

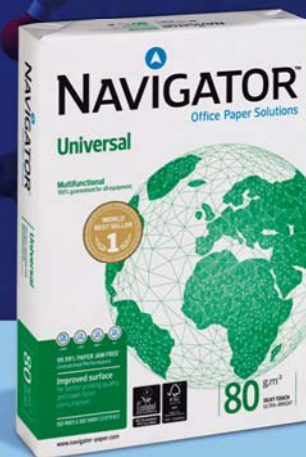


# DIVULGAÇÃO DOS RESULTADOS DO 3º TRIMESTRE 2011

*3<sup>rd</sup> QUARTER RESULTS 2011*

**PORTUCEL**

EMPRESA PRODUTORA DE PASTA E PAPEL S.A.  
SOCIEDADE ABERTA  
PUBLIC LIMITED COMPANY



SEDE: MITRENA, APARTADO 55, 2901-861 SETÚBAL  
N.I.P.C. 503 025 798 - CAPITAL SOCIAL € 767 500 000  
MATRICULADA NA CONSERVATÓRIA DO REGISTO COMERCIAL DE SETÚBAL

HEADQUARTERS: MITRENA, APARTADO 55, 2901-861 SETÚBAL  
CORPORATE ENTITY 503 025 798 - SHARE CAPITAL € 767,500,000  
REGISTERED AT THE COMMERCIAL REGISTER OF SETÚBAL

#### Highlights for first 9 months of 2011:

- Group turnover grows by 9.2%
- EBITDA of € 288.0 million
- Net profit of € 144.1 million
- Net debt cut by € 94.2 million
- Net Debt / EBITDA ratio of 1,3
- Increased share of the European paper market

#### Financial Highlights – IFRS

	9 Months 2011	9 Months 2010	% Change <sup>(5)</sup> 9M 11/ 9M 10
Million euros			
<b>Total sales</b>	1 095.9	1 003.7	9.2%
<b>EBITDA <sup>(1)</sup></b>	288.0	288.7	-0.3%
<b>Operating profits</b>	190.6	212.3	-10.2%
<b>Financial results</b>	- 15.3	- 17.1	-10.5%
<b>Net earnings</b>	144.1	154.3	-6.6%
<b>Cash Flow <sup>(2)</sup></b>	241.5	230.7	4.7%
<b>Capex</b>	17.0	66.7	-49.7
<b>Net debt <sup>(3)</sup></b>	509.7	603.9	-94.2
<b>EBITDA / Sales (%)</b>	26.3%	28.8%	
<b>ROS</b>	13.1%	15.4%	
<b>Equity ratio</b>	52.3%	51.6%	
<b>Net Debt / EBITDA <sup>(4)</sup></b>	1.3	1.7	
	Q3 2011	Q2 2011	% Change <sup>(5)</sup> Q3 11 / Q2 11
<b>Total sales</b>	356.3	370.3	-3.8%
<b>EBITDA <sup>(1)</sup></b>	88.8	95.4	-7.0%
<b>Operating profits</b>	65.3	58.5	11.6%
<b>Financial results</b>	- 5.8	- 3.0	97.0%
<b>Net earnings</b>	46.5	46.2	0.6%
<b>Cash Flow <sup>(2)</sup></b>	69.9	83.0	-15.8%
<b>Capex</b>	7.1	5.3	1.8
<b>Net debt <sup>(3)</sup></b>	509.7	548.2	-38.5
<b>EBITDA / Sales (%)</b>	24.9%	25.8%	
<b>ROS</b>	13.0%	12.5%	

(1) Operating results + depreciation + provisions

(2) Net profits + depreciation + provisions

(3) Includes market value of treasury stock

(4) EBITDA corresponds to the last 12 months

(5) Percentage variation corresponds to figures before rounding up/down

#### 1. ANALYSIS OF RESULTS

##### 9 Months of 2011 vs 9 Months of 2010

The Portucel Group recorded consolidated sales in the first nine months of 2011 of € 1 095.9 million, representing growth of 9.2% over the same period in 2010. This growth resulted from positive performance in the Group's UWF paper business (uncoated woodfree printing and writing paper), in terms of both quantities sold and sales prices, and also from growth in energy sales.

Output of UWF paper from the new paper mill in Setúbal has continued to rise as anticipated, resulting in an increase in the quantities placed on the market. This growth in sales of UWF paper combined with a recovery in sales prices – the benchmark index for the European market, PIX Copy B, published by Foex, was up by an average of 8.6% on the same period in 2010 – resulted in an increase of approximately 12% in the value of paper sales in relation to the first nine months of 2010.

