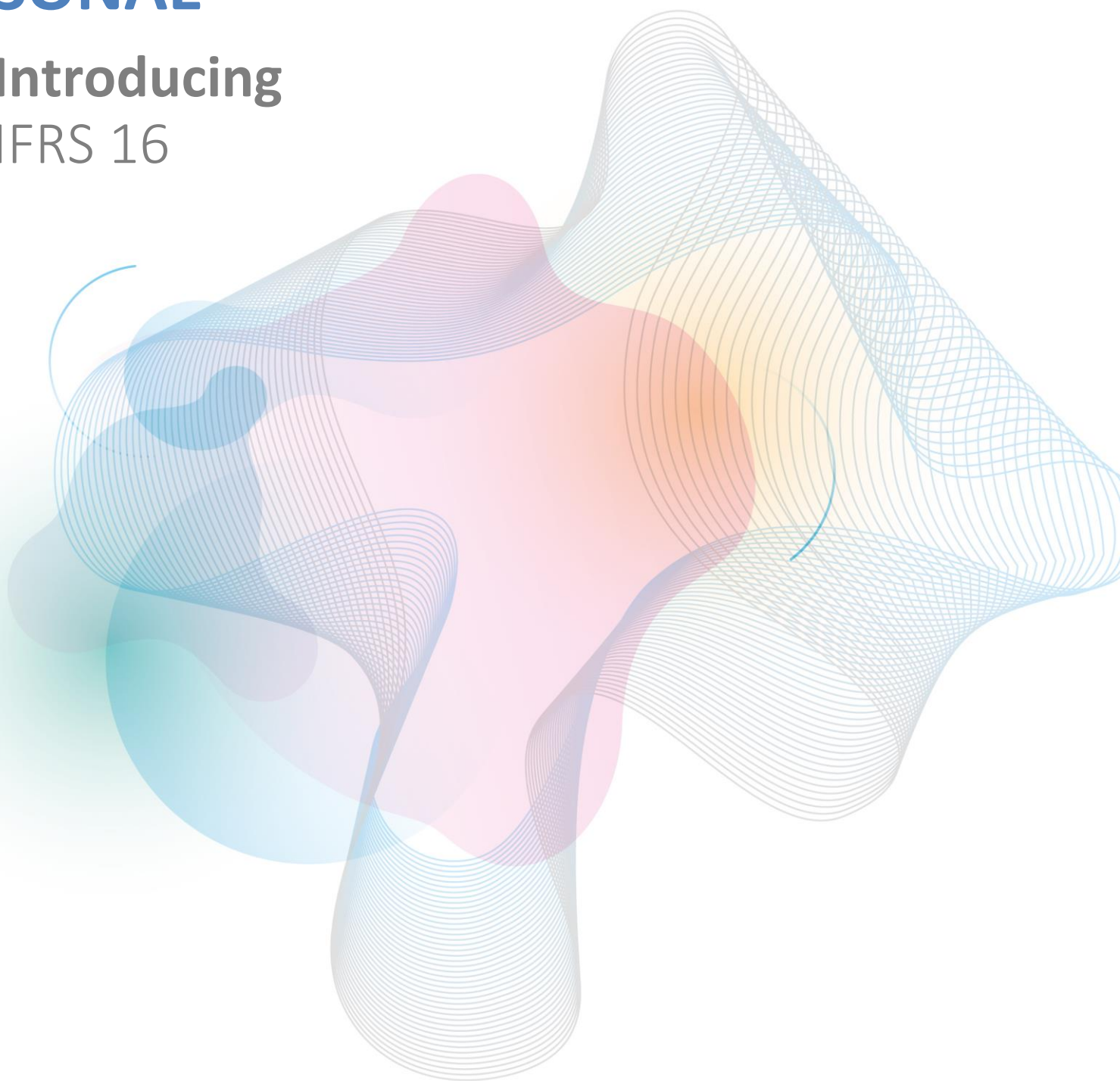


SONAE

Introducing IFRS 16



IMPROVING LIFE



Sonae: Introducing IFRS 16

Sonae SGPS hereby informs about **the estimated impacts of IFRS 16**, the new financial reporting standard on accounting for leases.

IFRS 16 seeks to align the leased assets more closely to owned assets. It defines the principles for the recognition, measurement and presentation of leases, replacing 'IAS 17 – Locations' and its interpretive guidelines. IFRS 16 distinguishes leases and service contracts, taking into account whether an identified asset is controlled by the company. Distinctions of operating leases (off-balance sheet) and finance leases (included in the balance sheet) are eliminated at the level of the lessee and are replaced by a model in which an asset is identified with a right of use and a corresponding liability for all lease contracts, except for short-term (up to 12 months) and low value contracts. The "right of use" is initially measured at cost and subsequently at the net cost of depreciation and impairment, adjusted by the remeasurement of the lease liability. The lease liability is initially measured based on the present value of the lease liabilities to date. Subsequently, the lease liability is adjusted by the financial update of said amount, as well as the possible modifications of the lease contracts.

