



DIRECTORS' REPORT

CONSOLIDATED ACCOUNTS

FINANCIAL YEAR OF 2006

Directors' Report

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1. Introduction

1.1 Overview of Group Operations

The Semapa Group's business operations in 2006 reflect the efforts made to consolidate and bolster its position in its two business areas – Paper and Paper Pulp, and Cement.

Recurrent EBITDA grew by 6%, whilst debt was down by 11%. The Group recorded net profits of EUR 91.4 M and SEMAPA shares rose considerably in value, up by 30% over the year.

Contribution by business segment

EUR M

| | Paper and Pulp | Cement | Holdings | Consolidated |
|--|----------------|--------------|---------------|----------------|
| Turnover | 1.080,7 | 466,4 | - | 1.547,0 |
| Total EBITDA | 312,5 | 143,8 | (12,7) | 443,6 |
| Recurrent EBITDA | 311,0 | 133,2 | (14,1) | 430,1 |
| Depreciation and impairment losses | (103,2) | (34,6) | (0,1) | (138,0) |
| Provisions (increases and reversals) | (26,0) | (4,1) | 0,3 | (29,9) |
| EBIT | 183,2 | 105,0 | (12,6) | 275,7 |
| Financial Results | (26,5) | (5,2) | (16,8) | (48,5) |
| Pre-tax results | 156,8 | 99,8 | (29,4) | 227,2 |
| Tax on profits | (46,4) | (22,8) | 6,3 | (62,9) |
| Profits retained for the period | 110,4 | 77,0 | (23,1) | 164,3 |
| Attributable to Semapa shareholders | 75,0 | 39,4 | (23,1) | 91,4 |
| Attributable to minority interests | 35,4 | 37,6 | - | 72,9 |
| Cash-Flow | 239,7 | 115,7 | (23,2) | 332,2 |
| EBITDA margin (%Turnover) | 28,9% | 30,8% | | 28,7% |
| EBIT margin (% Turnover) | 17,0% | 22,5% | | 17,8% |
| Total net assets | 2.379,0 | 848,5 | 308,4 | 3.535,9 |
| Net debt | 480,1 | 138,0 | 468,1 | 1.086,1 |

Notes:

- The figures for the business segment indicators may differ from those presented individually by each Group, due to consolidation adjustments.
- Total EBITDA = operating earning + depreciation and impairment losses + provisions – reversal of provisions
- Net debt = non-current interest-bearing debt (net of charges on the issue of loans) + current interest-bearing debt (including debt to shareholders) – cash and cash equivalents; as per IFRS rules.

Consolidated Turnover: EUR 1 547.0 M

The figure of EUR 1 547.0 M represents growth of 4% over 2005.

• **PORTUCEL SOPORCEL Group (Paper and Paper Pulp)**

The Group recorded total turnover in 2006 of EUR 1 080.7 M, which represents an increase of 5% over 2005.

Both paper sales (1,004 thousand tons) and the respective average unit sales price performed well, meaning that the total value of sales in this segment grew by 6.1%; the paper sector represented approximately 70% of the Portucel Group's total turnover.

The average unit sale price for pulp increased by 7.6% over the period. Due to increased integration of pulp into paper, the quantity of pulp available for sale on the market (559 thousand tons) was slightly lower than 2005. Accordingly, the total value of pulp sales grew by approximately 5.5%. As a result total pulp sales were up by approximately 5.5%, representing a contribution of 24% to the overall turnover of the Portucel Group.

The remaining 6% of the turnover was generated by the energy sector and other services.

- **SECIL Group (Cement)**

The Secil Group's accrued sales in 2006 totalled EUR 466.4 M, representing growth of 1% over 2005. This was a favourable result given that the Group's main market – the Portuguese cement market – was hit by an appreciable decline in consumption, due to the prolonged recession in the construction sector.

In relation to production operations in Portugal, cement sales stood at 3.8 million tons, up by 2% in volume, but down by 1% in value. The drop in sales on the internal market was offset by an impressive rise in exports.

Consolidated EBITDA: Total of EUR 443.6 M, of which EUR 430.1 M was recurrent in nature

- **Paper and Paper Pulp:** Total accrued EBITDA stood at EUR 312.5 M, which represents growth of 17% over 2005, thanks to improved efficiency, increased productivity and the trend in sales prices.
- **Cement:** total accrued EBITDA stood at EUR 143.8 M, representing a reduction of 7% in relation to 2005; the reduction in EBITDA was smaller, at only 4%.
- **Holdings** (Semapa and instrumental sub-holdings): negative contribution of EUR 12.7 M fundamentally reflecting structural costs.

Consolidated EBITDA Margin: 28.7%

- **Paper and Paper Pulp:** margin of 28.9%, representing growth of 3 percentage points over 2005.
- **Cement:** margin of 30.8%, i.e. margin down by 2.7 percentage points.

Consolidated EBIT: EUR 275.7 M

- **Paper and Paper Pulp:** EUR 183.2 M, up 27% on 2005.
- **Cement:** EUR 105.0 M, 12% down on the figure recorded at December 2005.
- **Holdings:** negative contribution of EUR 12.6 M.

Net Debt: EUR 1 086.1 M

The Semapa Group's net debt continues to display a downwards trend, with a reduction of EUR 136.3 M from the end of 2005, reflecting the Group's good performance in generating cash flow.

- **PORTUCEL SOPORCEL Group:** reduction of EUR 256.1 M from the end of 2005, demonstrating this business area's strong capacity to generate cash flow, and also the careful management of working capital. In May 2006, Portucel distributed dividends for the financial year of 2005 amounting to EUR 40.3 M; the Group's net indebtedness will permit it to implement its capital expenditure plans and its development strategy.
- **SECIL Group:** net debt was down by 30% from 12.31.2005 at EUR 138.0 M, despite Secil's distribution of dividends of EUR 19.5 M in the 1st half of the year and EUR 16.1 M in September.
- **Holdings:** net debt was up by EUR 178 M, to a total of EUR 468.1 M at year end 2006, due fundamentally to: i) acquisition of a 0.55% stake in EDP; and ii) a 4.7% increase in the Group's holding in Portucel in November.

Financial Results: EUR-48,5 M

The financial results were substantially better than the accrued results for 2005, with the loss down by 47%. This was achieved thanks essentially to the reduction in accrued financial charges in 2006, resulting from reduction in the Group's average indebtedness.

Consolidated net profits: EUR 91.4 M

The Consolidated Net Profit before minority interests stood at **EUR 164.3 M**, of which **EUR 91.4 M** is attributable to SEMAPA shareholders.

Leading economic-financial indicators

The comparative consolidated income statement for 2005 has been restated, with the operating result of the Enersis Group (sold off during the last quarter of 2005) for 2005 being included in a separate item for Discontinued Operating Activities.

It should be noted that i) a capital gain of EUR 377 M was generated by this disposal, accounted for in Total EBITDA, thereby explaining the variation in relation to 2005, ii) the disposal only occurred at the end of 2005, and the proceeds of the sale were used to pay off bank borrowing, which explains the reduction in financial charges in 2006, and consequently the variations in the accounts for net profits and cash flow. The accounts for sales, recurrent EBITDA and net debt are directly comparable and show favourable evolution.

EUR M

| | 2006 | 2005 Restated | % Var. 06/05 | 2005 Published | % Var. 06/05 |
|--|----------------|------------------|-----------------|-------------------|-----------------|
| Turnover | 1.547,0 | 1.490,2 | 4% | 1.529,7 | 1% |
| Other income | 125,8 | 499,7 | (75%) | 445,8 | (72%) |
| Descontinued operating activities | - | 3,8 | | - | |
| Gains and losses | (1.229,2) | (1.288,7) | (5%) | (1.248,7) | (2%) |
| Total EBITDA | 443,6 | 705,1 | (37%) | 726,9 | (39%) |
| Recurrent EBITDA | 430,1 | 405,3 | 6% | 427,1 | 1% |
| Depreciation and impairment losses | (138,0) | (155,7) | (11%) | (169,1) | (18%) |
| Provisions (increases and reversals) | (29,9) | (3,4) | 775% | - | |
| EBIT | 275,7 | 546,0 | (50%) | 557,8 | (51%) |
| Financial results | (48,5) | (90,6) | (47%) | (99,0) | (51%) |
| Pre-tax profits | 227,2 | 455,4 | (50%) | 458,8 | (50%) |
| Tax on profits | (62,9) | (56,9) | 11% | (60,1) | 5% |
| Profits retained for the period | 164,3 | 398,5 | (59%) | 398,7 | (59%) |
| Attributable to Semapa shareholders | 91,4 | 334,0 | (73%) | 334,2 | (73%) |
| Attributable to Minority interests | 72,9 | 64,5 | 13% | 64,5 | 13% |
| Cash-Flow | 332,2 | 557,6 | (40%) | 567,8 | (41%) |
| EBITDA margin (% Turnover) | 28,7% | 47,3% | (39%) | 47,5% | (40%) |
| EBIT margin (% Turnover) | 17,8% | 36,6% | (51%) | 36,5% | (51%) |

NB: Total EBITDA = operating earnings + depreciation and impairment losses + provisions – reversal of provisions

EUR M

| | 31.12.2006 | Restated 31.12.2005 | % Var. 06/05 | Published 31.12.2005 | % Var. 06/05 |
|-------------------------|----------------|------------------------|-----------------|-------------------------|-----------------|
| Total net assets | 3.535,9 | 3.575,0 | (1%) | 3.473,6 | 2% |
| Net debt | 1.086,1 | 1.222,4 | (11%) | 1.222,4 | (11%) |

NB: Net debt = non-current interest bearing debt (Net of loan issue charges) + current interest bearing debt (including debts to shareholders) – cash and cash equivalents; as per IFRS rules.

1.2 Major Developments

With the publication of Decree-Law 143/2006, of 28 July 2006, the model has been defined for the third phase in the Portucel privatization process, consisting of the sale by the State of shares representing up to 25.72% of the share capital. This took place through a public offering on 14 November, after which the company was fully privatized.

The Semapa Group increased its holding by a further 4.7% (corresponding to 36 060 687 shares) in its subsidiary's share capital. This additional holding was acquired for a price of Euros 76 398 628 (average of EUR 2.12 per share).

The new shares were acquired as follows:

- Acquisition by the group of 4 715 200 shares;

- Acquisition of 31 345 487 shares by Semapa SGPS, by contracting two structures – 22 636 987 shares with Caixa – Banco de Investimento (Put & Call Combination) and 8 708 500 shares with Credit Suisse International (Portucel Total Return Swap) – which entitle it to purchase, on pre-set dates, 2.95% and 1.13% respectively of the share capital of Portucel S.A.. In the event of Semapa not exercising the options by the contract dates (10-11-2009 and 14-11-09, respectively), the financial institutions have the option to sell to Semapa.

On 12 February 2007, under the contract concluded with Caixa – Banco de Investimento as referred to above, Semapa exercised the right to purchase the said 2.95% of Portucel's share capital.

During the financial year of 2006, the company acquired approximately 0.55% of the shares in EDP, representing an investment of approximately EUR 59.4 M.

1.3 Accounting Issues

The figures for business segment indicators differ from those presented individually for each Group, due to the consolidation adjustments made.

The most significant adjustment (the others are detailed in the Notes to the Financial Statements) was the impact of the review of the useful lives of the industrial assets of the subsidiary Portucel in Semapa's consolidated accounts.

In the first half of 2006, the Portucel Group reviewed the estimate of the useful economic lives of its assets, with reference to 31 December 2005, resulting in an extension to the additional average useful life of 14 years as from such date. This review caused an impact of EUR 35 932 248 (net of deferred taxes) on the subsidiary's consolidated accounts.

However, this effect was reduced to EUR 9 904 115 (net of deferred taxes) in Semapa's consolidated financial statements insofar as an equivalent exercise had been effected in 2004, on the acquisition of Portucel, and the subsequent determination of the fair value of the assets and liabilities acquired at that time.

2. Economic Background*

The performance of the Portuguese economy in 2006 was characterized by very moderate growth; it is estimated that GDP grew by approximately 1.2%, well below the level recorded in most Euro Zone countries.

However, 2006 marked the start of an upturn in the economy, accompanied by budgetary consolidation which, despite having temporarily restrictive effects, is essential for improving the prospects for economic growth in the medium term.

The Portuguese economy has over recent years been particularly influenced by a combination of internal and external shocks. Externally, the rise in the oil price to historically high levels and continued moderate growth in Euro Zone countries has had a particularly negative impact on the Portuguese economy, in view of higher energy consumption per unit produced (in relation to the Euro Zone average) and the geographical distribution of Portuguese exports. In addition, emerging markets with low unit production costs and specialization structures similar to that of the Portuguese economy have been increasingly

* Source: *Boletim Económico – Banco de Portugal*

integrated into international trade. These factors have been particularly felt by companies such as Portucel, which are geared almost entirely to exports.

Internally, the perception of the need to correct the excessive deficit in the Portuguese economy, combined with uncertainty as to the impact of the measures adopted with this end in view, have also helped to moderate growth in the economy.

In 2006, the sluggish performance of internal demand, the limits imposed by intertemporal budget constraints, the adjustment of household debt and the upward trend in interest rates all contributed to the decline in construction indexes and in private and public investment, seriously affecting companies involved in the manufacture of industrial goods, as is the case of the Secil Group.

We may presume that these factors will be maintained throughout 2007, and if this indeed happens it will continue to penalize the performance of companies, although the impact may be expected to diminish over time, allowing for faster growth in the Portuguese economy, more in keeping with the GDP growth rates recorded by other Euro Zone countries.

3. Group Business Areas

3.1 Cement, Cement Products and Aggregates – SECIL GROUP

3.1.1 Overview of Secil Group Operations

The Secil Group's operations in 2006 were hard hit by the slump in cement consumption in Portugal caused by the prolonged recession in the construction sector. Despite these difficulties, the Group recorded turnover of 466 M€ and growth of approximately 1% over 2005.

Operating performance was down on the previous years, with earnings before interest, taxes, depreciation and amortization (EBITDA) standing at 144 M€, reflecting poorer performance in our main business areas – cement plants in Portugal and Tunisia – only slightly offset by improved performance in cement operations in Angola and by the positive effect of incorporation of new companies: Secil-Cabo Verde and ICV – Inertes de Cabo Verde, and also Sobioen (Portugal).

In addition, the decline in demand for cement in Portugal was offset by an increase in export, where the margin is smaller.

Earnings before income and taxes (EBIT) stood at 105 M€, also down on the previous year. The Group recorded net profits of EUR 77 M.

Total investment stood at 67 M€ corresponding to 34 M€ in capital expenditure, 14 M€ in acquisition of subsidiaries and 19 M€ in holdings in associated companies.

3.1.2 Consolidated business indicators

3.1.2.1 Financial indicators

The following table contains consolidated financial indicators for 2006 and 2005:

| <i>EUR M</i> | 2006 | 2005 | % Var. 06/05 |
|---|--------------|--------------|-----------------|
| Turnover | 466,4 | 461,1 | 1% |
| Other income | 99,5 | 90,5 | 10% |
| Expenditure and losses | (422,1) | (397,0) | 6% |
| EBITDA | 143,8 | 154,7 | (7%) |
| Recurrent EBITDA | 133,2 | 138,7 | (4%) |
| Depreciation and impairment losses | (34,6) | (33,9) | 2% |
| Provisions (ncreases and reversals) | (4,1) | (1,9) | 116% |
| EBIT | 105,0 | 118,8 | (12%) |
| Financial results | (5,2) | (4,5) | 16% |
| Pre-tax profits | 99,8 | 114,4 | (13%) |
| Tax on profits | (22,8) | (31,5) | (28%) |
| Profits retained for the period | 77,0 | 82,9 | (7%) |
| Attributable to Secil shareholders * | 77,3 | 82,5 | (6%) |
| Attributable to minority interests (IM) | (0,3) | 0,4 | (179%) |
| Cash-Flow | 115,7 | 118,7 | (3%) |
| EBITDA margin % Turnover | 30,8% | 33,5% | (8%) |
| EBIT margin % Turnover | 22,5% | 25,8% | (13%) |

* of which 51% is attributable to Semapa

| <i>EUR M</i> | 2006 | 2005 | % Var. 06/05 |
|------------------|-------|-------|-----------------|
| Total net assets | 848,5 | 925,7 | (8%) |
| Net debt | 138,0 | 196,2 | (30%) |

3.1.2.2 Operating indicators

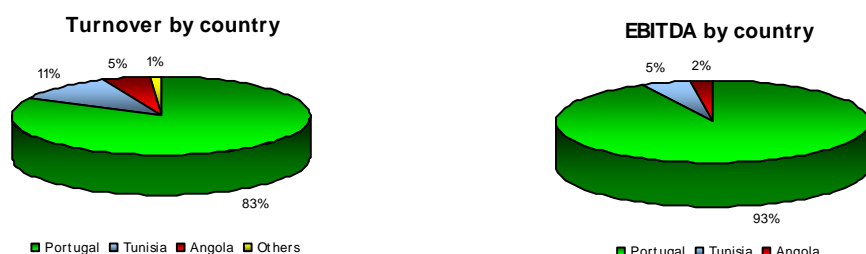
The following table contains consolidated operating indicators for the financial years of 2006 and 2005:

| | <i>Unit</i> | 2006 | 2005 | % Var. 06/05 |
|----------------------------|----------------------|-------|-------|-----------------|
| Cement production capacity | 1 000 t | 5.631 | 5.631 | 0% |
| Sales – grey cement | 1 000 t | 4.599 | 4.648 | (1%) |
| Sales – white cement | 1 000 t | 90 | 86 | 5% |
| Sales – artificial lime | 1 000 t | 75 | 74 | 1% |
| Sales - clinker | 1 000 t | 350 | 191 | 83% |
| Ready-mixed | 1 000 m ³ | 2.352 | 2.445 | (4%) |
| Aggregates | 1 000 t | 3.147 | 3.227 | (2%) |
| Precast | 1 000 t | 234 | 306 | (24%) |
| Mortar | 1 000 t | 332 | 329 | 1% |
| Hydraulic lime | 1 000 t | 37 | 40 | (8%) |
| Mortar fixative | 1 000 t | 8 | 10 | (20%) |
| Workforce | | 2.231 | 2.294 | (3%) |

3.1.2.3 Breakdown of turnover and EBITDA by segment, 2006



3.1.2.4 Breakdown of turnover and EBITDA by country, 2006



3.1.3 Performance by geographical and business segments

3.1.3.1 Portugal

The following table contains business indicators for the Group's Portuguese operations in 2006 and 2005:

| | Turnover (M€)* | | | EBITDA (M€) | | | Quantities | | | |
|--------------------|----------------|--------------|---------------|--------------|--------------|-------------|------------|-------|-------|--------|
| | 2006 | 2005 | Var. % | 2006 | 2005 | Var. % | Unid. | 2006 | 2005 | Var. % |
| Portugal | | | | | | | | | | |
| Cement and Clinker | 221,6 | 224,0 | (1,1%) | 108,4 | 106,4 | 1,9% | 1.000 ton | 3.818 | 3.736 | 2,2% |
| Ready-mixed | 122,3 | 123,8 | (1,2%) | 9,4 | 7,4 | 27,0% | 1.000 m3 | 2.349 | 2.244 | 4,7% |
| Aggregates | 9,7 | 10,2 | (4,9%) | 3,0 | 3,8 | (21,1%) | 1.000 ton | 3.050 | 3.227 | (5,5%) |
| Mortars | 17,9 | 17,9 | 0,0% | 2,8 | 2,7 | 3,7% | 1.000 ton | 377 | 376 | 0,3% |
| Pre-cast | 9,1 | 5,0 | 82,0% | 1,9 | (0,1) | s.s. | 1.000 ton | 216 | 47 | 359,6% |
| | 380,6 | 380,9 | (0,1%) | 125,5 | 120,2 | 4,4% | | | | |

* On the basis of country of origin

3.1.3.1.1 Economic Background

Demand for cement continued to shrink, for the fifth consecutive year, standing at an estimated 7.9 million tons, down by 11% on 2005.

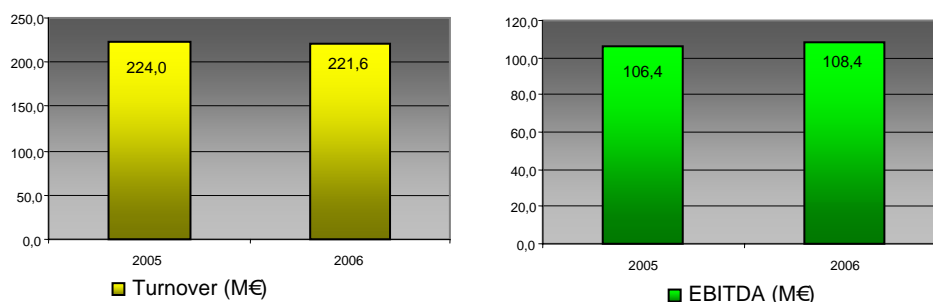
The domestic market was supplied by Portuguese manufacturers and by cement marketed on the basis of imported cement and clinker, although this represented a significantly smaller proportion than in the previous year.

Cement Sales totalled 3.8 million tons, up 2% in volume but down 1% in value. We should stress that great efforts have been made to offset falling sales on the domestic market by an appreciable increase in exports.

The cost of thermal energy was greater than in the previous year due to price increases for petcoke and maritime freight. However, it was possible to offset partially these adverse factors through the use of petcoke with a higher sulphur content, at lower prices, and increased use of waste as fuel and raw material.

Secil once again stayed within the annual limits allocated by its licenses from the Portuguese Government under the CO₂ emissions licensing scheme. Indeed, it was able to sell 450 000 t of CO₂ corresponding to the balance between its allocations and actual emissions for 2005 and 2006.

3.1.3.1.2 Cement



Market and Sales

Cement consumption in the European Union continues to rise, with growth in 2006 estimated at around 4.1%.

In Portugal, cement consumption continued to decline, for the fifth consecutive year. The market is estimated to have totalled 7.9 million tons in 2006, down by 11%, representing a much sharper reduction than in 2005 (-5.2%).

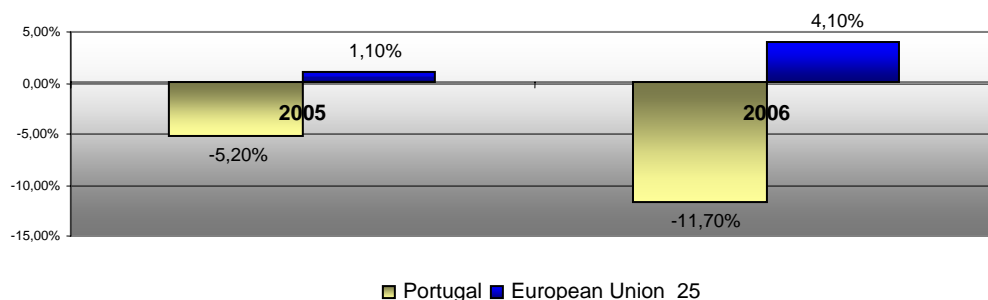
The negative trend in demand for cement reflects the recession in the construction sector, both in residential construction and in public works.

The decline in residential construction is the result of a negative evolution in disposable household income and the reduction in the housing supply to levels more compatible with demand.

The shrinkage in the public Works sectors is the consequence of contraction in the economy, due essentially to an economic policy geared to containing public spending.

It is estimated that imported cement sold in Portugal declined appreciably, down by around 45%, at 630 000 tons.

Annual variation in cement and clinker consumption



Despite the tricky market situation, **Secil** has sharpened its marketing stance and sought to position itself closer to its customer, allowing it to maintain its market share.

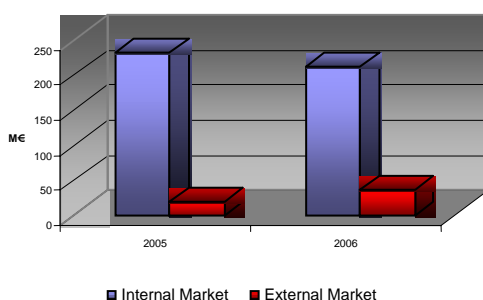
On the domestic market, the **Company** maintained its presence in the main segments, especially in ready-mixed, pre-cast concrete and mortars, and in supplying the main retail chains dealing in construction materials

Despite the tougher competition, it was possible to avoid further price erosion.

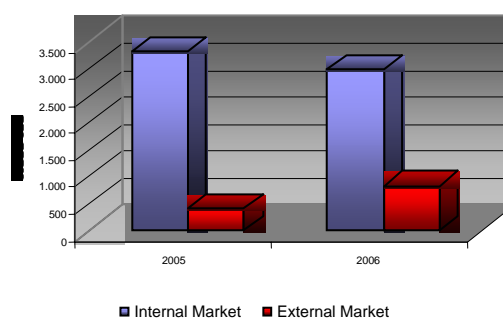
Cement and clinker sales totalled 222 M€, corresponding to 3.8 million tons; this represents a reduction of 1% in value in relation to 2005, despite a 2% increase in quantity.

It was possible to offset the negative effect of lower sales on the domestic market, down by 10%, by significant growth in exports, which doubled over the period.

Sales of Cement and Clinker



Sales of Cement and Clinker



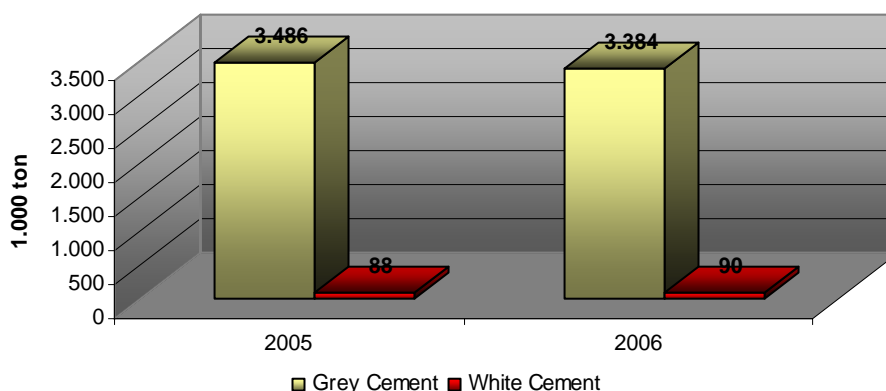
In terms of the product mix, bulk cement continued to grow as a proportion of the total, especially as regards cement type II 42.5.

Secil cement was used in a number of high-profile projects, either completed or currently underway, such as the Carregado Bridge, the Health Sciences School at the University of the Minho, the Faculty of Pharmacy at the University of Coimbra, the new Fátima basilica and various engineering works on the national road and motorway network, in particular the A10 and the A17.

The distribution system responded fully to market demands. In a year in which fuel prices and maritime freights increased significantly, transport cost management was a priority which was managed with success; the average price of cement transport per ton in Mainland

Portugal came down by around 2%. A major development in the field of distribution was the opening of the new Braga rail depot, located in Tadim.

Cement Production



Cement output totalled 3.5 million tons, down slightly on 2005 (-3%). This reduction was merely the consequence of having produced an appreciable quantity of clinker which was sent for export. In effect, the plants were working close to maximum capacity over the year.

Operational productivity remained at satisfactory levels, thanks to sustained streamlining efforts.

The cement produced at the three plants continues to present fairly homogenous final characteristics and high quality standards, an aspect which is regarded as essential in order to ensure general market recognition of the high standards adopted by Secil.

Petcoke prices (CIF Eurominas) increased significantly, up in the order of 10% over the previous year.

The three plants have made major efforts to cut their production costs. These continued streamlining efforts have been fundamental to attenuating the negative effects of these increased energy costs. In particular, increased use has been made of petcoke with a higher sulphur content, at a lower cost, and has significantly increased the use of waste as an energy source and as a raw material.

The Secil-Outão plant consolidated the process for using ordinary industrial waste (OIW), which it first implemented in 2005, and in December started to use hazardous industrial waste (HIW), after obtaining the respective license. The Cibra-Pataias plant started to use tyres as fuel. The Maceira-Liz plant continued to employ used tyres.

In 2006, the Group sold approximately 450 000² tons of CO₂ corresponding to the balance between the licenses granted and actual emissions in 2005 and 2006. In connection with this, a project has been launched to study the conditions at the sites where Secil has its plants in order to assess the feasibility of producing renewable energy in order to obtain green certificates and CO₂ credits through clean development schemes.

As planned, environmental monitoring committees were set up at the Maceira-Liz and Cibra-Pataias plants, along the lines of that already existing at the Secil-Outão plant. The Maceira-Liz and Cibra-Pataias plants obtained registration with EMAS (Eco Management Audit Scheme) in 2006 and are expected to obtain environmental licenses in 2007, together with certification of their health and safety at work management systems (OHSAS 18001:1999).

For its part, the Secil-Outão obtained its environmental license in 2006 and expects to be registered with EMAS in 2007.

Human Resources

Efforts continued to improve the motivation and efficiency of human resources, and also help the personnel identify with the culture and aims of the Secil Group.

Parallel to the policy of streamlining human resources, the Group has sought to recruit skilled employees, with nine new members of staff being contracted. In December the Group had a workforce of 677 (642 permanent and 35 temporary employees), down by twenty nine on 2005.

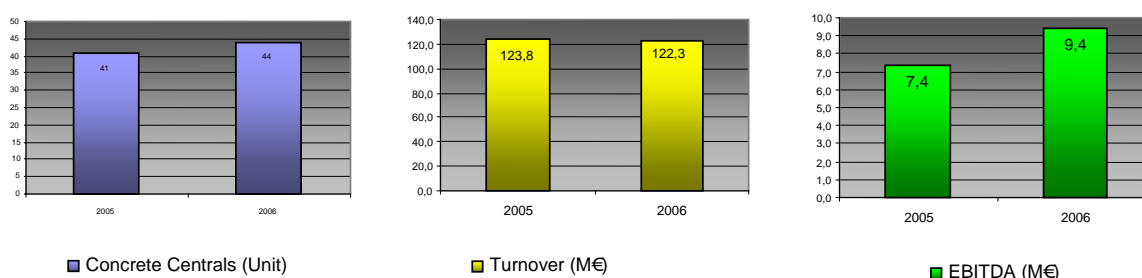
Investment

Significant capital expenditure projects were launched and undertaken in order to improve the performance of the plants and to prepare them to use waste as an energy source, as well as to improve the quality of products and services supplied, environmental conditions and customer service.

Capital expenditure in tangible and intangible fixed assets stood at a total of 15 Million Euros. The most important projects were:

- At the Secil-Outão plant, several projects with a view to preparing for the use of waste as energy source and raw materials, including installation of a tyre shredder, multipurpose awning and measuring systems for the burning of RDFs (Residue Derived Fuels) and the facility for receiving and measuring RIPs.
- At the Maceira-Liz and Cibra-Pataias plants, project relating to adding Chromium 6+ reducer to cements.

3.1.3.1.3 Ready-mixed and aggregates



The ready-mixed market was also significantly affected by the decline in construction activity, and is estimated to have shrunk in the order of 10%. In this context, sales in the ready-mixed business unit were down by 4% in volume, but by only 1% in value. It was possible to obtain an increased in sales prices, in the order of 4%, which permitted an improvement in sales margins.

Overall performance was positive, and significantly better than in the previous year. EBITDA stood at 9.4 Million €, which represents growth of 28% over 2005.

Major developments included the acquisition of Sicobetão and the opening of a new concrete plant in Penafiel. The companies Secil-Betão and Sulbetão were merged to form Unibetão.

Sales of aggregates were down 5%, in value, and 6%, in quantity.

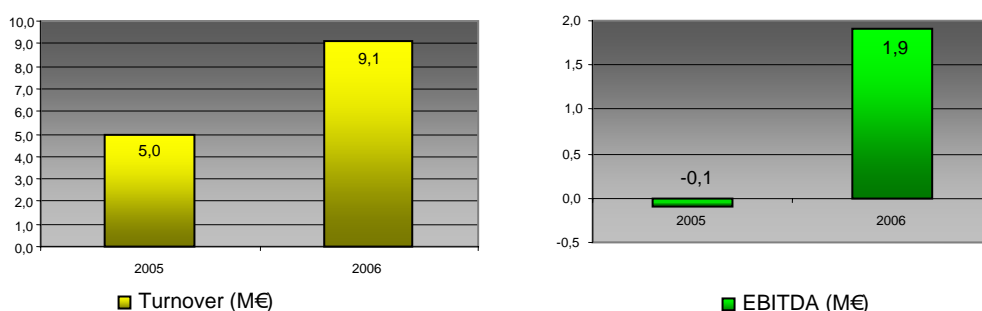
Average prices fell by around 2% in nominal terms, representing an actual reduction in the order of 5%. As a result of falling prices, EBITDA stood at only 3 M€, down 22% on 2005.

Major developments included the acquisition of mobile crushing plants and various drilling facilities, and the creation of a new quarrying department to provide services to the Group and to third parties. In another move, Ecob, Pedreiral and Jobrita were merged into Secil Britas.

In the course of its business in 2006, SBI – Secil Betões e Inertes sold off HI – Hotelaria e Imobiliária, SA which operates the “Almar” aparthotel.

Mention should also be made of the completion of construction work on a mortar plant in the Algarve, to be operated by Secil Martingança, the Group company which heads up this business area.

3.1.3.1.4 Precast concrete



The Group's companies operating in this market continued to be severely affected by the recession in the construction sector. Demand for precast concrete fell between 20 and 25% depending on the type of product.

Secil Prebetão managed to minimize the negative effects of the constraints imposed by the market by making appreciable reductions in variable costs and overheads, in particular by laying off 11 workers. Despite the difficult operating environment, Argibetão recorded positive performance and an improvement on 2005.

This was possible largely because of the process of reorganization which consisted of concentrating production of concrete tiles at the Braga factory, maintaining a small split block manufacturing unit in Cartaxo and transferring back-office to Lisbon. In addition, huge efforts were made to cut costs, and especially staff costs.

Major developments included the sale of the Ovar factory, cancelling the company's financial liabilities and reorganizing the sales structure in Spain.

3.1.3.1.5 Binders and mortars

Despite the crisis in the residential construction sector, the binder market has continued to register moderate growth, thanks mainly to replacement of traditional mortars made on site by industrial mortars. For the same reason, the market for hydraulic lime has continued to shrink.

Overall, this unit maintained turnover at 2005 levels. Performance was slightly better, reflected in a small rise in EBITDA (up 6.2%).

Major developments included acquisition of the mortar factor in the Algarve, set up by SBI, the application for environmental licensing of the Maceira factory and substantial investment in equipment for supplying mortars to construction sites.

3.1.3.1.6 Distribution to the island regions

Overall, the cement companies in the island regions, Cimentos Madeira and Cimentaço, performed well in 2006. Regional cement consumption remained at reasonable levels, despite the significant decline recorded in Madeira.

The market in Madeira dropped off by approximately 22% in comparison with 2005, standing at 418,000 tons. As a result of this, Cimentos Madeira recorded a 12% drop in sales, which stood at 295,000 t and nonetheless represented a gain in the company's market share, in comparison with its competitor in the region. Net profits recorded in Secil's account, by the equity method, stood 31 195 €, substantially down from 2005 (- 83%).

The market in the Azores, and sales by Cimentaço, were down by 1% over 2005, at 329,000 t. The net profits recorded in Secil's account, by the equity method, totalled EUR 0.7 M which represents an increase of 30% over 2005. In its 2006 accounts, Secil records the profits of Cimentaço and Cimentos Madeira corresponding to the period from December 2005 to November 2006.

In January 2007, Secil signed agreements with Cimpor under which the latter will acquire Secil's holding in Cimentos Madeira and to sell its holding in Cimentaço. The overall transaction, which also includes the sale of Secil's holding in Betão-Liz, is merely awaiting the green light from the Competition Authority, which was duly notified of the plans.

3.1.3.1.7 Waste recovery

Secil is taking part in various business projects designed to support the re-use of waste as both fuel and raw material.

3.1.3.1.8 Biomass

Operations in this area are conducted by Sobioen, which is engaged in transporting and marketing agro-forestry products and by-products for power generation. In 2006 the company consolidated its position as the leading innovator in the market for producing biomass as a renewable energy source.

Investment has continued in production equipment and in establishing plantations of agro-forestry species for energy use. The range of services offered now includes processing of residual industrial biomass, followed by use for power generation.

Turnover grew significantly, reaching 1.1 M€, up by 154% on 2005. In this context, **Sobioen** recorded significantly better performance. EBITDA stood at 249 000 €, turning around the negative trend recorded in 2005.

The financial year of 2006 was also marked by a strategic commitment to participating in international tendering procedures for capacity to inject power into the public power grid, through energy generated in power stations using forestry biomass. Tenders were submitted in these processes as part of a consortium with other partners.

3.1.3.1.9 Other ordinary waste

Operations in this area are conducted by AVE – Ambiente e Valorização Energética which is engaged in managing non-hazardous waste and in reusing this waste for energy and as a raw material. The company establishes partnerships between waste producers and operators able to reuse the waste as secondary raw materials or as alternative fuels.

This work continued in various waste sectors, namely in animal meals, used tyres, industrial tyres, textile waste from tyre recycling and RDFs (Residue Derived Fuels).

The adoption of a set of stricter measures relating to the environment and resource management could help the company to expand its business; the implementation of ecotaxes to finance waste recycling operations will also add momentum.

At the same time, the development of the CO₂ market could also help to foster business in this area, insofar as the use of “green fuels” – using certain types of waste as alternative fuels - will allow CO₂ emitters to cut their emissions and temporarily to obtain “carbon credits”.

In 2007, the company expects to develop the sectors where it has established contracts and to move into the hazardous industrial waste market.

3.1.3.1.10 Slag

In 2006, Secil, acting through Parseinges, acquired a further 50% interest in Ecoresíduos making it the sole shareholder in this company which in turn holds a 70% stake Prescor. Prescor pursued its business of transforming slag (waste from the steel industry) into an ingredient for cement, having produced 73 000 t of this product for incorporation into cement and concrete.

3.1.3.2 Tunisia

The following table contains business indicators for the Group’s operations in Tunisia, in 2006 and 2005:

| | Turnover (M€*) | | | EBITDA (M€) | | | Quantities | | | |
|--------------------|----------------|-------------|---------------|-------------|------------|----------------|------------|-------|-------|--------|
| | 2006 | 2005 | Var. % | 2006 | 2005 | Var. % | Unid. | 2006 | 2005 | Var. % |
| Tunisia | | | | | | | | | | |
| Cement and Clinker | 45,9 | 46,3 | (0,9%) | 6,8 | 8,9 | (23,6%) | 1.000 ton | 1.122 | 1.157 | (3,0%) |
| Ready-mixed | 4,4 | 4,4 | 0,0% | 0,4 | 0,4 | 0,0% | 1.000 m3 | 108 | 96 | 12,5% |
| | 50,3 | 50,7 | (0,8%) | 7,2 | 9,3 | (22,6%) | | | | |

* On the basis of country of origin

3.1.3.2.1 Economic Background

During 2006, **Tunisia** found itself under increased pressure as it continues to prepare for a market economy. In this context, the increasing scarcity of mineral resources had a negative impact, together with the recession in the textile sector, due to dismantling of the Multifibres Agreement, and the rocketing oil price.

Despite these difficulties, the country maintained a good pace of economic growth, and GDP is estimated to be up by 5.3% on the year, representing a reasonable improvement on the previous year (+ 4.2%).

This was achieved thanks to growth in the service sector, especially in tourism (+ 6%), telecommunications (+ 15,6%) and financial services (+ 6,5%); in manufacturing, it was the agro-food industry (+ 7,1%) and electro-mechanical goods (+ 8%) which recorded the best results.

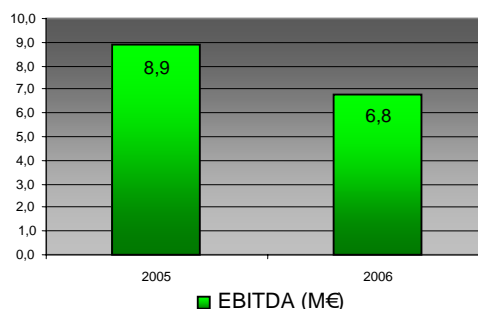
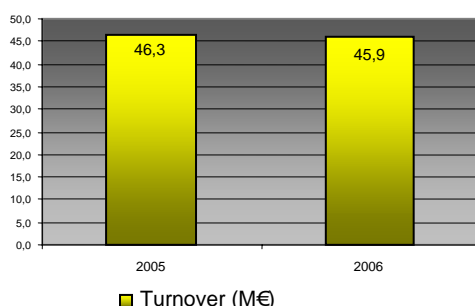
All this reflects a thriving economy, with robust demand for energy and growth in imports of capital goods (up by 20%) and raw and intermediate materials (up by 10%).

The weak point in the economy is a very high inflation rate (4.7%), which the State has sought to control by increasing the Central Bank's reference rate to 5.5% and drastically limiting consumer credit.

As in previous years, the Tunisian dinar fell against the euro, down by 7.3% in 2006.

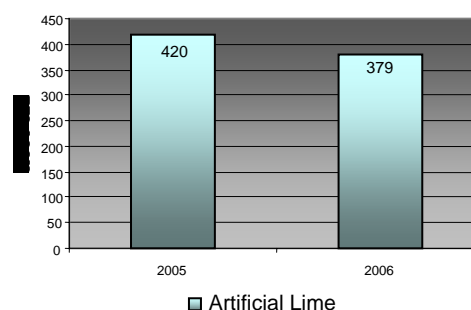
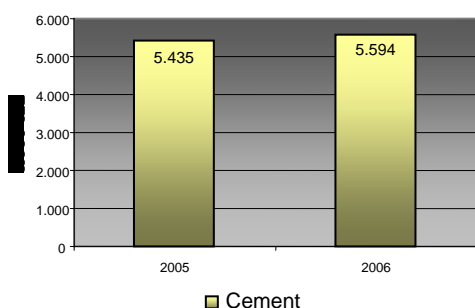
Once again, the cement market in **Tunisia** was not deregulated, in contravention of the undertaking made by the country's government and as provided for in the terms and conditions for the privatization of Tunisia's cement companies. The market was due to deregulation in May 2002, and the Government imposed another administrative price adjustment in May 2006.

3.1.3.2.2 Cement



Market and Sales

Total consumption of cement and artificial lime stood at approximately 6 million tons, representing growth of 2% over the previous year. However, in the southern region, where Société des Ciments de Gabès operates, growth was only 1%.



Due to major capex projects which required halting the production lines, Société des Ciments de Gabès failed to keep up with growing local demand, and its sales on the internal market were down in the order of 9%. Imports, on the other hand, grew significantly, by around 80%, rising to 144 000 t.

Total sales stood in value at round 46 M€, in line with sales recorded in 2005.

In May 2006, under the approved prices system which remains in force, the Government determined a 7.5% increase in prices for cements and 10% for hydraulic lime.

Once again, contrary to expectations and in breach of solemnly give commitments, cement prices were not deregulated. It should be recalled that on the occasion of the privatisation of the cement industry, price deregulation was expressly provided for in the relevant tender documents.

Major developments included the incorporation of SCG – Matériaux de Construction, an affiliate of Société des Ciments de Gabès, which will market cement and other construction materials, with branch offices in Gabès and Kébili.

Production

Clinker production stood at 882 000 t, well down on the previous year. This was due, to a large extent, to lengthy stoppages of the production lines as a result of major investment projects.

Cement and artificial lime output totalled 1 130 000 t, slightly down on the previous year.

The plant achieved significant improvements in its environmental performance in 2006, with appreciable positive repercussions for the local community.

The company also obtained approval for BL and BM type cements.

Human Resources

SCG's total workforce amounted to 411 workers at the end of 2006, 26 less than at the end of 2005, and the company continued with a policy of streamlining human resources, at the same time as recruiting young and qualified technical staff for key areas with a view to modernizing the company.