With increased integration of bleached eucalyptus kraft pulp (BEKP) into production at the new UWF paper mill in Setúbal, the Group recorded a slight reduction in pulp sales in relation to the first nine months of the previous year. The drop in sales, combined with lower pulp prices during the period, resulted in a reduction of approximately 12% in the value of pulp sales.

In the energy segment, sales grew in value thanks to the conclusion, in the second half of 2010, of a series of capital projects in this area, with the new facilities now fully operational.

On the costs side, evolution was unfavourable in relation to the same period in 2010, due to rising costs factors, in particular chemicals and timber, although there was a certain downward adjustment in these costs in the third quarter.

Consolidated EBITDA stood at € 288.0 million, practically unchanged from the same period in 2010, resulting in an EBITDA / Sales margin of 26.3%, down by 2.5 percentage points on the first nine months of 2010, reflecting the increased costs referred to above. Operating results were down by 10.2%, a decrease also influenced by the fact that results in 2010 were positively impacted by the reversal of provisions which occurred in that period.

The Group recorded a negative financial result of € 15.3 million, comparing favourably with a similarly negative result of € 17.1 million. Despite the significant reduction in net debt in relation to the same period in the previous years, the results of financing operations remained at the same level as for the first nine months of 2010, due to higher interest rates. The improvement in financial results is explained by a loss on an interest rate hedge which brought down financial income in 2010.

Net consolidated income for the period accordingly totalled € 144.1 million, down by 6.6% on the same period in the previous year.

### **3<sup>rd</sup> quarter 2011 vs 2<sup>nd</sup> quarter 2011**

The sharp deterioration in some of the world's leading economies was reflected in slower demand for UWF paper. In the European market, the reduction in demand, which had been observed since the start of the year, intensified significantly during the 3<sup>rd</sup> quarter. Combined with other seasonal factors, this had a negative impact on the Group's paper sales. At the same time, sales outside Europe grew in relation to the previous quarter. These contrasting dynamics in sales to different geographical regions had negative implications for the Group's average sale price, and although the benchmark price for paper in Europe has held relatively steady, the Group's average sale price was slightly down on the quarter. The value of sales in the third quarter fell slightly in relation to the previous quarter.

Performance in sales of BEKP pulp was in line with expectations, with a reduction in sales quantities, due to increased paper production and consequently greater internal consumption of pulp. The drop in sales quantities, combined with the lower prices recorded in the 3<sup>rd</sup> quarter, brought down the value of pulp sales by approximately 19%.

In the energy field, the Group continued to record positive performance, in terms of both output and sales, which increased over the previous quarter.

As a result of these combined factors, overall sales value in the quarter decreased by 3.8%.

In this context, EBITDA was down by 7.0% on the previous quarter, standing at € 88.8 million. Operating results, however, rose by approximately 11.6%, to € 65.3 million, helped partly by a reduction in depreciation

during this quarter, resulting from the end of the useful life of a certain number of industrial assets.

The net profit for the period consequently stood at appreciably the same level as in the 2<sup>nd</sup> quarter, at € 46.5 million.

## **2. MARKET ANALYSIS**

### **2.1 UWF Paper**

The third quarter of the year was marked by a deterioration in the recessive state of UWF paper consumption in the Group's main markets, initially in Europe and the United States, but eventually also in the Group's overseas markets. Consumption of this type of paper in the first nine months of the year dropped by 5% in Europe, where the cut-size segment continued to prove the most resilient, with an accrued reduction of less than 1%. The drop in demand in the USA was of the same magnitude as in Europe, and also grew steeper during the third quarter. The main overseas markets also suffered a drop in demand and in prices in USD.

The European paper industry felt the effects of these developments, with order books decreasing approximately one week's capacity as from the start of the year and a reduction of 2 percentage points in the occupancy rate, to an average over the nine months of 90%.

As a result of the deterioration in levels of demand and in order books, and due to continued pressure on the profitability of certain European mills in the sector, the sustainability of some of these units is increasingly uncertain. In the course of the quarter, one major manufacturer in northern Europe announced the closure of two of its UWF mills – one in Germany, with annual production capacity of 120,000 tons, and another in France, with annual capacity in excess of 300,000 tons.

