IFRS 16 adoption

executive summary
of guiding principles
and main impacts

Matosinhos, 1st April 2019

Sonae MC's new reporting perimeter

IFRS 16 adoption in Sonae MC

The IFRS 16 – Leases standard was published in January 2016 and is mandatory for accounting periods beginning in the 2019 financial year. **Under IFRS 16, all leases are to be brought onto the balance sheet by recognising a right-of-use asset and a lease liability equivalent to the present value of future lease payments. Correspondingly, it also affects the presentation of the income statement, with rental charges being replaced by depreciation (on right of use asset) and interest (on lease liability).**

On transition to the new standard, Sonae MC adopted the full retrospective approach to provide analysts of its financial statements with a more comprehensive view, ensure comparability, and enable performance assessment over time.

Throughout the implementation process, Sonae MC reviewed over 2.400 lease contracts including vehicle, equipment and external real estate leases, which represent most of its lease commitments. To calculate the IFRS 16 lease liability, Sonae MC applied a thorough process to determine the specific discount rates of all applicable leases, considering lease amount and currency, lease start date and term, and economic backdrop, among other inputs.

And so, Sonae MC's financial statements in the comparative year (2018) are adjusted as if IFRS 16 had always been applied. Main re-statements[1] can be summarised as follows:

- **Turnover is unaffected**.
- **Underlying EBITDA rises** by €105m to €423m, as both vehicle and equipment rents of €5m and real estate external rents of €99m are removed. The remaining €3m in rents refer mainly to contracts with variable lease payment components, that are excluded from the lease liability under IFRS 16. **Underlying EBITDA margin re-adjusts** by 2.4 p.p. to 9.8%.
- **Earnings before tax decrease** by €14m to €166m, since depreciation and leases interest adjustments have a higher impact in the income statement than the adjustment in rents. This result is a consequence of the early maturity of Sonae MC's lease portfolio and will revert in the following years.
- **Shareholders' funds reduce** by €86m to €675m, as the **'new' lease liability** of €859m and the **'new' right of use asset** of €773m are brought on the balance sheet.
- **Net debt to Underlying EBITDA ratio is re-stated** to 3.5x, due to the impacts both in Net debt and Underlying EBITDA, enabling the Company to maintain a sound financial profile.

From Q1 2019, Sonae MC will start reporting according with IFRS 16. In due course, the 2018 quarterly results under the new standard will be shared to allow for a smoother transition and comparison.

This will not affect the Company's economic and financial priorities, nor change the cash-flow generating capacity of the business. **Therefore, Sonae MC will maintain a steady focus on profitable growth and long-term value creation for stakeholders, while continuing to ensure a robust and conservative capital structure.**

[1] Unaudited figures calculated based on proforma accounts

Income statement impact (unaudited)

(€m)	Full year 2018			
	Proforma	Adjustments	Under IFRS 16	
Turnover	**4,308**	-	**4,308**	No change
Underlying EBITDAR	**421**	**5**	**426**	Vehicle and equipment leases removed
Rents	-102	99	-3	Real estate leases removed (excluding, mainly, variable lease payments)
Underlying EBITDA	**319**	**105**	**423**	
D&A and provisions & impairments	-160	-66	-226	Depreciation charge added
Underlying EBIT	**158**	**38**	**197**	
Non-recurrent items	35	-	35	No change
EBIT	**194**	**38**	**232**	
Financial and investment income	-13	-	-13	No change
Leases interest	-	-52	-52	High interest charge, reflecting early maturity of lease portfolio
Earnings before tax	**180**	**-14**	**166**	

Balance sheet impact (unaudited)

(€m)	Full year 2018			
	Proforma	Adjustments	Under IFRS 16	
Net fixed assets & financial investments	1,972	773	2,745	Right of use asset added (net of annulments of anticipated rents)
Working capital	-604	-	-604	No change
Capital employed	**1,368**	**773**	**2,141**	
Shareholders' funds	761	-86	675	Shareholders' funds reduced
Net debt	607	859	1,465	Lease liability added
Sources of financing	**1,368**	**773**	**2,141**	

Key metrics impact (unaudited)

(€m)	Full year 2018			
	Proforma	Adjustments	Under IFRS 16	
Underlying EBITDA margin	7.4%	2.4 p.p.	9.8%	Margin increased due to rent being replaced by depreciation and interest
Net debt / Underlying EBITDA	1.9x	-	3.5x	Net debt increased proportionally higher than Underlying EBITDA
Underlying lease multiplier	-	-	7.8x	Considers annualized lease payments

Glossary

Turnover: total revenue from sales and services rendered

Underlying EBITDAR: Underlying EBITDA before rents

Rents: rental costs from leased real estate assets

Underlying EBITDA: EBITDA excluding non-recurrent items

EBITDA: EBIT before depreciation and amortization expenses, provisions and impairments losses, gains/(losses) on the disposal of subsidiaries, losses on the disposal of assets and gains on sales of assets excluding non-recurrent items (net capital gains/losses on the sale-and-leaseback transactions of real estate assets)

Underlying EBIT: EBIT excluding non-recurrent items

Non-recurrent items: net capital gains/losses on the sale & leaseback transactions of real estate assets

EBIT: profit before interests, tax, dividends and share of profit or loss of joint ventures and associates

Underlying EBITDA margin: Underlying EBITDA as percentage of turnover

Net fixed assets and financial investments: property, plant and equipment, intangible assets, goodwill, investments in joint ventures and associates and other non-current investments

Working capital: inventories, trade payables and other assets and liabilities (excluding loans obtained from non-controlling interests, items included in the computation of net debt and Shareholders attributed dividends)

Shareholders' funds: equity attributable to owners of the company and non-controlling interests

Gross debt: loans, bonds and other loans, leases and derivatives

Net debt: gross debt less cash and bank balances and other current investments

Safe Harbour

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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.

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