

**PORTUCEL - EMPRESA PRODUTORA DE PASTA E PAPEL, SA**

Sociedade Aberta

Sede: Península da Mitrena, Freguesia do Sado, Setúbal

Pessoa Colectiva nº 503.025.798 – Capital social : 767.500.000 Euros

Matriculada na Conservatória do Registo Comercial de Setúbal sob o nº 05888

**Portucel Soporcel Group Consolidated Results for the year 2003**

- NET RESULTS REACHED €66,8 MILLION
- GROUP TURNOVER OVER €1000 MILLION
- EBITDA OF €258,7 MILLION
- FINANCIAL RESULTS IMPROVED BY AROUND €13 MILLION
- NET DEBT REDUCED BY €70,7 MILLION

Portucel Soporcel Group's consolidated turnover, in 2003, reached € 1.000,6 million, an 8% decrease compared to 2002. The paper business contributed with € 752,2 million, around 75% of total turnover.

The Group sold 938 thousand tons of paper, an increase of 3,6%, or 32 thousand tons more than in 2002.

Concerning pulp, the Group sold 548 thousand tons of BEKP, an 8,6% fall when compared with the previous year.

The Group generated an EBITDA of € 258,7 million, representing a margin of 26%, which compares very favourably with the European sector companies. The Group's cash flow reached € 211,0 million, around 21% of sales.

These results were achieved within a framework of world economic activity slowdown, affecting the European uncoated woodfree paper industry. In this particularly difficult period, global demand for uncoated woodfree paper in Europe decreased by 1% (or 90.000 tons). Nevertheless, demand in Western Europe performed differently all through the year. In fact, European producers' sales into Europe fell 5% in the first half of the year, having stabilized in the second half.

During 2003, paper average sale prices continued to show the decreasing trend begun in the 4th quarter of 2002. The PIX paper benchmark index for standard office paper dropped 7% relatively to 2002. The price index for *Folio* paper for the European graphic industry shows a 5% - 6% fall, depending on the geographical market.

Strictly connected to paper demand, pulp market had a very irregular performance during the year and saw strong pressure on prices. In this context, 2003 showed the worst pulp price trend of the last five years, and struggled with dollar devaluation, a very disturbing factor of European producers' competitiveness.

Despite they are negatively affected by this market scenario, pushed by economic activity weakness, Group's sales and results mirror the benefits of the Group's vertical integration strategy.

In this context, operating result reached €111,0 million, a 42% fall compared to 2002.

Financial results improved by €13 million, totalling minus €44,3 million.

This is explained by the reduction of average financing that is reflected in the € 70, 7 million decrease of the Group's net debt from end of 2002 to end of 2003 and also by the currency risk policy, minimizing the strongly unfavourable behaviour of both the dollar and the British pound. Group's net debt was € 948,4 million by the end of the year, despite investments made amounting to € 118,4 million e advances for investments totalling € 32,6 million.

Results before taxes, in the amount of € 70,1 million, were negatively affected by € 8,3 million – € 4,3 million as a consequence of last summer forest fires and € 4 million related to redundancy costs – and positively affected by € 7,8 million as a result of the forest stakes' restructuring process.

Portucel Soporcel Group adopted, as of January 1st, 2003, the special taxation system for holding groups. Total income tax of around € 3,3 million is deducted of an amount totalling € 21,3 million, resulting from different issues, namely the application of a Fiscal Reserve for Investment according to Decree-Law number 23/2004 dated January 23, and the change on Corporate Income Tax to calculate the deferred taxes. As a consequence, Portucel Soporcel Group's net result totalled € 66,8 million, a 25% decrease when compared to 2002.

### **Future perspectives**

Despite there are prospects for world economy recovery, there is a consensus that it will be sluggish in the first half of the year, in the main economies, especially in Europe, and will probably develop more favourably during the second half, when demand growth and increased international trading are expected.

Perspectives for the pulp and paper sector activity in 2004 should then be cautiously considered. At least, during the first months of the year, prices will stay at low levels. The strength the economy will show all through the year and the relation of the European currency against the dollar – an important factor for European producers' competitiveness - will both determine the evolution of the European sector.

Portucel Soporcel Group, aware of its capabilities and of its great potential to develop, will continue the implementation of its growth and integration strategy, looking to improve its competitiveness and shareholder value. Thus, during the first half of 2004, a pre-engineering study to build a new UWF paper machine, which will allow the integration of around 350 thousand tons of pulp, will be finished.

