) Ltd	14 334 570	1 769 700			16 104 270
Euroresinas-Indústrias Quimicas,SA	2 800 000	1 200 000			4 000 000
Sonae Ind., Prod. e Com.Deriv.Madeira,SA				3 054 948	3 054 948
Imoplamac - Gestão de Imóveis, S. A.		729 934			729 934
Others				51 701	51 701
	53 648 577	179 977 175	140 480 000	13 116 265	387 222 017

Figures on the previous table correspond to the nominal values of bank loans disclosed on note 26.

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 31.12.2016)	Currency	Outstanding principal at 31.12.2016 (EUR)	Outstanding principal at 31.12.2015 (EUR)
Sonae Arauco, SA (former Tableros de Fibras S.A.)	Commercial paper programme	July 2010	1)	EUR		2 400 000
Sonae Indústria, SGPS, S.A.	Bank loan	August 2010	fully repaid in July 2016, by agreeement between the parties	EUR		1 944 444
Sonae Indústria, SGPS, S.A.	Commercial paper programme	September 2010	fully repaid in June 2016, as per contract	EUR		12 500 000
Tafisa Canada Inc.	Bank loan (*Revolving*) 2)	July 2011	to be repaid from March 2017 to May 2021	CAD	34 678 123	29 572 204
Tafisa Canada Inc.	Bank loan	July 2011	last payment in April 2016, as per contract	CAD		334 117
Imoplamac, S.A.	Bank loan	November 2012	last payment in March 2016, as per contract	EUR		729 933
Sonae Indústria, SGPS, S.A.	Commercial paper programme	June 2013	June 2018 Note: programme without subscription guarantee	EUR	1 500 000	13 650 000
Taiber, Tableros Aglomerados Ibéricos, S.L. and Sonae Indústria, SGPS, S.A.	Bank loan	November 2013	1)	EUR		39 000 000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	July 2014	to be repaid from December 2015 to June 2018 6)	EUR		8 350 000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	August 2014	1)	EUR		93 900 000
Sonae Arauco, SA (former Tableros de Fibras, S.A.) and Sonae Indústria, SGPS, S.A.	Bank loan	October 2014	1)	EUR		65 000 000
Sonae Indústria, SGPS, S.A.	Bank loan	October 2014	1)	EUR		7 930 000
Sonae Indústria, SGPS, S.A	Commercial paper programme	February 2015	1)	EUR		12 500 000
Sonae Novobord (Pty) Limited	Bank loan	April 2015	3)	ZAR		16 104 270
Sonae Indústria, SGPS, S.A.	Bank loan	June 2015	1)	EUR		60 000 000
Sonae Indústria, SGPS, S.A.	Commercial paper programme	October 2015	fully repaid in October 2016, as per contract	EUR		5 000 000
Euroresinas - Indústrias Químicas, S.A.	Bank loan	November 2015	3)	EUR		4 000 000
Sonae Indústria, SGPS, S.A.	Bank loan	December 2015	fully repaid in January 2016, as per contract	EUR		9 999 481
Sonae Indústria, SGPS, S.A.	Commercial paper programme 4)	May 2016	to be repaid from May 2019 to May 2021	EUR	175 000 000	N/A
Sonae Indústria, SGPS, S.A.	Commercial paper programme	July 2016	to be repaid from January 2018 to July2019	EUR	4 900 000	N/A
Sonae Indústria, SGPS, S.A.	Commercial paper programme	July 2016	to be repaid from July 2017 to July 2018	EUR	1 250 000	N/A
Sonae Indústria, SGPS, S.A.	Commercial paper programme	December 2016	to be repaid from June 2018 to December 2019	EUR		N/A
Others				EUR	1 233 424	4 307 567
Total				**EUR**	**218 561 547**	**387 222 017**

1) By agreement between the parties, these loans were revoked with effect from end of May 2016, and all outstanding amounts have been repaid.

2) This agreement requires two financial ratios calculated based on the individual financial statements of Tafisa Canada Inc: a ratio of "Financial Liabilities / (Equity + Financial Liabilities)" and a "Free Cash Flow / Debt Service" ratio. These ratios are tested on a quarterly basis until the end of the financing and failure may lead to early repayment of the loan.

3) As a result of the exclusion of the companies mentioned on note 4), these loans are no longer accounted for in the consolidated debt of Sonae Indústria, SGPS, S.A.

4) The shares of subsidiaries Megantic BV and Tafisa Canada Inc were pledged as collateral for this loan. In 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, also committing itself to a maximum "Net Debt / EBITDA" ratio for Tafisa Canada Inc 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.

5) Under this financing, Sonae Indústria SGPS, SA pledged the shares of its subsidiary Parcelas e Narrativas - Imobiliária, SA as collateral. Under this agreement, Sonae Indústria, SGPS, SA is obliged to maintain a ratio of Financial Autonomy ("Total Equity / Total Assets"). This ratio is tested annually from December 31, 2016 until the end of the financing, based on the Company's consolidated financial statements, and its failure may lead to the early maturity of the loan.

6) In January 2017, by agreement between the parties, the maximum nominal amount of this financing increased to EUR 7 500 000 euros and its maturity moved to January 2020 (to be repaid from July 2018 to January 2020).

N/A – loans that did not exist as of 31 December 2015.

Figures on the previous table correspond to the nominal value of bank loans disclosed on note 26.

The aforementioned contracts are subject to variable interest rates. Therefore, the commercial paper programme, with a maximum amount of EUR 175 000 000, is subject to different interest rates for each new issuance.

At 31 December 2016, the aforementioned ratios associated with existing loans fulfilled the contractually established limits.

At the same date, in addition to mortgaged tangible fixed assets disclosed on note 11, there were other assets amounting to EUR 27 014 465 (EUR 47 975 673 at 31 December 2015) which were pledged as collateral for the Group's liabilities. These assets consisted mostly in inventories and accounts receivable.

26.2. Bond Issues

Company(ies)	Loan	Contract date	Maturity (with reference to 31.12.2016)	Currency	Outstanding principal at 31.12.2016 (EUR)	Outstanding principal at 31.12.2015 (EUR)
Sonae Indústria, SGPS, S.A.	Sonae Industria / 2014 - 2020 bonds	October 2014	fully repaid in May 2016, by agreement between the parties	EUR		150 000 000

26.3. Other Loans

Other loans, as detailed in the table in note 26, are included in the Consolidated Statement of Financial Position, in "Other Loans" in Current Liabilities and Non-Current Liabilities, and had the following composition at 31 December 2015:

Company	31.12.2015		
	Non current	Current	
	Others	Securitization	Others
Sonae Ind., Prod. e Com.Deriv.Madeira,SA	1 197 416	12 925 960	908 655
Glunz AG		14 645 819	78 950
Tableros Tradema,S.L.	128 216	7 020 547	22 849
Sonae Tafibra International, BV		5 523 691	
Sonae Industria (UK), Ltd.		475 656	
Euroresinas-Indústrias Quimicas,SA			301 231
Isoroy SAS		51 402	
	1 325 632	40 643 075	1 311 685

Figures on the previous table correspond to the nominal values of bank loans disclosed on note 26.

