CONTENTS

02  1. About this report

04  2. Chairman’s letter

06  3. CEO’s message

08  4. Our business context

16  5. Vision, values and principles

20  6. EMBRACING SUSTAINABILITY

27  6.1 Corporate governance

29  6.2 Risk management

32  6.3 Economic efficiency

38  6.4 Environmental resources and efficiency

47  6.5 People in the organization

58  6.6 Local community

63  6.7 Human rights

65  6.8 Product responsibility

70  7. Objectives - summary table

73  8. Complementary information
PRINCIPLES FOR THE REPORTING

The purpose of this report is to provide our stakeholders with an overall fair, transparent and balanced picture of relevant practices, results and commitments in key areas related to sustainability. We believe that the report satisfies this purpose. To a certain degree, our report is inspired by the reporting principles of the Sustainability Reporting Guidelines 2006 from the Global Reporting Initiative (GRI). This year, we have based the selection of reported information on an internal assessment identifying material aspects. Stakeholders include shareholders and the investors’ community, Sonae Indústria employees and all others impacted by our operations, including restructuring processes.

We have endeavoured to provide information that is in accordance with the principles of sound reporting practice. The absence of generally accepted reporting standards and practices in certain areas may nevertheless make it difficult to compare our performance with performance reported by other companies, without the availability of further data, analyses and interpretations.

REPORTING SCOPE AND LIMITATIONS

The scope of the report is for the period 1st of January to 31st of December 2006. As this is our first sustainability report, however, we have taken the opportunity to highlight the progress and history of recent years in a number of areas in order to better present our case and make the understanding of the contents clearer. The report covers the Sonae Indústria operations worldwide, including local companies that carry the names Glunz, Isoroy, Sonae Novobord, Sonae UK, Tafisa, Tafisa Canada and Tafisa Brasil (please see table at the end of this report). The information, with the identified exceptions, is presented in a consolidated form.
Data relating to health and safety, and the environment have been prepared by individual reporting units in accordance with corporate reporting requirements. Other data has been collected from the relevant corporate functions (such as Planning and Management Control, and Human Resources) and directly from the operating units. Definitions and measures for individual indicators appear in the report along with information about such indicators, where appropriate.

It is not the intention to report detailed information on individual operations, processes, activities and products.

Information in the report is based on input from many units and sources of data. Emphasis has been placed on ensuring that the information is neither incomplete nor misleading to any material extent.

RESPONSIBILITY OF THE REPORT
On the 14th of June, the Executive Committee considered and approved the 2006 Sustainability Report for Sonae Indústria.
HOW WOOD-BASED PANELS CONTRIBUTE TO SUSTAINABLE DEVELOPMENT

The building sector accounts for about one third of global energy use and related CO₂ emissions. Forests in many parts of the world are threatened, with related consequences for biodiversity and the living conditions of many people. And people have reasonable expectations of living in decent homes with access to affordable quality material. The challenge of the building sector is therefore to provide all the comforts of modern living while minimizing adverse impacts on the environment.

Compared to other construction materials such as steel and concrete, wood has significantly lower adverse environmental impacts when used as building material. Wood-based panels thus have a positive effect on global warming through improved energy efficiency, which enables home owners to reduce energy spending significantly. And when used for construction purposes, they function as carbon stores, thereby helping to mitigate CO₂ emissions. At the end of their service life, wood-based panels can be recycled and made into new products and in this way re-enter a continued recycling cycle. The demand for wood and wood-based panels in the construction industry should therefore increase more and more.
Dear stakeholder,

These are exciting times. Never before have the challenges facing the sustainability of our planet been greater, and never before have we had the current level of technical - and technological - means to solve them. Ideas can be shared instantaneously around the world and through innovation, alternatives to current practices are constantly being developed. Thus, while some human activity may have negative social and environmental impacts, the same humans have the power and ability to change the course and turn developments around for the better, if they are willing to do so.

I believe that companies should contribute to this process within their sphere of influence. At Sonae Indústria, I see a high level of commitment to sustainable profitable growth, some progress already made, and a path ahead to enhance performance. By implementing the steps and actions outlined in this report, Sonae Indústria will be able to define key performance indicators in areas of concern and to monitor and measure future performance. With this first Sustainability Report, the organization has set out on the important journey of communicating performance, plans, successes, and challenges to key stakeholders in an effort to be transparent. I endorse and would like to congratulate them on this decision.

Because of the nature of its products, Sonae Indústria is making a sound contribution to sustainable development. The current range of wood-based panels is decorative, functional and affordable while at the same time contributing to energy efficiency by means of specially developed boards designed to provide a maximum of interior and exterior thermal and acoustic insulation. A major percentage of raw materials are recycled or reused wood, sourced from local sustainable sources, thereby contributing to the preservation of forests and reduction of emissions from long-distance transport. And, in addition, Sonae Indústria is committed to the development of sustainable production processes and practices, and to planning its long-term industrial investment needs. This also includes a high level of commitment to the people who work hard every day within the company to meet deadlines and achieve new goals.

I strongly approve Sonae Indústria approach and commitment and indeed promote them in the first place. I believe that Sonae Indústria is aiming at being an exemplary manufacturing company that can provide the ultimate in wood-based panels to customers while actively managing social, environmental, and economic impacts.

Having said that, I am fully aware that Sonae Indústria’s stakeholders are looking not only at the sustainability of products but also at the kind of company Sonae Indústria is. They want to know that the company has sound values and principles and that these values guide managers and employees in everything they do every day of the year. To meet these expectations, I know Sonae Indústria strives to be a fair and reliable business partner and to demonstrate the courage and determination required to stand firmly by the company’s values whatever the circumstances. I believe the company has always lived by these principles, but the fact that company management is initiating the formalization of its code of conduct, which used to be implicit, is appropriate at this time. To this end, I expect all Sonae Indústria employees around the world to work with enthusiasm, enjoyment and determination to put the “Sonae Indústria Way” into practice in their day-to-day work, and to strive to always act in accordance with the company’s commitment to sustainable profitable growth.

Belmiro de Azevedo
(Maia, 14th of June 2007)
“We have a long track record of responsible business practices, and we are committed and well prepared to continuously improve our performance as requirements and expectations increase.”
Dear reader,

This is our first Sustainability Report. It tells you how far we have travelled on our journey towards sustainability. We have a long track record of responsible business practices, and we are committed and well prepared to continuously improve our performance as requirements and expectations increase. We are excited challenging the people of Sonae Indústria and our business partners to engage in achieving our target to become a sustainable profitable company. A lot is being done but we still have a lot to do.

Maintaining a strong balance sheet and ensuring the continuous improvement of our operational performance is vital and a prerequisite for becoming a sustainable company. Our financial position and performance is improving, and we were satisfied with the 2006 increase in turnover of 16% to 1,699 million Euros and the increase of EBITDA of 13% to 234 million Euros, compared to last year. We also had an unprecedented growth in production capacity and, in addition, a growth in capacity utilisation.

To meet our ambition of becoming a recognized sustainable company, we have identified a number of targets and objectives, which we will set out to achieve during 2007. Please see the table at the end of this report for a summary of these targets and objectives.

In 2006, we improved our performance in some of our key sustainability measures:

› We acquired the Hornitex assets (Germany) and the Darbo plant (France) and established a new melamine line in Canada. We started the investment in a new particleboard line in South Africa, which will commence production in June 2007, and are also investing in the rebuilding of the particleboard line in Canada, which was affected by a fire in April 2006. This new particleboard line is expected to be operational from the beginning of the 4th quarter 2007 onwards. In 2006, total investment in our regional operations amounted to 126 million Euros (excluding the value of new acquisitions).

› In the environmental area, we have been focusing on ensuring that basic prerequisites for successful management of environmental performance are well established. We have developed regulation checklists for verification of compliance worldwide and introduced a framework for global Corporate Environmental Surveys, including a comprehensive assessment of environmental compliance for each of our operations. We have also updated our Sonae Indústria Environmental Policy from 1996 in order for it to reflect the challenges our company faces today.

› We also concluded a health and safety diagnosis in 17 of our operations to understand precisely how these issues are approached at a country and regional level. We found that while some operations were actively addressing the issues, they did so very much from a local point of view. As a result, we developed our first corporate Sonae Indústria Health and Safety Policy, which is a major step towards the standardization of our health and safety efforts at a global level. We also developed a set of 14 health and safety standards with which all our operations are expected to fully comply by 2010.

› We also conducted our first-ever global employee climate survey, which will be a valuable tool for further improvements going forward. The survey results showed an overall favourable opinion for our organisational climate, leaving, however, room for improvement, as around 50% of the replies were overall favourable with approximately 25% being unfavourable. Compared to other companies against whom we were benchmarked, we were pleased to score favourably on employee commitment to our company and the commitment of management to improve performance in all areas. Our employees told us that there was room for improvement in relation to rewards and to flexibility regarding the ease of operating with rules and procedures in our company.

Despite all these efforts and initiatives, we are very sad and dissatisfied that six fatalities occurred in 2006. We are particularly sorry that the fatalities happened in a year of increased focus on building awareness and competencies in the area of health and safety within our operations, and we extend our deepest sympathy and condolences to the relatives of the people affected. The health and safety of the people employed by us and of those that are service providers to our business is of the utmost importance to us, and we are committed to doing everything in our power to secure people’s safety and well-being during operations.

In this report, you can also read about the governance structures of Sonae Indústria and how we manage risk in a variety of areas, how we seek to manage human rights, and how we seek to add value to the local communities in which we operate.

Developing this Sustainability Report 2006 was a very constructive process for us. It helped us to recognise where improvements are needed and to plan how we can move forward and implement changes. It will help us to give the “Sonae Indústria Way” new life. We will hold ourselves accountable for these goals in next year’s report. This is how we want to strive to continue improving performance. By committing to issuing our Sustainability Report 2007 to the public, we will stress transparency and continue to build trust with you and our other key stakeholders. I trust you will enjoy reading this report.

Carlos Bianchi de Aguiar
(Maia, 14th of June 2007)
ABOUT SONAE INDÚSTRIA

With 34 plants spread across 9 countries on 4 continents, we are one of the largest wood-based panel producers in the world. In 2006, our business had 7,041 employees worldwide and a turnover of 1,699 million Euros. Our products are sold in 92 countries and we have a production capacity of over 10 million m$^3$ of wood-based panels a year.

FIGURE 1: Capacity by product and region (2006)

FIGURE 2: Number of employees by country (by the 31st of December 2006)
We were a subsidiary of Sonae SGPS until 2005, when a spin-off from the Sonae Group took place, and we focused exclusively on our core competency, the production of wood-based panels. Our business is oriented towards improving operational performance, and we pride ourselves on a strong and efficient workforce. Through sound corporate governance rules, efficient risk management, and genuine concerns for the environment and the safety of our people, our aim is to be recognised as a sustainable world leader in the wood-based panels industry.

Since the foundation in 1959, we have gone through a long-term solid expansion process with a combination of organic growth and acquisitions. Throughout the 1990's, a number of acquisitions and significant investments in greenfield projects were made in Brazil, Canada, South Africa, Spain and the UK. In 1998, we expanded into Germany and France when we bought the German Group Glunz. By 2001, our raw board production capacity had grown to more than 8 million m³ compared to just 5.3 million m³ in 1999.

In 2005, we entered into a joint venture with Tarkett in Eiweiler, Germany. Most recently in 2006, we bought the assets of the German Group Hornitex and a particleboard plant in France (Darbo) and invested in new production lines to increase capacity in South Africa and to replace a damaged line in Canada.
**Acquisition of a PB plant in Linxe, Darbo** from 10th of September 2006

- Investment of 30 million Euros equity, 3 million Euros net debt
- 450 thousand m³ of PB capacity and 7 million m² of MF capacity
- Sales of 55 million Euros in 2005, EBITDA breakeven reached in the 2nd quarter 2006
- Integration in Iberian management structure - Synergies will be achieved to bring profitability to the average level of the Sonae Indústria’s Group

**Joint-venture with Tarkett for the production of laminate flooring in Eiweiler**

- Production started in October 2006
- Investment of 60 million Euros to add a flooring line and an automatic warehouse
- Capacity to produce 25 million m² of laminate flooring
- Downstream growth in the value-chain in order to secure higher and less volatile profitability

**Acquisition of Hornitex plants (Beeskow, Horn, Duisburg)** from 1st of July 2006

- 1,1 million m³ PB capacity, 300 thousand m³ of MDF capacity, 38 MW of energy through biomass cogeneration
- In 2006, the main financial impacts were:
  - turnover of 147 million Euros and EBITDA of 18 million Euros
  - investment to acquire Hornitex assets:
    - Equity of 60 million Euros
    - Net debt of 55 million Euros on the Beeskow balance sheet
    - Reclassification of a 40 million Euros operating lease as a capital lease

FIGURES 4, 5 and 6: Total capacity growth / main acquisitions: Linxe (France); Joint-venture with Tarkett (Germany); Hornitex (Germany)

**Turnover & Recurrent EBITDA**

**Iberia (Portugal and Spain)**

<table>
<thead>
<tr>
<th>Millions of Euros</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>400</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200</td>
<td></td>
<td></td>
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<tr>
<td>100</td>
<td></td>
<td></td>
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<tr>
<td>0</td>
<td></td>
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</tbody>
</table>

**Rest of the World (Brazil, Canada and South Africa)**

<table>
<thead>
<tr>
<th>Millions of Euros</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>800</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Central Europe (France, Germany and the U.K.)**

<table>
<thead>
<tr>
<th>Millions of Euros</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000</td>
<td></td>
<td></td>
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<tr>
<td>800</td>
<td>6%</td>
<td>6%</td>
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<tr>
<td>600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200</td>
<td></td>
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<tr>
<td>0</td>
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</tbody>
</table>

FIGURE 7: Turnover and EBITDA (2005 and 2006)
OUR BUSINESS CONTEXT

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash-flow from operations</td>
<td>131 042 656</td>
<td>172 501 617</td>
<td>192 505 586</td>
</tr>
<tr>
<td>Cash-flow from investments</td>
<td>22 276 626</td>
<td>-4 136 616</td>
<td>-182 685 240</td>
</tr>
<tr>
<td>Cash-flow from financing</td>
<td>-100 557 626</td>
<td>-126 688 645</td>
<td>65 427 754</td>
</tr>
<tr>
<td>Total cash-flow</td>
<td>49 763 660</td>
<td>41 678 361</td>
<td>75 250 106</td>
</tr>
</tbody>
</table>

### Appropriation of results

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained earnings</td>
<td></td>
<td>157 749</td>
<td>0</td>
</tr>
<tr>
<td>Legal reserves</td>
<td>68 685</td>
<td>59 994</td>
<td>1 280 144</td>
</tr>
<tr>
<td>Free reserves</td>
<td>1 305 009</td>
<td>982 136</td>
<td>24 322 740</td>
</tr>
<tr>
<td>Proposed dividend</td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 373 694</td>
<td>1 199 879</td>
<td>25 602 864</td>
</tr>
</tbody>
</table>

**FIGURE 8: Appropriation of results and cash-fl ows (Euros)**

### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non current assets</td>
<td>1 242</td>
<td>1 360</td>
</tr>
<tr>
<td>Current assets</td>
<td>561</td>
<td>796</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1 803</td>
<td>2 156</td>
</tr>
<tr>
<td><strong>Total shareholder’s funds</strong></td>
<td>529</td>
<td>548</td>
</tr>
<tr>
<td>Medium-long-term financial debt</td>
<td>665</td>
<td>802</td>
</tr>
<tr>
<td>Short-term financial debt</td>
<td>99</td>
<td>141</td>
</tr>
<tr>
<td>Suppliers</td>
<td>183</td>
<td>259</td>
</tr>
<tr>
<td>Others liabilities</td>
<td>337</td>
<td>406</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1 274</td>
<td>1 608</td>
</tr>
<tr>
<td><strong>Total liabilities + shareholder’s funds</strong></td>
<td>1 803</td>
<td>2 156</td>
</tr>
</tbody>
</table>

**FIGURE 9: Balance sheet structure**
WHAT DRIVES US

Our customers
As a leading wood-based panels producer embracing numerous geographies and cultures, we are committed to delivering excellent quality and customer service. We strive to be a fair and reliable supplier to all our customers and to maintain long-term customer relationships. This allows for close collaboration with customers over time and the collection of valuable insights to be applied in the continuous improvement of products and services. We constantly strive to exchange knowledge of industrial best practices and experience accumulated at our operations around the world, thereby enabling a valuable transfer of expertise and know-how.

Sustainable development
Our commitment to sustainable development drives us to look at business processes and practices in new and innovative ways. As a manufacturing company, we are conscious of the environmental and social footprints we leave behind and consider the management of these issues pertinent to the success of our business. As a first step, we have committed ourselves to the concept of eco-efficiency as defined by the World Business Council for Sustainable Development. This commitment was confirmed by our top management with the adoption of the Directive for the Environmental Policy Statement of Sonae Indústria, issued in May 1996. In 2006, this policy was updated to strengthen the Group’s commitment to critical issues such as sustainable sourcing of raw materials and the adoption of sustainable development and eco-efficiency principles in all business practices.

The health and safety of our people is a key concern. At the operations level, we strive to provide employees and contractors with a safe working environment in order to avoid accidents, injuries, and occupational disease during production operations. We also seek to raise general levels of awareness about health-related issues during day-to-day interactions with our people. As a basis for continued improvement, the Sonae Indústria Executive Committee approved a Corporate Health and Safety Policy in 2006. This initiative followed the creation of a new corporate role of Health and Safety Manager in 2005 a step which led to concrete actions and the development of a structure for handling health and safety related issues company-wide.
It also cemented leadership commitment to managing these issues as a strategic imperative.

Wherever we do business, we share a great concern for the development of the communities in which our people live and work. By actively addressing some of the most challenging issues facing the local and global communities around us, we seek to stimulate change. In South Africa, for example, we are involved in the promotion of previously disadvantaged individuals (PDI’s), and in Brazil we fund education for children on environmental issues. In other places, we engage in dialogue with citizens to resolve issues of concern.

**Growth**

To further consolidate our position as a leading wood-based panels producer, we plan to continue to grow into regions of the world that have a significant potential for economic growth, which are able to provide us with ligneous raw material under competitive conditions, and where we believe our accumulated experience and skills in wood-based panels manufacturing presents a source of competitive advantage and value creation. To achieve this goal, we will continue to optimize our basic operations and processes to secure a lean line of production while maintaining a high level of quality.

**OUR PRODUCTS**

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

Our base products are particleboard (PB) which is very versatile and suitable for all general uses in the furniture and construction industries; medium density fibreboard (MDF), an excellent substitute for solid wood and ideal for the requirements of furniture, flooring and building industry; and oriented strands board (OSB) which is highly resistant and suitable for structural and non-structural applications in the construction industry.
More than 50% of our production is transformed into value added products such as laminate flooring, melamine faced board and acoustic boards. These, in turn, are used in a great variety of applications such as furniture, flooring, shelving, doors, packaging, interior decoration, and kitchen and gardening utensils.