Resolution nr. 194/2003 of the Council of Ministers, approving the tender rules of the bid for the sale of 30% of the share capital of Portucel under the terms of article 10 of Decree-Law nr. 6/2003 dated January 15 was published in December 30, 2003

### **KEY INDICATORS**

(Values in thousand €, except if otherwise indicated)	2003	2002	Var.(%)
Total Turnover	1 000 618	1 085 604	-8%
Operating Results	110 969	191 666	-42%
Financial Results	- 44 346	- 57 256	+23%
Extraordinary Results	3 519	- 724	
Results before taxes	70 142	133 686	-48%
Net Results	66 840	* 89 486	-25%
EBITDA	258 693	335 203	-23%
EBITDA Margin	26%	31%	
Cash flow	211 045	233 747	-10%
Net debt	948 370	1 019 074	- 7%
<b>Total Production (000 tons)</b>			
Pulp	1 223	1 223	
Paper	943	922	+2,3%
<b>Quantities sold (000 tons)</b>			
Pulp	548	600	-8,6%
Paper	938	906	+3,5%
Change on average pulp price (base 100)	91,2	100	
Change on average paper price (base 100)	91,5	100	

\* After minority interests

PORTUCEL - EMPRESA PRODUTORA DE PASTA E PAPEL, SA

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2003

(Amounts expressed in thousands of euros)

ASSETS	2003			2002
	Gross assets	Depreciation and provisions	Net assets	Net assets
<b>FIXED ASSETS</b>				
<b>Intangible assets</b>				
Formation expenses	39.989	(38.809)	1.180	4.644
Research and development expenses	45.056	(37.477)	7.579	10.618
Industrial property and other rights	2.110	(2.098)	12	202
Consolidation differences	431.152	(51.678)	379.474	393.881
Intangible assets in progress	10.150	-	10.150	7.142
	<u>528.457</u>	<u>(130.062)</u>	<u>398.395</u>	<u>416.487</u>
<b>Tangible fixed assets</b>				
Land and natural resources	99.468	(160)	99.308	133.696
Building and other constructions	364.772	(171.501)	193.271	207.709
Machinery and equipment	2.163.055	(1.370.946)	792.109	846.386
Transportation equipment	33.535	(20.372)	13.163	14.717
Tools and utensils	3.816	(3.429)	387	509
Office equipment	33.718	(27.474)	6.244	6.279
Returnable containers	359	(184)	175	255
Other tangible fixed assets	11.148	(9.296)	1.852	3.194
Construction in progress	124.464	-	124.464	55.310
Advances to suppliers of tangible fixed assets	41.948	-	41.948	10.848
	<u>2.876.283</u>	<u>(1.603.362)</u>	<u>1.272.921</u>	<u>1.278.903</u>
<b>Financial investments</b>				
Investments in affiliated companies	637	-	637	571
Loans to affiliated companies	92	-	92	92
Investments in associated companies	11	-	11	11
Loans to associated companies	-	-	-	-
Securities and other financial investments	26.904	-	26.904	26.904
Other granted loans	25	-	25	25
Advances to suppliers of financial investments	-	-	-	-
	<u>27.669</u>	<u>-</u>	<u>27.669</u>	<u>27.603</u>
<b>CURRENT ASSETS</b>				
<b>Inventories - medium and long-term</b>				
Work in process	215.339	-	215.339	279.767
Advances to suppliers of inventories	-	-	-	-
	<u>215.339</u>	<u>-</u>	<u>215.339</u>	<u>279.767</u>
<b>Inventories - short-term</b>				
Raw and subsidiary materials and consumables	89.818	(25)	89.793	101.886
Work in process	24.206	-	24.206	24.778
Subproducts and waste	1.508	-	1.508	480
Finished and intermediate products	57.358	(25)	57.333	47.636
Merchandise	190	-	190	164
Advances to suppliers of inventories	583	-	583	289
	<u>173.663</u>	<u>(50)</u>	<u>173.613</u>	<u>175.233</u>
<b>Accounts receivable - short-term</b>				
Accounts receivable from customers - current account	193.039	(168)	192.871	206.605
Accounts receivable from customers - trade bills	-	-	-	-
Doubtful accounts receivable	3.536	(3.242)	294	38
Accounts receivable from group companies	-	-	-	-
Advances to suppliers	3.755	(68)	3.687	2.682
Advances to suppliers of fixed assets	-	-	-	216
State and other public entities	53.601	-	53.601	23.528
Other debtors	2.949	(33)	2.916	5.591
	<u>256.880</u>	<u>(3.511)</u>	<u>253.369</u>	<u>238.660</u>
<b>Marketable securities</b>				
Other marketable securities	-	-	-	-
Other treasury applications	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Bank deposits and cash</b>				
Bank deposits	346.399	-	346.399	281.896
Cash	48	-	48	46
	<u>346.447</u>	<u>-</u>	<u>346.447</u>	<u>281.942</u>
<b>ACCRUED INCOME AND DEFERRED COSTS</b>				
Accrued income	6.848	-	6.848	4.979
Deferred costs	26.900	-	26.900	26.183
	<u>33.748</u>	<u>-</u>	<u>33.748</u>	<u>31.162</u>
<b>Total amortisation and depreciation</b>		<u>(1.733.424)</u>		
<b>Total provisions</b>		<u>(3.561)</u>		
<b>Total assets</b>	<u>4.458.486</u>	<u>(1.736.985)</u>	<u>2.721.501</u>	<u>2.729.757</u>