Sonae decided to apply IFRS 16 in accordance with the **full retrospective approach** as it enables a more **comprehensive and transparent reporting by allowing comparison with the previous periods**, since the financial statements for 2018 can be restated. The application of the full retrospective approach shows the reported figures as if this standard had been applied since the beginning of each lease contract. During 2017 and 2018, about 3,900 lease contracts were analysed, of which approximately 1,800 are related to real estate.

IFRS 16 will be effective for all accounting periods starting from 1 January 2019 onwards, and Sonae's first results under this new standard will be **1Q19, which will be released on May 15th**.

The application of this new standard will have **no economic or cash impact** on Sonae and, in particular, will not affect the company's **financing capacity and funding costs**.

The headline estimated impacts of applying IFRS 16 to Sonae's 2018 full-year financials are summarised as follows¹:

- **Turnover** and **cash flow** are unaffected
- **Underlying EBITDA** is positively impacted by €138 M reaching €510 M, with a margin of 8.6%, due to the exclusion of rents considered under the new standard
- **Earnings before taxes** are negatively impacted by €20 M reaching €202 M, due to higher depreciations (€90 M) and financial costs (€68 M), which more than offset the excluded rents, because most of Sonae's lease portfolio is still at relatively early contract stages and this will revert in the following years
- **Total assets** increase by the "right of use" of €970 M
- **Shareholders' funds** have a negative impact of €90 M
- **Liabilities** increase by the value of the lease liability of approximately €1,060 M, which implies a multiple on rents of 7.7x

For further details, please see the annexes to Sonae consolidated accounts released today to the market.

¹ These impacts are unaudited and do not consider equity method consolidated company effects, namely NOS and ISRG.

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Group's P&L and Balance Sheet²

P&L Million euros	2018 as reported	IFRS 16 impact	2018 restated	comments
Turnover	5,951	-	5,951	No change
Underlying EBITDA	372	138	510	Rents excluded
margin	6.3%	-	8.6%	
Equity method results	53	-	53	No change
Non-recurrent items	58	-	58	No change
EBITDA	483	138	621	
margin	8.1%	-	10.4%	
Depreciations and Amortizations	-225	-90	-315	Depreciation charge added
EBIT	258	48	306	
Net financial results	-36	-68	-104	Lease interest added
Earnings before taxes	222	-20	202	

Balance sheet Million euros	2018 as reported	IFRS 16 impact	2018 restated	comments
Net fixed assets and financial investments	5,827	970	6,797	"Right of use" added
Working capital	-1,222	-	-1,222	No change
Invested capital	4,605	970	5,575	
Shareholders' funds	3,289	-90	3,199	Equity reduced
Net debt	1,317	-	1,317	No change
Lease liabilities	-	1,060	1,060	"Lease liability" added
Sources of financing	4,605	970	5,575	

² These impacts are unaudited and do not consider equity method consolidated company effects, namely NOS and ISRG.



Glossary

EBIT	Earnings Before Taxes (EBT) – net financial results.
EBITDA	Underlying EBITDA + equity method results + non-recurrent items.
EBITDA margin	EBITDA / turnover.
Invested capital	Total net debt + Lease Liabilities + total shareholders' funds.
Lease Liability	Net present value of payments to use the asset
Net debt	Bonds + bank loans + other loans + financial leases + shareholder loans - cash, bank deposits, current investments, and other long-term financial applications.
Right of use	Lease liability at the beginning of the lease adjusted for, initial direct costs, advance rent payments and possible lease discounts
Underlying EBITDA	Recurrent EBITDA from the businesses consolidated using the full consolidation method.
Underlying EBITDA margin	Underlying EBITDA / turnover.



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This document may contain forward-looking information and statements, based on management's current expectations or beliefs. Forward-looking statements are statements that should not be regarded as historical facts.

These forward-looking statements are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements, including, but not limited to, changes in regulation, industry and economic conditions; and the effects of competition. Forward-looking statements may be identified by words such as "believes," "expects," "anticipates," "projects," "intends," "should," "seeks," "estimates," "future" or similar expressions.

Although these statements reflect our current expectations, which we believe are reasonable, investors and analysts, and generally all recipients of this document, are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond our control, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. You are cautioned not to put undue reliance on any forward-looking information or statements. We do not undertake any obligation to update any forward-looking information or statements.

Report available at Sonae's institutional website
www.sonae.pt

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SONAE is listed on the Euronext Stock Exchange.
Information may also be accessed on Reuters
under the symbol **SONP.IN** and on Bloomberg
under the symbol **SON PL**