



**Portucel**  
**Empresa Produtora de Pasta e Papel, S.A.**  
**Sociedade Aberta**

Matriculada sob o nº05888/20001204 na Conservatória do Registo Comercial de Setúbal  
Capital Social: € 767 500 000  
N.I.P.C. 503 025 798

**Consolidated Annual Results**  
**2006**





**In 2006:**

- Turnover totalled € 1,080.7 million (+5.0%)
- EBITDA reached € 312.5 million (+17.1%)
- EBITDA margin increased by 3 percentage points (from 25.9% to 28.9%)
- Operating results of € 209.3 million (+57.1%)
- Net profit of € 124.7 million (+97.0%)
- Net debt reduced by € 256 (-34.8%)

**Summary of key indicators – IFRS**

|  | 2006                    | 2005    | Change<br>06/05 |
|--|-------------------------|---------|-----------------|
|  | (10 <sup>3</sup> tons)  |         |                 |
| <b>Production</b>                        |                         |         |                 |
| Uncoated woodfree papers (UWF)           | 1 024                   | 998     | 2,6%            |
| Eucalyptus bleached pulp                 | 1 314                   | 1 279   | 2,7%            |
| <b>Sales</b>                             |                         |         |                 |
| Uncoated woodfree papers (UWF)           | 1 004                   | 986     | 1,8%            |
| Eucalyptus bleached pulp                 | 559                     | 570     | -1,9%           |
| <b>Average selling prices (2005=100)</b> |                         |         |                 |
| Pulp                                     | 107,6                   | 100     | 7,6%            |
| Paper                                    | 104,3                   | 100     | 4,3%            |
|  | (10 <sup>6</sup> Euros) |         |                 |
|  | 2006                    | 2005*   | Change<br>06/05 |
| <b>Total sales</b>                       | 1 080,7                 | 1 029,1 | 5,0%            |
| <b>EBITDA</b> <sup>(1)</sup>             | 312,5                   | 266,9   | 17,1%           |
| <b>EBITDA / Sales (%)</b>                | 28,9%                   | 25,9%   | 3pp             |
| <b>Operating results</b>                 | 209,3                   | 133,3   | 57,1%           |
| <b>Financial results</b>                 | - 26,5                  | - 47,4  | -44,2%          |
| <b>Net earnings</b>                      | 124,7                   | 63,3    | 97,0%           |
| <b>Cash Flow</b> <sup>(2)</sup>          | 227,9                   | 197,0   | 15,7%           |
| <b>Capex</b>                             | 20,1                    | 43,3    | -53,6%          |
| <b>Net debt</b>                          | 480,1                   | 736,1   | -34,8%          |
| <b>Net debt / EBITDA</b>                 | 1,5                     | 2,8     | -               |
| <b>EBITDA / Net interest paid</b>        | 11,1                    | 9,8     | -               |

(1) Operating results + depreciation and amortisation + provisions

(2) Net earnings + depreciation and amortisation + provisions

\* The figures for the year 2005 were restated due to the change, in 2006, of the accounting policies applying to i) the recognition of CO2 emission allowances, as per Technical Interpretation no. 4 of the Portuguese Accounting Standards Committee (Comissão de Normalização Contabilística Portuguesa) and ii) the recognition of arrangements that contain a lease as per the interpretation of IFRIC 4.



## Results

In 2006 the Group's turnover reached € 1,080.7 million, a € 51.6 million increase over 2005. 70% of total turnover was generated by paper, 24% by pulp and the remaining 6% essentially by energy and other services. Over 92% of paper and pulp sales were directed to international markets, to more than 80 countries.

Paper production reached 1,024 thousand tons, rising by 2.6% year-on-year, while the Group's total paper sales, at 1,004 thousand tons, were up by 1.8%. A richer paper mix – with sales of premium products growing by 9% - was particularly important to this increase in sales, consolidating a trend already visible in previous years and comparing favourably with the European market's profile.

The European benchmark selling prices of UWF paper registered their first increase since 2002, with the A4 B-copy paper PIX index rising by 1.9% in 2006. This trend was leveraged by the high weight of premium products sales in the Group's total sales: the Group's average selling price increased by 4.3%.

This positive evolution in both volume and average prices led to a 6.1% increase in paper sales in 2006.

In turn, production of bleached eucalyptus kraft pulp (BEKP) reached 1.3 million tons in 2006, a year-on-year increase of 2.7%, placing Portucel Soporcel group as the largest European producer and one of the largest in the world, for this type of pulp.

Still, and despite this increase in production, the Group placed 559 thousand tons of pulp in the market, which is slightly less than in 2005 – a fact explained by the integration into paper of an additional 28 thousand tons of pulp in 2006, and consequent reduction in the quantity of pulp available for sale in the market.

