



## **DIRECTOR'S REPORT**

## **CONSOLIDATED FINANCIAL STATEMENTS**

## **FINANCIAL YEAR of 2007**

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Semapa – Sociedade de Investimento e Gestão, SGPS, SA. Public Limited Company

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Lisbon Companies Registry and Corporate Person no. 502 593 130 · Share Capital 118.332.445 Euros

## Directors' Report

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## 1 Introduction

### 1.1 Overview of Semapa Group Operations

The Semapa Group recorded positive performance in 2007, reflected in the consolidated net profits attributable to Semapa Shareholders of **122.0 million euros**, up by **33.4** on the previous year..

**Total** and **recurrent EBITDA** grew year-on-year to **432.7** and **406.1 million euros** respectively, and **net debt** was down on year-end 2006 at **887.9 million euros**.

The Semapa Group's operations in 2007 reflect the process of consolidation in the two main business areas in which the Group operates – **Paper and Paper Pulp** and **Cement and Derivatives**.

### Contribution by Business Segment (IFRS)

<i>Figures in M€</i>	<b>Paper and Paper Pulp</b>	<b>Cement</b>	<b>Holdings</b>	<b>Consolidated</b>
<b>Sales</b>	<b>1.147,4</b>	<b>287,7</b>	<b>0,3</b>	<b>1.435,4</b>
<b>Total EBITDA</b>	<b>342,3</b>	<b>77,1</b>	<b>13,2</b>	<b>432,7</b>
<b>Recurrent EBITDA</b>	<b>342,3</b>	<b>76,8</b>	<b>(13,0)</b>	<b>406,1</b>
Depreciation and impairment losses	(95,4)	(21,3)	(0,1)	(116,8)
Provisions (increases and reversals)	(9,9)	(0,4)	(2,2)	(12,5)
<b>EBIT</b>	<b>237,0</b>	<b>55,4</b>	<b>10,8</b>	<b>303,3</b>
Net financial profit	(27,5)	(7,1)	(23,3)	(58,0)
<b>Pre-tax profit</b>	<b>209,5</b>	<b>48,3</b>	<b>(12,5)</b>	<b>245,3</b>
Tax on profits	(72,6)	(12,8)	1,6	(83,8)
<b>Retained profits for the period</b>	<b>136,9</b>	<b>35,5</b>	<b>(10,9)</b>	<b>161,5</b>
<b>Attributable to Semapa shareholders</b>	<b>99,9</b>	<b>33,0</b>	<b>(10,9)</b>	<b>122,0</b>
Attributable to minority interests	37,0	2,5	-	39,5
<b>Cash flow</b>	<b>242,2</b>	<b>57,2</b>	<b>(8,5)</b>	<b>290,9</b>
EBITDA margin (%)	29,8%	26,8%	-	30,1%
Recurrent EBITDA margin (%)	29,8%	26,7%		28,3%
EBIT margin (%)	20,7%	19,3%	-	21,1%
<b>Total net assets</b>	<b>2.521,6</b>	<b>480,9</b>	<b>254,6</b>	<b>3.257,1</b>
<b>Net debt</b>	<b>367,7</b>	<b>76,7</b>	<b>443,4</b>	<b>887,9</b>

Notes:

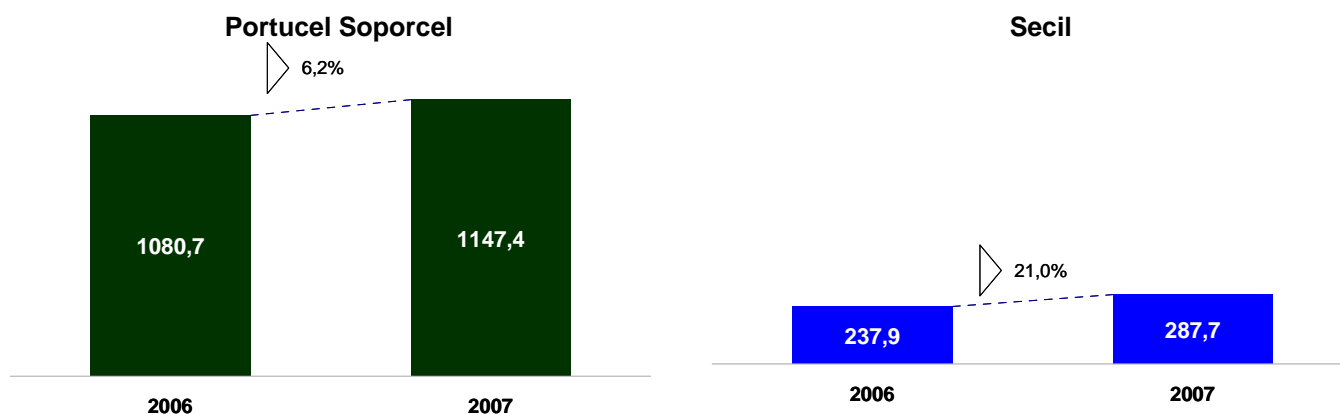
- Figures for business segment indicators may differ from those presented individually by each Group, as a result of consolidation adjustments.
- Cash flow = retained earnings + depreciation and impairment losses + provisions – reversal of provisions.
- Total EBITDA = operating profit + depreciation and impairment losses + provisions – reversal of provisions.

- Net debt = non-current interest bearing debt (net of loan issue charges) + current interest-bearing debt (including debts to shareholders) – cash and cash equivalents; in line with IFRS rules.
- As duly disclosed, from 2007 onwards the Semapa Group's 51% holding in Secil has been consolidated using the proportional method, instead of by the full consolidation method as previously.
- In order to permit comparability of data and indicators between financial periods, we present a new version of the Semapa Group's consolidated accounts for the financial year of 2006 restated to include consolidation of Secil by the proportional method.
- There were two significant changes to the set of companies included in the consolidated accounts in the Cement and Derivatives business area:
  - i) acquisition in the course of 2007 of a further 21.86% holding in Sociedade Ciment de Sibline SAL, based in Beirut, Lebanon, bringing the total holding up to 50.5% of the voting rights and share capital, and representing total investment of USD 65.1 M€.
  - ii) the Secil Group's holding in Cimentos Madeira was increased in 2007 from 14.29% to 57%.

As a result, these two subsidiaries are now included using the full consolidation method.

## **Consolidated Sales: 1.435,4 million euros**

The figure of **1,435.4 million euros** represents growth of **9%** over the figure recorded for 2006. This was achieved thanks to the following contributions:



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

The Portucel Soporcel Group contributed a total of **1,147.4 million euros** in 2007, corresponding to growth of **6.2%** over the previous financial year.

The Group recorded positive performance both in the quantity of paper sales (1,031 thousand tons) and in the average unit price (up by 5.4%). As a result, total sales in this segment increased by 8.3% year-on-year, representing approximately 71% of the Portucel Soporcel Group's total turnover.

Unit sales prices for pulp fell by 0.1% over the period, despite a rise of approximately 100 USD in the dollar reference price for eucalyptus pulp. However, the steep depreciation of the dollar against the euro over the year resulted in stabilization of the net average sale price in euros for the Portucel Soporcel Group.

As a result of increase integration of pulp into paper, the quantity of pulp available for sale to the market (544 thousand tons) was down on the financial year of 2006 (559 thousand tons). These two factors contributed to the reduction in total pulp sales of around 2.7 in relation to 2006.

Pulp sales contributed 21% to the total turnover of the Portucel Soporcel Group.

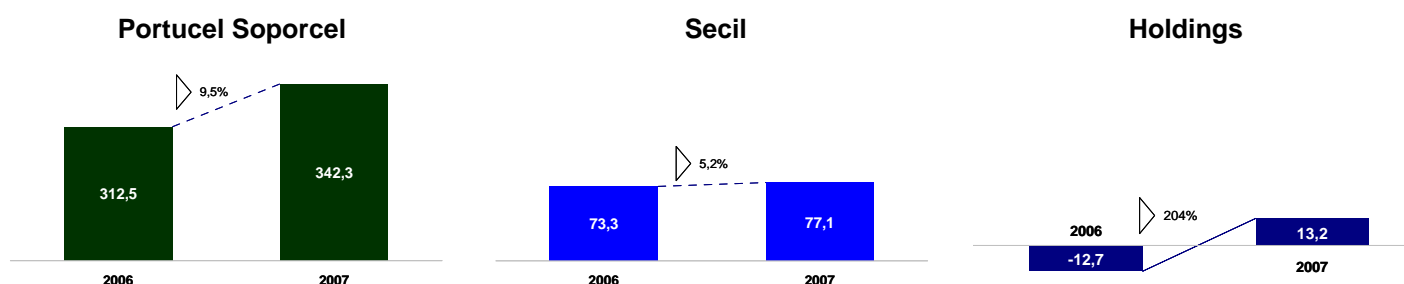
The remaining 8% of the Portucel Soporcel Group's turnover was generated by the power and other services sector.

- SECIL Group (Cement and Derivatives)

The accrued sales of the Secil Group in 2007 made a contribution of **287.7** million euros, up by **21.0%** on the financial year of 2006, due fundamentally to the inclusion of the subsidiaries Ciment de Sibline and Cimentos Madeira in the Secil Group's consolidated accounts and the good performance recorded by the Tunisia-Cement business unit.

Business in the Secil Group's main market – the Portuguese cement market - was hit by a decline of 0.2% in the consumption in comparison with 2006, as a result of the prolonged depression affecting the civil construction sector since 2002, affecting both residential and non-residential construction and public works.

**Consolidated EBITDA: Total of 432.7 euros, of which 406.1 million euros is recurrent.**



- PORTUCEL SOPORCEL Group (Paper and Paper Pulp)

The Group contributed total EBITDA of **342.3** million euros, representing growth of **9.5%** over the financial year of 2006, thanks to (i) growth in paper sales, (ii) an increase of approximately 5.4% in the average sales price for paper, (iii) improved efficiency in energy costs and (iv) increase productivity due to a reduction in a number of specific factors.

These results were obtained in a context characterized by significant increases in some of the factors of production, specifically eucalyptus timber, chemical products and transport.

Recurrent EBITDA in 2007 stood at **342.3 million euros**, corresponding to year-on-year growth in the order of 10.1%, due essentially to the reasons described.

It should be noted that in the financial year of 2006 the Portucel Soporcel Group had recorded a gain of 7.4 million euros on the disposal of CO2 licenses, whilst the corresponding gains in 2007 amounted to only 2.8 million euros.

- SECIL Group (Cement and Derivatives)

Secil's total accrued EBITDA contributed **77.1 million euros**, representing growth of **5.2%** over the previous financial year.

This was due essentially to full contribution of the accounts of Ciment de Sibline and Cimentos Madeira, as mentioned above.

It should be noted that in the financial year of 2006 the Group recorded gains on the disposal of non-current assets and also on the disposal of surplus CO2 licenses attributed by the Portuguese Government under PNALE (3.8 million euros appropriated by the Semapa Group). These transactions were reflected in the EBITDA for 2006, and were not repeated in 2007.

Recurrent EBITDA stood at **76.8 million euros**, corresponding to year-on-year growth in the order of **13.1%**.

- Holdings (Semapa SGPS and instrumental sub-holdings)

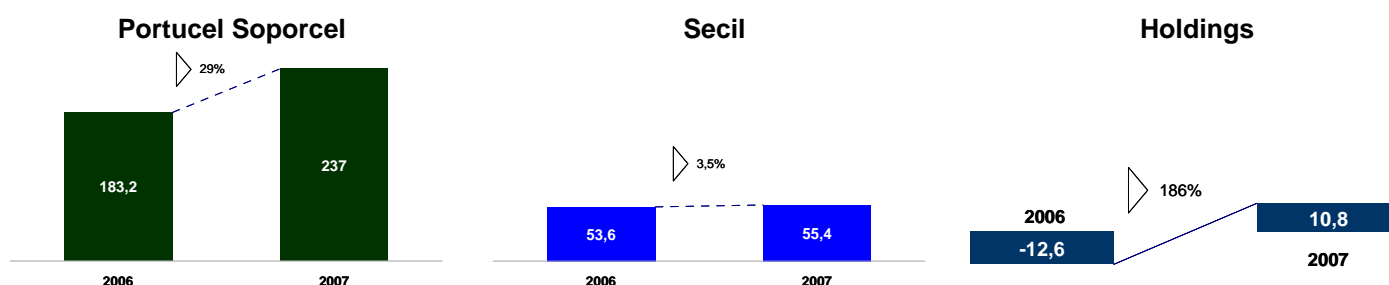
Total accrued EBITDA stood at **13.2 million euros**, due essentially to the capital gain of **26.2 million euros** obtained on the disposal of shares in EDP – Energias de Portugal.

Recurrent EBITDA is negative, at **-13.0 million euros**, reflecting the structural costs of Semapa and its instrumental sub-holdings.

### Consolidated EBITDA margin: 30.1%

- Paper and Paper Pulp: margin of 29.8%, representing growth of 0.9 percentage points in relation to 2006.
- Cement and Derivatives: margin of 26.8%, i.e. reduction in the margin of around 4.0 percentage points in relation to 2006.

### Consolidated EBIT: 303,3 million euros



- Portucel Soporcel Group (Paper and Paper Pulp)

Total accrued EBIT stood at **237.0 million euros**, up by **29.4%** on the figures recorded in 2006. Operating results were positively influenced by a reduction in the value of provisions.

- Secil Group (Cement and Derivatives)

Accrued EBIT totalled **55.4 million euros**, corresponding to an increase of **3.5%** over the figures for December 2006. The factors which accounted for the trend in EBITDA also apply to the performance of EBIT in this business sector.

- Holdings (Semapa SGPS and instrumental subholdings)

Total accrued EBIT stood at **10.8 million euros**, due above all to the capital gain obtained on the disposal of shares in EDP.

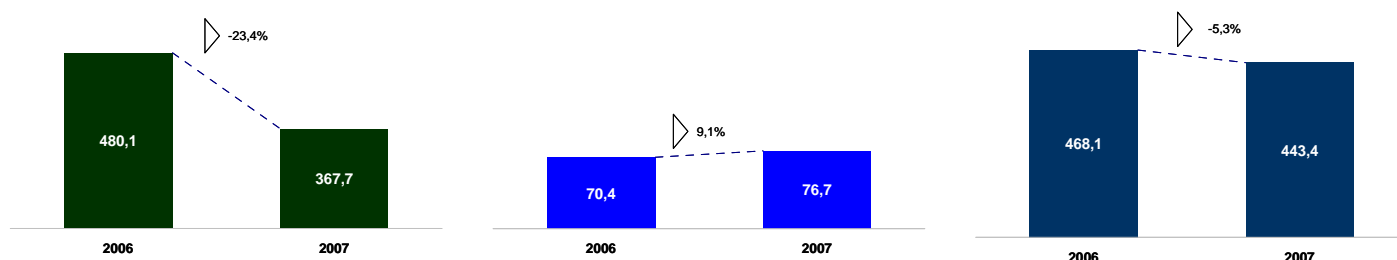
### Net Debt: 887.9 million euros

The SEMAPA Group's net borrowing has continued to fall, down on the year by 130.6 million euros, reflecting the Group's excellent performance in generating cash flow.