**OUR VALUE CHAIN**

The woodworking industry public image tends to suffer due to issues related to the sourcing and subsequent production of wood and wood-based products. In particular, concern is raised over the impact of deforestation and bad practices in forest management, especially in tropical forests. Companies are being asked to verify that the wood purchased from third parties originates from sustainable, well managed forests, which protect biodiversity as well as the rights of indigenous people. Other concerns are related to the introduction of contaminants through recycled wood and emissions from production processes and products. These are real and pertinent issues, which the industry is working hard to address. We are actively involved in sustainable forest management standardization and certification initiatives both at national and international levels to support this process. And we seek to actively manage our own business processes, ranging from the production, supply chain to customer relations, in a sustainable manner.

**Sourcing and supply chain**

The main source of raw materials used by Sonae Indústria is wood originating from industrial residues, such as sawdust, and post-consumer wood waste. In 2006, 19% of our raw materials consumption came from recycled wood (pre- or post-consumer wood), 43% from by-products supplied from sawmills, and 38% from roundwood, which consist of small logs purchased directly from plantations or well managed forests. This means that the majority of raw materials used in our production of wood-based panels is derived directly from materials, which might otherwise be treated as waste. We turn these materials into sustainable value added products which themselves may be recycled at the end of their lifecycle. Few other industries can boast similar rates of sustainable sourcing. At our Knowsley operation, the amount of recycled wood used in production was 95% in 2006.

Maintaining close, long-term relationships with suppliers supports our ambition to run a sustainable business. It allows for the planning of supplies over time in collaboration with the supplier and ensures a constant level of quality as well as the opportunity to negotiate favourable raw materials prices due to the setup of long-term contracts. We have invested in cleaning equipment allowing us to purge raw materials of certain types of contaminants. Due to the structure and volume of wood-based raw materials, we procure on a regional basis near production operations, minimising logistics cost. Consequently, short-distance transport is maximised and emissions to the air from trucks and other means of transport are reduced. Materials such as resins, methanol, and paper, which are more easily transported across long distances, are purchased centrally from a small number of suppliers with whom we also maintain long-term relationships.

**Production sites**

Production processes are systematically optimized in order to ensure high resources efficiency. For example, otherwise non-reusable and non-recyclable materials from production processes are used to generate energy in the form of heat and power. This not only provides us with an inexpensive local source of energy but also significantly reduces the amount of waste in need of disposal, thus contributing to a sustainable use of resources. Integrated management systems, addressing quality, environment, and safety issues are also a key feature of our operations. Details can be found in the chapters “Environmental resources and efficiency” and “People in the organization”.

**Sales and customers**

Our customers are exclusively wholesalers and industrial customers and hence we have no direct contact with end users. By dedicating one locally based sales person to each customer, we prioritize being within close proximity of our customers, thereby minimizing response time to requests and benefitting from in-depth knowledge of the customer’s requirements. This enables us to maintain strong, long-term relationships with our customers and to live up to our ambition to be a dedicated and reliable supplier. Sales are also planned well in advance in order to avoid spot sales, thereby securing fair prices for the customer.
and stable earnings for Sonae Indústria. Over the years, we have noted great benefits from such long-term sustainable customer relationships in the form of greater mutual confidence, enhanced knowledge of the customer’s industry, and increased predictability in relation to production and sales.

Creating a roadmap for sustainability

Going forward, our ambition is to be able to demonstrate leading edge corporate responsibility and sustainability practices within our industry. We want to be able to clearly articulate our position on these issues and how they are part of the “Sonae Indústria Way”, and to communicate these messages clearly to our stakeholders. We will also ensure efficient integration of our commitments into practices and processes at operations around the world, sharing our ideas with new acquisitions and helping them to embrace our commitments.
OUR VISION AND STRATEGIC GUIDELINES

The aim of Sonae Indústria is to be recognized as a sustainable world leader in the wood-based panels industry. We consider ourselves on a journey towards the realization of this long-term objective with some milestones already met while others have yet to be achieved. To stay on course and retain our focus, we navigate by a set of strategic guidelines which, we believe, will help us to achieve our goal. Above all, we will focus on maintaining the multi-regionality of our business and further expanding it into regions offering suitable business conditions. We will do so while maintaining a strong balance sheet and ensuring economic sustainability of our business, and we will base our operations on sound corporate governance rules. To meet our long-term objective, we must pay constant attention to innovation and the continued improvement of operational performance. We will also take a systematic approach to employee health and safety as well as environmental impacts. Sonae Indústria’s leadership is committed to excelling through a sustainable approach to growth and to embedding this thinking into the way we operate worldwide.

THE “SONAE INDÚSTRIA WAY”

Our corporate culture is the foundation upon which we go about our daily business. It guides the way we interact with each other and with customers and suppliers, and it is the foundation upon which we will seek to fulfill our vision. We tend to refer to a unique “Sonae Indústria way of doing things” when describing the largely intangible web of values and behaviours that characterize our corporate culture. Our leadership sets the tone at the top and our unique culture pervades the entire organization.

We believe that the Sonae Indústria culture is well known for its high degree of flexibility and adaptability amongst our leadership and employees. Closely connected to the history of Sonae SGPS, our path has been one of fast growth and expansion into new markets over a relatively short period of time. At times there has also been a need to pull out of business areas, scale down, or divest businesses. This has significantly impacted the way we think and act today. Through this process, the Sonae Indústria organization has been challenged with absorbing and integrating a number of different corporate and geographical cultures. This integration has so far been successful due to the open-minded approach taken. Rather than
impose the Sonae Indústria culture on new acquisitions, we have sought to engage local management in discussions and collaboration, allowing them to gradually adapt to our approach to doing business. By giving local management a high degree of autonomy, mutual confidence has been built and best practices exchanged for the benefit of all.

Wherever we operate, we pride ourselves on a tradition of - and reputation for - hard work at all levels of the organization. Local management and employees continually challenge themselves to do better. Thus, a recent employee satisfaction survey showed a high degree of work ethics and of responsibility, respect and loyalty towards Sonae Indústria. This, and the recruitment of highly skilled and experienced people at new acquisitions, has enabled us to build profitable and sustainable enterprises in very diverse regions and markets. This is not least due to the continued commitment to sustainable profitable growth by the Sonae Indústria leadership. By living out the principle that successful performance must precede success stories, we have consolidated our market position and created a solid foundation for sustainable growth.

FORMALIZING OUR VALUES AND PRINCIPLES

Until the spin-off in 2005, Sonae Indústria was firmly rooted in the culture and value system of our then parent company, Sonae SGPS. Due to the diverse nature of the Sonae Group businesses, which include retail, telecommunications, and real estate, their value system is geared towards several widely different sectors with different sets of issues and challenges. Following the demerger, we have perceived a need to articulate our own values and principles and to formalize them in a code of conduct or a “Sonae Indústria Way”. This process is currently ongoing and allows us to focus on the business context, stakeholders, and challenges relevant to our business and the wood-based panels industry.

Key issues of strategic importance to Sonae Indústria which must be considered in the development of a formalized “Sonae Indústria Way” are contained in four distinct cornerstones: the promotion of an entrepreneurial culture, a commitment to socially responsible business practices, responsibility towards our employees, and independence from political power.
The promotion of an entrepreneurial culture

The expansion of our business, which regained momentum during 2006, bears witness to an entrepreneurial and innovative corporate culture with, we believe, a strong ability to grow and create value for our customers. Regardless of geography and culture, we strive to find business models and solutions that meet our customers’ needs. This spirit of entrepreneurship and desire to innovate transcends our cultural differences and is shared by all our operations.

Commitment to socially responsible business practices

In all locations, our operations embrace a commitment to socially responsible business practices. While stakeholders’ concerns may vary depending on geography and specific circumstances related to our individual operations, we strive to address their concerns in a positive and constructive manner. We would like to be known for showing open-mindedness and approachability towards stakeholders regardless of the issue involved.

Responsibility towards our employees

Our leadership is concerned with the skills development and motivation of our staff. We seek to continually develop their skills through targeted education programmes and other training offers, and to provide them with interesting and challenging work that further develops their capabilities. A merit-based evaluation and career development process is in place to help plan promotions and advancements. While being known as a hard working organization, we realize that our people have commitments outside the workplace and strive to provide all employees with the opportunity to maintain a good work-life balance.

Independence from political power

Though conscious of the importance of maintaining good relationships with the relevant regulatory and government agencies, we strive to maintain independence from political influence of any kind.

The above principles have been communicated to staff throughout the Sonae and Sonae Indústria Groups in a newsletter article written by Paulo Azevedo (Sonae and Sonae Indústria Board member) in December 2005. The process of articulating and formalizing our values and principles is expected to be completed during 2007 and will be discussed further in our next sustainability report.

Next steps

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision, Values and Principles</td>
<td>Formalize Vision, Values and Principles</td>
<td>Set-up Code of Conduct</td>
</tr>
<tr>
<td>Ethics and Culture</td>
<td>Identify and formalize standards of business ethics</td>
<td>Propose Ethics Governance structure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Following the setting-up of the Code of Conduct, identify if policies and guidelines should be developed and/or updated, and develop a communication and implementation plan</td>
</tr>
</tbody>
</table>

Activities planned for 2007  Activities medium-term
“We are excited challenging the people of Sonae Indústria and our business partners to engage in achieving our target to become a sustainable profitable company. A lot is being done but we still have a lot to do.”

Carlos Bianchi de Aguiar
EMBRACING SUSTAINABILITY

OUR BUSINESS CASE FOR SUSTAINABLE PROFITABLE GROWTH

For Sonae Indústria, a commitment to sustainable profitable growth means striving to reconcile our ambition to grow and run a profitable business, on the one hand, with responsible business practices on the other. This includes paying close attention to the health and safety of employees; investing in the communities in which we live and work; having a responsible attitude towards the environment; and providing our customers with products which have an improved sustainability performance. We are committed to this because we believe it will enhance the long-term profitability of our business and the quality of life for our people and communities today, and secure sustainable growth for the future. This requires careful planning and investments of time and resources. We believe these investments are well spent and present a clear business case for Sonae Indústria’s commitment to sustainable business practices. We plan to consolidate this business case by setting long-term sustainability objectives for our organization and by defining a process for evaluating and measuring performance.

Our business case for sustainable business practices

First of all, our commitment enables us to attract and retain people with the skill sets needed to help us run a profitable business. Good working conditions, fair remuneration, and respect for work-life balance are strong motivators and important factors when employees decide with whom to work. We take these into consideration and believe that it is a compelling reason why many of our employees choose to stay with us for a sustained period of time. Being known for a commitment to sustainable profitable growth may also help to attract like-minded people. For more information about our people practices, please see the chapter “People in the organization” and the outcome of our global employee survey.

Shareholders want to be confident that our business will thrive not only today but also far into the future. Demonstrating sustainable growth will enable us to achieve higher scores on sustainability investment
indexes, thereby creating a foundation for increased investment and long-term solid investor relations. By demonstrating clear strategies for managing a diverse range of potential future business risks and opportunities, including those related to sustainability, we will strengthen our position with investors.

Through improved management systems, we will be able to measure and document performance and to identify gaps in need of betterment. This will give us a reliable basis for improving our communications with key stakeholders about our performance and future ambitions. We are currently working to improve our systems.

Since a significant part of our growth occurs through acquisitions, we are conscious of the impact we have - and could potentially have - in the acquired companies. Through our commitment to sustainable profitable growth, we seek to introduce sustainable business practices in these locations, thereby contributing towards spreading and consolidating of the sustainable development agenda.

**OUR STAKEHOLDERS AND THEIR ISSUES**

To identify our key stakeholders and their issues, we have conducted two stakeholder analysis workshops at corporate level. One round was conducted by a Sonae Indústria team, and the other by an external consulting group. In addition, 26 interviews with top executives and managers were conducted and a corporate documents review was undertaken to provide a complete overview. As a result of these preliminary studies, Sonae Indústria’s key stakeholders, at global level, were identified as our employees and shareholders. We then consolidated, organized, and prioritized the result of the interviews and documents review and plan to use this overview for a broader stakeholder analysis during 2007.
OUR HISTORY OF SUSTAINABLE GROWTH

1959 › First operation established in the north of Portugal
1971 › Acquisition of a 50% shareholding in Novopan - particleboard manufacturer in Portugal
1975 › Sonae starts production of resins
1984 › Acquisition and modernization of Agloma - largest Portuguese producer
1987 › Consolidation of leadership position in Portugal with acquisition of SIAF and Paivopan
   › Beginning of international expansion with acquisition of Spanboard in Northern Ireland
1993 › Expansion into Spain and Canada through acquisition of the Tafisa Group - throughout the 90’s more acquisitions and investments in greenfield projects in Brazil, South Africa and the U.K.
1996 › First corporate environmental policy approved
1997 › First eco-efficiency chapter in annual report
1998 › Expansion into Germany and France through acquisition of the German Glunz Group
1999 › Rawboard capacity reaches 5.3 million m³
2000 › Acquisition of Sappi Novobord operations in South Africa
   › First environmental certifications (ISO 14001) at 2 operations. Over the following 3 years, 2 operations were certified each year
2001 › Rawboard capacity exceeds 8 million m³
2004 › The SREC had its first meetings
2005 › Joint-venture with Tarkett for production and commercialization of laminated flooring
2006 › Acquisition of the assets of the German Hornitex Group and a plant in Linxe, France (Darbo)
   › Rawboard capacity exceeds 10 million m³
   › First corporate health and safety policy approved
   › Corporate environmental policy updated

OUR APPROACH TO SUSTAINABILITY

Rather than setting up schemes and strategies to become a sustainable company, sustainable business practices have been introduced through an almost imperceptible process of everyday interaction with our people and other stakeholders. Only later have practices and processes been systematised and formalised and this process is still ongoing as we continue to identify issues in need of improvement. At the same time, dialogue with our stakeholders about pressing social and environmental issues and the expansion of our business into regions with different business contexts have accelerated the process.

Key enablers and initiatives in this process include: strong commitment from Sonae Indústria leadership; integration of sustainability aspects into management systems to secure continuous improvement; the creation of a board committee dedicated to sustainability related issues; participation in external sustainable development networks; and a culture of enterprise-wide innovation. More detail is given below of these enablers and initiatives. While they are significant steps and prerequisites for our continuing trend towards sustainable business practices, we are mindful of the fact that our company is still at the outset of its journey with many things yet to be accomplished.

The dedication of our leadership

The importance of leadership commitment to a process like this is unquestioned. Sonae Indústria’s leadership is strongly committed to the development of a strategic approach to sustainable profitable growth and to embedding this thinking within the organization. During 2006, the Sonae Indústria Executive Committee demonstrated this engagement on several occasions both within our company and outside. For example, the Executive Committee strengthened their commitment to managing environmental issues by updating and re-signing our company-wide environmental policy from 1996. They also approved and signed a corporate health and safety policy and commissioned a comprehensive health and safety diagnosis to assess the level of performance within our different entities. In October, our leadership team attended a health and safety workshop (“management tours”) for top managers in Mangularde (Portugal) to stress the importance attached to these issues. A similar workshop was organized in Beeskow, Germany. Our CEO Carlos Bianchi de Aguiar is a Board member of the Portuguese regional Business Council for Sustainable Development, BCSD Portugal, organization which has been founded in 2001 with the active participation of the Sonae Group. Additionally, Louis Brassard, Sonae Indústria’s executive Board member and Canadian Chief Operations Officer, is an executive committee member of the Composite Panel Asso-
ciation, the North American wood-based panels sector association. Leadership has also been actively involved in the development of a Sonae Indústria sustainability reporting strategy. For more information about leadership commitment, please see the Chairman’s letter and the CEO’s message.

Integration of sustainability into management systems

Over recent years, the development and implementation of integrated management systems has been a continuous effort. These systems help us to ensure that stakeholder issues are addressed appropriately, including those from a risk perspective and that we are in compliance with relevant legislation and standards. In a highly standardized industry, such as the wood-based panels one, quality management is almost a prerequisite for business success. Our management systems help us to take a systematic approach, allowing for detailed prioritization, planning of execution, measurement as well as evaluation of performance. Through such a structured approach, we have a good basis for ensuring continuous improvement within all sustainability related areas. The management of our systems and products are further described in the chapter “Environmental resources and efficiency”.

Social Responsibility and Environment Committee (SREC)

In 2004, a Social Responsibility and Environment Committee (SREC) was established. As an advisory committee to the Board, the overall responsibility of SREC is to analyse and monitor the social, environmental, and economic impacts of Sonae Indústria’s operations and to advise accordingly. With no executive power, a key function of SREC is to be a challenger, making suggestions for new initiatives and improvements. For more information about SREC, please see the chapter “Corporate Governance”.

International organizations and partnerships

Sonae Indústria is an active player in international organizations relevant to the wood-based panels industry. In these fora, we express our support for organizations dealing with issues such as sustainable forest management practices and ecodesign. We also lobby to see wood waste included as certifiable material within international certification frameworks, and engage in developing new biomass-based power plants. Below is an overview of the organizations in which we are involved:

European Panel Federation (EPF), based in Brussels, represents the wood-based panels industry in Europe. Members of the EPF are companies and national associations. Sustainability issues are discussed frequently.

Confederation of the Woodworking Industries (CEI-Bois), also based in Brussels and sharing headquarters and staff with EPF, represents the entire European woodworking industry. Members are federations (including EPF) and national associations.

Forest Stewardship Council (FSC), an international non-profit membership based organization seeking to find solutions to problems resulting from bad forestry practices and to reward good forest management. With FSC in the UK, Sonae Indústria engaged in the pilot testing of the current rules for percentage-based claims, applicable to the certification process of the chain-of-custody of forest products.

Programme for the Endorsement of Forest Certification schemes (PEFC) is currently the biggest international forest certification scheme. Developed as an alternative to the FSC, it includes associations of small forest owners and industries as its key supporters. Since 1999, Sonae Indústria has been contributing to the chain-of-custody working group of the PEFC, and in 2002 we became a regular member of the working group. One key achievement of the group’s efforts has been the adoption, in 2005, of a new option within the PEFC chain-of-custody rules for also certifying recycled wood and not only wood sourced directly from forests. This enables a more transparent picture regarding the responsible procurement and use of wood resources.

World Business Council for Sustainable Development (WBCSD), a global business association of approximately 180 companies, is an organization exclusively focused on issues related to business and sustainable development and provides a platform for companies to explore sustainable development and share best practices. Sonae Indústria was involved in the WBCSD eco-efficiency working group, which has already terminated its mandate.
We have also been working in partnership with other forest stakeholders to promote sustainable forest management. In South Africa for example, we helped fund a World Wildlife Foundation biodiversity project in the wet forests of Mpumalanga, where two of our operations are located.

Our global R&D department is also active in different European and international projects. All of these projects are contributing to our positioning strategy in Europe. We are currently involved in 9 projects with 7 different countries in 4 defined fields (new materials, new processes, construction and training). Thus, for example, we are collaborating with the IHD Institute in Germany on the development of manufacturing methods for two and three dimensional, multi-functional, high performance, textile integrated wood elements. In Italy, we are working with the COSMOB Institute to develop innovative sorting techniques for wood waste recycling. We are also collaborating with Universidade Nova de Lisboa (Portugal) on environmental audits and ecodesign projects.

In addition to our involvement in the above largely industry-specific initiatives, we share the principles established by the United Nations Global Compact. In 2004, Sonae SGPS became a signatory to the Global Compact and following the demerger from Sonae SGPS, Sonae Indústria continues to support the initiative, striving to live up to the ten principles in all our operations and entities. We are currently evaluating whether to become a signatory in our own right, as Sonae Indústria.