Under the technical assistance and technology transfer contract concluded with Secil, a number of follow-through and training activities were organized during the year. The company also continued to support welfare schemes and several regional and national funds.

Investment

Investment totalled 6.6 M€, including the installation of a new ventilation system and transformation and optimization of electro-filters on line 2, which has made it possible to increase production and improve environmental conditions.

Other capital expenditure projects underway include the modernization of line 1, following a similar model to that adopted for line 2.

Results

SCG's performance was down on the previous year. Turnover fell by around 1%, although this was due to the devaluation of the Tunisian dinar, which slipped some 7% against the euro.

EBITDA stood at 6.8 M€, down by approximately 23%, reflecting weaker performance than in the previous year, explained by a combination of negative factors, including a drop in output, an increase in specific energy consumption, higher petcoke prices and significant growth in maintenance costs.

The ready-mixed market continues to grow in the regions where Sud Béton and Zarzis Béton operate (Sfax, Gabès and Zarzis). Business in the precast market was slack in 2006, partly due to the completion of major construction works on the island of Djerba.

Turnover was slightly higher (0.6%) although in local currency it held steady at its 2005 level. However, performance was down on the previous year, with EBITDA at EUR 0.346 M, down 17% on 2005.

In capital expenditure, the major projects included the acquisition of a concrete plant and two concrete mixer trucks.

3.1.3.3 Angola

The following table contains business indicators for the Group's operations in Angola, in 2006 and 2005:

| | Turnover (M€)* | | | EBITDA (M€) | | | Quantities | | | |
|------------------|----------------|-------------|--------------|-------------|------------|----------------|------------|------|------|--------|
| | 2006 | 2005 | Var. % | 2006 | 2005 | Var. % | Unid. | 2006 | 2005 | Var. % |
| Angola | | | | | | | | | | |
| Cement e ClinKer | 23,4 | 13,3 | 75,9% | 2,6 | 2,9 | (10,3%) | 1.000 ton | 174 | 116 | 50,0% |
| | 23,4 | 13,3 | 75,9% | 2,6 | 2,9 | (10,3%) | | | | |

* On the basis of country of origin

3.1.3.3.1 Economic Background

Almost four years after the end of the war, the first effects of the programme of national reconstruction are starting to be felt. This programme is funded to a large extent out of oil revenues and is intended to provide the basic conditions for a working economy and to prepare for general elections in the near future, possibly in late 2007. A large-scale project is underway to register the population on the electoral roll.

The economy has recorded sustained growth at high levels, and gross domestic product is estimated to have grown at around 20% in 2006. The non-oil sector has made an increasing contribution to economic growth, especially with substantial growth in the construction sector. The inflation rate has come down, although it is expected to remain at high levels (approximately 10%).

The kwanza has gradually stabilized against the US dollar, and actually rose slightly against the dollar in 2006. Another positive development is the relative and gradual increase in the circulation of kwanzas, to the detriment of the dollar. Given the high oil price, foreign revenues have grown significantly. However, foreign debt remains at fairly high levels. This economic situation had a positive impact on **Secil's** operations in **Angola** in 2006, especially as from the second half.

3.1.3.3.2 Cement

As planned, Tecnosecil changed its name to Secil-Angola after its industrial assets and stocks had been transferred to Secil-Lobito under the Memorandum of Understanding between Secil and the Angolan Government of 2004.

Secil-Angola, wholly owned by Secil, now has a 51% interest in Secil-Lobito.

Under this agreement, the Angolan State will repay its debts to Secil by issuing treasury bills to Secil-Angola which will allow it to reuse these funds to finance the new clinker and cement production line, to be built by Secil-Lobito, as established in the Memorandum of Understanding.

In the meantime, Secil-Angola has redirected its operations to the provision of specialist services (technical assistance, training, engineering, etc.) to the cement industry.

The demand for cement grew to 1.8 million tons in 2006, representing an increase of 26%, thanks to sustained growth in the economy and the launch of major projects for national reconstruction. The demand was met by Angolan producers and also by imports of cement, as the Angolan cement industry still lacks the capacity to respond to the upsurge in demand.

In the first year of its life, Secil-Lobito recorded sales of 174 000 t, in quantity, and 23.4 M€, in value, representing growth of 50% and 76%, respectively, in relation to sales recorded by Tecnosecil in 2005.

Important developments included the launch of the Secil-Lobito brand and the increase in productivity. In the second half, the plant worked consistently close to its production capacity.

Capital expenditure stood at EUR 1.8 M, and the principal projects included rehabilitation of plant equipment and facilities and spending on the new production line.

The company's main concern has been to prepare the investment in the new production line for cement and clinker, which is budgeted at approximately EUR 70 M. Efforts have been devoted to researching and selecting suppliers and progress has been made in the process of finalizing land concessions and talks with ANIP (the national private investment agency) on the investment contract were successfully concluded in December. Approval for this from the Council of Ministers is expected to be obtained during the first quarter of 2007.

3.1.3.4 Cape Verde

The following table contains business indicators for the Group's operations in Cape Verde, in 2006:

| | Turnover (M€)* | | | EBITDA (M€) | | | Unid. | Quantities | | |
|--------------------|----------------|----------|-------------|-------------|----------|-------------|-----------|------------|------|--------|
| | 2006 | 2005 | Var. % | 2006 | 2005 | Var. % | | 2006 | 2005 | Var. % |
| Cape Verde | | | | | | | | | | |
| Cement and Clinker | 4,2 | - | n.a. | 0,1 | - | n.a. | 1.000 ton | 44 | - | n.a. |
| Aggregates | 1,3 | - | n.a. | 0,5 | - | n.a. | 1.000 ton | 97 | - | n.a. |
| | 5,5 | - | n.a. | 0,6 | - | n.a. | | | | |

* On the basis of country of origin

3.1.3.4.1 Economic Background

In the African context, Cape Verde is an example of a consolidated democracy with excellent relations with Europe and the US and which, despite poor natural resources, has recorded interesting rates of economic growth. Gross domestic product grew by more than 5% from

2003 to 2005, and a similar level of growth is expected in 2006. The rate of inflation stood at 5.4%, significantly higher than in the previous year (0.4%).

The situation in the construction sector is fairly promising, as the public and private works markets are growing rapidly, despite a number of constraints in 2006 due to successive power cuts in all the islands, and especially in the city of Praia.

Tourism is a strategic sector for development of the country. The Government has accordingly announced plans for improving the road network, basic sanitation, water and electricity supply, and this will certainly increase the demand for cement. In addition, the creation of new hotel units, especially on the islands of Sal and Boavista, and the extension of the Port of Praia, are projects which will help the construction sector to grow.

3.1.3.4.2 Cement

It is estimated that the cement market totalled 260 000 t in 2006. This growth was due primarily to the buoyant private construction market, especially for residential construction and tourism projects.

During its first year of operation, Secil-Cabo Verde recorded sales of 44 000 t, representing growth of 32% over sales recorded in 2005 by Intertrade, the predecessor company of Secil-Cabo Verde. In value, the sales stood at EUR 4.2 M.

The company's performance was fairly positive, with EBITDA in the order of EUR 0.078 M.

For 2007, the construction sector is expected to show further growth and Secil-Cabo Verde to consolidate and increase its market share.

3.1.3.4.3 Aggregates

The aggregates market on the island of Santiago, where ICV-Inertes de Cabo Verde is located, recorded positive growth due to demand from the private sector, standing at a total of 450 000 t.

EBITDA stood at EUR 0.520 M, up 62% on 2005, reflecting a significant improvement in the company's performance.

Positive growth is expected in 2007 for the construction sector as a whole, and in particular on the island of Santiago, and ICV-Inertes de Cabo Verde will seek to consolidate its position as the prime supplier of construction companies on the island.

3.1.3.5 Lebanon

3.1.3.5.1 Economic Background

Southern Lebanon became a war zone during July and August. Despite the substantial damage caused to the country's economy, it is still too early to assess the real impact of the war.

During the first half, the economy was growing at a significant rate (at around d 5% in annualized terms), as compared with zero growth in the previous year. If the economy had continued on this course, it would have recorded its best performance in a decade, with an annual growth rate in the order of 6% expected through to 2010. The main reasons for this growth were external factors, notably tourism, exports and foreign investment, mainly for

Arab countries. In a year in which the public sector practically stagnated, the economic growth was due to the dynamism of the private sector.

The balance of payments, which is normally in the red, showed a surplus of USD 1,600 M at the end of August, although the deficit of the two months of war amounted to USD 954 M. After a war which is estimated to have cost the country USD 2 800 M, it is estimated that gross domestic product will have declined by around 5%.

3.1.3.5.2 Cement

Thanks to the thriving construction market in the first half of the year, demand for cement grew at an exceptional rate, accompanied by massive black market exports to Syria (approximately 20% of domestic sales through to June). The market stood at 3.3 Mt, corresponding to growth of approximately 9%.

In this context, Sibline's sales on the domestic market were up by 9%, at approximately 700 000 t, and the company maintained its market share. However, exports were down on the previous year (- 12%).

Despite successive power cuts in the national grid, the company was able to increase output, producing 721 00 t of cement, despite the stoppage in July and August. We should draw attention to the tremendous efforts made by Sibline's workforce at the end of the war, resuming production at almost full capacity.

Thanks to the port facilities already in operation – the Port of Jieh – Sibline exported 81 000 t of clinker and began to use petcoke on a regular basis, which allowed it to cut costs and boost profits.

EBITDA stood at EUR 17.7 M, holding steady at its 2005 level, which represents a success in view of the disruptions described above.

Using the equity method, Secil has recorded in its own accounts net profits of EUR 0.777 M corresponding to the period from December 2005 to November 2006.

In late January 2007, **Secil** acquired a further 21.86% interest in **Sibline**, for EUR 28.8 M, giving it a 50.5% holding in the company.

This acquisition is part of **Secil's** strategy of international expansion, designed to step up its presence in markets with greater potential for growth in the short and medium term.

3.1.3.6 Resources and Back-up

Sustainability

This is one of the centrepieces of the Group's strategy for managing the balance between social responsibility, respect for the environment and economic prosperity.

As a fundamental aspect of sustainability policy, priority has been given to the concepts of streamlining and respect for the expectations of different stakeholders. This means making more rational use of natural resources (replacing natural raw materials and fossil fuels with alternative materials), improving energy efficiency, support for and participation in the work of local bodies and a policy of welfare protection for our workers, their families and the local communities.

Significant strides have been made in this area particularly in the Portugal-Cement business area, including the following:

- Publication of the first Sustainability Report on work at the cement plants over the period from 2001 to 2005.
- Environmental Monitoring Committees have been set up at the Maceira-Liz and Cibra-Pataias plants, along the lines of that at the Secil-Outão plant.
- Increased use of alternative fuels, up from 9.7% in 2005 to 12.1% in 2006.
- Reduction of specific CO₂ emissions by approximately 1% from 2005 to 2006.
- Registration with EMAS of the Maceira-Liz and Cibra-Pataias plants, with registration of the Secil-Outão plant awaited.
- Certification of the Secil-Outão plant under OHSAS 18001 and continued work on implementing an identical management system at the Maceira-Liz and Cibra-Pataias plants.
- Organization of the “2nd Open Doors Week at the Secil-Outão Plant”.
- Launch of information booklets on OIW (Ordinary Industrial Waste) and HIW (Hazardous Industrial Waste), reaching many in the local communities.

Organizational Development

The Group has worked on consolidating the guiding principles for people and talent management and has developed and initiated plans to start implementation.

Performance management methods have also evolved in order to include the corporate skills model; this will complement management by objectives and assure that it is applied throughout the Group.

In addition, the performance management process has been redesigned in order to obtain better quality results, increased inter-connection between organizational and individual performance, and greater rigour, discipline and flexibility. Implementation of a technological support system has been decisive in this process.

In terms of mobility, the first steps have been taken towards gaining a more accurate picture of internal talent, with regard to skills.

Corporate Technical Centre

The Group has set up a Corporate Technical Centre which is intended to coordinate investment and technical support for all the Group's cement plants, promoting and developing benchmarking between plants, so that good practices are extended to all plants, specifically the use of alternative fuels, secondary raw materials, compound cements, landscape rehabilitation of quarries and biodiversity.

3.2. Paper and Paper Pulp

3.2.1. Profile of the Portucel Soporcel Group

With a highly prominent position in the international pulp and paper market, the Portucel Soporcel Group is one of Portugal's strongest brands on international markets. It is one of the Europe's five largest manufacturers of UWF – Uncoated Woodfree paper. It is also Europe's largest manufacturer of bleached eucalyptus kraft pulp (BEKP), and also one of the largest in the world.

The Portucel Soporcel Group is a key player in the paper and pulp sector, one of the mainstays of the Portuguese economy. It accounts for 3% of all Portuguese exports of goods and approximately 2% of industrial GDP. These exports, together with sales on the Portuguese market, correspond to 0.7% of national GDP.

As a whole, the Group generates annual turnover in excess of EUR 1000 M, exporting more than EUR 900 M, to a vast array of countries, and exports represent approximately 92% of its total paper and pulp sales. It has production capacity for approximately 1 million tons of paper and 1.3 million tons of pulp (of which approximately 700,000 tons are incorporated into paper), as well as managing more than 125 thousand hectares of forest.

Selling most of its products to Europe, the Group has its own sales network, with support structures in the main European cities and the US, which enables it to maintain a constant presence close to its clients, in order to ensure that their needs are satisfied.

The high quality standards of the Group's products has helped to raise the profile of its brands, such as the *Navigator* brand, which is the world leader in terms of sales in the premium office stationary sector, along with other brands which reflect the Group's partnership with prestigious distribution channels.

At European level, the Group leads the market for the supply of bleached eucalyptus kraft pulp to the special papers segment, which represents more than 50% of sales, and to the high quality printing and writing papers segment.

The woodlands, from which it sources its raw materials, are also an area of strategic importance to the Group, which through responsible forestry management contributes to the competitiveness of a sector which is crucial to Portugal's economy.

In the field of Research and development, the Group has a 94% holding in RAIZ – Instituto da Investigação da Floresta e Papel, which works on genetic improvements to eucalyptus, the prime raw material for the manufacture of high quality papers, and on improving forestry management practices.

The Group's production facilities consist of three industrial complexes, located in Setúbal, Figueira da Foz and Cacia, which set international standards in terms of their size and the sophistication of the technology. The Figueira da Foz industrial complex is the largest production plant in Europe for office stationary and paper for the printing industry. Naturally, all plants operate to high standards of environmental protection, justifying their respective licenses.

The production processes adopted by the Group are also exemplary in terms of sustainability and energy efficiency, insofar as they use forestry biomass, one of the best renewable fuels, as their main power source.

It should be noted that Portugal's forests, and in particular those managed by the Group, play an important role in absorbing carbon, and thereby contribute to reducing greenhouse gases in the atmosphere. Indeed, the carbon retained by the Group's forests is significantly greater than the annual CO2 emission licenses assigned to the Group.

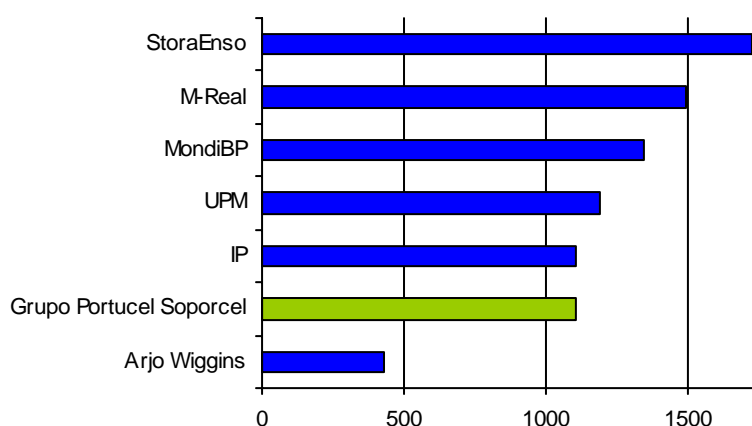
The Group has a workforce of approximately 2 thousand, and is responsible for generating skilled employment and specialist professional careers.

In keeping with its corporate responsibility policy, the Group supports and takes part in projects designed to promote and support the welfare of local communities and to preserve the natural heritage of the regions where their industrial plants and forests are located. The Group is actively involved in biodiversity management projects, through partnerships with environmental organizations.

Ranking of European UWF Manufacturers – 2006:

- ***The Portucel Soporcel Group is amongst the leading producers of UWF paper in Europe***

Production capacity for UWF paper in Europe

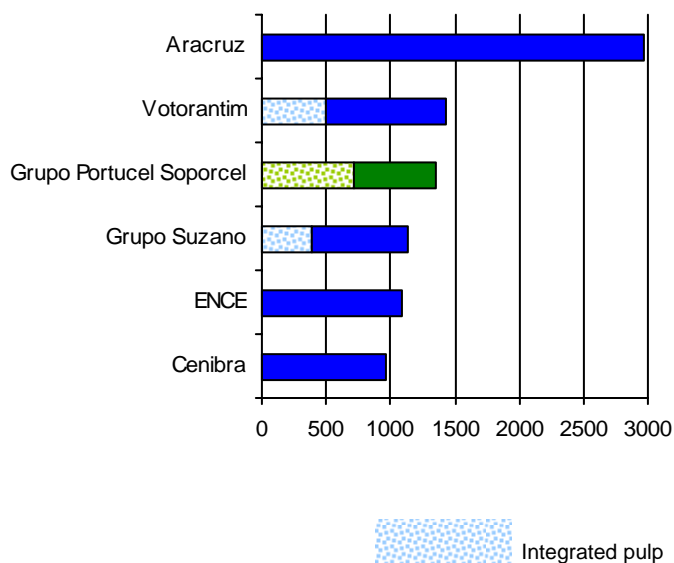


Source: EMGE – *Paper Industry Consultants* (Dec. 2005)

Ranking of world producers of BEKP – 2006

- *The Portucel Soporcel is the world's 3rd largest producer of BEKP*
- *The Portucel Soporcel Group is Europe's largest producer of BEKP*

Production capacity for BEKP



Source: Hawkins Wright (Dec. 2006) and the relevant company reports

3.2.2. Business Overview

3.2.2.1. Paper

The Market

Demand for UWF expanded in 2006, although the growth fell slightly short of the expectations generated by the particularly favourable economic climate. UWF sales by European producers on the European market were up by 1.3%, with the best performance in cut-size paper, sales of which grew by 2.2% over 2005.

In Western Europe as a whole, UWF output grew by approximately 1%, standing at 7.8 million tons. Total UWF sales by these producers grew by an average of 2%, with sales on the Western European market holding steady and growth in sales to Eastern Europe and the Americas.

UWF imports into Western Europe fell by approximately 7% from the 2005 level. This was true both of imports from Eastern European producers (which represented 64% of imports into Western Europe) and of imports from Asian and Brazilian producers. Imports accounted for 15% of consumption in 2006 (22% in cut-size papers).

In this context, the Portucel Soporcel Group's sales to the European markets grew by 3%, outperforming the average for European producers, on the back of 5% growth in sheet paper, 7% in premium products and 22% in factory brands.

The UWF market in the US declined in relation to 2005, but recorded slight growth in the Portucel Soporcel Group's strategic segments: cut-size and printing industry formats. This failed to hamper strong growth (15%) in the Group's sales of premium sheet paper and the Group maintained its sales in factory brands in this market. It should be noted that the Group is responsible for a substantial proportion of European exports to the US.

In other markets (especially Asia and Eastern Europe), consumption of UWF paper grew, in line with the significant growth recorded overall in these economies. The additional demand was partially satisfied by local producers, whose export capacity was consequently curtailed.

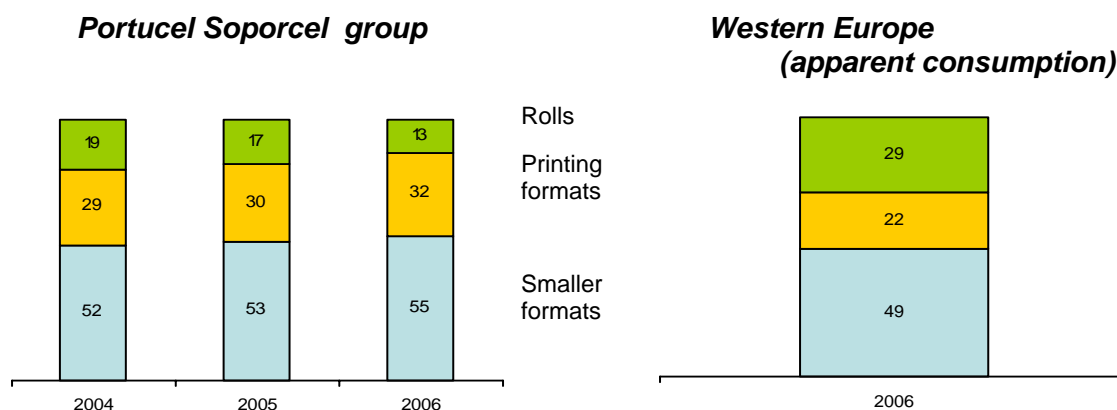
Operations

The Group recorded total paper output in 2006 of 1,024 thousand tons, approximately 2.6% up on the previous year, whilst sales totalled 1,004 thousand tons. This increase in sales was particularly due to enrichment of the Group's mix of papers, with sales of premium products up by 9%. These results have consolidated the trend set in previous years, comparing very favourably with the structure of the European market.

The proportional importance of premium products in the Group's total paper sales shows that the strategy is correct, and also that the market has recognized the quality of the Group's products and brands, and the high standard of service offered.

The breakdown in the product type also shows improvements, with an increase of 26 thousand tons in cut-size and 20 thousand tons in printing formats (the products with the greatest value added), and a reduction of 32 thousand tons in rolls.

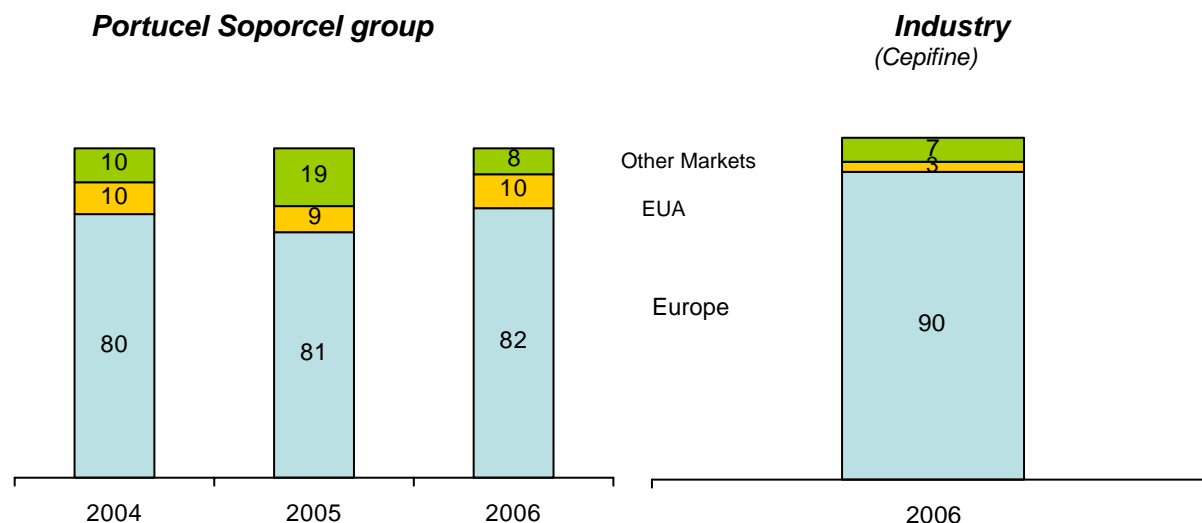
Format mix (% of sales)



Source: Portucel Soporcel Group and Jaako Poyry

The Portucel Soporcel Group's paper sales remain mostly focussed on Europe and the US, with a 4% increase in these markets, whilst the Group also maintained structured sales in several dozen other markets in 2006.

Evolution of geographical mix (% of sales)



Source: Portucel Soporcel Group and Cepifine

Paper distribution costs increased in 2006, due essentially to external factors: soaring energy costs, and increased demand for shipping services, due to healthy growth in Portuguese exports.

Prices

Sale prices for UWF paper in Europe increased for the first time since 2002, and the PIX index for “A4 – copy B” was up by 1.9% in 2006.

The effects of this trend were heightened because of the high proportion of premium papers in the Group’s sales, meaning that the Group’s average sales price rose by 4.3%, although this was not sufficient to prevent a reduction in the unitary contribution margins, due to increased production and distribution costs.

Brands

The Portucel Soporcel Group’s brands consolidated their leading position in the European markets in 2006. As the world’s best selling premium office stationary, Navigator was identified by the market study conducted by EMGE – Paper Industry Consultants as the best-known and top performing brand in the trade in Europe.

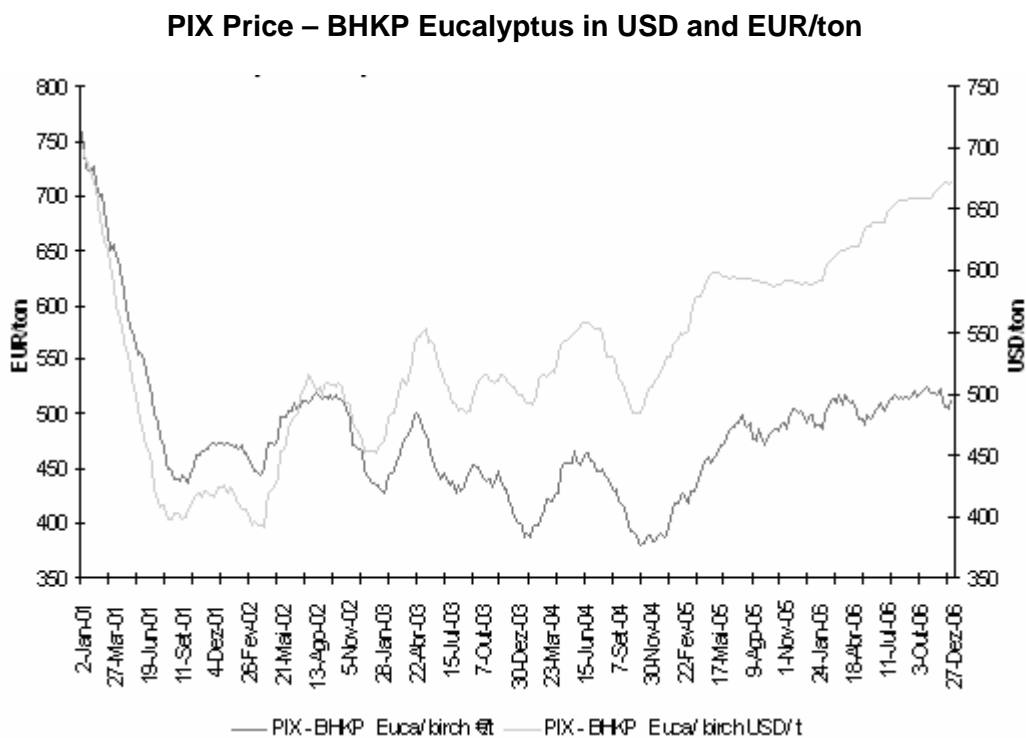
The Group’s own brands accounted for 52% of its sales of sheet paper, as against 45% in 2005, a level which is probably unparalleled in companies of this size.

3.2.2.2. Pulp

The continued vulnerability of the North American long fibre pulp industry in 2006 was due to factors such as the cost of timber, foreign exchange rates and shortcomings in the technology base, due to poor investment in recent years. This led to the stoppage and event the closure of certain mills, and caused a significant reduction in the industrial capacity for long fibre.

At the same time, the good performance of the Chinese market, which is increasingly important to the balance between supply and demand for pulp, together with the healthy performance of demand for eucalyptus pulp on the traditional markets, made it possible in 2006 for new production capacity in Latin America to be absorbed without any significant disruption to the market.

The average pulp price in 2006, as may be seen in the following graph, showing the PIX index in USD and EUROS, was USD 639, the highest for the last six years, corresponding to an average annual increase of 10%.



The weakening of the dollar against the euro meant that the gain in the latter currency was more modest, but still the highest annual figure since 2002.

Output of bleached eucalyptus pulp stood at around 1.3 million tons in 2006, up by 2.7% on the year, making the Portucel Soporcel Group the largest European producer and one the largest in the world, in this type of pulp.

The Group placed 559 thousand tons of pulp on the market, slightly down on the figure for 2005, due to an additional 36 thousand tons of incorporation in paper, with the consequent reduction the quantity of pulp available for sale on the market.

The main export markets continued to reflect the Group's main strategy option: to concentrate on European markets, which are home to the producers of the best quality papers, with the technological capability and know-how to take advantage of the natural qualities of the pulp from *globulus* eucalyptus produced by the Group.

The sales team was concerned at all times to keep in close contact with the various markets, assuring a flexible service, compatible with client needs, and overcoming a number of occasional difficulties caused by disruptions in logistical services caused by rising fuel prices.

3.2.2.3. Analysis of Results and Economic and Financial Indicators

Financial Indicators

| EUR M | 2006 | 2005 | % Var. 06/05 |
|---|----------------|----------------|-----------------|
| Turnover | 1.080,7 | 1.029,1 | 5% |
| Other income | 23,5 | 24,6 | (4%) |
| Expenditure and losses | (791,6) | (786,7) | 1% |
| EBITDA | 312,5 | 266,9 | 17% |
| Recurrent EBITDA | 311,0 | 266,9 | 17% |
| Depreciation and impairment losses | (103,2) | (121,6) | (15%) |
| Provisions (increases and reversals) | (26,0) | (1,5) | 1638% |
| EBIT | 183,2 | 143,8 | 27% |
| Financial Results | (26,5) | (47,6) | (44%) |
| Pre-tax profits | 156,8 | 96,3 | 63% |
| Tax on profits | (46,4) | (25,3) | 83% |
| Profits retained for the period | 110,4 | 70,9 | 56% |
| Attributable to Portucel shareholders* | 110,4 | 71,0 | 56% |
| Attributable to minority interests (IM) | 0,02 | (0,01) | (419%) |
| Cash-Flow | 239,7 | 194,1 | 24% |
| EBITDA margin % Turnover | 28,9% | 25,9% | 11% |
| EBIT margin % Turnover | 17,0% | 14,0% | 21% |

* of which 71,9% are attributable to Semapa

| EUR M | 2006 | 2005 | % Var. 06/05 |
|------------------|---------|---------|-----------------|
| Total Net Assets | 2.379,0 | 2.339,2 | 2% |
| Net Debt | 480,1 | 736,1 | (35%) |

Operating indicators

| | Unit | 2006 | 2005 | % Var. 06/05 |
|--|---------------------|-------|-------|-----------------|
| Production | | | | |
| Bleached eucalyptus pulp | 10 ³ Ton | 1.314 | 1.279 | 2,7% |
| UWF | 10 ³ Ton | 1.024 | 998 | 2,6% |
| Sales | | | | |
| Bleached eucalyptus pulp | 10 ³ Ton | 559 | 570 | (1,9%) |
| UWF | 10 ³ Ton | 1.004 | 986 | 1,8% |
| Average sales prices (2005=100) | | | | |
| Pulp | | 107,6 | 100,0 | 7,6% |
| Paper | | 104,3 | 100,0 | 4,3% |

The Group recorded turnover in 2006 of EUR 1 080.7 M, up by EUR 51.6 M from 2005, with around 70% of the turnover being generated by paper business, 24% by pulp business and the remaining 6% essentially by sales of energy and other services. More than 92% of paper and pulp sales were made on the international market, in more than 80 countries.

Paper sales grew by 6.1% over the year, due to the increase in the volume of sales (up by 1.8%) and in the average sales price (up by 4.3%).

On the other hand, and despite the slight drop in sales in volume as explained above, sales of pulp grew by 5.5% over the previous year, as a result of an increase of approximately 7.6% in the average sales price in 2006.

The Group has continued with concerted efforts to improve efficiency and increase productivity in its operations, reflected mainly in a significant reduction in the variable unit costs of production and in lower staff and maintenance costs.

The reduction in unit costs was particularly noticeable at the Cacia mill, where the new recovery boiler has improved the energy balance and cut specific consumption.

Despite the negative impact of the evolution in the cost of pension funds, staff costs performed well, down by approximately EUR 8.1 M (- 7%).

These factors offset the unfavourable trend in commercial logistics costs, caused by the sharp rise in average oil prices in 2006.

In this context, the Group generated consolidated EBITDA of EUR 312.5 M, which represents growth of 17.1% over 2005, and an EBITDA/Sales margin of 28.9%, up three percentage points over the previous year.

Costs were negatively affected in 2006 by the recording of tax provisions, relating essentially to fiscal contingencies for VAT, in relation to the financial years of 1998 to 2003. These contingencies relate to sales made by the Group from merchandise stored in Germany, over this period. In the event of additional tax being assessed, this will be considered and possibly contested by the company.

In the light of a specialist study conducted in 2006, the company has reviewed the remaining useful life of its assets, which are now estimated at 14 years from 31 December 2005. As a result, asset depreciation in the consolidated financial statements has been recalculated, resulting in a reduction in depreciation of approximately EUR 48.9M, in the consolidated accounts of the subsidiary, in relation to the figure which would have been recorded were it not for this review.

However, this effect was reduced to EUR 13.5 M in Semapa's consolidated financial statements insofar as an equivalent exercise had been effected in 2004, on the acquisition of Portucel, and the subsequent determination of the fair value of the assets and liabilities acquired at that time.

Operating profits accordingly stood at EUR 283.2 M, 27% up on the previous year, thanks in part to this adjustment to depreciation.

The Group recorded a financial loss of EUR 26.5 M, down by 44% on the same period in the previous year, due to a sharp decrease in net debt, more than offsetting the significant increase in interest rates, and the favourable performance of a set of foreign exchange and pulp price hedges contracted in 2006.

Accordingly, the consolidated net profit for the period stood at EUR 110.3 M, up by 56% on the previous year, of which EUR 75.0 M is attributable to the Semapa Group.

3.2.2.4. Investment

Capital expenditure in 2006 stood at approximately EUR 60 M. The main projects included the conclusion of the new recovery boiler at the Cacia plant, which starting operating in February 2006.

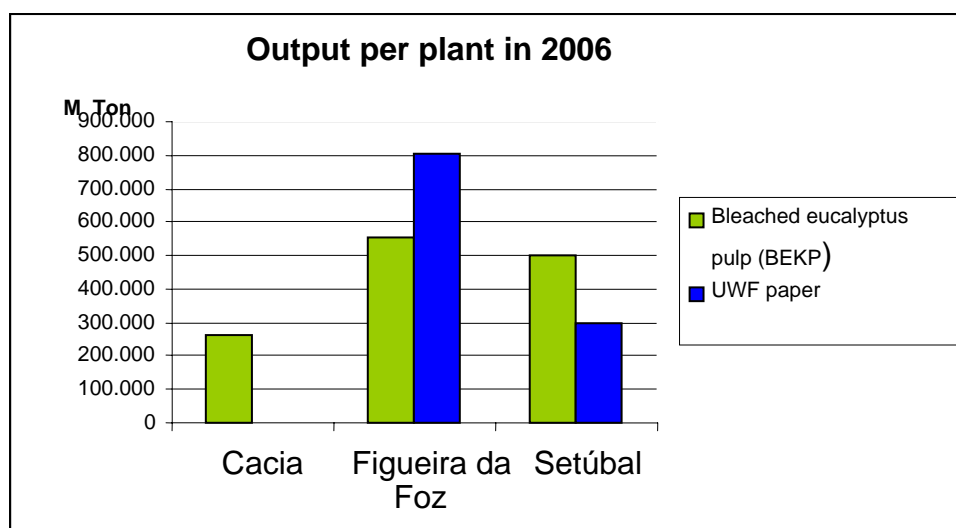
This level of capital expenditure follows on from a cycle of heavy investment designed to increase operating efficiency, with a special emphasis of environmental adjustment of the Group's assets. This reflects a selective and integrated policy for analysis and approval of capital expenditure projects, in order to assure that the Group's industrial plant is fully competitive.

3.2.3. Industrial Operations

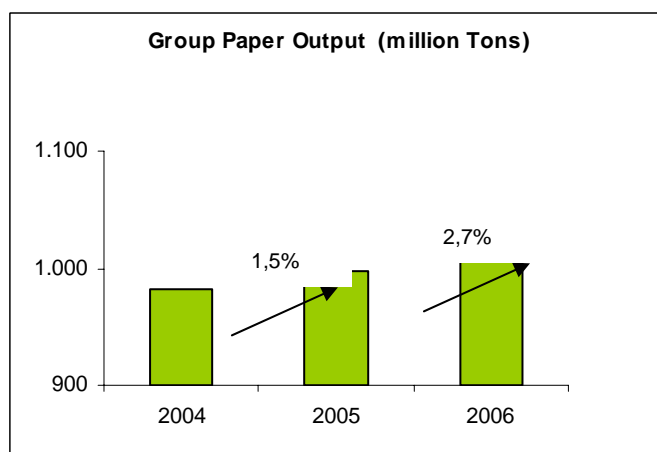
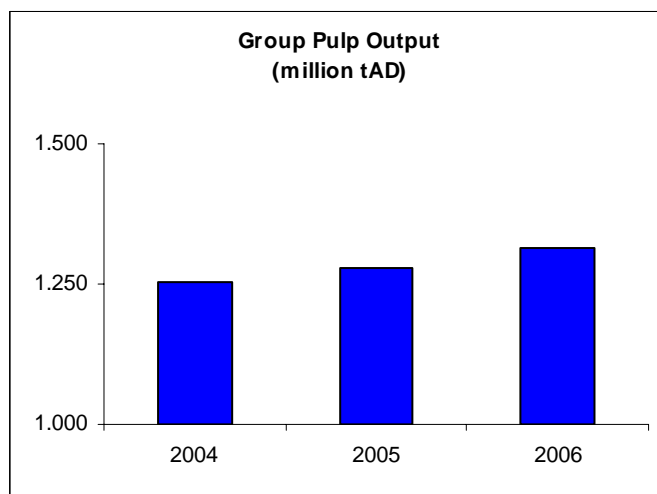
The paper which the Portucel Soporcel Group produces and markets reflects the quality of its plant and the constant concern with technological modernization, making our mills amongst the most up-to-date in Europe.

The Group's total output of pulp and paper was up by 2.7% on the previous year. The Figueira da Foz pulp mill and the Cacia mill exceeded their maximum production levels, with the Cacia plant successfully starting up the new recovery boiler, allowing it to achieve new record production, in excess of 260 thousand tons.

The efficiency gains at the Figueira da Foz plant allowed it to break through the barrier of 550 thousand tons of pulp and 800 thousand tons of paper (rolls).

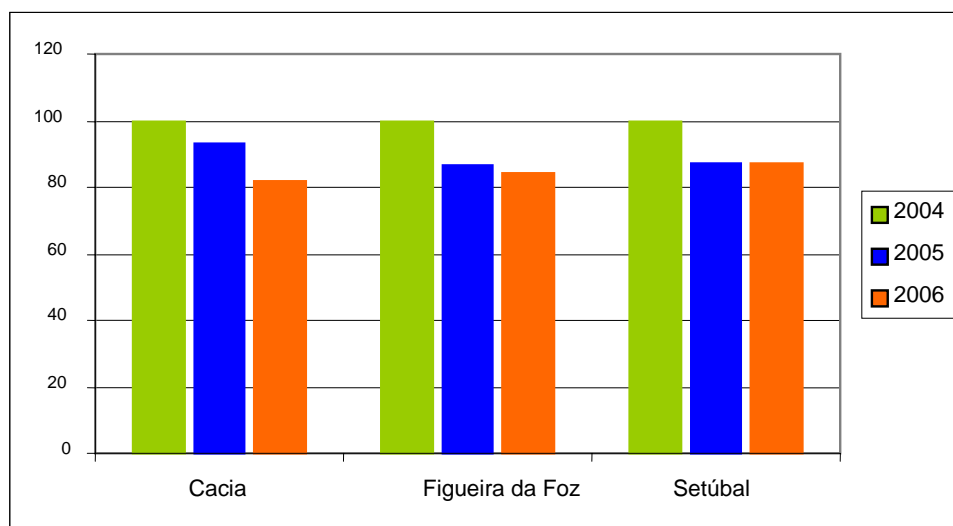


Production of recycled office stationary stated in 2006, with innovative features and high quality standards, aimed at the highly demanding European and American markets.



Thanks to investment and systematic efforts to improve productivity, production costs have been streamlined; in the pulp sector, the greatest success has been achieved at the Cacia mill, where the reductions were highly significant.

PULP PRODUCTION COSTS



The operational stability achieved at all plants and good energy performance have contributed to the Group's results.

The Group has continued to increase outsourcing of non-core activities at all its plants, with positive results in terms of efficiency and cost reductions. A new outsourcing system has been launched for industrial maintenance at all plants, managed by EMA21, a Portucel Soporcel Group company. The results have so far been fairly positive in terms of plant availability and costs, thanks to synergies generated by adopting best practices and coordinating activities. Implementation of the virtual warehouse software will make it possible to optimize the Groups' stocks of materials and spare parts in the near future. Cost savings achieved through maintenance management stood at EUR 14 M for the three mills.

Industrial investment has been centred essentially on small projects to improve production efficiency, quality and plant safety conditions and to modernize equipment and structures.

Major developments at the Figueira da Foz plant included the start-up of the new 60 Kv transformer and the project to introduce a new gluing agent in the PM2 paper machine, as well as the capex projects underway for replacement of the smallwood debarker on Line 1 and the control system for the PM1 paper machine. Investment at this complex totalled approximately EUR 4.9 M.

In Cacia, the new recovery boiler started operating. In Setúbal, capex projects are underway for a new 60 Kv electrical connection and also for replacement of process computers (causticizing, digester and water cooling in preparation of chemicals). Industrial investment at Cacia and Setúbal stood at ERU 9.4 M and 3.6 M respectively.

3.2.4. Resources and Back-up

3.2.4.1. Forestry

As a result of the process of optimizing forestry assets, the Portucel Soporcel Group now manages more than 125 thousand hectares, divided into 1300 management units spread between 172 municipalities in Portugal. The Group's strategic aims in this field continue to be to obtain high and sustainable output, to maintain the fertility and productivity of the land and to preserve nature resources.

The process of forestry certification took centre stage in 2006, and is now nearing completion. As a result of this process it will very soon be possible to demonstrate to consumers and other concerned grounds that that Group's forests are managed on a sustainable basis, as well as complying with legal requirements, with strict respect for the social and environmental issues associated with woodlands operations.

Over the course of 2006, the Group took various steps to enhance the competitiveness of forestry operations. This included continuing with the woodlands rationalization programme (for the Group's own woodlands, and for rented land), involving reforestation of areas with the potential for production, in order to increase average productivity, which is an essential factor for the future sustainability of eucalyptus plantations. Another project focussed on felling, side-lining and transport operations, with collaboration and involvement of service providers in the Portucel Soporcel Group, leading to major productivity gains in this area, which will be decisive to the sustainability of the sector.

In addition to these productivity gains, the current process of reorganizing forestry and transport operations has made it possible to consolidate the relationship with service providers, which has resulted in more consistent self-supply.