The average selling price of BEKP in 2006 was USD 639, which is the highest of the last six years and corresponds to an average increase of 10% when compared to 2005. However, the price of pulp in EURO was affected by the USD's rise against the European currency, and therefore the increase in 2006 in the Group's average selling price of pulp was 7.6%.



Hence, pulp sales rose by 5.5% year-on-year.

A continuous effort was pursued to boost efficiency and raise productivity in the Group's operations, whose main effects were significant reductions in variable unit production costs, staff costs and maintenance costs.

The reduction in variable unit production costs was particularly sharp at Cacia, where the coming on stream of the new recovery boiler was responsible for an improvement in the mill energy balance and allowed for a reduction in specific consumptions.

Despite the negative impact of a rise in costs with the pension funds, staff costs registered a positive evolution, decreasing by €8.1 million (-7.0%).

These factors made up for the unfavourable evolution of transport costs, which rose as the result of a strong increase in the average price of oil in 2006.

Under these circumstances, the Group generated a consolidated EBITDA of € 312.5 million, a year-on-year increase of 17.1%, while the EBITDA/sales margin rose by 3 percentage points, to 28.9%.

In 2006 a study commissioned to an independent entity revised the remaining useful life of the company's equipment, which from 31 December 2005 is estimated as an average of 14 years. The equipment depreciation quotas were thus recalculated in the consolidated financial statements and as a result the amount of depreciation and amortisation was € 48.9 million lower than it would be without said revision.

Operating results were up by 57.1% on 2005, reaching € 209.3 million, positively influenced by the referred adjustment in depreciation. Without this effect, operating results would stand at €160.4 million.

Financial results, at € -26.5 million, show a year-on-year decline of 44.2%. This improvement was achieved through a strong reduction in the net debt, which more than offset the significant rise in interest rates, and also translates the overall good performance of foreign exchange and pulp price hedging operations concluded in 2006.



The Group thus posted consolidated earnings for the year of € 124.7 million, which represents an increase of 97.0% versus the previous year.

### **Investments**

In 2006 investment in fixed assets was approximately €20 million, the more significant expenditures concerning the conclusion of the new recovery boiler for the Cacia mill, which went into operation in February 2006.

This capital expenditure figure follows a cycle of strong investment in modernising and adapting the Group's assets to environmental requirements and translates a selective and integrated policy of investment analysis and approval, aiming to ensure the competitiveness of the industrial assets.

### **Debt**

The Group's net debt was reduced by € 256 million in 2006. Its current level of indebtedness and available liquidity ensure the Group a solid financial position that will allow it to carry forward its investment plans.

### **Outlook**

Although expected to decelerate in 2007, the global economy should maintain a high growth pace, particularly in the emerging economies, being nevertheless conditioned by a cooling of the US economy. The European economy, following its strong acceleration in 2006, is expected to stabilise at a moderate growth pace in 2007.

The persistence of high tensions in sensitive areas of the globe should continue to influence strongly the price of oil and oil products, directly impacting the price of energy, logistics and chemical products, important cost factors in the Group's production.



In addition, the factors responsible for pushing up the euro against the dollar remain in place. This is a very sensitive issue for the Group's activities, not only because of the percentage of its sales which are exposed to the US currency but also because it is liable to affect its competitiveness vis-à-vis its rivals outside the Euro area.

Moreover, continuing inflationary pressures should lead to new interest rate hikes.

In this scenario, the outlook for market conditions in 2007, fundamentally determined by demand for pulp and paper may be considered moderately positive.

Besides the potential influence of the above mentioned factors of uncertainty, the Groups' performance will also be affected by the need to import significant amounts of wood, aimed to improve, in the medium term, the sustainability of the Portuguese eucalyptus forest.

Portucel Soporcel Group operates in a global market, with high competitiveness, significant exposure to foreign exchange fluctuations and prices resulting from supply and demand balance. In such market, good performance depends upon operational excellence, product differentiation and a clear perception of market needs.

In this context, the Board of Directors of the Portucel Soporcel Group has approved a project to install a new paper mill in its Setúbal industrial complex, with nominal capacity of 500 thousand ton/year, which will represent an investment of approximately € 490 million.

Once concluded, the new mill will reinforce the Group's competitiveness in the paper market, while ensuring it has the necessary capacity to respond to growing international demand for its products and brands. Moreover, it will strengthen the Portucel Soporcel Group's structuring role in the eucalyptus forest sector, and increase its contribution to the national economy. Indeed, we can proudly assert that this contribution is today already very expressive, accounting for 2% of the Portuguese industrial GDP and 3% of the national exports of goods.

Setúbal, February 14<sup>th</sup> 2007