### Portucel Soporcel

### Secil

### Holdings



- Portucel Soporcel Group:** debt down by **112.4 million euros** in relation to the year-end 2006. This reduction in the Portucel Group's net borrowing demonstrates the Group's strong capacity to generate cash flow, considering that during the course of the 2007 the Group (i) distributed dividends of **60.6 million euros** in relation to the financial year of 2006, (ii), paid 53.7 million euros in interim dividends in December 2007 and (iii) started on the disbursements relating to investment in the new paper mill in Setúbal.
- Secil Group:** In view of (i) the cash flow generated by the Secil Group, (ii) the acquisition of major assets during the first half of 2007 and (iii) the distribution of a total dividend of **19.1 million euros** for the financial year of 2006 and (iii) distribution of an interim dividend of 19.5 million euros in October 2007, net debt was up on year-end 2006, at **76.7 million euros** when consolidated at 31 December 2007 with Semapa.
- Holdings:** total debt was down by **24.7 million euros** in relation to 31 December 2006, totalling **443.4 million euros** at the end of December 2007.

The following factors contributed to the reduction in the borrowing of Semapa SGPS and subholdings: (i) the sum of 85.2 million euros received on disposal of shares in EDP, (ii) the receipt of dividends from Portucel and Secil (82.3 million euros and 19.1 million euros, respectively), despite the fact Semapa (i) paid dividends of 27.2 million euros, (ii) acquired own shares with a value of 36.7 million euros, (iii) acquired on the stock exchange shares in Portucel for a sum of 68.7 million euros, as well as bearing overheads.

### Financial Results: (58.0) million euros

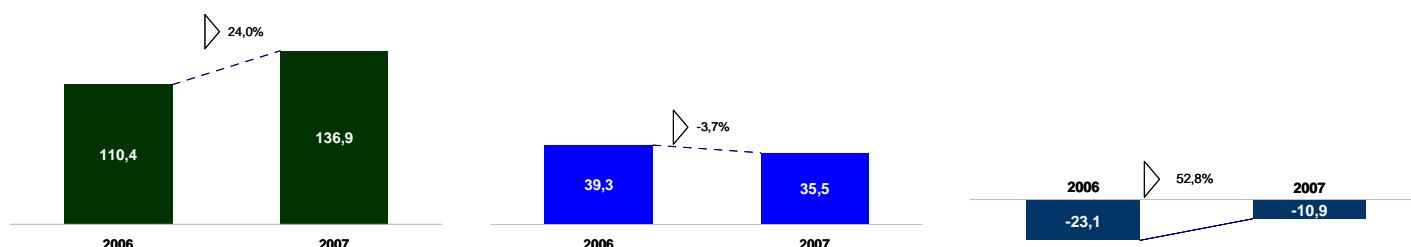
Financial results worsened in relation to 2006, totalling **(58.0) million euros**. This was due to the increased net borrowing of the Secil Group, increasing financial charges payable by the Portucel Group as a result of the recognition of interest totalling 10.4 million euros on fiscal contingencies due to facts prior to 2004 and the rise in interest rates over the course of 2007.

### Consolidated Net Profits: 161.5 million euros

#### Portucel Soporcel

#### Secil

#### Holdings



Consolidated net profits before minority interests stood at **161.5 million euros**, up by **27.6%** on the previous financial year, with **122.0 million euros** of this attributable to Semapa shareholders.



## Leading Business Indicators

Figures in M€	IFRS December 2007	IFRS December 2006*	Annual % var. 07/06	IFRS December 2006**
<b>Sales</b>	<b>1.435,4</b>	<b>1.318,9</b>	<b>9%</b>	<b>1.547,0</b>
Other income	55,1	64,1	(14%)	125,8
Costs and losses	(1.057,8)	(1.009,9)	5%	(1.229,2)
<b>Total EBITDA</b>	<b>432,7</b>	<b>373,2</b>	<b>16%</b>	<b>443,6</b>
<b>Recurrent EBITDA</b>	<b>406,1</b>	<b>364,9</b>	<b>11%</b>	<b>430,1</b>
Depreciation and impairment losses	(116,8)	(121,0)	(3%)	(138,0)
Provisions (increases and reversals)	(12,5)	(27,9)	(55%)	(29,9)
<b>EBIT</b>	<b>303,3</b>	<b>224,2</b>	<b>35%</b>	<b>275,7</b>
Net financial profit	(58,0)	(45,9)	26%	(48,5)
<b>Pre-tax profit</b>	<b>245,3</b>	<b>178,3</b>	<b>38%</b>	<b>227,2</b>
Tax on profits	(83,8)	(51,7)	62%	(62,9)
<b>Retained profits for the period</b>	<b>161,5</b>	<b>126,6</b>	<b>28%</b>	<b>164,3</b>
<b>Attributable to Semapa shareholders</b>	<b>122,0</b>	<b>91,4</b>	<b>33%</b>	<b>91,4</b>
Attributable to minority interests	39,5	35,2	0,1	72,9
<b>Cash flow</b>	<b>290,9</b>	<b>275,5</b>	<b>6%</b>	<b>332,2</b>
EBITDA margin (% Sales)	30,1%	28,3%	7%	28,7%
Recurrent EBITDA margin (% Sales)	28,3%	27,7%	2%	27,8%
EBIT margin (% Sales)	21,1%	17,0%	24%	17,8%
Net total assets	<b>3.257,1</b>	<b>3.120,1</b>	<b>4%</b>	<b>3.535,9</b>
Equity (before MI)	<b>745,8</b>	<b>737,0</b>	<b>1%</b>	<b>737,0</b>
<b>Net debt</b>	<b>887,9</b>	<b>1.018,5</b>	<b>(13%)</b>	<b>1.086,1</b>

### Notes:

\* Pro-forma accounts with the subsidiary Secil consolidated by the proportional method

\*\* As reported to the market in December 2006

Total EBITDA = operating profit + depreciation and impairment losses + provisions – reversal of provisions

Net debt = non-current interest bearing debt (net of loan issue charges) + current interest-bearing debt (including debts to shareholders) – cash and cash equivalents; in line with IFRS rules

## 1.2 Main Developments

### Holdings (Semapa SGPS and instrumental sub-holdings)

- The General Meeting of Semapa SGPS, held in March 2007, at which it was resolved to distribute dividends of 0.23 euros per share in circulation, leading to payment of a total dividend of 27.2 million euros in April.
- Disposal during 2007 of 20.1 million shares in EDP – Energias de Portugal, resulting in a financial input of 85.2 million euros and a capital gain of 26.2 million euros.
- The company increased its holding in Portucel, by acquiring on the stock exchange shares representing 3.40% of its capital.
- Under the Put & Call Combination agreement with Caixa Banco de Investimento, Semapa SGPS also exercised the right to purchase a further 2.95% holding in Portucel.

- Acquisition of own shares corresponding to 2.30% of the share capital of Semapa SGPS.

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

- The General Meeting of Portucel, held in March 2007, resolved to distribute a dividend of 0.079 euros per share, which was paid in April, corresponding to a total dividend of 60.6 million euros.
- Payment of an interim dividend of 0.070 euros per share, in December 2007, corresponding to a total of 53.7 million euros.
- Approval by the European Commission, in early April, of the incentives granted by the Portuguese state for the new paper mill to be built in Setúbal. The incentives have a nominal value of 52.4 million euros, corresponding to a discounted value of 38 million euros.

In June, approval was also given for the incentives for the project for the Figueira da Foz plant, with a nominal value of approximately 63.4 million euros, corresponding to a discounted value of approximately 46.5 million euros.

- **Investment in the new paper machine**

The Portucel Group signed the contract with METSO Paper Oy for acquisition of the new paper machine to be installed at its industrial complex in Setúbal. This machine will produce approximately 500,000 tons/ year, and will be the largest in the world for the production of UWF papers. Start-up is planned for August 2009.

Investment is expected to total around 550 million euros, and this will make it possible to integrate into paper all the pulp produced at the Setúbal complex.

This will increase the Portucel Group's total paper production capacity to approximately 1.5 million tons/year, with eucalyptus pulp production capacity remaining at 1.3 million tons/year. The Group will be the largest UWF producer in Europe, significantly increasing its competitiveness in the paper market. The plans for implementation and operation of the new plant will be subject to the strict environmental standards established in law, in line with standards applicable in Portugal and the European Community.

- The Group obtained certification from the Forest Stewardship Council (FSC), in an assessment process conducted by the certified Soil Association / Woodmark, with the award of certificate SA-FMCOC-001785.

### **SECIL Group (Cement and Derivatives)**

- Distribution of a dividend of 0.38 euros / share, paid on 4 April, corresponding to a total dividend of 19.1 million euros.
- Distribution of an interim dividend, totalling 19.5 million euros and corresponding to 0.39 euros / share, paid in October.
- Acquisition, through a wholly owned subsidiary, of a further 21.86% holding in the share capital and voting rights of Sociedade Ciment de Sibline SAL, based in Beirut, Lebanon, for a total price of 37.3 million USD (28.8 million euros).

With this acquisition, Secil now has a total holding of 50.5% in the voting rights and share capital of Sibline. The total investment involved in acquiring this holding (50.5%) amounted to 65.1 million USD. Sibline has annual clinker and cement production capacity of 950,000 and 1,200,000 tons, respectively. The company also operates in the ready-mixed sector through its subsidiary Soime.

- Acquisition of a further 45.81% holding in Secil Martingança, giving it a total holding of 97%. This additional holding represents investment of 6.4 million euros. In addition, Secil holds an option to purchase the remaining 3%.

- Acquisition, in January 2007, of a further 14.29% holding in Cimentos Madeira, giving it a total of 57%; the remaining 43% belong to the Madeira Regional Government.

Cimentos da Madeira has sizeable operations in Madeira in the marketing of cement and the production and marketing of ready-mixed, aggregates and precast concrete.

- Acquisition by **Ecoresíduos** of an additional 30% holding in **Prescor**, making it the sole owner.
- Disposal of the 25% and 33.4% holdings in Cimentos Açores and Betão Liz; these holdings were previously included in the Secil Group's consolidated accounts using the equity method..
- Acquisition, by **SBI**, of 100% of the company **Minerbetão**, located in Marinha Grande, operating in the ready-mixed market.
- Approval by the Angolan Government of a new cement and clinker production line planned for Secil – Companhia de Cimentos do Lobito, S.A., 61% owned by the subsidiary Secil. With this new investment, **Secil Lobito** will have annual production capacity of 500,000 t of clinker and 900,000 t of cement. Investment in the first phase will total around 141 million dollars, including investment in power generation and infrastructures.
- Signing of investment contract with ANIP, the Angolan private investment agency, relating to the new cement production line for **Secil Lobito**.
- Certification of health and safety at work management system in accordance with standards OHSAS 18 001 and NP-3497 at the Maceira-Liz and Cibra-Pataias plants.

## 2 Economic Background

In 2007, the Portuguese economy grew by 1.9%, after gathering pace in the final quarter of the year. According to figures issued by the National Institute of Statistics (INE), the growth in GDP recorded last year was the highest in the last six years (since 2001), contrasting favourably with the growth of 1.6% recorded in 2006.

The recovery in the Portuguese economy in 2007 was underpinned by improved performance in industrial investment and robust growth in exports of goods and services. At the same time, a number of imbalances were corrected: i) in the balance of payments, despite the shock of soaring oil prices and rising interest rates over recent years and ii) in public finance, with further progress being made on consolidating the budget, more than meeting the commitments accepted under the Stability and Growth Pact. In addition, the slowdown in consumer spending observed in 2006 continued in 2007, inverting the downward trend in household savings observed in recent years.

The Portuguese inflation rate, measured by the average annual variation in the HRPI (Harmonized Retail Price Index), is expected to have dropped from 3.0% in 2006 to 2.4% in 2007, due in great part to rising energy prices, reflecting the oil price in Euros, in annual terms.

In global terms, the financial year of 2007 was characterized by relatively strong growth, due to a large extent to the bloc of countries comprising China, India, Russia and Brazil, where economic growth stood in the order of 8.1%, in accordance with IMF estimates. For their part, the developed economies experienced slower growth, down from 2.9% to 2.5%.

From August 2007 onwards, the situation on the international financial markets was extremely turbulent, leading investors to reassess their risks significantly, almost overnight. The effects of this on the economy are not easy to quantify, partly due to the lack of information of the real scale of the phenomenon, and also due to the complexity of the transfer mechanisms involved and of the solutions needed to resolve the issues.

Sharp deterioration of confidence in the financial system and the consequent widening of the differentials between market interest rates and leading rates exerted an influence over monetary policy in 2007. As a

result some of the main central banks made abrupt changes to their monetary policies, whilst others put the normal evolution of their policy on hold.

In September 2007, after a break of 15 months, the American Federal reserve (FED) announced a 15% cut in the Fed Funds leading rate, abandoning its previous focus on controlling inflationary pressures and centring its attention on reducing the risks of the economy cooling even further. The FED made a further reduction in the leading rate before the end of the year, and took the markets by surprise in January when it slashed its rate by 125 base points to 3%.

For its part, the ECB interrupted its policy of gradually increasing its refinancing rate, which held at 4% through to the end of 2007, due to i) the likely cooling of the economy and ii) problems of liquidity caused by the financial crisis which pushed up Euribor rates for shorter maturities. Despite this stance, the ECB maintained an aggressive discourse, emphasising the need to control inflationary pressures.

The interest rate differential between the EUR and the USD put pressure on the dollar, which fell against the euro. This had a negative effect on business in Paper and Paper Pulp, as most sales are in USD.

### **3 Paper and Paper Pulp Business Area - PORTUCEL SOPORCEL**

#### **3.1 Business Overview**

##### **3.1.1 Paper**

###### The Market

European demand for UWF paper grew by approximately 1% in 2007, with demand for sheet paper (cut size and folio paper) up by 2%, keeping pace with the rate of economic growth, estimated at 2.6% in the Euro Zone.

The process of reducing UWF paper production capacity in Europe continued in 2007, with the closure of two mills with total annual capacity of 420 thousand tons, causing an impact in 2007 estimated at 250 tons. It is estimated that between 2005 and 2007, capacity in Europe has fallen by approximately 650 thousand tons in net terms.