Company(ies)	Loan	Contract date	Maturity (with reference to 31.12.2016)	Currency	Outstanding principal at 31.12.2016 (EUR)	Outstanding principal at 31.12.2015 (EUR)
Several companies	Trade receivables securitization	August 2012	fully repaid in May 2016, by agreement between the parties	EUR		40 167 419
				GBP		475 656

26.4. Financial lease creditors

Details of finance leases creditors at 31 December 2016 and at 31 December 2015 are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
2016		7 959 785		5 669 033
2017	492 123	6 737 214	417 272	4 935 621
2018	488 176	12 390 083	435 104	11 116 336
2019	444 764	444 764	413 495	413 495
2020	293 417	293 417	284 142	284 142
2021				
	1 718 480	27 825 263	1 550 013	22 418 627
Lease creditors - current			417 272	5 669 033
Lease creditors - non current			1 132 741	16 749 594

Assets recognized under finance lease arrangements are stated on note 11.

26.5. 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 26.1.

27. FINANCIAL DERIVATIVES

The fair value of derivative instruments is stated as follows:

	Other current assets	Other current liabilities	
	31.12.2015	31.12.2016	31.12.2015
Derivatives at fair value through profit or loss:			
Exchange rate forwards (notes 21 and 33)	491 159	431 254	41 908
	491 159	431 254	41 908

27.1. Derivatives at fair value through profit or loss

They consist of exchange rate derivatives (forwards) over which no hedge accounting was applied.

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 balance sheet date (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).

Gains and losses resulting from changes in fair value are stated under the item Adjustments to fair value of financial instruments at fair value through profit or loss (notes 37 and 38), which corresponds to a net loss of EUR 906 348 (net gain of EUR 488 485 in 2015).

Derivative instruments recognized at fair value through profit or loss held by the Group at 31 December 2016 fully mature in 2017.

27.2. Derivatives at fair value through reserves

In 2016 and 2015 no derivative financial instruments at fair value through reserves were contracted.

28. FINANCIAL RISKS

28.1. Liquidity risk

Liquidity risk described in note 2.27, c) related to gross debt referred to in note 26, can be analysed as follows:

	31.12.2016		
	Maturity of gross debt (note 26)	Interest	Total
2017	2 308 239	8 113 825	10 422 064
2018	2 571 220	7 970 960	10 542 180
2019	38 603 796	7 073 251	45 677 047
2020	44 474 443	5 426 771	49 901 214
2021	131 868 424	1 850 572	133 718 996
2022	190 301		190 301
After 2022	95 137		95 137
	220 111 560	30 435 379	250 546 939

	31.12.2015		
	Maturity of gross debt (note 26)	Interest	Total
2016	212 475 573	25 521 215	237 996 788
2017	18 931 005	19 728 444	38 659 449
2018	96 813 977	17 695 624	114 509 601
2019	115 638 391	11 735 286	127 373 677
2020	93 129 495	6 556 439	99 685 934
2021	32 695 291	2 575 337	35 270 628
After 2021	33 237 304	1 101 422	34 338 726
	602 921 036	84 913 767	687 834 803

The calculation of interest in the previous table was based on interest rates at 31 December 2016 and 31 December 2015 applicable to each item of debt. Gross debt maturing in 2017

(2016) includes scheduled repayment of debt along with the repayment of debt as at end 2016 (2015) which is maturing within less than one year.

Maturities for the remaining financial instruments are stated on the respective notes.

28.2. Market risk

28.2.1. Interest rate risk

The analysis of interest rate risk, described on note 2.27, b), i), consisted in calculating the way net profit before tax for 2016 and 2015 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					
	2016			**2015**		
	"Notional" (Euros)	Effect in Profit and Loss (Euros)		"Notional" (Euros)	Effect in Profit and Loss (Euros)	
		0.75%	-0.75%		0.75%	-0.75%
Gross Debt						
EUR	-184 113 032	- 976 566	976 566	-533 109 928	-2 983 044	2 983 044
GBP				- 480 792	- 7 287	7 287
CAD	-35 998 529	- 294 174	294 174	-30 027 997	- 270 483	270 483
ZAR				-16 103 345	- 103 578	103 578
	-220 111 561	-1 270 740	1 270 740	-579 722 062	-3 364 392	3 364 392
Bank deposits and other treasury applications						
EUR				1 428 027	5 691	- 5 691
				1 428 027	5 691	- 5 691
		-1 270 740	1 270 740		-3 358 701	3 358 701

Gross debt on the table above excludes bank overdrafts and borrowings which are not subject to change in interest rate. Bank deposits and other treasury applications in the table above exclude demand deposits.

Considering Euribor 6 months as a reference indicator for Euro interest rates, a change of 0.75 percentage points corresponds to 16.6 times the standard deviation of that variable in 2016 (14.3 times in 2015).

28.2.2. Exchange rate risk

With respect to exchange rate risk, described in note 2.27., b), ii), 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 2016 and 2015 closing exchange rates of each currency against the Euro.

i) Loans net of treasury applications

	Amount denominated in foreign currency		Eur equivalent		Sensitivity analysis (EUR)			
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	2016		2015	
					-1%	1%	-1%	1%
GBP	280 000		327 034		- 3 270	3 270		
ZAR	17 428 273	17 428 273	1 205 514	1 028 094	- 12 055	12 055	- 10 281	10 281

ii) Other balances: net assets (+) and net liabilities (-)

	Amount denominated in foreign currency		Eur equivalent		Sensitivity analysis (EUR)			
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	2016		2015	
					-1%	1%	-1%	1%
USD	-1 364 129	- 282 043	-1 294 122	- 259 065	12 941	- 12 941	2 591	- 2 591
ZAR	24 878 393	26 480 853	1 720 838	1 562 106	- 17 208	17 208	- 15 621	15 621

Sensitivity refers to the effect that -1% and 1% changes in closing exchange rates for 2016 and 2015 financial years would have on net exchange differences disclosed on note 41.

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 2016 and 2015 closing exchange rates of each currency against the Euro:

i) Loans net of treasury applications

	Amount denominated in foreign currency		Eur equivalent		Sensitivity analysis (EUR)			
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	2016		2015	
					-1%	1%	-1%	1%
ZAR	17 428 273	17 428 273	1 205 514	1 028 094	12 055	- 12 055	10 281	- 10 281

Sensitivity refers to the effect that -1% and 1% changes in closing exchange rates for 2016 and 2015 financial years would have on the hedging of the amounts identified on a).

ii) Other balances: net assets (+) and net liabilities (-)

At 31 December 2016 and 31 December 2015, derivative instruments related to other assets and other liabilities were amounted to irrelevant values.

28.2.3. Credit risk

Credit risk described on note 2.27, a) is mostly reflected through the amount stated in Trade Debtors (note 19) and Other current debtors (note 20). No relevant differences between the amounts recognized and the corresponding estimated fair value were identified.