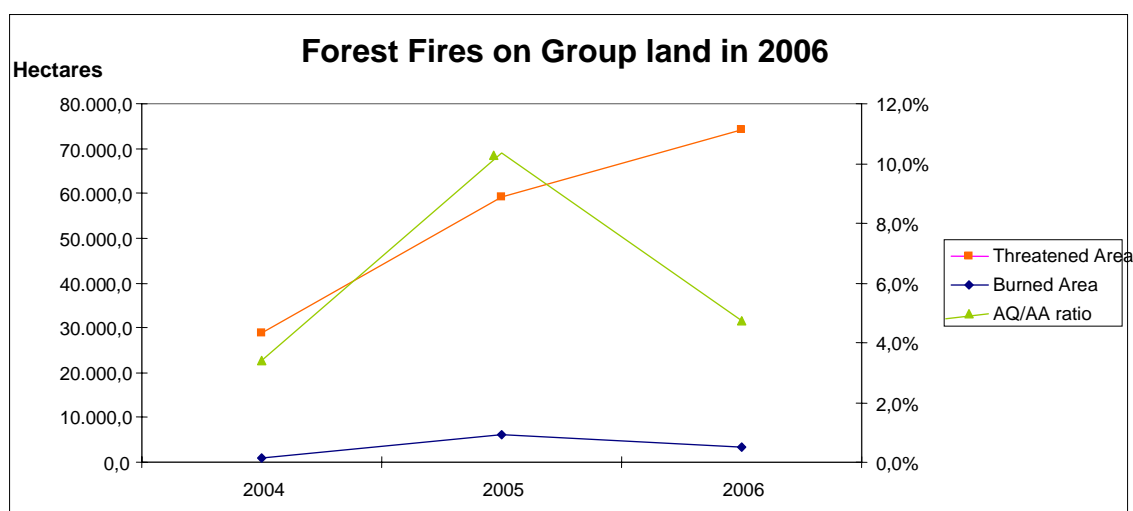
Forest Fires

Although the climatic conditions were more favourable, there was still a notable improvement in Portugal in 2006 as regards the areas affected by forest fires. Overall, around 75 thousand hectares burned (36.5 thousand hectares of plantations and 38.5 thousand hectares of scrub forest), 4.5 times less than in 2005. Despite this improvement, the issue of forest fires in Portugal remains a serious cause for concern, and the preventive measures which the country has implemented need to be continued and carried further.

The Group has continued to concentrate resources on improving the level of structural fire prevention, and also on observation camps and primary intervention capacity. The Group again invested approximately 3.5 million euros in the 2006 season, and pressed ahead with its strategy of mobilizing human and technological resources through Afocelca, the organization set up by companies in the sector (with a majority holding owned by the Group) to prevent forest fires and support fire-fighting work. The detection and primary intervention resources specifically contracted for this purposes included 3 helicopters, 3 helicopter-borne brigades, 54 land teams, and an operations centre, involving around 300 individuals.

It is with deep grief that the Portucel Soporcel Group records the death in fire-fighting action of five Chilean firefighters from Afocelca and four Portuguese firemen. In recognition of the courage and dedication demonstrated in their mission, the Portuguese government awarded to them the *Medalha de Mérito e Protecção e Socorro, Grau Ouo, Distintivo Azul*.

As an extremely positive factor in 2006, we are pleased to record that, although the Portucel Soporcel Group has seen the area of its assets under threat for forest fires increase in relation to 2005, the area actually affected was halved. This was a fairly atypical year, as may be seen in the fact that 66% of the area burned was due to a single fire. This improvement in performance was due to the persistent, dedicated and professional work of the forestry staff of the Group and Afocelca.



Forestry Certification

Despite the difficulties involved in certifying the Group's very extensive and varied woodlands, major strides were taken in 2005 towards certification of approximately 104 thousand hectares of land under the management of the *Aliança Florestal*. This project is at the assessment stage, in accordance with the standards of the FSC (Forest Stewardship Council) accreditation scheme and certification is expected in the near future.

Preparatory work has also continued for submission for assessment under the PEFC (Programme for the Endorsement of Forest Certification Schemes).

As part of its efforts to improve environmental management, the Portucel Soporcel Group has started a second programme for collaboration with the WWF (World Wide Fund for Nature), in order to define appropriate models for managing biodiversity, in particular as regards the approach to high conservation value areas. This programme is planned to continue for two years.

Another major project in the field of biodiversity is centred on preserving the habitats for the Bonelli eagle, financed by Life Nature 2006, in which the Group takes part as member of a consortium led by CEAL (Centro de Estudos da Avifauna Ibérica). The Group is committed to participating in a wide range of forestry management activities aimed at woodlands of importance to preservation of the species.

Special mention should be made of the fact that after hosting a visit from the WWF to assess the difficulties of certifying woodlands belonging to small owners, the Group has joined a national scheme organized by the FSC working party for Portugal, with the aim of drafting and adopting an FSC standard specifically tailored to the reality of sustainable forest management in this country. The Group has a representative on the advisory board provisionally in charge of this initiative, and also takes an active part in the technical committees as well as being ready to join the business chamber for the future FSC-Portugal.

Forestry certification is viewed as a key factor in consolidating the Group's competitive position in demanding international markets. To this end, the Group established cooperation agreements in 2006 to provide direct support to forestry producers, with the main representative bodies (CAP - Confederação dos Agricultores de Portugal, FPPF - Federação dos Produtores Florestais de Portugal, Forestis - Federação dos Produtores do Norte e Centro and Fenaforest - Federação do Movimento Cooperativo Florestal). In addition to other aims, the Group is seeking with this initiative to extend forestry certification to private owners, who supply more than 80% of the raw materials for its mills.

3.2.4.2. Procurement

The Portucel Soporcel Group purchased approximately 3.4 million cubic metres of timber in 2006.

Purchases on the domestic market were down by around 250 thousand cubic metres in comparison with the previous year, due to the visible reduction in eucalyptus stocks and availability in Portugal as a result of the forest fires in recent years. This situation was also due to high levels of exports, to Spain and Morocco, especially in the second half of 2006.

In the light of changing market factors, the Group negotiated a set of new working procedures with suppliers and forestry producers, designed to reward quality timber, certification and the services provided.

In order to obtain productivity gains and cut costs in the forestry sector, the Group put its name to a public documents calling for alteration in the legal framework for timber transport in Portugal, with a view to increasing the maximum gross weight of forestry raw material transportable, given that this constitute a clear competitive disadvantage in relation to other European countries where the forestry sector also plays an important role in the economy.

The Group is pleased to record that these alterations have been approved and that a new legal framework has been approved providing for the use of green diesel in side-lining operations by specially adapted lorries.

In connection with its policy of corporate responsibility and community involvement, the Group is strongly committed to certification of forestry management and of the chain of custody, as means of assuring sustained development of this business sector.

Contrary to expectations, the findings of the National Forestry Inventory were not published in 2006, and no reliable data was available during the year on eucalyptus stocks. The lack of this important information, combined with the apparent structural changes in supply in the Portuguese eucalyptus market, which became clearer in the second half of the year, obliged the Group to establish a programme for acquiring raw material in foreign markets. This was initiated in 2006 and will continue for several years.

Purchases

The Group has continued to pursue its policy in the field of purchasing, with the aim of finding new sources of supply and reducing the strong pressure from institutional suppliers in relation to prices.

Increased internal cooperation between the different production areas within the Group has made it possible to test and accredit new products and suppliers, with a view to improving procurement conditions, namely for commodities in the chemicals sector and agriculture-derived products, where there has been a sharp upsurge in demand worldwide.

The climatic conditions recorded in 2006, with high temperatures and prolonged dry periods, had an effect on raw materials, and in particular on starch (raw material used in manufacturing paper), forcing the Group look for alternatives from Asian countries, not always with success, due to the difficulties caused by the lack of logistical capacity to receive large quantities.

The policy of streamlining costs has contributed to the focus on products and technologies which make it possible to cut production costs, capitalizing on Group synergies. Standardization of products procured for maintenance areas was a further area on which the Group concentrated in 2006.

3.2.4.3. Environment

The policy of sustainability adopted by the Portucel Soporcel Group places the emphasis on the aim of continuing to minimize the environmental impact of its activities. Strictly speaking, the Group's vision is to achieve "zero damage" to the environment in all areas of its operations.

In order to achieve these goals, the entire organization is making efforts to understand, measure and monitor the impact of industrial activities, with the conviction that innovation and the adoption of best practices and technologies will lead to continuously improving results.

The Company's good environmental performance will not prevent it from seeking to achieve increasingly stringent aims in this area. The Group is proud of adding significant value to a renewable resource (eucalyptus), produced in technical and environmentally responsible conditions.

It should be noted that the Portucel Soporcel Group is a net carbon fixer, and it is particularly well positioned in this area, with estimate carbon dioxide retention by its woodlands estimated at 7.7 million tons at the end of 2006. This is 13 times higher than the annual CO₂ emissions licenses it has been granted.

The Group is practically self-sufficient in energy, generating 91% of its power from a renewable source, biomass, with performance well above the average for the European paper industry which in 2004 stood at 52%, not to mention the high standards of compliance with national and community environmental legislation, placing it in the vanguard in many aspects of environmental protection.

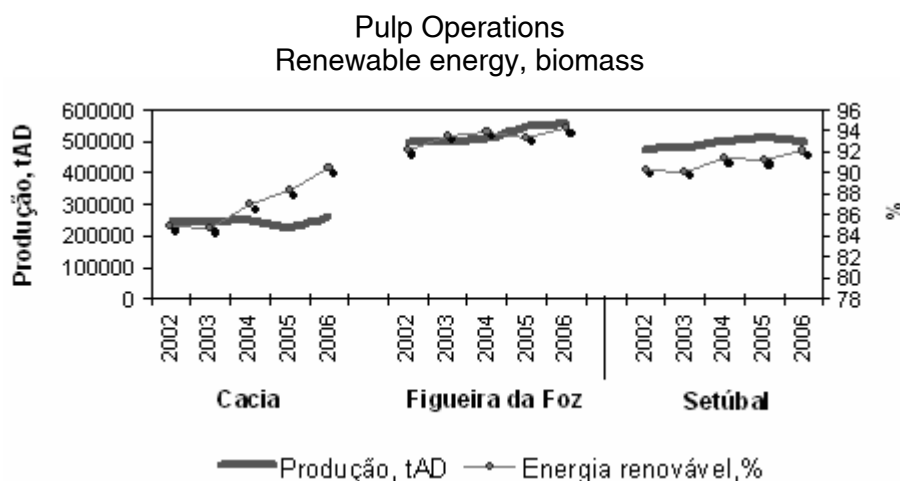
The Portucel Soporcel Group is convinced that producing quality pulp and paper, in an economically, socially and environmentally responsible manner, can also mean contributing to the development of society and to human well being.

The companies of the Portucel Soporcel Group continued to recorded high and sustained levels of environmental performance in 2006, thanks to the use of the best techniques available and efficient control and monitoring of production processes. All production units fully comply with the limits imposed by law, and in some cases meet the strictest international standards.

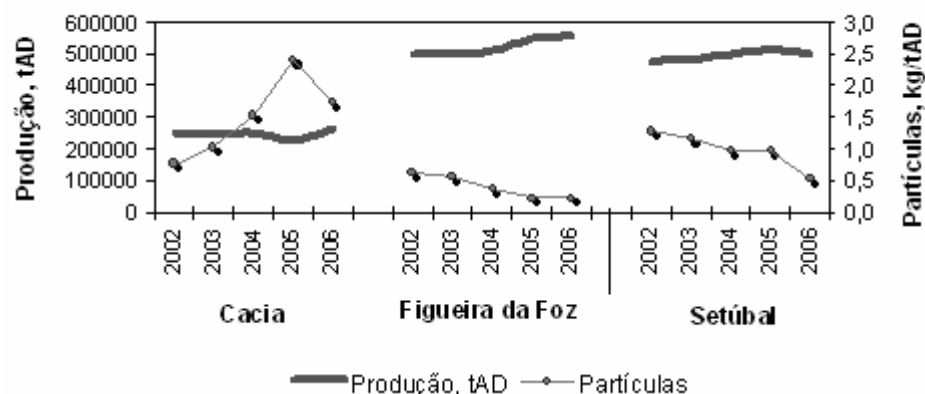
Investment in Group plants has led to significant improvements in rational energy use, especially in the use of energy from renewable sources, instead of the more polluting fossil fuels, and in reducing water consumption and emissions of gases and liquids.

The growing concern with waste management, giving priority to reuse and reduction at source, has led all production units to seek alternatives to dumping. This has involved raising awareness of all Group employees.

It should be stressed that around 80% of waste directly resulting from production is reused, in the forests under Group management or in production, or else as an energy source (such as cooking knots). The remaining 20% is deposited in landfills or disposed of by duly licensed external contractors, who are responsible for management of this waste.



Pulp Operations Particles



Management Systems

In a constant quest for improving and developing a collective awareness of corporate quality amongst their employees, customers, suppliers, shareholders and society in general, the companies of the Portucel Soporcel Group has already developed, implemented and certified management systems in line with internationally recognized standards. Examples of this are organizational certification under ISO 9001 and ISO 14001, and certification of the FSC chain of custody at all Group plants. By this means, the Portucel Soporcel Group is able to control the flow of fibrous materials (timber and pulp) from the forest through to the end product.

Certification in 2005 of the chain of responsibility under the FSC standards meant that the Group was able in 2006 to launch paper brands with the logo for FSC certified paper. In connection with this, work was also completed on implementing the chain of responsibility system to comply with the PEFC standard at the three Group plants and at the timber yards, and the respective certificates are expected to be issued shortly.

A safety management system was also developed in 2006 at the Cacia mill. This underwent an internal audit in November, and the certification audit is planned for 2007.

The Group's integrated system deal with issues of quality, environment, safety and also the FSC and PEFC chain of responsibility.

3.2.4.4. Energy

The Group recorded total power generation in 2006 of 953 GWh, the equivalent to the average consumption of 433 thousand inhabitants. Around 91% of this total was generated from forestry biomass and by-products resulting from the pulp production process. This power is obtained through co-generation, combining electrical and thermal energy, in a process which is substantially more efficiency than the conventional process for generating electrical power alone.

Power generated by the Portucel Soporcel Group from biomass corresponds to around 62% of the power generated in Portugal in 2006 from this source. In addition to this, further power was generated by Soporgen, S.A., a Group subsidiary, incorporated to supply additional steam and power for the PM2 paper machine at the Figueira da Foz complex, which also

supplies power to the national grid. This company alone generated 427 GWh in 2006, the equivalent to the average consumption of 194 inhabitants.

The Cacia mill recorded increased pulp production with good energy performance. This was due to the start-up of the new recovery boiler in February, providing improved reliability and availability, as well as better energy consumption efficiency.

Bioenergy and fossil fuels

As we have already seen, the Portucel Soporcel Group is committed to reduction of greenhouse effect gases (GEG) for the sake of sustainability, and has made systematic efforts to minimize the use of fossil fuels and to adopt best practices in order to contain the effects of climate change resulting from the concentration of GEG.

The growing interest in the use of biomass as a power source has led the Group to invest heavily in this field since 2003, in order to improve energy efficiency and environmental performance, and also with a view to minimizing consumption of fossil fuels. The projects already concluded included the conversion of the biomass boilers at the Setúbal and Figueira da Foz complexes to fluidized bed technology, in addition to the fitting of new recovery boilers in Figueira da Foz and Cacia.

The Portucel Soporcel Group's financial efforts to minimize the use of fossil fuels resulted in a reduction of almost 38% in the use of fuel oil and natural gas in the period from 2002 to 2006, with a reduction of 15% from 2005 to 2006.

Increased energy efficiency in paper production as already led to compliance with stringent standards, reflecting the reduction in specific power consumption (measured in kwh per ton of output), which was down 3.5% on 2005. The Portucel Soporcel Group also reduced specific power consumption in pulp production, with a decrease of 1.5% in 2006.

Biomass for energy

In view of the growing demand in Portugal for eucalyptus timber, which it will be difficult to meet from the country's own woodlands, the Group has been raising government and public awareness of the need to ensure that, until there is a significant increase in the internal supply of this type of timber on economically feasible conditions, the use of biomass for energy purposes should not prevail over the use of eucalyptus timber for industrial processing.

These concerns are rooted in the significant value added (8 times greater) and the additional employment (13 times greater) offered by the paper industry, when compared with the power sector.

In line with these concerns, the Government's conditions for the concessions for new biomass plants clearly state that only waste and by-products from normal forestry operations should be used for generating power. This principle needs to be implemented throughout the country, and measures taken in respect of consumption by existing biomass plants, and by industries which now use biomass for energy purposes.

The Portucel Soporcel Group has argued that the use of timber as a raw material for industrial can coexist peacefully with the burning of waste biomass and recycled end-of-life products, in line with the significant contribution made by the paper industry in general, and the Group in particular, to savings in fossil fuels, resulting in the use of (waste) biomass as the main source of energy.

3.2.4.5. Human Resources

With a view to continued improvement of policies and practise defined for human resources management in the Portucel Soporcel Group, the main development in 2006 was the introduction of the performance management system for management staff and the shop floor, together with new rules on professional careers, and a consequent alteration to the pay scale in force.

The use of these new management tools is designed to implement a strongly motivational corporate culture for all Group employees, geared to principles of fairness, responsibility and reward for merit, in addition to guiding and encouraging professional development.

Streamlining measures continued in 2006 with a view to achieving a sustainable increase in productivity, which will be essential for bolstering the competitiveness of the Group and furthering the interests of its employees.

At the end of the year the Group had a total of 1,951 employees, of which 1,921 were on permanent contracts.

In the field of vocational training, a total of 57,000 training hours were provided, corresponding to 1.8% of total hours worked, and involving 1,991 trainees in a total of 813 different sessions/activities.

Particular attention has been paid to training in health and safety at work, with a total of 11,127 training hours over the year for workers and service providers.

3.2.4.6 Social Responsibility

The Portucel Soporcel Group is firmly convinced that the sustainability of its economic strength must be based on respect for the environment and defence of social welfare.

Taking an active role in the area of social responsibility, the Group supported in 2006 a significant number of social, cultural, educational and sporting events and organizations. Amongst other examples, we may point to the support provided to the Portuguese Association of Parents and Friends of the Mentally handicapped, for the purchase of equipment for children with motor disabilities, to the Luísa Tody Choir, for musical education for young people, and to the Figueira da Foz Sports Club, for the purchase of sporting equipment to be used by underprivileged children and young people.

The Group was particularly active in its support in the educational field, with the educational project *Herdade de Cantar de Galo* (involving 56 thousand children in 2006) and the *Safe School* project (for prevention of drug abuse and for road safety, at all schools in the Aveiro municipality, up to the 3rd cycle), as well as other educational projects promoting causes ranging from healthy eating to social inclusion.

The Portucel Soporcel Group also issued its first ever sustainability report in 2006, setting out its principles and goals in the fields of responsibility, openness and citizenship with particular regard to sustainable development.

The Group also supported a number of seminars, organized by high-profile organizations, devoted to themes relevant to its activities, such as investment in the energy sector, water management and use in Portugal, social responsibilities or Iberian logistical platforms.

The policy of donating paper to local schools and charities was maintained in 2006, with 272 donations to cultural, sporting, educational and social projects, representing a total of 40 tons

of paper. The Group's publishing activities included the magazine *Impactus*, devoted to business sustainability, the 2006 Sustainability Annual, providing information on business projects geared to sustainability development, the Disability Resources Guide, and the second edition of its Environmental Guide, including a case study on the Portucel Soporcel Group in the field of alternative energy.

3.2.5.6. Innovation

Innovation is a core concept in the culture of the Portucel Soporcel Group, serving to strengthen competitive advantages, by differentiating brands, products and services with high value added, and in developing technological and organizational processes.

The Group's integrated value chain, which represents one of the most advanced production processes in the world, is crucial to assuring the maximum quality needed for perception of the value of its brands as premium brands and for gaining a high profile on the main world markets.

The Group pays special attention to innovation management, seeking a shared understanding of development opportunities and needs, and using structured and standardized working procedures in all areas of activity to identify and analyse R&D and Innovation projects.

New innovation projects are found throughout the value chain through to the end customer, involving a large number of participants from the different areas of the Group, with the aim of encouraging the creation of value added for clients, suppliers, employees and shareholders.

The Group's commitment to innovation has led it to propose three innovation projects under the SIME I&DT programme (Incentives System for Business Modernization – Support for technological research and development projects). The body responsible for the programme recognized the interest of the applications in February 2006, and the Innovation Agency also issued a favourable opinion.

Applied Research

The Portucel Soporcel Group conducts a significant volume of applied research in the field of industrial processes, environment and forestry, as well as consultancy and training work, through RAIZ – Instituto de Investigação da Floresta e Papel.

RAIZ stepped up its consultancy work in 2006, allowing it to apply in the field its forestry engineering criteria for precision silviculture, in line with the forestry certification process.

As part of the programme for genetic improvement of eucalyptus, a new clone has been developed of particular interest for medium or dry areas, with higher economic value than the clones (best eucalyptus varieties) currently used in these areas.

In the field of energy crops and bio-energy, technological alternatives have been identified and undergone preliminary assessment as opportunities for the Group in the short or medium term.

4. Human Resources

The Semapa Group's human resources policy is geared to continuous improvement in productivity through developing employee skills and expertise, in conjunction with streamlining and rationalization.

The commitment to a highly skilled workforce, with specialized professional carried, continues to be one of the key features of the Group's human resources policy, reflected in professional development and training activities and programmes.

The workforce of the Semapa Group, including all companies included in the accounts by the full consolidation method, fell from 4 303 employees in December 2005 to 4 202 employees in December 2006, as shown in the following table:

| | Workforce | |
|-------------------------|--------------|--------------|
| | 2006 | 2005 |
| PORTUCEL SOPORCEL group | 1.951 | 1.986 |
| SECIL Group | 2.231 | 2.294 |
| Holdings | 20 | 23 |
| TOTAL | 4.202 | 4.303 |

5. Semapa Group - Financial

5.1. Indebtedness

At the end of December 2006, the Group had total, net debt of EUR 1,086.1 M, as compared with EUR 1,222.4 M recorded at the end of December 2005.

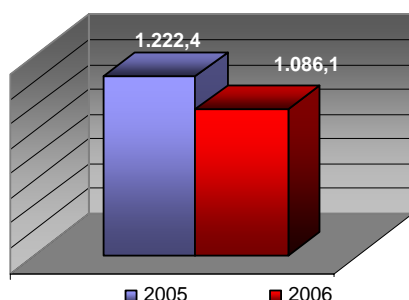
The following table shows the evolution of the structure of net debt:

| | M € | | |
|-----------------------------|----------------|----------------|----------------|
| | 31.12.2006 | 31.12.2005 | Variation |
| Medium Long Term | 1.310 | 1.295 | 15,4 |
| Bond issues* | 924,6 | 722,9 | 201,7 |
| Other loans | 262,2 | 572,1 | (309,9) |
| Commercial paper | 123,6 | - | 123,6 |
| Overdrafts and other | 73,1 | 133,8 | (60,7) |
| Shareholder loans | 8,8 | 7,0 | 1,8 |
| TOTAL debt | 1.392,2 | 1.435,7 | (43,5) |
| (Liquid assets) | (306,1) | (213,4) | 92,8 |
| Net debt | 1.086,1 | 1.222,4 | (136,3) |

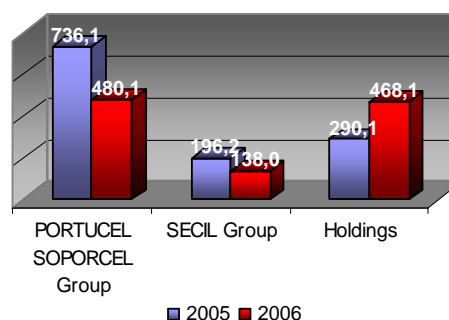
* net of issue charges

The following graphs illustrate evolution of total debt, together with a breakdown of net debt, at year-end 2005 and 2006:

Evolution of total net debt



Breakdown of net debt



As already stated, the PORTUCEL SOPORCEL and SECIL Groups reduced their debt essentially through cash flow generated. The increased debt recorded by the holdings reflects borrowing for acquisition of shares in Portucel and EDP.

In the course of 2006, the debt allocated to the holdings (Semapa and instrumental sub-holdings) was reorganized, resulting in more favourable terms: i) a significant increase in the maturity of the debt, and ii) lower pricing adjusted to the Group's new risk profile, resulting from sale of the holding in Enersis in December 2005.

As part of this process, Semapa SGPS made two 10-year bond issues, with a value of EUR 175 M and EUR 50 M, led jointly by Banco Espírito Santo de Investimento and Caixa BI and by Banco BPI, respectively. In addition, Semapa SGPS contracted a commercial paper programme of up to EUR 175 M, also with a maturity of 10 years, from a banking syndicate jointly led by Banco Espírito Santo de Investimento and Caixa BI.

This allowed it to pay off in full the finance taken out by its subsidiaries Semapa Investments BV and Semapa Inversiones SL in order to fund acquisition of the Semapa Group's holding in Portucel.

During the period, Semapa increased by 0.61% the interest held in Portucel directly and indirectly through companies it controls. It also negotiated two structures – Put & Call Combination and Total Return Swap – which entitle it to purchase, on pre-set dates, 2.95% and 1.13% respectively of the share capital of Portucel. In the event of Semapa not exercising the options by the contract dates, the financial institutions have the option to sell to Semapa. After the close of the period, on 12 February 2007, Semapa exercised the right to purchase the said 2.95% of Portucel's share capital.

In March 2006, as contracted, Semapa SGPS repaid 25% of the nominal value of the Semapa 1998 bond issue, with a value of EUR 5.6 M.

In December 2006, the CMP 97 bond issue was repaid early, with a value of EUR 4.7 M.

Angolan treasury bills were issued in 2006 to Secil Angola, with a value of USD 23.4 M, corresponding to approximately half the Angolan State's debt of USD 47.5 M to Secil. The other half had already been settled by the same means. At 31 December 2006, the subsidiary Tecnosecil (holder of the securities) sold to Banco de Fomento de Angola and Banco Millennium Angola 16 tranches with a nominal value of USD 33.5 M, for a sum of USD 30.2 M, recording a loss of USD 3.2 M in relation to the nominal value

New finance contracted by the SECIL Group included a medium and long term credit line to finance the investment planned for Société des Ciments de Gabès, with a value of 24 million Tunisian dinars.

In December, Secil and CMP received the final tranches from the POE, of 6.1 M€ and 4.8 M€, respectively.

5.2. Risk Management

Risk management priorities have been to detect and hedge against risks which might have a materially relevant impact on the net profits or equity, or which may create significant constraints on the pursuit of the Group's business interests.

To this end, the Semapa Group has a risk management programme which focuses its analysis on the financial markets with a view to minimizing the potential adverse effects on the Semapa Group's financial performance. Risk management is the responsibility of the Financial Division of the holding company and of the main subsidiaries, in line with the policies approved by the respective directors. Semapa also has an Internal Control Committee with specific responsibilities in the field of controlling the company's business risks.

The Semapa Group's activities are subject to a number of risks, of a financial and operational nature. The main risks and respective management procedures are presented below.

5.2.1. Exchange Rate Risk

The USD depreciated by 10.4% against the EURO in 2006.

Given that the PORTUCEL SOPORCEL Group's pulp sales and paper exports to non-European countries are denominated in USD, meaning they are significantly exposed to exchange rate risk, especially with regard to the USD, a number of financial instruments were contracted to minimize the effects of exchange rate variations, covering approximately 80% of sales subject to exchange rate risk over this period and nearly all balance sheet values denominated in foreign currencies.

Overall, exchange rate variations against the euro over the course of 2006 in Tunisia, Lebanon and Angola had a negative impact of approximately EUR 9.8 M on SECIL's shareholders' funds. The negative impacts were recorded in Tunisia and Lebanon: EUR 7.9 M corresponding to the Group's share in the valuation of the share capital of Société des Ciments de Gabès and EUR 2.5 M corresponding to the Group's share in the valuation of the share capital of Ciment de Sibline. The impact of the holding in Angola was positive, at approximately EUR 600 000.

Foreign currency flows within the SECIL Group were optimized with a view to natural hedging. For flows not compensated naturally, the risk has been analyzed and hedged by taking out structures of foreign exchange options, which set the maximum amount payable and allow the Group to benefit partially from favourable evolution in the exchange rate.

The holding company is not exposed to exchange rate risk as it conducts no foreign business.

Interest Rate Risk

The European Central Bank raised its leading rates five times during 2006, by a total of 1.25%. As a result, the main reference rate stood at 3.50% in December 2006.

The cost of almost all the financial debt contracted by the PORTUCEL SOPORCEL Group is indexed to short term reference rates – generally the 6 months Euribor rate. In order to

reduce exposure to adverse interest rate variations, the Group decided to fix the rates for some of its medium and long term debt, and contracted interest rate swaps for this purpose. Approximately 40% of its medium term debt is covered by interest rate hedges.

In November 2005, the SECIL Group opted to partially hedge its interest rate risk by a structure of derivatives which sets a maximum value of the financial charges on long term debt with repayment in scheduled instalments. At 31 December 2006, this debt stood at approximately EUR 111.8 M and the market value of the said hedge was approximately EUR 1.1 M. The remaining debt was kept on a variable rate basis.

The holding company is exposed to interest rate risk, given that all borrowing is contracted on a variable rate basis. It should be noted that after the process of reorganizing debt, hedging of this type of risk is currently under study, with a view to minimizing the impact of a rise in interest rates.

Liquidity Risk

The match between the maturities for the Group's debt and the nature of its business operations, the contracting of credit lines on a current account basis with a large number of banks and also the maintenance of adequate cash in hand all serve to assure the Group a sufficient degree of liquidity.

5.2.2 Operating Risks

Pulp Price Risk

In order to reduce the risk associated with wide fluctuations in the pulp price, the PORTUCEL SOPORCEL Group has contracted hedges for around 20% of its sales, limiting volatility to within a fixed band.

Credit Risk

The PORTUCEL SOPORCEL Group is subject to risk on the credit it grants to its clients and has adopted a policy of maximizing hedges by taking out credit insurance. Sales which are not covered by credit insurance are subject to rules which assure that sales are made to clients with an appropriate credit record and that exposure is limited to pre-set and approved upper limits for each customer.

The SECIL Group has for many years followed a policy of taking out insurance policies for credit for the cement, ready-mixed and aggregates, and precast sectors, with cover tailored to the risk involved in each of these business areas.

Property, third party liability, personal accident and sickness risks

The Group renegotiated the insurance portfolio for 2007, the most significant change being a reduction in the premiums for property insurance, which is the most significant component of Secil's insurance portfolio.

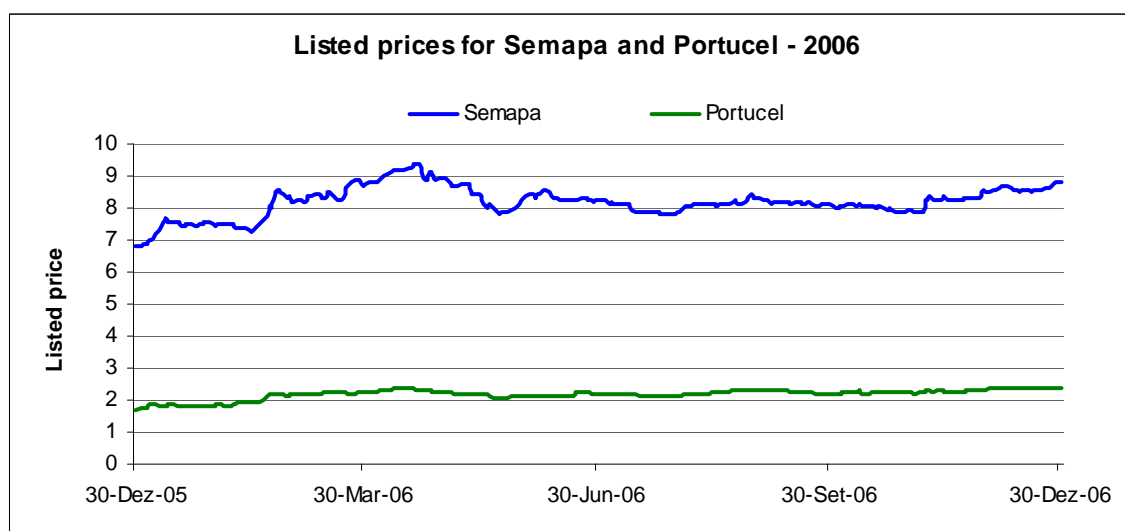
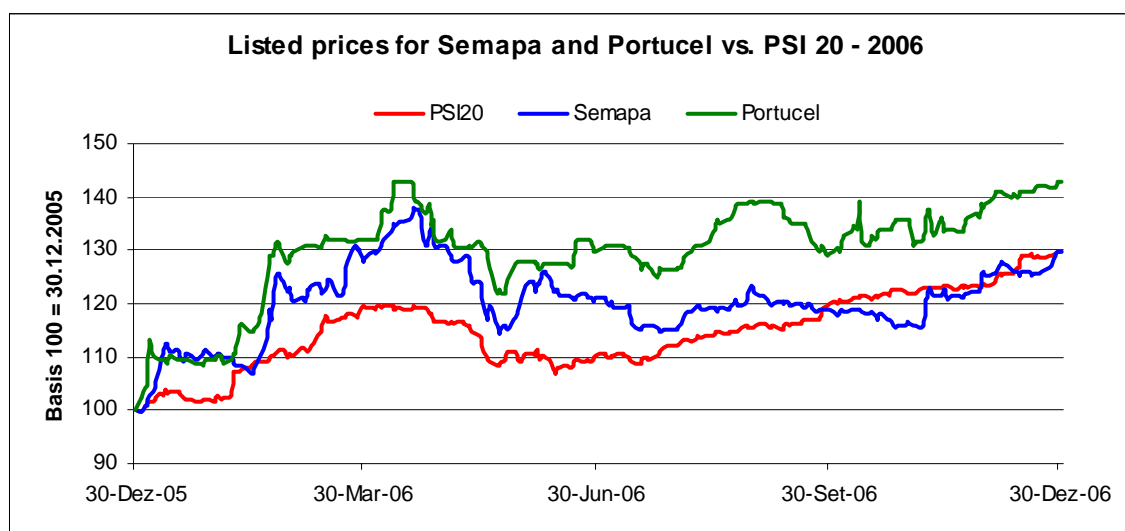
5.3. Pension Funds

Uncovered liabilities for pensions and other post-employment benefits, in consolidated terms, totalled approximately EUR 151 M at 31 December 2006, of which EUR 37.7 M corresponds to a shortfall in funds (EUR 34.1 in the PORTUCEL SOPORCEL Group and EUR 3.6 M in the SECIL Group), the remaining EUR 113.3 M relating to unfunded liabilities (EUR 29.7 M

for the SECIL Group relating to other post-employment benefits and EUR 83.6M for SEMAPA).

5.4. Listed Share Prices

The financial year of 2006 was extremely positive for the capital markets in general, and in particular for the main European exchanges, with some of their indexes recording appreciable gains. Examples of this were the IBEX 35 index for the Madrid stock exchange (which recorded growth of around 31%) and the FTSE 30 index in London (up by approximately 20% over 2005). The PSI 20 index for Euronext Lisbon also recorded substantial gains, up in the order of 30%.



Semapa shares performed strongly in 2006, with accrued appreciation of approximately 30%. The listed price for Semapa shares varied between EUR 6.80 and EUR 9.39, with average daily trading of 204 185 shares. Prices rose gradually up to the end of April, followed by a period of adjustment, before the upward trend was resumed for the rest of the year. No significant adjustment occurred in the listed price at the session after announcement of the 2005 results, on 17 March 2006.

This was a landmark year for Portucel shares, as it witnessed the third and final part of the privatization process. The Portuguese State sold of its interest of 25.72% in the company, represented by 197 432 769 shares, through a public offering. The price was fixed at EUR 2.15 per share (for the general public) and demand exceeded supply fourteen times over. After conclusion of the operation, the company's shareholder base had grown considerably, with the capital now dispersed between more than 32 thousand shareholders, all private.

Reflecting the new dispersion of the share capital, the liquidity of Portucel shares was clearly higher than in 2005, especially in the two months following the public offering, when the average daily trading stood at 2.8 million shares, as compared with 263 thousand shares in the preceding months. In this context, Portucel shares ended the year with an appreciation of 43%, recording a peak value of EUR 2.41 per share (on 22 December), and a minimum of EUR 1.69 per share (on 2 January).

5.5. Dividends

On 27 April 2006, SEMAPA paid dividends for the financial year of 2005 totalling EUR 49 699 627, which corresponds to a dividend of EUR 0.42 per share in circulation. This represented a substantial increase over the dividend paid in the previous period (EUR 0.11), due to the disposal by the company of its holding in Enersis II, generating non-recurrent extraordinary results, which led to declaration of a dividend higher than would otherwise have been paid.

In the course of the 1st half of 2006, Secil paid dividends for 2005, of which the Semapa Group received EUR 9 942 050. In September 2005, Secil distributed interim dividends, with the SEMAPA Group receiving EUR 8 145 774.

For its part, on 10 May 2006 Portucel distributed dividends equivalent to EUR 0.0525/ share in circulation, comparing with EUR 0.0371/ share paid in 2005. The SEMAPA Group received approximately EUR 27 035 633.

5.6. Net Profit for the Period

In 2006, Semapa recorded Consolidated Net Profits, before minority interests, of EUR 164 306 928, of which EUR 19 399 271 is attributable to SEMAPA shareholders.

6. Prospects for 2007

The Company's object is the management of corporate holdings, and its business prospects are therefore dependent above all on those of its subsidiaries.

SECIL Group

- Portugal: business in the cement and clinker segment is expected to decline slightly, due to the recession in the sector. However, Secil expects to improve its performance by streamlining production and distribution costs. In other business areas, including ready-mixed, pre-cast concrete and hydraulic lime, business is also expected to evolve in line with expectations for the construction industry; mortar business should develop well.
- Tunisia: trends in cement consumption will most likely be very similar to 2006; Société des Ciments de Gabès expects significant improvements in its production and commercial performance. It is still not known what attitude the Tunisian government will

take to price deregulation; in the ready-mixed sector, business is evolving well thanks essentially to the effect of penetration.

- **Angola:** the market prospects are good, both for the country as a whole and for the southern region, which is Secil-Lobito's natural market, thanks to expectations of a huge array of projects as part of the process of national reconstruction. Approval from the Council of Ministers is also expected in the first quarter of 2007 for the investment in the new production line, in a project which is to be carried out over three years and creating potential cement production capacity of 700 000 tons per annum, which could be doubled in the near future.
- **Lebanon:** In late January 2007 Secil acquired a further 21.86% stake in Sibline, giving it a 50.5% holding in the company; this acquisition is part of Secil's strategy of international expansion, designed to boost the Group's presence in markets with greater potential for growth in the medium to long term. It is estimated that the market may grow, in view of demand in neighbouring markets and the demand generated by reconstruction work and major projects, depending on political developments in the country and the Middle East region.
- **Cape Verde:** Positive growth is expected in 2007 for the construction sector as a whole, and Secil-Cabo Verde is also expected to increase its share of the cement market. In the aggregates market, positive evolution is also expected and ICV-Inertes de Cabo Verde will seek to consolidate its position as the prime supplier of construction companies on the island.

PORTUCEL/ SOPORCEL Group

The prospects for 2007 may be considered moderately positive, with demand for pulp and paper remaining healthy, resulting in a degree of stability in sale prices. However, the performance of the Portucel Soporcel Group may be significantly influenced by uncertain factors such as the course of the global economy in 2007, levels of tension in certain sensitive regions of the world, which may have a sharp effect on the cost of oil and derivatives, which are the factors which cause the euro to rise against the dollar, a variable with a highly significant impact on the company's business, and also inflationary pressures which could lead to further interest rate rises.

Group performance will also be influenced by the need to import timber in significant quantities, in order to develop better conditions of sustainability in the Portuguese eucalyptus forest in the medium term.

In 2006, the Board of Directors of the Portucel Soporcel Group approved plans for a new paper plant at its industrial complex in Setúbal, with nominal capacity of approximately 500 thousand tons/year, representing investment of approximately EUR 490 M.

Once concluded, this project will bolster the Group's competitive position in the paper market, giving it the capacity it needs to respond to growing demand for its products and brands on the international market. It will also make it possible to strengthen the structural role taken by the Portucel Soporcel Group in the eucalyptus forestry sector, and increase its contribution to the Portuguese economy. It is satisfying to report that this is already a highly significant contribution, representing approximately 2% of manufacturing GDP and 3% of exports of goods.

The national authorities have notified the European Commission of the fiscal and financial benefits to be granted by the Portuguese State for this project, together with the

modernization of the production unit in Figueira da Foz, in accordance with the rules of State aid. It is not yet known what position the European Union will take on these benefits.

7. Subsequent Developments

Our subsidiary Secil signed agreements with Cimpor under which the latter will acquire Secil's holding in Cimentos Madeira and sell its holding in Cimentaçor. The overall transaction, which also includes the sale of Secil's holding in Betão-Liz, is merely awaiting the green light from the Competition Authority, which has been duly notified of the plans.

The subsidiary Secil – Companhia Geral de Cal e Cimentos, SA, acting through a wholly owned subsidiary, has acquired an additional 21.86% stake in the share capital and voting rights of Ciment de Sibline SAL, with registered office in Beirut, Lebanon, for USD 37.3 M. As a result of this acquisition, Secil now has a total interest of 50.5% in the voting rights and share capital of this company.

As stated above, under the contract concluded with Caixa – Banco de Investimento, Semapa exercised in February the right to purchase representing 2.95% of the share capital of Portucel.

Consolidation of the SECIL Group by the proportional method as from 2007

As from 2007 the continued appointment by Semapa of Secil's chief executive officer and chief financial officer is no longer imposed by the agreements concluded with CRH, the minority shareholder, meaning that from 2007 onwards the financial holding of 51% in Secil will be consolidated by the proportional method; however, the said agreement provides that Semapa will continue to have the right to appoint the majority of the directors and of the members of the Executive Board, together with the chairman of the company's directors.

The alteration in the consolidation method will not have any impact on Semapa's net profits or shareholders' funds, or on its capacity to distribute dividends.

If this methodology had been adopted for the financial year of 2006, the effects would have been as follows:

| EUR M | Full Consolidation | Proportional Method | Var. % |
|--|--------------------|---------------------|--------------|
| Turnover | 1.547,0 | 1.318,9 | (15%) |
| Total EBITDA | 443,6 | 373,2 | (16%) |
| EBIT | 275,7 | 224,2 | (19%) |
| Financial Results | (48,5) | (45,9) | (5%) |
| Pre-tax profits | 227,2 | 178,3 | (22%) |
| Tax on profits | (62,9) | (51,7) | (18%) |
| Profits retained for the period | 164,3 | 126,6 | (23%) |
| Attributable to Semapa shareholders | 91,4 | 91,4 | 0% |
| Attributable to minority interests | 72,9 | 35,2 | (52%) |
| Cash-Flow | 332,2 | 275,5 | (17%) |
| EBITDA margin (% Turnover) | 28,7% | 28,3% | (1%) |
| EBIT margin (% Turnover) | 17,8% | 17,0% | (5%) |
| Total net assets | 3.535,9 | 3.120,1 | (12%) |
| Total shareholders' funds | 1.262,3 | 1.050,8 | (17%) |
| Shareholders' funds | 737,0 | 737,0 | 0% |
| Minority interests | 525,3 | 313,8 | (40%) |
| Net debt | 1.086,1 | 1.018,5 | (6%) |

8. Acknowledgements

During the financial year of 2006, Semapa recorded growth and consolidation in the company and the Group, and is now acknowledged as one of Portugal's leading industrial conglomerates.

We would not wish to close this report without expressing our sincere thanks to the following, for their important contribution to this result:

- our employees, whose efforts and dedication have made it possible to develop one of Portugal's most dynamic Companies/Groups;
- for the support and understanding of our customers and suppliers, who have acted as partners in our project;
- for the cooperation of the Financial Institutions, and the Regulatory and Supervisory Authorities;
- for the cooperation of the Audit Board and the officers of the General Meeting and
- our Shareholders, who have accompanied our progress and whose trust we believe we continue to deserve.

