



grupo Portucel Soporcel

PORTUCEL - EMPRESA PRODUCTORA DE PASTA E PAPEL, SA

Publicly held company

Headquarters: Mitrena, Apartado 55, 2901-861 Setúbal

Corporate tax no. 503.025.798 – Share capital: 767.500.000 Euros

Registered at the Setúbal Companies Registry under no. 05888

In 2005:

- **Turnover of €1.029,1 million (+ 5,2%)**
- **EBITDA of €261,3 million (+17,8%)**
- **Operating Results of €132,1 million (+ 40,8%)**
- **EBITDA margin increases 2,7 percentage points**
- **Net results of €63,5 million (+23,9%)**
- **Net debt reduced by €134,8 million (-15,5%)**

Results

2005 net result was €63,5 million, an increase of almost 24% when compared to 2004.

Turnover reached €1.029 million, €50,8 million more than in 2004. Approximately 69,2% of total turnover came from the paper business, whereas pulp represented around 23,6%.

In 2005, the Group registered high operating rates, reaching record production levels, both in terms of paper and pulp. Paper production totalled 997 thousand tons, 1,5% more than in 2004. Total pulp production was 1.279 thousand tons, an increase of 2% when compared to the previous year.

In terms of quantities sold, the Group increased by 1% its paper sales, up to 986 mil tons; market pulp sales decreased 6,3%, with 570 thousand tons sold. This reduction is explained by a higher level of pulp integration into paper in 2005 and by the high pulp inventory level in the beginning of 2004.

Nevertheless, the increase in paper sales volume was not enough to compensate for the decrease in average paper sale price, which fell approximately 2,2% when compared to 2004, resulting in a sales decrease of 1,3%.

On the other hand, average pulp price increased 12,6%, reflected in a 5,5% increase in pulp sales value, in spite of the fall in quantities.

The Group generated an EBITDA of € 261,3, increasing 17,8% when compared to 2004, and EBITDA / Sales margin was 25,4%. The growth in EBITDA is the result of important efficiency gains obtained in the Group activity, namely in the following areas:

- Increase in productivity
- Cost reduction
- Energy
- Industrial maintenance
- Forest management

Operating results in 2005 increased 40,8% when compared to 2004, totaling €132,1 million.

In a context of great market uncertainty, the Group negotiated a set of financial instruments, in order to hedge foreign exchange risk (especially USD) and pulp price.

As a result of the significant depreciation of the USD and of the increase in pulp price during 2005, these hedging instruments registered a global loss of approximately € 16,6 million. The €23,1 million reduction in financial results in 2005 are explained by these losses as well as by the fact that in 2004 financial results included €5,7 million of non recurring financial profits.

Investments

During 2005 the Group made important investments, namely in the new recovery boiler at Cacia mill, which started to operate in February 2006. Investment in fixed assets totaled approximately €43 million, while the amount paid during the year to suppliers of fixed assets was €74,6 million due to the high level of investments made in 2004 but paid in 2005.

Debt

The Group registered a reduction in net debt of € 134,8 million, approximately -15,5%. The reduction achieved in net debt reflects a strong ability to generate funds and a careful management of working capital, even after the payment of € 28,6 million in dividends and the financial effort required by the investments made.

The Group also proceeded with a total restructuring of its debt profile, increasing significantly its maturity, adjusting it to the financial requirements of the industry. As such, €700 million of new bond loans were issued.

Outlook for 2006

The first signs of 2006 confirmed the uncertainty surrounding the international economic environment. The Group will continue to work on improving its cost structure and productivity, while pursuing at the same time its strategy of high quality and differentiated products, reinforcing its position in the most demanding international markets.

In the absence of significant changes in economic environment or in the current level of exchange rates, the Group performance in the short term should not be very different from the one registered in 2005.

Grupo Portucel Soporcel Board has decided to go ahead with the construction of a new paper mill, at its Setúbal mill site, with a nominal capacity of 500 thousand tons/year, in an estimated investment of approximately €490 million. This investment will reinforce significantly the Group's competitiveness in the paper market, conferring a leadership position in the European uncoated woodfree fine paper market. The start-up is estimated to be in the second half of 2008.

The implementation of this investment is only dependent upon the formal agreement regarding a set of incentives with the Portuguese Agency for Investment.

KEY INDICATORS

(Values in million €, except if otherwise indicated)	IFRS 2005	IFRS 2004	Change 2005/2004	POC 2004
Total turnover	1.029,1	978,3	+5,2%	980,9
EBITDA	261,3	221,8	+17,8%	218,0
EBITDA Margin	25,4%	22,7%		22%
Operating results	132,1	93,8	+40,8%	66,6
Financial results	-45,9	-22,8		-31,6
Pre-tax results	86,0	71,0	+21,2%	-49,7
Net results	63,5	51,3	+23,9%	33,3
Cash flow*	192,7	179,3	+7,5%	184,7
Net Debt	736,1	870,9	-15,5%	873,0
CAPEX	43	130		130
Total production (000 tons)				
Pulp	1279	1 254	+2,0%	
Paper	997	982	+1,5%	
Quantities sold (000 tons)				
Pulp	570	608	-6,3%	
Paper	986	976	+1,0%	
Average pulp price (base 100)	112,6	100		
Average paper price (base 100)	97,8	100		

* Cash flow = Net Results + Amortization and depreciation

IFRS

Consolidated financial information for the year 2005 was prepared in accordance with International Financial Reporting Standards (IFRS). The information for the year 2004 was reexpressed in IFRS, for comparative reasons