29. OTHER NON-CURRENT LIABILITIES

At 31 December 2016 and 31 December 2015 details of Other non-current liabilities were as follows:

	31.12.2016	31.12.2015
Other creditors	2 000 000	2 277 504
Financial instruments	2 000 000	2 277 504
Other creditors	1 554 341	31 312 338
Liabilities out of scope of IFRS 7	1 554 341	31 312 338
Total	3 554 341	33 589 842

31.12.2016	After 2019	Total
Maturity of Other non current creditors	2 000 000	2 000 000
	2 000 000	2 000 000

31.12.2015	2017	Total
Maturity of Other non current creditors	2 277 504	2 277 504
	2 277 504	2 277 504

Other creditors include EUR 1 119 940 (EUR 24 535 202 at 31 December 2015) related to deferred investment subventions and EUR 6 193 800, at 31 December 2015, related to the fine imposed by the German Competition Authority, to be paid until 2017 (note 47).

30. 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. Furthermore, some subsidiaries have the legal obligation to pay their employees some lump sum amounts when they get retired.

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 2016 and 2015 were:

	Germany			
	Glunz AG	GHP GmbH	Tool GmbH	Impaper
	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Mortality table	Richttafeln 2005 G	Richttafeln 2005 G	Richttafeln 2005 G	Richttafeln 2005 G
Salary growth rate	2,00%	0,00%	0,00%	2,00%
Return on fund	2,30%	2,30%	2,30%	2,30%
Actuarial tecnical rate	2,30%	2,30%	2,30%	2,30%
Pension growth rate	1,70%	1,70%	1,70%	1,70%

	Sonae Novobord	Portugal	
	31.12.2015	31.12.2016	31.12.2015
Mortality table	PA(90)-2	TV 88/90	TV 88/90
Salary growth rate	8,50%	3,0%	3,0%
Return on fund	3,70%	3,0%	4,6%
Actuarial tecnical rate	9,50%	2,5%	3,0%
Pension growth rate	5,60%	0,0%	0,0%
Trend rate of medical aid obligation	0,46%		

Benefit plans set up in previous periods by several Group companies are as follows:

<u>Portugal</u>:

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 (six companes in 2015) 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 21 years.

An actuarial report calculated the liabilities of these companies on 31 December 2016 to be EUR 1 070 475 (EUR 2 664 044 at 31 de December 2015).

<u>France</u>:

Subsidiary Isoroy SAS is legally committed to pay a lump sum upon retirement of its workers, which corresponds to a defined benefit obligation. Taking into consideration the insignificant amount of this obligation, no assessment was done at 31 December 2016 and 31 December 2015.

<u>Deconsolidated companies</u>:

Sonae Novobord (PTY) Ltd, Glunz AG, GHP GmbH, Tool GmbH and Impaper GmbH, which are deconsolidated subsidiaries following their classification as joint ventures at 31

May 2016 (notes 3 and 4) are committed to defined benefit plans to their workers. At 31 December 2015, the present value of the defined benefit obligation and the corresponding liability were assessed through actuarial reports carried out by independent entities.

The main risk to which these defined benefit plans expose the Group is the liquidity risk. At 31 December 2016 assets funding the plans represented 37% (20% at 31 December 2015) 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 2016 and 31 December 2015, to the present value of the defined benefit obligations are presented as follows:

	31.12.2016			31.12.2015		
	Plan without fund	Plan with fund	Total	Plan without fund	Plan with fund	Total
(+) Opening balance of defined benefit obligations' present value	798 854	32 002 161	32 801 015	860 983	33 157 115	34 018 098
(+) Interest cost		44 203	44 203	73 464	1 067 951	1 141 415
(+) Current service cost		50 690	50 690	10 576	401 070	411 646
(+) Employees' contributions					23 061	23 061
(+) Remeasurements:						
Due to change in financial assumptions		288 035	288 035		512 626	512 626
Due to change in demographic assumptions					- 123 008	- 123 008
Due to experience adjustements		- 138 895	- 138 895	5 536	- 859 759	- 854 222
(-) Paid pensions				33 716	1 525 970	1 559 686
(+) Exchange rate effect				- 117 990	- 650 925	- 768 915
(+) Change in consolidation perimeter	- 759 260	-30 528 728	-31 287 989			
(=) Closing balance of defined benefit obligations' present value	39 594	1 717 466	1 757 059	798 854	32 002 161	32 801 015

During 2016 and 2015 the fair value of the plan assets changed as follows:

	31.12.2016	31.12.2015
(+) Opening balance of plan assets	6 543 224	7 163 812
(+) Contribution to plan assets:		
Employees		23 061
Employer		139 946
(+) Interest income	17 729	452 465
(+) Remeasurements	38 297	- 224 247
(-) Paid pensions		294 064
(+) Change in consolidação perimeter	- 5 952 262	
(+) Exchange rate effect		- 717 749
(=) Closing balance of plan assets	646 988	6 543 224

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 2016 and 31 December 2015, the amount of liabilities for defined benefits recognized in the Consolidated Statements of Financial Position is detailed as follows:

	31.12.2016	31.12.2015
(+) Present value of defined benefit obligations	1 757 059	32 801 015
(-) Fair value of plan assets	646 988	6 543 224
(+)Effect of asset ceiling		320 841
(=) Defined benefit liability	1 110 071	26 578 632

Sensitivity of the defined benefit obligation is as follows:

	2016			2015		
	-0,5 pp	Valuation basis	+0,5 p	-0,5 pp	Valuation basis	+0,5 p
Defined benefit obligation	1 898 231	1 717 466	1 557 399	34 434 122	32 002 158	29 834 089

The valuation basis refers to the actuarial discount rate that was included in the actuarial assumptions disclosed herewith.

31. TRADE CREDITORS

At 31 December 2016 and 31 December 2015, Trade creditors stated on the Consolidated Statements of Financial Position had the following maturities:

MATURITY OF TRADE CREDITORS

	31.12.2016	31.12.2015
To be paid		
< 90 days	22 988 942	133 687 601
90 - 180 days	19 533	3 114 563
> 180 days	41 737	1 784 184
	23 050 212	138 586 348

32. OTHER TAXES AND CONTRIBUTIONS (CURRENT LIABILITIES)

At 31 December 2016 and 31 December 2015 Other taxes and contributions had the following composition:

	31.12.2016	31.12.2015
Other taxes and contributions		
Value Added Tax	187 864	3 189 932
Social Security Contribution	231 147	1 498 194
Others	280 454	2 330 369
	699 465	7 018 495

33. OTHER CURRENT LIABILITIES

At 31 December 2016 and 31 December 2015 Other current liabilities were composed of:

	31.12.2016	31.12.2015
Derivatives	431 254	41 908
Tangible fixed assets suppliers	2 511 973	5 418 520
Other creditors	1 161 966	2 776 725
Financial instruments	4 105 193	8 237 153
Other creditors	292 949	7 301 250
Accrued expenses:		
Personnel expenses	6 687 970	17 002 321
Accrued financial expenses	635 463	6 503 606
Rebates	3 506 541	15 818 462
External supplies and services	553 128	8 005 824
Other accrued expenses	763 925	4 977 001
Deferred income:		
Investment subventions	168 412	4 277 243
Other deferred income	148 934	148 932
Liabilities out of scope of IFRS 7	12 757 322	64 369 806
Total	16 862 515	72 606 959