9. Proposal for Distribution of Profits

- Considering that the Company needs to maintain a financial structure compatible with sustained growth of its Group, in the various business areas in which it operates;
- Considering that in order for the Company to remain independent from the financial system, it needs to preserve levels of consolidated short, medium and long term indebtedness which allow it to maintain sound solvency indicators; and

We propose that the net profits from individual operations (determined under the POC rules and the Companies Code), of EUR 91 399 271 (ninety one million, three hundred and ninety nine thousand, two hundred and seventy one euros) be distributed as follows:

| | |
|---|----------------|
| Dividends for shares in circulation (0.23 euros/ share) | EUR 27 216 462 |
| Free reserves | EUR 64 182 809 |

Lisbon, 27 February 2007

The Board of Directors

Pedro Mendonça de Queiroz Pereira
Chairman

Maria Maude Mendonça de Queiroz Pereira Lagos
Director

Carlos Eduardo Coelho Alves
Director

José Alfredo de Almeida Honório
Director

Francisco José de Melo e Castro Guedes
Director

Carlos Maria Cunha Horta e Costa
Director

José Miguel Pereira Gens Paredes
Director

Paulo Miguel Garcês Ventura
Director

Rita Maria Lagos do Amaral Cabral
Director

António da Nóbrega de Sousa da Câmara
Director

António Paiva de Andrade Reis
Director

Fernando Maria Costa Duarte Ulrich
Director

Joaquim Martins Ferreira do Amaral
Director



NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

DECEMBER 31, 2006

CONSOLIDATED INCOME STATEMENT

AS OF DECEMBER 31, 2006 AND 2005

| Amounts in € | Note | 31-12-2006 | 31-12-2005 |
|--|------|--------------------|--------------------|
| Revenues | 4 | | |
| Sales | | 1,506,711,135 | 1,447,099,222 |
| Services rendered | | 40,324,241 | 43,126,605 |
| Other income | 5 | | |
| Gains on disposal of non-current assets | | 22,763,684 | 387,071,944 |
| Other operating income | | 103,032,797 | 110,425,655 |
| Fair value changes of biological assets | 19 | (12,943,423) | 2,213,597 |
| Costs | 6 | | |
| Sold and consumed inventories | | (475,090,535) | (461,437,808) |
| Variation in production | | (2,409,080) | (3,948,339) |
| Consumed materials and services | | (461,695,890) | (446,072,068) |
| Staff costs | | (189,973,887) | (290,240,746) |
| Other costs | | (87,107,345) | (86,971,487) |
| Provisions | | (29,927,467) | (3,419,088) |
| Discontinued operational units | 1.2 | - | 3,825,622 |
| Depreciations, amortizations and impairment losses | 8 | (138,003,094) | (155,683,751) |
| Operating profit | | 275,681,136 | 545,989,358 |
| Profit in associated companies | 9 | 2,488,107 | 1,647,203 |
| Net financial costs | 10 | (50,964,237) | (92,269,021) |
| Profit before tax | | 227,205,006 | 455,367,540 |
| Income tax | 11 | (62,898,078) | (56,884,863) |
| Net profit for the year | | 164,306,928 | 398,482,677 |
| Retained earnings for the year | | | |
| Attributable to Semapa's shareholders | | 91,399,271 | 334,026,873 |
| Attributable to minority interests | 13 | 72,907,657 | 64,455,804 |
| Earnings per share | | | |
| Basic earnings per share (Euros) | 12 | 0.791 | 2.889 |
| Diluted earnings per share (Euros) | 12 | 0.791 | 2.889 |

CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2006 AND 2005

| Amounts in € | Notes | 31-12-2006 | 31-12-2005 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Goodwill | 15 | 334,524,956 | 331,502,916 |
| Other intangible assets | 16 | 168,997,827 | 225,451,468 |
| Property, plant and equipment | 17 | 1,852,260,296 | 1,946,945,548 |
| Investment properties | 18 | 363,907 | 379,902 |
| Biological assets | 19 | 123,295,452 | 136,238,875 |
| Investments in associated companies | 20 | 41,455,988 | 46,138,309 |
| Available-for-sale financial assets | 21 | 79,230,810 | 18,584,241 |
| Deferred tax assets | 28 | 66,187,428 | 92,143,526 |
| Other non-current assets | | 3,533,748 | 1,719,763 |
| | | 2,669,850,412 | 2,799,104,548 |
| Current assets | | | |
| Inventories | 23 | 171,224,461 | 184,361,145 |
| Receivables and other current assets | 24 | 354,023,377 | 329,874,571 |
| State and other public entities | 25 | 34,650,137 | 48,297,866 |
| Cash and cash equivalents | 31 | 306,130,212 | 213,351,690 |
| | | 866,028,187 | 775,885,272 |
| Total Assets | | 3,535,878,599 | 3,574,989,820 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 26 | 118,332,445 | 118,332,445 |
| Tresury shares | 26 | (10,399,412) | (10,399,412) |
| Share premiums | | 3,923,459 | 3,923,459 |
| Accumulated exchange adjustments | 27 | (9,359,315) | (3,671,963) |
| Fair value reserves | 27 | 22,532,476 | 58,609 |
| Other reserves | 27 | 550,385,918 | 270,268,242 |
| Retained earnings | 27 | (29,812,510) | (11,044,472) |
| Retained earnings for the year | | 91,399,271 | 334,026,873 |
| Shareholder's equity | | 737,002,332 | 701,493,781 |
| Minority interests | 13 | 525,275,087 | 542,403,235 |
| Total equity | | 1,262,277,419 | 1,243,897,016 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 28 | 313,834,584 | 316,973,323 |
| Pensions and other post-employment benefits | 29 | 151,214,038 | 156,819,936 |
| Provisions | 30 | 37,105,479 | 7,470,531 |
| Interest-bearing liabilities | 31 | 1,324,378,845 | 1,289,105,052 |
| Other liabilities | 1.2 | 23,879,161 | 34,560,488 |
| | | 1,850,412,107 | 1,804,929,330 |
| Current liabilities | | | |
| Interest-bearing liabilities | 31 | 67,837,778 | 146,631,771 |
| Payables and current liabilities | 32 | 288,271,418 | 336,977,379 |
| State and other public entities | 25 | 67,079,877 | 42,554,324 |
| | | 423,189,073 | 526,163,474 |
| Total liabilities | | 2,273,601,180 | 2,331,092,804 |
| Total equity and liabilities | | 3,535,878,599 | 3,574,989,820 |

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR THE YEAR

AS OF DECEMBER 31, 2006 and 2005

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|--------------------|--------------------|
| Fair value of derivative financial instruments | 9,542,506 | (2,367,182) |
| Fair value of available-for-sale financial investments | 16,893,140 | 2,096,986 |
| Foreign currency translation differences | (11,191,019) | 4,057,416 |
| Actuarial gains and losses | 308,517 | (16,520,673) |
| Tax on items directly included in equity | (1,890,708) | 5,194,160 |
| Profit directly recognized in equity | 13,662,436 | (7,539,293) |
| Retained earnings for the year without minority interests | 164,306,928 | 398,482,677 |
| Total recognized income and expenses for the year | 177,969,364 | 390,943,384 |
| Attributable to: | | |
| Semapa's shareholders | 110,464,409 | 328,694,352 |
| Minority interests | 67,504,955 | 62,249,032 |
| | 177,969,364 | 390,943,384 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FROM JANUARY 1, 2005 TO DECEMBER 31, 2006

| | Note | Share capital | Treasury shares | Share premiums | Fair value reserves | Other reserves | Currency translation reserves | Retained earnings | Retained earnings for the year | Total |
|--|------|--------------------|---------------------|------------------|---------------------|--------------------|-------------------------------|---------------------|--------------------------------|--------------------|
| Equity as of December 31, 2004 | | 118,332,445 | (10,399,412) | 3,923,459 | (857,185) | 114,900,321 | (5,816,586) | (23,358,682) | 189,419,074 | 386,143,434 |
| Currency translation differences: | | | | | | | | | | |
| - Subsidiaries | | - | - | - | - | - | 524,315 | - | - | 524,315 |
| - Associates | | - | - | - | - | - | 1,536,541 | - | - | 1,536,541 |
| Transfer of realised revaluation reserves | | - | - | - | - | - | 83,767 | (83,767) | - | - |
| Application of net profit for 2004: | | | | | | | | | | |
| - Transfer to reserves | | - | - | - | - | 156,957,153 | - | 19,445,352 | (176,402,505) | - |
| - Dividends paid | | - | - | - | - | - | - | - | (13,016,569) | (13,016,569) |
| Dividends paid by subsidiaires to minority interests | | - | - | - | - | - | - | - | - | - |
| Changes in actuarial assumptions* | | - | - | - | - | - | - | (7,311,324) | - | (7,311,324) |
| Fair value of financial instruments* | | - | - | - | (1,970,460) | - | - | - | - | (1,970,460) |
| Fair value of available-for-sale financial assets* | | - | - | - | 1,069,463 | - | - | - | - | 1,069,463 |
| Change in consolidation perimeter | | - | - | - | 1,816,791 | - | - | - | - | 1,816,791 |
| Application of IFRIC 4 to Soporgen - Reexpression | | - | - | - | - | (1,624,359) | - | - | (157,593) | (1,781,952) |
| Dividends distributed to subsidiary Seminv, SGPS, SA | | - | - | - | - | - | - | 300,683 | - | 300,683 |
| Other movements | | - | - | - | - | 35,127 | - | (36,734) | - | (1,607) |
| Net profit for the year | | - | - | - | - | - | - | - | 334,184,466 | 334,184,466 |
| Equity as of December 31, 2005 | | 118,332,445 | (10,399,412) | 3,923,459 | 58,609 | 270,268,242 | (3,671,963) | (11,044,472) | 334,026,873 | 701,493,781 |
| Currency translation differences: | | | | | | | | | | |
| - Subsidiaries | | - | - | - | - | - | (5,687,352) | - | - | (5,687,352) |
| Application of net profit for 2005: | | | | | | | | | | |
| - Transfer to reserves | 14 | - | - | - | - | 280,117,676 | - | 4,209,570 | (284,327,246) | - |
| - Dividends paid | 14 | - | - | - | - | - | - | - | (49,699,627) | (49,699,627) |
| Change in consolidation perimeter | | - | - | - | - | - | - | - | - | - |
| Dividends paid by subsidiaires to minority interests | | - | - | - | - | - | - | - | - | - |
| Changes in actuarial assumptions* | | - | - | - | - | - | - | 2,276,775 | - | 2,276,775 |
| Fair value of available-for-sale financial assets* | | - | - | - | 17,616,685 | - | - | - | - | 17,616,685 |
| Fair value of financial instruments* | | - | - | - | 4,857,182 | - | - | - | - | 4,857,182 |
| Acquisition differences to minority interests | 27 | - | - | - | - | - | - | (26,525,335) | - | (26,525,335) |
| Dividends distributed to subsidiary Seminv, SGPS, SA | | - | - | - | - | - | - | 1,145,750 | - | 1,145,750 |
| Other movements | | - | - | - | - | - | - | 125,202 | - | 125,202 |
| Net profit for the year | | - | - | - | - | - | - | - | 91,399,271 | 91,399,271 |
| Equity as of December 31, 2006 | | 118,332,445 | (10,399,412) | 3,923,459 | 22,532,476 | 550,385,918 | (9,359,315) | (29,812,510) | 91,399,271 | 737,002,332 |

CONSOLIDATED CASH FLOW STATEMENT

AS OF DECEMBER 31, 2006

| Amounts in € | Notes | 2006 | | | |
|--|-------|---------------|---------------|---------------|-----------------|
| | | Cement | Paper | Holding | Total |
| OPERATING ACTIVITIES | | | | | |
| Received from customers | | 546,105,443 | 1,053,123,002 | - | 1,599,228,445 |
| Payments to suppliers | | (341,031,512) | (655,413,557) | (2,869,136) | (999,314,205) |
| Payments to employees | | (50,092,479) | (103,997,306) | (20,767,100) | (174,856,885) |
| Cash flow generated from operations | | 154,981,452 | 293,712,139 | (23,636,236) | 425,057,355 |
| (Payments)/receipts from income tax | | 4,323,052 | 3,939,352 | 327,687 | 8,590,091 |
| Other (payments)/receipts from operating activities | | (68,149,077) | 46,959,696 | (5,699,713) | (26,889,094) |
| Cash flows from operating activities (1) | | 91,155,427 | 344,611,187 | (29,008,262) | 406,758,352 |
| INVESTMENT ACTIVITIES | | | | | |
| Receipts relating to: | | | | | |
| Financial investments | | 29,843,293 | - | 8,774,217 | 38,617,510 |
| Property, plant and equipment | | 2,764,227 | 3,255,574 | - | 6,019,801 |
| Subsidies to investment | | 71,982 | - | - | 71,982 |
| Interest and similar income | | 1,007,284 | 18,764,019 | 656,800 | 20,428,103 |
| Dividends | | 2,079,559 | - | 689,148 | 2,768,707 |
| | | 35,766,345 | 22,019,593 | 10,120,165 | 67,906,103 |
| Payments relating to: | | | | | |
| Financial investments | | (1,932,964) | - | (77,452,159) | (79,385,123) |
| Cash and cash equivalents per change in the perimeter | | 1,091,916 | - | - | 1,091,916 |
| Property, plant and equipment | | (32,700,315) | (21,706,834) | (157,305) | (54,564,454) |
| | | (33,541,363) | (21,706,834) | (77,609,464) | (132,857,661) |
| Cash flows from investment activities (2) | | 2,224,982 | 312,759 | (67,489,299) | (64,951,558) |
| FINANCING ACTIVITIES | | | | | |
| Receipts relating to: | | | | | |
| Borrowings | | 500,017,085 | - | 575,009,696 | 1,075,026,781 |
| | | 500,017,085 | - | 575,009,696 | 1,075,026,781 |
| Payments relative to: | | | | | |
| Borrowings | | (550,543,319) | (77,335,039) | (542,325,964) | (1,170,204,322) |
| Leasing contracts | | (458,053) | (474,441) | - | (932,494) |
| Interest and similar expense | | (9,723,924) | (43,454,011) | (19,763,045) | (72,940,980) |
| Dividends | | (17,031,707) | (13,255,046) | (48,553,877) | (78,840,630) |
| | | (577,757,003) | (134,518,537) | (610,642,886) | (1,322,918,426) |
| Cash flows from financing activities (3) | | (77,739,918) | (134,518,537) | (35,633,190) | (247,891,645) |
| CHANGES IN CASH AND CASH EQUIVALENTS (1) + (2) +(3) | | | | | |
| EFFECT OF DIFFERENCES IN EXCHANGE RATES | | 15,640,491 | 210,405,409 | (132,130,751) | 93,915,149 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | (1,136,627) | - | - | (1,136,627) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 31 | 42,523,563 | 89,521,261 | 81,306,866 | 213,351,690 |
| | | 57,027,427 | 299,926,670 | (50,823,885) | 306,130,212 |

CONSOLIDATED CASH FLOW STATEMENT

AS OF DECEMBER 31, 2005

| Amounts in € | Notes | 2005 | | | | |
|---|-----------|----------------------|----------------------|----------------------|----------------------|------------------------|
| | | Cement | Paper | Energy | Holding | Total |
| OPERATING ACTIVITIES | | | | | | |
| Received from customers | | 526,489,106 | 1,035,443,745 | 45,253,552 | - | 1,607,186,403 |
| Payments to suppliers | | (304,751,209) | (651,584,896) | (12,217,301) | (2,853,989) | (971,407,395) |
| Payments to employees | | (51,861,814) | (121,196,084) | (4,767,842) | (18,595,060) | (196,420,800) |
| Cash flow generated from operations | | <u>169,876,083</u> | <u>262,662,765</u> | <u>28,268,409</u> | <u>(21,449,049)</u> | <u>439,358,208</u> |
| (Payments)/receipts from income tax | | (16,539,082) | 29,057,381 | (3,493,400) | (1,515,683) | 7,509,216 |
| Other (payments)/receipts from operating activities | | (99,382,934) | (17,300,030) | (1,687,977) | (2,418,741) | (120,789,682) |
| Cash flows from operating activities (1) | | 53,954,067 | 274,420,116 | 23,087,032 | (25,383,473) | 326,077,742 |
| INVESTMENT ACTIVITIES | | | | | | |
| Receipts relating to: | | | | | | |
| Financial investments | | 5,044,839 | - | 1,739,490 | 434,330,536 | 441,114,865 |
| Cash and cash equivalents per change in the perimeter | | - | - | (16,579,171) | 16,579,171 | - |
| Property, plant and equipment | | 2,100,508 | 4,296,764 | 1,763,151 | 1,000 | 8,161,423 |
| Subsidies to investment | | - | 1,065,397 | 533,911 | - | 1,599,308 |
| Interest and similar income | | 815,726 | 2,273,541 | 152,243 | 504,361 | 3,745,871 |
| Dividends | | 4,590,567 | 154,800 | - | 132,996 | 4,878,363 |
| | | <u>12,551,640</u> | <u>7,790,502</u> | <u>(12,390,376)</u> | <u>451,548,064</u> | <u>459,499,830</u> |
| Payments relating to: | | | | | | |
| Financial investments | | (12,798,035) | (335,806) | (10,857,855) | (6,000,000) | (29,991,696) |
| Property, plant and equipment | | (48,746,390) | (85,602,428) | (193,578,412) | (678,705) | (328,605,935) |
| | | <u>(61,544,425)</u> | <u>(85,938,234)</u> | <u>(204,436,267)</u> | <u>(6,678,705)</u> | <u>(358,597,631)</u> |
| Cash flows from investment activities (2) | | (48,992,785) | (78,147,732) | (216,826,643) | 444,869,359 | 100,902,199 |
| FINANCING ACTIVITIES | | | | | | |
| Receipts relating to: | | | | | | |
| Borrowings | | 628,793,901 | 727,505,736 | 197,230,368 | 48,408,667 | 1,601,938,672 |
| Capital increases and supplementary capital contributions | | 40,500 | - | - | - | 40,500 |
| | | <u>628,834,401</u> | <u>727,505,736</u> | <u>197,230,368</u> | <u>48,408,667</u> | <u>1,601,979,172</u> |
| Payments relative to: | | | | | | |
| Borrowings | | (581,083,830) | (843,246,600) | (194,191) | (407,012,480) | (1,831,537,101) |
| Leasing contracts | | (214,710) | (47,931) | - | - | (262,641) |
| Interest and similar expense | | (14,875,903) | (34,151,043) | (5,857,115) | (29,580,783) | (84,464,844) |
| Dividends | | (11,279,522) | (9,368,405) | (292,624) | (12,716,492) | (33,657,043) |
| | | <u>(607,453,965)</u> | <u>(886,813,979)</u> | <u>(6,343,930)</u> | <u>(449,309,755)</u> | <u>(1,949,921,629)</u> |
| Cash flows from financing activities (3) | | 21,380,436 | (159,308,243) | 190,886,438 | (400,901,088) | (347,942,457) |
| CHANGES IN CASH AND CASH EQUIVALENTS (1) + (2) + (3) | | | | | | |
| EFFECT OF DIFFERENCES IN EXCHANGE RATES | | 26,341,718 | 36,964,141 | (2,853,173) | 18,584,798 | 79,037,484 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 122,494 | - | - | - | 122,494 |
| PROVISIONS FOR SHARES AND FINANCIAL APPLICATIONS | | 30,165,922 | 76,546,531 | 2,853,173 | 24,619,682 | 134,185,308 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 31 | 56,630,134 | 113,510,672 | - | 43,210,885 | 213,351,691 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Translation from a report original issued in Portuguese)

(Amounts expressed in euros unless otherwise indicated)

The SEMAPA Group ("Group") comprises Semapa – Sociedade de Investimento e Gestão, SGPS, S.A. ("Semapa") and subsidiaries. Semapa was incorporated on June 21, 1991 and has as its main object the management of financial investments in other companies as an indirect form of carrying out economic activity.

Head office: Av. Fontes Pereira de Melo, 14, Lx

Share Capital: €18,332,445

N.I.P.C.: 502 593 130

Semapa leads an Enterprise Group with activities in two distinct business segments: cements and related products and pulp and paper developed respectively under the edge of Secil - Companhia Geral de Cal e Cimento, S.A. and Portucel - Companhia Produtora de Pasta e Papel, S.A., and respective subsidiaries.

Until December 2005, the Group still engaged in the generation of electric energy from renewable sources through Enersis II - Sociedade Gestora de Participações Sociais, S.A. and respective subsidiaries.

In December 2005, the Group disposed of its stake in Enersis II - Sociedade Gestora de Participações Sociais, S.A. through its subsidiary CMP B.V., representing 89.92% of the company's shareholder's equity.

The comparative consolidated income statement ended December 31, 2006 was restated, therefore net profit for the year of this sub-group was included in a different line "Discontinued operational units" (assets held for sale as established by IFRS 5).

In accordance with Decree-Law 143/2006, published on July 28, the Portuguese Government defined the third phase model of Portucel's privatization, which engaged the disposal of 25.72% Portucel's share capital, through a public offer for sale on November 14, 2006, after which the company was fully privatized.

The consolidated financial statements have been approved by the Board of Directors on February 27, 2007.

1. Summary of main accounting policies

The main accounting policies applied in the preparation of the consolidated financial statements are set out below.

1.1 Basis of preparation

The Group's consolidated financial statements for the year ended December 31, 2006 and 2005 have been prepared in accordance with the IAS 34 – Interim Financial Reporting.

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS – formerly referred to as the International Accounting Standards - IAS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC) in force on the date of preparation of the mentioned financial statements.

The International Financial Reporting Standards (IFRS) have been adopted for the first time in 2005, so that the date of transition of Portuguese accounting principles to that standard was January 1, 2004, as established by IFRS 1 - First-time Adoption of the International Financial Reporting Standards.

The attached consolidated financial statements were prepared on the assumption of continuity of operations, from the accounting books and records of the companies included in the consolidation (Note 46), and based on historic cost, except for biological assets, held-for-sale assets and financial instruments that are shown at fair value (Notes 19, 21 and 33).

The preparation of the financial statements requires the use of estimates and relevant judgments when implementing the Group's accounting policies. The principal assertions involving a higher degree of judgment or complexity, or the most significant estimates and assumptions for the preparation of the mentioned financial statements are disclosed in Note 3.

1.2 Changes in accounting policies

During the year ended December 31, 2006, the Group changed the accounting policies related to i) recognition of CO2 emission rights and ii) the recognition of the agreements that contain a lease as established by IFRIC 4 – Determining whether an Arrangement contains a Lease.

The IFRIC 4 was applied to the agreement regarding the supply of electric energy made by the subsidiary Soporcel with Soporgen (company in which the Group holds a 8% stake), company of the co-generation of EDP Group founded in 1999, with the purpose of ensuring the supply of electric energy to the subsidiary.

The impacts correspond to the restated of the consolidated balance sheet December 31, 2005 as follows:

| Amounts in € | Soporgen IFRIC 4 | CO2 emission licenses |
|--------------------------|---------------------|--------------------------|
| Assets | | |
| Intangible assets | - | 73,934,383 |
| Tangible fixed assets | 26,402,370 | - |
| Deferred tax | 1,007,378 | - |
| Total Assets | 27,409,748 | 73,934,383 |
| Equity | | |
| Retained earnings | (2,420,945) | - |
| Net profit for the year | (157,593) | - |
| Minority interests | (77,284) | - |
| Total Equity | (2,655,822) | - |
| Liabilities | | |
| Current liabilities | - | 73,934,383 |
| Other liabilities | 30,065,570 | - |
| Total Liabilities | 30,065,570 | 73,934,383 |

The impacts of the consolidated income statement restated for the year ended December 31, 2006 are as follows:

| Amounts in € | 31-12-2005 | Restated impacts | | | Restated 31-12-2005 |
|--|--------------------|------------------|--------------|---------------------|------------------------|
| | | IFRIC 4 | CO2 | Act. Descont. | |
| Revenues | 1,529,714,937 | - | - | (39,489,110) | 1,490,225,827 |
| Other income | 445,829,653 | - | 62,512,275 | (8,630,732) | 499,711,196 |
| Costs | (1,248,665,901) | 4,119,866 | (62,512,275) | 14,968,774 | (1,292,089,536) |
| Discontinued operational units | - | - | - | 3,825,622 | 3,825,622 |
| Depreciations, amortizations and impairment lo | (169,080,738) | (2,933,597) | - | 16,330,584 | (155,683,751) |
| Operating profit | 557,797,951 | 1,186,269 | - | (12,994,862) | 545,989,358 |
| Profit in associated companies | 1,639,816 | - | - | 7,388 | 1,647,204 |
| Net financial costs | (100,654,043) | (1,510,234) | - | 9,895,256 | (92,269,021) |
| Profit before tax | 458,783,724 | (323,965) | - | (3,092,218) | 455,367,541 |
| Income tax | (60,066,170) | 89,090 | - | 3,092,218 | (56,884,862) |
| Net profit for the year | 398,717,554 | (234,875) | - | - | 398,482,679 |
| Retained earnings for the year | | | | | |
| Attributable to Semapa's shareholders | 334,184,466 | (157,592) | - | - | 334,026,874 |
| Attributable to minority interests | 64,533,088 | (77,283) | - | - | 64,455,805 |
| Earnings per share | | | | | |
| Basic earnings per share (Euros) | 2.891 | (0.001) | - | - | 2.889 |
| Diluted earnings per share (Euros) | 2.891 | (0.001) | - | - | 2.889 |

The gains and losses after taxes for the year ended December 31, 2006 of the subsidiary disposed in the second half of 2005, Enersis II, were transferred to a separate line classified as Discontinued operational units, as consequence of IFRS 5 application.

1.3 Basis of consolidation

1.3.1 Subsidiaries

Subsidiaries are all entities over which the Group has the power of decision on all financial and operating policies, generally accompanying a shareholding of more than 50% of voting rights. The existence and the effect of potential voting rights, whether exercisable or convertible are taken into consideration when it is determined whether the Group exercises control over another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date on which control ceases.

On the consolidated balance sheet, the shareholders' equity and net earnings of these companies that are attributable to the holdings of third parties are shown in shareholders' equity and consolidated income statement under the minority interest headings. Companies included in the consolidated financial statements are disclosed in Note 46.

In order to account for the acquisition of subsidiaries by the Group, the purchase method is used. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on acquisition date, irrespectively of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill, as shown in Note 15.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired (negative goodwill), the difference is recognised directly in the income statement in the caption "Other operating income".

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are equally excluded unless the transaction provides evidence of an impairment of the asset transferred.

Certain financial investments in subsidiaries, that are considered immaterial, are recorded by the equity method under the caption "Investments in associated companies" and are disclosed in Note 47.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.3.2 Associates

Associates are all entities over which the Group has significant influence but no control, generally

representing a stake between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method.

According to the equity method, financial holdings are recognised at acquisition cost, adjusted by the amount corresponding to the Group's share of changes in shareholders' equity (including net profit) of the associates, as an offset to the profits or losses of the period, and dividends received.

The difference between the acquisition cost and the fair value of the assets and liabilities attributable to the associate on acquisition date, is – if positive - recognised as goodwill and registered as an investments in associates. If negative, goodwill is recorded as income for the period under the caption "Profit in associated companies".

Investments in associated companies are subject to valuation if there is evidence that the asset could be impaired; the impairment losses equally existing under this caption are then recorded as costs. When impairment losses recognised in prior periods cease to exist, they are subject to reversal.

When the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains in transactions with associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred.

The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The investments in associates are disclosed in Note 20.

1.3.3 Joint Ventures

A joint venture is the joining of two or more corporate bodies to conduct a specific business enterprise. A joint venture is similar to a partnership in that it must be created by agreement between the parties to share in the losses and profits of the venture.

The jointly controlled entities are included in the consolidated financial statements under the proportional consolidation method, indicating line after line assets, liabilities and income and expenses of the jointly controlled ventures.

1.4 Segmental reporting

A *business segment* is a group of assets and operations of the Group representing risks and returns that differ from those of other business segments.

Three business segments have been identified: pulp and paper, cement & derivatives.

Pulp and Paper

Portucel – Empresa Produtora de Pasta e Papel, S.A. is the subsidiary acquired in 2004, that leads the Enterprise Group dedicated to the production and sale, in Portugal as well as in Germany, Spain, France, Italy, United Kingdom, Netherlands, Austria, among other of small relevance, of cellulose pulp and paper and its related products purchase of wood, forest and agricultural production, cutting timber and sale of pulp and paper, activities developed in Portugal mainly by itself and its subsidiaries Soporcel – Sociedade Portuguesa de Papel, S.A. and Portucel Florestal, S.A., among others.

Cement and derivatives

Secil - Companhia Geral de Cal e Cimento, S.A. is the subsidiary that leads the Enterprise Group of cements and related products which operates in Portugal, Tunisia, Spain, Angola, Netherlands, Luxemburg, France, Lebanon and Cape Verde with cement production, taking place at the Maceira, Pataias, Gabés (Tunisia) and Lobito (Angola) plants and the production and sale of premixed concrete and clay and the operations of quarries facilities via its subsidiaries, which fall under the sub-holding Secil Betões e Inertes, SGPS S.A..

Geographical segment

Geographical segment is an individualized area committed to supplying products and services in a particular economical environment which is subject to different risks and benefits from those of segments that operate in other economical environment. The Geographical segment is defined considering the destination country of goods and services sold by the Group.

Segment reporting accounting policies are the same of those used consistently in the Group. All the intra-segments sales and services rendered are performed at market prices and eliminated by consolidation process.

The segment information is disclosed in Note 4.

1.5 Foreign currency translation

1.5.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

The consolidated financial statements are presented in euros, which is the Group's functional and presentation currency.

1.5.2 Balances and transactions expressed in foreign currencies

All Group's assets and liabilities expressed in foreign currencies have been converted to euros at official exchange rates on balance sheet date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement for the year.

1.5.3 Group companies

Income and financial position of Group entities that have a different functional currency are converted into the disclosure currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- (ii) Income and expenses for each income statement are translated at the average exchange rate for the reporting year (unless this average exchange rate is not a reasonable approximation of the cumulative effect of rates prevailing on transaction dates, in which case the income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised as a separate equity component, under the caption "Currency translation reserves".

1.6 Intangible assets

With the exception of CO2 emission rights, intangible assets are recognised at acquisition cost, less amortization by the straight-line method over a year varying between 3 and 5 years and impairment losses.

1.6.1 CO2 emission rights

COS emission licenses assigned to the Group within the framework of the National Plan for the Assignment of CO2 Emission Licenses on a gratuitous basis, are recorded under the intangible assets heading at market value as of date of assignment, by offset to a liability,

under the Deferred income – subsidies heading, in the same amount.

For the Group's CO2 emissions, an operating cost is posted as an offset to a liability and an item of operating income arising from recognition of that position of the respective subsidy.

Sales of emission rights rise to a profit or loss, representing the difference between the value on realization and the respective purchase price, less the respective State subsidy, which is recorded as Other operating income and gains or Other operating costs, respectively.

1.6.2 Brands

Whenever brands are identified in a concentration of business activities, the Group accords them separate recognition in the consolidated statement as an asset valued at cost, which represents their value on date of acquisition.

On subsequent valuation, brands are shown in the Group's consolidated statements at cost less accumulated amortization and impairment losses.

1.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets and liabilities of the acquired subsidiary/associate at the date of acquisition.

Goodwill is not amortized and is tested annually for impairment. Impairment losses relative to goodwill cannot be reversed.

Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to that entity.

In the acquisition of additional share capital of controlled entities, the excess between the proportion of net assets and respective acquisition cost is directly recognized in Equity under the caption retained earnings (Note 27).

1.8 Property, plant and equipment

Property, plant and equipment acquired up to January 1, 2004 (date of transition to IFRS) are recorded at cost, or acquisition cost (revaluated) in accordance with accounting principles generally accepted in Portugal up to that date, less depreciation and accumulated impairment losses.

As regards the subsidiaries CMP, Société des Ciments de Gabés (SCG), Portucel and Soporcel, costs of tangible assets at acquisition date of these subsidiaries resulted from an independent economic evaluation.

Property, plant and equipment acquired after transition date are shown at cost, less depreciation and impairment losses. Acquisition cost includes all

expenditures directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, in case that future economic benefits are probable and the respective cost can be reliably measured. All other repair and maintenance costs are recognised in the income statement in the year they occurred.

Depreciation is calculated at acquisition cost, using the straight-line method from the date the asset is put into operation, at rates that best reflect their estimated useful life, as follows:

| | Average years of useful life |
|-------------------------------------|---------------------------------|
| Land | 14 |
| Buildings and other constructions | 12 – 30 |
| Equipment: | |
| Machinery and equipment | 6 – 25 |
| Transportation equipment | 5 - 9 |
| Tools and utensils | 2 - 8 |
| Office equipment | 4 - 8 |
| Returnable containers | 6 |
| Other property, plant and equipment | 4 - 10 |

The assets' residual values and useful lives are reviewed and adjusted at each balance sheet date. In case the assets' carrying amount exceeds the recoverable value of the asset, the difference to its estimated recoverable value is recorded as impairment loss (Note 1.10).

Gains or losses arising from write-downs or disposals are determined by the difference between the proceeds of disposals and the asset's book value and are recognised in the income statement as other operating income or costs.

1.9 Investment properties

Investment properties are measured at acquisition cost less depreciation and impairment losses, being the cost for those acquired up to January 1, 2004 (date of transition to IFRS) the historical acquisition cost, or the revalued cost in accordance with generally accounting accepted principles in Portugal up to that date.

1.10 Impairment of non-current assets

Non-current assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the

higher of an asset's fair value, less any expenses related to the sale and its useful amount. For impairment testing purposes, assets are classified at the lowest level for which cash flows can be separately identified (cash generating units), if not possible to do so for each asset on an individual basis.

Impairment losses recognised in prior years are reversed when there is evidence that these impairment losses no longer exist or decreased. (Except for goodwill impairment – see Note 1.7).

This analysis is performed whenever there is evidence that the impairment loss previously recognised has been reversed. The reversal of impairment losses is recognised in the income statement under the caption "Other operating income", unless the asset has been subject to revaluation, under which case the reversal would represent an increase in the revaluation amount. However, an impairment loss is only reversed up to the amount that would have been recognised (net of amortization or depreciation) if impairment had not been recognised in prior years.

1.11 Biological assets

Biological assets are measured at fair value, less estimated costs of sale at time of harvesting. The Group's Biological assets comprise the forests held for the production of timber, capable of incorporating the pulp production process.

When calculating the fair value of the forests, the Group used the discounted cash flows (expected) method, based on a model which was developed in house, and which took into account assumptions about the nature of the assets being valued, namely, the expected yield of the forests, the timber selling price deducted by costs relating to felling and transportation, and also considering plantation costs, maintenance costs and a discount rate.

The discount rate was determined on the basis of the Group's expected rate of return on its forests.

Fair value adjustments resulting in changes in estimates of growth, logging period, price, cost and other assumptions are recognised as operating income/ (costs).

At the time of logging, wood is recognised at fair value less estimated costs at point of sale.

1.12 Financial investments

The Group classifies its investments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

All acquisitions and disposals of these investments are recognised on the date of signature of the respective contracts of purchase and sale, regardless of the date of settlement.

Investments are first recognised at their acquisition cost; the fair value is equal to the price paid, including transaction costs. Thereafter, measurement will depend on the caption in which the investment is placed, as follows:

Loans and receivables

Loans granted and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturity greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans granted and receivables are included in Receivables and other current assets in the balance sheet.

Financial assets at fair value through profit and loss

This caption has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified under this caption if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current if they either are held for trading or are expected to be realised within 12 months of the balance sheet date. These assets are measured at fair value through the income statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Investments in this category are recorded at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other categories.

They are included in non-current assets, unless management intend to dispose of the investment within 12 months of the balance sheet date (Note 21).

These financial investments are recognised at market value, as quoted on balance sheet date.

If the market of a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash-flows analysis and option pricing models refined to reflect issuer's specific circumstances.

Potential capital gains and losses thus resulting are recorded directly in fair value reserves until the financial investment is sold, received, or disposed of in any way, at which time the accumulated gain or loss formerly reflected in shareholders' equity is taken to the income statement (Note 27).

If there is no market value or if it is not possible to determine one, the investments in question are held at acquisition cost. They are provisioned against loss of value when justified.

The Group assesses at each balance sheet date whether there is objective evidence that the financial asset or group of financial assets is impaired. If a prolonged decline in fair value of the available-for-sale financial assets takes place, the cumulative loss – measured as the difference between acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement.

A recognised impairment loss on available-for-sale financial assets is reversed if the loss was caused by specific external events of an exceptional nature that are not expected to recur but which subsequent external events have reversed; under these circumstances, reversal does not affect the income statement, the asset's subsequent positive fluctuation thus being taken to the fair value reserves.

1.13 Derivative financial instruments

The Group uses derivative financial instruments with the aim of managing the financial risks to which it is exposed.

Whenever expectations of changes in interest or exchange rates so justify, the Group seeks to hedge against adverse movements through derivative instruments, such as interest rate swaps (IRS), caps and floors, forwards, etc.

In the selection of derivative financial instruments, it is their economic aspects that are the main focus of assessment.

Transactions that qualify as cash-flow hedges are recognised in the balance sheet at fair value. To the extent that they are considered efficacious hedges, changes in the fair value of IRS are initially recorded as an offset to shareholders' equity and subsequently reclassified under the caption "net financial income - Commissions and losses in financial instruments".

Accordingly, in net terms, costs associated with hedged financings are accrued at the inherent hedging transaction rate contracted. Gains or losses arising from the premature rescission of this type of instrument are taken to the income statement at the time they arise.

Although the derivatives contracted by the Group represent effective instruments for the coverage of business risks, not all of them qualify as hedging instruments in accounting terms to satisfy the rules and requirements of IAS 39. Instruments that do not qualify as hedging instruments in accounting terms are stated on the balance sheet at fair value and changes are recognised in "Commissions and losses in financial instruments" (Note 10).

Whenever possible, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash-flow method and option valuation models, in accordance with prevailing market assumptions. The fair value of the derivatives financial instruments is included essentially in Receivables and other current assets and Payables and other current liabilities.

1.14 Income tax

Income tax includes current and deferred taxes. Current income tax is determined on the basis of net profit, adjusted in accordance with tax law prevailing on balance sheet date.

Deferred tax is calculated on the basis of the liability shown on the balance sheet, on temporary differences between the book value of assets and liabilities and the respective tax base. To determine the deferred tax, the tax rate used is that expected to prevail in the period during which the temporary differences will be reversed.

Deferred taxes are recognised as assets whenever there is a reasonable assurance that earnings will be generated in the future, against which they can be used.

Deferred tax assets are reviewed periodically and revised downwards whenever it no longer appears probable that they can be used.

Deferred taxes are recorded as a cost or profit for the period, except if they arise from amounts recorded directly in the equity, in which case the deferred tax is also recorded under the same heading.

1.15 Inventories

Inventories are valued according to the following criteria:

i) Goods and raw materials

Goods and raw materials are valued at the lower of acquisition cost and net realizable value. Acquisition cost includes expenses incurred up to arrival of goods

at the warehouse, using the weighted average cost as the cost method.

ii) Finished and intermediate products and work in progress

Finished and intermediate products and work in progress are valued at the lower of production cost (which includes the cost of raw materials, labour and general factory costs, based on the normal production level) and the net realizable value.

The net realizable value represents the estimated selling price less estimated finishing and marketing costs. Differences between cost and net realizable value, if lower, are recorded as sold and consumed inventories.

1.16 Receivables and other current assets

Receivables and other current assets are recorded at nominal value less impairment losses necessary to place them at their expected net realizable value. (Note 24)

Impairment losses are recorded when there is objective evidence that the Group will not receive all amounts owed in accordance with the original conditions of the respective credit sale.

1.17 Cash and cash equivalents

The cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term investments with original maturities of 3 months or less, which can be mobilized immediately without any significant risk of fluctuations in value. For the purposes of the cash flow statement, this heading also includes bank overdrafts, which are shown within Interest-bearing liabilities in current liabilities on the balance sheet.

1.18 Share capital and treasury shares

Ordinary shares are classified as equity. (Note 26)

Incremental costs directly attributed to the issue of new shares or other equity instruments are shown in equity as a deduction, net of tax, from the value received as a result of the issuance.

Costs directly imputable to the issuance of new shares or options, for the acquisition of a business are included in the acquisition costs, as a part of the value of the acquisition.

When a Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity

attributable to the holding's shareholders until the shares are cancelled, reissued or disposed of.

When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's shareholders under reserves.

1.19 Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value, net of transaction costs incurred. Interest-bearing liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the debt, using the effective interest rate method.

Interest-bearing liabilities are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. (Note 31)

1.20 Borrowing costs

Borrowing costs are generally recognised as financial costs, in accordance with the accrual principle. (Note 10)

Borrowing costs directly related to the acquisition, construction, or fixed assets production, are capitalized, to form part of the asset's cost.

Capitalization of these charges begins once preparations are started for the construction or development of the asset and is suspended after its utilization begins or when the respective project is suspended.

Any financial income generated by loans that are directly associated with a specific investment is subtracted from financial charges eligible for capitalization.

1.21 Provisions

Provisions are recognised whenever the Group has a present legal or constructive obligation, as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions for future operating losses are not recognised. Provisions are reviewed on balance sheet date and are adjusted to reflect the best estimate at that date. (Note 30)

The Group incurs expenditure and assumes liabilities of an environmental nature. Accordingly, expenditures on equipment and operating techniques that ensure compliance with applicable legislation and regulations

(as well as on the reduction of environmental impacts to levels that do not exceed those representing a viable application of the best available technologies, on those related to minimizing energy consumption, atmospheric emissions, the production of residues and noise, those established for the execution of plans for environmental rehabilitation are capitalized when they are intended to serve the Group's business in a durable way, as well as those associated with future economic benefits and which serve to prolong life expectancy, increase capacity or improve the safety or efficiency of other assets in Group ownership. (Notes 30 and 36)

Furthermore, the lands used in the exploitation of quarries must be restored to their original state in environmental terms, being the Group's practice to restore spaces freed up by quarries on a continuing and progressive basis, recognizing in the income statement during that same period the expenditures made.

With quarries that can only be restored when exploitation ceases, the Group has requested independent and specialized entities to evaluate those liabilities, as well as the estimated period of exploitation, having recognised for this purpose a provision under the Provision heading (Note 30).

1.22 Pensions and other employee benefits

1.22.1 Pension obligations – defined benefit plans

Some Group subsidiaries have undertaken the responsibility to make payments to their employees under the heading of retirement pension supplements covering oldness, disability, early retirement and survivors' benefits, setting up defined benefit pension plans.

As mentioned in Note 29, the Group has set up autonomous pension funds as a way to finance in part its liabilities for those payments.

In accordance with IAS 19, companies with pension plans recognise the costs of providing these benefits *pari passu* with the services provided by the beneficiaries in their employment.

In this way, the total liability is estimated separately for each plan at least once every six months, on the date of closing of the interim and annual accounts, by a specialized and independent entity in accordance with the projected unit credit method.

Past service costs resulting from the implementation of a new defined benefit plan, or increases in benefits attributed under an existent defined benefit plan are recognised immediately in situations where the benefits are to be paid or are vested.

The liability thus determined is disclosed in the balance sheet, less the market value of the set funds set up under the Pensions and other post-employment benefits heading in non-current liabilities.

Actuarial gains and losses arising from the differences between the assumptions used for the purpose of determining liabilities and those which effectively occurred (as well as of changes made to those actuarial assumptions and the difference between the expected return on the assets of the funds and their actual yield) are recognised when incurred, directly in equity (see Note 1.30.1).