As a result, output of UWF paper in Europe fell by 2% (- 180 thousand tons) to 9.0 million tons, although the occupation rate was better than 2006, thanks to the reduction in capacity, at 97% for Cepifine producers.

The total sales of these producers fell in line with the drop in output, especially, as was to be expected, in sales outside Europe, which were down by 17% (- 130 thousand tons) on 2006.

Imports of UWF into Europe grew significantly over the year, standing at 590 thousand tons, 170 thousand tons up on the previous year. This strong growth more than offset the drop of 1% in sales by European producers on this market, justifying the growth of demand. Approximately 70% of imports consist of cut size paper, representing 7% of total apparent consumption of UWF.

The UWF market in the US contracted in relation to 2006, although there was slight growth in the Group's strategic segments: cut size and folio.

In other world markets, demand for UFW paper is estimated to have grown by 4% in Asian markets and 2% in Latin America. The extra demand was met predominantly by local manufacturers.

###### Performance

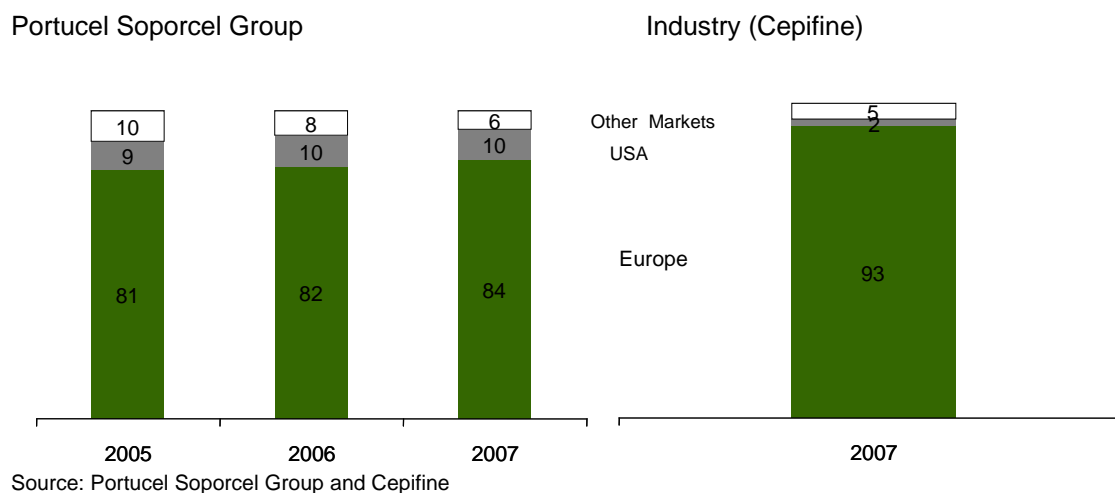
Paper sales totalled 1,031 thousand tons, up by 2.7% on 2006.

This growth took place mostly in European countries, where sales were up by 6%, resulting in a further increase in the share in these markets, where total demand grew by 1%, as mentioned above.

Sales by the Soporcel Portucel Group to the United States held steady, and all sales to this market comprise premium quality products and the Group's own brands. It should be noted that the Group accounts for approximately 2/3 of the volume of exports from Europe to the US.

The Group also recorded an increase in sales on its strategic markets (Europe and US), as compared with sales to other markets, which were down on the previous year.

### Evolution of geographical mix (% of sales)

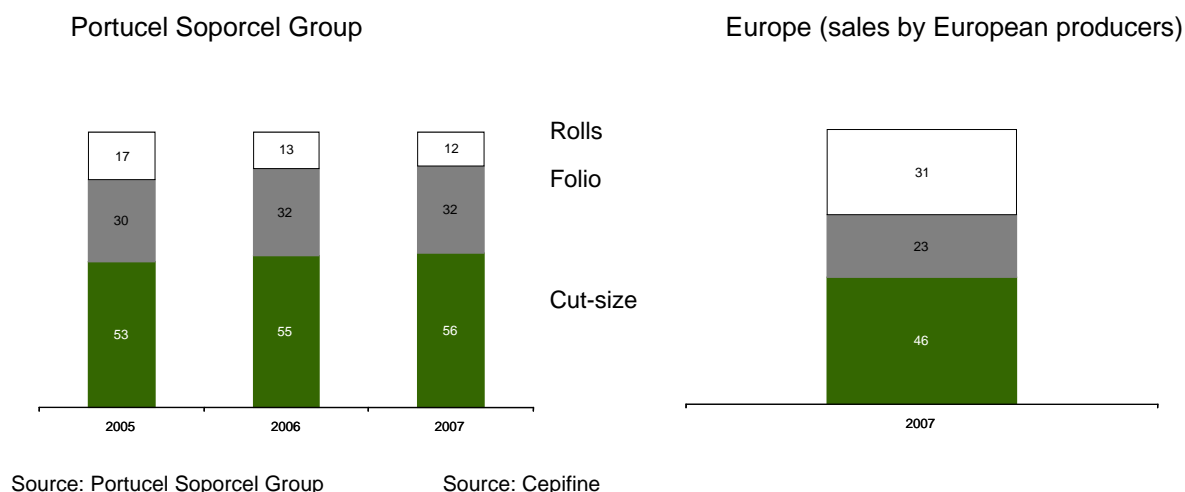


This growth in sales was accompanied by improvement in the Group's mix of papers, with sales of premium products up by 11% overall, and by 17% in the European market, consolidating the trend established over several years and comparing very favourably with the structure of the European market.

The increase in the proportion of premium products is in line with the strategy pursued by the Group, and reflects the market's perception of the quality of its products, the profile and prestige of its brands and also the high standard of service to distribution channels.

The breakdown into product type also reveals positive evolution in sales, with an increase of 25 thousand tons in cut-size and 12 thousand tons in folio paper (products with greater added value), and a reduction of 10 thousand tons in rolls.

### Evolution of format mix (% of sales volume)



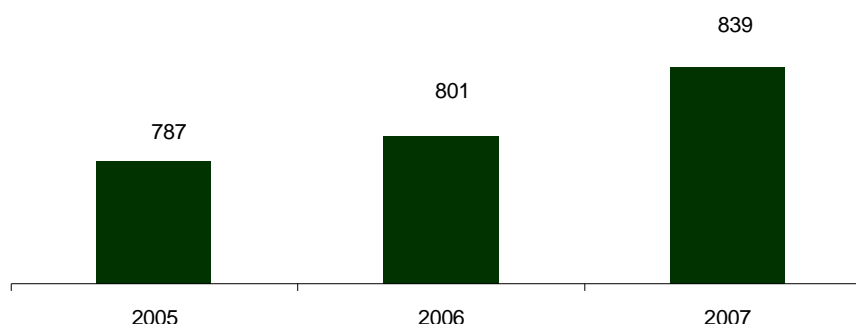
The Group's excellent performance was also reflected in the 2007 Customer Satisfaction Survey, with improvements in all areas assessed: product quality, sales, service, marketing and product development.

Overall, the Group recorded an improvement of two percentage points in the customer satisfaction index in comparison with 2006.

### Prices

Reference prices for UWF paper in Europe continued to rise, with the PIX “A4-copy B” index up by 4.6% over the course of 2007. On average, the index was up by 4.8% on the average level recorded in 2006.

**Average price for PIX “A4 – copy B”**



**Source:** FOEX

The Group's average net sale price outstripped the increase in the PIX index, rising by 5.5%. The positive evolution in prices more than compensated the increases in production costs in 2007, resulting in improvement to the unit contribution margins for paper business.

### Brands

In 2007, the Portucel Soporcel Group's brands consolidated their leading position in European markets. As the world's best selling cut-size paper in the premium segment, Navigator was regarded by European consumers as the brand with the best quality and the top brand in terms of Brand Equity (independent study conducted by Opticom International Research).

As a proportion of total sales of sheet paper, the Group's own brands gained a further 7 percentage point, accounting for 59% of sales, a particularly high figure for companies of this size.

There was a substantial increase in sales of FSC certified office paper during 2007, thanks to the fact that the Group has obtained certification of its pulp and paper plants under the FSC chain of custody standard, and thanks to the purchase of certified fibre (timber, long fibre pulp and recycled pulp).

Initial priority for certification was assigned to the Group's premium brands in the office stationary segment, Navigator and Pioneer, as well as to brands with a position which includes specific environmental benefits such as Navigator Eco-logical, Navigator Hybrid, Discovery and Explorer Recycled.

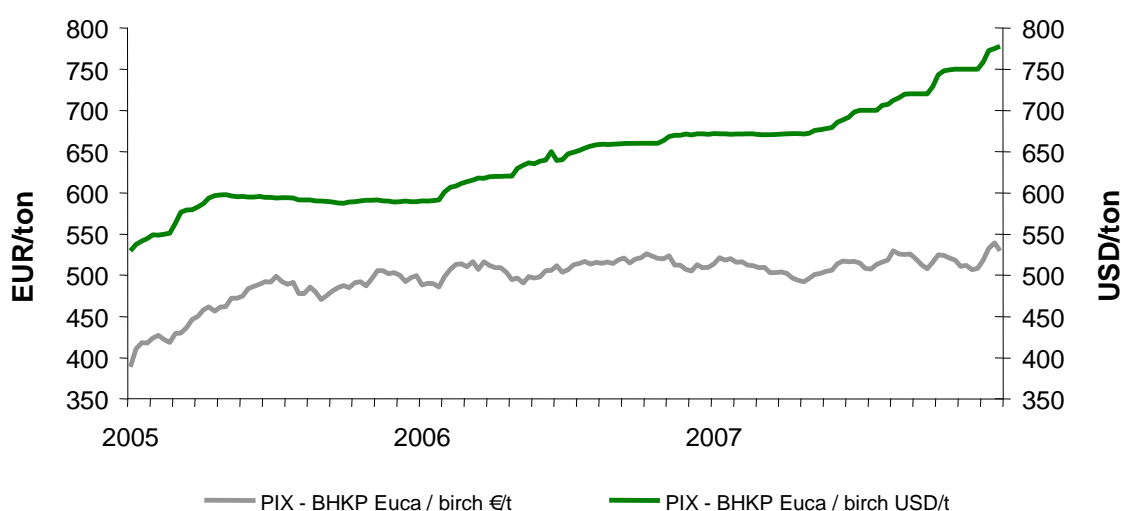
At the end of the year, the Group obtained certification under the FSC forestry management standard for most of the forests managed by the Portucel Soporcel Group. This will allow it to increase sales of the certified brands in 2008, and to proceed with certification of other own brands.

### 3.1.2 Pulp

The world pulp market was significantly affected in 2007 by the steep fall in the US dollar against the currencies of some of the leading pulp producer regions, such as Canada, Brazil, Chile, Uruguay and the Euro Zone.

As may be seen in the following table, showing evolution of the PIX index in USD and EUR, the average eucalyptus pulp price was USD 702, an all-time high for the PIX index, corresponding to average growth over the year of 10%. However, the average price in euros in 2007 (513 euros) was practically the same as in 2006 (509 euros).

Evolution of PIX Price – BHKP Eucalyptus/Birch in USD and EUR / ton



At the same time, appreciation of the Real and the CAD against the dollar affected the competitiveness of Latin American and Canadian producers, thereby helping to hold up the prices in USD.

Another feature of the year was the restrictions of various types on the availability of fibre (Europe, Indonesia and North America are the most significant examples), with a strong impact on the respective cost, leading to disruption of pulp supply to the market on various occasions.

Production capacity for eucalyptus pulp grew by 1.8 million tons, due in particular to the start-up of new production lines in Latin America.

However, this was offset by the global increase in demand, principally in the Chinese market where very substantial investment is underway in new paper production capacity, with the need for pulp from the import market, whilst at the same time small-scale production units, using local fibre sources, typically not wood based, are being closed down on a massive scale for environmental reasons.

This upward trend in demand, combined with restrictions on the supply of fibre, allowed market fundamentals to remain intact, with a high rate of use.

The Portucel Soporcel Group's output of BHKP increased by 1.3 million tons in 2007, representing growth of 1% and making the Group the largest European producer and one of the largest producers in the world for this type of pulp.

The Group placed 554 tons of pulp on the market, slightly less than in 2006, due to increased incorporation in paper, with a consequent reduction in output available for sale on the market.



The Group's average net sales price stabilized, in euros, in relation to 2006 prices, in line with the evolution of reference prices on the market in this currency.

Pulp export destinations continued to reflect the Group's dominant orientation towards European markets, where producers of higher quality papers are concentrated, with the technological capability and know-how needed to take full advantage of the natural qualities of pulp from globules eucalyptus produced by the Group.

The sales team was concerned at all times to maintain close and constant contact with customers, assuring service levels compatible with their needs and overcoming occasional logistical difficulties caused by rising fuel prices and by sometimes scarce supplies.

Overall, in 2007, the Group dispatched from its paper and pulp plants 1.6 million tons of products to more than 80 countries worldwide, representing growth of 1.5% over 2006, on the strength of growth in paper business.

Most of the Group's products (pulp and paper) continued to be transported by sea (more than 50% in volume) during 2007, although road haulage recorded the most significant growth in relation to 2006, due to the increase in paper sold to European markets close to Portugal.

Despite the significant increase in fuel prices due to the soaring oil price in 2007 (+ 9% on the WTI), pulp transport costs grew by 7% due mostly to the increase in maritime freights, whilst the increase in paper transport costs was merely 1.5%. This was achieved thanks in part to increased sales to markets closer to plants, and to better use of secondary distribution.