**A culture of enterprise-wide innovation**

Sonae Indústria is continually looking for improved and innovative ways to enhance product quality and customer service. In many cases, innovation requires willingness to invest in new products and technology and to hire people with the required skill sets to succeed. We are committed to investing in such innovation projects and strive to help our employees to become more innovative within all business practices and processes.

Our approach to innovation rests on a so-called “stage-gate process” which we have recently implemented. This process is based on an open-minded culture, which welcomes innovative ideas and suggestions for improvement and encourages risk-taking. Only by daring to change processes and practices will we improve our performance and serve our customers better. We continually evaluate new ideas and encourage learning through the exchange of knowledge and expertise at all levels of the organization and with our customers. Once an idea has been approved, we ensure fast implementation, thereby accelerating the translation of ideas into customer benefit.

At corporate level, we also have a group especially dedicated to implementing industrial best practices. The objective of this group is to ensure that we optimize our manufacturing assets and competences and strive to be competitive with our industrial structure today and tomorrow.

**BIOMASS POWER PLANTS**

Following the ratification of the Kyoto Protocol, the European Union encourages the use of renewable energy sources in electricity production, as renewable energy allows the substitution of fossil fuels, thereby reducing the net emission of CO2. The target defined by the European Union is to double the current amounts of renewables, including biomass, used in electricity production to 12% by the year 2010. These initiatives are subsidised by the European Union.

However, this well-intended decision conflicts with another sustainable use of the same biomass. The use of wood products as raw materials in the paper and wood-based panels industry is threatened by the demand for wood intended for biomass energy production. On a European scale, the wood-based panels industry is suffering from the increased consumption of its raw materials by producers of this subsidised energy. Prices of raw materials increased by 20 to 25% in the first five years of the EU initiative alone, and even more in subsequent years.

Through our membership of the European Panels Federation, Sonae Indústria is arguing that from a sustainability perspective, the use of wood-based products as raw materials is much more efficient than direct incineration of the wood for energy purposes.

From an economic viewpoint, the industrial use of wood creates much more value than electricity production. Figure 10 illustrates the value added to wood when used directly as biofuel compared to the value added by the wood products' industries.
From a social viewpoint, the industrial use of wood creates more jobs than electricity production. Figure 11 illustrates the employment creation when wood is used directly as biofuel compared to the wood products’ industries.

Environmentally speaking, forest-based industries produce goods that can be reused and/or recycled several times during their life cycle. At the end of their service life, these products keep most of their original energy and can still be used for energy production.

Also, generally speaking, the production of electricity from biomass is less efficient compared to other fuels. This is due to the lower heat capacity of the wood-based fuel, a high degree of moisture, and difficulties in achieving fuel heterogeneity. The fuel efficiency of plants using biomass for producing electricity only is below 35%. By contrast, energy produced in Combined Heat and Power (CHP) plants, such as those used in the forest-based industries, has an overall efficiency above 80%. In these plants, waste wood is used for electricity production and the surplus heat is used as a thermal energy source in industrial processes or heating. Therefore, to make electricity production from biomass viable, both the type of fuel and the type of technology applied must be taken into account.

We therefore strongly believe that wood (roundwood, by-products and residues from processing industries) should primarily be used as raw material for the wood-based industries. The use of biomass as raw material ensures a higher value-added and secures a greater number of jobs along the value chain. New biomass plants should therefore increase their procurement of bushes and forest residues and avoid the use of solid wood in energy production.
## Next steps

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription to the United Nations Global Compact</td>
<td>Decide on UN Global Compact subscription</td>
<td>Develop risk analysis on the implications of the UN Global Compact subscription</td>
</tr>
<tr>
<td>Top management commitment</td>
<td>Establish long-term sustainability objectives for the organization</td>
<td>Define approach for setting long-term sustainability objectives</td>
</tr>
<tr>
<td>Key stakeholders and their issues</td>
<td>Ensure clear understanding and definition of key stakeholders and ways to address their concerns and challenges</td>
<td>Validate the conclusions of the preliminary work of identification of key stakeholders</td>
</tr>
<tr>
<td></td>
<td>Determine our relevant issues based on materiality for the key stakeholders</td>
<td>Validate the conclusions of the preliminary work of identification of key relevant issues</td>
</tr>
<tr>
<td>Communication</td>
<td>Ensure effective communication to internal and external stakeholders on our sustainability approach</td>
<td>Prepare an enterprise-wide strategy for internal/external communication of sustainable development</td>
</tr>
<tr>
<td>Quantifying performance</td>
<td>Provide a basis for setting objectives and targets to evaluate and manage performance</td>
<td>Define a process to set objectives and targets (qualitative and quantitative), following the Vision, Values and Principles definition</td>
</tr>
<tr>
<td>Achieving credibility</td>
<td>Achieve credibility in the communication process following the sustainability strategy</td>
<td>Engage the different countries in the identification of key stakeholders and issues</td>
</tr>
</tbody>
</table>

Activities planned for 2007  Activities planned for 2008  Activities medium-term
6.1 CORPORATE GOVERNANCE

History
Following the demerger from Sonae SGPS in 2005, Sonae Indústria has been an independent company with a separate organizational and shareholder structure. While our main shareholder is the same as before the spin-off, the independence has enabled us to increase our visibility in the market and focus on building a strong independent brand.

The Board
Sonae Indústria is committed to operating by solid corporate governance practices. We seek to do this by adhering to sound corporate governance rules and by implementing balanced structures. In order to identify the appropriate governance structure and related policies, monitor performance, and ensure compliance, we are planning, as a next step of our sustainability approach, to assess our current structures and policies. Our Board includes independent Directors who influence the decision-making process and the development of company strategy and policy. Our Directors come from a broad range of backgrounds and nationalities (Portuguese, Spanish, German, Canadian, Finnish and Swedish), contributing experience from their respective fields of expertise.

Board committees
To ensure that we pursue best practices and establish clear guidelines for compliance in specific areas of competence, we have established three Board Committees:

The Board Audit and Finance Committee (BAFC) reviews financial information and internal control and business processes, and is responsible for the handling of risk related issues. It also analyses and reacts to internal audit results, advises on any changes in accounting policies, and reviews compliance with financial standards.

The main function of the Board Nomination and Remuneration Committee (BNRC) is to review remuneration and other compensation of top executives.

The Social Responsibility and Environment Committee (SREC) analyses and proposes appropriate action in relation to the economic, environmental, and social impacts of our business. The role of SREC is essential in our work with sustainability and will be explained further below.

More details on the composition and activities of the Board and its Committees can be found in the Sonae Indústria Annual Report and Consolidated Accounts 2006.

<table>
<thead>
<tr>
<th>Number of meetings</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>8</td>
</tr>
<tr>
<td>Executive Committee</td>
<td>20</td>
</tr>
<tr>
<td>Board Audit and Finance Committee</td>
<td>6</td>
</tr>
<tr>
<td>Social Responsibility and Environment Committee</td>
<td>2</td>
</tr>
<tr>
<td>Board Nomination and Remuneration Committee</td>
<td>3</td>
</tr>
</tbody>
</table>

FIGURE 12: Meeting frequency in Board and Committees

Board assessment
In accordance with Corporate Governance best practices, the Board intends to carry out a self-assessment at least once every 3 years. The last formal self-assessment was carried out in 2005, with the help of an external consultant. The assessment was designed to review how the Board and the Board Committees function, to evaluate Corporate Governance at Board level and propose actions to achieve further improvements. The main actions identified in the 2005 self-assessment have already been implemented.
The Social Responsibility and Environment Committee (SREC)

Established in 2004, the overall responsibility of SREC is to analyse and monitor the economic, environmental, and social impacts of our business. A key function of SREC is to advise the Board on relevant issues and to ensure regular reporting of these issues in interim and full year reports and accounts. Above all, the role of SREC is to act as a challenger, introducing new thinking and making suggestions for improved performance. Most recently, SREC challenged us to launch a sustainability strategy and publish our first sustainability report during 2007.

SREC consists of four members including the Chairman of the Sonae Indústria Board and two non-executive Directors appointed by the Board. Members of SREC are appointed for a period of three years and meetings are held twice a year. SREC is looking at our economic impacts on key stakeholders, and also on the way our operations affect the environment through, for example, emissions to air and water and impacts on the natural systems where our people live and work. Where necessary, it makes suggestions on how to mitigate potentially adverse impacts. Finally, SREC evaluates the social impacts of our operations on our people and local communities. SREC also considers issues related to the health and safety of our people, training and education and human resources management processes. In addition to the above triple-bottom-line issues, SREC also address issues related to corporate values and principles, and implications for corporate governance.

Key focus areas of SREC during 2006

During 2006, SREC has focused on a great variety of initiatives, which will be detailed further in other chapters. One initiative is our effort to support broad-based black economic empowerment projects in South Africa (see the chapter “People in the organization”). SREC also initiated discussions about how to reduce formaldehyde and volatile organic compounds (VOC) emissions from products and also during manufacturing, thereby addressing issues of great significance to the health of our employees and customers, and the well-being of the environment (see the chapters “People in the organization” and “Product responsibility”). Further, SREC discussed the preparation of eco-efficiency action plans 2006-2010, as well as the initiation of corporate environment surveys and other related initiatives on the topic of eco-efficiency. SREC also supervised the creation of the post of corporate health and safety manager (see the chapter “People in the organization”), and the development of an approach to sustainability reporting.

Engagement with Sonae SGPS on sustainability issues

One example of our continued engagement with Sonae SGPS is the Sonae and Sonae Indústria Sustainability Forum. The Forum is a non-statutory body sponsored by our Chairman, Belmiro de Azevedo, and includes two representatives from each Sonae SGPS sub-holding and Sonae Indústria. Forum members meet four times a year to discuss challenges and opportunities in relation to sustainability issues. The purpose is to highlight best practices and challenge current efforts in order to ensure continuous improvement. The Forum also organizes events such as the Sonae Sustainability Conference, which took place in October 2006 in Lisbon (Portugal).

Next steps

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance structure and policies</td>
<td>Establish and document the appropriate governance structure and related policies, monitor performance and ensure compliance</td>
<td>Assess policies and governance structures that are currently in place</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Evaluate areas that need to be addressed</td>
</tr>
</tbody>
</table>

Activities planned for 2008
6.2 RISK MANAGEMENT

The importance of risk awareness

On 17th of April 2006, Sonae Indústria suffered a significant fire at our plant at Lac-Mégantic, Canada. The core of the plant - the second chipboard line - and a very substantial part of the preparation area were severely affected. Operations in this line were interrupted for a long period and will only recommence in the beginning of the 4th quarter 2007.

The risk management procedures in place contributed to the absence of relevant personal injuries. Immediately after the fire a multi-disciplinary team was put in place to manage the recovery project with the support of the insurance adjuster appointed by the insurance company and other specialised external staff. The objectives of this team were to: ensure the safety of our employees; restore, in the shortest possible period of time, normal production and activity, whilst minimising the property damage and the business interruption losses; guarantee that customer needs are met; and coordinate a communication strategy.

The above accident reinforced the importance of risk prevention measures and emergency preparedness when dealing with wood products. It taught us that we must be prepared - even for unlikely events - and that it is our responsibility to look after the health and safety of our people every day, everywhere we operate. Other risks related to such accidents are possible negative impacts on our insurance premium and potential loss of profit if, for example, an accident renders us unable to deliver products on time. In the specific case of the Lac-Mégantic accident, the economic impact is not expected to be significant since there is an adequate property damage and business interruption insurance cover. Thus, although the emergency plans in place proved to be adequate in the above incident and we generally consider our risk management standards to be sound and appropriate, the incident showed us that more can be done. Risk management will therefore continue to be a key concern for us in the years to come.

Enterprise-wide risk management

Risks and how to minimize them are strategic priorities for Sonae Indústria’s leadership and a way of thinking which transcends our entire organization regardless of level and function. By constantly assessing potential risk scenarios, their likelihood, and their consequences, we can take preventive measures in due time and seek to turn developments around for the better.

In 2004, we began to address risk enterprise-wide, beyond operational risk. This is done through an annual assessment of pre-identified risks in terms of their likelihood and significance. Following initial analysis, the risk aspects are placed on a risk map, which helps us to categorize and prioritize our risks. The 2006 risk assessment analysis showed a need for increased focus on competitiveness, with particular attention to competitors’ behaviour, our client portfolio, cost efficiency, health and safety, environment, and innovation.

Therefore, during 2007, we will address key sustainability issues within the enterprise-wide risk management process, looking to incorporate issues like environment, health and safety, and social responsibility.

Operational risk management

Our risk plan 2004-2010 applies to our production sites. This plan includes 24 industrial operations and is based on compliance with our Corporate Risk Standards. Every year since 2000, we have had an external company conducting risk analysis surveys on our operations and making recommendations for improvement. In 2006, 12 of the 24 operations were surveyed, resulting in a detailed scoring (Quality Index Number - scale from 1 to 10) of different risk aspects, such as the existence of fire prevention measures, fire extinguishing equipment and emergency planning. Recommendations, based on the external surveys and internal risk inspections, were that a set of measures be approved, aiming at minimizing identified risks and reducing the likelihood and impact of accidents. In addition, the aim is for these measures to have a positive effect on our insurance premium in the long-term. As a result of the surveys and related recommendations, our Weighed Quality Index Number has increased steadily from 5.8 in 2000 to 7.0 in 2006.
Our approach to health and safety related risk

A stated ambition of our health and safety policy is to reduce and control risk with the aim of preventing incidents, injuries and occupational illnesses. In order to fulfill this policy, we have created a set of corporate health and safety standards, which prescribe how to manage risk in these areas.

We seek to ensure that all risks associated with Sonae Indústria’s operations are identified, managed and documented in line with legislation and best practice requirements in order to strive for risk reduction as the primary method of risk control. Asset integrity systems help to secure the continuing safety of our operations.

We also seek to reduce and control risk in the supply chain in order to ensure that contractor operations are managed in such a way that they do not pose an increased risk to the health and safety of our employees or to contractors themselves. To help us identify, assess and manage potential safety incidents, emergency preparedness systems are in place. Whenever an incident occurs, we strive to learn from experience, ensuring that all events are reported and assessed, and that the appropriate resources are made available for investigations. We plan to dedicate further efforts to this area in the years to come.

For more detail about our health and safety standards, please see the chapter “People in the organization”.

Our approach to environmental risk

During 2003 and 2004, we held workshops at all our European operations in order to assess our environmental risk exposure and thereby identify the focus of our future environmental efforts. The assessment was performed with a view to key stakeholder priorities and our influence on a set of environmental issues. The result of the risk assessment was the development of a list of key environmental issues for Sonae Indústria, a set of environmental indicators, and a prioritization of actions and how to monitor them. For more information about these issues and indicators, please see the chapter “Environmental resources and efficiency”.

Our approach to corruption and bribery

Although no formalised policy exists to govern our approach to corruption and bribery, our behaviour has always been guided by the Sonae Indústria culture, which prohibits all kinds of facilitation payments and bribes - whether paid or received. We also refuse to give political donations. Our risk model includes risk related to fraud by management and employee fraud and illegal acts. During our annual risk assessment, we always identified these as low likelihood and therefore low significance to our company. Should a violation occur, corrective measures are implemented through individual sanctions and through the implementation of new procedures and controls to prevent further violations. Also, our Internal Audit department incorporates fraud identification and ethics behaviour in the regular annual audit programme. Any incidents of fraud and corruption are reported to the Executive Committee and to the Board of Audit and Finance Committee.
## Next steps

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk management</td>
<td>Address sustainability key issues within the enterprise-wide risk management process</td>
<td>Incorporate key sustainability issues (environment, health and safety, social responsibility, etc.) within the enterprise-wide risk management process</td>
</tr>
</tbody>
</table>

Activities planned for 2007
6.3 ECONOMIC EFFICIENCY

Our guidelines
Maintaining a strong balance sheet and ensuring the economic sustainability of our business is vital and a prerequisite for becoming a sustainable company. We strive to maintain high-quality relations with our shareholders, based on trust, confidence, and delivering an attractive return on investment. We ensure trust and confidence through appropriate corporate governance practices and transparency. For more detail, please see the chapter “Corporate governance”.

This chapter highlights our economic efficiency as it relates to certain social and environmental issues. For financial performance, readers requiring further detail are referred to the Annual Report and Consolidated Accounts 2006 and regular updates on the corporate website.

Our methods
A significant portion of our growth comes from acquisitions. 24 of our 34 plants in 9 countries were acquired. Most acquisitions were companies that were not sustainable economically but by securing the necessary investment, resources, and skills, we transformed the businesses into economically sustainable ones. We ensured the introduction of operational excellence and the achievement of synergy by implementing our business processes with respect for local conditions. This is good for our stakeholders although a turnaround and related changes can be hard for the organization and may involve staff reductions. We have developed very efficient processes to execute such turnarounds and changes, in cooperation with employees, local regulators, and other key stakeholders in an inclusive and effective way. Social aspects are described in the chapter “People in the organization”.

Our achievements and results
Since the conclusion of the spin-off process, our share price as listed on the Euronext Lisbon stock exchange, has grown from 5.76 Euros on 2nd of January 2006 to currently (31st of May 2007) 9.73 Euros as shown in Figure 14.

SONAE INDUSTRIA SHARE PRICE

In 2006, we acquired Hornitex assets in Germany and the Darbo particleboard plant in Linxe, France. The synergy expected from the Hornitex integration was assessed for the second half of 2006, with a total cost saving of 5.3 million Euros (for half a year). In 2005, we established a joint-venture with Tarkett producing laminate flooring in Germany, which allows us to benefit from complementary competencies.
Our capacity utilisation increased from 86% in 2005 to 89% in 2006, which has even greater impact given the significantly increased capacity. Our total capacity was almost stable from 2002 to 2005 but has been increased significantly in 2006 as well as in a 15-year perspective as shown in Figure 16.

In 2006, we invested a total of 126 million Euros in our regional operations (excluding the value of new acquisitions).

Our improved performance was achieved against a backdrop of rising energy and wood prices, driving increases in our main raw material costs. The average industrial cost increased by 13% per m³ (see Figure 15). The most relevant contributions to the increase were energy (5.1%), wood (3.5%) and chemicals (3.6%).

We established a new melamine line in Canada in October 2006. We invested in a new particleboard line in South Africa, which will commence production in June 2007, and also invested in the rebuilding of the particleboard line in Canada, which was affected by the fire in April 2006. This new particleboard line is expected to be operational from the beginning of the 4th quarter 2007.

Our capacity utilisation increased from 86% in 2005 to 89% in 2006, which has even greater impact given the significantly increased capacity. Our total capacity was almost stable from 2002 to 2005 but has been increased significantly in 2006 as well as in a 15-year perspective as shown in Figure 16.
As shown in Figure 17, our productivity turnover per person (turnover/FTE, full time equivalent) has grown consistently in the last 5 years. The ratio for 2006 does not include Hornitex and Darbo for comparability reasons.

FIGURE 17: Number of full time equivalent (FTE) and productivity

Distribution of direct economic value generated (for the last 3 years) to key stakeholder groups is shown in Figures 18 and 19.