Gains and losses generated by a curtailment or settlement of a defined benefit pension plan are recognised in the income statement when occurred.

A curtailment occurs when there is a material reduction in the number of employees or when the plan is modified in a way that allocated benefits are materially decreased.

1.22.2 Other post-employment benefits

In addition, the Group provides the following post-employment benefits:

Benefits on retirement and death

CMP – Cimentos Maceira e Pataias, S.A., a subsidiary assumed the liability to pay its employees (i) an oldness retirement or disability benefit, which represents three months of the last wage received and (ii) an allowance in the event of the active worker's death, equal to one month of the last wage received.

Long service award

Two subsidiaries, namely Secil – Companhia Geral de Cal e Cimento, S.A. and CMP – Cimentos Maceira e Pataias, S.A. made the following commitments to their workers to pay bonuses: at Secil to those attaining 25, 35 and 40 years of seniority; at CMP, to those attaining 20 and 35 years of seniority, calculated according to their base monthly remuneration, multiplied by 3.

Healthcare benefits

Secil – Companhia Geral de Cal e Cimento, S.A. and CMP – Cimentos Maceira e Pataias, S.A., provide their employees with an healthcare benefit plan of a supplementary nature Health and Social Security system, which covers family members, retirees and widows.

Under this scheme, the costs of certain health care are shared: (i), at Secil, through health insurance contracted by the company and (ii), at CMP, through "Cimentos – Federação das Caixas de Previdência", for covered workers, as well as, subject to the prior approval of the company's medical services, for the remaining workers.

Bonuses

Some Group companies contemplate in their by-laws the distribution to their workers of a portion of the net profit. In this way, the Group recognises the amount of those, which are over and above those provided by the State's responsibilities as a liability by offset to the

income statement for the respective year, when there is a contractual or constructive obligation based on past practice.

1.22.3 Holidays and holiday allowances

In accordance with prevailing legislation, workers are entitled to 25 days holiday each year, as well as one month of holiday allowances, the right to which is acquired in the year preceding payment.

In accordance with the Management performance system, workers are entitled to a compensation benefit defined in the annual objectives, the right to which is acquired in the year preceding payment.

Hence, these liabilities are recorded in the period during which workers acquire the respective entitlement, irrespective of the date of payment, and the balance to be paid as of balance sheet date is shown under the Payables and other current liabilities heading.

1.23 Payables and other current liabilities

The amounts of Payables and other current liabilities are stated at their nominal value. (Note 32)

1.24 Government grants

Grants from the Government are recognised when it becomes certain that the grant will be received and the Group will comply with the respective conditions and that the same will be received.

Grants received for the purpose of compensating the Group for costs incurred, are recorded systematically on the income statement during the periods in which the costs that those grants are intended to cover are recognised.

Grants related to biological assets carried at fair value, in accordance with IAS 41, are recognised in the income statement when the terms and conditions of the award of the grant are met.

Government grants that the Group receives to compensate it for capital expenditures are shown under the Payables and other current liabilities heading and are recognised in the income statement under the other operating income heading throughout the estimated useful life of the related subsidized asset.

1.25 Leases

Property, plant and equipment acquired under financial leases, as well as the respective liabilities are booked by the financial method.

Under this method, the asset is recorded under the Property, plant and equipment heading, the respective liability is recorded in liabilities under the Interest-bearing liabilities heading; the interest component of

lease payments and depreciation of the asset calculated as described in Note 1.8. are recognised as costs of the respective period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, the Group being the lessee, are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on the straight-line basis over the period of the lease.

Leases included in contracts according to IFRIC 4

The Group recognises an operating or financial lease whenever entering an arrangement, comprising a transaction or a series of related transactions, which may not assume the legal form of a lease, that transmits the right to use the asset in return for a payment or series of payments.

1.26 Dividends distribution

Dividend distribution to Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders, up to the time of payment.

1.27 Revenue recognition and the accrual basis

Income from sales is recognised in the consolidated income statement when the risks and benefits inherent to the ownership of the respective assets are transferred to the purchaser and the income can be reasonably quantified.

Sales are recognised net of taxes, discounts and other costs inherent to completion, at the fair value of the sum received or receivable.

Income from services rendered is recognised in the consolidated income statement by reference to the phase of fulfilment of service contracts at balance sheet date.

Dividend income is recognised when the owners or shareholders entitlement to receive payment is established.

Interest receivable is recognised according to the accrual principle, taking into account the amount owed and the effective interest rate during the period to maturity.

Group companies record their costs and income according to the accrual principle, so that costs and income are recognised as they are generated, irrespective of the time at which they are paid or received.

The differences between amounts received and paid and the respective costs and income are stated under

the Receivables and other current assets and Payables and other current liabilities headings (Notes 24 and 32 respectively).

1.28 Contingent assets and contingent liabilities

Contingent liabilities relative to which an outflow of funds to the detriment of future economic benefits is only possible are not recognised in the consolidated financial statements; they are disclosed in the notes to the financial statements unless the possibility of an actual outflow of funds is a remote one, in which case they are not disclosed.

Provisions against liabilities that satisfy the conditions foreseen in Note 1.21 are recognised.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed in the notes to the consolidated financial statements when a future economic benefit is probable.

1.29 Subsequent events

Events subsequent to balance sheet date that provide additional information of conditions existing at balance sheet date are reflected in the consolidated financial statements.

Events subsequent to balance sheet date that provide information on conditions that arose after balance sheet date are disclosed in the notes to the consolidated financial statement, if material

1.30 New IFRS and IFRIC and changes

1.30.1 New standards and amendments with impact on the consolidated financial statements of the Group

IFRIC 4

The European Commission regulation nº 1910/2005, of November 8 adopted IFRIC 4 - Determining whether an arrangement contains a lease interpretation, giving an orientation on how to evaluate if an agreement contains a lease, effective from January 1, 2006.

The impact of the adoption of IFRIC 4 in the interim consolidated financial statements for the period ended on June 30, 2006, result from its application to the agreement regarding the supply of energy made by the subsidiary Soporcel with Soporgen (company in which the Group holds a 8% stake), a cogeneration company of EDP Group formed in 1999, with the purpose of

ensuring the supply of electricity and steam to the mentioned subsidiary.

Accordingly, the assets of Soporgen, associated with this agreement, were retrospectively recorded in the December 31, 2005 and June 30, 2006 financial statements as a financial lease (Note 1.2).

Changes to IAS 19

On December 16, 2004, IASB issued an amendment to IAS 19, introducing an option regarding the recognition of actuarial gains and losses of defined benefit plans.

This change, that will allow to directly recognise actuarial gains and losses under an equity caption outside net income, was adopted by the European Union in the second half of 2005, in accordance with the European Commission regulation n° 1910/2005, of November 8.

The Group adopted this amendment in 2005, thus, directly recognising actuarial gains and losses under equity, in retained earnings, retrospectively as of January 1, 2004.

1.30.2 New standards and amendments with no mandatory adoption as of December 31, 2006

The European Commission regulations n°108/2006, n° 708/2006 and n°1329/2006 of January 11, May 8 and September 8, respectively, adopted the following standards:

| Standards | Effective date* |
|--|------------------|
| IFRS 7 - Financial Instruments: Disclosures | January 1, 2007 |
| IFRS 8 - Operating segments | January 1, 2009 |
| IFRIC 7 - Applying the Restatement Approach under IAS 29 | March 1, 2006 |
| IFRIC 8 - Scope of IFRS 2 | May 1, 2006 |
| IFRIC 9 - Reassessment of Embedded Derivatives | June 1, 2006 |
| IFRIC 10 - Interim Financial Reporting and Impairment | November 1, 2006 |
| IFRIC 11 - Group and Treasury Share Transactions | March 1, 2007 |
| IFRIC 12 - Service Concession Arrangements | January 1, 2008 |

* Periods beginning on or after

Amendments to IAS 1 were also introduced, which are not mandatory as of December 31, 2006.

Up to date, the Group has not concluded the estimations over the effects of the changes above mentioned, but no material impacts in the present financial statements are expected.

2. Risk management

2.1 Financial risk factors

Semapa, as a holding company, does not have any direct operational activities. Therefore the fulfilment of the assumed obligations depends on the cash flow generated by its subsidiaries.

The main asset of Semapa as a holding company is the shares representative of the share capital of subsidiaries companies.

Thus, the company depends on the eventual dividends distribution by participated companies, interests' payments, and loans reimbursements.

The ability of Semapa participated companies to make funds available will depend, partly, of their ability to generate positive cash flows and, on the other hand, of the respective earnings, available reserves and financial structure.

Semapa group has a management risk program focused on finance markets in order to mitigate the potential adverse effects over the Semapa group financial performance.

The risk management is driven by the financial management of the holding and main subsidiaries, according to the policies approved by the respective Boards

An Internal Control Commission with specific functions over the operations risk control is established at Semapa level.

2.1.1 Foreign Exchange risk

Fluctuations in the Euro exchange rate against other currencies can affect the Semapa Group revenues in a number of ways.

Regarding Portucel Group, pulp price in the world market is traditionally fixed in USD, so that the trend of the Euro evolution against the USD can have an impact over the Portucel Group future sales. On the other hand, a significant part of pulp and paper sales is accomplished in different currencies other than Euro, essentially in USD.

Secil Group's foreign exchange risk results mainly from petcoke purchases and ships chartered, both paid in USD. Secil Group accomplished the optimization of intra-group flows in foreign currencies in order to improve the "natural hedging"

In what concerns the not naturally compensated flows, the risk has been analyzed and covered by exchange options structures, which establish the maximum value payable and allow to partial benefiting of favourable evolutions in the exchange rate.

Secil Group holds assets located in Tunisia, Angola and Lebanon, therefore currencies fluctuation in the countries mentioned above may impact Semapa's Balance Sheet.

2.1.2 Interest rate risk

Part of Portucel Group medium term loans have its interest rate fixed through interest rate swap contracts.

At the end of 2005 Secil Group has decided to contract a partial interest risk covertures through a structure of derivatives that establish the maximum value for the

financial expenses related to long term debt with scheduled reimbursement. The remaining debt is stills in a variable interest rate regime.

At Semapa holding, all loans are in variable interest rate tax regime. However, it should be noticed that after its restructuring debt process concluded in 2006, the company is reassessing the management of this risk.

2.1.3 Credit risk

The global economic conditions aggravation or issues affecting local economies may originate customers' incapacity to pay off their current liabilities resulting from products sales. The credit insurance has been one of the instruments used by Semapa Group to reduce the negative impact of this risk.

2.1.4 Liquidity risk

The Group manages liquidity risk in two ways: ensuring that its financial debt has a substantial medium and long-term component, with maturities appropriate to the characteristics of the industry of which it forms a part and obtaining from financial institutions credit facilities that are available at all times.

2.2 Operational risk factors

2.2.1 Portucel subsidiary supply of raw material

The provisioning of wood, namely eucalyptus, is subject to price fluctuations and eventual supply difficulties which could have a significant impact in production costs of companies producing BEKP (Bleached Eucalyptus Kraft Pulp).

Eucalyptu's wood is the main raw material used by Portucel in pulp production, representing almost half of its total production and distribution costs.

Portucel's wood comes from its own land, from the acquisition to national producers and import.

Although Portucel privilege the use of its own wood and the establishment of cut contracts with producers, allowing the foresee of future needs of woody raw materials, there are no guaranties of a sustained provisioning in the future.

The plantation of new eucalyptus stands is subject to authorization of the competent entities, so that increases in planted areas or the replacement of some of the present areas do not dependent on cellulose producers.

In case of national production were to prove insufficient, Portucel will have to increase imported quantities, that may lead to an increasing on the average cost of this raw material.

Portucel's Group activity is also exposed to forest fire risk, namely: (i) the present and future wood stocks destruction; (ii) the additional costs of forest exploration done in order to prepare its land and to plant new species in the future; (iii) the smaller return of burned wood and the necessary costs to its preparation before an eventual utilization in the production process.

2.2.2 Paper and pulp market price

Paper and pulp market price influence in a significant way Portucel's revenue and its profitability.

Pulp price fluctuations arise mainly from chages in worldwide installed production capacity creating disequilibrium of supply and demand in the market. The prices of writing and printing paper have, historically, been in accordance to pulp prices fluctuations although with less volatility and a temporal gap of a few months.

Papeis Inapa and Soporcel recent acquisitions allowed Portucel not to sell exclusively pulp, but to present a sales mix comprising 2/3 of paper and 1/3 of pulp. The increased importance of paper in the general Portucel sales has contributed to a reduction in the volatility of income and cash flows and, consequently a reduction in explorations risks.

2.2.3 Demand for products - Portucel

An eventual decrease in the demand for BEKP and printing and uncoated writing paper in the EU markets could have a significant impact on the company's sales.

BEKP as raw material for the production of printing and writing paper shows comparative advantages over the

other types of pulps, which allow it to be competitive, even with a slightly higher price. This situation may change in the future, namely through the development of other pulps with same or higher quality than BEKP.

Demand for pulp produced by the Group also depends on the evolution of worldwide production capacity for paper, as paper producers are the main clients of the subsidiary Portucel

Demand for printing and writing paper has been historically related to economical factors and increasing use of copy and impression material. A economic slow down around the world may have a negative impact over the demand for printing and writing paper, therefore affecting the company's performance.

The consumers' preferences may impact global demand of paper or certain types of it. Demand for currently produced paper in Portucel may be affected by the consumers' behavior, namely as a result of the e-mail use and other electronic devices, as well as the eventual preference for recycled products.

2.2.4 Construction sector

Secil business performance depends on the construction sector activity in each one of the geographical markets where operates. The construction sector tends to be cyclical, essentially in stabilized economies, and is influenced by the level of residential and commercial construction, as well as of investments in infrastructures.

The construction sector is sensitive to factors as interest rates and an economical activity slow down may lead to a performance decrease of construction sector.

despite the company considers that its geographical diversification is the best way to reach the result stabilization, its activity, financial position and operational results may be negatively affected by a construction sector slow down in any significant market where operates.

2.2.5 Demand for products – Secil

In stabilized economies cement and other materials' demand, tend to be quite regular along the year. It is just noticed a demand reduction during the month of December. The demand for Secil products is, in general, aligned with this pattern of behaviour.

2.2.6 Competition

A rise in competition in the markets in which operates could have a significant impact on prices and consequently in the Group's profitability.

The competitive environment in the businesses where Semapa Group is involved can be significantly affected by regional factors like the number of competitors, production capacity in each regional market, natural resources proximity to regional market, economical conditions and product's demand in each market.

Additionally, price policy of competitors in regional markets where Semapa Group operates may negatively affect its activity, financial position and operational results.

2.2.7 Environmental legislation

In the last years, national and EU legislation has become more rigorous as regards emissions.

Semapa Group respects the actual effective legislation, having undertaken significant investments in the last years. Although no significant changes to actual legislation are foreseen in the near future, further investments in this field may be necessary, in order to comply with eventual new limitations set by the competent authorities.

2.2.8 Energy costs

A significant part of Semapa Group costs are dependent of energy costs. Energy is a cost factor with significant weight in most activities of Semapa's subsidiaries.

The company is partly protected against the risk of an energy price increase by the possibility of using alternative fuels in some of their plants as well as long-period energy supply contracts for some of the energy needs.

In spite of these actions, significant changes in fuel and electricity costs may negatively affect Semapa's activity, financial position and operational results.

2.2.9 Significant investments necessary for future new acquisitions

Semapa through its subsidiaries and considering its activity of share capital management has interests in sectors where consolidation processes have occurred, and where may appear growth opportunities either organic or throughout acquisitions.

3. Estimativas e julgamentos contabilísticos relevantes

The preparation of consolidated financial statements requires the Group's management to make judgments and estimates with a bearing on revenues, costs, assets, liabilities and disclosures on balance sheet date. These estimates are determined by the judgment of the Group's management, based (i) on the best information and knowledge of present events and in some cases, on the reports of independent experts and (ii) on the actions that the Company believes being able to carry out in the future. However, actual translation results may differ from estimates.

The estimates and assumptions that present a significant risk that a material adjustment to the book

value of the assets and liabilities will be needed in the next year are shown below:

3.1 *Estimate of goodwill impairment*

Each year, the Group tests whether there is impairment of goodwill, in accordance with the accounting policy described in Note 1.7. Recoverable amounts from the cash generating units are determined on the basis of calculation of values in use. These calculations require the use of estimates.

3.2 *Estimate of impairment of intangible assets with indefinite useful life*

Annually, the Group performs impairment tests for its intangible assets with indefinite useful life, namely brands, in accordance with the accounting policy described in Note 1.6., performing equally a revision of the qualification criteria for the indefinite useful life. These calculations require the use of estimates.

3.3 *Income tax*

The Group recognises liabilities for additional tax assessments that may arise from reviews by the tax authorities. When the final result of these reviews differs from the amounts initially recorded, the differences will have an impact on income taxes and on deferred taxes during the period in which such differences are detected.

3.4 *Actuarial assumptions*

Liabilities for post-employment defined benefits are calculated on the basis of certain actuarial assumptions. Changes in these assumptions may have a significant impact on those liabilities.

3.5 *Useful life of property, plant and equipment*

The useful life of an asset is the period during which an entity expects it to be available for use. This should be subject to review at least once at the end of each year and if estimates differ from previous estimates, the change should only be made for the future, with the adoption of such changes in depreciation rates that are needed to ensure that the asset is fully depreciated (by the straight-line method) by the end of its useful life.

3.6 Basis for consolidation

From 2007 the maintenance of the Chief Executive Officer and the Financial Chief Officer named by Semapa in Secil is no longer imposed by the agreements celebrated with CRH the minority shareholder of Secil.

Hereinafter the 51% of financial participation on Secil will be consolidated by the proportional method, although the agreement foresee the maintenance of Semapa right to appoint the majority of Board and Executive Commission members, as well as the Chairman.

The change in the consolidation method does not impact net profit or net equity neither the ability to distribute dividends.

The effects of the adoption of this consolidation method over the consolidated financial statements as at December 31, 2006, would be as follows:

| Balance Sheet | Full consolidation method | Proportional consolidation method | Variation % |
|--------------------------|---------------------------|-----------------------------------|-----------------|
| <i>Amounts in €</i> | | | |
| Assets | | | |
| Non current assets | 2,669,850,412 | 2,351,940,060 | (11.91%) |
| Current assets | 866,028,187 | 768,165,510 | (11.30%) |
| Total assets | 3,535,878,599 | 3,120,105,570 | (11.76%) |
| Equity | | | |
| Shareholder's equity | 737,002,332 | 737,002,332 | - |
| Minority interests | 525,275,087 | 313,767,641 | (40.27%) |
| Total equity | 1,262,277,419 | 1,050,769,973 | (16.76%) |
| Liabilities | | | |
| Non current liabilities | 1,850,412,107 | 1,727,320,227 | (6.65%) |
| Current liabilities | 423,189,073 | 342,015,370 | (19.18%) |
| Total liabilities | 2,273,601,180 | 2,069,335,597 | (8.98%) |

| Income Statement | Full consolidation method | Proportional consolidation method | Variation % |
|--|---------------------------|-----------------------------------|-------------|
| <i>Amounts in €</i> | | | |
| Revenues | 1,547,035,376 | 1,318,906,769 | (14.75%) |
| Operating result | 275,681,136 | 224,223,748 | (18.67%) |
| Financial result | (48,476,130) | (45,925,101) | (5.26%) |
| Income tax | (62,898,078) | (51,713,458) | (17.78%) |
| Ordinary activities result | 164,306,928 | 126,585,189 | (22.96%) |
| Net profit attributable to Semapa's shareholders | 91,399,271 | 91,399,271 | - |
| Minority interests | 72,907,657 | 35,185,918 | (51.74%) |

4. Segmental report

Segmental data is shown as they relate to the identified business segments, namely Pulp and Paper, Cement and Derivatives. The revenues, assets and liabilities of each segment correspond to those directly attributed to them, as well as to those that can be attributed to them on a reasonable basis. Financial data by business segment for the year ended December 31, 2006 is shown as follows:

| Amounts in € | Pulp and Paper | Cement and Derivatives | Holding | Consolidated |
|-------------------------------------|-------------------|------------------------|---------------------|-------------------|
| REVENUES | | | | |
| Revenues | 1,080,659,265 | 466,376,111 | - | 1,547,035,376 |
| Operacional results | 183,225,935 | 105,015,076 | (12,559,875) | 275,681,136 |
| Financing results | (26,456,536) | (7,694,289) | (16,813,412) | (50,964,237) |
| Profit in associated companies | - | 2,488,107 | - | 2,488,107 |
| Income tax | (46,380,484) | (22,825,756) | 6,308,162 | (62,898,078) |
| Ordinary activities result | 110,388,915 | 76,983,138 | (23,065,125) | 164,306,928 |
| Minority interests | (35,355,932) | (37,551,725) | - | (72,907,657) |
| Net profit for the year | 75,032,983 | 39,431,413 | (23,065,125) | 91,399,271 |
| OTHER INFORMATION | | | | |
| Segment assets | 2,378,979,466 | 848,516,406 | 308,382,727 | 3,535,878,599 |
| Investments in associated Companies | 516,307 | 40,937,229 | 2,452 | 41,455,988 |
| Segment liabilities | 1,291,812,984 | 416,868,547 | 564,919,649 | 2,273,601,180 |
| Amortization and impairment losses | 103,246,062 | 34,613,301 | 143,731 | 138,003,094 |
| Provisions | 26,046,991 | 4,142,303 | (261,827) | 29,927,467 |
| Fixed assets investments | 20,084,571 | 33,849,669 | 177,712 | 54,111,952 |

Financial data by business segment for the year ended December 31, 2005 is shown as follows:

| Amounts in € | Pulp and Paper | Cement and Derivatives | Energy | Holding | Consolidated |
|-------------------------------------|-------------------|------------------------|------------------|--------------------|--------------------|
| REVENUES | | | | | |
| Revenues | 1,029,086,148 | 461,139,679 | - | - | 1,490,225,827 |
| Operacional results | 143,833,007 | 118,846,600 | 3,825,622 | 279,484,129 | 545,989,358 |
| Financing results | (47,438,571) | (6,243,155) | - | (38,587,295) | (92,269,021) |
| Profit in associated companies | (124,182) | 1,771,385 | - | - | 1,647,203 |
| Income tax | (25,321,979) | (31,489,992) | - | (72,892) | (56,884,863) |
| Ordinary activities result | 70,948,275 | 82,884,838 | 3,825,622 | 240,823,942 | 398,482,677 |
| Minority interests | (23,340,912) | (40,830,136) | - | (284,756) | (64,455,804) |
| Net profit for the year | 47,607,363 | 42,054,702 | 3,825,622 | 240,539,186 | 334,026,873 |
| OTHER INFORMATION | | | | | |
| Segment assets | 2,339,248,892 | 925,709,512 | - | 310,031,416 | 3,574,989,820 |
| Investments in associated Companies | 357,526 | 45,778,332 | - | 2,451 | 46,138,309 |
| Segment liabilities | 1,329,457,282 | 515,997,589 | - | 485,637,933 | 2,331,092,804 |
| Amortization and impairment losses | 121,611,510 | 33,933,791 | - | 138,450 | 155,683,751 |
| Provisions | 1,498,515 | 1,920,573 | - | - | 3,419,088 |
| Fixed assets investments | 41,397,055 | 59,215,981 | - | - | 100,613,036 |

Regarding the Energy segment, in December 2005, the Group disposed of its stake in the holding Enersis II. Thus, profit before tax of this group referring to comparative year ended December 31, 2006, was recognised as Discontinued operational units in accordance with IFRS 5.

Geographical segment

| | Cement and Derivatives | | Pulp and Paper | | Total | |
|------------------------------------|------------------------|--------------------|----------------------|----------------------|----------------------|----------------------|
| | 31-12-2006 | 31-12-2005 | 31-12-2006 | 31-12-2005 | 31-12-2006 | 31-12-2005 |
| Sales and services rendered | | | | | | |
| Germany | - | - | 154,844,301 | 152,617,380 | 154,844,301 | 152,617,380 |
| Portugal | 337,733,873 | 357,975,488 | 152,837,513 | 138,645,597 | 490,571,386 | 496,621,085 |
| Spain | 11,610,626 | - | 126,614,734 | 121,203,706 | 138,225,360 | 121,203,706 |
| France | - | - | 126,055,146 | 118,715,438 | 126,055,146 | 118,715,438 |
| Netherlands | - | - | 98,243,137 | 65,882,595 | 98,243,137 | 65,882,595 |
| Italy | - | - | 87,505,574 | 94,751,829 | 87,505,574 | 94,751,829 |
| USA | - | - | 77,617,400 | 61,756,447 | 77,617,400 | 61,756,447 |
| UK | - | - | 67,701,265 | 66,510,442 | 67,701,265 | 66,510,442 |
| Switzerland | - | - | 22,667,573 | 13,940,695 | 22,667,573 | 13,940,695 |
| Austria | - | - | 18,971,181 | 30,093,359 | 18,971,181 | 30,093,359 |
| Belgium | - | - | 16,045,859 | 15,370,619 | 16,045,859 | 15,370,619 |
| Poland | - | - | 14,619,569 | 10,300,255 | 14,619,569 | 10,300,255 |
| Tunisia | 43,743,604 | 50,749,339 | - | - | 43,743,604 | 50,749,339 |
| Angola | 33,342,935 | 13,349,060 | - | - | 33,342,935 | 13,349,060 |
| Cape Verde | 10,101,151 | - | - | - | 10,101,151 | - |
| Ireland | 7,048,790 | - | - | - | 7,048,790 | - |
| Others | 22,795,132 | 39,065,792 | 116,936,013 | 139,297,786 | 139,731,145 | 178,363,578 |
| | 466,376,111 | 461,139,679 | 1,080,659,265 | 1,029,086,148 | 1,547,035,376 | 1,490,225,827 |

5. Other operating income

On December 31, 2006 and 2005, the other operating income was as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|--------------------|--------------------|
| Reversion of adjustments (Note 22) | 1,931,649 | 5,075,844 |
| Present value of nationalization indemnity | 6,145,931 | 16,006,486 |
| Supplementary Income | 8,048,157 | 4,820,264 |
| Gains on inventories | 538,255 | 1,900,889 |
| Gains on disposal of non-current assets | 22,763,684 | 387,071,944 |
| Gains on disposal of current assets | 1,022,657 | - |
| Negative Goodwill | - | 2,845,571 |
| Grants - CO2 Emission Licences | 68,947,605 | 62,512,275 |
| Government grants (Note 32) | 4,743,857 | 4,469,209 |
| Other operating income | 11,654,686 | 12,795,117 |
| | 125,796,481 | 497,497,599 |

As of December 31, 2006, supplementary income relates to electricity, water and salvage goods from Prolunp project (subgroup Portucel), amounting €5,341,728, €524,957 and €1,141,401, respectively.

The amount of €22,763,684 presented in the caption Gains on disposal of non-current assets, as of December 31, 2006, includes €14,859,505 of gains on CO2 emission allowances disposed.

This caption also includes €4,153,879 related to disposals of tangible fixed assets, namely land and buildings disposed of the subsidiary's Argibetão, S.A. plant in Ovar amounting €1,789,702.

As at December 31, 2005, the amount of €16,006,486, represents the fair value recorded on the initial moment, of the compensation agreed with Angolan state, about the assets of the subsidiary Secil Angola nationalized on independence date, whose amount transported to December 31, 2004 was null. When calculating this fair value, it was used the discounted cash flows method with the adjusted country risk tax.

As of December 31, 2006, the fair value comes up from last transactions with these bonds, performed with Angolan bank institutions, which generated a gain of €6,145,931.

The amount of €68,947,605 disclosed under de caption Grants – CO2 emission licenses as of December 31, 2006 (2005: € 62,512,275) relates to recognition of grants, originated by the free emission allowances received (Note 1.6.1), proportionally to the emissions of the year (Note 6).

6. Costs

As at December 31, 2006 and 2005, costs were made up as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|------------------------|------------------------|
| Cost of sales and services rendered | | |
| Cost of inventories sold and consumed | (475,090,535) | (461,437,808) |
| Costs of materials and services | (461,695,890) | (446,072,068) |
| Variation in production | (2,409,080) | (3,948,339) |
| Payroll costs | | |
| Board of Directors | (18,387,090) | (23,681,878) |
| Other remunerations | (111,556,120) | (119,727,851) |
| Pension costs | (12,006,505) | (85,305,256) |
| Other payroll costs | (48,024,172) | (61,525,761) |
| | (189,973,887) | (290,240,746) |
| Other operating costs | | |
| Own cost capitalization | 446,878 | 1,164,670 |
| Quotations | (757,374) | (1,488,350) |
| Donations | (647,766) | (5,000) |
| Development and research | (2,413,615) | (2,031,579) |
| CO2 emission costs | (68,947,605) | (62,512,275) |
| Inventories and other receivables impairment | (3,462,096) | (3,882,743) |
| Losses on inventories | (325,610) | (2,880,272) |
| Indirect taxes | (4,124,918) | (5,706,029) |
| Losses on disposal of non-current assets | (576,174) | (1,679,025) |
| Others | (6,299,065) | (7,950,884) |
| | (87,107,345) | (86,971,487) |
| Net provisions (Note 30) | (29,927,467) | (3,419,088) |
| Total costs | (1,246,204,204) | (1,292,089,536) |

The amount of payroll costs related with Board of Directors include an amount of €7,342,171 (2005: €13,560,652), related to performance bonus accrued for Semapa Board of Directors members.

The Other payroll costs includes an amount of €2,668,331 relating to compensation payments from contractual obligations, of the subsidiary Portucel, occurred during the year ended December 31, 2006 (2005: €16,332,619).

As of December 31, 2006, the Pensions caption includes an amount of € 84,295,793 related to the recognition of past services liabilities of Semapa Administrators pension fund (to See Note 29).

7. Remuneration of members of the corporate bodies

As of December 31, 2006 and 2005, the remunerations to the members of the corporate bodies, including performance premiums (see Note 32) were made up as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|-------------------|-------------------|
| Board of Directors | | |
| Semapa SGPS, S.A. | 9,137,505 | 15,454,606 |
| Members of Semapa board in other companies | 5,288,471 | 4,934,292 |
| Corporate Bodies from other group companies | 3,961,114 | 3,292,980 |
| | 18,387,090 | 23,681,878 |

In addition, the Board of Directors of Semapa, benefits of a pension plan as described in Note 29.

8. Depreciation, amortization and impairment losses

As at December 31, 2006 and 2005, the depreciation, amortization and impairment losses were as following:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|----------------------|----------------------|
| Property, plant and equipment depreciation | | |
| Land | (2,638,285) | (2,994,858) |
| Buildings and other constructions | (27,063,451) | (26,210,080) |
| Machinery and equipment | (99,046,332) | (118,522,792) |
| Other tangible assets | (7,092,097) | (7,812,194) |
| | (135,840,165) | (155,539,924) |
| Intangible assets amortizations | | |
| Industrial property and other rights | (104,576) | (143,827) |
| | (104,576) | (143,827) |
| Impairment losses in intangible assets | | |
| Goodwill (Note 15) | (464,353) | - |
| Other intangible assets (Note 16) | (1,594,000) | - |
| | (2,058,353) | - |
| | (138,003,094) | (155,683,751) |

The amount of €464,353 recorded in impairment losses in Goodwill relates to the subsidiaries Carcubos (€375,000) and Macmetal (€89,353).

By the revision of the remainder useful life of Portucel equipments, estimated in 14 years after December 31, 2005, the amortization rates were downwards by the subsidiary.

Some of this effect was already recognised in Semapa consolidated financial statements, where some procedure had been performed in 2004, as a result of the Portucel acquisition.

If the depreciation rates were similar to those used in 2005 the total amount would ascend to €157,748,905

The figures presented in the table above chart include Soporgen tangible fixed assets depreciation, amounted to €2,933,597 and €2,933,597 in 2005 and 2006, respectively. These assets were recognised in compliance with IFRIC 4, amounting €23,468,773 (2005: €26,402,370).

9. Profit in Associated Companies

During the years ended December 31, 2006 and 2005, the Group presents the following results of associates:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|------------------|------------------|
| Sub-Group Portucel | | |
| Portucel International Trading, SA | - | (124,182) |
| Sub-Group Secil | | |
| Carcubos - Calcários, Lda. | - | (112,878) |
| Sobioen - Soluções de Bioenergia, S.A. | - | (385,189) |
| Ciment de Sibline S.A.L. | 777,314 | 581,523 |
| Chryso - Aditivos de Portugal, S.A. | 35,845 | (27,174) |
| Setefrete, SGPS, S.A. | 240,438 | (243,154) |
| Betão Liz, S.A. | 945,900 | 1,390,201 |
| Cimentaçor - Cimentos dos Açores, Lda. | 712,761 | 547,033 |
| Ecoresíduos, Lda. | (261,346) | 184,121 |
| ICV - Inertes de Cabo Verde, Lda. | - | (42,783) |
| Viroc Portugal - Ind. Madeiras e Cimento, S.A. | - | (343,395) |
| Cimentos Madeira, Lda. | 37,195 | 223,080 |
| | 2,488,107 | 1,647,203 |

The company not recognise deferred taxes under these amounts since it considers not be applicable the article 46º of the Portuguese Corporate Income Tax Code (Código do Imposto sobre o Rendimento das Pessoas Colectivas).

At the end of year 2005, the Group reinforced its participation in Inertes de Cabo Verde to 67.5%.

10. Net financial costs

As at December 31, 2006 and 2005, net financial costs were made up as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|---------------------|---------------------|
| Interest paid on loans from shareholders | (272,673) | (17,124) |
| Interest earned on loans to shareholders | - | 4,660 |
| Interest paid on other loans | (55,581,361) | (78,296,111) |
| Interest earned on loans to associated companies | - | 1,259,656 |
| Other interest earned | 6,357,679 | 8,070,743 |
| Gains on investments in other companies | 689,147 | 154,800 |
| Losses of financial instruments | (3,132,706) | (8,025,320) |
| Gains of financial instruments | 6,026,709 | - |
| Exchange differences | (4,122,466) | (13,777,927) |
| Other financial expenses | (2,395,709) | (3,681,618) |
| Other financial income | 1,467,143 | 2,039,220 |
| | (50,964,237) | (92,269,021) |

The amount of €3,132,706 recorded in Losses of financial instruments includes €2,884,568, transferred from shareholder's equity to costs as result of the maturity of the associated hedge instrument. This amount, also includes €248.138 related to interest rate swaps.

11. Income tax

The groups Semapa, Portucel and Secil are subject to special tax regime applicable to Groups of companies made up of those held as to 90% or more and which meet the conditions foreseen in article 63 and subsequent of the Portuguese Corporate Tax Code (Código do Imposto sobre o Rendimento de Pessoas Colectivas).

Companies included in the group of companies subject to this regime, determine and record income tax as though they were taxed on an individual basis. If gains are determined on the application of this regime, they are recorded as a deduction to the income tax of the holding.

In accordance with prevailing legislation, the gains and losses from Group companies and associates that arise from the application of the equity method are deducted or added, respectively, from or to the profit for the period when determining the taxable income for the period.

Dividends are considered when determining the taxable income in the year in which they are received, if holdings are less than 10% or if the assets are held less than one year, unless the acquisition costs exceeds €20,000,000.

Annual income tax returns are subject to review and potential adjustment by the tax authorities for a period up to 4 years. However, if tax losses are reported, these may be subject to review by the tax authorities for a period up to 6 years.

In other countries where the Group develops its activity, the stated periods are different, generally greater.

The Board of Directors believes that any adjustments to those returns that result from reviews/inspections by the tax authorities will, apart from those disclosed in Note 42, not have a material effect on the consolidated financial statements as at December 31, 2006.

As at December 31, 2006 and 2005, the income tax heading showed the following breakdown:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|-------------------|-------------------|
| Current tax | 18,487,979 | 13,051,092 |
| Accrued taxes for the year to use for RETGS purposes | - | (955,150) |
| Provision for current tax (Note 25) | 21,794,440 | 2,070,099 |
| Deferred tax | 22,615,659 | 42,718,822 |
| | 62,898,078 | 56,884,863 |

The reconciliation of the effective income tax rate for the years ended December 31, 2006 and 2005, was as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|---------------------|----------------------|
| Profit before tax | 227,205,006 | 455,367,540 |
| Expected income tax | 62,481,377 | 125,226,074 |
| Differences (a) | (5,630,137) | (81,591,360) |
| Tax losses carried forward not recoverable | 1,371,934 | (961,353) |
| Tax loss not recoverable | 8,060,206 | 13,206,526 |
| Change in tax rate | (12,133,963) | (39,576) |
| Provisions for current tax | 21,794,440 | 2,070,099 |
| Adjustments to tax collection | (13,045,779) | (1,025,547) |
| | 62,898,078 | 56,884,863 |
| Effective tax rate | 27.68% | 12.49% |
| (a) This amount is made up essentially of : | | |
| Effects arising from the application of the equity method | (2,023,759) | (2,156,574) |
| Capital gains / (losses) for tax purposes | (1,223,166) | (1,624,177) |
| Capital (gains) / losses for accounting purposes | (5,810,229) | (379,831,613) |
| Taxable adjustments and provisions | 24,225,747 | 31,904,536 |
| Fiscal benefits | (1,099,152) | (67,786) |
| Dividends received from non EU companies | 7,823,051 | 2,875,327 |
| Decrease of taxable provisions | (32,037,930) | (23,155,612) |
| Increase of taxable provisions | 10,440,944 | - |
| Taxed provisions in previous years | (5,629,669) | - |
| Intra-group earnings subject to taxation | (5,867,233) | 8,508,647 |
| Contribution to pensions funds | (2,327,660) | (9,070,172) |
| Liabilities for retirement benefits (note 29) | - | 84,295,795 |
| Others | (6,944,171) | (8,374,225) |
| | (20,473,226) | (296,695,854) |
| Tax Effect (27.50%) | (5,630,137) | (81,591,360) |

Tax reduction during year in the caption "Change in Tax rate" resulted of the change introduced by Autonomous Regions law (tax rate decreasing of 1%), as well as 5% decrease of Tunisia tax rate.

As of December 31, 2006, the adjustments to tax collection relates essentially to the autonomous tax, of € 134,675, international double taxation credits, of €1,173,457, and investment benefits of €11,261,455.

12. Earnings per share

Since there are no outstanding financial instruments convertibles into Group shares, its earnings are undiluted.

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|-------------|-------------|
| Profit attributable to shareholders | 91,399,271 | 334,026,873 |
| Weighted average number of ordinary shares in iss | 115,604,470 | 115,604,470 |
| Basic earnings per share | 0.791 | 2.889 |
| Diluted earnings per share | 0.791 | 2.889 |

The weighted average number of shares is deducted of 2,727,975 treasury shares owned by Seminv, S.A., subsidiary owned by Semapa, SGPS, S.A..

Não existem instrumentos financeiros convertíveis sobre as acções da Semapa, pelo que não existe diluição dos resultados.

In accordance with the proposed application of results made by the Board of Directors, the dividend corresponds to €0.23 per share, which amounting €27,216,462, were not recognized as financial liabilities in the recognised in these consolidated financial statements.

13. Minority interests

As at December 31, 2006 and 2005, minority interests disclosed in the income statement were as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|-------------------|-------------------|
| Portucel - Empresa de Pasta e Papel, SA | 35,337,644 | 23,346,649 |
| Secil - Companhia Geral de Cal e Cimento, SA | 37,885,082 | 40,405,495 |
| Portucel Internacional Trading | 18,288 | (5,737) |
| Grupo Enersis | - | 284,756 |
| Grupo Secil Betões e Inertes | (164,057) | 1,113,894 |
| Société des Ciments de Gabés | 47,396 | 64,791 |
| Secil Martingança | 296,140 | (71,683) |
| Secil - Companhia de Cimento do Lobito, S.A. | (791,647) | (682,361) |
| Others | 278,811 | - |
| | 72,907,657 | 64,455,804 |

The subsidiary Secil – Companhia de Cimento do Lobito, owned 49% by Angolan State, began its activity on January 1, 2006, ceasing ex-Tecnosecil operational activity (currently Secil Angola), subsidiary 100% held by the Group.

As at December 31, 2006 and December 31, 2005, minority interests disclosed in the balance sheet were as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|--------------------|--------------------|
| Portucel - Empresa de Pasta e Papel, SA | 306,589,000 | 332,204,799 |
| Secil - Companhia Geral de Cal e Cimento, SA | 204,784,966 | 191,854,142 |
| Portucel Internacional Trading | 181,774 | 170,796 |
| Grupo Secil Betões e Inertes | 224,514 | 3,801,094 |
| Société des Ciments de Gabés | 1,345,346 | 1,512,894 |
| Secil Martingança | 3,632,671 | 3,625,616 |
| Secil - Companhia de Cimento do Lobito, S.A. | 6,515,933 | 8,116,873 |
| Others | 2,000,883 | 1,117,021 |
| | 525,275,087 | 542,403,235 |

During the year ended December 31, 2006 and 2005, the following movements in minority interests have occurred:

| Amounts in € | Pulp and Paper | Cement and Derivatives | Energy | Total Restated |
|---|--------------------|------------------------|------------------|--------------------|
| Balance as of January 1, 2005 | 322,257,332 | 170,185,843 | 5,463,758 | 497,906,933 |
| Changes in consolidation perimeter | - | 10,799,090 | (5,748,513) | 5,050,577 |
| Dividends | (9,368,405) | (12,684,648) | - | (22,053,053) |
| Revaluation reserve | - | 15,761 | - | 15,761 |
| Currency translation reserve | - | 2,013,787 | - | 2,013,787 |
| Financial instruments | (564,699) | - | - | (564,699) |
| Actuarial gains and losses | (2,458,811) | (2,207,346) | - | (4,666,157) |
| IFRIC 4 - Soporgen (Restatement) | (796,584) | - | - | (796,584) |
| Fair value of available for sale financial as | - | 1,027,523 | - | 1,027,523 |
| Other movements in Equity | (34,147) | 47,490 | - | 13,343 |
| Profit for the year | 23,340,913 | 40,830,136 | 284,755 | 64,455,804 |
| Balance as of December 31, 2005 | 332,375,599 | 210,027,636 | - | 542,403,235 |
| Changes in consolidation perimeter | (49,876,101) | (2,445,707) | - | (52,321,808) |
| Dividends | (13,257,177) | (18,221,508) | - | (31,478,685) |
| Currency translation reserve | 38,913 | (6,424,794) | - | (6,385,881) |
| Financial instruments | 2,135,781 | - | - | 2,135,781 |
| Actuarial gains and losses | (66,369) | (1,259,499) | - | (1,325,868) |
| Fair value of available for sale financial as | - | (723,545) | - | (723,545) |
| Other movements in Equity | 64,201 | - | - | 64,201 |
| Profit for the year | 35,355,932 | 37,551,725 | - | 72,907,657 |
| Balance as of December 31, 2006 | 306,770,779 | 218,504,308 | - | 525,275,087 |

The perimeter change occurred in Pulp and Paper segment results of the additional 4.7% participation, acquired in subsidiary Portucel to minority shareholders in November, 2006.

14. Application of preceding year's net profit

| Amounts in € | 31-12-2005 | 31-12-2004 |
|-------------------------------------|--------------------|--------------------|
| Dividends distribution | 49.699.627 | 13.016.569 |
| Legal reserves | 1.445.412 | 9.103.686 |
| Other reserves | 278.672.264 | 147.853.467 |
| Retained earnings | 4.209.570 | 19.445.352 |
| IFRS net profit for the year | 334.026.873 | 189.419.074 |
| Dividends per share | 0,42 | 0,11 |

The resolution for the application of 2005 earnings, passed at Semapa's General Meeting on April 3, 2006, was based on the net profit for the year as defined by the accounting principles generally accepted in Portugal (€329,817,303).