## 3.2 Analysis of Contribution made by Portucel Group Results

### 3.2.1 Business Indicators

'000 euros	IFRS December 2007	IFRS December 2006	% Var. December 07/06
<b>Sales</b>	1.147.395	1.080.659	6%
Other income	22.246	23.503	(5%)
Costs and losses	(827.306)	(791.644)	5%
<b>Total EBITDA</b>	<b>342.335</b>	<b>312.519</b>	<b>10%</b>
<b>Recurrent EBITDA</b>	<b>342.335</b>	<b>310.992</b>	<b>10%</b>
Depreciation and impairment losses	(95.350)	(103.246)	(8%)
Provisions (increases and reversals)	(9.946)	(26.047)	(62%)
<b>EBIT</b>	<b>237.039</b>	<b>183.226</b>	<b>29%</b>
Net financial profit	(27.541)	(26.457)	4%
<b>Pre-tax profit</b>	<b>209.498</b>	<b>156.769</b>	<b>34%</b>
Tax on profits	(72.641)	(46.380)	57%
<b>Retained profits for the period</b>	<b>136.857</b>	<b>110.389</b>	<b>24%</b>
<b>Attributable to Portucel shareholders</b>	<b>136.838</b>	<b>110.371</b>	<b>24%</b>
Attributable to minority interests	19	18	4%
<b>Cash flow</b>	<b>242.153</b>	<b>239.682</b>	<b>1%</b>
EBITDA margin (%)	29,8%	28,9%	3%
EBIT margin (%)	20,7%	17,0%	22%
Net total assets	2.521.630	2.378.979	6%
Equity (before MI)	1.122.448	1.086.985	3%
<b>Net debt</b>	<b>367.704</b>	<b>480.060</b>	<b>(23%)</b>
<i>* of which 75.19% is attributable to Semapa</i>			

Notes:



- The figures in the above table may differ from those presented individually by the sub-Group, due to consolidation adjustments made within the Semapa holding company.
- Total EBITDA = operating profit + depreciation and impairment losses + provisions – reversal of provisions
- Net debt = non-current interest bearing debt (net of loan issue charges) + current interest-bearing debt (including debts to shareholders) – cash and cash equivalents; in line with IFRS rules

### 3.2.2 Investment

Capital expenditure in 2007 totalled 52.8 million euros, not a small part of which relates to investment in the new paper mill, under the contracts adjudicated from October 2007 onwards.

This level of capital expenditure marks the start of a cycle of heavy investment by the Group, with the new paper mill forming the centrepiece, as duly disclosed.

### 3.2.3 Borrowing

The Group's net debt decreased by 112.4 million euros, thanks to good cash generation, despite payment of 60.6 million euros in dividends for the financial year of 2006, payment in December of 53.7 million euros in interim dividends (in order to allow small shareholders to benefit from the fiscal benefit which expired on 31 December 2007) and the start of spending on the new paper mill in Setúbal.

With its current level of new debt and liquidity, the Group enjoys a sound financial position, forming a good basis for advancing with its investment plans and strategic development.

The structure of net debt was as follows at 31 December 2007:

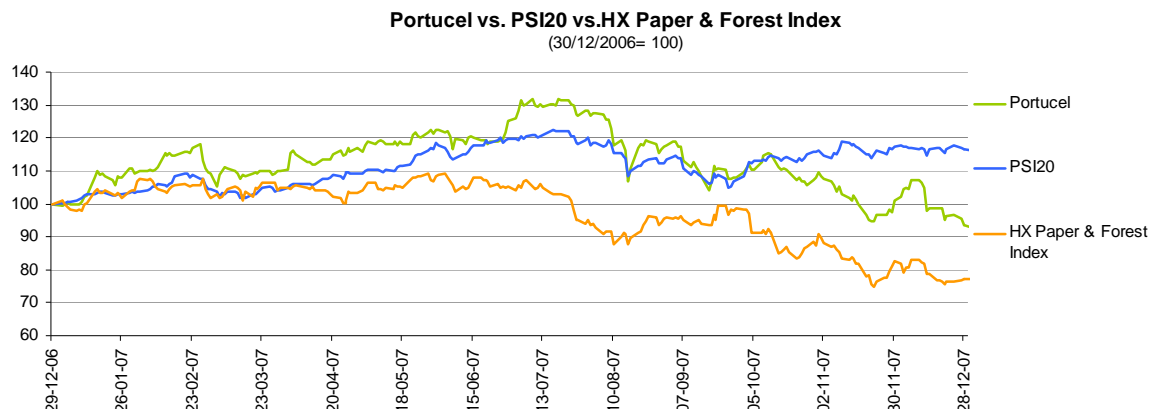
Structure of debt (million €)	Dec-07	Dec-06
Medium Long Term	<b>692,1</b>	<b>738,5</b>
Bond loans*	670,2	694,1
Other loans	21,9	44,3
Commercial paper	0,00	0,0
Overdrafts and other	60,8	10,5
Total debt	<b>752,9</b>	<b>749,0</b>
Cash and banks	-385,2	-268,9
Total net debt	<b>367,7</b>	<b>480,1</b>
* net of charges		

### 3.2.4 Listed Share prices

The financial year of 2007 was characterized by a degree of volatility on the equity markets, in particular in the second half of the year. The main European stock exchanges recorded mixed performance, with some indexes recording significant gains, including the Lisbon exchange index, the PSI20, which was up by approximately 16% on the year, whilst other indexes showed losses, such as the FTSE 30, which was down by approximately 4%.

Portucel shares displayed two distinct trends in the first and second halves, rising by 25% during the 1<sup>st</sup> half, but then accumulating a loss of approximately 13% from August onwards. For the year as a whole, the shares depreciated by approximately 7%, comparing unfavourably with the PSI20 index but better than other companies in the sector. The HX151050 PI index, which groups shares in companies in the sector such as Stora-Enso, UPM-Kymmene and M-real, amongst other, recorded an accrued loss for the year of around 23%.

There was a very significant increase in the volume of trading, due to increased dispersal of the capital since the end of 2006, with daily trading in shares standing at an average of 4.5 million in 2007, as compared with 0.6 million in the previous year.



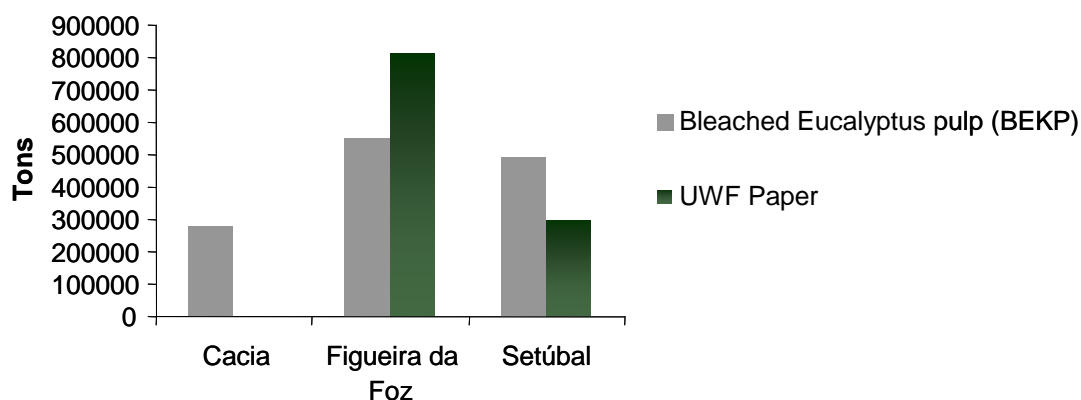
### 3.2.5 Industrial Operations

#### Quality and Efficiency

Sophisticated technology, high standards of performance and efficiency at the Portucel Soporcel Group's industrial units, careful selection of raw materials and the expertise of its human resources all contribute the superior quality of the paper and pulp produced, setting a standard recognized around the world.

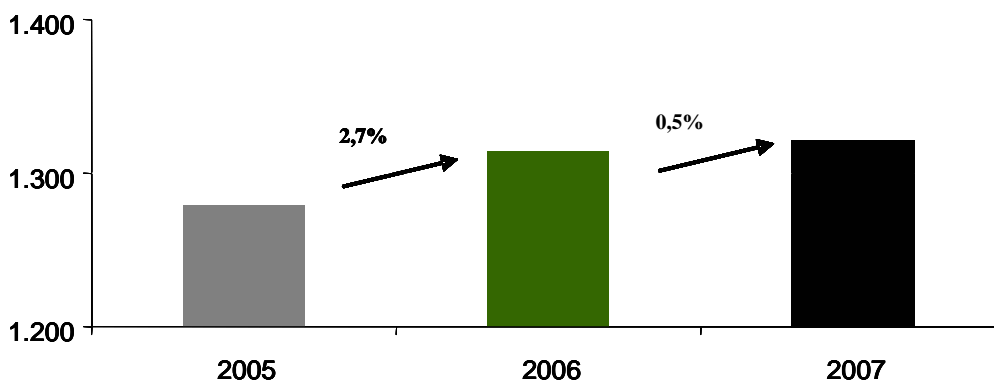
Thanks to investment in continuous improvements to plants, the Group was able to record an overall increase in output in 2007 of approximately 1% in comparison with the previous year. Most notably, the Cacia plant recorded an increase of 7.2% in pulp production, thanks to full use of the new recovery boiler, whilst the Figueira da Foz plant recorded an overall increase of 1.1% in paper output with the PM1 and PM2 paper machines exceeding previous production records by 1.4% and 1.0% respectively.

#### Output per plant in 2007

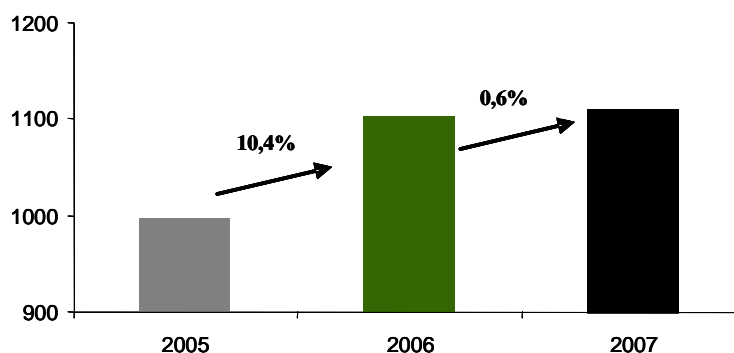


New production records were achieved thank to full use of the Group's industrial capacity and improvements in efficiency indicators.

**Pulp output (thousand tAD)**



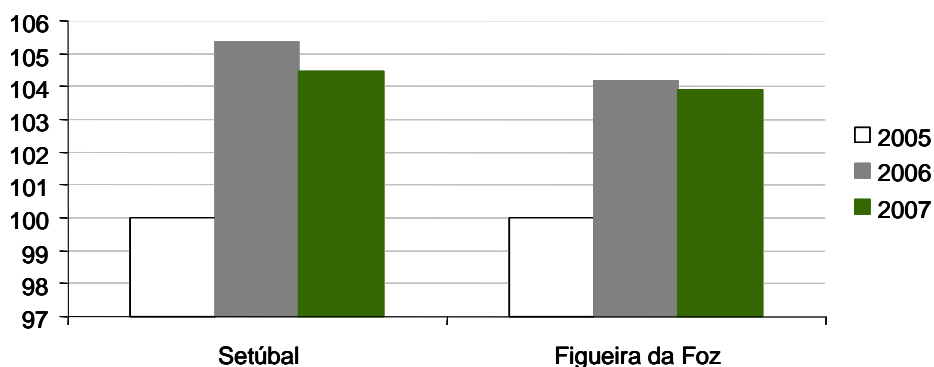
**Paper production on roller machines (thousand ton)**



Analysis of costs incurred in 2007 reveals an increase in the main factors of production, timber and chemicals, with an impact on the increase in variable production costs. This was due to the situation in world markets, and particularly to the internal timber supply market.

Substantial reductions were achieved on overheads at all plants, thanks to efficiency drives.

**Paper Production Costs (base 100 = 2005)**



A major contribution to these results was made by excellent energy performance and operational stability, which have been decisive in limiting the impact of rising raw material costs.

With EMA 21, the Portucel Soporcel Group maintenance company, now fully operational, it was possible to consolidate high levels of availability for industrial equipment, with relatively low maintenance costs. This added to the gains obtained in the previous year, in view of more efficient use of maintenance resources and the adoption of a group-wide policy for contracting maintenance services.

## **Capital Expenditure**

In 2007, the Group started on an ambitious new cycle of major investments, in which the centrepiece is the project for the new paper mill in Setúbal, with the adjudication of the contract for the new paper machine. The projects for the combined cycle co-generation plant to be installed at the Setúbal industrial complex and for the two power stations using biomass, to be set up at the Cacia plant and at the Setúbal site, will also have a significant impact on the Group's development.

Other major developments at the Figueira da Foz plant included the start-up of the new timber debarker and the construction of the new secondary sediment facility, enabling the plant to use a larger percentage of timber with bark and to improve the plant's environmental indicators.

At the pulp plant on the Setúbal site, work was completed on projects to connect to the EDP 60 KV network, making it possible to reduce power costs, and also on the project to remove chlorides from the recovery boiler with a view to reducing consumption of chemicals (sodium sulphate).

Also at the Setúbal pulp plant, work started on the first phase of revamping the recovery boiler, and a significant improvement was achieved in the uptime for this facility. Major investment went ahead at the paper mill on PM III, with replacement of the machine's drive system and full revamping of the spinner, making it possible to achieve an increase in the uptime for this equipment.

## **3.2.6 Resources and Back-up**

### **3.2.6.1 Forestry and Timber Supply Activities**

#### **Sustainable Management**

Forest productivity is one of the lynchpins for the competitiveness of the Portucel Soporcel Group. The Group manages approximately 120 hectares, organized in 1035 management units in 152 municipalities around the country. One of the priorities in 2007 was to follow through the careful selection of these forest assets, in order to assure continued high levels of sustainable output, whilst at the same time improving soil productivity, with strict respect for the environment.

Production of eucalyptus timber for industrial purposes, the main forestry product of the Portucel Soporcel Group, totalled 874 thousand cubic metres in 2007, up by more than 30% over 2006 (666 thousand cubic metres). Nonetheless, the emphasis on managing the diversity of the Group's forest assets meant that the Group also recorded significant output of cork, wine, game and pasture, as well as other products.

The competitiveness of forestry operations is one of the Group's strategic concerns, and in 2007 it went ahead with a programme for streamlining its forestry assets (owned and rented), along with reforestation of areas with potential for production. This project is designed to increase average productivity, a decisive factor for the future sustainability of eucalyptus plantations. As a result of this good practice, the Portucel Soporcel Group is achieving maximum potential production in nearly all its forest assets.

In 2007, the Group continued with the project for felling, side lining and transport in forests, allowing it to achieve substantial productivity gains.

In the field of transport, new legislation (Decree-Law 203/2007, of 28 May 2007) permits the use of 60 ton trucks with a length of up to 25.25 metres. This is an objective which the Portucel Soporcel Group has striven actively to achieve and represents a major step towards improving the productivity of these operations.

The changes in these areas also made it possible to consolidate the relationship with service providers, resulting in greater consistency in self-supply. The results are reflected in record levels of monthly deliveries, with positive impacts in the year in overall terms.

The Group's systematic efforts in this field reflect the fact that it is increasingly the benchmark operator in Portugal's forestry sector, setting an example of good practices to be followed by forest owners, both in operations and on environmental and social issues.