FIGURE 18: Distribution of direct economic value generated

FIGURE 19: Generation and detailed distribution of direct economic value 2006

Tax expense charged to profit and loss account amounted to 18.7 million Euros or 36% of income before tax in 2006 (27.8 million Euros or 43% in 2005). The tax charge of 18.7 million Euros was split between 14.1 million Euros of current tax and a 4.6 million Euros deferred tax. The breakdown of 2006 tax charges...
by country is shown in Figure 20. As a consequence of our acquisition strategy and past economic performance, we have certain tax credits on the books to carry forward to 2006 and the following years, which will reduce tax payment for the coming years.

<table>
<thead>
<tr>
<th>Thousand Euros</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>3,712</td>
</tr>
<tr>
<td>Spain</td>
<td>340</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0</td>
</tr>
<tr>
<td>France</td>
<td>26</td>
</tr>
<tr>
<td>Germany</td>
<td>13</td>
</tr>
<tr>
<td>Poland</td>
<td>17</td>
</tr>
<tr>
<td>Netherlands</td>
<td>405</td>
</tr>
<tr>
<td>Switzerland</td>
<td>144</td>
</tr>
<tr>
<td>South Africa</td>
<td>7,199</td>
</tr>
<tr>
<td>Brazil</td>
<td>683</td>
</tr>
<tr>
<td>Canada</td>
<td>1,560</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>14,099</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Million Euros</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Tax</td>
<td>8.4</td>
<td>14.1</td>
</tr>
<tr>
<td>Deferred Tax</td>
<td>19.4</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>TOTAL TAX CHARGE</strong></td>
<td>27.8</td>
<td>18.7</td>
</tr>
</tbody>
</table>

**Economic outlook**

Our prospects for underlying business trends are positive for 2007. Our volume growth is influenced by a full year of operations at Hornitex and Darbo and the launch of production in South Africa and Canada. We have a reserved outlook for our main raw material costs, given the current upward pressure on wood and resin prices. Our main priority is to integrate recent acquisitions and to manage the launch of new production lines in South Africa and Canada, as well as ramping up production at the joint-venture Tarkett Eiweiler flooring line. We are fully committed to delivering increased returns on the capital we have invested.

**GLUNZ: HOW WE INTEGRATE ACQUIRED COMPANIES**

**Strategy of business acquisitions**

Acquisitions are an important part of our business strategy of sustainable growth, and we make significant investments in acquired companies in order to turn them into healthy and sustainable companies which will thrive and be profitable in the long run. To meet this objective, it may, at times, be necessary to make some unpopular decisions, such as closing down inefficient operations, laying off employees, and replacing existing management. However, we are convinced that this may prevent an even worse fate for the acquired company such as bankruptcy or closure. Therefore, we believe that our acquisitions have an overall positive effect on our employees, including those in newly acquired companies, and the communities in which we operate.

In December 1998, Sonae Indústria acquired the German Glunz Group, a company with 25 operations in France, Germany, the UK, Switzerland and Gabon. At the time of acquisition, the company suffered significant loss and its continuity was threatened. By applying our uncompromising strategy for sustainable and economic growth, involving considerable investment (over 350 million Euros invested in 2000 and 2001), stringent leadership and integration into Sonae Indústria, we managed to turn this development around. Today, Glunz has become a profitable operation. The most important actions taken to ensure this turn-around are outlined below:

**Our approach**

Following thorough analysis of all operations within the Glunz Group, it was decided to close down three locations in Germany due to inefficiency. Operations, focused on products which were not part of the core product range, such as plywood or furniture components, were also closed down or divested. In order to
integrate Glunz into the Sonae Indústria culture, we also looked at the Glunz leadership and current administrative operations, ultimately replacing more than 90% of the top executives and implementing IT based administrative procedures to optimize efficiency and benefit from synergies with the rest of Sonae Indústria. As part of this process, functions such as purchasing, raw material sourcing, IT systems, financial control and human resources management were all centralised. A strategy to ensure continuous improvement and behaviour change at all levels of the Glunz management team was also implemented. To start building a succession of highly qualified future Glunz managers and experts, we established a trainee programme to attract and retain successful graduates (for more information about this programme, see chapter “People in the organization”).

The existing Glunz product range was not sufficiently well balanced, and we therefore converted some of the PB production into MDF and introduced the production of OSB and flooring to establish a profitable product mix. We also introduced profit management and set out to actively manage pricing through the introduction of a pricing policy. The purpose of this was to avoid spot sales and instead focus on establishing long-term customer relationships to ensure stable and reliable sales and to minimize risk. In addition, new highly focused sales divisions were established to help us penetrate new markets such as the emerging markets in Eastern Europe. Finally, we built a new operation in Nettgau in order to keep up with the new market demands.

### Economic results

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales ('000 eur)</td>
<td>279,178</td>
<td>450,262</td>
</tr>
<tr>
<td>EBIT ('000 eur)</td>
<td>-25,770</td>
<td>14,850</td>
</tr>
<tr>
<td>Finished Available Production - m³</td>
<td>1,358,516</td>
<td>2,039,070</td>
</tr>
<tr>
<td>Headcount</td>
<td>1,472</td>
<td>1,104</td>
</tr>
<tr>
<td>Productivity - m³</td>
<td>923</td>
<td>1,847</td>
</tr>
</tbody>
</table>

FIGURE 21: Economic results from Glunz operations integration

### People

Dealing with human resources issues in a transparent and fair manner was a concern during the process of integration and, in circumstances where operational dismissals were unavoidable, we negotiated a social plan, in which the employees were offered either a redundancy payment or the possibility of undertaking an orientation phase, in order to decide whether they would like to accept a job in another operation. We also had the help of external consultants, who counselled the employees involved and helped them to find a new career development.

### Health and Safety

The integration of Glunz into the Sonae Indústria Group also included a review of the way in which sustainability issues such as health and safety and the environment were managed. The review found room for improvement, especially in the health and safety area.

At the time of Sonae Indústria’s takeover of Glunz, the number of workdays lost due to accidents was above the country average. This had both health consequences for our employees and economic consequences for our business due to absenteeism and downtimes in production. Therefore, to improve our health and safety records, especially to reduce the number of accidents, we decided to implement health and safety management systems in all our operations. To emphasize the importance of this decision, we also initiated a health and safety certification process using OHSAS 18001 as a certification standard. Our first certification was achieved for our Eiweiler operation in 2004, and in 2006 our Nettgau operation followed. In 2007, it is planned for Meppen to undergo the certification process.

To improve health and safety performance at operations level, we took a number of actions: the reduction of machinery downtime minimized the number of accidents occurring when starting and stopping machinery; we introduced internal traffic rules in order to reduce the number of dangerous situations arising from the transportation of materials on our premises; we started providing frequent training to employees on health and safety in order to increase general levels of awareness about the issues; and
finally, and perhaps most importantly, our management takes every opportunity to stress the importance of health and safety measures to employees.

The results of these efforts have been quite impressive. In 2006, the German Ministry of Health reported the lowest sickness rate due to accidents since 1970, and at Glunz we managed to reduce our rate to an even lower level (see Figure 22). Also, the number of accidents at Nettgau has been reduced from 149 per 1000 employees in 2002 to 20 in 2006 (see Figure 23).

**FIGURE 22:** Sickness rate in % due to accidents

**FIGURE 23:** TMQ = counting of notifiable accidents per 1000 employees

**NEXT STEPS**

Our main challenge for the coming years will be to continue our strategy of sustainable growth by integrating the former Hornitex operations, acquired in 2006, into Sonae Indústria/Glunz. In addition to this, we will work to optimize the utilization of our production capacity, strengthen our sales divisions to fit the new markets, and introduce new products and applications in our production.
6.4 ENVIRONMENTAL RESOURCES AND EFFICIENCY

The production of wood-based panels impacts on the environment through the sourcing of raw materials and the effects of production processes such as wastewater discharges, waste disposal, and emissions. We are committed to monitoring and managing these impacts in a responsible manner and have spent the last few years building a solid foundation for doing so going forward. This chapter describes our key environmental issues and what we are doing to manage them.

New Environmental Policy in 2006

In December 2006, the Executive Committee signed a new Sonae Indústria Environmental Policy. Some aspects of the existing environmental policy from 1996 needed updating to be aligned with changing stakeholders concerns and to reflect the challenges that our company faces today such as stakeholder approach and our reporting on environmental performance. We trust that the commitments and priorities contained in the new policy will act as a catalyst for improved performance and increased attention to stakeholder issues in the future.
ENVIRONMENTAL POLICY
19 December 2006

We at Sonae Indústria produce environmentally responsible wood-based products from sustainable forests and other well managed sources of wood fibre.

We adopt the principles of sustainable development and will use eco-efficiency as a reference to operate our plants to high environmental management standards.

We are committed to:
› The sustainable use of natural resources, including the forest-based resources;
› Operating our facilities in compliance with all applicable environmental laws and regulations;
› The minimisation of the environmental impact of our facilities on the local and global environment;
› Continuous improvement in environmental management by setting targets and measuring performance against those targets;
› Regularly reporting and public disclosure of our environmental performance.

To achieve this, we will integrate responsible environmental management into all our operations. We will:
› Define clear roles, responsibilities and accountability at each level of our organization;
› Set challenging performance criteria for each of our operations;
› Allocate the necessary resources to ensure we meet the performance objectives;
› Train our people in their environmental responsibilities;
› Develop and implement effective eco-efficient practices;
› Monitor our environmental performance and review accordingly;
› Invite our stakeholders to engage in our environmental commitments.

In this way we will create an environmentally responsible culture that will contribute to the enhancement of our sustainable business performance.
Our Environmental issues

To identify our key environmental issues, we conducted, during 2003 and 2004, a series of workshops at each of our European operations. We assessed our risk exposure based on an identification of our stakeholders’ priorities and the influence of our operations in a wide range of environmental areas by bringing together a diverse group of Sonae Indústria people with different relationships to our key stakeholders, we were able to include a broad representation of viewpoints in the environmental risk assessment. This resulted in a list of key environmental issues (see text box) based on which a set of indicators was developed to help us measure and monitor our performance.

For comparability reasons, data presented for the indicators within this chapter exclude Hornitex and Darbo operations, as well as the non-board business operations (resins, high-pressure laminates and components).

GLOBAL KEY ENVIRONMENTAL ISSUES:
- Origin of wood raw materials and wood recycling
- Wood consumption and wood use efficiency
- Energy efficiency and CO2 emissions
- Air emissions
- Water consumption and wastewater
- Waste

Note: Due to the local nature of noise issues, these are prioritized and handled at local operations level only.

How we deal with key issues

Origin of wood raw materials and wood recycling

Our main source of raw materials is wood originating from industrial residues, such as sawdust, and post-consumer wood waste, which are reused and recycled in our production of wood-based panels. Our industry is thus unique in that products are based mostly on the use and reuse of low-value wood materials, which might otherwise be considered waste. We purchase wood-based by-products from industrial manufacturers, and small roundwood from plantations and well-managed forests. Recycled wood is either bought in the market or collected at our own recycling centres (in Iberia only). In the regions where it makes business sense such as in the UK, Germany and Iberia, we work to increase the amount of recycled wood (pre- and post consumer) used in production and have managed to increase levels from 17% of our total wood consumption in 2005 to 19% in 2006. The remaining consumption during 2006 was split between 43% coming from by-products supplied by sawmills and 38% from roundwood.

Our European operations generally use a higher portion of recycled wood than our operations in other parts of the world. This is due to the better collection schemes and easier access to large amounts of recycled wood in Europe. In the Iberian Peninsula, for example, we established a network of waste collection and primary processing centres at which we collect old pallets, packages, reels, construction timber, doors, window frames and old furniture, all of which are suitable for recycling and reuse in the production of wood-based panels. By recycling these kinds of wastes, a large contribution to sustainable use of Iberian forest resources is made and landfill disposal is avoided. It also offers the opportunity to minimize transport costs, and to optimize logistics and process efficiency. The wood recycling network set up in the Iberian Peninsula, involved the construction of 6 centres in Spain and 3 in Portugal. By contrast, in countries such as South Africa and Brazil, recycling schemes are not yet as well developed and the availability of roundwood and wood by-products is thus higher than that of recycled wood.

We also engage actively in efforts to promote sustainable forestry by participating in sustainable forest management standardisation and certification initiatives both at national and international levels. For further information about these activities, see chapter “Embracing sustainability”.

40 EMBRACING SUSTAINABILITY - ENVIRONMENTAL RESOURCES AND EFFICIENCY
**Wood consumption and wood use efficiency**

By optimising our processes and introducing new technologies for cleaning and utilising waste wood, we have managed to increase the percentage of low-value wood (waste wood and industrial by-products) in our raw materials consumption. We seek to increase our wood use efficiency by adding maximum value to our different types of wood materials throughout the production chain. This means that the higher-value wood is used in more demanding processes, such as OSB and MDF, which add more value to the raw materials. In this way, we also create value for our customers in terms of more sustainably produced products.

Trends of the wood mix consumption for the last two years, and wood use efficiency can be seen in Figures 24 and 25.

**Energy efficiency and CO₂ emissions**

Wood-based panels contribute towards mitigating climate change. Made from wood, which is well known for retaining carbon, wood-based panels function as excellent carbon stores during their service lifetime, especially if used in construction applications. Thus, using wood and wood-based products contributes to the global goal of reducing greenhouse gases emissions. An additional point is the fact that our products are complementary to solid wood and are increasingly used as substitutes for such wood in several applications. Hence, end users who purchase our panels choose the sustainable alternative, thereby contributing to a better use of wood-based resources.

By using the non-reusable and non-recyclable materials generated during production as fuel, our operations are able to supplement their energy consumption in the form of heat and power through a local
source of renewable “fossil-free” energy. As a general rule, all process heat needs are supplied locally using integrated thermal energy facilities. The final balance between CO\(_2\) emissions during combustion of biomass-based materials and CO\(_2\) sequestration during tree growth is neutral.

2005 has been the first year of operation for the European Union Emission Trading Scheme (ETS). In 2005, Sonae Indústria had five plants within the scope of the ETS (Eiweiler and Meppen, in Germany; Mangualde and Oliveira do Hospital, in Portugal; and Ussel, in France) for which carbon dioxide emission licenses were allocated by the authorities in each Member-State.

At the end of 2005, the Spanish authorities also revised their National Allocation Plan and emissions licences were allocated to three of our Spanish plants for the period 2006-2007. The plants allocated with licences were Betanzos, Solsona and Valladolid. For Linares, no emissions licences were allocated as the plant’s energy production facility operates with biomass only (biomass combustion emissions are considered neutral within the Kyoto - and also ETS - framework).

Two of the new plants acquired in 2006 within the Hornitex group (Duisburg and Horn) also have emissions licenses allocated (details in the table below). At Beeskow (also within the Hornitex group), the plant’s energy production facility also, like Linares, operates with biomass only.

The emissions allowances managed by Sonae Indústria’s plants engaged in the ETS and respective verified emissions for 2005 and 2006 were:

<table>
<thead>
<tr>
<th>Plant</th>
<th>Emissions licences allocated per year</th>
<th>Verified emissions 2005</th>
<th>Verified emissions 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Betanzos</td>
<td>6,000</td>
<td></td>
<td>1,683</td>
</tr>
<tr>
<td>Duisburg</td>
<td>178</td>
<td>** 319</td>
<td>368</td>
</tr>
<tr>
<td>Eiweiler</td>
<td>9,733</td>
<td>7,076</td>
<td>7,724</td>
</tr>
<tr>
<td>Horn</td>
<td>1,105</td>
<td>** 3,291</td>
<td>3,591</td>
</tr>
<tr>
<td>Mangualde</td>
<td>23,122</td>
<td>18,419</td>
<td>20,308</td>
</tr>
<tr>
<td>Meppen</td>
<td>14,686</td>
<td>13,411</td>
<td>15,618</td>
</tr>
<tr>
<td>Oliveira do Hospital</td>
<td>31,678</td>
<td>25,971</td>
<td>23,953</td>
</tr>
<tr>
<td>Solsona</td>
<td>10,266</td>
<td></td>
<td>7,764</td>
</tr>
<tr>
<td>Ussel</td>
<td>16,751</td>
<td>16,582</td>
<td>16,436</td>
</tr>
<tr>
<td>Valladolid</td>
<td>771</td>
<td></td>
<td>560</td>
</tr>
</tbody>
</table>

* This plant was not engaged in ETS in 2005
** This plant was not integrated into Sonae Indústria in 2005

FIGURE 26: CO\(_2\) emissions overview

Seven operations were able to stay below their carbon emissions allowances in 2006. Nevertheless, and as it can be seen above, five operations have increased their annual emissions from 2005 to 2006. In two cases this has been due partially to increased production.

For the German operations exceeding their annual allowances, internal licenses transactions made it possible to comply with emission limits.

We expect to still have a net excess of emissions allowances by the end of 2007.

For the Knowsley operation, 2006 was the third milestone year for the wood-based panels sector Climate Change Agreement. The operation had CO\(_2\) emissions at a level 10,846 tonnes lower than its target.

It is our goal to set up a global energy efficiency programme during 2007.

**Water consumption and waste water**
Our water consumption per unit produced has increased from 2005 to 2006, as shown in Figure 27. Municipal supply accounts for 51% of our water used and for 94% of the cost. Other sources are underground water (32%) and surface water (17%). A gradual improvement in water management accounting...
systems at the operations level during 2005 has since then provided us with better quality information as regards water management.

WATER CONSUMPTION BY CUBIC METRE PRODUCED

<table>
<thead>
<tr>
<th>Year</th>
<th>m³/m³</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0.45</td>
<td>0.42</td>
</tr>
</tbody>
</table>

FIGURE 27: Water consumption by cubic metre produced

For MDF (Medium Density Fibreboard) manufacturing operations in particular, we invest in waste water treatment and reuse of treated water in for example cooling systems or washing processes. Thus, Mangualde (Portugal) operation became involved in a pilot project to test a tertiary treatment facility to allow reuse of effluent water. In 2005, the plant treated 16 cubic metres per hour of effluent water, of which 6 cubic metres per hour were reused in the washing of wood chips and the remaining 10 were discharged into the river. However, as a result of the pilot project, it was decided to build a new tertiary treatment facility, which will ensure that all waste water can be reused. To this end, a total investment of 340,000 Euros was made and the new facility is expected to be fully operational in the course of 2007. We expect water cost savings to partly offset the investment made. But most important will be the improved water supply autonomy of the plant, which will then be able to cope with the seasonal water scarcity in the region.

Waste

The majority of our waste stems from contaminants in the recycled wood raw material used in production and ashes from boilers in energy production facilities. These contaminants can render the wood, or parts of it, unusable and we therefore select our recycled wood suppliers according to the quality of the raw wood supplied. We have installed inspections and controls of recycled wood loads at our operations in order to avoid the procurement of contaminated wood raw materials, which would otherwise end up as waste from our operations.

In 2006, for each cubic metre of boards produced, we generated 76 kg of waste. Most of our waste, more than 47%, is reused or recycled, and an additional 38% is used for fuel. This leaves a residue of waste of approximately 6 kg per cubic metre of boards produced, most of which goes to landfill and the rest to hazardous waste treatment.

During 2006, our waste disposal costs grew by 18% due to higher prices for waste disposal.