**PORTUCEL - EMPRESA PRODUTORA DE PASTA E PAPEL, SA****CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2003**

(Amounts expressed in thousands of euros)

<b>EQUITY, MINORITY INTERESTS AND LIABILITIES</b>	<b>2003</b>	<b>2002</b>
<b>EQUITY</b>		
Share capital	767.500	767.500
Own shares - nominal value	(60)	(60)
Own shares - discounts and premiums	7	7
Adjustments in investments in affiliated and associated companies	(551)	(551)
Revaluation reserve	17.465	38.450
Legal reserve	27.275	17.796
Statutory reserve	37.775	29.262
Other reserves	(3.033)	(3.102)
Retained earnings	189.655	121.339
Net profit for the year	66.840	89.486
<b>Equity</b>	<b>1.102.873</b>	<b>1.060.127</b>
<b>LIABILITIES</b>		
<b>MINORITY INTERESTS</b>	<b>-</b>	<b>77.082</b>
<b>OTHER PROVISIONS</b>		
Other provisions	4.598	5.456
	<u>4.598</u>	<u>5.456</u>
<b>MEDIUM AND LONG-TERM LIABILITIES</b>		
Bank loans	876.049	890.035
Accounts payable to suppliers of fixed assets	1.187	6.236
Other creditors		20
	<u>877.236</u>	<u>896.291</u>
<b>SHORT-TERM LIABILITIES</b>		
Bank loans	189.861	148.867
Advances from customers	201	478
Accounts payable to suppliers	121.702	97.768
Suppliers - invoices pending verification	8.430	10.165
Accounts payable to group companies	222.550	251.111
Other loans	20	15
Accounts payable to suppliers of fixed assets	52.804	17.005
State and other public entities	6.277	18.885
Other creditors	6.511	3.092
	<u>608.356</u>	<u>547.386</u>
<b>ACCRUED COSTS AND DEFERRED INCOME</b>		
Accrued costs	117.878	128.729
Deferred income	10.560	14.686
	<u>128.438</u>	<u>143.415</u>
<b>Total liabilities</b>	<b>1.618.628</b>	<b>1.592.548</b>
<b>Total equity, minority interests and liabilities</b>	<b>2.721.501</b>	<b>2.729.757</b>

**PORTUCEL - EMPRESA PRODUTORA DE PASTA E PAPEL, SA****CONSOLIDATED STATEMENT OF INCOME BY NATURE FOR THE YEAR ENDED DECEMBER 31, 2003**

(Amounts expressed in thousands of euros)

	<u>2003</u>	<u>2002</u>
<b>Operating revenues:</b>		
Sales and services rendered	1.000.618	1.085.604
Increase/(decrease) between years of the ending balance of inventories	6.292	(1.301)
Recovery of costs related to capital expenditure	5.499	1.937
Supplementary income	2.142	2.478
Operating subsidies	605	680
Other income	1.227	622
	<u>1.016.383</u>	<u>1.090.020</u>
<b>Operating expenses:</b>		
Cost of inventories sold and consumed	(384.431)	(402.136)
External supplies and services	(257.541)	(228.938)
Payroll expenses	(102.500)	(107.995)
Depreciation and amortisation	(144.205)	(144.261)
Provisions	(876)	(1.114)
Taxes and other operating costs	(15.861)	(13.910)
	<u>(905.414)</u>	<u>(898.354)</u>
Profit from operations	110.969	191.666
<b>Financial expenses, net</b>	<u>(44.346)</u>	<u>(57.257)</u>
Profit before extraordinary expenses	66.623	134.409
<b>Extraordinary expenses, net</b>	<u>3.519</u>	<u>(723)</u>
Profit before provision for income tax and minority interests	70.142	133.686
<b>Provision for income tax</b>	<u>(3.302)</u>	<u>(46.149)</u>
Profit before minority interests	66.840	87.537
<b>Minority interests</b>	<u>-</u>	<u>1.949</u>
Net profit for the year	<u><u>66.840</u></u>	<u><u>89.486</u></u>