## Forest Fires

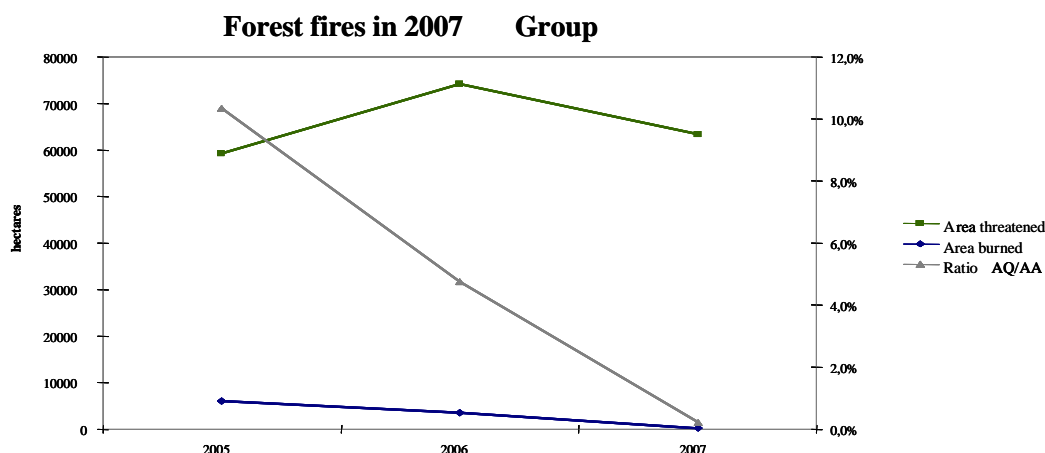
There was an appreciable improvement in Portugal in the area affected by forest fires. Approximately 31 thousand hectares were affected by fire (21.6 thousand hectares of plantations and 9.4 thousand hectares of scrub forest), 2.4 times less than in 2006 and almost seven times less than the average for 2002-2006.

This was the second consecutive year of positive evolution (in 2006 fires affected little more than 75 thousand hectares), and there are now better grounds for believing that a solution exists for this scourge. But it is fundamental that pressure be maintained in order for the country to adopt firmer measures, notably structural prevention measures, which form the foundation of the national system for combating forest fires.

The Portucel Soporcel Group continues to mobilize significant resources to improve the level of structural prevention, together with surveillance facilities and front-line response capability. The Group invested approximately 3.6 million euros in the 2007 season, of which 2 million was spent on preventive action, as well as continuing with its strategy of mobilizing significant human and technological resources through Afocelca, the organization of companies in the sector for preventing and assisting in combat efforts against forest fires (in which the Group has a majority holding).

The results for the Portucel Soporcel Group were very positive because, although the assets threatened were of the same order as in previous years, the area burned was only 131 hectares.

This improved performance was due to a combination of favourable climatic conditions, increased effectiveness in the national system for fighting forest fires and the persistent, dedicated and professional work of the forestry staff of the Group and Afocelca.



## **Forestry Certification and Biodiversity Management**

Thanks to committed work over several years, the Portucel Soporcel Group has obtained forestry certification for more than 102 thousand hectares of woodlands in its management (of which around 74% consists of eucalyptus plantations), under the Forest Stewardship Council (FSC) programme.

This achievement was a major landmark in 2007, allowing the Group to offer visible proof of responsible woodlands management, in line with the demands of an international market where consumers are revealing a growing preference for brands and products sourced from properly managed forests, certified by credible entities, as well as strengthening the Group's involvement with the community by adding value to Portuguese products needed for forestry and industrial operations.

At the initial stage, the certificate awarded by the Soil Association/ Woodmark (SA-FM/COC-001785) covers eucalyptus smallwood for production of paper pulp. This process has so far involved investment of 500 thousand euros, including initiatives for conservation of biodiversity. At the same time, the Group has moved ahead with preparatory work for obtaining certification under PEFC (Programme for the Endorsement of Forest Certification Schemes), with a view to completing this project during the first half of 2008.

With a view to promoting certification in Portugal of non-industrial private woodlands, the Group has continued with training and awareness raising programmes, through partnerships and cooperation agreements with a number of associations of forestry producers.

Another major development in 2007 was the Group's participation in the national FSC initiative, having joined the new Association for Responsible Forest management, known as FSC Portugal, alongside with other major players in the Portuguese forestry sector. In addition to developing a national standard, this association will seek to achieve in Portugal the target of half a million hectares of certified woodlands by 2010.

In the field of biodiversity, a priority topic for the Group, a number of major projects have been undertaken, including stepping up the partnership already established with the WWF (World Wide Fund for Nature). In mid 2007, as part of this partnership, the WWF confirmed that approximately 48% of the woodlands for which forestry certification has been obtained meets the requirements for classification as Areas of Great Conservation Value in terms of landscape.

Biodiversity specialists also provided support on a number of projects with a view to nature conservation in different areas of woodlands managed by the Portucel Soporcel Group. One initiative consisted on a partnership between the Group and the Centro de Estudos de Avifauna Ibérica (CEAI), for protection of the Bonelli eagle, a species classified as "endangered".

In response to the worldwide challenge to halt the loss of biodiversity, the Group adopted the "Business and Biodiversity" management philosophy, signing an agreement with the ICBN (Instituto da Conservação da Natureza e da Biodiversidade) and jointed the Countdown 2010 Initiative organized by the World Conservation Union.

## **Timber Supplies**

In 2007, the Portucel Soporcel Group acquired approximately 4.1 million cubic metres of debarked timber, of which 2.9 million (69.5%) was sourced from the Portuguese market, 867 thousand (20.5%) from its own woodlands and 397 thousand (10%) from foreign markets.

The financial year of 2007 was marked by scarce supplies of raw material and intense competition on the domestic market. This situation was due to a large extent to forest fires, especially those in 2005, as well as those in 2003, the effects of which became more visible in 2007, when significant quantities would have been ready for felling and were consequently not available to meet the industry's needs. Dwindling

stocks and the scarcity of eucalyptus in Portugal was exacerbated by continued growth in exports, up this year to 1,300 thousand tons of timber.

Despite this situation, the Portucel Soporcel Group was able to maintain its share of the Portuguese market, recording an increase of approximately 94 thousand cubic metres in relation to 2006, thanks to huge financial efforts, with inevitable implications for profits. In addition to this investment, the Group moved ahead with an active sales policy directed at forestry suppliers and producers, based on new ways of working which reward the quality of timber and of the services provided.

## **Purchasing**

The markets for certain raw materials were highly unstable over the course of 2007, due to the appearance of new sources of demand related to alternative energy sources.

Certain products were also notably scarce, requiring additional efforts to find sources of supply and to establish agreements capable of guaranteeing supplies for raw materials to production units.

The instability of the markets and growing demand worldwide caused an inevitable rise in prices in most raw materials. In order to reduce dependency on institutional suppliers, which seek to take short term advantage of market conditions, various steps were taken to obtain greater sustainability in procurement and to streamline consumption.

In this field, the Group signed long term agreements with local suppliers to assure stability in the supply of raw materials. New market alternatives were studied and negotiations conducted with suppliers, as well as market studies to clarify purchasing policy for essential raw materials. In addition to these measures, the Group expanded its logistical and storage capabilities, in order to assure more flexible solutions for the supply of raw materials for geographically distant sources.

At the same time, cooperation was pursued between different production and maintenance sectors, exploiting synergies within the Group, in order to standardize the material purchased at each unit and to achieve joint negotiation of common products.

### **3.2.6.2 Environment**

#### **The target of eco-efficiency**

In 2007, the Portucel Soporcel Group pursued a vast range of projects in the field of environmental responsibility. These initiatives ranged from intensive use of renewable energies, to reuse of waste, preservation of air quality and control of liquid effluents, amongst other measures.

It is in the broad framework of the quest for eco-efficiency that the Group positions itself amongst the front runners amongst other European and world paper manufacturers, as the Group is practically self-sufficient in energy terms (generating approximately 90% of its power from a renewable source, forestry biomass).

With a view to achieving "low carbon intensity" in its operations, the Group's forest retained in 2007 more than 7 million tons of carbon dioxide (equivalent CO<sub>2</sub>), more than 26 times the volume of emissions of CO<sub>2</sub> recorded over the year at the Group's production plants and power generation facilities.

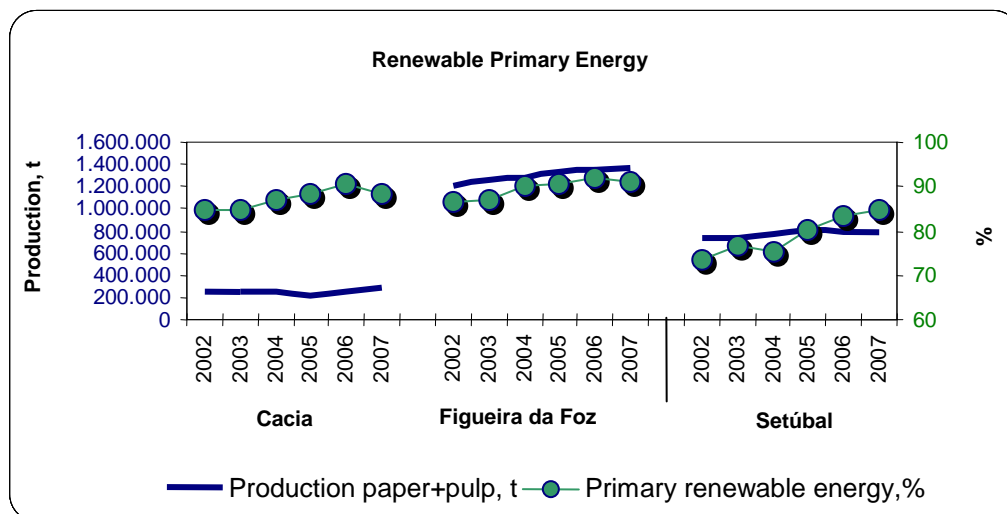
The Group has been consolidating its strategy to place the environment at the top of its management priorities, through pro-active adoption of innovative practices and technologies capable of responding to its environmental concerns.

#### **Environmental Performance**

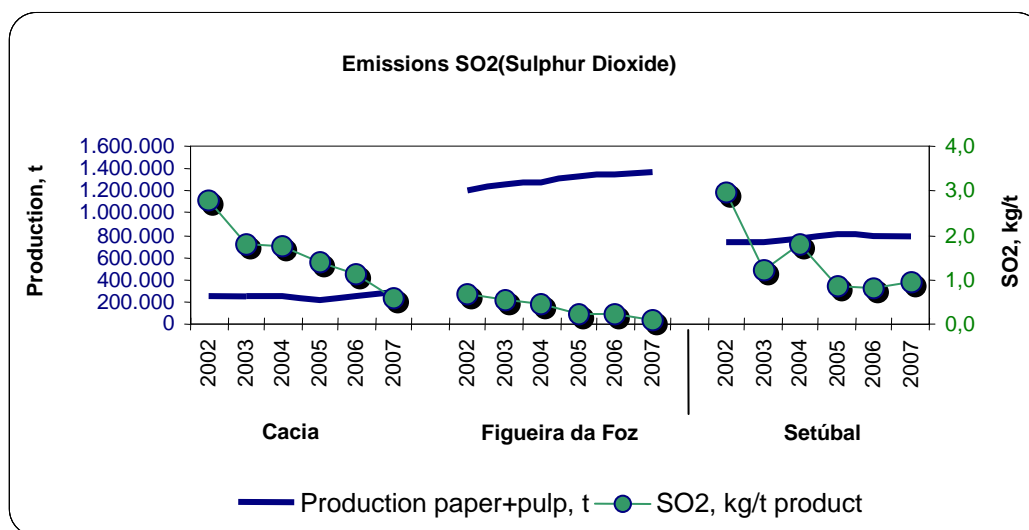
The Portucel Soporcel Group's plants recorded positive environmental performance in 2007, as reflected in a number of indicators. These results are due to tight and rigorous control, combined with monitoring and stability of production processes and the use of the best available techniques.

In 2007, the Group consolidated and improved its environmental performance in various respects:

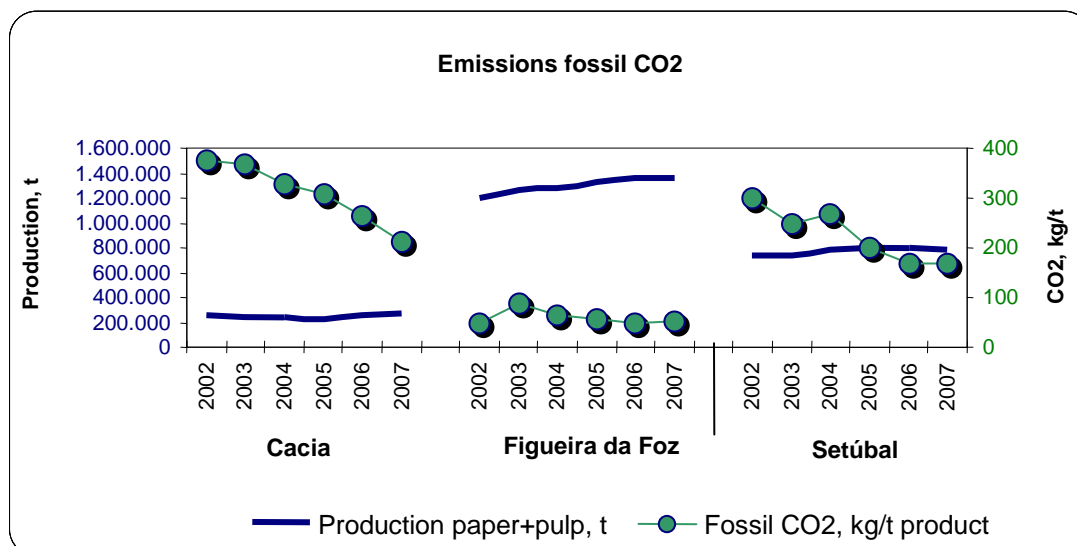
- Rational energy use, and in particular the use of renewable fuels;