As of December 31, 2006, legal reserves are record at the maximum amount.

The difference in net profit between the two standards, totalling €4,209,570 (2004: €19,445,352) was transferred to retained earnings.

15. Goodwill

During the years ended June 30, 2006 and December 31, 2005, changes under the Goodwill heading were as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|--------------------|--------------------|
| Net amount at the beginning of the year | 331.502.916 | 334.744.706 |
| Changes of perimeter | 139.445 | (8.394.949) |
| Impairment losses | (89.353) | - |
| Acquisitions | 5.946.429 | 5.159.770 |
| Disposals | - | (197.197) |
| Exchange differences | (2.974.481) | 190.586 |
| Closing Balance | 334.524.956 | 331.502.916 |

Note: Values are presented net of impairment losses (Note 22)

Goodwill was amortized up to January 1, 2004. The accumulated amortization in the amount of €127,226,215 was adjusted at transition date against the gross value, in accordance with IFRS 1.

Therefore the goodwill amortization was replaced by annual impairment tests.

As of December 31, 2006 and 2005, Goodwill was made up as follows:

| Entity | Year of Acquisition | 31-12-2006 | 31-12-2005 |
|---|---------------------|--------------------|--------------------|
| Acquisitions made by sub-group Semapa | | | |
| Secil - Companhia Geral de Cal e Cimento, SA | 1997 | 6,766,530 | 6,766,530 |
| Cimentospar, SGPS, SA | 2003 | 81,296,931 | 81,296,931 |
| Portucel - Empresa Produtora de Pasta e Papel, SA | 2004 | 135,565,059 | 135,565,059 |
| | | 223,628,520 | 223,628,520 |
| Acquisitions made by sub-group Secil | | | |
| CMP - Cimentos Maceira e Pataias, S.A. | 1994 | 48,835,643 | 48,835,643 |
| Société des Ciments de Gabés | 2000 | 35,667,739 | 38,276,980 |
| Secil Betões e Inertes, SGPS, S.A. | 2000 | 13,326,706 | 13,326,706 |
| Sud-Béton-Société de Fabrication de Béton du Sud | 2001 | 2,120,198 | 2,275,297 |
| Secil Angola (ex-Tecnosecil, S.A.R.L.) | 2005 | 1,805,585 | 2,015,729 |
| IRP- Indústria de Reboco de Portugal, S.A. | 2005 | 3,054,688 | 3,054,688 |
| Secil Cabo Verde Comércio e Serviços, S.A. | 2005 | 139,445 | - |
| Sicobetão - Fabricação de Betão, S.A. | 2006 | 826,955 | - |
| Cimentos Costa Verde - Comércio de Cimentos, S.A. | 2006 | 1,430,406 | - |
| Secil Betões e Inertes, SGPS, S.A. | 2006 | 610,192 | - |
| Ecoresíduos, Lda. | 2006 | 3,078,879 | - |
| | | 110,896,436 | 107,874,396 |
| | | 334,524,956 | 331,502,916 |

The goodwill is allocated to the Group's cash generating units (CGU's), identified in accordance with the country of operation and business segment, as follows:

| December 31, 2006 | | | |
|-------------------|------------------------|--------------------|--------------------|
| Amounts in € | Cement and derivatives | Pulp and Paper | Total |
| Portugal | 159,226,930 | 135,565,059 | 294,791,989 |
| Tunisia | 37,787,937 | - | 37,787,937 |
| Angola | 1,805,585 | - | 1,805,585 |
| Cabo Verde | 139,445 | - | 139,445 |
| | 198,959,897 | 135,565,059 | 334,524,956 |

| December 31, 2006 | | | |
|-------------------|------------------------|--------------------|--------------------|
| Amounts in € | Cement and derivatives | Pulp and Paper | Total |
| Portugal | 153,369,851 | 135,565,059 | 288,934,910 |
| Tunisia | 40,552,277 | - | 40,552,277 |
| Angola | 2,015,729 | - | 2,015,729 |
| | 195,937,857 | 135,565,059 | 331,502,916 |

The recoverable amount of the CGU's is determined based on the value in use valuations of the cash flows and financial budgets approved by management. For future periods extrapolations with estimated growth rates are performed, estimated based on past performance and expectations regarding the future market development.

The above valuations have identified a Goodwill impairment of €464,353, which €89.353 related to subsidiaries and €375.000 to associates as explained in note 8.

The mentioned valuations were based on the following assumptions:

| | |
|---------------------------|----|
| Inflation Rate | 2% |
| Discount rate | 7% |
| Growth rate of production | 0% |

16. Other intangible assets

During the years ended December 31, 2006, and 2005, changes under the intangible assets heading were as follows:

| Amounts in € | Brands | Research and development expenses | Industrial property and other rights | CO2 Emission Licences | Assets in progress | Total |
|--|--------------------|-----------------------------------|--------------------------------------|-----------------------|--------------------|--------------------|
| Acquisition cost | | | | | | |
| Amount as of January 1, 2005 | 151,488,000 | 5,428,336 | 19,746,180 | - | 122,021 | 176,784,537 |
| Changes of perimeter | - | - | (30,798,354) | - | - | (30,798,354) |
| Acquisitions | - | - | 14,283,792 | 73,934,383 | 286,269 | 88,504,444 |
| Disposals | - | - | - | - | - | - |
| Write-off's and transfers | - | (1,137,177) | (879,028) | - | (408,290) | (2,424,495) |
| Exchange fluctuations | - | - | - | - | - | - |
| Amount as of December 31, 2005 | 151,488,000 | 4,291,159 | 2,352,590 | 73,934,383 | - | 232,066,132 |
| Changes of perimeter | - | - | - | - | - | - |
| Acquisitions | - | - | - | 81,056,817 | 68,379 | 81,125,196 |
| Disposals | - | - | - | (22,212,550) | - | (22,212,550) |
| Write-off's and transfers | - | - | 119,860 | (113,806,105) | 18,378 | (113,667,867) |
| Exchange fluctuations | - | - | - | - | - | - |
| Amount as of December 31, 2006 | 151,488,000 | 4,291,159 | 2,472,450 | 18,972,545 | 86,757 | 177,310,911 |
| Accumulated amortizations and impairment losses | | | | | | |
| Amount as of January 1, 2005 | - | (4,988,078) | (2,614,880) | - | - | (7,602,958) |
| Changes of perimeter | - | - | (8,902) | - | - | (8,902) |
| Amortizations and impairment losses | - | - | (143,827) | - | - | (143,827) |
| Disposals | - | - | - | - | - | - |
| Write-off's and transfers | - | 696,919 | 444,104 | - | - | 1,141,023 |
| Exchange fluctuations | - | - | - | - | - | - |
| Amount as of December 31, 2005 | - | (4,291,159) | (2,323,505) | - | - | (6,614,664) |
| Changes of perimeter | - | - | - | - | - | - |
| Amortizations and impairment losses | (1,594,000) | - | (104,576) | - | - | (1,698,576) |
| Disposals | - | - | - | - | - | - |
| Write-off's and transfers | - | - | 156 | - | - | 156 |
| Exchange fluctuations | - | - | - | - | - | - |
| Amount as of December 31, 2006 | (1,594,000) | (4,291,159) | (2,427,925) | - | - | (8,313,084) |
| Net amount as of January 1, 2005 | 151,488,000 | 440,258 | 17,131,300 | - | 122,021 | 169,181,579 |
| Net amount as of December 31, 2005 | 151,488,000 | - | 29,085 | 73,934,383 | - | 225,451,468 |
| Net amount as of December 31, 2006 | 149,894,000 | - | 44,525 | 18,972,545 | 86,757 | 168,997,827 |

The amount of €151,488,000 in the brands heading relates to the evaluation performed by a specialized and independent entity, for Navigator and Soporset, using the respective cash flow projections an appropriate discount rate, resulting from the determination of the fair value of the Portucel's assets and liabilities acquired, which is not subject to amortization as its useful life is undefined (Note 1.6).

Impairment of this intangible asset is tested on an annual basis. The Group valued this asset in the first half of 2006, which resulted in a fair value of €170,916,000. This is the net value of a loose in the trademark Soporset, in the amount of €1,594,000, recorded in consolidated financial statements according to the policy described in note 1.6.1.

The amount of €18,972,545 recorded in the caption CO2 emission licences, relates to the fair value of the gases emission licence allocated free of charge, deposited in de Portuguese emission licences register in favour of the Group companies and related to the years 2005 and 2006, deducted of the licences given by the emission realised on 2005 to the licensing coordinator entity (Notes 1.6.1 and 32).

As mentioned before, the Group disposed on December 2005, the position held in Enersis II holding, so that the assets and liabilities of this group, with reference to the comparative year ended December 31, 2005, were classified in autonomous line from the other assets and liabilities consolidated as Discontinued operational units, in accordance with IFRS 5. The amount of €30,798,354 in the Industrial property and other rights heading, relates to the transfer of rights and licences in aeolian parks to assets autonomous line recorded as Discontinued operational units (assets available-for-sale group).

17. Property, plant and equipment

During the years ended on December 31, 2006 and 2005, changes in the property, plant and equipment accounts, as well as the respective depreciations and impairment losses, were as follows:

| Amounts in € | Lands | Buildings and other constructions | Equipment and other tangibles | Assets in progress | Advances | Total |
|--|---------------------|---|-------------------------------------|-----------------------|-------------------|------------------------|
| Acquisition Cost | | | | | | |
| Amount as of January 1, 2005 | 216,978,960 | 791,916,325 | 3,791,618,183 | 258,077,721 | 23,358,919 | 5,081,950,108 |
| Changes of perimeter | 7,744,008 | (47,136,981) | (420,620,623) | (99,429,554) | (1,599,936) | (561,043,086) |
| Acquisitions | 3,734,780 | 7,613,689 | 177,897,891 | 140,614,274 | 870,097 | 330,730,731 |
| Disposals | (1,112,617) | (1,748,934) | (14,557,557) | - | - | (17,419,108) |
| Write-off's and transfers | 4,227,715 | 8,799,346 | 195,997,643 | (213,324,054) | (21,874,513) | (26,173,863) |
| Exchange fluctuations | 743,640 | 628,672 | 2,127,834 | 76,505 | 224 | 3,576,875 |
| Amount as of December 31, 2005 | 232,316,486 | 760,072,117 | 3,732,463,371 | 86,014,892 | 754,791 | 4,811,621,657 |
| Changes of perimeter | 2,231,338 | 2,620,113 | 7,081,853 | 241,727 | 1,224 | 12,176,255 |
| Acquisitions | 135,640 | 1,217,768 | 24,272,877 | 27,493,799 | 991,868 | 54,111,952 |
| Disposals | (765,240) | (3,859,659) | (9,404,614) | - | (14,817) | (14,044,330) |
| Exchange fluctuations | (469,345) | 2,150,696 | 85,131,823 | (93,174,216) | (290,266) | (6,651,308) |
| Amount as of December 31, 2005 | (5,017,957) | (2,819,361) | (10,171,424) | (260,943) | (262) | (18,269,947) |
| Amount as of December 31, 2006 | 228,430,922 | 759,381,674 | 3,829,373,886 | 20,315,259 | 1,442,538 | 4,838,944,279 |
| Accumulated depreciations and impairment losses | | | | | | |
| Amount as of January 1, 2005 | (17,227,556) | (405,158,594) | (2,346,478,362) | - | - | (2,768,864,512) |
| Changes of perimeter | (473,865) | 11,916,555 | 40,001,756 | - | - | 51,444,446 |
| Depreciations and impairment losses | (2,994,858) | (26,210,080) | (126,334,986) | - | - | (155,539,924) |
| Disposals | 8,041 | 1,455,675 | 13,095,163 | - | - | 14,558,879 |
| Write-off's and transfers | (81,561) | (76,878) | (5,339,992) | - | - | (5,498,431) |
| Exchange fluctuations | (56,731) | (102,006) | (617,830) | - | - | (776,567) |
| Amount as of December 31, 2005 | (20,826,530) | (418,175,328) | (2,425,674,251) | - | - | (2,864,676,109) |
| Changes of perimeter | - | 663,292 | (2,601,129) | - | - | (1,937,837) |
| Depreciations and impairment losses | (2,638,285) | (27,063,451) | (106,138,429) | - | - | (135,840,165) |
| Disposals | 101 | 3,238,402 | 8,752,876 | - | - | 11,991,379 |
| Write-off's and transfers | - | 1,278,324 | (3,449,824) | - | - | (2,171,500) |
| Exchange fluctuations | 599,970 | 941,019 | 4,409,260 | - | - | 5,950,249 |
| Amount as of December 31, 2006 | (22,864,744) | (439,117,742) | (2,524,701,497) | - | - | (2,986,683,983) |
| Net amount as of January 1, 2005 | 199,751,404 | 386,757,731 | 1,445,139,821 | 258,077,721 | 23,358,919 | 2,313,085,596 |
| Net amount as of December 31, 2005 | 211,489,956 | 341,896,789 | 1,306,789,120 | 86,014,892 | 754,791 | 1,946,945,548 |
| Net amount as of December 31, 2006 | 205,566,178 | 320,263,932 | 1,304,672,389 | 20,315,259 | 1,442,538 | 1,852,260,296 |

As mentioned in note 1.2, the Group applied retroactively the interpretation IFRIC 4 - Determining whether an arrangement contains a Lease. By virtue of the adoption of this standard, the Property, plant and equipment – equipment and other tangible heading was increased in €44,003,950, from which the respective accumulated depreciation in the amount of €17,601,580 was deducted as of December 31, 2005 (Note 1.2). The remainder value of €32,675,203 was recorded in other liabilities. As at December 31, 2006, the net book value of this equipment is €23,468,773.

The amount of €561,043,086 deducted by the accumulated depreciations amounted to €51,444,446, related to the transfer of Lands, Buildings and Equipments of the subsidiary disposed on the second half 2005, Enersis II, for an autonomous line recorded as Discontinued operational units (assets available-for-sale group).

The amount of €561,043,086 of changes in perimeter, deducted by the accumulated depreciations amounted to €51,444,446, includes a decrease of €586,287,672 (€76,201,091 of accumulated depreciations) related to Lands, Buildings and Equipments of the subsidiary Enersis II, disposed on the second half 2005.

During the first half of 2006, the Portucel sub-Group revise the economic useful lives of its tangible fixed assets, with reference to December 31, 2005, which resulted on an average useful life period of 14 years. The impact in the Portucel sub-group consolidated financial statements for year ended December 31, 2006 amounts to €35,932,248 (net of deferred tax). However, this effect was reduced to €9.904.114 (net of deferred tax) in Semapa consolidated financial statements, due to identical procedure already performed in 2004, on Portucel acquisition and assets and liabilities fair value assessment.

18. Investment properties

As of December 31, 2006 and 2005 the Investment properties heading reflects the acquisition cost net of accumulated depreciation of one building, owned by Secil subsidiary, with a remaining useful life of 20 years, located in Rua Conselheiro Fernando Sousa, in Lisbon, presently rented to third parties.

19. Biological assets

Over the years ended December 31, 2006 and 2005 changes in biological assets were as follows:

| Valores em Euros | 31-12-2006 | 31-12-2005 |
|------------------------------------|---------------------|--------------------|
| Fair value as of January 1 | 136.238.875 | 134.025.278 |
| Fair value changes | | |
| Trees felled | (17.631.810) | (13.445.242) |
| Trees growth | 6.286.095 | 7.036.775 |
| Other fair value changes | (1.597.708) | 8.622.064 |
| Total of fair value changes | (12.943.423) | 2.213.597 |
| | 123.295.452 | 136.238.875 |

The amounts presented under this caption "Other fair value changes" are essentially related to changes (positive or negative) in estimated volume of future potential wood extraction by new plantations, efficiency gain/loss in the forest assets exploration and fells by fires.

20. Investments in associates

During the years ended December 31, 2006 and 2005, changes in this caption were as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|-------------------|-------------------|
| Opening balance | 46,138,309 | 44,315,520 |
| Changes of consolidation perimeter | (1,544,862) | (4,462,823) |
| Acquisitions | 126,032 | 6,465,020 |
| Disposals | - | (1,250) |
| Apropriated net profit | 2,488,107 | 2,481,281 |
| Dividends received | (2,932,683) | (4,646,554) |
| Reimbursement of supplementary capital | - | (200,000) |
| Exchange fluctuations | (2,528,771) | 3,012,824 |
| Impairment losses | (375,000) | (385,188) |
| Transfers from subsidiaries | 84,856 | (440,521) |
| | 41,455,988 | 46,138,309 |

As of December 31, 2006 and 2005, investments in associates include goodwill as the follows:

| Associated Companies | Year | Goodwill | |
|---|------|------------------|------------------|
| | | 31-12-2006 | 31-12-2005 |
| Betão Liz, S.A. | 1999 | 542,140 | 542,140 |
| Setefrete, SGPS, S.A. | 2003 | 2,227,750 | 2,227,750 |
| Carcubos - Granitos, Lda. | 2004 | - | 375,000 |
| Cimentos de Sibline, S.A.L. | 2005 | 157,444 | 119,696 |
| Secil Cabo Verde Comércio e Serviços, Lda. a) | 2005 | - | 139,445 |
| | | 2,927,334 | 3,404,031 |

a) Company included in consolidated financial statements in 2006

As at December 31, 2006 and 2005, the investments in associates in the balance sheet, including the goodwill calculated during their acquisition, were as follows:

| Associated Companies | % held | 31-12-2006 | 31-12-2005 |
|-------------------------------------|------------|-------------------|-------------------|
| Secil - Energia, Lda. | 100.00% | 50,477 | - |
| Betão Liz, S.A. | 33.37% | 9,697,708 | 9,876,096 |
| Transecil, Lda. | 33.00% | 748 | 748 |
| Cimentação, Lda. | 25.00% | 2,339,227 | 2,258,806 |
| Ecoresíduos, Lda | 50.00% | - | 942,468 |
| ICV - Inertes de Cabo Verde, Lda. | a) 37.50% | - | 312,895 |
| Ciment de Sibline S.A.L. | 28.12% | 24,162,392 | 25,917,421 |
| Chryso - Aditivos de Portugal, S.A. | 40.00% | 37,529 | 1,684 |
| Setefrete, SGPS, S.A. | 25.00% | 3,111,132 | 3,723,813 |
| Cimentos Madeira, Lda. | 14.29% | 1,535,128 | 1,822,123 |
| MC - Materiaux de Construction | 49.36% | 2,888 | - |
| Secil Cabo Verde | a) 100.00% | - | 547,278 |
| Equipar | - | - | 32,423 |
| Lusitaniagas | - | - | 5,267 |
| IBET | - | - | 39,963 |
| Soset | - | - | 24,939 |
| Portucel International Trading, SA | 80.00% | 386,234 | 239,669 |
| Others | - | 132,525 | 392,716 |
| | | 41,455,988 | 46,138,309 |

a) Companies included in consolidated financial statements in 2006

During the first half of 2006, the Secil subsidiary reinforced its position in ICV – Inertes de Cabo Verde to 62.5%.

The investment held in Cimentos Madeira, Lda., is recorded in accordance with the equity method given Secil's ability to influence significantly the operations through a representative in the board.

21. Available-for-sale financial assets

Changes during years ended December 31, 2006 and 2005 in available-for-sale financial assets were made up as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|-------------------|-------------------|
| Fair value at the beginning of the year | 18,584,241 | 24,211,343 |
| Acquisitions | 59,906,603 | 16,487,255 |
| Disposals | (13,106,256) | (24,211,343) |
| Bonds cede to third party | (2,899,097) | - |
| Exchange fluctuations | (147,821) | - |
| Changes in fair value | 16,893,140 | 2,096,986 |
| Acquisition amount at the end of the year | 79,230,810 | 18,584,241 |

As of December 31, 2006 and 2005, available-for-sale financial assets were made up as follows:

| Major investments available for sale | 31-12-2006 | 31-12-2005 |
|--|-------------------|-------------------|
| Angolan government bonds | 954,445 | 18,584,241 |
| EDP - Electricidade de Portugal, SA shares | 77,618,369 | - |
| Banco Espírito Santo shares | 657,996 | - |
| Amount at the end of the year | 79,230,810 | 18,584,241 |

The amount of €77,618,369 relates to the fair value, as at December 31, 2006, of the 20,213,117 shares of the company EDP – Electricidade de Portugal held by the Group, corresponding to less than 1% of the entity total shares and acquired by the amount of €59,381,335.

The amount of Angolan's government bonds is related to the fact that, at the Angolan independent date, Secil owned several interests in that country, that were nationalized after the independence and corresponds to the fair indemnity.

Until December 31, 2006, the Angolan Government has delivered 20 tranches of bonds, in the total amount of USD 47,146,180, of which: (i) USD 6,415,572 had been endorsed the commissioning agents in Angola and (ii)

USD 998,200 endorsed to the Encime, for payment of plant rents in debt.

In December 31, 2006, the subsidiary Tecnosecil (owned of bonds on hand) disposed to the Banco de Fomento de Angola, 16 tranches, with nominal value of USD 33,516,224, for the amount of USD 30,284,622, which has generated losses of USD 3,231,602.

However, these bonds were accounted by fair values which have originated a gain amounting €6,145,931 (Note 5).

On December 31, 2006, the Angolan Government debt amounts USD 378,952 (Euro 287,739).

As of December 31, 2006, the amount of €620,364, related to the Group part in the fair value of the held bonds on that dated, is record in equity under the caption fair value reserves (See note 27).

22. Impairments in non-current and current assets

Over the year ended December 31, 2006, changes in non-current assets impairments were as follows:

| Amounts in € | Goodwill* | Intangible Assets | Tangible Fixed Assets | Investments Assoc. comp. | Total |
|-------------------------|--------------|-------------------|-----------------------|--------------------------|--------------|
| As of December 31, 2005 | (18,858,581) | - | (19,357,083) | (635,189) | (38,850,853) |
| Changes of perimeter | - | - | - | 306,000 | 306,000 |
| Exchange fluctuations | 1,122,515 | - | - | - | 1,122,515 |
| Reinforcement (Note 8) | (464,353) | (1,594,000) | - | - | (2,058,353) |
| Reversals | - | - | - | - | - |
| Direct utilizations | - | - | - | 250,000 | 250,000 |
| Transfers | - | - | - | 61,017 | 61,017 |
| As of December 31, 2006 | (18,200,419) | (1,594,000) | (19,357,083) | (18,172) | (39,169,674) |

* Goodwill impairment related to subsidiaries and associated companies

Over the year ended December 31, 2006, changes in current assets impairments were as follows:

| Amounts in € | Inventories | Customers c/a | Receivables Assoc. comp. | Other Receivables | Total |
|-------------------------|-------------|---------------|--------------------------|-------------------|--------------|
| As of December 31, 2005 | (1,927,566) | (18,551,425) | (2,188,719) | (8,744,812) | (31,412,522) |
| Changes of perimeter | (5,782) | (678,071) | - | - | (683,853) |
| Exchange fluctuations | (7,942) | 103,818 | - | 8,711 | 104,587 |
| Reinforcement (Note 8) | (820,637) | (2,003,297) | (408,207) | (229,955) | (3,462,096) |
| Reversals (Note 5) | 375,426 | 292,402 | 291,916 | 971,905 | 1,931,649 |
| Direct utilizations | - | 519,618 | - | 19,487 | 539,105 |
| Transfers | 207,790 | - | - | - | 207,790 |
| As of December 31, 2006 | (2,178,711) | (20,316,955) | (2,305,010) | (7,974,664) | (32,775,340) |

23. Inventories

As of December 31, 2006 and 2005, inventories comprised the following:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--------------------------------------|--------------------|--------------------|
| Raw materials | 113.172.679 | 123.649.788 |
| Work in process | 10.441.625 | 14.310.020 |
| Byproducts and waste | 466.935 | 311.581 |
| Finished and intermediate products | 41.946.121 | 40.240.045 |
| Merchandise | 4.521.803 | 5.162.258 |
| Advances to suppliers of inventories | 675.298 | 687.453 |
| | 171.224.461 | 184.361.145 |

Note: Net value of accumulated impairments (Note 22)

24. Receivables and other current assets

As of December 31, 2006 and 2005, the Receivables and other current assets caption showed the following breakdown:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|--------------------|--------------------|
| Customers | 299,393,387 | 283,996,089 |
| Customers - associated companies (Note 34) | 3,081,295 | 4,082,283 |
| Derivative financial instruments (Note 30) | 16,879,141 | 5,334,195 |
| Other debtors | 28,288,134 | 28,556,704 |
| Accrued income | 2,455,783 | 2,696,140 |
| Deferred costs | 3,925,637 | 5,209,160 |
| | 354,023,377 | 329,874,571 |

Note: Net value of accumulated impairments (Note 22)

As of December 31, 2006 and 2005, the other debtors caption was as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|-------------------|-------------------|
| Shareholders and Associated Companies | | |
| Group companies (Note 34) | 4,610 | 213,142 |
| Associated companies (Note 34) | 1,403,985 | 1,272,254 |
| Shareholders | 812,465 | 36,249 |
| | 2,221,060 | 1,521,645 |
| Other debtors | | |
| Advances to suppliers | 1,057,962 | 817,738 |
| IAPMEI grants | 12,849,769 | 12,972,184 |
| Third-party security deposits | - | 1,281,370 |
| Other debtors | 12,159,343 | 11,963,767 |
| | 26,067,074 | 27,035,059 |
| | 28,288,134 | 28,556,704 |

As of December 31, 2006 and 2005, the accrued income and deferred costs headings were made up as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---------------------------|------------------|------------------|
| Accrued income | | |
| Interest receivable | 339,527 | 28,485 |
| Discounts in acquisitions | 20,955 | 26,735 |
| Subsidies | 866,783 | 973,421 |
| Compensations | 682,126 | 858,406 |
| Others | 546,392 | 809,093 |
| | 2,455,783 | 2,696,140 |
| Deferred costs | | |
| Interests with bank loans | - | 152,444 |
| Major repairs | 930,938 | 566,747 |
| Insurance costs | 209,249 | 124,785 |
| Others | 2,785,450 | 4,365,184 |
| | 3,925,637 | 5,209,160 |
| | 6,381,420 | 7,905,300 |

25. State and other public entities

As of December 31, 2006 and 2005, there were no debts overdue to the state and other public entities. Balances with these entities were made up as follows:

Current assets

| Amounts in € | 31-12-2006 | 31-12-2005 |
|-------------------------------------|-------------------|-------------------|
| State and other public entities | | |
| Corporate income tax (IRC) | 6,018,758 | 13,933,712 |
| Personal income tax withhold (IRS) | 4,331 | - |
| Value added tax | 7,911,777 | 8,750,048 |
| Value added tax - refunds requested | 18,237,657 | 24,192,073 |
| Other | 2,477,614 | 1,422,033 |
| | 34,650,137 | 48,297,866 |

Current liabilities

| Amounts in € | 31-12-2006 | 31-12-2005 |
|------------------------------------|-------------------|-------------------|
| State and other public entities | | |
| Corporate income tax (IRC) | 8,449,446 | 3,034,531 |
| Personal income tax withhold (IRS) | 3,369,425 | 4,893,824 |
| Value added tax | 8,139,532 | 9,289,171 |
| Social security | 2,987,906 | 3,432,108 |
| Tax provision | 43,555,882 | 21,521,772 |
| Other | 577,686 | 382,918 |
| | 67,079,877 | 42,554,324 |

Provisions for taxes in current liabilities

The caption Corporate Income Tax includes, essentially, the provision amounting of €21,855,133 of the Soporcel subsidiary, related to an inspection carried out by the tax authorities during the first half of 2003, which included a review to all aspects related to the incentive described in Note 41.

Following this inspection, the tax authorities presented additional amounts due related to the fiscal years of 1998 to 2001, against which Soporcel took legal action in 2003, amounting to some €11,493,349, including penalty interest, related mainly with tax deductions from this tax incentive.

The provision for this contingency including tax and compensatory interests amounts to €18,556,390 as of December 31, 2005 and it was increased in €3,298,743, during the year.

The tax provisions also include €2,740,492 related to tax reviews in Portucel group for years 1999 to 2004, as well as an amount of €8,247,377 to the pending Brussels approval of the tax incentives of investment agreements accomplished by Soporcel from 2002 to 2006.

In accordance with current Portuguese tax legislation tax returns are subject to review and correction by the tax authorities during a period of four years.. However, if tax losses exist, these can be subject to review and correction during a period of six years.

In other countries where the group operates these periods are different, usually larger.

The Board believes that any possible adjustments that may be made by the tax authorities, as a result of their reviews, will not have any significant effect on the consolidated financial statements as at December 31, 2006. In the subsidiary Soporcel the years up to 2003 was already reviewed and tax inspection of 2003 and 2004 in the subsidiaries Portucel and Secil is currently in progress.

26. Share capital and treasury shares

As of December 31, 2006, the share capital of Semapa was fully subscribed and paid in; it is represented by 118,332,445 shares with a nominal value of €1 each.

As of December 31, 2006 and 2005 corporate holders of significant positions in the company's share capital were as follows:

| Name | Nº of shares | % | |
|---|--------------------|---------------|---------------|
| | | 31-12-2006 | 31-12-2005 |
| Sodim, SGPS, S.A. | 26,115,000 | 22.07 | 22.07 |
| Credit Suisse | 23,600,000 | 19.94 | 20.13 |
| Longapar, SGPS, S.A. | 20,000,000 | 16.90 | 16.90 |
| Cimo - Gestão de Participações, SGPS, S.A. | 14,592,300 | 12.33 | 12.33 |
| Banco BPI, SA | 11,855,974 | 10.02 | 6.70 |
| Banco Espírito Santo, SA | 6,537,252 | 5.52 | 5.93 |
| Seminv - Investimentos, SGPS, S.A | 2,727,975 | 2.31 | 2.31 |
| Companhia de Seguros Tranquilidade Vida, SA | - | - | 2.14 |
| AF Investimentos - Fundo Imobiliários, S.A. | - | - | 2.09 |
| Sonaca - Sociedade Nacional de Canalizações, S.A. | 1,250,000 | 1.06 | 1.06 |
| Other shareholders with participation lower than 2% | 11,653,944 | 9.85 | 8.34 |
| | 118,332,445 | 100.00 | 100.00 |

As the company Seminv Investimentos, SGPS, SA is a subsidiary of Semapa Group, the 2.727.975 shares held in the company are disclosed as treasury shares in the Group's consolidated financial statements.

27. Fair value reserve and other reserves

As of December 31, 2006 and 2005, the fair value reserve, currency translation reserve and other reserves caption showed the following breakdown:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|--------------------|--------------------|
| Fair value of financial instruments | 3,846,329 | (1,010,854) |
| Fair value of available-for-sale assets | 18,686,147 | 1,069,463 |
| Total of fair value reserves | 22,532,476 | 58,609 |
| Currency translation reserve | (9,359,315) | (3,671,963) |
| Legal reserve | 23,666,489 | 22,221,077 |
| Other reserves | 526,719,429 | 248,047,165 |
| Total of Other reserves | 550,385,918 | 270,268,242 |
| Total of reserves | 563,559,079 | 266,654,888 |

Fair value of financial instruments

The amount of €3,846,328, net of deferred tax shown under the caption fair value of financial instruments, relates to the appropriate part of financial instruments classified as hedgings, of the subsidiary Portucel, which, as at December 31, 2006, were valued at €13,741,082 (Note 33), accounted for in accordance with the policy described in note 1.13.

Fair value of available-for-sale assets

The amount of €18,686,147 relates to:

- Group's appropriation of the change in fair value of the Angolan government bonds (€16.386) as described in note 21;
- the fair value fluctuation of the EDP company shares held by the Group (€18.237.034)
- the fair value fluctuation of the BES company shares held by the Group (€132.728).

Just as additional information, as at December 31, 2006, the market value of the treasury shares under the consolidated equity was €24,115,299, corresponding to €8.84 per share.

Currency Translation Reserve

The amount of €9,359,315, refers to the exchange differences appropriated by the Group as a result of the

conversion of the financial statements of companies operating outside the Euro zone, namely Tunisia, Lebanon, Angola, USA and UK.

Legal reserve

Commercial legislation establishes that a minimum of 5% of annual net profits must be transferred to a legal reserve until it reaches 20% of share capital, what is verified as at December 31, 2006.

This reserve cannot be distributed to the shareholders except upon liquidation of Semapa, but may be used to absorb losses after all other reserves have been used up, or to increase equity.

Other reserves

Refer to reserves available for distribution to shareholders and result from prior years.

Retained earnings

During the year ended December 31, 2006, the Group recorded an amount of € 26,535,335 under the caption retained earnings, related to the additional stakes acquisition of Portucel, a subsidiary already controlled by Semapa Group, therefore the excess over the group share of net assets was recognised directly in Equity. This accounting policy corresponds to the change stated on Proposed Exposure Draft of IAS 27 – Consolidated and Separate Financial Statements, once the actual guidance is omitted about this matter.

28. Deferred Taxes

As of December 31, 2006, changes in deferred tax assets and liabilities of each subgroup were as follows:

| Amounts in € | January, 1 2006 | Exchange adjustment | Income statement | | Retained earnings | Transfers | Changes of perimeter | December, 31 2006 |
|---|------------------------|------------------------|----------------------|----------------------|----------------------|-------------|-------------------------|------------------------|
| | | | Increases | Decreases | | | | |
| Temporary differences originating deferred tax assets | | | | | | | | |
| Sub-Group Portucel | | | | | | | | |
| Tax losses carried forward | 123,858 | - | - | (281,141) | 157,283 | - | - | - |
| Intangible assets adjustments | 7,394,291 | - | - | (6,594,536) | - | - | - | 799,755 |
| Taxed provisions | 8,870,178 | - | 1,025,225 | (1,731,998) | - | - | - | 8,163,405 |
| Fixed assets adjustments | 15,400,681 | - | - | (932,440) | - | - | - | 14,468,241 |
| Underfunding of the pension fund | 37,589,072 | - | 5,507,645 | (7,915,125) | (27,451) | - | - | 35,154,141 |
| Financial instruments | 2,077,924 | - | - | - | (2,077,924) | - | - | - |
| Deferred book gains in inter-group transactions | 4,200,155 | - | 1,328,847 | - | - | - | - | 5,529,002 |
| Forests valuation | 78,685,280 | - | 11,169,983 | (35,838,509) | - | - | - | 54,016,754 |
| Update of costs with forest explorations | 73,774,331 | - | - | (36,931,455) | - | - | - | 36,842,876 |
| Depreciations in assets subject to IFRIC 4 | 3,663,197 | - | 196,018 | - | - | - | - | 3,859,215 |
| Sub-Group Secil | | | | | | | | |
| Taxed provisions | 12,954,545 | (158,530) | 5,078,003 | (1,139,154) | - | (586,266) | - | 16,148,598 |
| Tax losses carried forward | 51,727,461 | - | 73,385 | (20,197,174) | - | 586,266 | 667,276 | 32,857,214 |
| Liabilities with retirement benefits | 906,651 | - | 73,917 | (68,100) | 16,269 | - | - | 928,737 |
| Liabilities with long service award | 1,431,349 | - | 132,357 | (78,943) | (41,040) | - | - | 1,443,723 |
| Underfunding of the pension fund | 2,956,339 | - | - | (5,570,335) | 1,173,312 | 5,072,192 | - | 3,631,508 |
| Retirement benefits not covered by an autonomus fund | 18,613,414 | - | 842,591 | (1,534,002) | 40,428 | (5,072,192) | - | 12,890,239 |
| Derecognition of government grants | 4,618,277 | - | 903,406 | - | - | - | - | 5,521,683 |
| Liabilities for healthcare benefits | 6,502,926 | - | 6,334,158 | (624,945) | 2,107,240 | - | - | 14,319,379 |
| Deferred book gains in inter-group transactions | 1,739,330 | - | 857,050 | (199,921) | - | - | - | 2,396,459 |
| | 333,229,259 | (158,530) | 33,522,585 | (119,637,778) | 1,348,117 | - | 667,276 | 248,970,929 |
| Temporary differences originating deferred tax liabilities | | | | | | | | |
| Sub-Group Portucel | | | | | | | | |
| Revaluation of fixed assets | (34,055,387) | - | (550,675) | 3,448,397 | - | - | - | (31,157,665) |
| Retirement benefits | (1,018,029) | - | (97,337) | - | 116,069 | - | - | (999,297) |
| Financial instruments | - | - | - | - | (7,464,582) | - | - | (7,464,582) |
| Fair value of fixed assets - Soporcel | (247,887,582) | - | - | 1,093,068 | - | - | - | (246,794,514) |
| Extension of the useful life of the tangible fixed assets | - | - | (48,887,412) | - | - | - | - | (48,887,412) |
| Deferred book losses in inter-group transactions | (37,052,365) | - | (36,047,684) | - | - | - | - | (73,100,049) |
| Harmonization of the depreciation criteria | (14,193,473) | - | (386,363) | - | - | - | - | (14,579,836) |
| Fair value of intangible assets - brands | (151,488,000) | - | - | 1,594,000 | - | - | - | (149,894,000) |
| Fair value of fixed assets - Portucel | (323,412,214) | - | - | 24,877,863 | - | - | - | (298,534,351) |
| Sub-Group Secil | | | | | | | | |
| Reevaluation of fixed assets | (22,142,253) | - | - | 4,536,292 | - | - | (149,137) | (17,755,098) |
| Change in depreciation criteria | (64,835,254) | 404,979 | (15,471,925) | - | - | - | - | (79,902,200) |
| Fair value of subsidiaries | (122,353,734) | 7,749,679 | (22,080,666) | 4,621,313 | - | - | (4,520,489) | (136,583,897) |
| Deferred book losses in inter-group transactions | (36,087,601) | - | - | 10,917,382 | - | - | - | (25,170,219) |
| Financial instruments | (162,038) | - | (927,312) | - | - | - | - | (1,089,350) |
| Deferred taxation on capital gains | (7,475,851) | 176,476 | - | 260,492 | - | - | - | (7,038,883) |
| Increased amortization | (2,340,822) | 124,133 | (578,335) | - | - | - | - | (2,795,024) |
| Others | | | | | | | | |
| Deferred book losses in inter-group transactions | (54,177,269) | - | - | 22,401,682 | - | - | - | (31,775,587) |
| | (1,118,681,872) | 8,455,267 | (125,027,709) | 73,750,489 | (7,348,513) | - | (4,669,626) | (1,173,521,964) |
| Amounts reflected on the balance sheet | | | | | | | | |
| Deferred tax assets | 92,143,526 | (69,042) | 9,340,948 | (33,187,406) | 195,105 | - | 183,501 | 68,606,632 |
| Rate change effect | - | - | (3,396,398) | 996,675 | (19,481) | - | - | (2,419,204) |
| Total of Deferred tax assets | 92,143,526 | (69,042) | 5,944,550 | (32,190,731) | 175,624 | - | 183,501 | 66,187,428 |
| Deferred tax liabilities | (316,973,323) | 2,792,376 | (34,474,396) | 21,690,811 | (2,020,842) | - | (1,217,827) | (330,203,201) |
| Rate change effect | - | - | 15,934,141 | 479,966 | (45,490) | - | - | 16,368,617 |
| Total of Deferred tax liabilities | (316,973,323) | 2,792,376 | (18,540,255) | 22,170,777 | (2,066,332) | - | (1,217,827) | (313,834,584) |

As of December 31, 2005, changes in deferred tax assets and liabilities of each subgroup were as follows:

| Amounts in € | January 1, 2005 | Changes of perimeter | Exchange adjustment | Income statement | | Equity | Transfers | December 31, 2005 |
|---|------------------------|-------------------------|------------------------|---------------------|----------------------|-------------------|--------------------|------------------------|
| | | | | Increases | Decreases | | | |
| Temporary differences originating deferred tax assets | | | | | | | | |
| Sub-Group Portucel | | | | | | | | |
| Tax losses carried forward | 1,924,144 | - | - | - | (1,800,286) | - | - | 123,858 |
| Taxed provisions | 16,393,212 | - | - | 12,733,209 | (8,419,295) | (4,442,657) | - | 16,264,469 |
| Fixed assets adjustments | 15,512,496 | - | - | 524,652 | (636,467) | - | - | 15,400,681 |
| Underfunding of the pension fund | 37,867,614 | - | - | 2,855,065 | (17,339,628) | 14,206,023 | - | 37,589,074 |
| Financial instruments | - | - | - | 1,164,262 | - | 913,662 | - | 2,077,924 |
| Deferred book gains in inter-group transactions | - | - | - | 4,200,155 | - | - | - | 4,200,155 |
| Forests valuation | 139,805,552 | - | - | 3,751,979 | (50,221,193) | - | - | 93,336,338 |
| Update of costs with forest explorations | 43,933,738 | - | - | 17,495,227 | (2,305,693) | - | - | 59,123,272 |
| Depreciations in assets subject to IFRIC 4 | 3,339,233 | - | - | 323,964 | - | - | - | 3,663,197 |
| Sub-Group Secil | | | | | | | | |
| Taxed provisions | 11,180,981 | 114,074 | 36,075 | 6,250,349 | (4,626,934) | - | - | 12,954,545 |
| Tax losses carried forward | 61,918,726 | 426,089 | - | 1,096,361 | (11,713,715) | - | - | 51,727,461 |
| Liabilities with retirement benefits | 824,709 | - | - | 18,469 | - | 63,473 | - | 906,651 |
| Liabilities with long service award | 1,347,716 | - | - | 92,498 | (104,321) | 95,456 | - | 1,431,349 |
| Underfunding of the pension fund | 2,883,057 | - | - | (1,771,111) | - | 3,420,909 | (1,576,516) | 2,956,339 |
| Retirement benefits not covered by an autonomus fund | 17,754,927 | - | - | 1,247,475 | (1,838,737) | 1,449,749 | - | 18,613,414 |
| Derecognition of government grants | 674,491 | - | - | 3,943,786 | - | - | - | 4,618,277 |
| Derecognition of intangible assets | 872,481 | - | - | - | (872,481) | - | - | - |
| Recognition of deferred costs | 640,148 | - | - | - | (640,148) | - | - | - |
| Liabilities for healthcare benefits | 7,439,265 | - | - | 10,537 | (2,189,999) | 1,243,123 | - | 6,502,926 |
| Deferred book gains in inter-group transactions | - | - | - | 1,739,330 | - | - | - | 1,739,330 |
| Sub-Group Enersis | | | | | | | | |
| Tax losses carried forward | 8,449,593 | (15,804,715) | - | 10,201,398 | (2,846,276) | - | - | - |
| Financial instruments | 1,510,749 | (2,470,372) | - | - | - | 959,623 | - | - |
| Government grants - correction of depreciation | 6,085 | (18,465) | - | 12,380 | - | - | - | - |
| Borrowing costs | 200,103 | (200,103) | - | - | - | - | - | - |
| Deferred book gains in inter-group transactions | 16,633,442 | (26,983,547) | - | 11,267,454 | (917,349) | - | - | - |
| | 391,112,462 | (44,937,039) | 36,075 | 77,157,439 | (106,472,522) | 17,909,361 | (1,576,516) | 333,229,260 |
| Temporary differences originating deferred tax liabilities | | | | | | | | |
| Sub-Group Portucel | | | | | | | | |
| Revaluation of fixed assets | (38,131,551) | - | - | 4,250,370 | (174,206) | - | - | (34,055,387) |
| Retirement benefits covered by an autonomus fund | (873,803) | - | - | - | (257,900) | 113,674 | - | (1,018,029) |
| Financial instruments | (1,669,238) | - | - | - | - | 1,669,238 | - | - |
| Harmonization of the depreciation criteria | (10,095,378) | - | - | - | (4,098,095) | - | - | (14,193,473) |
| Fair value of intangible assets - brands | (151,488,000) | - | - | - | - | - | - | (151,488,000) |
| Fair value of fixed assets - Portucel (IPK) | (316,940,997) | - | - | - | (6,471,217) | - | - | (323,412,214) |
| Fair value of fixed assets - Soporcel (IPK) | (244,195,901) | - | - | - | (3,691,681) | - | - | (247,887,582) |
| Deferred book losses in inter-group transactions | - | - | - | - | (37,052,365) | - | - | (37,052,365) |
| Sub-Group Secil | | | | | | | | |
| Reevaluation of fixed assets | (26,394,327) | (298,767) | - | (14,339) | 4,565,180 | - | - | (22,142,253) |
| Change in depreciation criteria | (37,204,099) | - | (20,182) | (27,610,973) | - | - | - | (64,835,254) |
| Fair value of subsidiary Société des Ciments de Gabès | (119,035,875) | (6,952,838) | (1,001,150) | - | 4,636,129 | - | - | (122,353,734) |
| Deferred book losses in inter-group transactions | - | - | - | (36,087,601) | - | - | - | (36,087,601) |
| Deferred taxation on capital gains | (2,030,063) | (44,941) | - | (5,881,981) | 481,134 | - | - | (7,475,851) |
| Increased amortisation | (1,902,184) | - | (15,641) | (585,035) | - | - | - | (2,502,860) |
| Overfunding of the pension fund | (1,126,558) | - | - | (1,503,357) | 1,053,399 | - | 1,576,516 | - |
| Sub-Group Enersis | | | | | | | | |
| Revaluation of fixed assets | (1,055,157) | 996,146 | - | - | 59,011 | - | - | - |
| Harmonization of the depreciation criteria | (6,321,584) | 10,786,295 | - | (4,464,711) | - | - | - | - |
| Deferred book losses in inter-group transactions | (181,569) | 181,569 | - | - | - | - | - | - |
| Others | | | | | | | | |
| Deferred book losses in inter-group transactions | (54,414,305) | - | - | - | 237,036 | - | - | (54,177,269) |
| | (1,013,060,589) | 4,667,464 | (1,036,973) | (71,897,627) | (40,713,575) | 1,782,912 | 1,576,516 | (1,118,681,872) |
| Amounts reflected on the balance sheet | | | | | | | | |
| Deferred tax assets | 108,146,373 | (12,343,553) | 80,546 | 21,302,083 | (29,584,288) | 4,703,284 | (160,919) | 92,143,526 |
| Deferred tax liabilities | (287,993,188) | 1,294,774 | (371,938) | (35,372,274) | 4,554,187 | 490,302 | 424,814 | (316,973,323) |