WASTE GENERATION BY CUBIC METRE PRODUCED

<table>
<thead>
<tr>
<th>Year</th>
<th>kg/m³</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>77</td>
<td>76</td>
</tr>
</tbody>
</table>

FIGURE 28: Waste generation by cubic metre produced
Environmental Management Systems

Following the approval of our first environmental policy in 1996, we began the implementation of environmental management systems. The development and implementation of integrated quality and environmental management systems at Sonae Indústria has thus been a continuous effort over recent years. In a highly standardised industry such as the wood-based panels one, quality management is critical to ensure a consistent flow of quality products to our customers. With regard to environmental management, systems have been implemented at operations level in order to secure the implementation of our environmental policy. This approach takes into account local differences in key issues for each operation and differences in local regulations. We have integrated our management systems because we believe this enhances efficiency by reducing unnecessary duplication of work and emphasises that quality and environmental management are equally important to us. By means of these systems, we have a good basis for addressing our key environmental issues in a systematic way, complying with legislation and standards and ensuring continuous improvement of our performance.

Certification of management systems

Since 2000, we have been seeking to achieve independent certification of environmental management systems at local operations, with quality management certification having already started at the end of the 1980s. To date, eleven major operations have been certified by ISO 14001 and another six are targeting certification in 2007. We expect our overseas and German operations to have concluded the process in 2007. 29 operations have been certified by ISO 9001. In order to demonstrate that wood used in production comes from sustainably managed sources, we seek independent certification of the procurement practices of our forest products chain-of-custody in the markets where such certification is valued. Thus, to date twenty major operations have certified their forest products chain-of-custody through the two major forest management and chain-of-custody schemes PEFC (Programme for the Endorsement of Forest Certification schemes) and FSC (Forest Stewardship Council). An overview of our certifications is presented in Figure 29 (2007 objectives are presented in brackets).
<table>
<thead>
<tr>
<th>Quality</th>
<th>Environment</th>
<th>Forest products chain-of-custody</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISO 9001</td>
<td>ISO 14001</td>
<td>PEFC</td>
</tr>
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<td>PORTUGAL</td>
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<td>Maia*</td>
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<td>Manguide</td>
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<td>Oliveira do Hospital</td>
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<td>Sines**</td>
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<td>SPAIN</td>
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<td>Betanzos</td>
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<td>Linares</td>
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<td>Solsona</td>
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<td>Auxerre</td>
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<td>Châtellerault</td>
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<tr>
<td>Le Creusot</td>
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<tr>
<td>Lure</td>
<td>(January 2007)</td>
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<tr>
<td>St Dizier</td>
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<td>Ussel</td>
<td>(January 2007)</td>
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<tr>
<td>GERMANY</td>
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<td>Meppen</td>
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<td>Erweiler</td>
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<td>Nettgau</td>
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<td>Kaisersesch</td>
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<tr>
<td>Horn</td>
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<td>Beeskow</td>
<td>(February 2007)</td>
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<tr>
<td>Duisburg</td>
<td>(February 2007)</td>
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<tr>
<td>UNITED KINGDOM</td>
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<td>Knowsley</td>
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<td>Coleraine</td>
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<tr>
<td>SOUTH AFRICA</td>
<td></td>
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<tr>
<td>Panbull</td>
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<tr>
<td>White River</td>
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<tr>
<td>George</td>
<td></td>
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<tr>
<td>CANADA</td>
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<tr>
<td>Lac-Mégantic</td>
<td></td>
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<tr>
<td>BRAZIL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Piên</td>
<td>(February 2007)</td>
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</tr>
</tbody>
</table>

* HPL plant  ** Resins plant

**FIGURE 29: Overview of our quality and environmental certifications**

**Corporate Environmental Surveys**

In July 2006, the Sonae Indústria Executive Committee approved a global framework for Corporate Environmental Surveys (CES), including a comprehensive assessment of environmental compliance for each of our operations. The purpose of the first round of CES is three-fold; first of all, CES provide an assessment of our Environmental Management System, enabling the identification of strengths to be further developed and shared as best practices amongst operations and of areas in need of improvement. CES further provide us with a valuable tool to verify the methodologies used to calculate or measure each of the global Key Environmental Indicators. Finally, CES provide a thorough assessment of our level of compliance with environmental regulations applicable to each operation. For this purpose, operations-specific checklists were developed, integrating all the applicable regulations. The process of compliance verification has been developed in accordance with the ISO 14001 standard for environmental management systems. These lists will be reviewed annually to ensure that they are updated with new and emerging regulations. The remaining components of the CES will evolve to gradually focus more on emerging issues prioritised at corporate level. CES are thus an additional management tool to continuously help us improve our environmental performance.
The results of CES, especially those implying investment needs, are an important input for the medium-long-term Eco-efficiency Action Plans at operations level. These plans prioritise, in a 5-year timeframe, the major actions for environmental improvements set out for each operation.

**RECYCLED WOOD CONSUMPTION IN THE UK**

In the European markets, and especially in the UK, there is an increasing consumer demand for products that demonstrate a high degree of eco-efficiency. Although the UK market is a key consumer of wood products within Europe, availability of virgin wood from domestic origin is fairly low. On the other hand, waste wood is relatively abundant compared to virgin wood. Therefore, a conscious decision was made in 1997 to specialise in the production of sustainable products based on the recycling of wood.

At our Knowsley operation, working with very high percentages of recycled wood as raw material has proven to be an enormous challenge. Excessive wear on equipment and very frequent maintenance stoppages resulted in high level of downtimes, and consequently lowered the profitability of the operation.

Therefore, in 2005, our Knowsley operation launched “Project Wear”, involving the installation of a new recycled-wood cleaning system at a cost of some 9.8 million Euros. This system enables contaminating elements such as stones, glass, ferrous, non-ferrous and plastics to be removed from wood. Each month, the facility recovers 100 metric tons of ferrous metal plus 30 to 50 tons of non-ferrous metal, 500 tons of stones and glass, 600 tons of ash, and 20 tons of light plastics and dust. Any recyclable materials - in particular the metals - are sold.

Thus, in 2006, our total UK average wood consumption was composed of 88% recycled wood and 12% coming from by-products. This is a recycled wood increase of 1 percentual point compared to 2005 UK levels. We are particularly pleased to report that in 2006, our Knowsley operations reported a 95% consumption of recycled wood raw materials with the remaining 5% coming from by-products. As recognition for our investments to increase the use of recycled raw materials, we have received the Valpak Award for best investment of Packaging waste Recovery Notes (PRN) funds.

**Next steps**

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources and operational efficiency</td>
<td>Create value as part of the relationship with our shareholders</td>
<td>Establish a global energy efficiency programme</td>
</tr>
</tbody>
</table>

*Activities planned for 2007*
How we approach human resources management

From the very beginning, the most valuable asset of our company has been our people. They are the ones who work hard every day to improve performance and achieve new and higher goals, and we greatly appreciate their efforts and contributions as we continue our journey towards becoming a sustainable profitable company.

Growing our business through acquisitions challenges us to continually respond to the different working cultures and priorities of the companies acquired. In many cases, this has also involved a need to respond to different geographical cultures, as acquisitions and greenfield projects take place in different parts of the world. While the integration of these new people and cultures into the Sonae Indústria family provides valuable insight into different approaches to people management and invites the exchange of knowledge and best practices, it also challenges us to create a common framework for people management within the organization. Operating in a globalized and interconnected economy, we are in constant competition for skilled and experienced people. We realise that in today’s business environment, careful attention to human resources management is a prerequisite for attracting and retaining the people we require to succeed. In the past, our operations managed these issues autonomously with limited guidance from corporate headquarters. However, in the last few years, we developed a process to identify and systematise our people issues across the company. This process is always ongoing, and although we are making progress in many areas, there are some steps yet to be accomplished.

Our people challenges

Health and safety

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

Unfortunately, the risk of accidents in our industry is real, and we deeply regret to report that six fatalities took place in our operations during 2006. The accidents occurred in France, South Africa, Brazil, and Portugal, and involved four contractors and two employees. We extend our deepest sympathy and condolences to the relatives of the people affected and are committed to employing all means in our power to prevent similar accidents from occurring in the future. The health, safety, and general well-being of our people is of the utmost importance to us and we will not ignore any means which can contribute to an improvement of their working conditions. We are particularly sorry that the fatalities happened after a year of increased focus on health and safety issues within our operations. Thus, given the nature of our industry, our main concern in relation to our people is related to health and safety issues, and we are committed to shifting from legal compliance to international best practices in this area over the coming years to improve our performance.

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

FIGURE 30: Health and safety data

Employee relationships

In addition to health and safety issues, we focus on constantly improving relationships with our employees. We do this by focusing on good communications with all our people and continuing training and education. We also prioritise career development and offer equal opportunities, although gender diversity is an area with which we struggle due to the nature of our industry. Additionally, we support freedom of association wherever we operate. During 2007, we plan to develop a formal approach (policy) to the organization’s practices in relation to freedom of association.
In order to earn their loyalty, it is important to us that our people experience a high degree of job security. With 30% choosing to spend 16 years or more of their working lives with us (see Figure 31), we believe that we are doing reasonably well at this. However, there are also difficult times with difficult decisions, such as the necessity to lay off people during restructurings and acquisitions. In these situations, we strive to provide our people with the best possible security, helping them to find new career opportunities or offering severance payments to those who volunteer to resign, thereby avoiding dismissals. A recent example of this is the “Open Window Programme”, which was introduced after the acquisition of the former Hornitex operations and implemented at all operations affected. With this acquisition, a headcount reduction was required and by offering a severance payment to employees interested in leaving the company voluntarily, we were able to reduce the number of lay-offs to a minimum. Thus, in Beeskow we identified 14, in Duisburg 34, and in Horn 122 employees for this programme.

<table>
<thead>
<tr>
<th>Seniority</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;= 1 years</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>2 to 5 years</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>=&gt; 16 years</td>
<td>26%</td>
<td>30%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

FIGURE 31: Workforce by seniority (in 2005 and 2006)

In 2006, we also conducted our first employee satisfaction survey, which will function as an important tool for improvement in the future. A discussion of the survey and related results and actions is presented later on.
HEALTH AND SAFETY POLICY
27 June 2006

We at Sonae Indústria are committed to provide a safe and healthy environment for our employees, contractors, customers, visitors and the communities in which we operate. We recognise that effective health and safety management supports good business principles and must be considered in all objectives and decisions.

Every Sonae Indústria business activity is committed to a systematic approach to health and safety management, designed to:

› Reduce and control risk with the aim of preventing incidents, injuries and occupational illnesses.
› Provide and maintain safe plant and equipment.
› Achieve continuous improvement.

In order to support this, we will:

› Manage, supervise and lead by example.
› Set challenging internal objectives for health and safety, and publicly report on our performance.
› Emphasise individual responsibility and accountability for health and safety at all levels.
› Provide the necessary training, instruction, information and resources.
› Ensure that all contractors and suppliers manage health and safety in line with this Policy.
› Measure, appraise and report on compliance with legal requirements, health and safety standards and procedures.
› Systematically evaluate and review the effectiveness of the policy and the health and safety management system.

In this way we will have a health and safety culture and performance that we can be proud of and with which we aim to earn the confidence of employees, contractors, customers, shareholders and the public.

Carlos Bianchi de Aguiar
Rui Manuel Correia
Christian Schwarz
José António Comesaña
Louis Brassard
Health and safety management diagnosis

In order to get a precise understanding of the way health and safety issues are approached in our different operations, our leadership commissioned a health and safety diagnosis in 2005 to be carried out in 17 of our operations spread across the regions in which we operate.

Our approach

Between November 2005 and February 2006, we spent three days at each of the operations selected, conducting data gathering interviews, visiting industrial areas, analyzing documents, and checking existing standards, policies, guidelines, and legal frameworks. This was done in close cooperation with the country COO (Chief Operations Officer) and responsible health and safety officers.

Our findings

The findings revealed some good practices and several areas in need of improvement. Among the strong points were a high level of commitment and dedication amongst health and safety officers at operations and good collaboration with contractors on health and safety issues.

The diagnosis also revealed some areas in need of improvement. For example, we found that operations approach health and safety issues very differently depending on the importance attached to the issue in the local culture and by local management. Thus, there was a certain level of inconsistency in performance between countries and also sometimes between operations in the same country, which stressed the need for a global framework and a common set of expectations. We also found that operations rarely address health and safety issues in the exchange of best practices and that many of our operations focus primarily on developing means to react to accidents and injuries with relatively little focus on prevention planning. The major driver for health and safety efforts at operations was identified as compliance with local legislation. Hence, the diagnosis revealed several significant gaps in performance and a need to focus particularly on communication with and amongst operations, as well as a need to further organize and systematize our health and safety efforts.

Our actions

The health and safety diagnosis resulted in a commitment by our leadership to immediate action at a corporate level. The first result of this commitment was the development of a Sonae Indústria Health and Safety Policy, which was signed by the Executive Committee on the 27th of June 2006, during the International Managers Meeting. With this policy, we sought to address all the gaps identified during the diagnosis and to create a common foundation for improvement. To ensure consistent implementation of the policy and compliance with local rules and regulations by all of our operations, a set of Corporate Health and Safety Standards was developed (see Figure 33). The 14 standards contained in this framework constitute our foundation for continuous improvements, setting out aims and expectations, and providing details on how our operations should implement health and safety management systems at regional level.

To present the Corporate Standards and to ensure that all managers are aware of our strategy and its implications for each site, we held a road show involving all countries. During the sessions, our managers and supervisors were trained on the standards and the most prominent gaps in current practices at each operation were identified for two of the 14 standards. This training facilitated the formulation of action plans (following the identification of the most relevant gaps for all standards) at each operation which will form the basis for developing site procedures and working practices to ensure full compliance with the standards by 2010. All in all, 20 sessions were held in which a total of 230 managers and supervisors participated.

<table>
<thead>
<tr>
<th>Number of attendees (managers and supervisors)</th>
<th>Portugal</th>
<th>Spain</th>
<th>France</th>
<th>Germany</th>
<th>UK</th>
<th>Canada</th>
<th>Brazil</th>
<th>S. Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

FIGURE 32: Health and safety road shows
Following the road show, we undertook additional actions to help operations to implement the standards successfully. In terms of communication, we developed an Intranet application where the policy, the standards and related procedures are placed, to be shared by everyone. At the same time, the Intranet functions as a forum where doubts, comments and good practices can be shared amongst operations, thereby encouraging internal benchmarking of activities and processes. Also, we integrated health and safety into the organization’s regular activities planning process with some basic KPI’s. However, in a widely spread-out organization such as ours, even the integration of standard indicators can represent a standardization challenge. Finally, some corporate procedures were developed concerning Management Tours and fatalities reporting.

**Our Health and Safety Standards**

<table>
<thead>
<tr>
<th>STANDARD</th>
<th>AIMS AND EXPECTATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Leadership</td>
<td>Demonstrate responsibility and commitment to health and safety among leaders and supervisors who will be held accountable</td>
</tr>
<tr>
<td>2) Planning and administration</td>
<td>Ensure necessary resources are provided for health and safety management and that actions are tracked to completion</td>
</tr>
<tr>
<td>3) Risk management</td>
<td>Ensure that health and safety risks are identified, managed, documented and controlled</td>
</tr>
<tr>
<td>4) Human resources</td>
<td>Ensure that health and safety issues are considered by recruitment, appraisal, career development and organizational changes</td>
</tr>
<tr>
<td>5) Compliance assurance</td>
<td>Ensure compliance with regulations, authorisations and relevant standards</td>
</tr>
<tr>
<td>6) Project management</td>
<td>Ensure systematic health and safety risk management associated with project activities</td>
</tr>
<tr>
<td>7) Change management</td>
<td>Apply process to identify, evaluate and control changes that may have an impact on the risk profile of the asset, process or organization</td>
</tr>
<tr>
<td>8) Training and competence</td>
<td>Ensure appropriate skills and knowledge for all personnel</td>
</tr>
<tr>
<td>9) Communication and promotion</td>
<td>Ensure comprehensive and effective communication systems to inform and motivate personnel</td>
</tr>
<tr>
<td>10) Asset management</td>
<td>Include risk assessments in our asset integrity programme to understand and prioritise our exposures</td>
</tr>
<tr>
<td>11) Supply chain management</td>
<td>Ensure that contractor operations do not pose an increased risk to health and safety and ensure that contractors operate in compliance with our health and safety standards. Manage risks associated with supply, receipt and transportation of goods</td>
</tr>
<tr>
<td>12) Emergency preparedness</td>
<td>Put effective systems in place to identify, assess and manage potential safety incidents</td>
</tr>
<tr>
<td>13) Learning from events</td>
<td>Ensure that all incidences are reported and assessed and that corrective and preventive actions are carried out</td>
</tr>
<tr>
<td>14) Results and review</td>
<td>Ensure audits and annual reviews of the health and safety system and the health and safety policy and communicate performance to internal and external stakeholders</td>
</tr>
</tbody>
</table>

FIGURE 33: Corporate Health and Safety Standards
Formaldehyde in the workplace

People use products that contain formaldehyde every day. Just as examples, this substance is a key building block in four major sectors of the economy: in the residential construction industry, where it is used for making particleboard, medium density fibreboard, insulation materials, and cabinets; in the automobile industry, where it can be found in seat belt buckles and systems, exterior primer and clear coat paints, and critical fuel system components; in the aircraft industry, where its applications include essential landing gear components, lubricants, brake pads, and door and window insulation; and finally, in health care applications, where it is used to manufacture vaccines against anthrax, diphtheria, hepatitis A, and influenza, and as an ingredient in anti-infective drugs.

Although products that contain formaldehyde or materials made from formaldehyde have a broad role in the economies of the world, their dependence on formaldehyde is largely invisible to the public. In addition, government statistics are not well designed to identify or quantify the value of formaldehyde to consumers or the contribution of the formaldehyde industry to the economy in terms of jobs, wages, and investment.

Also, it is usually not common knowledge that animals in general, and we as humans, produce formaldehyde in our bodies and it occurs naturally in the air we breathe. Formaldehyde is broken down within a few hours by sunlight and by bacteria, and it metabolizes quickly in the body. Formaldehyde, therefore, does not accumulate either in the body or in the environment.

However, formaldehyde can also be harmful; it has a distinct pungent smell, which is noticeable even at low concentrations, and it irritates the mucous membranes.

For the production of wood-based panels, the sector is not using formaldehyde as such, but uses glues containing formaldehyde to bind mechanically cut particles to wood-based panels like particleboard, medium density fibreboard (MDF) and oriented strand board (OSB). Consequently, wood-based panel products may emit a limited amount of formaldehyde during use.

The wood-based panels sector (and the EPF, European Panel Federation in particular) is keen at producing products that are safe for the workers active in their manufacturing plants and at offering safe products to consumers. The member companies of EPF (where Sonae Indústria is quite active) have committed to produce only low formaldehyde emission products (products of “Class E1”).

EPF is well aware of the public perception of formaldehyde being a “dangerous substance”, especially after its reclassification by IARC (International Agency for Research on Cancer) to “carcinogenic to humans”, in June 2004. In view of the above, EPF participates in several studies to evaluate the reality of the poten-
tial risks and hazards of formaldehyde, from a third party point of view. These are, in particular, needed to clarify the scientifically controversial results from studies that have influenced IARC’s decision.