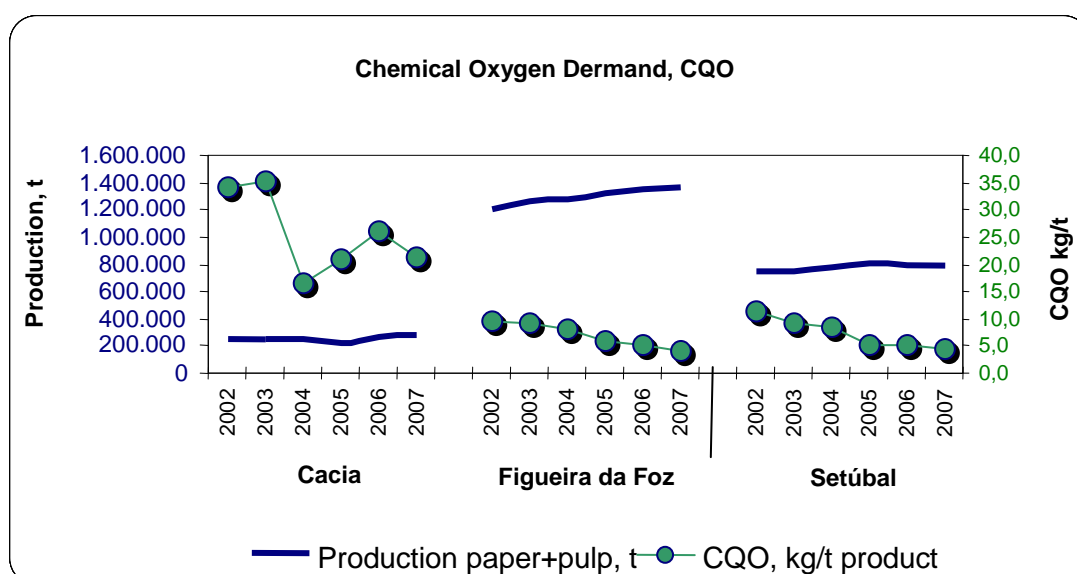
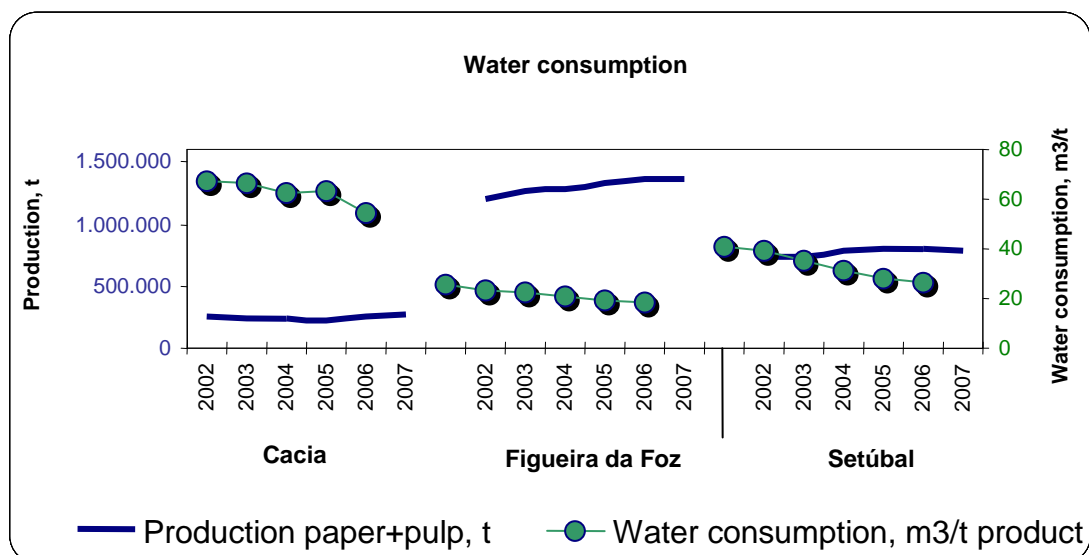
- Reduction of gas emissions:
  - SO<sub>2</sub> and CO<sub>2</sub> of fossil origin, particularly at the Cacia plant, due to optimization after the start-up of the new recovery boiler, fitted with the best available technologies.
  - NO<sub>x</sub> at the Setúbal plant, due to optimization of the primary air feed in the Biomass Boiler furnace.







- Reduction of consumption of natural resources, namely water consumption, and improvement of quality of effluent emissions, at the Group's three plants, as a result of optimizing water circuits and stability of production processes.



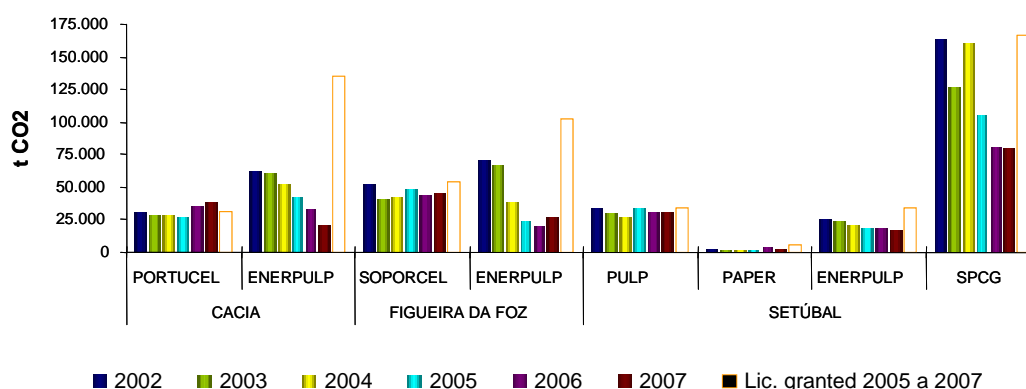
A major development at the Figueira da Foz plant was the start-up in the first half of 2007 of a new timber debarker. This new facility improves the environmental performance of the process, by minimizing waste timber, reducing noise and cutting power consumption.

In the second half of 2007, work started on the project to extend the waste water treatment facility at this plant, with a view to extending secondary treatment to the effluent from the paper mill. This new facility, which started up in early 2008, will help to reduce emissions in the processed effluent.

On termination of the first period (2005-2007) of the National Emissions Licenses Plan (PNALE I), all the facilities covered were performing well, including in power generation and production of pulp and paper.

Annual emissions of CO<sub>2</sub> of fossil origin at Portucel Soporcel Group plants were significantly smaller than permitted by the licenses, as the Plan was based on the historical emissions at the plants in the period 2000 to 2002, and various measures have since been introduced to achieve a significant reduction in emissions of fossil CO<sub>2</sub>.

### CO<sub>2</sub> Emissions / Licenses granted



Growing concern for waste management, giving priority to reuse and reduction at source, has led to a search for alternatives to dumping, and also raised awareness of all Group employees of this issue.

It should be noted that approximately 80% of waste resulting directly from production is reused, either in the forests managed by the Group, or else in the production process – and also used as an energy source. The remaining 20% is sent to landfills or to duly licensed waste management contractors.

### 3.2.6.3 Energy

The Portucel Soporcel Group again recorded excellent energy performance in 2007, and is close to being self-sufficient. Power generation by the Group was up by 4% on the previous year, at 992 GWh, corresponding to the average consumption of 450 thousand inhabitants and 2% of total consumption in Portugal.

Energy performance was also positive on the consumption side, with reduction of specific consumption levels by 1.5% in paper production operations.

The Group is the country's largest producer of energy from biomass, and approximately 92% of this energy output was provided by co-generation plants which use renewable fuels (forestry biomass and by-products from the pulp production process). Co-generate produces electrical and thermal energy, and is more efficient than the conventional generation of electricity only.

In 2007, power generation from forestry biomass by the Portucel Soporcel Group corresponded to approximately 55% of total power generated in Portugal from this renewable source. Additional power was generated by Soporgen, a company partly owned by the Group and dedicated to supplying thermal power to the Figueira da Foz industrial complex, which in 2007 generated 437 GWh. Total power

generation by the Group in conjunction with that generated by Soporgen already represents approximately 3% of total power consumption in Portugal.

## **Bioenergy and Fossil Fuels**

Over the period 2002 to 2007, the Portucel Soporcel Group achieved a significant reduction of 40% in CO<sub>2</sub> (carbon dioxide) emissions as a result of heavy investment in minimizing the use of fossil fuels. In view of successive increases in production, the current level of greenhouse effect gases (GEG) is very low in terms of emissions per product unit, reflecting the Group's commitment to adopting practices enabling it to contain the effects of climate change resulting from the concentration of GEE.

The Group has launched other new projects in the energy field including adjudication of the contract for a new natural gas combined cycle co-generation plant, designed to meet the thermal energy needs of the new Setúbal paper mill. When operating normally, this plant will supply approximately 600 GWh to the national grid.

The Group's strategy in this field involves taking on an increasingly important role in national generation of renewable energy, in the biomass sector. This aim lies behind the launch of a new project for construction of two new biomass power stations, to be built at the Cacia plant and at the Setúbal industrial complex, each with power generation capacity of 12.5 MW and together assuring net generation for the national grid of approximately 167 GWh/year.

## **Forestry Biomass for Energy**

In the field of biomass for energy, the Portucel Soporcel Group has established itself as producer and supplier of forestry biomass and timber waste, consolidating its position in 2007 with the signing of commercial contracts with various entities in Portugal for customers outside the Group.

In 2007, Group plants continued to be supplied through the three biomass reception units located at the respective sites, and a new chipping facility was acquired, giving the Group own annual chipping capacity of 90 million tons.

Despite the constraints on the gathering and transport of raw material due to its characteristics, dispersal and low weight per unit, the results in 2007 consolidate the Group's plans to develop this activity, in a market which is still in formation and where production costs have been rising. Over the last two years, organizations have been set up in Portugal to respond to the challenges, contributing and consolidating experiences and pilot projects so as to build an economically viable approach to biomass management.

Under the Prolunp programme and partnerships established with the Directorate-General of Forestry Resources, the Group has been active in certain areas of this programme, through eradication of the pinewood nematode. The success achieved in this work is due to application of forestry management practices and techniques, research in this field and the deployment of human and financial resources, offering a further example of the Group's contribution to improving the vitality of Portugal's forests.

### **3.2.6.4 Innovation**

#### **An integrated process**

The Portucel Soporcel Group regards innovation as an integrated process involving the entire value chain in the company, making it possible to create and significantly improve brands, products and services, with ideas destined for success on the market, as well as leading to increased efficiency and productivity in internal processes.

On the basis of a recommendation from the Innovation Agency, the Portuguese Investment Agency approved three applications from the Portucel Soporcel Group under the SIME programme for R&D, relating to development of new products at the company's three plants, combined with improvements to the associated processes. These projects involve a large number of participants from various areas of the Group, and are designed to improve productivity, competitiveness and penetration of global markets.

Organized product development efforts have led to the creation of Navigator Hybrid, as part of the Navigator range, designed especially for environmentally aware consumers and responding to their concerns by reducing the use of natural resources through recycling. Based on a distinctive concept, Navigator Hybrid offers a high standard product meeting the consumers' requirements in terms of performance and printing quality whilst maximising environmental protection.

This product has been positioned to use three fundamental concepts for saving natural resources – Reduce, Reuse and Recycle – a hybrid formula resulting from a unique and innovative combination of recycled and virgin fibre. More than 80% of the energy used to manufacture this product comes from renewable resources, thereby contributing to sustainable development.

Innovation has also been important in management of the Group's brands, with the renewal of communication concepts in the office and offset segments, gaining recognition from the market and from specialists in the sector. Products have won a number of awards, including "Product of the Year 2007" awarded to Navigator Kids, in the "Marketing and Innovation Awards" organized by TNS Euroteste and the consultancy firm Peres & Partners.

With a view to improving internal processes, a brainstorming project has been launched for the system for handling paper on internal circuits and for transport to customers, with participation from staff throughout the organization.

Also in the course of the 2007 the Portucel Soporcel Group developed and patented two devices for measuring the quality of paper, making it possible to quantify the impact of the paper on the wear of printing equipment, and consequently on its longevity, and to analyze the paper surface, quantifying visual defects which are increasingly important in printing paper and particular in paper products with premium positioning.

## **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.

In 2007, as part of the programme for genetic improvement, work started on development of better eucalyptus varieties, offering improved strength and plasticity for use in certain regions, and permitting a better yield in pulp production.

In the bioenergy field, the first trials were conducted with energy crops of various species, with analysis of the processes for extraction of residual biomass and a study of processes for pre-extraction of wood components not useful for pulp production and conversion of these elements into liquid fuels.

A partnership was also pursued in 2007 with the Universities of Aveiro, Beira Interior and Coimbra, with a view to continuing projects for developing modification on the paper surface, leading to improved printing quality.

In the environmental field, work proceeded on analysis of the water systems at the pulp plants, identifying measures to reduce consumption and simulating the impacts of future technological changes.

## **4 Cement and Derivatives Business Area - SECIL**

### **4.1 Overview of Secil Group Operations<sup>1</sup>**

The **Secil Group** recorded very positive results in 2007 thanks in particular to consolidation of its business operations in Lebanon and to the contribution from cement operations in Tunisia which enabled

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<sup>1</sup> The financial statements of the Semapa Group incorporate proportionally 51% of these financial statements, which may differ from those presented individually by the Secil Group, due to consolidation adjustments made.

it to offset the decline in operations in Portugal, where the civil construction industry is experiencing a lengthy recession.

As mentioned, in relation to business development special reference should be made to the acquisition of control over **Ciment de Sibline**, in **Lebanon**. This acquisition allowed the Group to increase its cement production capacity by approximately 1.2 million tones per annum, and is part of a strategy of international expansion designed to boost its presence in markets with the best potential for growth in the coming years.

The Secil Group's consolidated turnover totalled **564.2 million euros**, up by **21%** on the financial year of 2006, largely due to the integration of the Lebanon-Cement business unit, which is now consolidated in the Secil Group.

Earnings before interest, taxes, depreciation and amortization (EBITDA) stood at **151.3 million euros**, up by **5.2%** on the financial year of 2006. Good performance by the Tunisia-Cement business unit and consolidation of the Lebanon-Cement and Madeira-Cement business units allowed the group to offset the less positive performance of the Portugal-Cement business unit.

**Secil** once again kept within the annual limits set in the licenses issued by the Portuguese Government under the National CO<sub>2</sub> Emissions Licensing Plan. In contrast with the previous year, when surplus CO<sub>2</sub> licenses generated a gain of **7.5 million euros**, no CO<sub>2</sub> licenses were traded in 2007 as the price was close to zero.

Earnings before interest and taxes (EBIT) stood at **108.70 million euros**, representing an increase of 3.5% on the financial year of 2006.

Net profits before minority interests stood at **69.64 million euros**, down **9.5%** on the financial year of 2006. The reduction in net profits is explained by i) increased financial charges and ii) higher taxes on income, up by 1.8 million euros on 2006.

This increase in tax on income was due to the impact of the new companies included in the consolidated accounts, and above all to the high rate of tax in Tunisia, where there was highly significant growth in taxable income.

Investment totalled **84 million euros**, of which **41 million euros** represented capital expenditure on operations and **43 million euros** corresponded essentially to acquisitions of holdings in subsidiaries and associates.

Net debt stood at **150.5 million euros** at the end of the year, up **9.1%** on the figure recorded in 2006. This increase was due essentially to mobilization of funds for the investment projects mentioned above and inclusion of Sibline's net debts.

Over the course of the year, **Secil** continued to pay special attention to issues of **sustainability**.