31.12.2016	< 90 days	90 - 180 days	> 180 days	Total
Derivatives		431 254		431 254
Maturity of current fixed assets' suppliers	2 465 276	45 838	859	2 511 973
Maturity of Other current creditors	455 737	631	705 598	1 161 966
	2 921 013	477 723	706 457	4 105 193

31.12.2015	< 90 days	90 - 180 days	> 180 days	Total
Derivatives	41 908			41 908
Maturity of current fixed assets' suppliers	5 109 140	61 339	248 041	5 418 520
Maturity of Other current creditors	2 211 440	10 510	554 775	2 776 725
	7 362 488	71 849	802 816	8 237 153

34. PROVISIONS AND ACCUMULATED IMPAIRMENT LOSSES

Movements occurred in provisions and accumulated impairment losses during the periods ended 31 December 2016 and 31 December 2015 were as follows:

	31.12.2016							
Description	Opening balance	Exchange rate effect	Changes to perimeter	Increase	Utilization	Reversion	Other changes	Closing balance
Impairment losses:								
Investment properties	2 259 929							2 259 929
Tangible fixed assets	41 690 361		- 25 299 027	4 028 485			- 14 558 715	5 861 104
Goodwill	1 700 000		- 1 700 000					
Intangible assets	366 436		- 319 243			24 028	- 3 923	19 242
Other non-current assets	10 931 182						- 10 931 182	
Trade debtors	25 345 784	32 614	- 25 064 264	1 606 216		934 953	- 407 827	577 570
Other debtors	3 502						- 3 502	
Subtotal impairment losses	82 297 194	32 614	- 50 682 534	5 634 701		958 981	- 25 905 149	8 717 845
Provisions:								
Litigations in course	1 523 885	- 24 284	- 347 703		421 271		8 017	738 644
Warranties to customers	549 120	- 27	- 607 393	58 300				
Restructuring	1 492 766		- 210 000		1 282 766			
Other	6 945 108		- 5 494 474	73 634	329 268			1 195 000
Subtotal provisions	10 510 879	- 24 311	- 6 659 570	131 934	2 033 305		8 017	1 933 644
Subtotal impairment losses and provisions	92 808 073	8 303	- 59 042 104	5 766 635	2 033 305	958 981	- 25 897 132	10 651 489
Other losses:								
Investments	36 985 875		- 25 642	13 670				36 973 903
Write-down to net realizable value of inventories	4 401 009	11 788	- 3 354 143	1 386 275		1 521 603	- 12 894	910 432
Total	134 194 957	20 091	- 62 421 889	7 166 580	2 033 305	2 480 584	- 25 910 026	48 535 824

	31.12.2015							
Description	Opening balance	Exchange rate effect	Changes to perimeter	Increase	Utilization	Reversion	Other changes	Closing balance
Impairment losses:								
Investment properties							2 259 929	2 259 929
Tangible fixed assets	48 044 432			111 280			- 6 465 351	41 690 361
Goodwill	1 700 000							1 700 000
Intangible assets	30 833			343 271			- 7 668	366 436
Other non-current assets	10 931 182							10 931 182
Trade debtors	26 228 073	- 334 577		2 587 877		1 968 626	- 1 166 963	25 345 784
Other debtors	3 502							3 502
Subtotal impairment losses	86 938 022	- 334 577		3 042 428		1 968 626	- 5 380 053	82 297 194
Provisions:								
Litigations in course	1 504 544	- 5 072		335 067	443 085		132 431	1 523 885
Warranties to customers	541 547	2 637		64 615	59 679			549 120
Restructuring	6 055 072	11 309		2 609 040	7 017 096		- 165 559	1 492 766
Other	4 694 739			6 188 628	4 041 358		103 099	6 945 108
Subtotal provisions	12 795 901	8 874		9 197 350	11 561 218		69 971	10 510 879
Subtotal impairment losses and provisions	99 733 923	- 325 703		12 239 778	11 561 218	1 968 626	- 5 310 082	92 808 073
Other losses:								
Investments	36 985 875							36 985 875
Write-down to net realizable value of inventories	4 165 268	- 35 296		3 833 413		2 617 868	- 944 508	4 401 009
Subtotal	140 885 066	- 360 999		16 073 191	11 561 218	4 586 494	- 6 254 590	134 194 957
Provisions included under Liabilities directly associated with non-current assets held for sale	66 512 818		- 43 719 112	5 604 755		216 735	- 28 181 726	
Total	207 397 884	- 360 999	- 43 719 112	21 677 946	11 561 218	4 803 229	- 34 436 316	134 194 957

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:

	31.12.2016			31.12.2015		
	Losses	Gains	Total	Losses	Gains	Total
Cost of sales	393 164	173 465	- 219 699	269 336	381 730	112 394
(Increase) / decrease in production	188 237	208 917	20 680	97 000	1 253 167	1 156 167
Provisions and impairment losses	4 045 743	499 730	- 3 546 013	15 634 385	20 368	- 15 614 017
Profit / (loss) from discontinued operations	2 539 436	3 631 777	1 092 341	5 677 225	14 709 182	9 031 957
Total (Consolidated Income Statement)	7 166 580	4 513 889	- 2 652 691	21 677 946	16 364 447	- 5 313 499

Provisions and impairment losses recognized under Profit or loss from discontinued operations, on the Consolidated Income statement, are included under the following items detailed on note 43:

	31.12.2016			31.12.2015		
	Losses	Gains	Total	Losses	Gains	Total
Cost of sales (discontinued operations-note 43)	310 399	708 418	- 398 019	3 563 171	1 097 866	2 465 305
Change in production (discontinued operations-note 43)	494 475	430 803	63 672	1 702 244	96 080	1 606 164
Provisions and impairment losses (discontinued operations-note 43)	1 677 258	2 425 832	- 748 574	141 341	12 815 544	- 12 674 203
Gains and losses in investments	13 670		13 670			
Staff expenses (discontinued operations-note 43)	43 634	66 724	- 23 090	270 469	699 692	- 429 223
Profit/(loss) from discontinued operations, after taxation	2 539 436	3 631 777	- 1 092 341	5 677 225	14 709 182	- 9 031 957

34.1. Impairment losses on tangible fixed assets

Movements occurred in impairment losses during the period ended 31 December 2016 were as follows:

- Impairment losses recognized through profit or loss for 2016 are included under “Increases” on the table above;

- Impairment losses reverted in 2016 are included under “Reversion” on the table above;

- Other changes include reductions arising from disposal and write-off (in the period ended 31 December 2015, it also includes reclassifications to Non-current assets held for sale).

Tangible fixed assets are subject to impairment tests which focus on the cash generating units that include the assets of the Group's industrial plants. The assets of decommissioned industrial units are tested individually. The identified cash-generating units do not include any intangible assets with an indefinite useful life, as it is not possible to assign them on a non-arbitrary way the amount of Goodwill stated on the Consolidated Statement of Financial Position and disclosed on Note 14.

Impairment tests performed in the period ended 31 December 2016 on the identified cash-generating units did not show any impairment losses. Tests carried out in the same period on the individual assets of decommissioned industrial plants identified impairment losses of EUR 4 028 485, recorded under Provisions and impairment losses, on the Consolidated Income Statement, of which EUR 3 163 484 related to inactive assets that are stated under Tangible fixed assets, on the Consolidated Statement of Financial Position at 31 December 2016, for EUR 6 824 027. This impairment loss was estimated based on independent appraisals carried out under a sales approach.