Following IARC’s decision in 2004, Sonae Indústria decided, as precautionary measure, to globally assess the level of workplace exposure to formaldehyde in our operations. At that time, 23 major operations were asked to update and inform the results of their regular assessments (as a rule, made by independent parties).

We found that, as there is some disagreement amongst experts about the exact hazards of formaldehyde, there are significant differences in the limits recommended by different national authorities. The data generated from this process is therefore not fully comparable within different operations in different countries, however we chose to take a precautionary approach, asking the 6 operations, out of the 23 surveyed, where results were unsatisfactory to produce action plans setting out the exact steps planned to reduce concentrations to lower levels.

The implementation of these action plans was followed until improvements were shown by new assessments.

Due to the differences in national legislation, we have not defined global limits for all our operations but are asking that, as part of their overall health and safety responsibilities, they take appropriate action to ensure that formaldehyde concentrations remain under national limits. Also, at the local level, levels in excess of these limits have been dealt with by improving ventilation systems and by shielding off the machinery concerned. Also, our R&D department is currently carrying out research on how to further reduce the amounts of formaldehyde in our production and products. We also trust that this research may contribute to a viable solution to the problem in the future. For more information about formaldehyde in products, please see the chapter “Product responsibility.”

HEALTH EFFECTS FROM FORMALDEHYDE

At concentrations in air above certain levels, formaldehyde can irritate the eyes, resulting in watery eyes. If inhaled, formaldehyde at this concentration may cause headaches, a burning sensation in the throat, and difficulty breathing, as well as triggering or aggravating asthma symptoms. Whether formaldehyde can cause cancer is as yet undetermined. IARC (International Agency for Research on Cancer) has classified it as carcinogenic, but the European authority on occupational health, SCOEL, has not.

Dust exposure

Wood dust becomes a potential health problem when wood particles from processes such as grinding, sanding and cutting become airborne. Breathing these particles may cause various respiratory symptoms. The extent of these hazards and the associated wood types have not yet been clearly established. Therefore, we are committed to taking a precautionary approach and reduce our dust emissions to a safe level and, if necessary, provide our people with appropriate personal protective equipment. To reduce the amount of wood dust particles generated during production, we have, for more than a decade now, been integrating local dust suction systems and have also invested in better ventilation systems.

Certification of our health and safety management systems

To achieve and demonstrate good and safe working conditions to existing and potential employees and to meet an increasing consumer demand for products produced in safe and healthy circumstances, some of our operations have made a strategic decision to obtain certification of their health and safety management systems. Amongst the different certification systems available, OHSAS 18001 is the most widely used and also the scheme chosen by our operations. Our first certification was achieved for our Eiweiler (Germany) operation in 2004, and in 2006 our Nettgau (Germany), George, White River, and Panbult (South Africa) operations followed. In 2007, Meppen (Germany) and Piên (Brazil) operations are planned to go through the certification process.
Measuring our social climate

What we did

The satisfaction of employees with the organization they work for and the work they do has been proven to influence overall performance, thereby affecting the way organizations employ their potential. Studies have demonstrated a clear link between employee satisfaction and business results in terms of increased sales, employee efficiency and productivity, as well as quality in customer service. In 2006, therefore, we decided to introduce a “Social Climate Survey” to define our organizational profile, identify critical areas in need of improvement, and implement required actions, thereby strengthening overall satisfaction with our organization and the performance of employees.

Our first global Social Climate Survey was launched in the first half of 2006 with the assistance of specialised external consultants. They rated our company in six key areas of performance: flexibility, responsibility, standards, rewards, clarity, and team commitment. The survey had a response rate of nearly 60%. Following the survey, all participants were informed of the results and of the Executive Committee's commitment to implement the measures required to improve areas identified as less developed.

Our findings

The survey results showed an overall favourable opinion for our organizational climate, leaving, however, room for improvement as around 50% of the replies were overall favourable with approximately 25% being unfavourable. This result was comparable to the results generated in similar surveys conducted by the consulting company in other large industrial companies.

Compared to other companies against whom we were benchmarked, two areas revealed an average or above average performance. These were team commitment, by which a feeling of belonging and of working towards common objectives was meant, and standards, referring to the commitment of management to improve performance in all areas and set high but achievable goals for the organization and employees alike.

The two areas revealing the greatest need for improvement were rewards, referring to the perception amongst employees that they are rewarded for good work and that such recognition is directly related to performance, and flexibility by which any unnecessary rules, procedures, and practices which interfere with task accomplishment were meant. Flexibility also referred to the ease with which new ideas are accepted and applied.

Our actions

In order to determine corporate action on the survey results, we held a workshop for corporate and national human resources managers in June 2006. The issues to be prioritised were identified through an assessment of the gap between current and desired climate and the alignment with our strategic guidelines. From this prioritisation, specific actions were defined along with performance indicators. It was decided to address the gap in expectations related to flexibility by working with our innovation process. The gap identified in relation to rewards will be filled through increased focus on the training of managers in order to improve leadership, coaching, and communications skills. In addition to these corporate initiatives, the survey results function as a tool for internal benchmarking and the establishment of local actions. We plan to conduct social climate surveys every two years going forward, and will closely monitor progress in critical areas.
**Diversity and equal opportunities**

Being a business area associated with namely, high number of shifts, the wood industry traditionally attracts a majority of male employees. Thus at the 31st of December 2006, 86% of our employees were male and only 14% were female (see Figure 35).

**2006 WORKFORCE BY GENDER AND AGE GROUP**

<table>
<thead>
<tr>
<th>Age</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;= 23 years</td>
<td>3%</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>24 to 29 years</td>
<td>9%</td>
<td>3%</td>
<td>12%</td>
</tr>
<tr>
<td>30 to 39 years</td>
<td>24%</td>
<td>5%</td>
<td>29%</td>
</tr>
<tr>
<td>40 to 49 years</td>
<td>30%</td>
<td>3%</td>
<td>33%</td>
</tr>
<tr>
<td>50 to 59 years</td>
<td>18%</td>
<td>2%</td>
<td>20%</td>
</tr>
<tr>
<td>=&gt; 60 years</td>
<td>2%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>86%</td>
<td>14%</td>
<td>100%</td>
</tr>
</tbody>
</table>

FIGURE 35: Sonae Indústria 2006 workforce by gender and age group

**BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE) IN SOUTH AFRICA**

After the end of Apartheid in 1994 and with the advent of majority rule, control of big business in both the public and private sectors still rested primarily in the hands of white individuals. According to Statistics South Africa, Whites comprise just under 10% of the population, meaning that most of the country’s economy was controlled by a small minority. BBBEE is intended to transform the economy to be representative of the demographic make-up of the country, by giving previously disadvantaged groups (black Africans, Coloureds and Indians) economic opportunities previously not available to them. To that end, the South African government introduced the Black Economic Empowerment initiative in 2003/2004, asking businesses to comply with seven performance parameters.

This initiative has now (February 2007) been turned into legislation by Codes of Good Practice which companies are expected to implement during the next 10 years if they wish to do business with any government enterprise or organ of state. The level of compliance with the seven performance parameters is rated by a scorecard issued by the South African government. The higher a company scores, the more likely it is to get government (and other) business.

Following the introduction of BEE in 2003/2004, Sonae Novoboard in South Africa has been striving to fulfil the requirements set out in the scorecard. Amongst others, we have actively been seeking to identify ways to attract potential new hires to our company from the PDI (Previously Disadvantaged Individuals) grouping. When integrating PDIs into our company, we are particularly looking at issues such as training, contractual obligations and the creation of career opportunities. Legally required Employment Equity Committees, consisting of members of management as well as staff and trade union representatives, have been established at our White River, George, Panbult and Woodmead operations from where they monitor our employment equity policies, practices, and procedures. During 2006, 45% of all new hires were PDIs.
Training and education

Training and personal development are very important to our organization. During the performance appraisal process, we discuss the most significant issues related to performance throughout the year. Once the areas for improvement have been agreed, we identify the development needs of each employee and agree on an action plan, which normally includes training to be completed by the next performance appraisal. Identified training needs are reported to the HR department, which incorporates them into an Annual Training Plan. Throughout the year, this plan is further developed and the impact of the training is measured.

Internal communications

Effective communication is a prerequisite for maintaining good relationships with employees based on mutual trust and confidence. We believe that corporate communications should not only be a function which distributes information, but a natural part of our daily interactions.

The most effective way to reach our employees with information and dialogue is to some extent culture-dependent. Therefore, the strategy and most appropriate means of internal communication are decided on a regional basis. In order to keep our people updated on corporate developments and decisions and to strengthen their sense of ownership towards the Sonae Indústria culture, our corporate communication function is responsible for informing local managers and suggesting suitable communications tools.

Our main channels for corporate communication are our Intranet “InBoard”, Sonae Indústria’s newsletter, and our International Management Meeting (IMM). “InBoard” presents the latest highlights and events as well as basic information about the company locally as well as globally. Approximately 42% of our employees have access to “InBoard” (meaning that an internal email and Intranet account has been assigned to them). Our newsletter is issued in 5 languages, posted in all our operations, and distributed to the employees. In addition to the corporate newsletter, almost every country has its own newsletters or newspapers. IMM is our major international event for knowledge sharing and reinforcement of the Sonae Indústria culture among managers. During this annual forum, we establish working groups across borders to provide managers with an opportunity to address the current agenda, discuss best practices, and prepare strong communication tools to motivate our people and enhance company-wide performance.

ATTRACTIONG YOUNG TALENT TO GLUNZ

Recognising that our employees are crucial to our success and that the future viability of our business depends on our ability to attract and retain skilled and experienced employees, our Glunz group in Germany introduced a trainee programme in 2001.

The objectives

The objective of the programme was to identify and hire young above-average talents such as graduates from universities and from universities of applied sciences in order to secure the availability of high quality specialists and executive staff for the future. By providing a focused training process, we aimed at creating a high degree of identification with Glunz amongst trainees, thereby increasing retention levels and reducing costs in relation to personnel acquisition. At the same time, we hoped that by contributing to increased skill levels in our community, we would boost the Glunz image in the labour market as well as amongst competitors and customers.

The programme

The programme is designed to motivate and retain outstanding young talents. Running for a period of twenty-four months, the programme offers a combination of on-the-job training and introduction to professional and social competencies. At least six of the twenty-four months are spent abroad at another Sonae Indústria operation in order to introduce trainees to other peoples and cultures, thereby preparing them for an international career with us. From the beginning, trainees undertake project-oriented tasks with a high level of practical use to Glunz. This is done in order to challenge them and develop their
skills and to usher them into long-term careers with us. A further motivator is the functioning of Management Committee members and executives as patrons and mentors who follow the trainees closely and contribute to their development.

Results
To date, we have hired 31 trainees and numbers are expected to rise. From 2 hires in 2001 and 12 in 2006, we expect the number to increase to 20 in 2007. Of the current 31 hires in total, we are pleased to note a 90% retention rate. With 30% of our trainees being women, we expect the training programme to also have a positive effect on the gender balance amongst our staff.

Next steps

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>People practices</td>
<td>Improve the quality of relationship with our employees</td>
<td>Develop formally an approach (policy) to the organization's practices in relation to freedom of association</td>
</tr>
</tbody>
</table>

Activities medium-term
Managing community relations

Doing business around the world means that our operations are part of widely different cultures and societies ranging from South Africa, Brazil and Canada to a number of European countries. Wherever we are, we want to be an active part of these communities, engaging ourselves in their issues and opportunities and making contributions which may help to meet some of their needs while also addressing our own needs as a business.

Our involvement is, for the most part, made on a country or regional basis and is a direct response to issues identified by our operations in each country or local community. We thus do not currently have a global approach to community involvement but are planning to develop strategic community involvement guidelines for the countries in the next year or two. In particular, we will be looking at providing general guidelines on tax management.

While our initiatives are primarily aimed at improving the quality of life for our employees and their local communities, they also have direct benefits to our company. By actively demonstrating our commitment, we can earn the recognition of local stakeholders and the goodwill of our communities. We may also gain an improved image both locally and globally which, in turn, strengthens our relationships with local customers and gives us a better basis for attracting and retaining skilled people. We believe that this engagement in our local communities is one reason why we scored highly on employee commitment to our company in the recently launched employee climate survey (see the chapter “People in the organization”). People are proud to work for a company that assumes responsibility for and contributes to the quality of life in the local community, and our operations are committed to making sound contributions which make a difference.

When investing in communities, we prioritize activities which can bring dual benefits in terms of added value to our company and our local communities alike. Through financial donations and sponsorships, for example, we contribute towards increased wealth creation in local communities, thereby increasing, even if to a small extent, local spending power and possibly growing sales of our products. By investing in training and education, we broaden the pool of skilled people from which we can recruit new employees and at the same time help to raise levels of education in the general population, thus building skills and potentially reducing unemployment in local communities.

How we invest in local communities

Depending on the needs identified in each region or country, our involvement tends to fall within four main categories: investment in local communities such as participation in or support for charity events; donations of money or products to foundations, institutions and societies; sponsorships in the form of scholarships and support of sports activities; and projects happening on our own premises or which are managed by us, such as events for our people and their families or the improvement of institutions in the local community. Across all regions and all types of investment, we spent approximately 445 thousand Euros on community investment in 2006 and 204 thousand Euros through employees' time, products and discounts given and services purchased from institutions with handicapped persons.
Overview of activities

2006 community involvement activities were very diverse depending on the community context in which they were undertaken. A majority of projects were designed to support local communities while a minority were dedicated to the donation of products and financial means as well as sponsorships. Below is a list of selected examples.

Our German Glunz Group supported the St. Vitus Association Society for Welfare-Educational Assistance Ltd., which is an initiative through which individuals with handicaps are offered the opportunity to participate in a range of initiatives to the benefit of local society.

In the UK, our Human Resources Manager sits as the Employer Representative on the Knowsley Council, Employment and Skills Forum, which is part of the Knowsley Metropolitan Borough Council Strategic Partnership. Knowsley has only 5% of local residents actively seeking work, but has 30% of local residents neither in work, nor actively seeking work. It has a high level of third generation unemployment, lone parent families, and local residents with medical problems. The Council has been given ‘beacon’ status for its performance in tackling the issues associated with these problems.

In South Africa, we are involved in the Ekangala Grasslands Project, which we undertake in association with the World Wildlife Foundation. The project is aimed at supporting the long-term management and conservation of South Africa’s natural resources.

In the Iberian Peninsula, many donations were made to support schools, hospitals, fire brigades, churches, and sports associations, thereby making a significant contribution to the development of local community life.

In Canada, we contributed to the Canadian Cancer Society - Relay for life event. Thus, in June 2006 a team of 10 Tafisa Canada employees (out of a total of 500 participants) participated in a 12-hour walk around a park in Lac-Mégantic. This was the second time the event took place, both times with participation from Tafisa Canada.

<table>
<thead>
<tr>
<th>Total</th>
<th>Community investment</th>
<th>Time / Products / Discounts / Direct purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>100 984</td>
<td>100 834</td>
</tr>
<tr>
<td>Spain</td>
<td>6 808</td>
<td>6 333</td>
</tr>
<tr>
<td>France</td>
<td>11 661</td>
<td>11 661</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>26 596</td>
<td>22 930</td>
</tr>
<tr>
<td>Germany</td>
<td>232 848</td>
<td>32 953</td>
</tr>
<tr>
<td>Canada</td>
<td>18 756</td>
<td>18 756</td>
</tr>
<tr>
<td>Brazil</td>
<td>47 966</td>
<td>47 966</td>
</tr>
<tr>
<td>South Africa</td>
<td>203 421</td>
<td>203 421</td>
</tr>
<tr>
<td>Total</td>
<td>649 042</td>
<td>444 854</td>
</tr>
</tbody>
</table>

FIGURE 36: Investment in local communities by country (in Euros)
COMMUNITY INVOLVEMENT
IN SOUTH AFRICA

KEY CHALLENGES
With heavy emigration of skilled workers and significant regional concentration of labour, one of the greatest challenges for South Africa today is a shortage of skills and qualified people to fill an increasing number of vacancies. In Greater Johannesburg alone, 23% of vacancies are for skilled workers. And with the average age of technically skilled people being 54, there is a strong need for education, training, and general skill building in the younger population. Without it, companies will struggle to recruit qualified people and thus to secure the successful future of their businesses. While the government is committed to improving the situation, there is still a long way to go. Thus in 2006 and 2007, 2,350 new schools were required to meet the demand, but only 168 are planned for construction.

At the same time, the country struggles with high numbers of people infected with HIV and AIDS. The number today is approximately 6 million in South Africa alone. This not only ruins families and creates an increasing number of orphans in need of care, education, and a secure future but it also drastically reduces the workforce and the ability of those infected to manage jobs or participate in skill building initiatives.

In South Africa, therefore, we are focusing our community involvement activities in areas related to education and health/welfare. This is done partly to strengthen skills development and awareness about critical health issues in our local communities, thereby creating a basis for increased economic efficiency going forward, and partly out of enlightened self-interest to enlarge the pool of young employees from which we can recruit. We believe it would mean a risk to our future viability as a business not to do so and at the same time, we share a deep concern for the well-being of our people and their families. During 2006, we have spent a total of 192,000 Euros on the following activities:

EDUCATION
At the Lingisane Secondary and Hazyview Comprehensive Schools at White River, we established computer centres and provided each school with the necessary hardware/servers as well as internet connectivity. At another school, Sakhile Secondary School, also in the White River area, we provided water supplies by covering the cost of drilling and installation of two water tanks. In two instances, we were pleased to be able to contribute to skills development, by providing a bursary for five unemployed learners to be trained in wood machining through the Skills to Furnish International organization in Gauteng, and by making a provision through the South African Institute of Race Relations for six PDI’s (Previously Disadvantaged Individuals) to attend a university/technical college in 2007.

HEALTH AND WELFARE
Sonae Novobord has teamed up with Epicentre (a non-profit organization) and implemented an HIV/Aids Awareness Programme within the workplace. The objective of the programme is to establish employees’ current health status and to educate them on how to change their behaviour in case they are HIV positive, thereby seeking to prevent new infections and helping them to take appropriate action. The programme encompasses leadership training, has a peer education approach, and includes a voluntary counselling and testing campaign linked to a prevalence and knowledge, attitudes and practices report. The programme commenced in 2006 at Woodmead and Panbult and is planned for further rollout in George and White River during 2007.

Within the Alexandra township (Johannesburg, Gauteng), Sonae Novobord identified a nursery school/orphanage in need of assistance. The facilities were of a temporary nature and financial assistance was required in order to support the building of a house that would accommodate approximately forty children. The school serves a dual purpose in that it looks after the children during the course of the day while parents are at work and provides a safe house for children who are orphaned. The school also has the added advantage of providing at least one nutritionally balanced meal per day to those children at the school suffering from AIDS. The project is essentially managed by “The Friends of Alex”, which is a non-profit organization. In 2006, we donated approximately 12,000 Euros to the programme.
The above projects are still in their infancy and will require continued support over the years to come. It is thus too early to speak about the exact impact of the investments to date, but we do begin to see a distinct positive influence of the programmes on the people involved and are committed to continuing our efforts and support going forward.