Deferred tax assets on tax losses carried forward

Deferred taxes on tax losses are recognised as assets to the extent that is a reasonable assurance of the fiscal benefit realization, through the existence of future tax profits. The Group recognizes deferred tax assets when there is a reasonable expectation that future profits will be generated, against which the assets can be used, deferred tax assets on tax losses carried forward are as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 | Expiry date |
|--|-------------------|-------------------|-------------|
| Sociedade de Vinhos da Herdade de Espirra | - | 95,030 | 2010 |
| Setipel – Serviços Técnicos para a Indústria Papeleira, S.A. | - | 28,828 | 2009 |
| Secilpar, SL | 31,597,117 | 47,611,020 | 2019 |
| Silonor, S.A. | - | 3,065,587 | Indefinida |
| Secil Prebetão, S.A | - | 439,476 | 2011 |
| Lisconcreto – Unibetão, S.A. | 385,670 | 411,793 | 2009 |
| Camilo e Lopez, Lda. | 173,946 | - | 2010 |
| Ecoresíduos, Lda. | 627,096 | - | 2010 |
| Tercim, S.A. | - | 103,882 | 2009 |
| Jobrita, S.A | - | 66,413 | 2011 |
| Secil Unicon, SGPS, S.A. | - | 15,984 | 2011 |
| Britobetão | 73,385 | - | 2012 |
| Serife, Lda. | - | 13,306 | 2011 |
| | 32,857,214 | 51,851,319 | |

Unrecognised deferred taxes on tax losses carried forward

The unrecognised deferred taxes on tax losses, that at this date the Group considers to be not deductible from future profits, and thus without deferred tax asset, are as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|------------------|
| Semapa, SGPS, SA | 21,129,445 | 21,434,392 | | | | | |
| 2000 | - | 304,947 | - | - | - | - | - |
| 2001 | 2,803,802 | 2,803,802 | 2,803,802 | - | - | - | - |
| 2002 | 4,374,315 | 4,374,315 | - | 4,374,315 | - | - | - |
| 2003 | 5,120,440 | 5,120,440 | - | - | 5,120,440 | - | - |
| 2004 | 8,830,888 | 8,830,888 | - | - | - | 8,830,888 | - |
| Seminv, SGPS, SA | 15,730,099 | 15,730,099 | | | | | |
| 2003 | 7,987,025 | 7,987,025 | - | - | 7,987,025 | - | - |
| 2004 | 7,743,074 | 7,743,074 | - | - | - | 7,743,074 | - |
| Seinpart, SGPS, SA | 8,249,483 | 8,249,483 | | | | | |
| 2001 | 494 | 494 | 494 | - | - | - | - |
| 2002 | 1,395 | 1,395 | - | 1,395 | - | - | - |
| 2003 | 1,889 | 1,889 | - | - | 1,889 | - | - |
| 2004 | 3,996,548 | 3,996,548 | - | - | - | 3,996,548 | - |
| 2005 | 4,249,157 | 4,249,157 | - | - | - | - | 4,249,157 |
| Cimentospar, SGPS, Lda. | 593,484 | 593,484 | | | | | |
| 2005 | 593,484 | 593,484 | - | - | - | - | 593,484 |
| Portucel Florestal, S.A. | 17,406,032 | 17,406,032 | | | | | |
| 2001 | 3,491,014 | 3,491,014 | 3,491,014 | - | - | - | - |
| 2002 | 5,989,592 | 5,989,592 | - | 5,989,592 | - | - | - |
| 2003 | 7,925,426 | 7,925,426 | - | - | 7,925,426 | - | - |
| Aliança Florestal, SA | 31,049 | 31,049 | | | | | |
| 2001 | 31,049 | 31,049 | 31,049 | - | - | - | - |
| Enerforest, S.A. | 133,842 | 174,094 | | | | | |
| 2001 | 133,842 | 174,094 | 133,842 | - | - | - | - |
| Aflomec, SA | 7,956 | 12,144 | | | | | |
| 2002 | 7,956 | 12,144 | - | 7,956 | - | - | - |
| Socortel, SA | - | 8,173 | | | | | |
| 2002 | - | 8,173 | - | - | - | - | - |
| Cofotrans, SA | - | 9,403 | | | | | |
| 2003 | - | 9,403 | - | - | - | - | - |
| Aflotrans, Lda | 8,127 | - | | | | | |
| 2005 | 8,127 | - | - | - | - | - | 8,127 |
| Tecnipapel, Lda | 202,865 | 202,865 | | | | | |
| 2001 | 50,816 | 50,816 | 50,816 | - | - | - | - |
| 2002 | 152,048 | 152,048 | - | 152,048 | - | - | - |
| Secil Pré-betão, S.A. | 2,536,416 | 2,536,416 | | | | | |
| 2004 | 2,536,416 | 2,536,416 | - | - | - | 2,536,416 | - |
| Secil Angola, SARL | 9,446,910 | 9,446,910 | | | | | |
| 2009 | 9,446,910 | 9,446,910 | - | - | 9,446,910 | - | - |
| Silonor, S.A. (undefined) | 4,930,546 | 4,930,546 | | | | | |
| | 80,406,254 | 80,765,090 | 6,511,017 | 10,525,307 | 30,481,690 | 23,106,926 | 4,850,768 |

29. Pensions and other post-employment benefit

As mentioned in Note 1.30 the Group grants to its employees and family several post-employment benefits.

The evolution of assumed responsibilities, reflected in the consolidated balance sheet as of June 30, 2006 is as follows:

| Amounts in € | Opening Balance | Liabilities Increase | Transfer | Payments | Endowments for funds | Closing Balance |
|---------------------------------------|--------------------|----------------------|-------------|--------------------|----------------------|--------------------|
| Post-work benefits | | | | | | |
| Group liability for pensions | 102.909.208 | 1.079.645 | (5.097.645) | (2.047.732) | - | 96.843.476 |
| Under/(Overfunding) of pensions funds | 39.420.359 | 9.447.398 | 5.097.645 | (2.125.294) | (14.161.000) | 37.679.108 |
| Death and retirement | 906.651 | 90.186 | - | (68.101) | - | 928.736 |
| Assistance in health | 12.152.369 | 2.811.730 | - | (645.104) | - | 14.318.995 |
| Long service award | 1.431.349 | 91.317 | - | (78.942) | - | 1.443.724 |
| | 156.819.936 | 13.520.276 | - | (4.965.173) | (14.161.000) | 151.214.639 |

As regards costs incurred with pensions, the breakdown as of December 301, 2006 can be presented as follows:

| Amounts in € | Current services | Interest cost | Expected Return on the plan assets | Impact in the profit for the period |
|---------------------------------------|------------------|-------------------|------------------------------------|-------------------------------------|
| Post-work benefits | | | | |
| Group liability for pensions | 108.238 | 4.474.031 | - | 4.582.269 |
| Under/(Overfunding) of pensions funds | 4.497.382 | 8.294.803 | (6.278.713) | 6.513.472 |
| Death and retirement | 33.888 | 40.029 | - | 73.917 |
| Assistance in health | 168.360 | 536.130 | - | 704.490 |
| Long service award | 68.198 | 64.169 | - | 132.357 |
| | 4.876.056 | 13.409.162 | (6.278.713) | 12.006.505 |

The responsibilities and costs presented correspond to diverse existing plans in companies that make part of the Group, which are described below.

Semapa

The Shareholders' General Meeting, held in March 30, 2005, approved the retirement directors' regulation, as foreseen in the article 17º of the Company's statutes.

As per the terms of the referred regulation, Semapa directors are entitled to a lifetime allowance, paid 12 times per year, from the 55 years on, if they have, generally worked for the Company a minimum of 8 years, followed or interpolated, as directors. These rights can only be exercised when the directors resign.

No pension fund was established for the financing of this Group's obligation. The obligation with past services already acquired has been recognised in 2006.

Subgroup Portucel

(i) Under the prevailing Social Benefit Regulation, permanent employees of Portucel and its subsidiaries (excluding Soporcel and its subsidiaries) with more than five years' service are entitled after retirement or disability to a monthly retirement pension or disability supplement (Portucel Plan). This supplement is calculated according to a formula, which takes into account the beneficiary's gross monthly compensation updated to the employee's occupational category on the date of his retirement and his years of service, up to a limit of 30; survivors' pensions to his spouse and direct descendants are also guaranteed.

The liabilities resulting from these plans are ensured by an autonomous fund, name Portucel Pensions Fund, managed by a third part.

(ii) The employees of Soporcel – Sociedade Portuguesa de Papel (Soporcel) and its subsidiaries with more than ten years' service are entitled after their retirement or becoming disabled to a monthly retirement or disability pension supplement; survivors' pensions are also guaranteed to them.

To cover these liabilities, externally managed pension funds were set up, and the funds' assets are apportioned between each of the companies.

Subgroup Secil

Secil Group implemented the defined benefit plans mentioned below:

(i) Defined benefit plans with funds managed by external entities

LIABILITIES FOR RETIREMENT AND SURVIVOR PENSIONS SUPPLEMENTS

The subsidiary Secil and its subsidiaries:

- (i) CMP- Cimentos Maceira e Pataias, S.A.,
- (ii) Unibetão- Industrias de Betão Preparado, S.A.,
- (iii) Secil Betão-Indústrias de Betão, S.A. and
- (iv) Sulbetão-Preparados de Betão, S.A., have undertaken to make payments to their employees under the caption of retirement pension supplements covering oldness, disability, early retirement and survivors' benefits.

The liabilities resulting from these plans are ensured by autonomous funds, managed by third parties.

These liabilities are estimated every six months, on the date of closing of the interim and annual accounts, by a specialised and independent entity in accordance with the projected unit's credit method.

(ii) Defined benefit plan assumed by the Group

LIABILITIES FOR RETIREMENT AND SURVIVOR PENSION SUPPLEMENTS

The liability relating to personnel already retired at the date of inception of the fund and the liability for the 14th month relating to pensioners, as well as the differences between the pensionable salary according the rules of the fund and that approved by the Board of Directors, since that date, are the sole obligation of Secil. In addition, the existing liabilities in the Portuguese companies operating in the concrete activities (production and sale) are directly assumed by those companies.

These pension plans are also valued every semester by an independent entity, using the capital coverage method to determine the corresponding single

premiums for immediate life pensions in respect of the liability relating to current pensioners and the projected unit credit method to value the liability relating to current employees.

LIABILITIES FOR RETIREMENT AND DEATH BENEFITS

The subsidiary CMP – Cimentos Maceira e Pataias, S.A. has committed to pay their employees benefits on retirement by oldness or disability. This retirement benefits represent 3 months of the last salary. In addition, it concedes a benefit by death of the active worker, equal to 1 month of their last salary.

LIABILITIES FOR LONG SERVICE AWARDS

The subsidiaries Secil and CMP – Cimentos Maceira e Pataias, S.A., assumed the commitment to pay to those employees who achieve

- (v) 25, 35, 40 of years service at Secil, and
- (vi) 20 and 35 years of service at CMP a long service award. Those premiums are to be paid in the year in which the worker reaches that service time in the referred companies. These commitments are funded by the Company.

The liabilities are directly ensured by the company.

ACTUARIAL ASSUMPTIONS USED

Actuarial studies carried out by independent entities for determining the accumulated liabilities as at December 31, 2006 and 2005 were based on the following assumptions:

| | 31-12-2006 | 31-12-2005 |
|--|------------|------------|
| Disability Table | EKV 80 | EKV 80 |
| Mortality table | TV 88/90 | TV 88/90 |
| Growth rate of salaries - Portucel sub-group | 2.50% | 2.50% |
| Growth rate of salaries - Secil sub-group | 3.30% | 3.30% |
| Technical interest rate | 4.50% | 4.50% |
| Growth rate of pensions | 2.25% | 2.25% |

Funds allocated to pension benefit plans

During the year ended December 31, 2006 and 2005, the evolution of the funds was as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|--------------------|--------------------|
| Amount at the beginning of the year | 140,474,142 | 121,340,320 |
| Endowments made in the year | 14,161,000 | 11,136,172 |
| Expected return of funds in the year | 6,467,042 | 6,927,923 |
| Actual return of funds in the year (in Equity)* | 730,751 | 4,055,811 |
| Pensions paid | (4,732,902) | (4,353,897) |
| Other | (150,000) | 1,367,813 |
| | 156,950,033 | 140,474,142 |

* Differential between real and expected income

As of December 31, 2006 and 2005, the composition of funds was as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---------------------------------|--------------------|--------------------|
| Shares | 37,678,154 | 34,139,318 |
| Bonds | 79,387,654 | 81,580,151 |
| Index Linked Bonds | 13,155,964 | 2,506,082 |
| Property | 503,367 | 635,878 |
| Liquidity | 4,609,696 | 2,149,015 |
| Other applications - short term | 21,615,198 | 19,463,698 |
| | 156,950,033 | 140,474,142 |

Obligations for post-employment benefits

As of December 31, 2006 and 2005, companies' liabilities with retirement and survivor benefits were as follows:

| Balance sheet obligations | 31-12-2006 | | | 31-12-2005 | | |
|-------------------------------------|-------------------|----------------------|--------------------|-------------------|----------------------|--------------------|
| | Autonomous fund | Assumed by the Group | Total | Autonomous fund | Assumed by the Group | Total |
| Amounts in € | | | | | | |
| Liabilities for past service | | | | | | |
| - Active employees | 130,737,208 | 84,126,112 | 214,863,320 | 120,448,908 | 87,494,483 | 207,943,391 |
| - Pre-retired | 1,698,239 | - | 1,698,239 | 2,294,030 | - | 2,294,030 |
| - Retired employees | 62,193,692 | 12,717,365 | 74,911,057 | 57,151,562 | 15,414,726 | 72,566,288 |
| Market value of the pension fund | (156,950,033) | - | (156,950,033) | (140,474,142) | - | (140,474,142) |
| Underfunding / (overfunding) | 37,679,106 | 96,843,477 | 134,522,583 | 39,420,358 | 102,909,209 | 142,329,567 |

Amounts included in the income statement

| Amounts in € | 31-12-2006 | | | 31-12-2005 | | |
|---|------------------|----------------------|-------------------|--------------------|----------------------|-------------------|
| | Autonomous fund | Assumed by the Group | Total | Autonomous fund | Assumed by the Group | Total |
| Current services | 4,497,382 | 108,238 | 4,605,620 | 5,441,574 | 84,389,223 | 89,830,797 |
| Interest cost | 8,294,803 | 4,474,031 | 12,768,834 | 8,090,200 | 885,415 | 8,975,615 |
| Expected return on the plan assets | (6,278,713) | - | (6,278,713) | (6,927,569) | - | (6,927,569) |
| Others | - | - | - | 235,854 | - | 235,854 |
| Transfers and adjustments | - | - | - | (8,095,579) | - | (8,095,579) |
| Expense included in the income statement | 6,513,472 | 4,582,269 | 11,095,741 | (1,255,520) | 85,274,638 | 84,019,118 |

Changes in liabilities presented in the balance sheet

| Amounts in € | 31-12-2006 | | | 31-12-2005 | | |
|--|--------------------|----------------------|--------------------|--------------------|----------------------|--------------------|
| | Autonomous fund | Assumed by the Group | Total | Autonomous fund | Assumed by the Group | Total |
| Liability in the beginning of the period | 179,894,500 | 102,909,209 | 282,803,709 | 159,621,408 | 17,754,927 | 177,376,335 |
| Costs/(Gains) recognized in the income statement | 12,366,124 | 4,582,269 | 16,948,393 | 5,436,195 | 85,274,638 | 90,710,833 |
| Actuarial gains/losses (Equity) | 2,003,772 | (3,502,623) | (1,498,851) | 17,158,682 | 1,449,749 | 18,608,431 |
| Responsibilities transferred to fund | 5,097,645 | (5,097,645) | - | - | - | - |
| Pensions paid | (4,732,902) | (2,047,732) | (6,780,634) | (4,353,897) | (1,570,105) | (5,924,002) |
| Other | - | - | - | 2,032,112 | - | 2,032,112 |
| Total liabilities | 194,629,139 | 96,843,478 | 291,472,617 | 179,894,500 | 102,909,209 | 282,803,709 |

Obligations for other post-employment benefits

As of December 31, 2006 and 2005, companies' liabilities with retirement and death benefits, as well as long service awards and health assistance were as follows:

Amounts included in the balance sheet

| Amounts in € | 31-12-2006 | | | | 31-12-2005 | | | |
|--------------------------------|----------------------|----------------------|--------------------|-------------------|----------------------|----------------------|--------------------|-------------------|
| | Assistance in health | Retirement and death | Long service award | Total | Assistance in health | Retirement and death | Long service award | Total |
| Liabilities for past services: | | | | | | | | |
| - Active employees | 6,085,768 | 928,736 | 1,443,724 | 8,458,228 | 4,619,501 | 906,651 | 1,431,349 | 6,957,501 |
| - Retired employees | 8,233,227 | - | - | 8,233,227 | 7,532,868 | - | - | 7,532,868 |
| | 14,318,995 | 928,736 | 1,443,724 | 16,691,455 | 12,152,369 | 906,651 | 1,431,349 | 14,490,369 |

Amounts included in the income statement

| Amounts in € | 31-12-2006 | | | | 31-12-2005 | | | |
|---|----------------------|----------------------|--------------------|----------------|----------------------|----------------------|--------------------|------------------|
| | Assistance in health | Retirement and death | Long service award | Total | Assistance in health | Retirement and death | Long service award | Total |
| Current services cost | 168,360 | 33,888 | 68,188 | 270,436 | 520,766 | 49,950 | 58,916 | 629,632 |
| Interest cost | 536,130 | 40,029 | 64,169 | 640,328 | 544,200 | 42,690 | 69,616 | 656,506 |
| Expense recognized in the income statement | 704,490 | 73,917 | 132,357 | 910,764 | 1,064,966 | 92,640 | 128,532 | 1,286,138 |

Changes in liabilities presented in the balance sheet

| Amounts in € | 31-12-2006 | | | | 31-12-2005 | | | |
|---|----------------------|----------------------|--------------------|-------------------|----------------------|----------------------|--------------------|-------------------|
| | Assistance in health | Retirement and death | Long service award | Total | Assistance in health | Retirement and death | Long service award | Total |
| Liability in the beginning of the year | 12,152,369 | 906,651 | 1,431,349 | 14,490,369 | 10,466,885 | 824,708 | 1,347,716 | 12,639,309 |
| Costs/(Gains) recognized in the income statement | 704,490 | 73,917 | 132,357 | 910,764 | 1,064,966 | 92,640 | 128,532 | 1,286,138 |
| Adjustments due to changes in actuarial assumptions | 2,107,240 | 16,269 | (41,040) | 2,082,469 | 1,243,123 | 63,473 | 95,456 | 1,402,052 |
| Pensions paid | (645,104) | (68,101) | (78,942) | (792,147) | (622,605) | (74,170) | (140,355) | (837,130) |
| Expense recognized in the income statement | 14,318,995 | 928,736 | 1,443,724 | 16,691,455 | 12,152,369 | 906,651 | 1,431,349 | 14,490,369 |

Actuarial studies assumptions

| | 31-12-2006 | | | 31-12-2005 | | |
|--------------------------------|-------------------------|-------------------------|-----------------------|-------------------------|-------------------------|-----------------------|
| | Assistance in health | Retirement and death | Long service award | Assistance in health | Retirement and death | Long service award |
| General assumptions | | | | | | |
| Disability Table | EKV 80 | EKV 80 | EKV 80 | EKV 80 | EKV 80 | EKV 80 |
| Mortality table | TV 88/90 | TV 88/90 | TV 88/90 | TV 88/90 | TV 88/90 | TV 88/90 |
| Growth rate of salaries | 3.30% | 3.30% | 3.30% | 3.30% | 3.30% | 3.30% |
| Technical interest rate | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% |
| Growth rate of health expenses | 4.60% | - | - | 3.00% | - | - |

Actuarial gains and losses recognised under Equity on the year

During the year ended December 31, 2006, the actuarial gains and losses directly recognised under equity, as described in note 1.22, were as follows:

| Amounts in € | Actuarial gains & losses | | | Gross Value | Deferred tax | Impact in Equity 31-12-2006 |
|---------------------------------|--------------------------|------------------|--------------------------------------|----------------|-----------------|-----------------------------------|
| | Change in assumptions | Others | Return of assets expected vs real | | | |
| Post-employment benefits | | | | | | |
| Pensions assumed by the Group | - | 3,502,624 | - | 3,502,624 | 11,174 | 3,513,798 |
| Pensions with autonomous funds | - | (2,003,772) | 768,796 | (1,234,976) | 54,114 | (1,180,862) |
| Death and retirement | - | (16,269) | - | (16,269) | 404,100 | 387,831 |
| Assistance in health | (2,149,476) | 42,236 | - | (2,107,240) | (11,286) | (2,118,526) |
| Long service award | - | 41,040 | - | 41,040 | 322,224 | 363,264 |
| | (2,149,476) | 1,565,859 | 768,796 | 185,179 | 780,326 | 965,505 |

30. Provisions

The movement in provisions during the year ended December 31, 2006 and 2005, were as follows:

| Amounts in € | Legal claims | Fiscal claims | Environmental restoration | Others | Total |
|---|--------------|---------------|---------------------------|------------|-------------|
| Opening balance as of January 1, 2005 | 965,272 | - | 523,760 | 2,970,228 | 4,459,260 |
| Changes in the consolidation perimeter | - | - | 75,623 | 28,128 | 103,751 |
| Increases | 1,498,515 | - | 331,212 | 2,092,329 | 3,922,056 |
| Decreases | (625,755) | - | (111,035) | (96,436) | (833,226) |
| Replacements | (37,168) | - | (124,547) | (27,539) | (189,254) |
| Exchange differences | - | - | - | 7,944 | 7,944 |
| Closing balance as of December 31, 2005 | 1,800,864 | - | 695,013 | 4,974,654 | 7,470,531 |
| Changes in the consolidation perimeter | - | - | - | (112,878) | (112,878) |
| Increases (Note 6) | 457,654 | 13,919,015 | 269,630 | 16,753,774 | 31,400,073 |
| Decreases | (11,947) | - | (91,642) | - | (103,589) |
| Replacements (Note 6) | (470,625) | - | (121,990) | (879,991) | (1,472,606) |
| Exchange differences | - | - | - | (76,052) | (76,052) |
| Closing balance as of December 31, 2006 | 1,775,946 | 13,919,015 | 751,011 | 20,659,507 | 37,105,479 |

Provisions for fiscal proceedings relate to tax contingencies other than those relative to income, in particular those relative to the tax inspection at Soporcel in 2003 and from 1998 to 2003 relative to sales made by Portucel from goods in warehouses located in Germany.

The contingency, related to Portugal concerns the capital increase of Lazer e Floresta, through contribution of assets (lands and forests) of Soporcel in 2003 and the subsequent disposal of the equity holding thus acquired, within the context of the restructuring of the group's forest assets (this process was in accordance with the strategic guidelines within the framework of the State's exercise of its function as a shareholder, with a joint order of the Finance and Economy Ministers).

The heading Other provisions includes an amount of €2,183,353 relating to provisions for negative share capital of associated companies, considering thus the existence of assumed obligations in these companies, that justify the recognition of those losses.

31. Interest-bearing liabilities

As of December 31, 2006 and 2005, the Group's net debt were as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|-------------------------------------|----------------------|----------------------|
| Interest-bearing liabilities | | |
| Non-current | 1,324,378,845 | 1,289,105,052 |
| Current | 67,837,778 | 146,631,771 |
| | 1,392,216,623 | 1,435,736,823 |
| Cash and cash equivalents | | |
| Cash | 295,363 | 306,555 |
| Sort term Bank deposits | 12,755,194 | 129,545,135 |
| Others | 293,079,655 | 83,500,000 |
| | 306,130,212 | 213,351,690 |
| Interest-bearing net debt | 1,086,086,411 | 1,222,385,133 |

Non current interest-bearing liabilities

As of December 31, 2006 and 2005, the non-current interest-bearing liabilities were as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|----------------------|----------------------|
| Non-current | | |
| Bond loans | 927,244,591 | 712,580,268 |
| Commercial paper | 123,550,000 | - |
| Loans from financial institutions | 262,202,409 | 572,098,704 |
| Expenses with bond loans issuance | (8,258,462) | (7,217,381) |
| Interest-bearing bank debt | 1,304,738,538 | 1,277,461,591 |
| Financial leases | 856,195 | 682,479 |
| Other loans - POE's | 18,784,112 | 10,960,982 |
| Other interest-bearing debt | 19,640,307 | 11,643,461 |
| Non current interest-bearing liabilities | 1,324,378,845 | 1,289,105,052 |

Bank loans

Non-current bank loans, as of December 31, 2005, included an amount of €326,090,562 related to a syndicate loan, contracted by the subsidiaries Semapa BV and Semapa SL in the course of the acquisition of the subsidiary Portucel in 2004.

In scope of the Group restructuring debt, during the first half of 2006 these loans were totally reimbursed, and agreed for the stated period of 10 years a commercial paper program (with a banking union led by Banco Espírito Santo de Investimento, S.A. and Caixa – Banco de Investimento, S.A.) with €175,000,000 limit, of which already one meets used an amount of €123,550,000 as at December 31, 2006.

The amount disclosed under the caption Loans from financial institutions includes, as of December 31, 2006, an amount of €66,263,756 relates with 2 structures - with Caixa – Banco de Investimento, SA (Put & Call Combination) and with Credit Suisse International (Portucel Total Return Swap), evidenced in the caption "Bank Loans" by the overall amount of Euros 66,263,756 - which gives the right of, in pre-certain dates, to buy 2,95% and 1,13% of Portucel SA share capital, respectively. In case Semapa doesn't exercise the options until the end of the maturity date (10-11-2009 and 14-11-2009, respectively), the financial institutions have a sale option to Semapa.

The amount of other loans relates to reimbursable borrowings received by the Group, under the SIME program (Incentive System for the Modernization of Companies) at zero interest.

Bond Loans

As of December 31, 2006 and 2005, the non-current bond loans were made up as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|------------------------------------|--------------------|--------------------|
| Bond loans | | |
| Portucel 2005 / 2010 | 300,000,000 | 300,000,000 |
| Portucel 2005 / 2013 | 200,000,000 | 200,000,000 |
| Portucel 2005 / 2012 | 150,000,000 | 150,000,000 |
| Portucel 2005 / 2008 | 25,000,000 | 25,000,000 |
| Portucel 2005 / 2010 II | 25,000,000 | 25,000,000 |
| Semapa 2006 / 2016 | 175,000,000 | - |
| Semapa 2006 / 2016 | 50,000,000 | - |
| Semapa 1998 / 2008 | 2,244,591 | 7,841,688 |
| CMP 1997 / 2007 | - | 4,660,829 |
| Unibetão/ Secil Britas 1996 / 2006 | - | 77,751 |
| | 927,244,591 | 712,580,268 |

| Amounts in € | Amount | Maturity | Reference rate | Spread |
|-------------------------|--------------------|---------------|----------------|--------|
| Bond loans | | | | |
| Portucel 2005 / 2010 | 300,000,000 | March 2010 | Euribor 6m | 1.000% |
| Portucel 2005 / 2013 | 200,000,000 | May 2013 | Euribor 6m | 0.875% |
| Portucel 2005 / 2012 | 150,000,000 | October 2012 | Euribor 6m | 1.100% |
| Portucel 2005 / 2008 | 25,000,000 | December 2008 | Euribor 6m | 0.700% |
| Portucel 2005 / 2010 II | 25,000,000 | December 2010 | Euribor 6m | 0.950% |
| Semapa 2006 / 2016 | 175,000,000 | April 2016 | Euribor 6m | 1.350% |
| Semapa 2006 / 2016 | 50,000,000 | May 2016 | Euribor 6m | 1.250% |
| Semapa 1998 / 2008 | 2,244,591 | March 2008 | Euribor 6m | 1.250% |
| | 927,244,591 | | | |

During 2006, the Portucel sub-group issued five bond loans through private subscription in the total amount of €700,000,000. This loans will be repaid in a single instalment.

Two of the above mentioned bond loans, amounted to €300,000,000 and €150,000,000, are listed in Euronext Lisbon under the designations of "Obrigações Portucel 2005/2010" and "Obrigações Portucel 2005/2012", and its unit value, as of December 31, 2006, is €100,00 and €100,25, respectively.

Additionally, during the year ended December 31, 2006, the Group have restructured its debt, , therefore Semapa SGPS, S.A. issued two bond loans amounting €50,000,000 and €175,000,000 with 10 years maturity, led respectively by Banco BPI, S.A. and Banco Espírito Santo de Investimento, S.A..

Maturity dates regarding the recorded amount in non-current bank loans, other loans and bond loans were as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|-------------------|----------------------|----------------------|
| 1 to 2 years | 89,101,813 | 72,435,155 |
| 2 to 3 years | 65,222,344 | 108,091,722 |
| 3 to 4 years | 357,438,347 | 328,702,267 |
| 4 to 5 years | 8,570,595 | 409,514,773 |
| More than 5 years | 811,448,013 | 376,896,037 |
| | 1,331,781,112 | 1,295,639,954 |

Current interest-bearing liabilities

As of December 31, 2006 and 2005 the current interest-bearing liabilities were as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|-------------------|--------------------|
| Current | | |
| Bond loans | 5,611,476 | 17,535,678 |
| Bank borrowings | 49,675,771 | 118,926,636 |
| Interest-bearing bank debt | 55,287,247 | 136,462,314 |
| Short-term borrowings for shareholders | 8,755,110 | 6,965,127 |
| Financial leases | 720,387 | 617,910 |
| Other loans - POE's | 3,075,034 | 2,586,420 |
| Other interest-bearing debt | 12,550,531 | 10,169,457 |
| Current interest-bearing liabilities | 67,837,778 | 146,631,771 |

Liabilities related to financial leases

As of December 31, 2006 and 2005, the Group's indebtedness under financial lease plans, except for Equipments – Soporgen, was as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|---|------------------|------------------|
| Less than 1 year | 757,089 | 617,910 |
| 1 to 2 years | 566,418 | 415,948 |
| 2 to 3 years | 286,517 | 248,241 |
| 3 to 4 years | 88,300 | 112,364 |
| 4 to 5 years | 32,708 | - |
| More than 5 years | 20,497 | - |
| | 1,751,529 | 1,394,463 |
| Future interest | (174,947) | (94,074) |
| Present value of financial lease liabilities | 1,576,582 | 1,300,389 |

As of December 31, 2006, the Group uses the following goods acquired under finance leases:

| Amounts in € | 31-12-2006 | | |
|--------------------------------------|--------------------|--------------------------|-------------------|
| | Acquisition amount | Accumulated amortization | Net book value |
| Buildings and other constructions | 314,947 | (262,427) | 52,520 |
| Basic equipment | 1,604,022 | (414,186) | 1,189,836 |
| Basis equipment - Soporgen (IFRIC 4) | 44,003,950 | (17,601,580) | 26,402,370 |
| Transportation equipment | 2,045,417 | (1,276,775) | 768,642 |
| Administrative equipment | 121,299 | (30,585) | 90,714 |
| | 48,089,635 | (19,585,553) | 28,504,082 |

As of December 31, 2006 and 2005, the undrawn credit facilities, were as follow:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--------------------|--------------------|--------------------|
| Sub-Group Portucel | 226,648,693 | 234,000,000 |
| Sub-Group Seil | 210,448,000 | 168,785,635 |
| Semapa SGPS, SA | 249,719,816 | 12,250,000 |
| | 686,816,509 | 415,035,635 |

Financial Covenants

For certain types of financing operations, there is the commitment to maintain certain financial ratios, whose limits are previously negotiated.

32. Payables and other current liabilities

As of December 31, 2006 and 2005, the payables and other current liabilities caption showed the following breakdown:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|--------------------|--------------------|
| Accounts payable to suppliers | 160,200,778 | 162,793,641 |
| Accounts payable to associated companies (Note 34) | 3,253,673 | 2,827,094 |
| Shareholders | - | 697,390 |
| Accounts payable to suppliers of fixed assets | 14,772,119 | 7,994,105 |
| Instituto do Ambiente - CO2 emission licenses | 18,393,144 | 62,512,275 |
| Derivative financial instruments (Note 33) | 1,421,511 | 2,803,831 |
| Other creditors | 13,447,458 | 10,231,090 |
| Accrued costs | 57,911,320 | 52,225,110 |
| Deferred income | 18,871,415 | 34,892,843 |
| | 288,271,418 | 336,977,379 |

The amount of €18,393,144 presented Instituto do Ambiente – CO2 emission licenses, relates to the fair value of gases emission licences, that will be delivered by the emissions carried through the year ended December 31, 2006, which were allocated free of charge to the Group under the National Plan for the Allocation of CO2 Emission Licences (PNALE).

As of December 31, 2006 and 2005, the accrued costs and deferred income captions were made up as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|-------------------|-------------------|
| Accrued costs | | |
| Insurance | 16,037 | 147,042 |
| Payroll expenses | 33,789,742 | 35,439,197 |
| Interest payable | 9,799,838 | 7,563,264 |
| Power costs | 4,252,757 | 1,170,967 |
| Transportation services | 344,275 | 1,112,734 |
| Technical assistance services (Angola) | - | 2,072,850 |
| Other | 9,708,671 | 4,719,056 |
| | 57,911,320 | 52,225,110 |
| Deferred income | | |
| Government grants | 17,921,364 | 22,559,299 |
| Grants - CO2 Emission Licences | 579,401 | 11,422,108 |
| Others | 370,650 | 911,436 |
| | 18,871,415 | 34,892,843 |

Changes in Government grants

| Amounts in € | 31-12-2006 | 31-12-2005 |
|--|-------------------|-------------------|
| Opening balance | 22,559,299 | 12,293,746 |
| Changes in the consolidation perimeter | - | 137,137 |
| Exchange differences | (224,419) | 19,328 |
| Grants received in the period | 519,973 | 2,863,230 |
| Grants recognized in year results (Note 5) | (4,743,857) | (5,726,220) |
| Estimate for adicional grant to receive | (189,632) | 12,972,078 |
| Closing balance | 17,921,364 | 22,559,299 |

Changes in Grants – CO2 emission licences

| Amounts in € | 31-12-2006 | 31-12-2005 |
|-------------------------------------|----------------|-------------------|
| Opening balance | 11,422,108 | - |
| Grants received in the period | 81,056,817 | 73,934,383 |
| Licences disposal | (23,951,250) | - |
| Grants recognized in period results | (67,208,905) | (62,512,275) |
| Fair value changes | (739,369) | - |
| Closing balance | 579,401 | 11,422,108 |

Changes in Grants – CO2 emission licences – quantities (ton)

| Unit: TonCO2 | 31-12-2006 | 31-12-2005 |
|------------------------|---------------|----------------|
| Opening balance | 506,772 | - |
| Allowances received | 3,376,408 | 3,376,408 |
| Emissions | (2,838,448) | (2,869,636) |
| Disposals | (955,318) | - |
| Closing balance | 89,414 | 506,772 |

33. Derivative financial instruments

To manage the exchange rate risk associated with collections from customers, on December 31, 2006, were done forward rate agreements, which will expire during the first half of 2007.

In 2006, the subsidiary Portucel bought options to deal with foreign exchange risk on 2006 sales forecast.

During 2006, to hedge against the risk associated with fluctuations in the prices of pulp for sales contemplated to 2006 and 2007, the Group entered into forward contracts that expire throughout that period.

As of December 31, 2006 and 2005, the fair value of derivative financial instruments showed the following breakdown:

| Amounts in € | Notional | | 31-12-2006 | | 31-12-2005 | |
|--|----------|--------------------|--------------------|--------------------|-------------------|------------------|
| | Currency | Amount | Positive | Negative | Net amount | Net amount |
| Hedging | | | | | | |
| Interest rate swaps (IRS) | EUR | 300,000,000 | 6,585,447 | - | 6,585,447 | (184,070) |
| Foreign exchange forwards (pulp sales) | EUR | 258,074,726 | 8,555,824 | (1,400,188) | 7,155,636 | 3,707,106 |
| | | 558,074,726 | 15,141,270 | (1,400,188) | 13,741,082 | 3,523,036 |
| Trading | | | | | | |
| CAP's | EUR | 75,000,000 | - | (15) | (15) | (5,703) |
| Foreign exchange forwards | EUR | 74,981,941 | 648,521 | (21,307) | 627,213 | (793,640) |
| Interest rate options | EUR | 50,288,453 | 314,343 | - | 314,343 | (87,707) |
| Interest rate swaps (IRS) | EUR | 50,288,453 | 775,007 | - | 775,007 | (96,232) |
| | | 250,558,847 | 1,737,871 | (21,322) | 1,716,548 | (983,282) |
| Trading | | | | | | |
| Currency options | USD | - | - | - | - | (4,220) |
| Foreign Exchange forwards | USD | - | - | - | - | (5,170) |
| | | - | - | - | - | (9,390) |
| | | 16,879,141 | (1,421,511) | 15,457,631 | - | 2,530,364 |

As of December 31, 2006 the fair value of derivative financial instruments is included under the current payables caption (Note 32), if negative and current receivables caption (Note 24), if positive.

34. Balances and transactions with related parties

As of December 31, 2006 and 2005, balances with related parties are made up as follows:

| Amounts in € | Interest-bearing liabilities | |
|---------------------|------------------------------|------------------|
| | 31-12-2006 | 31-12-2005 |
| Shareholders | | |
| Cimo SGPS, SA | 2,450,999 | 3,835,959 |
| Longapar, SGPS, SA | 5,636,078 | 2,176,149 |
| Sonaca, SA | 668,033 | 953,019 |
| | 8,755,110 | 6,965,127 |

| Amounts in € | 31-12-2006 | | | 31-12-2005 | | |
|------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Costumers | Other debtors | Suppliers | Costumers | Other debtors | Suppliers |
| Associated companies | | | | | | |
| Belão Liz, S.A. | 191,469 | 40,254 | - | 195,967 | 95,388 | - |
| Cimentos Madeira, Lda | 2,021,103 | 29,545 | - | 1,946,616 | 357 | - |
| Cimentação, Lda | 501,478 | 138 | - | 771 | 69 | - |
| Viroc Portugal, S.A. | - | - | - | 425,517 | 2,170,590 | 450 |
| Secil Unicon - S.G.P.S., Lda | - | 3,627 | - | - | 625 | - |
| Setefrete, S.A. | - | 853,125 | - | - | - | - |
| ICV - Inertes de Cabo Verde | - | - | - | - | 99,668 | - |
| Chryso Portugal, S.A. | - | 88,116 | 303,333 | - | 102,329 | 564,025 |
| Ecoresíduos, Lda | - | - | - | - | 7,355 | 177,120 |
| Astakos Domika Aluminouha | - | - | - | - | 151,350 | - |
| Secil Prebetão, S.A. | 36,627 | 5,140 | 7,019 | 39,790 | 21,111 | 16,778 |
| CRH | - | - | 1,780,000 | - | - | - |
| Asip, ACE | - | - | - | 1,162,512 | - | 1,478,599 |
| Afoelca, ACE | - | - | 59,739 | 400 | 431,931 | 47,698 |
| Soporgen | - | 319,992 | - | - | 319,992 | - |
| Culpaper | 330,618 | 61,305 | 624,859 | 310,710 | 58,704 | 542,424 |
| Soporcel2000 | - | - | - | - | (1,239) | - |
| TASC | - | 2,743 | - | - | 2,743 | - |
| Other associated companies | - | - | 478,723 | - | - | - |
| | 3,081,295 | 1,403,985 | 3,253,673 | 4,082,283 | 3,460,973 | 2,827,094 |

Note: Values are presented not deducted of impairment losses (Note 22)

During the year ended December 31, 2006, transactions with related parties were as follows:

| Amounts in € | 31-12-2006 | |
|---------------------|----------------------|--------------------|
| | Purchase of services | Financial expenses |
| Shareholders | | |
| Cimianto, SA (SGPS) | 107,740 | - |
| Cimo SGPS, SA | - | 127,485 |
| Longapar, SGPS, SA | - | 113,055 |
| Sonaca, SA | - | 32,077 |
| | 107,740 | 272,617 |

| Amounts in € | 31-12-2006 | | | |
|------------------------------|-----------------------|-------------------|------------------|--------------------|
| | Purchases of services | Services rendered | Operating income | Financial expenses |
| Associated companies | | | | |
| Belão Liz, S.A. | - | 2,489,930 | 210,787 | 184 |
| Cimentos Madeira, Lda | 11,756 | 19,414,502 | 25,446 | - |
| Cimentação, Lda | 951 | 697,931 | 1,617 | 3 |
| Viroc Portugal, S.A. | 4,830 | 848,607 | 43,257 | 159,533 |
| Setefrete, S.A. | 2,107,577 | - | - | - |
| Secil Prebetão, S.A. | 19,144 | 508,289 | - | - |
| Asip, ACE | 5,637,242 | 5,587,744 | - | - |
| Afoelca, ACE | 1,419,769 | 6,317 | - | (4,846) |
| Culpaper | 2,859,916 | 1,639,429 | - | 5 |
| Other related parties | | | | |
| Irish Cement, Ltd. | - | 7,049,117 | - | - |
| CRH, plc | 1,780,000 | - | - | - |
| | 13,841,185 | 38,241,866 | 281,107 | 154,879 |

35. Changes in the consolidation perimeter

As of December 31, 2006, consolidation perimeter changes had the following impact over the consolidated financial statements:

| Amounts in € | Total | Other perimeter changes a) | Acquired subsidiaries b) |
|---------------------------------------|-------------------|-------------------------------------|--------------------------------|
| Intangible assets | - | - | - |
| Property, plant & equipment | 10,238,418 | 1,062,301 | 9,176,117 |
| Investments in associates | (1,405,418) | (724,296) | (681,122) |
| Inventory | 840,710 | 411,064 | 429,646 |
| Receivables | 3,592,288 | 676,152 | 2,916,136 |
| Cash and bank deposits | 132,236 | 132,236 | - |
| Accruals and deferrals - assets | 89,809 | 30,994 | 58,815 |
| Deferred tax assets | 183,501 | - | 183,501 |
| Minority interests | (874,102) | (586,421) | (287,681) |
| Provisions | (47,663) | 112,878 | (160,541) |
| Payables | (6,599,955) | (1,575,012) | (5,024,943) |
| Accruals and deferrals - liabilities | (669,342) | 81,746 | (751,088) |
| Deferred tax liabilities | (1,217,827) | 25,308 | (1,243,135) |
| Total acquired / integrated | 4,262,655 | (353,050) | 4,615,705 |
| Positive acquisition difference | 5,336,238 | - | 5,336,238 |
| Negative acquisition difference | - | - | - |
| Net acquisition cost | 9,598,893 | (353,050) | 9,951,943 |
| Cash and cash equivalents | 959,680 | - | 959,680 |
| Net assets acquired/integrated | 10,558,573 | (353,050) | 10,911,623 |

a) Changes by consolidation of Sobioen, ICV, Secil cabo Verde, Carcubos and exit of HI

b) Acquisition of the companies Sicobetão, Ecoresíduos, Prescor e CCV

Inclusions in the perimeter – Secil sub-group

Sicobetão – Fabricação de Betão, S.A., with its head office in Pombal, acquired on March 31, 2006, and 95.8% of its share capital held by the Group;

Sobioen – Soluções de Bioenergia, S.A., with its head Office in Lisbon, constituted on May 6, 2004 and 51% of its share capital held by the Group;

Secil Betões e Inertes, S.G.P.S., S.A., with its head office in Setúbal, reinforcement of the participation held with the acquisition of 6.44% in year ended December 31, 2006. Thus, as of December 31, 2006 the share capital is totally held by the Group.