34.2. Provisions

At 31 December 2016, the amount of provisions could be detailed as follows:

- Provisions for ongoing litigations amounting to EUR 738 644 refer mostly to litigation with former workers of decommissioned industrial plants. It is not possible to estimate the period this provision will be utilized;

- Other provisions amounting to EUR 1 195 000 refer to environmental liabilities. It is not possible to estimate the period these provisions will be utilized.

During the period, the recognition of provisions for the present value of estimated liabilities did not include any significant amounts.

35. OPERATING LEASES

At 31 December 2016 and 31 December 2015 the Group held irrevocable operating leases with the following lease payments:

	Minimun operating lease payments	
	31.12.2016	31.12.2015
2016		3 817 622
2017	1 439 605	2 541 807
2018	1 047 738	1 586 953
2019	276 525	589 191
2020	41 362	82 716
2021	313	
	2 805 543	8 618 289

During the period ended 31 December 2016, the Group recognized under External Suppliers and Services, on the Consolidated Income Statement, rents related to operating leases for EUR 2 806 000 (EUR 6 243 000 in 2015).

36. RELATED PARTIES

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

Balances	Accounts receivable		Accounts payable	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Other subsidiaries of the parent company	137 543	329 705	2 320 894	4 336 246
Joint ventures and associates	598 675	9 527 339	2 145 323	1 836 792

Transactions	Income		Expenditure	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Other subsidiaries of the parent company	49 831	9 885	1 088 270	1 240 185
Joint ventures and associates	21 889 682	23 541 236	28 627 822	20 712 963

36.2. Remuneration of the Board of Directors of the Company is detailed as follows:

	31.12.2016	31.12.2015
Short term benefits	825 261	1 323 777
Medium term benefits	1 399 949	215 323
	2 225 210	1 539 100

The amount included under Medium term benefits, on the previous table, refers to amounts recognized under Staff expenses, of the respective period, that relate to members of the Board of Directors.

At 31 December 2016 there were no post retirement liabilities attributed to the members of the board of directors.

36.3. During the period ended 31 December 2016 the Group recognized on these consolidated financial statements the following fees from audit company PricewaterhouseCoopers & Associados, SROC, Lda and respective international network:

	31.12.2016	31.12.2015
Total fees related to audit of end year accounts	201 260	366 311
Total fees related to other realiability assurance services	2 093	51 359
	203 354	417 670

37. OTHER OPERATING INCOME

Details of Other operating income on the Consolidated Income Statement for the periods ended 31 December 2016 and 31 December 2015 are as follows:

	31.12.2016	31.12.2015
Gains on disposals of non current investments	314	925
Gains on disp. and write off of invest. prop., tang. and intang. assets	939 917	150 018
Supplementary revenue	2 087 401	1 705 464
Investment subventions	149 254	163 252
Tax received	24 844	
Positive exchange gains	2 174 845	2 248 199
Adjustment to fair value of financial instruments at fair value through profit or loss	250 663	786 669
Others	129 548	288 146
	5 756 786	5 342 673

38. OTHER OPERATING EXPENSES

Details of Other operating expenses on the Consolidated Income Statement for 2016 and 2015 are as follows:

	31.12.2016	31.12.2015
Taxes	1 417 785	1 274 559
Losses on disp. and write off of invest. prop., tang. and intang. assets	337 576	248 582
Negative exchange gains	1 449 985	2 287 875
Adjustment to fair value of financial instruments at fair value through profit or loss	1 157 011	298 184
Others	371 027	277 990
	4 733 384	4 387 190

39. RESEARCH AND DEVELOPMENT EXPENSES

During the period, the Group recognized in several items of the Consolidated Income Statement research and development expenses amounting to EUR 71 794 (EUR 673 000 in 2015.).

40. Recurring and non-recurring items

Recurring and non-recurring operating items on the Consolidated Income Statement are detailed as follows:

	31.12.2016 Recurring	31.12.2015 Recurring
Sales	239 555 683	226 793 783
Services rendered	1 301 165	1 079 710
Other income and gains	4 811 068	3 042 967
Cost of sales	125 721 193	124 407 852
(Increase) / decrease in production	537 841	354 621
External supplies and services	49 118 127	47 793 089
Staff expenses	27 544 328	24 550 770
Impairment losses in trade debtors (increase/reduction)	- 16 050	9 728
Other expenses and losses	4 392 460	3 943 661
Recurring operating profit/(loss) before amortization, depreciation, provisions and impairment losses (except trade debtors)	38 370 017	29 856 739
Non-Recurring operating profit/(loss) before amortization, depreciation, provisions and impairment losses (except trade debtors)	- 103 895	- 1 301 830
Total operating profit/(loss) before amortization, depreciation, provisions and impairment losses (except trade debtors)	38 266 122	28 554 909

Classification of items as either recurring or non-recurring is done in accordance with criteria set out on note 2.25.

41. FINANCIAL RESULTS

Financial results for the periods ended 31 December 2016 and 2015 were as follows:

	31.12.2016	31.12.2015
Financial expenses:		
Interest expenses		
related to bank loans and overdrafts	10 469 313	11 044 036
related to non convertible bonds	5 315 242	7 204 138
related to finance leases	87 656	21 067
related to loans from related parties	256 683	3 875 155
others	1 461	5 010
	16 130 355	22 149 406
Losses in currency translation		
related to loans	381 583	1 296 685
related to cash and cash equivalents	1 209 914	
	1 591 497	1 296 685
Cash discounts granted	1 872 557	1 681 173
Other finance losses	1 618 763	1 113 578
	21 213 172	26 240 842

	31.12.2016	31.12.2015
Financial income:		
Interest income		
related to bank loans	21 036	53 992
related to loans to related parties	2 964 350	19 107 542
	2 985 386	19 161 534
Gains in currency translation		
related to loans	374 244	989 382
related to cash and cash equivalents	1 152 251	
	1 526 495	989 382
Cash discounts obtained	100 893	99 525
Other finance gains	94 341	92 668
	4 707 115	20 343 109
Finance profit / (loss)	**- 16 506 057**	**- 5 897 733**

42. TAXES

Corporate income tax accounted for in 2016 and 2015 is detailed as follows:

	31.12.2016	31.12.2015
Current tax	8 915 632	4 104 158
Deferred tax	- 349 850	- 228 645
	8 565 782	3 875 513

Reconciliation of consolidated Net profit/(loss) from continuing operations, before tax, with taxation for the year may be detailed as follows:

		31.12.2016	31.12.2015
Consolidated net profit before tax		13 728 121	8 934 683
Tax rate		21.00%	21.00%
Expectable tax		2 882 905	1 876 283
Differences to foreign tax rates	(+)	1 791 203	-1 517 972
Effect of provincial/municipal taxes	(+)	22 082	1 926 969
Consolidation adjustments	(-)	1 168 819	16 366 596
Permanent differences			
Non deductible costs	(+)	50 686	1 328 292
Non taxed profits	(-)	178 450	29 771
Tax losses carried forward			
Deferred tax asset not recognized in complience with IAS 12	(-)	-3 645 560	-16 601 295
Utilization of tax losses carried forward whose deferred tax was not recognized in prior periods	(+)	- 451 702	
Reverted deferred tax asset	(+)	1 511 726	
Effect of change in tax rates	(+)	- 296 812	
Tax benefits	(-)	892 122	
Others	(+)	- 134 719	57 013
Consolidated corporate income tax		8 565 782	3 875 513