INVESTING IN EMPLOYEES AND THEIR FAMILIES IN BRAZIL

In Brazil, the majority of our community investment goes towards initiatives aimed at supporting and building relationships with our employees and their families both inside and outside the workplace. While this level of fraternization and health support may be uncommon in some other cultures, it is an intrinsic part of the Brazilian way of doing business. With relatively limited social services provided by the state in case of long-term illness or other needs preventing individuals from earning a living, it traditionally falls on Brazilian businesses and non-governmental organizations to help meet acute needs. In this way, relationships between employers and employees tend to be very close and they may even take on the nature of extended family relations.

This is also true in our case. In 2006, for example, we held a Christmas party for all employees and their families and also invited Tafisa's employees for a barbecue to celebrate The Labour Day in the Piên Community. On other occasions, we have held soccer championships where employees compete against each other, an event which is promoted at all levels of the company. We have also had The Family Day, where the families of employees are invited to visit the factory and see for themselves where and how their relatives work on a daily basis. We also provide extensive medical care to all employees free of charge.

Every November, we dedicate one whole week to the topic of health and safety, including important lectures on alcoholism, tobacco, sexual illness, etc. These events always include several participation incentives, as well as surveys that enable us to better conduct our health and safety programmes. Following the same idea, we organize an Environmental Children's Day in the Piên Community with the purpose of emphasizing to the younger generations the importance of environmental issues. Every year in December, we also run a big campaign to collect donations for those in need within our communities.

Our employees are very important to us and it makes sense - also from a business point of view - to look after their physical and mental well-being, as well as to support them to build a sense of citizenship and responsibility linking their place of work with their private lives. These events aim to demonstrate that the company values each and everyone's work and intends to build long-term mutually beneficial relationships.

DEALING WITH COMPLAINTS

Running operations in near proximity to residential areas has both advantages and disadvantages. It provides easy access to labour and offers an opportunity to have a positive effect on the local economy through wealth creation and jobs. At the same time, some manufacturing processes can cause inconvenience in the form of undesired noise, smell, vibrations, and disfiguration of the local landscape through the presence of manufacturing buildings and machinery.

EMBRACING SUSTAINABILITY - LOCAL COMMUNITY
In some cases, our operations may disturb our neighbours and complaints are filed against us. We seek to deal with these complaints in an open and honest manner and to look for solutions which address our neighbours’ needs while allowing us to continue running our business. Thus, during 2006, our UK operations received a total of 133 complaints, the majority of which were related to our Knowsley operations, which were attracted to this long-standing industrial area by the Knowsley Council in 1997. UK-wide, registered complaints were divided as follows:

69 were related to plumes which are generated from our process of drying wood chips and mainly consist of water vapour which is emitted through our chimneys. The environmental effect of the plumes is minimal, but the visibility of these drier emissions create the perception of intense pollution. Since the extension of the stack at the Knowsley operations in August 2005, dispersion has improved tremendously. Haze can rarely be seen and is limited to the short periods when the wet electrostatic precipitator (WESP) is on a “rinse cycle”, the method by which it self cleans. Over the coming months, additional improvements to WESP are planned which will further enhance performance, including improvements to the water circuit and the pre-moistening section of the WESP inlet.

38 complaints were related to dust caused by the airborne wood dust particles generated through fugitive emissions from the production process, blockages of filters, or wind-blown dust from the woodyard. To reduce these effects, heavy investment has been made into new air cleaning and filtration hoods on most wood processing equipment and the introduction of mist sprays. Vehicle movements have been restricted and most importantly, all material is now screened off-site to remove fines material prior to it entering the site. Also, regular and thorough maintenance of machinery and Planned Preventative Maintenance (PPM) techniques along with new designs for wear parts in elevated positions help to reduce the number of dust leaks.

Finally, 7 complaints were due to noise, mainly generated through activity in the woodyard. To solve this problem, all new installations have noise enclosures, and to reduce the noise from trucks and bucket loaders, smart sensors have been fitted which reduce the noise levels at night by switching to strobes.

Through the above efforts, we have been able to reduce the amount of complaints from 586 in 2005 to 222 in 2006. By comparison, the number of issues raised by the local Council has been reduced from 217 in 2005 to 133 in 2006.

Next steps

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax aspects</td>
<td>Improve the quality of the relationship with the community</td>
<td>Consider the need for general guidelines on tax management</td>
</tr>
<tr>
<td>Community impact</td>
<td>Improve the quality of the relationship with the community, AND</td>
<td>Assess alignment of donation/sponsorship programmes with corporate business strategy</td>
</tr>
<tr>
<td></td>
<td>Ensure local alignment with corporate strategies</td>
<td></td>
</tr>
<tr>
<td>Public policy</td>
<td>Improve the quality of the relationship with the community, AND</td>
<td>Assess our current global positioning and need to align or further develop country-based initiatives</td>
</tr>
<tr>
<td></td>
<td>Influence on public policy development</td>
<td></td>
</tr>
</tbody>
</table>

Activities planned for 2008  Activities medium-term
6.7 HUMAN RIGHTS

Managing human rights

As we continue to grow our business, expanding into new markets and cultures, the public and governments of the countries where we operate increasingly hold us accountable for adhering to internationally proclaimed human rights. This means that we are expected to operate in accordance with the legal rules and regulations of each country as far as these do not violate international human rights, adhering, for example, to legislation on minimum wages and age of workers and maximum working hours per day. By treating workers with dignity and rewarding them fairly for their work, we can motivate them to be more productive and enhance loyalty towards our company. A reputation for adhering to international human rights may also enable us to attract skilled and well-qualified people and to maintain good relations with local communities. By actively seeking to manage our human rights record, we can thus not only ensure good working conditions for our own people but also contribute to raising the level of adherence to human rights standards in countries where the enforcement of these rights may be insufficient.

However, not only our own performance must live up to fundamental human rights standards. To protect our image, we must also ensure that our suppliers and contractors are in compliance. In our relationships with suppliers and contractors it will therefore increasingly become a prerequisite that they also seek to live up to fundamental human rights. To this end, we will carefully evaluate potential suppliers and contractors with a view to their performance in this area before commencing working relationships. This will enable us to maintain long-term, sustainable relations with suppliers and contractors, as we will then be reasonably confident that they are not at risk of being charged with human rights abuses.

How we deal with human rights

Sonae Indústria

In 2004, we became a signatory to the UN Global Compact as part of the Sonae Group. Following the demerger in 2005, we continue to support the UN Global Compact and actively seek to live up to its ten principles. In the course of 2007, we will evaluate whether it would make sense to join the UN Global Compact as a company in our own right, as Sonae Indústria.

These UN Global Compact principles, including those on human rights, have been an intrinsic part of our culture - or the Sonae Indústria Way - for a long time, governing the way we treat our people, work with suppliers and contractors, and guiding us in decisions about which new markets to enter. However, our efforts to abide by international human rights have not yet been formalised in a code of conduct. This is something we aim to do by the end of 2007.

Thus, it is a challenge to measure and document the extent to which we respect human rights except, perhaps, by the absence of any known negative cases. We are pleased that to date, no complaints have been filed against us for complicity in human rights abuses, and we are committed to continuing, and extending, our efforts in this area. We will do so by incorporating key sustainability issues, including human rights, into our enterprise-wide risk management processes, thereby ensuring that we address these issues as a regular part of risk assessments at all our operations. This, we trust, will allow us to identify, and immediately address, any potential or actual gaps in our future performance.

Suppliers and contractors

Engaging in our suppliers’ compliance with human rights issues is a real challenge for us as the number of suppliers has grown from 19,000 in 2005 to 21,000 in 2006. In relation to contractors, we are not currently monitoring their level of compliance with human rights.
In 2007, we will develop a process to assess our major groups of suppliers and the implications of the relationship we establish with them (for example on human rights, site security issues, labour relations and other compliance issues), prioritising the major issues and risks in our relationships with them. As a consequence, a global approach, based on a societal impact analysis of these practices which takes geographic differences into account, will be put in place. This approach will also include action plans for how to incorporate these concerns into business relationships.

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>OUR APPROACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forced or compulsory labour</td>
<td>We do not engage in any form of forced or compulsory labour.</td>
</tr>
<tr>
<td>Child labour</td>
<td>Our minimum age for admission to employment or work is never less than 15 years and always above the age for completing compulsory schooling. We have a minimum hiring age of 18 for hazardous work.</td>
</tr>
<tr>
<td>Non-discrimination and prevention of discrimination</td>
<td>We are not engaging in discrimination of any sort.</td>
</tr>
<tr>
<td>Minimum salaries</td>
<td>Our salaries are all compliant with minimum salaries or above.</td>
</tr>
<tr>
<td>Freedom of association and freedom of collective bargaining</td>
<td>We respect our employees’ right to be organized in unions and actively engage with these in negotiations for compensation agreements and other employee relations.</td>
</tr>
<tr>
<td>Security practices</td>
<td>We have surveillance cameras in many operations, which are clearly identifiable, and in public areas for safety purposes and as preventative measures.</td>
</tr>
<tr>
<td>Indigenous rights</td>
<td>We respect and accommodate differences in our day-to-day practices.</td>
</tr>
<tr>
<td>Reaction on violation of legal/statutory requirements on Labour Rights</td>
<td>We comply with labour rights wherever we operate.</td>
</tr>
<tr>
<td>Work-life balance</td>
<td>We respect our employees’ right to find an appropriate balance between work and private life, and we believe that all employees who are competent, diligent and efficient will always have a place in our organization even if they can only spend the normal working period in the workplace.</td>
</tr>
</tbody>
</table>

FIGURE 37: Our human rights issues and how we approach them

Next steps

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier assessment</td>
<td>Assess our major groups of suppliers and the implications of the relationship we establish with them</td>
<td>Develop a process that considers societal impact analysis of our interaction with our main suppliers (taking into consideration geographic aspects) including action plans</td>
</tr>
</tbody>
</table>

Activities planned for 2008 Activities medium-term
6.8
PRODUCT RESPONSIBILITY

Our commitment towards customers and end users

In today’s marketplace, end users are increasingly looking for products with a sustainable life cycle. This comprises the sustainable sourcing of raw materials, socially and environmentally responsible production processes, safe usage of the final product, and well-organized and efficient recycling schemes. Product responsibility thus extends across a product’s entire life cycle. Our challenge is to minimise the negative impacts of our products and production processes on the environment and on the health of employees and end users, while at the same time maximising product quality, usability, and cost efficiency.

We consider it our responsibility to invest in the continued development and improvement of sustainable products and processes and to provide our customers and end users with reliable information about the origin, correct usage, and disposal of our products. The end user, on the other hand, is responsible for using our products in ways for which they were intended and to dispose of them in a responsible manner at the end of their life cycle. During 2007, we will assess our current innovation framework and look at incorporating key sustainability issues. To further improve our relationship with customers and end users, we will also identify external rules, agreements and codes with which we must make sure to be in compliance. In the medium term, we will further develop high-level internal guidelines that incorporate sustainability issues in global marketing practices, including product stewardship.

During the different stages of their life cycle, wood-based panels affect humans and the environment in numerous ways and we are committed to doing our utmost to add sustainable value to all stages of our products’ life cycle. While the social and environmental implications of our production processes and the value of wood-based panels as carbon stores were described in the chapters “Environmental resources and efficiency” and “People in the organization”, this chapter will focus primarily on certifica of our products with respect to the origin of our wood raw materials, product safety in relation to the end user, and on how wood-based panels can contribute to energy savings in homes and to sustainable construction in general.

How we increase product responsibility

Product certification

To meet consumer expectations, our products must fulfil various needs related to quality and cost efficiency. We seek to meet these expectations through a continuous innovation process to expand and improve our product portfolio and to make our production processes more lean, thereby reducing cost and increasing efficiency (see the chapter “Embracing sustainability” for more information about these efforts). In addition to quality and cost, consumers are concerned with the origin of the raw materials used and are, in a number of cases, willing to pay extra for the assurance that products are made from sustainable raw materials. To meet this demand for environmentally friendly products, we engage in wood certification schemes, primarily in the Programme for the Endorsement of Forest Certification (PEFC) and the Forest Stewardship Council (FSC). For details about the history of our engagement and activities with these organizations, please see the chapter “Embracing sustainability”.

To date approximately 20 of our wood-based panels manufacturing operations have PEFC and/or FSC certified production (for details please see the chapter “Environmental resources and efficiency”). The benefits of these certifications are increased sales to customers whose end users prefer sustainably produced products. As demonstrated in the case below about increasing demand for certificed wood in France, there is a growing interest amongst end users in these kind of products which, in turn, leads our customers to demand certification of the raw materials used in our products. This is in line with our commitment to sustainable profitable growth and we encourage our operations to ensure certification of products to meet these demands, which we foresee will increase further in the future.

In addition, certification helps to address a dilemma we face with regard to the public misperception that we are complicit in unsustainable foresting of, for example, tropical wood. This perception arises because our products are wood-based, designed to look exactly like solid wood and are being sold in the same market segment as such products while, in fact, they are made mainly from by-products and recycled
materials. Hence, the challenge is to remain a player in the wood market segment while at the same time making customers aware of the fact that our products are produced in a sustainable manner. Certification is one, however not a final, means of addressing this dilemma.

**Product safety**

Formaldehyde is a key component in the production of resins, which are used in the production of wood-based panels (please refer to the chapter “People in the organization” for details on the diversity of worldwide uses of formaldehyde). Although an intrinsic part of the finished product, limited amounts of formaldehyde may be emitted into the air during use.

We are well aware that the reclassification of formaldehyde by IARC (International Agency for Research on Cancer), in June 2004, from being a “dangerous substance” to “carcinogenic to humans” may affect the public perception of the wood-based panels safety.

As described in the chapter “People in the organization”, by actively engaging in the work of the European Panel Federation (EPF), we seek to find solutions that can further complement the improvements the sector has achieved in the last decades in offering even safer products to consumers, with lower levels of emissions overall.

Our innovation process is actively responding to this challenge by developing low-formaldehyde or formaldehyde-free products. These products are, for example, used in the production of our coloured MDF boards as shown in the case below about Topan Colour.

**Energy savings in buildings**

Resistance to local weather and climatic conditions as well as soundproof properties are essential requirements in the construction of modern houses, offices, and commercial areas. A survey by the ATHENA Sustainable Materials Institute shows that compared to other construction materials such as steel and concrete, wood has significantly lower adverse environmental impacts when used as building material. The difference is particularly great in regard to air and water toxicity and the amount of embodied energy, where wood ranks substantially below steel and concrete (see Figure 38). Wood and wood-based products also have a positive effect on global warming through improved energy efficiency. Thus, the demand for wood in the construction industry is increasing. To meet this demand, we have developed a range of boards designed to provide a maximum of interior and exterior thermal and acoustic insulation. By reducing energy emissions from housing, our panels help to minimise individual house energy usage and enable a reduction of emissions into the atmosphere. The average energy savings of an older house insulated with our 5 cm panels, for example, is approximately 25% (when compared to non insulated houses), which for a 130 m² house equals around 6,500 kWh per year, corresponding to approximately 2 tonnes of CO₂ yearly.

![FIGURE 38: Relative environmental effects of other building materials compared with wood (index 100)](image-url)
DEVELOPING HIGH-VALUE TOPAN COLOUR MDF BOARDS

What we did
Following the success of our black-dyed MDF boards which were used to manufacture veneered office furniture, leaving a black edge as a visible and decorative element, we identified a market demand for more varieties of MDF boards as exclusive, decorative elements for homes and other housing. This demand encouraged us to initiate the development of a new Topan Colour MDF board product range consisting of boards in eight different colours. As part of the development process, we formed a strategic partnership with BASF, our German supplier of dye and resin, to achieve high product quality with regard to moisture resistance and light fastness and, at the same time, achieve a high degree of sustainability for these products. Thus, the end product was moisture resistant and light fast, and made from sustainably sourced wood materials with PEFC certification. Formaldehyde-free resin has been applied in this product range. Also, water bond pigments were used in the dyeing process in order to protect our employees and the environment. This product range quickly became highly popular in the marketplace, and since our first delivery of Topan Colour in 2002, demand has increased every year and is expected to increase further in 2007.

Our results
With their high level of quality and sustainability performance, our Topan Colour boards have become an important flagship through which we can promote our commitment to sustainable profitable growth. At the same time we can demonstrate that sustainability and product quality are not mutually exclusive. The high value of the product has allowed for a high pricing strategy, thereby promoting economic sustainability and a fast return on investment. As the special quality of Topan Colour is fairly new to the wood-based panels market, there is relatively low competitive intensity, allowing for sales in both existing and new market segments. The product range has, for example, been a door opener for us to new markets such as interior design, shop fitting, and the design of exhibition booths.

Next steps: Continuous improvement of Topan Colour
Although the Topan Colour range already contains eight colours, a key colour (white) is still missing. We are currently looking for ways to include this colour in the range through a variety of R&D projects. We are also looking into the development of new colour applications with added characteristics such as being fire retardent, which would be an added user safety feature of the product range. There may also be openings in additional markets and we are currently exploring new opportunities for expansion into segments such as the furniture and flooring industries.
CUSTOMER DEMANDS
FOR CERTIFIED WOOD IN FRANCE

Out of a sincere concern for the environment and encouraged by international environmental organizations (like Greenpeace), an increasing number of consumers in the French marketplace ask our customers in the distribution sector to supply certified wood panels and ban wood essence like Merbau from Moabi, tropical wood from New Guinea, and Teck from Burma from products.

To meet this consumer demand and create a consistent approach for the industry, the most important building materials distribution groups in France have signed an Environmental Charter (Charte environnementale), which sets out minimum standards for the suppliers of wood-based products. They have also signed an agreement with a number of key environmental organizations in France committing themselves to providing evidence of their purchasing and follow-up practices with suppliers and to disclose the raw material source of products sold to consumers.

This development is naturally reflected upon us, as our customers respond to consumer demands by requiring wood-based panels produced from certified wood. Thus today, we see all distribution groups in France buying primarily, or exclusively, certified PEFC or FSC wood and wood panels, asking that we commit ourselves to using only certified wood in production. This volume represents several thousands m³ each month, delivered by our operations, and judging by the current trend, this is a phenomenon which will increase in the years to come. To secure our access to the markets and to demonstrate our commitment to sustainable development, we have therefore had all our French operations certified by PEFC.