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 second Sustainability Report on activities 2002-2006, drawn up in accordance with the Global Reporting Initiative guidelines; in drafting this report we took into account the suggestions and criticisms made in relation to the first report, especially by the members of the plant Monitoring Committees.
- Use of alternative fuels increased from 12.1%, in 2006, to 15.2%, in 2007.
- Reduction in specific CO<sub>2</sub> emissions from 703 kg/t, in 2006, to 678 kg/t, in 2007, due to the lower rate of clinker incorporation in cement and increased use of alternative fuels.

- Certification of health and safety at work management system under the OHSAS 18 001 and NP-3497 standards at the **Maceira-Liz** and **Cibra-Pataias** plants.
- Continued work on the project to implement an Integrated Quality, Environment and Safety System (QES), with a view to integrating environmental and safety issues in all processes, resetting more appropriate indicators and streamlining the documentation for the different systems, making procedures simpler and more flexible.

## 4.2 Secil Group – Consolidated Business Indicators

### 4.2.1 Financial indicators

The following table sets out consolidated financial indicators for the financial years of 2007 and 2006:

'000 euros	IFRS December 2007*	IFRS December 2006*	% Var. December 07/06
Sales	564.175	466.376	21%
Other income	12.956	99.466	(87%)
Costs and losses	(425.871)	(422.071)	1%
<b>EBITDA</b>	<b>151.260</b>	<b>143.771</b>	<b>5%</b>
Recurrent EBITDA	150.662	133.199	13%
Depreciation and impairment losses	(41.840)	(34.613)	21%
Provisions (increase and reversal)	(718)	(4.142)	(83%)
<b>EBIT</b>	<b>108.702</b>	<b>105.015</b>	<b>4%</b>
Net financial profits	(13.934)	(5.206)	168%
<b>Pre-tax profits</b>	<b>94.768</b>	<b>99.809</b>	<b>(5%)</b>
Tax on profits	(25.144)	(22.826)	10%
Retained earnings for the period	69.624	76.983	(9,5%)
<b>Attributable to Secil Shareholders*</b>	<b>64.632</b>	<b>77.316</b>	<b>(16%)</b>
Attributable to Minority Interests (MI)	4.992	(333)	(1598%)
<b>Cash flow</b>	<b>112.182</b>	<b>115.739</b>	<b>(3%)</b>
EBITDA Margin %	26,8%	30,8%	(13%)
EBIT Margin %	19,3%	22,5%	(14%)

**Note:**

- The figures in the above table may differ from those presented individually by the sub-Group, due to consolidation adjustments made within the Semapa holding company.

'000 euros	IFRS December 2007*	IFRS December 2006*	% Var. December 07/06
Total net assets	940.664	848.516	11%
Net debt	150.481	137.957	9%

\*51% of which attributable to Semapa Group

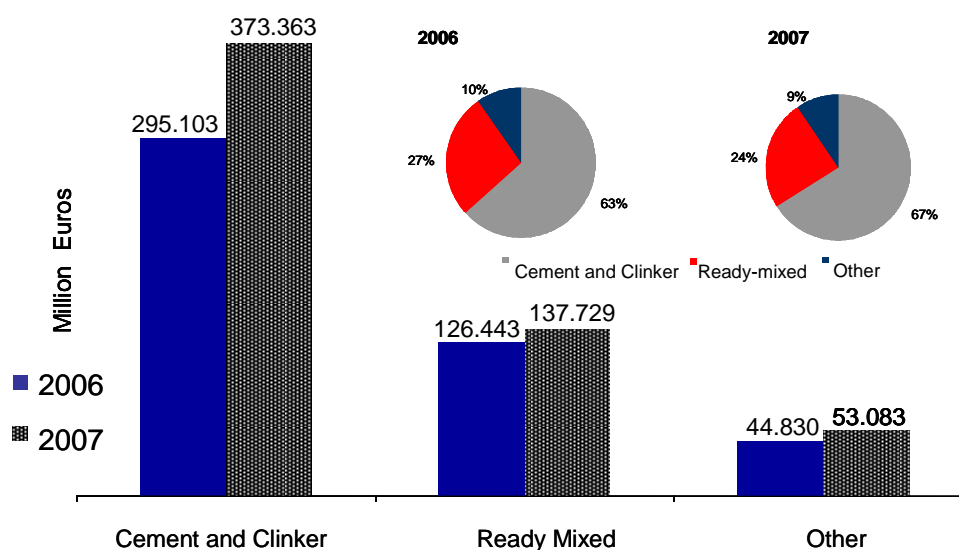
## 4.2.2 Operating indicators

The following table sets out consolidated operating indicators for the financial years of 2007 and 2006:

	Unit	2007	2006	% Var. 07/06
Annual cement production capacity	1 000 t	6.850	5.631	22%
Sales grey cement	1 000 t	5.238	4.121	27%
Sales white cement	1 000 t	93	81	15%
Sales artificial lime	1 000 t	63	75	(17%)
Sales clinker	1 000 t	361	219	65%
Ready-mixed	1 000 m <sup>3</sup>	2.476	2.353	5%
Aggregates	1 000 t	2.579	2.196	17%
Precast concrete	1 000 t	159	143	11%
Mortars	1 000 t	399	331	20%
Hydraulic lime	1 000 t	34	36	(7%)
Mortar fixative	1 000 t	7	8	(17%)
Workforce	nº	2.769	2.138	29%

## Sales and EBITDA by segment

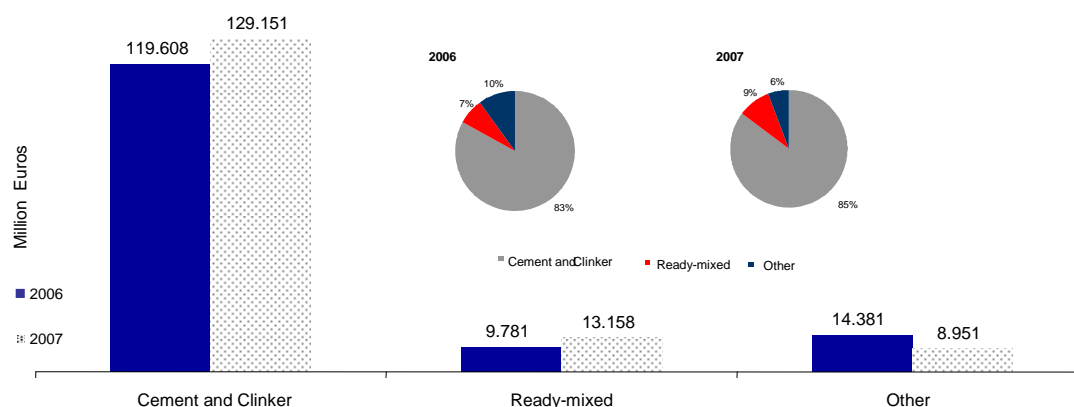
### Sales



Turnover in the Secil Group's three main sales segments grew in relation to the previous year. The Cement and Clinker segment accounted for a larger proportion of sales in 2007, up by 4 percentage points over 2006.



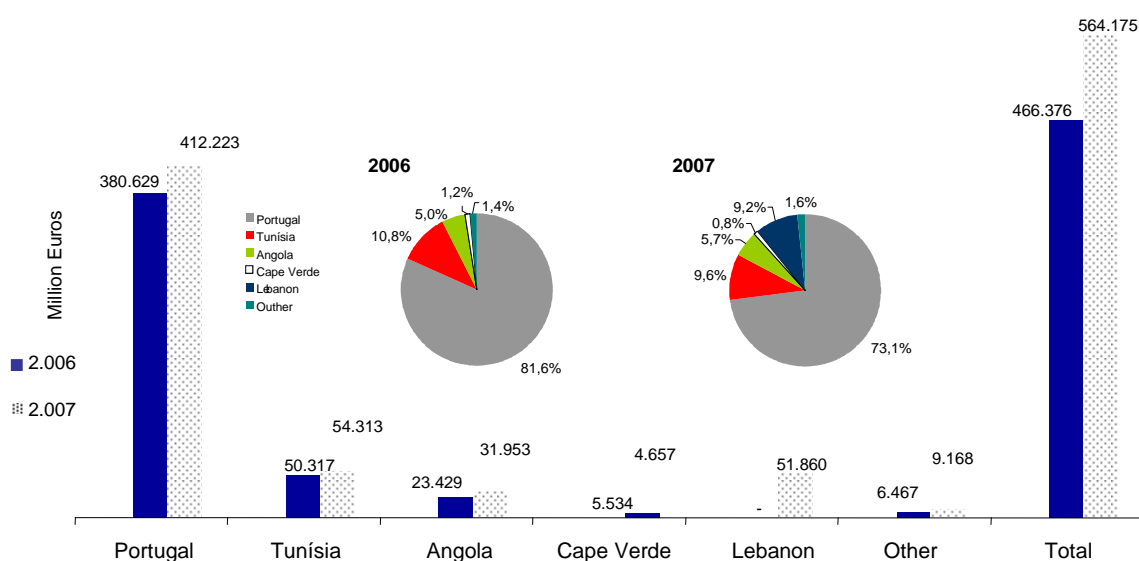
## EBITDA



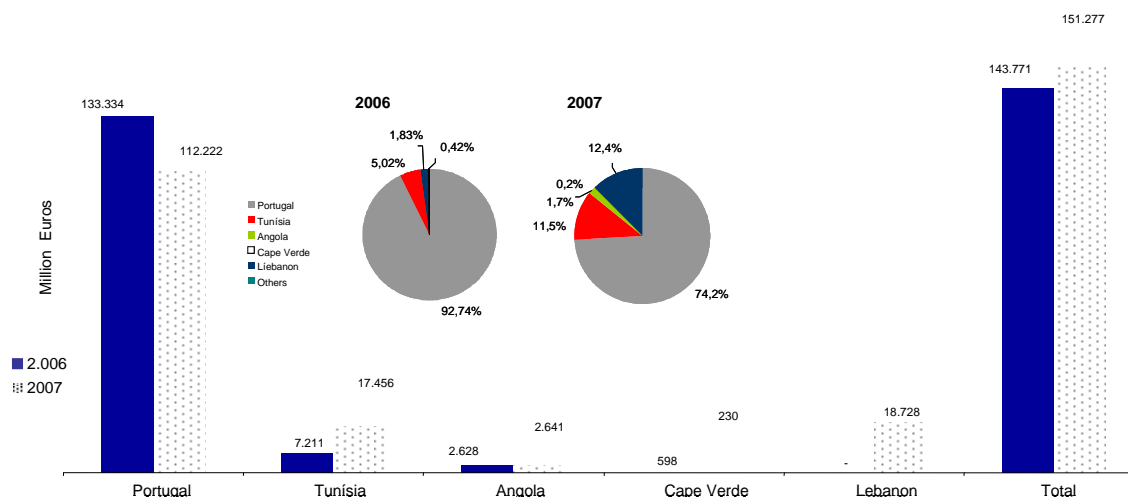
Both the Cement and Clinker segment and the Ready-mixed segment recorded growth in EBITDA over 2006, in both absolute and relative terms. The Cement and Clinker segment accounted for formation of approximately 85% of the Secil Group's total EBITDA.

## Sales and EBITDA by country

### Sales



## EBITDA



The geographical dispersal of sales and EBITDA reflects the international expansion of the Secil Group. It may be observed that operations outside Portugal now represent more than 25% of the two indicators, with the main contribution coming from operations in Tunisia, Lebanon and Angola.

### 4.3 Performance by geographical and business segment

#### 4.3.1 Portugal

The following table presents overall operating indicators for the Secil Group in Portugal, in 2006 and 2007:

Portugal	Turnover a)			EBITDA			Quantities sold			
	2007	2006	% Var.	2007	2006	% Var.	Unit	2007	2006	% Var.
Cement and Clinker	242.485	221.572	9,44%	91.280	110.055	(17,06%)	1.000 t	2.548	2.545	0,12%
Ready-mixed	127.210	122.343	3,98%	12.212	9.445	29,30%	1.000 m3	2.209	2.244	(1,55%)
Aggregates	12.020	9.748	23,30%	4.719	2.972	58,8%	1.000 t	2.513	2.099	19,70%
Mortars	20.310	17.901	13,46%	3.883	2.846	36,44%	1.000 t	417	356	16,96%
Pre-cast	10.199	9.064	12,52%	129	1.871	(93,12%)	1.000 t	132	115	15,52%
<b>Total</b>	<b>412.223</b>	<b>380.629</b>	<b>8,30%</b>	<b>112.222</b>	<b>127.188</b>	<b>(11,77%)</b>				

a) On the basis of country of origin

##### 4.3.1.1 Cement and Clinker

#### Market and Sales

The construction industry recorded further contraction in 2007, although there were positive signs of a recovery during the 2nd half of the year. According to figures released by INE (National Institute of Statistics), activity in construction and public works fell by approximately 4% in 2007 (production industry in construction and public works, INE – January 2008). According to FEPICOP (Portuguese Construction and Public Works Federation), the reduction in activity was only 0.7% (Sector Analysis, January 2008).

Cement consumption in the European Union is thought to have grown by around 2.1% in 2007, falling short of the growth recorded in the previous year (6.7%).

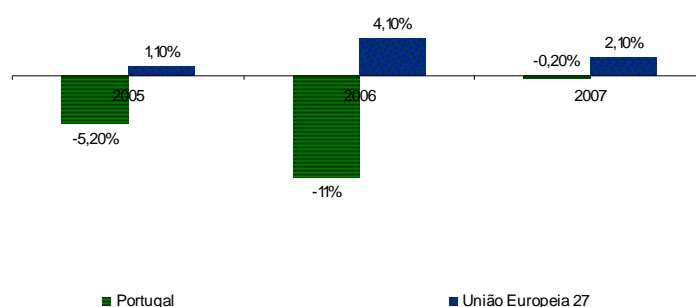
In Portugal, cement consumption is thought to have stood at 7.9 million tons, representing only a marginal decrease in relation to 2006 (- 0.2%), after six years of continuous and severe decline. In the course of the second half of the year, consumption started to pick up, and we may therefore look to the future with moderate enthusiasm.

The decline in cement demand in recent years reflects the recessions which has persisted in the construction over this period, in the residential and non-residential segments and the public works segments.

As already stated, there were visible signs of a recovery in non-residential construction and public works during the second half of the year. However, residential construction remains depressed.

It is estimated that the volume of cement marketed in the country on the basis of cement and clinker imports shrank by close to 13%, to approximately 550,000 tons.