Group companies are subject to the following corporate income tax rates:

	2016		2015	
	National	Provincial	National	Provincial
Portugal	21%	-	21%	-
Canada	15%	11.90%	15%	11.90%
South Africa	28%	-	28%	-

43. DISCONTINUED OPERATIONS

In the period ended 31 December 2016, Profit/(loss) from discontinued operations, after taxation, on the Consolidated Income Statement, includes the net profit or loss for the first five months of 2016 of the companies classified as joint ventures (notes 3 and 5) as of 31 May 2016. The Consolidated Income Statement for the period ended 31 December 2015 was re-presented in order to state in this caption the net profit or loss of those companies for the twelve months of 2015.

In addition, the Consolidated Income Statement for the period ended 31 December 2015 includes under Profit/(loss) from discontinued operations the results of Betanzos (Spain) and Ussel (France) industrial plants and the results of subsidiary Darbo, SAS (France), whose assets were disposed of during that year or that ceased activity in that years or in preceding periods.

Profit (loss) from discontinued operations, after taxation, can de detailed as follows:

	31.12.2016	31.12.2015
Sales	339 858 763	826 002 909
Services rendered	830 586	2 396 711
Other income and gains	8 744 363	21 205 579
Cost of sales	167 993 678	430 787 233
(Increase) / decrease in production	- 2 711 434	1 005 072
External supplies and services	84 495 943	216 221 499
Staff expenses	51 864 328	133 428 809
Depreciation and amortisation	20 069 407	49 780 691
Provisions and impairment losses (increase / reduction)	- 748 574	2 818 841
Other expenses and losses	3 206 691	14 393 299
Operating profit / (loss)	25 263 673	1 169 755
Net finance profit / (loss)	- 13 888 033	- 41 115 527
Gains and losses in associated companies	222 216	246 384
Gains and losses in joint ventures	74 869	- 1 621 954
Gains and losses in investments	- 13 670	
Net profit/(loss) from discontined operations, before taxation	11 659 055	- 41 321 342
Taxation	3 728 804	- 253 790
Consolidated net profit / (loss) from discontinued operations, after taxation	7 930 251	- 41 067 552

Other income and gains, on the above-mentioned table, includes EUR 38 676 813 related to the recognition of the investment in the joint venture Sonae Arauco, S. A. for its fair value (note 5). It also includes EUR -36 592 671 related to the reclassification of the translation reserve to profit or loss (note 24.4) following the Group's loss of control on the entities disclosed on note 4.

Cash flows arising from discontinued operations, which were included line by line on the Consolidated Statement of Cash Flows, are detailed as follows:

	31.12.2016	31.12.2015
Operating activities	- 10 966 545	18 901 773
Investment activities	4 809 572	8 375 359
Financing activities	178 279 233	- 33 404 767

44. EARNINGS PER SHARE

Earnings per share were calculated as follows:

	31.12.2016			31.12.2015		
	Net profit/(loss)			Net profit/(loss) - Restated		
	from continuing operations	from discontinued operations	total	from continuing operations	from discontinued operations	total
Net loss						
Net loss considered to calculate base earnings per share (net loss attributable to equity holders of Sonae Indústria)	3 078 703	7 930 251	11 008 954	5 005 589	- 41 010 181	- 36 004 592
Net loss considered to calculate diluted earnings per share	3 078 703	7 930 251	11 008 954	5 005 589	- 41 010 181	- 36 004 592
Number of shares						
Weighted average number of shares used to calculate basic earnings per share	11 350 757 417	11 350 757 417	11 350 757 417	11 350 757 417	11 350 757 417	11 350 757 417
Weighted average number of shares used to calculate diluted earning per share	11 350 757 417	11 350 757 417	11 350 757 417	11 350 757 417	11 350 757 417	11 350 757 417
Basic earnings per share	0.0003	0.0007	0.0010	0.0004	-0.0036	-0.0032
Diluted earnings per share	0.0003	0.0007	0.0010	0.0004	-0.0036	-0.0032

45. SEGMENT INFORMATION

The main activity of the Group is the production of wood based panels and derivative products through industrial plants and commercial facilities located in Portugal, Canada and South Africa.

Until 31May 2016, identifiable reportable segments were as follows:

- Northern Europe;
- Southern Europe;
- Rest of the World.

Following the increase in share capital on 31 May 2016, described on note 3, companies referred to on notes 4 and 5 were deconsolidated and the system of internal report to chief operating decision maker was significantly changed. Geographical segmentation loose relevance and the Group focused 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.

46. 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. 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 recognized in these consolidated financial statements.

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, with the exception of procedures referring to 2013, for which a formal complaint was filed.

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 7 550 355 to suspend tax enforcement procedures initiated by tax authorities, having been brought court challenges against the respective settlement.

Sonae Indústria, SGPS, S. A. rendered surety of EUR 5 049 804 and EUR 321 858 in favour of “Instituto de Segurança Social” (Social Security Institute) to secure contingent liabilities of former subsidiary Sonae Indústria – Produção e Comercialização de Derivados de Madeira, S. A. to this entity. A formal complaint was filed against these contingent liabilities.

Former subsidiary 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 Glunz AG and GHP GmbH received, in March 2010, a statement of objections from the German Competition Authority. Some of these processes were resolved during the years 2015 and 2016 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). Under the terms of the agreement for the subscription of Sonae Arauco, S. A. shares, entered into by Sonae Indústria SGPS SA and the companies of the Arauco Group, Inversiones Arauco Internacional Limitada and Celulosa Arauco y Constitucion SA, any losses resulting from these proceedings will be reimbursed by Sonae Indústria SGPS SA. For the cases still in progress, the complaints submitted specifically to the former subsidiaries Glunz AG and GHP GmbH amount to a maximum contingency of EUR 31.5 million. There are other cases in which these former subsidiaries are jointly involved with other German producers and whose maximum contingency amounts to EUR 65.2 million. According to the opinion of our 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.

47. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors and authorized for issuance on 21 March 2017.

STATUTORY EXTERNAL AUDITOR REPORT

STATUTORY AUDIT BOARD REPORT

SONAE INDUSTRIA

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sonae Indústria, SGPS, S.A. (the Entity), which comprise the statement of financial position as at 31 December 2016 (which shows total assets of Euro 443,396,859 and total shareholders' equity of Euro 253,296,157 including a net loss of Euro 129,563,124), the statement of income 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Sonae Indústria, SGPS, S.A as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of the Entity and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. 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.