Next steps

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systems &amp; Processes for Innovation</td>
<td>Enhance the ability to be an innovative organization AND Increase visibility of Innovation Systems and Processes AND Translate innovative ideas into business opportunities</td>
<td>Assess the current innovation framework and the need for further improvements, incorporating key sustainability issues</td>
</tr>
<tr>
<td>Responsible marketing</td>
<td>Improve the quality of the relationship with our customers</td>
<td>Identify external rules, agreements and codes with which the organization needs to be in compliance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Develop high-level internal guidelines that incorporate sustainability issues in global marketing practice (including product stewardship)</td>
</tr>
</tbody>
</table>

Activities planned for 2007 Activities planned for 2008
## OBJECTIVES - SUMMARY TABLE

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics and Culture</td>
<td>Identify and formalize standards of business ethics</td>
<td>Set-up Code of Conduct</td>
</tr>
<tr>
<td>Subscription to the United Nations Global Compact</td>
<td>Decide on United Nations Global Compact subscription</td>
<td>Propose Ethics Governance structure</td>
</tr>
<tr>
<td>Top management commitment</td>
<td>Establish long-term sustainability objectives for the organization</td>
<td>Develop risk analysis on the implications of the UN Global Compact subscription</td>
</tr>
<tr>
<td>Key stakeholders and their issues</td>
<td>Ensure clear understanding and definition of key stakeholders and ways to address their concerns and challenges</td>
<td>Define approach for setting long-term sustainability objectives</td>
</tr>
<tr>
<td></td>
<td>Determine our relevant issues based on materiality for the key stakeholders</td>
<td>Validate the conclusions of the preliminary work of identification of key stakeholders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Validate the conclusions of the preliminary work of identification of key relevant issues</td>
</tr>
</tbody>
</table>

Activities planned for 2007 Activities planned for 2008 Activities medium-term
## OBJECTIVES - SUMMARY TABLE

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td>Ensure effective communication to internal and external stakeholders on our sustainability approach</td>
<td>Prepare an enterprise-wide strategy for internal/external communication of sustainable development</td>
</tr>
<tr>
<td>Quantifying performance</td>
<td>Provide a basis for setting objectives and targets to evaluate and manage performance</td>
<td>Define a process to set objectives and targets (qualitative and quantitative), following the Vision, Values and Principles definition</td>
</tr>
<tr>
<td>Achieving credibility</td>
<td>Achieve credibility in the communication process following the sustainability strategy</td>
<td>Engage the different countries in the identification of key stakeholders and issues</td>
</tr>
<tr>
<td>Governance structure and policies</td>
<td>Establish and document the appropriate governance structure and related policies, monitor performance and ensure compliance</td>
<td>Assess policies and governance structures that are currently in place</td>
</tr>
<tr>
<td>Risk management</td>
<td>Address sustainability key issues within the enterprise-wide risk management process</td>
<td>Evaluate areas that need to be addressed</td>
</tr>
<tr>
<td>Resources and operational efficiency</td>
<td>Create value as part of the relationship with our shareholders</td>
<td>Incorporate key sustainability issues (environment, health and safety, social responsibility, etc.) within the enterprise-wide risk management process</td>
</tr>
</tbody>
</table>

Activities planned for 2007   Activities planned for 2008   Activities medium-term
<table>
<thead>
<tr>
<th>ISSUES</th>
<th>OBJECTIVES</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>People practices</td>
<td>Improve the quality of relationship with our employees</td>
<td>Develop formally an approach (policy) to the organization’s practices in relation to freedom of association</td>
</tr>
<tr>
<td>Tax aspects</td>
<td>Improve the quality of the relationship with the community</td>
<td>Consider the need for general guidelines on tax management</td>
</tr>
<tr>
<td>Community impact</td>
<td>Improve the quality of the relationship with the community AND</td>
<td>Assess alignment of donation/sponsorship programmes with corporate business strategy</td>
</tr>
<tr>
<td>Public policy</td>
<td>Improve the quality of the relationship with the community AND Influence on public policy development</td>
<td>Assess our current global positioning and need to align or further develop country-based initiatives</td>
</tr>
<tr>
<td>Supplier assessment</td>
<td>Assess our major groups of suppliers and the implications of the relationship we establish with them</td>
<td>Develop a process that considers societal impact analysis of our interaction with our main suppliers (taking into consideration geographic aspects) including action plans</td>
</tr>
<tr>
<td>Systems &amp; Processes for Innovation</td>
<td>Enhance the ability to be an innovative organization AND Increase visibility of Innovation Systems and Processes AND Translate innovative ideas into business opportunities</td>
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<tr>
<td>Responsible marketing</td>
<td>Improve the quality of the relationship with our customers</td>
<td>Identify external rules, agreements and codes with which the organization needs to be in compliance</td>
</tr>
</tbody>
</table>

Activities planned for 2007  Activities planned for 2008  Activities medium-term
United Nations Global Compact Principles and related information available throughout this report

### Human Rights

**Principle 1**
Businesses should support and respect the protection of internationally proclaimed human rights;

AND

**Principle 2**
make sure that they are not complicit in human rights abuses

### Labour Standards

**Principle 3**
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

**Principle 4**
the elimination of all forms of forced and compulsory labour

**Principle 5**
the effective abolition of child labour;

AND

**Principle 6**
the elimination of discrimination in respect of employment and occupation

6.7 Human rights

6.7 Human rights

/How we deal with human rights

6.5 People in the organization

/Our people challenges

6.7 Human rights

/How we deal with human rights

6.7 Human rights

/How we deal with human rights

6.7 Human rights

/How we deal with human rights

6.5 People in the organization

/Diversity and equal opportunities

6.5 People in the organization

/Broad-Based Black Economic Empowerment (BBBEE) in South Africa

6.6 Local community

/How we invest in local communities

6.6 Local community

/Community involvement in South Africa

6.7 Human rights

/How we deal with human rights
Environment

**Principle 7**
Businesses should support a precautionary approach to environmental challenges

**Principle 8**
undertake initiatives to promote greater environmental responsibility;
AND

**Principle 9**
encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption

**Principle 10**
Businesses should work against all forms of corruption, including extortion and bribery

6.2 Risk management
/Our approach to environmental risk

6.2 Risk management
/Our approach to health and safety related risk

6.4 Environmental resources and efficiency
/How we deal with key issues

6.5 People in the organization
/Formaldehyde in the workplace

6.5 People in the organization
/Dust exposure

6. Embracing sustainability
/Our approach to sustainability

6.4 Environmental resources and efficiency
/How we deal with key issues

6.4 Environmental resources and efficiency
/Environmental management systems

6.4 Environmental resources and efficiency
/Certification of management systems

6.6 Local community
/Investing in employees and their families in Brazil

6.2 Risk management
/Our approach to corruption and bribery
### Main subsidiaries of Sonae Indústria by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRAZIL</td>
<td>Tafisa Brazil, S.A.</td>
</tr>
<tr>
<td>CANADA</td>
<td>Tafisa Canadá Société en Commandite</td>
</tr>
</tbody>
</table>
| GERMANY          | Glunz AG  
|                  | GHP GmbH  
|                  | Agepan Tarkett Laminate Park, GmbH & Co. Kg                                                    |
| FRANCE           | Isoroy, S.A.S.                                                                                 |
|                  | Darbo, S.A.S.                                                                                  |
| PORTUGAL         | Sonae Indústria - Produção e Comercialização de Derivados de Madeira, S.A.  
|                  | Sonae Indústria de Revestimentos, S.A.  
|                  | Euroresinas - Indústrias Químicas, S.A.                                                        |
| SOUTH AFRICA     | Sonae Novobord, Ltd.                                                                          |
| SPAIN            | Tableros de Fibras, S.A.                                                                      |
|                  | Tableros Tradema, S.L.                                                                         |
|                  | Tafiber, Tableros de Fibras Ibéricos, S.L.                                                     |
| SWITZERLAND      | Tavapan, S.A.                                                                                  |
| THE UNITED KINGDOM | Sonae UK, Ltd.  
|                  | Spanboard Products, Ltd.                                                                       |
GLOSSARY

BBBEE (Broad-Based Black Economic Empowerment):
A programme introduced by the South Africa government in 2003/2004 to transform the South African economy to be representative of the demographic make-up of the country by giving previously disadvantaged groups (black Africans, Coloureds and Indians) economic opportunities previously not available to them. The scheme requires of businesses that they comply with seven performance parameters (ownership, management control, employment equity, skills development, preferential procurement, enterprise development, and socio-economic development).

CEI-Bois:
Confederation of the Woodworking Industries based in Brussels. Represents the entire European woodworking industry. Members are federations (including EPF) and national associations.

Chain of custody:
Chain of custody is the process by which the source of a forest product is verified. Includes all the changes of custodianship of forest products, and products thereof, during the harvesting, transportation, processing and distribution chain from the forest to the end-use.

Code of conduct:
Refers to companies' policy statements that define ethical standards for their conduct. There is a great variance in the ways these statements are drafted. Corporate codes of conduct are completely voluntary. They can take a number of formats and address any issue - workplace issues and workers' rights being just two possible categories. Also, their implementation depends entirely on the company concerned. Potential authors of a code are the founder, board of directors, CEO, top management, legal departments, and consultants. The process can involve employee representatives or otherwise selected employees.

Community investment:
Companies' strategic investment in local communities to create stable business environments, train labour pools, engender economically empowered local customer bases, and promote overall economic growth by, for example, supporting local infrastructure development, promoting health care and education, advancing agricultural practices, enhancing the job skills of local residents and providing investment and income flows through various community economic development initiatives.

Corporate (Social) Responsibility:
There is no single, widely accepted definition of Corporate (Social) Responsibility. Broadly speaking, it refers to the management of companies' impacts on society with the aim of maximizing positive and minimizing negative effects. The terms Corporate Social Responsibility and Corporate Responsibility are often used interchangeably. The World Business Council for Sustainable Development defines Corporate (Social) Responsibility as the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life.

Eco-efficiency:
The delivery of competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resource intensity throughout the life cycle, to a level at least in line with the earth's estimated carrying capacity.

EPF (European Panel Federation):
European Panel Federation based in Brussels, represents the wood-based panels industry in Europe. Members are companies and national associations.

EU ETS (European Union Emission Trading Scheme):
The European Union Emission Trading Scheme is the largest multi-national, greenhouse gas emissions trading scheme in the world and is a main pillar of EU climate policy. Under the scheme, each participating country has a National Allocation Plan (NAP) specifying caps on greenhouse gas emissions for individual power plants and other large point sources. Each facility gets a maximum amount of EU emission “allowances” (EUA) for a particular period of time. To comply, facilities can either reduce their emissions or purchase allowances from facilities with an excess of allowances. Progressively tightening caps are foreseen for each new period, forcing overall reductions in emissions.

Freedom of association:
Freedom of association implies a respect for the right of employers and workers to join associations of their own choice. The freedom to associate involves employers, unions and workers representatives freely discussing issues at work in order to reach agreements that are jointly acceptable. These freedoms also allow for industrial action to be taken by workers (and organizations) in defence of their economic and social interests.

FSC (Forest Stewardship Council):
The Forest Stewardship Council (FSC) is an international organization that brings people together to find solutions, which promote responsible stewardship of the world's forests.

Industrial by-products (pre-consumer recycled wood):
Wood material in the form of sawdust, fibrous wood, solid wood off-cuts or composite wood off-cuts resulting from any wood transformation or manufacturing process and which may be reclaimed and recycled as raw material for a manufacturing process.
ISO 9001:
A standard developed by ISO (International Organization for Standardization) to manage and monitor quality of products. ISO 9001 is intended for use in any organization which designs, develops, manufactures, installs and/or services any product or provides any form of service. It provides a number of requirements which an organization needs to fulfill if it is to achieve customer satisfaction through consistent products and services which meet customer expectations. A company or organization that has been independently audited and certified to be in conformance with ISO 9001 may publicly state that it is “ISO 9001 certified” or “ISO 9001 registered”.

ISO 14001:
A standard developed by ISO (International Organization for Standardization) and part of the ISO 14000 environmental management standards family, which helps organizations to minimize how their operations negatively affect the environment (cause adverse changes to air, water, or land), comply with applicable laws, regulations, and other environmentally oriented requirements, and continually improve on these aspects. ISO 14001 specifies requirements for establishing an environmental policy, determining environmental aspects and impacts of products/activities/services, planning environmental objectives and measurable targets, implementation and operation of programmes to meet objectives and targets, checking and corrective action, and management review.

KPIs (Key Performance Indicators):
Key Performance Indicators (KPIs) are financial and non-financial metrics used to quantify objectives to reflect strategic performance of an organization. KPIs are used to assess the present state of a business and to prescribe a course of action. KPIs are frequently used to “value” difficult to measure activities such as the benefits of leadership development, engagement, service, and satisfaction. KPIs are typically tied to an organization’s strategy and help an organization to measure progress towards their organizational goals.

MDF (Medium Density Fibreboard):
Wood-based panel manufactured from lignocellulosic fibres by the “dry process”, i.e. having a fibre moisture content less than 20% at the forming stage and being essentially produced under heat and pressure with the addition of an adhesive. This wood-based product is an excellent substitute for solid wood. It meets the requirements of furniture and flooring and is widely used in the building industry. It can be fire retardant and moisture resistant, low density or mouldable.

OH&SAS 18001:
OHSAS 18001 is an Occupation Health and Safety Assessment Series for health and safety management systems. It is intended to help an organization to establish an occupational health and safety (OH&S) management system to eliminate or minimise risk to employees and other interested parties who may be exposed to OH&S risks associated with its activities.

OSB (Oriented Strands Board):
OSB is an engineered wood structural panel and it is a sheet material in which rather long strands of wood are bonded together with a synthetic resin adhesive. Sometimes in all three layers, but usually only in the outer layers of these panels, the strands are orientated in a particular direction. OSB’s strength mainly comes from the uninterrupted wood fibre, interweaving of the long strands and degree of orientation of strands in the surface layers. Waterproof and boil proof resin binders are combined with the strands to improve internal strength, rigidity and moisture resistance. OSB is especially suitable for use in structural or non-structural applications in the construction industry such as flooring, wall construction, and decorative options.

PB (ParticleBoard):
Wood-based panel manufactured under pressure and heat from particles of wood (flakes, chips, shavings, sawdust and similar) and/or other lignocellulosic material in particle form with the addition of an adhesive. Particleboard has a uniformly smooth, level surface. It is very versatile with respect to its potential uses, especially suitable for the furniture and construction industries.

PEFC (Programme for the Endorsement of Forest Certification schemes):
The PEFC Council is an independent, non-profit, non-governmental organisation, founded in 1999, which promotes sustainably managed forests through independent third party certification. The PEFC provides an assurance mechanism to purchasers of wood and paper products that they are promoting the sustainable management of forests.

Product lifecycle:
Describes the entire lifecycle of a product from its conception, through design and manufacture, to service and disposal.

Recycled wood:
Wood, in the form of either reclaimed pre-consumer by-products from manufacturing processes (for example from the manufacture of wood-based panels, assembled products, building structures), or reclaimed post-consumer wood material (for example pallets or other wood packaging material, demolition waste, used furniture) which after reclamation is recycled as a raw material into the chain of commercial supply and reduced to a raw material form.

Roundwood
Small logs of wood purchased directly from plantations or well managed forests.

Stakeholders:
Those who have an interest in a particular decision, either as individuals or representatives of a group. This includes people who influence a decision, or can influence it, as well as those affected by it.
SREC (Social Responsibility and Environment Committee):
Sonae Industria’s “Social Responsibility and Environment Committee” established in 2004. As an advisory committee to the Board, the overall responsibility of SREC is to analyse and monitor the social, environmental, and economic impacts of Sonae Industria’s operations and to advise accordingly. With no decision powers of its own, a key function of SREC is to be a challenger, making suggestions for new initiatives and improvements.

Sustainable development:
In 1987 the World Commission on Environment and Development (the Brundtland Commission) agreed a definition of sustainable development that is now generally recognized as the standard: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

Sustainable forest management:
The stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfill, now and in the future, relevant ecological, economic and social functions, at local, national, and global levels, and that does not cause damage to other ecosystems. The definition was coined by the Ministerial Conference on the Protection of Forests in Europe (MCPFE) and since adopted by the EU Food and Agriculture Organization (FAO).

UNGC (United Nations Global Compact):
A United Nations initiative, launched in 2000, encouraging companies together with UN agencies, labour and civil society to support ten universal principles in the areas of human rights, labour, the environment, and anti-corruption. The aim is to promote responsible corporate citizenship in order for businesses to be part of the solution to achieve a more sustainable and inclusive global economy.

Value chain:
The value chain categorizes the generic value-adding activities of an organization upstream and downstream. Primary activities include: inbound logistics, operations (production), outbound logistics, marketing and sales, and services (maintenance). Support activities include: administrative infrastructure management, human resource management, R&D, and procurement.

WBCSD (World Business Council for Sustainable Development):
The World Business Council for Sustainable Development (WBCSD) is a coalition of approximately 180 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. Members are drawn from more than 30 countries and 20 major industrial sectors and also benefit from a Global Network of 40 national and regional business councils and partner organizations involving some 1,000 business leaders globally.

WESP (Wet ElectroStatic Precipitator):
An electrostatic precipitator, or electrostatic air cleaner is a particulate collection device that removes particles from a flowing gas (such as air) using the force of an induced electrostatic charge. Electrostatic precipitators are highly efficient filtration devices that minimally impede the flow of gases through the device, and can easily remove fine particulate matter such as dust and smoke from the air stream. Electrostatic precipitation can be a dry or wet process - spraying water to the incoming air flow helps collect the exceptionally fine particulates, and helps reduce the electrical resistance of the incoming dry material to make the process more effective. A wet electrostatic precipitator merges the operational methods of a wet scrubber with an electrostatic precipitator to make a self-washing, self-cleaning yet still high-voltage device.
PHOTOS

Page 02 Muriel Ndlovu • South Africa
   Isabella Tobie • South Africa
Page 03 Danny Williams • United Kingdom
   Juliane Gabel • Germany
Page 19 Caitlin • United Kingdom
   Kieran • United Kingdom
Page 20 Ute Begemann • Germany
   Susanne Pohl • Germany
Page 21 Raja Fleischerhauer • Germany
Page 48 Vincenzo Parise • Germany
   Bernhard Fischer • Germany
Page 69 Fion • Germany
Dear Reader,
Thank you for reading our Sustainability Report 2006. We welcome your opinion and any comments you may have on the report in order to improve future editions.
Please complete the following questionnaire and return it by email to sonaeindustria@sonaeindustria.com or by fax to (+351) 220 100 543 or by post to Lugar do Espido • Via Norte • P.O. Box 1096 • 4471-909 Maia - Portugal.

1. How did you learn of this report?
   - [ ] Webpage
   - [ ] Employee
   - [ ] Newspaper/Magazine
   - [ ] Conference/Seminar
   - [ ] Mailing
   - [ ] Other

2. What was your global opinion of the content of this Report?
   - Very positive
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Very poor

3. How attractive / readable did you find this Report?
   - Very attractive and easy to read
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Unattractive and difficult to read

4. How do you classify each part of this report according to its relevance and clarity?
   - Highly relevant
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Not relevant
   - Easy to understand
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Difficult to understand

   Chairman’s letter
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - CEO’s message
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Our business context
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Vision, values and principles
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Embracing sustainability
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Corporate governance
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Risk management
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Economic efficiency
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Environmental resources and efficiency
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   - [ ] 3
   - [ ] 2
   - [ ] 1
   - People in the organization
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   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Local community
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   - [ ] 3
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   - Human rights
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   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Product responsibility
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Objectives - Summary table
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1

5. How do you feel this Report compares with other Sustainability Reports that you have read?
   - Better than average
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Worse than average

6. How do you classify the credibility of Sonae Indústria’s Sustainability Report 2006?
   - Very high
   - [ ] 4
   - [ ] 3
   - [ ] 2
   - [ ] 1
   - Very low

7. Which of the following best describes your role?
   - [ ] Consumer
   - [ ] Supplier
   - [ ] Financial analyst
   - [ ] Investor
   - [ ] Consultant
   - [ ] Government / Regulatory body employee
   - [ ] Academic
   - [ ] Employee
   - [ ] NGO member
   - [ ] Journalist
   - [ ] Shareholder
   - [ ] Other

8. Do you have any additional questions or comments?