The price rises which occurred in the second half of 2010 and in April 2011 led to a hike of 8.6% in PIX Copy B, the European Cut-size index, which steadied at the end of the period at levels close to 874 €/t.

In this negative environment, the Portucel Group continued to place all its output on the market, resulting in a very significant increase in the overall value of paper sales. A significant portion of these increased sales were

placed on European markets, despite the sharp drop in the levels of apparent demand, allowing it to record a substantial increase in its share of these markets, in the first nine months of 2011, estimated at more than 43 thousand tons of sheeted products.

The product mix was also favourable, with sales of premium products representing more than 60% of all sales in Europe. The 20% increase in sale quantities of mill brands, which in the period accounted for 65% of all sheeted product sales, also permitted the Portucel Soporcel group to record its best-ever ratio of mill brand sales over total sales.

The Group has continued to extend its sales into new markets around the world, and now regularly sells its products to 108 different countries. Thanks to this performance, the Group accounted for 49% of total exports by European UWF manufacturers and 62% of sheeted products exports. In strategic markets, the Group achieved very high export shares, representing 76% and 64% of European UWF exports to the USA and to Africa, respectively.

## **2.2 BEKP Pulp**

The BEKP pulp market confirmed what many analysts had predicted: market conditions worsened, with prices dropping to USD 850 / ton CIF Europe early on in the quarter and then to USD 820 over the course of the period. By early October the PIX index fell to 750 USD, illustrating the sharpness of the price adjustment.

One of the fundamental factors sustaining pulp prices in USD over the first two quarters had been the evolution of exchange rates. This situation changed, with the currencies of the main pulp exporting companies, and notably the South American countries, the main BEKP producers, falling significantly against the US dollar at the end of the quarter.

The pulp market also felt the effects of the worsening economic situation in the US and Euro Zone countries, which are important paper markets, and also of the sharp slowdown in June and July in demand in the Chinese market, which has been one of the main supports of the world market.

As a result of deteriorating market conditions, stock levels at European manufacturers, consumers and ports increased substantially over the quarter.

Despite the worsening of the market in the third quarter, the Group's pulp sales, in quantity, in the first nine months of the year stood at practically the same level as in the same period in 2010, down by only 1%, despite increased integration into paper output. This performance was possible because of the increase in BEKP output achieved by the Group.

A breakdown of sales by paper manufacturer segments shows that the Group continues to enjoy success in focussing on segments with greater value added – special papers – where the Group recorded the majority of its sales, accounting for approximately 60%.

Sales figures by destination also show that nearly all sales were made on European markets, which is home to manufacturers of higher quality papers with more exacting technical requirements, where the intrinsic qualities of the *globulus* pulp manufactured by the Group offers significant gains in value.

### **3. DEVELOPMENT**

Although it remains committed to going ahead with integrated forestry, pulp and energy projects in the southern hemisphere, the Group has been confronted with a number of difficulties which have held back the investment alternatives announced in previous periods. Of the different projects in question, progress has only been made in Mozambique, whilst the projects in Brazil and Uruguay have failed to record any advances.

In Mozambique, the Group has pressed ahead with fieldwork and forestry plantation trials, split between different homogeneous forest zones included in the project. This is a crucial stage for selection of the best plant materials and adaptation to each of the different locations. It is also a large-scale project, consisting of various phases, to be implemented over the time frame normal for undertakings of this kind.

### **4. FINANCIAL**

At 30 September 2011, interest bearing net debt stood at € 509.7 million, down by € 143.0 million from year-end 2010 and by € 38.5 million from the end of the first half of 2011. This reduction in debt reflects the combined effect of capacity for generating cash flow and also a sharp reduction in the level of capital expenditure, after the conclusion of the Group's major expansion and modernization projects. Generation of free cash flow in the third quarter of 2011 was nonetheless hampered by a seasonal increase in working capital, relating specifically to the value of stocks.

Financial autonomy stood at 52.3% at the end of September and the Net Debt / EBITDA ratio at 1.3, representing an improvement in relation to year-end 2010 (1.6), and staying within conservative levels.

The Group's gross long term debt, on 30 September 2011, stood at € 723.1 million, whilst debt maturing at less than 1 year totalled € 19.5 million. With its excellent capacity to generate cash flow, as reported above, with a cash position of almost € 200 million and credit facilities contracted of approximately € 80 million, the Group enjoys a good level of liquidity, allowing it satisfy its existing liabilities without significant recourse to the debt market in the next few years.