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Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Key Audit Matter	*Summary of the Audit Approach*
Valuation of Financial Investments	
As disclosed in the note 5 of the separate financial statements, Sonae Indústria, SGPS, SA held financial interests in subsidiaries and joint ventures amounting to Euro 419,431,549, measured at acquisition cost and assessed for impairment at each reporting date through indicators that might indicate impairment. Those financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As at 31 December 2016, valuation models were used for testing the recoverability of financial interests amounting to Euro 209,604,247, as disclosed in the notes 5.2 b) and c) and 5.3. The assessment of fair value and value of use of those financial investments, based on the methodology of discounted cash flows was considered a key audit matter due to its significant impact on the separate financial statements as at 31 December 2016 (impairment charge amounting to Euro 217,415,807) and because the assessment process is highly judgmental, as it is based on estimations and assumptions defined by the management that are affected by expected future market and economic conditions impacting on the projected cash flows and on fair value adjustments on the buildings owned by some subsidiaries.	Our audit procedures included, among others (i) verifying the existence of impairment indicators in financial interests (ii) assessing the objectivity and competency of the external experts involved in the fair value determination of some financial interests, particularly in which concerns the independence requirements, for which we obtained independence confirmations, (iii) meeting one of the external expert to understand the methodology and key assumptions used for the determination of fair value of the joint venture, (iv) assessing the reasonableness of the key assumptions and methodology used in the calculations, namely, discount rate and growth rate, as well as (v) in respect of the fair value of the interest in the joint venture, involving our internal experts in reviewing scenarios and performing sensitivity analysis around the key variables. We also focused on the adequacy of the Entity's disclosures regarding the valuation of financial investments in subsidiaries and joint ventures, in accordance with the applicable accounting standard.
Litigations and Contingencies	
As outlined in the note 29 to the separate financial statements, there is a number of ongoing tax and regulatory cases against the group, particularly the anti-trust processes filed by some customers for damages resulting from the alleged violation of competition regulations against a subsidiary of the joint venture, Sonae Arauco, SA, fully indemnifiable by Sonae Indústria SGPS, as contemplated in the share subscription agreement with the other partner. As disclosed in the same note, the exposure is	Our audit procedures included, among others, identifying the events generating potential contingencies at the date of the financial reporting; understanding their nature, inquiring management's judgment of the related outcome, the nature and the status of the ongoing contingent processes dealt by the external lawyer, as well as reviewing the legal letters received from the external lawyer. We have also assessed the objectivity and competency of that lawyer and particularly in which concerns the

Key Audit Matter	*Summary of the Audit Approach*
disclosed as a contingent liability, as, at the closing date of these consolidated financial statements, it is not possible to estimate the outcome. The maximum contingency amounts to approximately Euro 31.5 million and approximately Euro 65.2 million jointly with other wood-based panels manufacturers. Due to the amounts involved, litigations and contingencies were considered a key audit matter and also because management's assessment process is complex and highly judgmental and the outcome depends upon potential future developments and, consequently, the calculation of potential liabilities (if deemed to be determined) is subject to a high level of unpredictability.	independence requirements, an independence confirmation has been obtained. We also validated the appropriateness of the related disclosures in the separate financial statements in accordance with the applicable accounting standards.

Other information – alternative indicators (proportional proforma and corporate responsibility – sections 3.5 and 5 of the director's report)

Management is responsible for the preparation and gathering the alternative indicators (proportional proforma and corporate responsibility) included in the sections 3.5 and 5 of the director's report, as management considers that this information enables a more comprehensive view of Sonae Industria's business. That other information comprises the referred sections of the director's report, but does not include the remaining sections, nor the financial statements and our statutory audit report and auditor's report thereon.

Our opinion on the financial statements and our report on other legal and regulatory requirements does not cover the information included in the sections 3.5 and 5 of the director's report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements and report on other legal and regulatory requirements, our responsibility is to read the sections 3.5 and 5 of the director's report and, in doing so, consider whether the other information included in those sections is materially inconsistent with our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Entity in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria;

e) the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Entity's financial information.

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 misstatement, 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 scepticism throughout the audit. We also:

a) 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;

b) 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;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) 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 auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

e) 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;

f) communicate with those charged with governance, including the supervisory board, 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;

g) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure;

h) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report, except for the sections 3.5 and 5, has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report, except in the sections 3.5 and 5, is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Sonae Indústria, SGPS, S.A. in the Shareholders' General Meeting of 31 May 2006 for the period from 2006 to 2008, having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting of 31 March 2015 for the period from 2015 to 2017.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Entity's supervisory board as of 21 March 2017.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Entity in conducting our audit.

21 March 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

Herminio António Paulos Afonso, R.O.C.

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sonae Indústria, SGPS, S.A. (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 (which shows total assets of Euro 399,035,214 euros and total shareholders' equity of Euro 110,338,155 euros including a net profit of Euro 11,008,954 euros), the consolidated statement of income 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Sonae Indústria, SGPS, S.A. as at 31 December 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. 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.

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Key Audit Matter	Summary of the Audit Approach
Valuation of investments in joint ventures	
As disclosed in the note 5 of the consolidated financial statements, the dilution of the financial interest in the subsidiary, Sonae Arauco, S.A. (former Tableros de Fibras, SA) and its affiliates, with the subsequent change from control to joint control, resulted in the revaluation of the interest from Euro 147,304,255 to Euro 185,981,068 at the date of the dilution, based on an external valuation for the revaluation of the interest. This fair value valuation was considered a key audit matter due to its significant impact on the consolidated financial statements as at 31 December 2016 (gain amounting to Euro 38,676,813) and because the assessment process is highly judgmental, and is based on estimations and assumptions defined by the management that are affected by expected future market and economic conditions.	Our audit procedures included, among others (i) assessing the objectivity and competency of the external expert involved in the fair value determination, particularly in which concerns the independence requirements, for which we received an independence confirmation, (ii) meeting the external expert to understand the methodology and key assumptions used for the determination of fair value of the joint venture, (iii) assessing the reasonableness of the key assumptions and methodology used in the calculation, namely, discount rate and growth rate and involving our internal experts in addressing this matter, as well as (iv) reviewing scenarios and performing sensitivity analysis around the key variables. We also focused on the adequacy of the group's disclosures, namely, among others, regarding the determination of the revaluation amount in opposition to the transaction value, as defined by the applicable accounting standard.
Litigations and contingencies	
As outlined in the note 46 to the consolidated financial statements, there is a number of ongoing tax and regulatory cases against the group, particularly the anti-trust processes filed by some customers for damages resulting from the alleged violation of competition regulations against two subsidiaries of the joint venture, Sonae Arauco, SA, fully indemnifiable by Sonae Indústria SGPS, as contemplated in the share subscription agreement with the other partner. As disclosed in the same note, the exposure is disclosed as a contingent liability, as, at the closing date of these consolidated financial statements, it is not possible to estimate the outcome. The maximum contingency amounts to approximately Euro 31.5 million and	Our audit procedures included, among others, identifying the events generating potential contingencies at the date of the financial reporting; understanding their nature, inquiring management's judgment of the related outcome, the nature and the status of the ongoing contingent processes dealt by the external lawyer, as well as reviewing the legal letters received from the external lawyer. We have also assessed the objectivity and competency of that lawyer and particularly in which concerns the independence requirements, an independence confirmation has been obtained. We also validated the appropriateness of the related disclosures in the consolidated financial