ICV – Inertes de Cabo Verde, Lda., with its head Office in Praia, Cabo Verde, reinforcement of the participation held with the acquisition of 25% on December 15, 2005 and 62.5% of its share capital held by the Group;

Secil Cabo Verde Comércio e Serviços, Lda., with its head Office in Praia, Cabo Verde, acquired at December 15, 2005 and 100% of its share capital held by the Group.

Carcubos - Calcários, Lda., with its head Office in Satão, acquired at July 22, 2004 and 100% of its share capital held by the Group.

Ecoresíduos – Centro de Tratamento e Valorização de Resíduos, Lda., acquired at September 13, 2006, and 100% of its share capital held by the Group and by its subsidiary Prescor - Produção de Escórias Moidas, Lda., 70% held by the Group.

Cimentos Costa Verde - Comércio de Cimentos, Lda., acquired at July 21, 2006, and 100% of its share capital held by the group

Inclusions in the perimeter – Portucel sub-group

Creation of the company About the Future – Empresa Produtora de Papel, S.A. where will be develop the investment related to the new paper plant of the subgroup Portucel.

Creation of Headbox – Operação e Controlo Industrial, S.A., the company that will assure, the operation centralization and the industrial control, of the new paper plant of the subgroup Portucel.

Exits from the consolidation perimeter – Secil sub-group

H.I. – Hotelaria e Imobiliária, S.A., sold at October 2, 2006.

Exits from the consolidation perimeter – year ended December 31, 2005

In December 2005, the subsidiary CMP, B.V. sold its position of 89.92% held in the share capital of Enersis II, S.A., sub-holding of the energy segment. Thus, as of December 31, 2005 the group had no any stake in the capital of the mentioned company.

The change in perimeter, relating to the derecognition of assets and liabilities of the referred subsidiary, with reference to November 30, 2005 as well as the related gains was as follows:

| Amounts in € | Enersis II 30-11-2005 |
|---|--------------------------|
| Non-current assets | 564,036,175 |
| Current assets | 70,398,950 |
| Non-current liabilities | (474,639,463) |
| Current liabilities | (125,370,768) |
| | 34,424,894 |
| Equity and reserves | 31,634,993 |
| Minority interests | 2,789,901 |
| Total share capital | 34,424,894 |
| % held by CMP BV | 89.92% |
| Share capital held in Enersis | 28,446,186 |
| Participation held in Telener | 6,000,000 |
| Total value of participations disposed | 34,446,186 |
| Recycling of fair value of financial instruments reserve for net results* | 1,788,197 |
| Value of participations for calculation of capital gains | 36,234,383 |
| Sale value | 420,841,500 |
| Gain/loss calculated at time of sale | 384,607,117 |
| Associated management premiums - payroll costs | (7,250,000) |
| Net Profit | 377,357,117 |

* Registered in fair value reserves (Equity) according to IAS 39

36. Expenditure on environmental safeguards

In the development of its activity, the Group supports several environmental charges which, in accordance with their nature, are capitalised or recognised as costs in the income statement of the year. Environmental expenses incurred by the Group in order to preserve resources, avoid or reduce future damages, are capitalised when they are expected to extend life or increase the capacity, safety or efficiency of other assets held by the Group.

The expenditures capitalized and expensed during the year ended December 31, 2006, are as follows:

| Areas | Expenses of the period | Capitalised in the period | Total |
|--|------------------------|---------------------------|-------------------|
| Atmospheric emissions | 2,337,965 | 4,127,262 | 6,465,227 |
| Management of residual waters | 22,860 | 130,505 | 153,365 |
| Waste / residuals management | 272,632 | 1,543,702 | 1,816,334 |
| Protection of soils and underground waters | 139,657 | 141,593 | 281,250 |
| Recovery boiler | - | 9,100,517 | 9,100,517 |
| Liquid effluent treatment | 7,170,235 | - | 7,170,235 |
| Recycling of materials | 899,630 | - | 899,630 |
| Expenditures with electro filters | 689,765 | - | 689,765 |
| Sewage network | 113,358 | - | 113,358 |
| Solid waste embankment | 351,847 | - | 351,847 |
| Other environmental protection activities | 1,045,604 | 2,754,815 | 3,800,419 |
| | 13,043,553 | 17,798,394 | 30,841,947 |

The expenditures capitalized and expensed during 2005 are as follows:

| Areas | Expenses of the year | Capitalised in the year | Total |
|--|----------------------|-------------------------|-------------------|
| Atmospheric emissions | 1,955,400 | 12,020,756 | 13,976,156 |
| Management of residual waters | 16,978 | - | 16,978 |
| Waste / residuals management | 919,575 | 4,301,832 | 5,221,407 |
| Protection of soils and underground waters | 101,576 | 379,028 | 480,604 |
| Recovery boiler | - | 26,874,031 | 26,874,031 |
| Liquid effluent treatment | 5,848,607 | - | 5,848,607 |
| Recycling of materials | 538,797 | - | 538,797 |
| Expenditures with electro filters | 420,726 | - | 420,726 |
| Sewage network | 99,201 | - | 99,201 |
| Solid waste embankment | 303,637 | - | 303,637 |
| Other environmental protection activities | 869,604 | 13,126,187 | 13,995,791 |
| | 11,074,101 | 56,701,834 | 67,775,935 |

| Segment | 31-12-2006 | 31-12-2005 |
|------------------------|--------------|--------------|
| Pulp and Paper | 1,951 | 1,986 |
| Cement and Derivatives | 2,231 | 2,294 |
| Holdings | 20 | 23 |
| | 4,202 | 4,303 |

CO2 emission licenses

As part of the Kyoto Protocol, the European Union has committed itself to reduce gas emissions which produce the greenhouse effect. Within this context, a Community Directive was issued that foresees the commercialization of "CO2 emission licenses", and then transferred to the Portuguese legislation, and that is applicable from January 1, 2005, among others, to the paper industries (Note 32)

37. Auditing and statutory auditing expenses

As of December 31, 2006 and 2005, costs incurred with auditors and statutory auditors were as follows:

| Amounts in € | 31-12-2006 | 31-12-2005 |
|-----------------------------|----------------|----------------|
| Statutory auditors services | 435,460 | 441,420 |
| Other assurance services | 66,742 | 32,344 |
| Tax consultancy services | 279,645 | 218,522 |
| Other services | 46,534 | 109,079 |
| | 828,381 | 801,365 |

38. Average number of employees

As of December 31, 2006 and 2005 the average number of employees in the service of the various Group companies, by business segment, was as follows:

39. Commitments

As of December 31, 2006 and 2005, commitments assumed by the Group were as follows:

| Entity | 31-12-2006 | 31-12-2005 |
|---|--------------------|-------------------|
| Guarantees | | |
| DGT - Direcção Geral do Tesouro | 50,000,000 | 50,000,000 |
| IAPMEI (âmbito do POE) | 11,021,574 | 11,021,574 |
| DGCI - Direcção Geral dos Impostos | 25,199,206 | 15,677,315 |
| Financiamento Soporgen | 1,111,111 | 2,000,000 |
| Câmara Municipal de Setúbal | 956,275 | 964,904 |
| APSS - Administração dos Portos de Setúbal e Sesimbra | 372,468 | 943,138 |
| Direcção Geral de Alfândegas | 598,557 | 598,557 |
| APDL - Administração do Porto de Leixões | 583,796 | - |
| OMMP e Elfouladh | 80,033 | 581,358 |
| Simria | 514,361 | 514,361 |
| Instituto de Conservação da Natureza - Arrábida | 332,005 | 332,005 |
| IFADAP | 289,804 | 201,744 |
| INGA - Instituto Nacional de Garantia Agrícola | 185,334 | 150,000 |
| IAPMEI (âmbito do PEDIP) | 99,760 | 99,760 |
| Others | 2,844,474 | 1,407,401 |
| | 94,188,758 | 84,492,117 |
| Other commitments | | |
| Of purchase | 7,332,178 | 8,110,808 |
| Others | - | - |
| | 7,332,178 | 8,110,808 |
| | 101,520,936 | 92,602,925 |

The subsidiary Seinpart – Participações SGPS, issued a bank guarantee, to the tax authorities (Direcção Geral do Tesouro), by €50,000,000, valid for five years and destined to cover the fulfilment of all the obligations assumed by this subsidiary, in accordance with the terms established in chapter IV of the “Term of references” approved by Resolution 194/2003, of December 30 relative to the privatization of Portucel.

The amount of €25,199,206 corresponds to two guarantees issued to the tax authorities (Direcção Geral do Tesouro) to Soporcel in consequence of litigation initiated during the first half of 2004, in the context of the income tax incentive process, which had been taken into account in the acquisition of the second paper machine as referred in note 25.

The remaining amount relates to Income tax of year ended as of December 31, 2002 of Secil subsidiary (Note 42).

At May 3, 2000, Soporcel, entered into a joint, but not several, guarantee with a financial institution under which Soporcel guarantees the full and timely compliance with all financial and monetary obligations to that institution assumed by Soporgen – Sociedade Portuguesa de Geração de Electricidade e Calor, S.A. Accordingly, the institution can claim repayment of up to 8% of Soporgen's debt to it under that guarantee whenever it is enforced.

As of December 31, 2005, the respective financing, in the amount of €25,000,000, had been drawn in its entirety, Soporcel's guarantee thus standing at €2,000,000. During the first half of 2006, the referred borrowing was reduced to €15,277,775, thus the guarantee was also reduced to €1,222,222.

The assumed buying commitments with suppliers are basically related to the acquisitions of goods for tangible assets

40. Other commitments assumed by Group companies

Pledges

During the year 2000, the subsidiary Secil contracted bank loans with maturity in 2010 to finance the acquisition of Société des Ciments de Gabés, in Tunisia. Under the terms of those loans, Secil provided an irrevocable power of attorney to the banks, enabling them to pledge the shares of that company in guarantee of the loan, in the event of non-compliance by the Company with the terms of the loan.

The subsidiary Société des Ciments de Gabés, contracted with a financial institution in Tunisia a loan in the amount of TND 15.000.000 (€8,823,529), for the acquisition of basic equipment for its plant. Under the terms of this loan, the subsidiary Société des Ciments de Gabés, provided an irrevocable power of attorney to the bank, enabling them to pledge the above-mentioned equipment in the event of non-compliance by the Company with the terms of the loan.

In April 2005, the subsidiary Secil Martingança, Lda., contracted a loan with a financial institution with maturity in 2012, to finance the acquisition of subsidiaries IRP – Indústrias de Rebocos de Portugal, S.A. and Lusocil – Sociedade Portuguesa de Cimento Cola, S.A..

Under the terms of those loans, the Company provided an irrevocable power of attorney to the banks, enabling them to pledge the shares of those companies in guarantee of the loan, in the event of non-compliance by the Company with the terms of the loan.

Comfort letters

The subsidiary Secil issued a comfort letter in favour of a financial institution as a guarantee with the contracted financings of its associate Viroc Portugal, S.A., in the amount of €2,574,082

Investment in a new plant in Angola

Under the terms of the agreement memorandum between the Angolan government and the subsidiary Secil, of April 2004, the company Secil – Companhia de Cimento do Lobito, S.A. was founded on November 29, 2005. 51% of its share capital are held by the Group Secil and the remaining 49% by the Angolan state, starting into operation on January 1, 2006, thus ending the exploration cession contract of the Encime do Lobito plant between the Angolan state and TecnoSecil in force since September 2000.

The share capital of Secil Lobito of USD 21.274.286 was carried out through the transfer of tangible and intangible assets of TecnoSecil and Encime U.E.E., respectively by the Group and the Angolan government. The amount was calculated by an independent international auditing firm in October 2003.

Within a horizon of 36 months from the realization date of the above-mentioned share capital, Secil Lobito will build a cement factory in Lobito.

41. Contingent assets

Subgroup Secil

Tax benefits for the internationalization

Secil has applied in 2000 for the Foreign Investment Tax Incentive foreseen in Decree-Law 401/99 dated October 14, under the process of the acquisition of Société des Ciments de Gabés. The Incentive consists in a reduction of income tax of 10% of the Investment, for an overall amount of €5,985,575.

This application, although approved by ICEP – Foreign Investment Agency was declined by the Tax authorities, but the Company appealed to court against this decision by claiming the amounts of taxes paid in excess in the years 2000 through 2005, which amount to €5,985,575. The issue already started in the constitutional court in Almada on 2004.

During the year, the Secil subsidiary had known the constitution of a Finance Ministry work group, to evaluate the execution of this and other tax benefits therefore exist expectative that the subject will be decided in administrative head office.

Revaluation under the Privatization process

In 1995, Secil performed a revaluation of its assets in accordance with the directive 22/92 of February 14 with respect to tangible assets as of December 31, 1993.

The tax basis for the periods of 1995 to 1999, have been corrected as regards the amortization amounts, slightly in excess, related to the virtual quota assigned for in 1994, giving rise for additional liquidations of corporate income tax, received from and paid to the state. The Board of Directors is convinced to succeed in the present matter, which amounts to €2,235,907 in financial terms.

The company lost the case in court related to 1995 (€820,148), having raised objection in the Supreme Court, that overruled the decision of the court of first instance and called for revision of the action related to 1995, having, however, confirmed the conviction of the court of first instance for 1996 (€795,311).

Secil will raise objection against this decision. As regards the actions of 1997 (€282,262), 1998 (€327,323) and 1999 (€10,464) they already started in 2004 in the court of first instance, still pending decision.

CMP' Pensions Plan

Secil recorded in its financial statements of December 31, 1995 a total adjusted amount of €5,598,358, receivable from the Portuguese Government, result from the actuarial study of the liabilities with retirements, reported to December 31, 1993 and

evaluated by a third specialized entity, under the reprivatization process of the CMP subsidiary. In result of this evaluation, errors were detected and on 1996, the CMP Administration requested the regularization of the amount referred above to the Portuguese State.

On September 16, 1999, Secil's management opened a procedure against the Portuguese state, reclaiming the payment of this amount incl. interest, anticipating conviction of the constitutional court, with reasoning having started in the last quarter of 2004.

Tax retention from dividends - Cimpor

From December 2000 to April 2004, the subsidiary Secilpar SL with its headquarter in Madrid, was holding shares representing approximately 10% of the share capital of Cimpor, SGPS, S.A., having received dividends in the amount of € 25,960,429 for 2001 to 2003 subject to tax in Portugal in the amount of €3,039,491, that should be deducted from tax payable in Spain.

Given the fact, that Secilpar presented negative results in these periods, deduction cannot be performed. However, Secil is convinced that this tax credit for international double taxation can be disclosed for the following ten years, respectively from 2011 to 2013.

In addition, the subsidiary Secilpar, filed an appeal in Portugal against the tax retention of dividends for 2002 and 2003, in the amounts of €1,481,263 and €1,159,154, respectively. Under the EU treaty the existence of different tax retention rates for residents and non-residents with its headquarters in the EU, represents discriminatory prescription, matter that has only been corrected with the publication of the directive nº 192/2005, of November 7.

Subgroup Portucel

Tax retentions

ENCE – Empresa Nacional de Celulose, SA, company in which the subsidiary held 8% of share capital until 2004, paid, between 2001 and 2004, dividends in the global amount of €3,444,862, that have been subject to tax retention in the amount of €516,729.

The retained amount was objected by Portucel in the Spanish constitutional court, based on the violation of free capital flows under the treaty of Rome (The same dividends paid to an entity resident in Spain would not be subject to tax retention).

Additionally, and during this year, the European Commission formally requested to Spain the change of the law that regulates the tax retentions done to non-residents, including related to paid dividends, to the extent that this violate the communitarian law, since it is a discriminatory standard faced to the standard that regulate the taxation of the same nature income, when paid between companies tax resident in Spain, having already started a issue in the court (TJCE).

Tax Benefits

Investment contract – 2nd paper machine of Soporcel subsidiary

In 1998, Soporcel, a subsidiary, entered into a contract with the Portuguese state for a tax incentive, which includes a reduction of certain amounts of the income tax charges in the years from 1998 to 2007, determined and allocated to each year in accordance with the financial effort on eligible investments in tangible assets.

From its estimated income tax for the year ended December 31, 2006 was €1,459,954 (December 31, 2005: €1,459,954).

In the course of the calculation of the final amount of the investment, a difference of €2,458,214 was determined between the amount of the tax incentive provisorily deducted up to 2000 and the deductible amount based on the final amount of the investment.

From 2002 this difference is being systematically adjusted in the deductions to be taken through 2007. As of December 31, 2006, the adjustment to be taken was €22,982 and the unused tax deduction amounts to €1,459,954, which was already reduced by the amount to be adjusted.

Investment contract 2006 – API

On July 12, 2006, Soporcel and API – Agência Portuguesa para o Investimento (Portuguese Investment Agency) entered into an investment contract. This is now in force, to be completed by June 30, 2008. It covers tax and financial incentives amounting to €22,480,095 and €46,833,530, respectively.

On the same date, Portucel entered into a similar contract under the same conditions but for associated financial incentives only amounting €36,957,224, to Cacia plant and €18,248,036 Setúbal plant.

Additional contracts were entered into with About the Future, for investments to accomplish in 2007 and 2008 amounted to €490,000,000, with tax and financial incentives for investments to be started after the mentioned date of signature of the contracts.

These contracts are subject to European Commission approval, which is expected for the first half of 2007.

Claims and impugnations

Income tax from the year 2001

Portucel received on May 2005 – when it was in progress a tax inspection to the year 2002 – a notification of corrections from the internal analyses to the income tax of 2001, which originate an additional liquidation, however paid, of income tax and compensatory interests of €314,339.62.

However, the referred liquidation was object of gracious claim, for enabling of the legal formalities by the Tax Administration, as the absence of previous audition and the ending of the liquidation right since March 18, 2004, since already be verified the external analyse to the year 2001 done by the Inspection Taxation Services, which had originate an additional liquidation of income tax in 2003, also paid.

Income tax from the year 2002

As at November 15, 2006, the subsidiary Soporcel claimed the additional income tax payment and withhold tax required amounted to €270,025.42 and €16,161.87

This amount resulted of consideration that timely demand of RFI forms with the services rendered cannot superimpose its material truth, neither overcome the disposition in ADT (double tax agreements) celebrated by Portugal with the residence States of services suppliers. In addition, European Commission summoned Portugal to revoke withhold over services rendered, for being inconsistent to European Union Treaty, namely about establishment freedoms and services rendering.

The first one presented, essentially because the pending forms related to fiscal incentive to research and development amounted to €100,806, was only obtained after payment.

42. Contingent liabilities

The subsidiary Secil has recently seen finalised the individual corporate income tax inspection for the year 2002 as regards corporate income tax calculated on an aggregated basis under the Special Regime for the taxation of group companies – with an additional liquidation of €9,289,439, including compensatory interest of €970,938.

Under the advice of its lawyers and professors of tax law, the Board of Directors of Secil is convinced of its compliance with tax obligations and, therefore, would raise an appeal.

In particular, as regards the consideration of the tax administration in the amount of €24,950,000 as bounteousness, whilst the disposal of Secil Investimentos, SGPS, S.A., as part of capital resulting from a capital increase in the respective year for the hedging of negative equity of the company, giving to understand that there does not exist any validity or fundament whatsoever in the interpretation of the tax administration.

43. Translation Rates

All assets and liabilities of foreign subsidiaries and associated companies are translated to Euros at the exchange rates prevailing as at December 31, 2006.

The income statement items are translated to euros at the average exchange rates for the year. Differences

resulting from the application of the above-mentioned exchange rates when compared to previous amounts were reflected in shareholder's equity in "Currency translation reserves" caption.

The exchange rates used as of December 31, 2006 and 2005 by comparison with the euros, were as follows:

| | 2006 | 2005 | Increase/ (Decrease) |
|--------------------------------------|----------|----------|-------------------------|
| TND (tunisian dinar) | | | |
| Average exchange rate for the year | 1,6868 | 1,6124 | 4,61% |
| Exchange rate at the end of the year | 1,7325 | 1,6144 | 7,32% |
| LBN (libanese pound) | | | |
| Average exchange rate for the year | 1.892,82 | 1.884,35 | 0,45% |
| Exchange rate at the end of the year | 1.985,38 | 1.793,26 | 10,71% |
| USD (american dollar) | | | |
| Average exchange rate for the year | 1,2556 | 1,2441 | 0,92% |
| Exchange rate at the end of the year | 1,3170 | 1,1797 | 11,64% |
| GBP (estrelin pound) | | | |
| Average exchange rate for the year | 0,6817 | 0,6839 | (0,33%) |
| Exchange rate at the end of the year | 0,6715 | 0,6853 | (2,01%) |

During January 2007, Secil has acquired an additional stake of 21.86% of the share capital of Ciment of Sibline SAL (SIBLINE), with headquarters in Beirut, in Lebanon, by USD 37.3 M.

With this acquisition, Secil holds 50.5% of the voting rights of Ciment of Sibline.

February 2007

Semapa have stroked the call option over 2.95% of the Portucel's share capital, as stated in contract signed with Caixa – Banco de Investimento

44. Privatization process of the subsidiary Portucel, SA

With the publication of Decree-Law 6/2003, January 15, the Portuguese government set the model for the second phase of the reprivatization of the Company, foreseeing its completion in two stages.

The first segment, which took place in May of 2004, consisted of a public tender for the sale of a single indivisible lot of shares, representing 30% of Portucel's share capital. The winning bidder was the Semapa Group, which acquired this holding through Seinpart – Participações, SGPS, SA (see Note 24).

The above-mentioned decree-Law also contemplated a second segment, which was the direct sale of up to 115,125,000 of the Company's shares to a syndicate of financial institutions, for subsequent distribution to institutional investors.

In accordance with Decree-Law 143/2006, published on July 28, the Portuguese Government defined the third phase model of Portucel's reprivatization, which engaged the disposal of 25.72% Portucel's share capital, through a public offer for sale on November 14, 2006, after which the company was fully privatized.

45. Subsequent events

January 2007

During January 2007, the Group have sighed a promissory contract of sale of the financial investments Betão-Liz, S.A. and Cimentaçor, Lda., and purchase of 42.86% share capital of Cimentos Madeira, Lda.

This operation is subject to approval by the Competition Authority.

46. Consolidated companies

| Name | Head Office | % direct and indirect percentage of equity held by Semapa | | |
|---|-------------|---|----------|--------|
| | | Direct | Indirect | Total |
| Parent company: | | | | |
| Semapa - Sociedade de Investimento e Gestão, SGPS, S.A. | Lisbon | - | - | - |
| Subsidiaries: | | | | |
| Seminv, SGPS, S.A. | Lisbon | 100,00 | - | 100,00 |
| Cimenpar Investments, B.V. | Amsterdan | - | 100,00 | 100,00 |
| Cimentospar - Participações Sociais, SGPS, Lda. | Lisbon | - | 100,00 | 100,00 |
| Betopal, S.L. | Madrid | 100,00 | - | 100,00 |
| Seinpar Investments, B.V. | Amsterdan | 100,00 | - | 100,00 |
| Semapa Investments B.V. | Amsterdan | 100,00 | - | 100,00 |
| Semapa Inversiones S.L. | Madrid | 100,00 | - | 100,00 |
| Seinpart, SGPS, S.A. | Lisbon | 51,00 | 49,00 | 100,00 |
| CMP Investments, B.V. | Amsterdan | 100,00 | - | 100,00 |

Subsidiary companies of subgroup Portucel

| Name | Head Office | Percentage of share capital held by the subsidiary Portucel | | | Percentage of share capital effectively held by Semapa |
|--|-----------------|---|----------|--------|--|
| | | Direct | Indirect | Total | |
| Portucel – Empresa Produtora de Pasta e Papel, SA | Setúbal | - | - | - | 71,79 |
| Subsidiaries: | | | | | |
| Soporcel - Sociedade Portuguesa de Papel, SA | Figueira da Foz | 100,00 | - | 100,00 | 71,79 |
| Tecnipapel – Sociedade de Transformação e Distribuição de Papel, Lda | Setúbal | 100,00 | - | 100,00 | 71,79 |
| Soporcel España, SA | Spain | - | 100,00 | 100,00 | 71,79 |
| Soporcel International, BV | Netherland | - | 100,00 | 100,00 | 71,79 |
| Soporcel France, EURL | France | - | 100,00 | 100,00 | 71,79 |
| Soporcel United Kingdom, Ltd | UK | - | 100,00 | 100,00 | 71,79 |
| Soporcel Italia, SRL | Italy | - | 100,00 | 100,00 | 71,79 |
| Soporcel 2000 - Serviços Comerciais de Papel, Soc. Unipessoal, Lda | Figueira da Foz | - | 100,00 | 100,00 | 71,79 |
| Soporcel North America Inc. | USA | - | 100,00 | 100,00 | 71,79 |
| Soporcel Deutschland, GmbH | Germany | - | 100,00 | 100,00 | 71,79 |
| Soporcel Handels, GmbH | Austria | - | 100,00 | 100,00 | 71,79 |
| Portucel Florestal – Empresa de Desenvolvimento Agro-Florestal, SA | Lisbon | - | 100,00 | 100,00 | 71,79 |
| Aliança Florestal – Sociedade para o Desenvolvimento Agro-Florestal, SA | Lisbon | - | 100,00 | 100,00 | 71,79 |
| Arboser – Serviços Agro-Industriais, SA | Setúbal | 100,00 | - | 100,00 | 71,79 |
| Enerforest - Empresa de Biomassa para Energia, S.A. | Setúbal | - | 100,00 | 100,00 | 71,79 |
| Sociedade de Vinhos da Herdade de Espirra - Produção e Comercialização de Vinhos, SA | Lisbon | - | 100,00 | 100,00 | 71,79 |
| Viveiros Aliança - Empresa Produtora de Plantas, SA | Lisbon | - | 100,00 | 100,00 | 71,79 |
| Aflomec - Empresa de Exploração Florestal, SA | Lisbon | - | 100,00 | 100,00 | 71,79 |
| Cofotrans - Empresa de Exploração Florestal, SA | Figueira da Foz | - | 100,00 | 100,00 | 71,79 |
| SPCG – Sociedade Portuguesa de Co-Geração Eléctrica, SA | Setúbal | 100,00 | - | 100,00 | 71,79 |
| Enerpulp – Cogeração Energética de Pasta, SA | Lisbon | 100,00 | - | 100,00 | 71,79 |
| Setipel – Serviços Técnicos para a Indústria Papeleira, SA | Lisbon | 100,00 | - | 100,00 | 71,79 |
| Empremédia - Corretores de Seguros, Lda | Lisbon | - | 100,00 | 100,00 | 71,79 |
| Socortel - Sociedade de Corte de Papel, SA | Figueira da Foz | 50,00 | 50,00 | 100,00 | 71,79 |
| PortucelSoporcel Papel - Sales e Marketing, ACE | Figueira da Foz | 50,00 | 50,00 | 100,00 | 71,79 |
| Cutpaper - Transformação, Corte e Embalagem de Papel, ACE | Figueira da Foz | - | 50,00 | 50,00 | 35,90 |
| Raiz - Instituto de Investigação da Floresta e Papel | Eixo | 43,00 | 51,00 | 94,00 | 67,49 |
| Soporcel - Gestão de Participações Sociais, SGPS, SA | Figueira da Foz | 50,00 | 50,00 | 100,00 | 71,79 |
| Aflotrans - Empresa de Exploração Florestal, Lda | Figueira da Foz | - | 100,00 | 100,00 | 71,79 |
| About the Future - Empresa Produtora de Papel, S.A. * | Setúbal | 100,00 | - | 100,00 | 71,79 |
| Headbox - Operação e Contolo Industrial, S.A. * | Setúbal | 100,00 | - | 100,00 | 71,79 |
| EMA21 - Engenharia e Manutenção Industrial Século XXI, S.A. | Setúbal | 100,00 | - | 100,00 | 71,79 |
| Ema Cacia - Engenharia e Manutenção Industrial, ACE * | Cacia | 91,02 | - | 91,02 | 65,35 |
| Ema Setúbal - Engenharia e Manutenção Industrial, ACE * | Setúbal | 91,01 | - | 91,01 | 65,34 |
| Ema Figueira da Foz- Engenharia e Manutenção Industrial, ACE * | Figueira da Foz | 91,87 | - | 91,87 | 65,96 |

* Companies created on 2006

Subsidiary companies of subgroup Secil

| Denominação Social | Sede | % directa e indirecta do capital detido pela subsidiária Secil | | | % do capital efectivamente detido pela Semapa |
|--|--------------------|---|-----------|--------|--|
| | | Directa | Indirecta | Total | |
| Secil - Companhia Geral de Cal e Cimento, S.A. | Setúbal | - | - | - | 51,00 |
| Subsidiárias: | | | | | |
| Parcim Investments, B.V. | Amesterdão | 100,00 | - | 100,00 | 51,00 |
| Secilpar, SL | Madrid | - | 100,00 | 100,00 | 51,00 |
| Somera Trading Inc. | Panamá | - | 100,00 | 100,00 | 51,00 |
| Hewbol, SGPS, Lda. | Funchal | - | 100,00 | 100,00 | 51,00 |
| Secil Cabo Verde Comércio e Serviços, Lda. | Praia | - | 100,00 | 100,00 | 51,00 |
| ICV - Inertes de Cabo Verde, Lda. | Praia | 37,50 | 25,00 | 62,50 | 31,88 |
| Florimar- Gestão e Participações, SGPS, Lda. | Funchal | 100,00 | - | 100,00 | 51,00 |
| Seciment Investments, B.V. | Amesterdão | 100,00 | - | 100,00 | 51,00 |
| Silonor, S.A. | Dunkerque - França | 100,00 | - | 100,00 | 51,00 |
| Société des Ciments de Gabès | Tunis | 98,72 | - | 98,72 | 50,35 |
| Sud- Béton- Société de Fabrication de Béton du Sud | Tunis | - | 98,72 | 98,72 | 50,35 |
| Zarzis Béton | Tunis | - | 78,97 | 78,97 | 40,28 |
| Tercim- Terminais de Cimento, S.A. | Lisboa | 100,00 | - | 100,00 | 51,00 |
| Tecnosecil Investimentos e Participações, SARL | Luanda | 100,00 | - | 100,00 | 51,00 |
| Secil - Companhia de Cimento do Lobito, S.A. | Lobito | - | 51,00 | 51,00 | 26,01 |
| Secil, Betões e Inertes, S.G.P.S., S.A. e Subsidiárias | Setúbal | 91,85 | 8,15 | 100,00 | 51,00 |
| Britobetão - Central de Betão, Lda. | Évora | - | 73,00 | 73,00 | 37,23 |
| Unibetão - Indústrias de Betão Preparado, S.A. | Lisboa | - | 100,00 | 100,00 | 51,00 |
| Secil Britas, S.A. | Penafiel | - | 100,00 | 100,00 | 51,00 |
| ECOB - Empresas de Construção e Britas, S.A. | Albufeira | - | 100,00 | 100,00 | 51,00 |
| Lisconcreto Unibetão, S.A. | Leiria | - | 100,00 | 100,00 | 51,00 |
| Camilo Lopez, Lda. | Alcochete | - | 100,00 | 100,00 | 51,00 |
| Sicobetão - Fabricação de Betão, S.A. | Pombal | - | 100,00 | 100,00 | 51,00 |
| Secil Martingança - Aglomerantes e Novos Materiais para a Construção, Lda. | Leiria | 51,00 | 0,19 | 51,19 | 26,11 |
| IRP - Industria de Rebocos de Portugal, S.A. | Lisboa | - | 51,19 | 51,19 | 26,11 |
| Lusocil - Sociedade Portuguesa de Cimento Cola, S.A. | Lisboa | - | 51,19 | 51,19 | 26,11 |
| Condind - Conservação e Desenvolvimento Industrial, Lda. | Setúbal | 50,00 | 50,00 | 100,00 | 51,00 |
| Ciminpart - Investimentos e Participações, SGPS, S.A. | Lisboa | 100,00 | - | 100,00 | 51,00 |
| Parseinges - Gestão de Investimentos, SGPS, S.A. | Lisboa | 100,00 | - | 100,00 | 51,00 |
| Argibetão - Sociedade de Novos Produtos de Argila e Betão, S.A. | Lisboa | - | 90,87 | 90,87 | 46,34 |
| Sobioen- Soluções de Bioenergia, S.A. | Lisboa | - | 51,00 | 51,00 | 26,01 |
| Ave- Gestão Ambiental e Valorização Energética, S.A. | Lisboa | - | 51,00 | 51,00 | 26,01 |
| Cimentos Costa Verde - Comércio de Cimentos, Lda. | Lisboa | - | 100,00 | 100,00 | 51,00 |
| Ecoresíduos - Centro de Tratamento e Valorização de Resíduos, Lda. | Lisboa | - | 100,00 | 100,00 | 51,00 |
| Prescor Produção de Escórias Moidas, Lda. | Lisboa | - | 70,00 | 70,00 | 35,70 |
| CMP - Cimentos Maceira e Pataias, S.A. ("CMP") | Leiria | 100,00 | - | 100,00 | 51,00 |

Subsidiary companies of subgroup Secil under proportional consolidation

| Name | Head Office | Percentage of share capital held by the subsidiary Secil | | | Percentage of share capital effectively held by Semapa |
|-------------------------------|-------------|---|----------|-------|---|
| | | Direct | Indirect | Total | |
| Secil Unicon - S.G.P.S., Lda. | Lisbon | 50,00 | - | 50,00 | 25,50 |
| Secil Prébetão, S.A. | Montijo | - | 42,50 | 42,50 | 21,68 |

47. Companies excluded from consolidation

| Name | Head Office | Percentage of share capital held by companies of the Group | | | Percentage of share capital effectively held by Semapa |
|------------------------------------|-------------|--|----------|--------|--|
| | | Direct | Indirect | Total | |
| Portucel International Trading, SA | Luxembourg | 80,00 | - | 80,00 | 53,66 |
| Portucel International GMBH | Germany | - | 100,00 | 100,00 | 67,07 |
| Portucel Brasil | Brasil | 99,00 | - | 99,00 | 66,40 |
| Secil Energia, Lda. | Setúbal | 95,00 | 5,00 | 100,00 | 51,00 |
| Secil Algérie, S.P.A. | Algeria | 94,00 | 4,00 | 98,00 | 49,98 |
| MC - Matériaux de Construction | Gabés | - | 98,72 | 98,72 | 50,35 |
| Carcubos - Calcários, Lda. | Satão | - | 93,66 | 93,66 | 47,77 |

These companies were neither fully nor proportionally consolidated, because they are considered to be immaterial for a true and fair presentation of the financial position and results of the Group's operations.

BOARD OF DIRECTORS

Pedro Mendonça de Queiroz Pereira
Chairman

Fernando Maria Costa Duarte Ulrich
Member

Maria Maude Mendonça de Queiroz Pereira Lagos
Member

Joaquim Martins Ferreira do Amaral
Member

Carlos Eduardo Coelho Alves
Member

José Alfredo de Almeida Honório
Member

Francisco José Melo e Castro Guedes
Member

Carlos Maria Cunha Horta e Costa
Member

José Miguel Pereira Gens Paredes
Member

Paulo Miguel Garcês Ventura
Member

Rita Maria Lagos do Amaral Cabral
Member

António da Nóbrega de Sousa da Câmara
Member

António Paiva de Andrada Reis
Member

**Report of the Auditors for Statutory and Stock Exchange Regulatory
Purposes in respect of the Consolidated Financial Information
(Free translation from the original version in Portuguese)**

Introduction

1 As required by law, we present the Report of the Statutory Auditors for Statutory and Stock Exchange Regulatory Purposes in respect of the consolidated financial information included in the consolidated management report and the consolidated financial statements of SEMAPA – Sociedade de Investimento e Gestão, SGPS, SA, comprising the consolidated balance sheet as at December 31, 2006, (which shows total assets of €3,535,878,599 and a total of shareholder's equity of €1,262,277,419, including minority interests of €525,275,087 and net profit of €91,399,271), the consolidated income statement, the consolidated statement of income and expenses, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and the corresponding notes to the accounts.

Responsibilities

2 It is the responsibility of the Company's Board of Directors (i) to prepare consolidated financial statements which present fairly, in all material respects, the financial position of the company and its subsidiaries, the consolidated results of their operations and their consolidated cash flows; (ii) to prepare the historic financial information in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU while also meeting the principles of completeness, truthfulness, accuracy, clarity, objectivity and lawfulness, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain adequate systems of internal accounting controls; and (v) the disclosure of any relevant matters which have influenced the activity, the financial position or results of the company and its subsidiaries.

3 Our responsibility is to verify the consolidated financial information included in the consolidated financial statements referred to above, particularly as to whether it is complete, truthful, accurate, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of expressing an independent and professional opinion on that financial information, based on our audit.

SEMAPA – Sociedade de Investimento e Gestão, SGPS, SA

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations approved by the Institute of Statutory Auditors which require that we plan and perform the examination to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Accordingly, our examination included: (i) verification that the subsidiary's financial statements have been examined and for the cases where such an examination was not carried out, verification, on a test basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements, and assessing the reasonableness of the estimates, based on the judgements and criteria of Management used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations; (iii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) assessing the overall presentation of the consolidated financial statements; and (vi) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the consolidated financial information.

5 Our audit also covered the verification that the consolidated financial information included in the consolidated management report is in agreement with the financial statements.

6 We believe that our examination provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of SEMAPA – Sociedade de Investimento e Gestão, SGPS, SA as at December 31, 2006, the changes in equity, the consolidated results of their operations and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and duly comply with principles of completeness, truthfulness, accuracy, clarity, objectivity and lawfulness.

Lisbon, March 1, 2007

PricewaterhouseCoopers & Associados, SROC, Lda
represented by:

Abdul Nasser Abdul Sattar, R.O.C.

Report and Opinion of the Audit Board

Shareholders,

1. As required by the law and in accordance with our duties, we are pleased to submit our report on our auditing activity and to give our opinion on the Consolidated Management Report and Consolidated Financial Statements presented by the Board of Directors of SEMAPA – Sociedade de Investimento e Gestão, SGPS, S.A., in relation to the financial year ended 31 December 2006.
2. At the General Meeting of 18 October 2006, the Audit Board was restructured and its current members were elected.
3. In the course of the financial year we monitored the company's activities and those of its most significant subsidiaries and affiliates, at the intervals and to the extent we deemed fit. We confirmed that the accounts and respective documents were correctly kept and checked compliance with the law and the articles of association.
4. We also monitored the work of PricewaterhouseCoopers & Associados, SROC, Lda and assessed the Legal Accounts Certificate and Audit Report, attached, with which we agree.
5. In the course of our duties we checked that:
 - i) the consolidated Balance Sheet, the consolidated Income Statement by nature and functions, the Statement of changes in consolidated equity, the consolidated Statement of Cash Flows and the corresponding Notes to the Financial Statements provide an adequate picture of the financial situation and results of the company and its affiliates;
 - ii) the accounting policies and valuation criteria adopted are appropriate;
 - iii) the Consolidated Management Report provides sufficient information on the business and affairs of the company and its affiliates included in the consolidated accounts, detailing the most significant aspects.
6. Accordingly, in view of the information received from the Board of Directors and the Departments, and the conclusions set out in the Legal Accounts Certificate and Audit Report, we recommend that:
 - i) the Consolidated Management Report be approved;
 - ii) the Consolidated Financial Statements be approved.

Lisbon, 1 March 2007

The Chairman of the Supervisory Board

Member
Member

Semapa
Minutes of General Meeting no. 25

On 21 March 2007, at 11.00 a.m., a General Meeting was held of Semapa - Sociedade de Investimento e Gestão, SGPS, S.A., public limited company, in Lisbon, at the Hotel Sana, [...]

[...]

As the meeting had been duly convened and there was sufficient quorum to transact valid business, the Chairman of the Audit Board opened the proceedings, thanking the shareholders for attending and reading out the order of business.

[...]

As no one else wished to take the floor, the Chairman of the Audit Board called a vote on the Management Report, Balance Sheet and Financial Statements for the financial year, together with the Report and Opinion of the Audit Board, and also called a separate vote on the consolidated financial statements for the same period. The documents relating to the first item on the order of business were then approved with the abstention of shareholders representing 57 votes and all other shareholders present voting in favour. [...] The documents relating to the second item on the order of business were unanimously approved by the shareholders present.

The meeting then moved on to the third item on the order of business, and the Chairman of the Audit Board began by reading out the sole motion, tabled by the Board of Directors, which is hereby transcribed:

- *Considering that the Company needs to maintain a financial structure compatible with sustained growth of its Group, in the various business areas in which it operates, and*
- *Considering that in order for the Company to remain independent from the financial system, it needs to preserve levels of consolidated short, medium and long term indebtedness which allow it to maintain sound solvency indicators,*

We propose that the net profits for the period (determined under the POC rules and the Companies Code), of EUR 91 399 271 (ninety one million, three hundred and ninety nine thousand, two hundred and seventy one euros) be distributed as follows:

Dividends for shares in circulation

| | |
|------------------------|-----------------------|
| <i>Per share</i> | <i>EUR 0.23</i> |
| <i>Total dividends</i> | <i>EUR 27 216 462</i> |
| <i>Free reserves</i> | <i>EUR 64 182 809</i> |

As no one wished to speak, the Chairman of the Audit Board considered the discussion closed, and put the motion to the vote; it was unanimously approved.

[...]