In addition, this financial situation gives the Group the flexibility needed to move on to a new cycle of development, if its current opportunities materialize, meaning it is well placed amongst the leading companies in this sector worldwide.

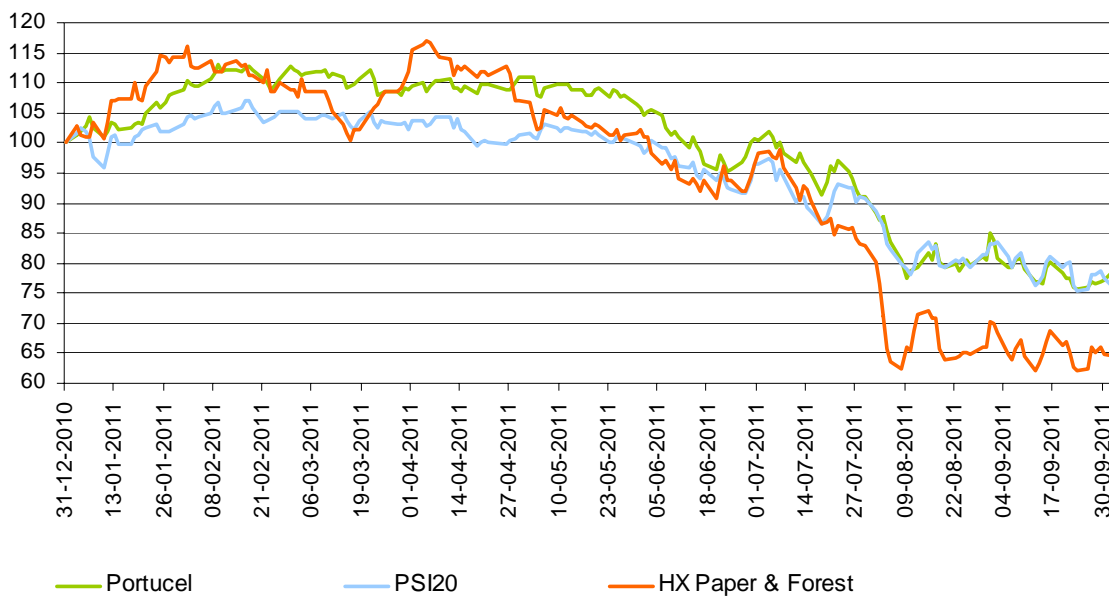
## **5. CAPITAL MARKETS**

The downward tendency in European share prices observed at the end of the first half of 2011 intensified significantly in the third quarter, with most European indexes recording significant accrued losses at the end of September.

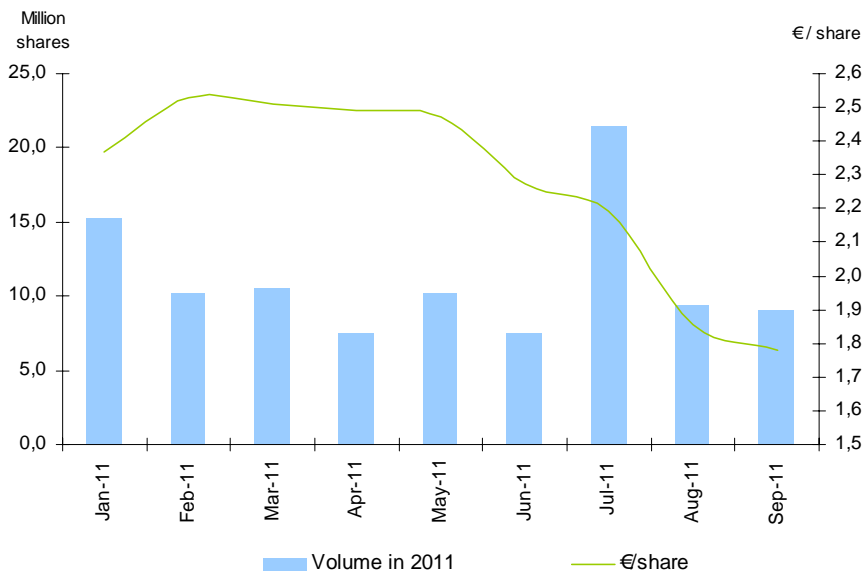
Reflecting the difficult period being experienced by the capital markets, the PSI20 index continued on the downward course recorded since the start of the year, ending the period with a loss of approximately 22.4%, whilst the indexes for the Paris, Frankfurt, Madrid and London exchanges accrued a number of gains over the first half, only for the positive trend recorded up to June to turn into sizeable losses over the course of the 3<sup>rd</sup> quarter.