Key Audit Matter	*Summary of the Audit Approach*
approximately Euro 65.2 million jointly with other wood-based panels manufacturers. Due to the amounts involved, litigations and contingencies were considered a key audit matter and also because management's assessment process is complex and highly judgmental and the outcome depends upon potential future developments and, consequently, the calculation of potential liabilities (if deemed to be determined) is subject to a high level of unpredictability.	statements in accordance with the applicable accounting standards.
Impairment of tangible fixed assets	
As referred to in the group accounting policies (note 2.9), assets are assessed for impairment whenever events in circumstances indicate that the carrying amount of an asset may not be recoverable. As at 31 December 2016, the caption Tangible Fixed Assets include inactive items amounting to Euro 6,824,027 related to discontinued operational sites without any perspective of sale in the near future. Their recoverable amount was valued by an external appraisal and, as disclosed in the note 34 to the consolidated financial statements, an impairment charge of Euro 3,163,484 was booked. The assessment of the fair value of those inactive assets was considered a key audit matter, taking into account that there were no recent transactions nor an active market, and consequently, a highly judgment is required for determining the related value.	Our audit procedures included, among others, obtaining the external appraisals, assessing the criteria used by the external appraiser for determining the fair value of those assets and its adequacy for the consolidated financial statements purposes and inactive items. We also assessed the objectivity and the competence of the appraiser and particularly in which concerns the independence requirements, an independence confirmation has been obtained. We also focused on the adequacy of the Group's disclosures about those impairment tests, in accordance with the applicable accounting standards.

Other information – alternative indicators (proportional proforma and corporate responsibility – sections 3.5 and 5 of the director's report)

Management is responsible for the preparation and gathering the alternative indicators (proportional proforma and corporate responsibility) included in the sections 3.5 and 5 of the director's report, as management considers that this information enables a more comprehensive view of Sonae Industria's business. That other information comprises the referred sections of the director's report, but does not include the remaining sections, nor the consolidated financial statements and our statutory audit report and auditor's report thereon.

Our opinion on the consolidated financial statements and our report on other legal and regulatory requirements does not cover the information included in the sections 3.5 and 5 of the director's report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and report on other legal and regulatory requirements, our responsibility is to read the sections 3.5 and 5 of the director's report and, in doing so, consider whether the other information included in those sections is materially inconsistent with our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report , including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria;

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

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 misstatement, 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 scepticism throughout the audit. We also:

a) 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;

b) 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;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) 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;

g) communicate with those charged with governance, including the supervisory board, 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;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure;

i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report, except for the sections 3.5 and 5, has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report, except in the sections 3.5 and 5, is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Sonae Industria, SGPS, S.A. in the Shareholders' General Meeting of 31 May 2006 for the period from 2006 to 2008, having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting of 31 March 2015 for the period from 2015 to 2017.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of 21 March 2017.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

21 March 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

Hermínio António Paulos Afonso, R.O.C.

Report and Opinion of the Statutory Audit Board
(Free translation from the original in Portuguese)

To the Shareholders of Sonae Indústria, SGPS, S.A.

In accordance with current law, statutory norms and the mandate we have been conferred, the Statutory Audit Board presents this report and opinion regarding the management report of Sonae Indústria, S. G. P.S., S. A. as at 31 December 2016 and further related individual and consolidated financial statements, which are the Board of Directors' responsibility.

Supervision

During the period the Statutory Audit Board has accompanied the Company's management, the evolution of its activities and those of its subsidiaries and convened meetings with the frequency and extent deemed appropriate. According to the nature of the matters under analysis, the meetings were attended by members of the Board of Directors, by the financial area's operational managers, and by the internal audit and risk management manager. We have been in close contact with the Statutory External Auditor who kept us informed about the nature and conclusions of performed audit work. The Statutory Audit Board was given by the Board of Directors, the company's services, the subsidiaries included in the consolidation perimeter and the Statutory External Auditor all information and clarifications requested, namely, for gaining a greater insight into understanding and assessing the evolution of businesses, performance and financial position as well as the risk management and internal control systems.

The Statutory Audit Board has also monitored the process of preparing and disclosing financial information as well as the audit of individual and consolidated financial statements, for which it received from the Statutory External Auditor all requested information and clarifications. Furthermore, within the scope of its competence, the Statutory Audit Board has verified the individual and consolidated statements of financial position as at 31 December 2016, the individual and consolidated income statements, the individual and consolidated statements of comprehensive income, the individual and consolidated statements of changes in net shareholders' funds and the individual and consolidated statements of cash flows and corresponding appendices for the period ended on the aforementioned date. It has also verified the management report for the fiscal year ended on 31 December 2016 issued by the Board of Directors, except for sections 3.5 and 5, and the Statutory External Auditor's Report on the individual and consolidated financial statements and the additional report to the Supervisory Body issued by the Statutory External Auditor, with which the Statutory Audit Board agrees.

In light of the above, it is the Statutory Audit Board's opinion that the information relating to the financial statements under analysis has been prepared in accordance with the applicable accounting, legal and statutory norms, reflecting a true and appropriate image of the assets and liabilities, the financial position and results of Sonae Indústria, S.G.P.S., S. A. and of its subsidiaries included in the consolidation perimeter. The management report duly states the evolution of the businesses, performance and financial position of the company and subsidiaries included in its consolidation perimeter and contains a description of the main risks and uncertainties they are confronted with. Furthermore, the

Statutory Audit Board informs that the Company's Corporate Governance Report complies with the provisions of article 245-A of the Portuguese Securities Code.

The Statutory Audit Board acknowledges the Board of Directors and other departments for their cooperation.

Opinion

As a result of what was previously stated, it is the Statutory Audit Board's opinion that the Shareholders' General Meeting approves the:

a) Management Report, Individual and Consolidated Statements of Financial Position for the fiscal year ended 31 December 2016, Individual and Consolidated Income Statements, Individual and Consolidated Statements of Comprehensive Income, Individual and Consolidated Statements of Changes in Net Shareholders' Funds and Individual and Consolidated Statements of Cash Flows and corresponding Appendices for the period ended on the aforementioned date;

b) Proposal for Allocation of Results submitted by the Board of Directors.

Additionally, the Statutory Audit Board was informed that it is the Board of Directors' intention to present a set of proposals namely the allocation of results with the objective of addressing the loss of over fifty percent of Sonae Indústria, SGPS, S.A. share capital. The Statutory Audit Board agrees with such proposals and recommends that Shareholders discuss them according to the law.

Statement of responsibility

In accordance with the provisions of article 245, nr. 1, c) of the Securities Code ("Código dos Valores Mobiliários"), the Statutory Audit Board's members state to the best of their knowledge that the information included in the management report and the other financial statements was prepared in compliance with the applicable accounting standards and provides a true and appropriate image of the assets, liabilities, financial position and results of the company and subsidiaries included in its consolidation perimeter.
Furthermore, the Statutory Audit Board is of the opinion that the management report duly states the evolution of businesses, performance and position of the company and subsidiaries included in its consolidation perimeter, and contains a description of the main risks and uncertainties they are confronted with.

Maia, 21 March 2017

The Statutory Audit Board,

Manuel Heleno Sismeiro

António Augusto Almeida Trabulo

Óscar José Alçada da Quinta