The shares of European pulp and paper manufacturers also performed extremely poorly, with the HX Paper & Forest index recording a 35% fall since the start of the year. Portucel saw its own share price drop to 1.755 €/share in late September, representing an accrued loss of 22.9% which, albeit negative, is considerably better than the sector as a whole and in line with the PSI20. Average monthly trading in Portucel shares stood at 11.3 million, with this figure being influenced in July by a transaction in Portucel's treasury stock. Own shares totalled 20 million at the end of September, corresponding to 2.6% of the share capital.

**Portucel vs. PSI20 vs. HX in 2011**  
(31/12/2010= 100)



**Portucel Average Share Price and Volume in 2011**



## 6. OUTLOOK

Short term expectations for the world economy took a sharp turn for the worse during the third quarter of 2011. The alteration is most significant in the developed economies, where domestic demand has remained depressed and there are significant factors of uncertainty.

In the Euro Zone, the financial crisis in the peripheral countries, which has become significantly more acute in recent months, spreading to other countries, in particular Spain and Italy and also threatening France, has led to significant measures to consolidate budgets in most European countries. Given that the banks are the main holders of sovereign debt, the financial system has been under severe strain, leading to serious difficulties in the funding of the banking sector and a sharp contraction in lending to consumers and businesses. In this environment, expectations for economic growth in the region have worsened progressively, with forecasts revised downwards on successive occasions.

The US economy has also slowed substantially in 2011. Consumer spending has failed to take the place of expansionist fiscal policies as the engine of economic growth, whilst external demand has failed to offset the weakness of internal demand, with serious doubts remaining as to the budgetary consolidation measures which will have to be implemented in the long term due to growth in public borrowing, resulting from the persistence of foreign and budget deficits.

At the same time, the Euro/USD Exchange rate, which has a major impact on Group business, remains highly unpredictable. The economic imbalances in the USA referred to above have caused the dollar to lose ground systematically against other currencies, including the Euro, despite the strong pressure on the single currency generated by the financial crisis in Europe. These factors continue to be reflected in a high level of volatility in the currencies of the main economic blocs.

The prospects for the Group's UWF business reflect this environment. In Europe, the current economic situation, aggravated by difficulties experienced by our main clients in financing their working capital, has resulted in a drop in consumption, expected to continue for the rest of the year, which might put UWF prices under a degree of pressure in the months ahead.

At the same time, the significant cooling of the US economy and the severely unstable climate in markets in Northern Africa and the Middle East, which account for a growing proportion of the Group's sales, could

potentially have a negative impact on business

However, we should stress that, despite this difficult context, the Group continues to operate at full production capacity, which has been made possible by efforts to extend the range of countries to which it sells its products and to strengthen its position in markets with the potential for growth in sales. Nevertheless, the significant custom fees that European producers are faced with in potential markets, such as 30% in India and other relevant Asian markets like the Philippines, Thailand, Malaysia and Vietnam, 15% in Brazil and other countries in Latin America, and 20% in Mozambique, make it more difficult for the Group to increase sales in these markets.

The BEKP pulp market is also expected to be hit by the wider economic situation, and consequently by the negative outlook for the paper market in Europe. The pulp market is also still feeling the effect of the drop in the exchange rate against the US dollar of the currencies of the main BEKP producing countries, inverting the upwards trend observed in recent years, which was a major factor in sustaining prices. The evolution of the Chinese market will continue to be fundamental to the sustainability of the world market, and there were signs of an upturn at the end of the quarter, after a clear slowdown in June and July this year. Nevertheless, there has been increasing signs of a predictable slow down in economic growth and the surge of inflationary tensions, which, if confirmed, will have world wide repercussions.

The international economic and financial situation, which has so severely constrained the profitability of the pulp and paper sector, makes it even more urgent for Portugal to adopt the policies needed to reduce the local costs which encumber the Group's business activities. Priority needs to be given to measures to increase the availability of Portuguese wood, avoiding the need for imports, and others to assure that the logistical chain, namely ports and rail roads, operates to the highest international standards.

As detailed above, the Group is continuing to analyze possibilities for international expansion in the southern hemisphere, seeking to overcome the difficulties encountered in certain geographical regions and to take the relevant decisions with the necessary degree of security.

Setúbal, 20 October 2011