### Annual Variation in Cement and Clinker Consumption (estimate)



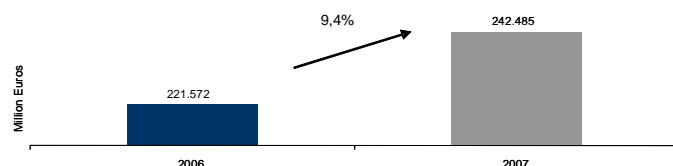
In this context, Secil has sharpened its marketing stance and sought to position itself closer to its customer, allowing it to maintain its market share.

On the domestic market, the Group 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 nationwide.

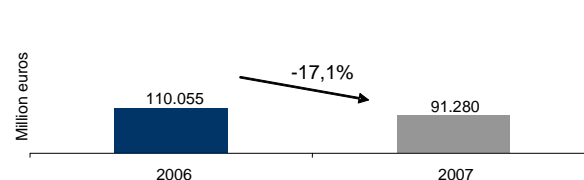
For the second year running, despite increasingly fierce competition, it was possible to avoid further price erosion.

Cement and clinker sales totalled **242.5 million euros**, corresponding to **2.5 million tons**. In relation to 2006, sales were up in value by **9.4%** and in quantity by **2.0%**, driven by export business.

### Sales



### EBITDA



Turnover on the home market grew by 2.0%, whilst exports were up by approximately 52.3%.

In terms of operating performance, EBITDA stood at 91.3 million euros, down 17.1% on 2006. This reduction was due to the decline in sales on the domestic market, where margins are larger than for the export market, and above all to the substantial increase in costs relating to thermal energy, power, petcoke and maritime freights.

Secil cement was used in a number of high-profile projects, either completed or currently underway, such as the Lezíria Bridge, the Figueira da Foz Bridge, the new Private Hospital in Braga, the Braga Olympic Swimming Pool, the Church of the Holy Trinity in Fátima, the Coimbra and Viana do Castelo libraries and various engineering works on the national road and motorway network, in particular the A17 and the North-South Axis Road in Lisbon. Abroad, the company's cement has been used in the Port of Malabo, in Equatorial Guinea.

Secil started in 2007 to market hydraulic lime produced at Secil Martingança.

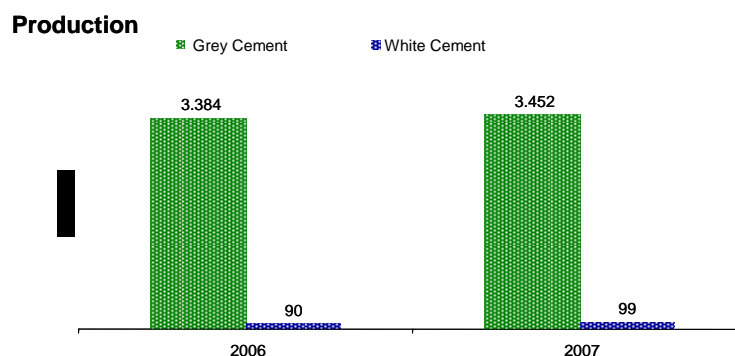
Work started on implementing projects for assessing more eco-efficient products. A working party has been set up for this purpose, with members from various different business units within the **Group**.

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 rose by only 3%.

In the field of distribution, a road depot was opened in Vila Real, along with a new Penafiel rail depot located in Irivo.

### Cement Production

Total cement production stood at 3.6 million tons, slightly up on 2006 (+ 2%). This was due in part to the start-up in June of the compound cement project. 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 Setúbal) increased significantly, up in the order of 25% 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 increased energy costs. Increased use has been made of waste both for power generation and as a raw material.

The **Secil-Outão** plant has continued the process of reusing ordinary industrial waste (OIW). Use of hazardous industrial waste (HIW) was prevented by an injunction taken out in January by the Setúbal, Palmela and Sesimbra municipal councils. Secil's appeal to the Southern Administrative Court was rejected, and the company has now appealed to the Supreme Administrative Court.

In view of the time taken by these proceedings and in view of the possibility that the ruling on the main action may require the company to conduct an Environmental Impact Study, Secil decided to conduct this study voluntarily, in the hope of obtaining a favourable environmental impact declaration in June 2008.

The **Maceira-Liz** and **Cibra-Pataias** plants were successful in obtaining certification of their health and safety management systems (OHSAS 18001:1999).

The **Cibra-Pataias** plant obtained its environmental license. The **Secil-Outão** plant expects to register in 2008 with EMAS (Eco Management Audit Scheme).

The **Cibra-Pataias** plant started to make regular use of used tyres and animal meal as from the second half of the year. The **Maceira-Liz** plant continued to use old tyres as in previous years.

Overall, CO<sub>2</sub> emissions were down by 120 000 t, but the surplus was not sold due to the trading price being close to zero.

As part of the compound cement project, the three plants started in July to produce cements type II 32.5 BL and type II 42.5 AL, with the maximum incorporation of additives as permitted under EN-171,

The new lime and marl quarrying plan at the **Secil-Outão** plant was finally approved in 2007.

Biodiversity management work was launched at the plants, and 2007 also saw the start of the Biomares project, sponsored by Secil, which will involve restoring marine vegetation in the Portinho da Arrábida prairies.

## Human Resources

Efforts continued to improve the motivation and efficiency of our human resources, and also to help our 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 691 (632 permanent and 59 temporary employees), with the number of temporary employees down by ten on the previous year. Some of the temporary employees are involved in a specific professional development programme with a view to integration in the permanent work force.

## Investment

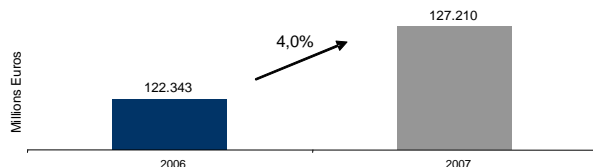
Significant capital expenditure projects were launched and undertaken in order to improve the performance of the plants and to prepare them to use waste as an energy source, as well as to improve the quality of products and services supplied, environmental conditions and customer service.

Capital expenditure in tangible and intangible fixed assets stood at a total of 22.8 Million Euros. The most important projects were:

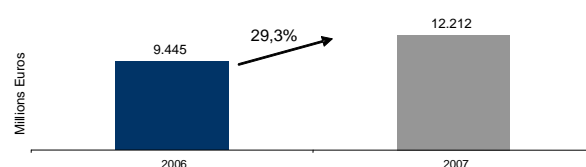
- Start-up at the three plants of the mixer facility in the cement mills, as part of the compound cement project;
- Adjudication of the alternative fuel facilities for the use of RDF (residue derived fuels) at the three plants;
- Completion of work on the lime mill at the **Maceira-Liz** plant;
- Improvement to the raw material mill for lime production at the **Secil-Outão** plant;
- Modification of the cyclone tower and smoke chamber at one of the kilns at the **Secil-Outão** plant.

#### 4.3.1.2 Ready-Mixed (including Madeira)

##### Sales



##### EBITDA



The ready-mixed market remained at the same level as in 2006, with some competitors adopting highly aggressive behaviour in the market.

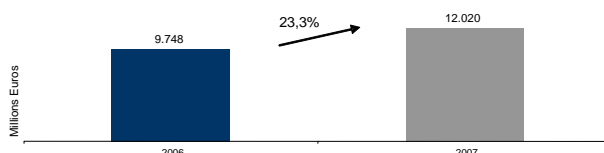
In this context, sales were down in quantity (- 1.6%), but up in value (4.0%). This increase in turnover was due to the following factors; (i) inclusion of the subsidiary Cimentos Madeira in the Secil Group's consolidated accounts and (ii) the increase in the sales price, in the order of 4%, which made it possible to improve sales margins.

Overall performance was positive and significantly better. EBITDA stood at 12.2 million euros, representing growth of 29.3% over 2006.

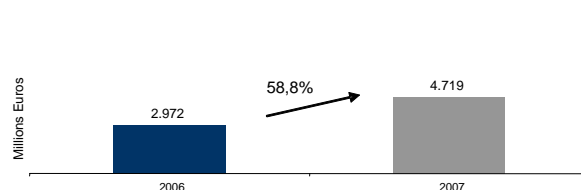
Major developments include the acquisition of **Minerbetão** and land in the Algarve with a view to relocating the Ferreiras concrete plant. In addition, **Lisconcreto-Unibetão** was wound up under the corporation reorganization plan for **SBI** companies.

#### 4.3.1.3 Aggregates (including Madeira)

##### Sales



##### EBITDA



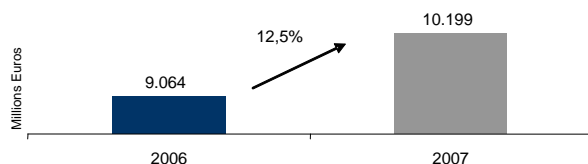
Sales of aggregates in 2007 totalled **12.0 million euros**, up by 23.3% in value and 19.7% in quantity.

EBITDA stood at **4.7 million euros**, up by 58.8% on the previous year. This was achieved thanks to growth in sales, tight controls on costs (despite substantial rises in energy costs) and also positive results

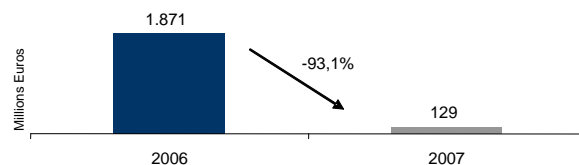
Major developments included attracting the interest of the Vila Nova de Famalicão municipal council in the Joane project and the acquisition of a number of heavy trucks and diggers.

#### 4.3.1.4 Precast Concrete

##### Sales



##### EBITDA



The Group's companies operating in this market continued to be severely affected by the recession in the construction sector. The reduction in demand for precast concrete is estimated at approximately 25%

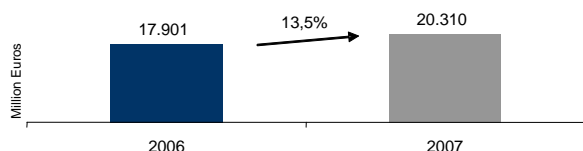
There is still significant surplus capacity in the sector, and this has led to highly aggressive competition, with prices slipping down continuously over the last five years. This situation has led to the bankruptcy of many companies operating in the sector.

Sales of precast concrete totalled **10.2 million euros**, corresponding to **132 thousand tons**, and representing an increase of **12.5%** in value, and **15.5%** in quantity, in relation to the financial year of 2006.

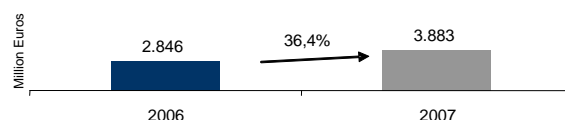
EBITDA stood at **129 thousand euros**, down by **93.1%** on the previous year, due mainly to the substantial increases in some of the cost factors, notably steel and cement.

#### 4.3.1.5 Mortars

##### Sales



##### EBITDA



Despite the continuing 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. Inversely, and for the same reason, the market for hydraulic lime continued to contract for the fourth consecutive year.

Turnover in this unit increased by 13.5% over 2006 (from **17.9** to **20.3** million euros). Performance improved significantly, as reflected in growth in EBITDA of 36.4%, standing overall at 3.9 million euros in 2007.

In 2007, Secil acquired an additional holding in **Secil Martingança**, giving it a total holding of 97%.

Other developments included the launch of technical products (fort e korte RHP and splash mortar), investment in equipment for on-site supply of mortar and the adoption of the SAP computer system.

#### 4.3.1.6 Use of biomass and waste for energy purposes

Secil is involved in various business projects with a view to reusing residues as fuels and raw materials.

##### **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.

Waste consumption increased in 2007, although prices came down due in part to the slide in CO<sub>2</sub> prices, which stood close to zero at the end of the year.

**Sobioen** focussed particular energy on tendering procedures for biomass power stations, and two stations were adjudicated the consortium to which it belongs.

Turnover performed well, rising to **1.3 million euros**, up by **129.3%** over the previous year.

**Sobioen** recorded **EBITDA** in 2007 of **-0.5 million euros**.

In 2008, biomass prices are expected to improve, driven by the new phase in the European Union CO<sub>2</sub> market (2008-2012), which will have a positive impact on **Sobioen's** performance.

##### **Other ordinary waste**

**AVE** recorded turnover of **4.6 million euros**, representing growth of **38%** over 2006. EBITDA stood at **0.96 million euros**, up **42.6%** on the previous year, reflecting a significant improvement in the company's performance.

In 2008, business is expected to increase due to contracts already concluded and co-incineration of OIW is expected to be resumed.

##### **Slag**

In 2007, **Ecoresíduos** acquired a further 30% stake in **Prescor**, making it the sole shareholder.

**Prescor** pursued its business of transforming slag (waste from the steel industry) into an ingredient for cement, having produced 60 000 t of this product for incorporation into cement and concrete.

Turnover stood at **1.11 million euros** and EBITDA totalled **0.89 million euros**.

#### 4.3.2 Tunisia

##### 4.3.2.1 Economic Background

In 2007 the economy in Tunisia maintained a high level of growth, despite rising energy prices, in particular for oil and natural gas.

Growth in GDP is estimated at 6% in 2007, up from the figure of 5.2% recorded in the previous year.

This was achieved through growth in manufacturing industry, in particular in machine tools and electrical goods (+ 36%) and textiles (+ 6%). In the service sector, the highest growth was recorded in tourism (+ 7%) and telecommunications (+ 8%).

This situation reflects the sound state of the economy, driven by healthy growth in internal and external demand and reflected in appreciable growth in energy demand (+ 17%).

However, this buoyant economic situation was not reflected in construction activity, where growth is estimated at only 2.7%. The delay in approval of the 11<sup>th</sup> Five Year Development Plan, and the need to mobilize funds to cover the energy deficit resulted in a slowdown in public spending on construction.



Inflation stood at 3.1%, down from 2006 (4.7%). The Central Bank's leading interest rate stood at 5.4%, close to the previous year's level.

As in previous years, the Tunisian dinar edged downwards against the euro, falling by 3.4% in 2007.

#### 4.3.2.2 Cement and Clinker

##### Market and Sales

Total consumption of cement and artificial lime stood at 6.1 million tons, representing growth of 2% over the previous year. In the southern region, growth stood at only 1%.

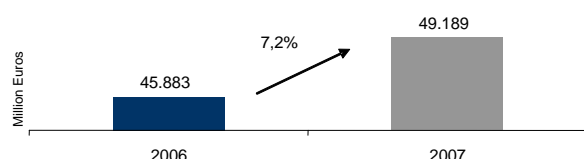
**Société des Ciments de Gabès** increased its sales on the domestic market by around **7%**. Exports were up by around **8.2%**, and the company was able to obtain highly favourable sales margins.

In value, cement and clinker sales totalled **49.2 million euros**, corresponding to 993 thousand tons and representing an increase of **7.2%** in value and **5.0%** in quantity, over the financial year of 2006.

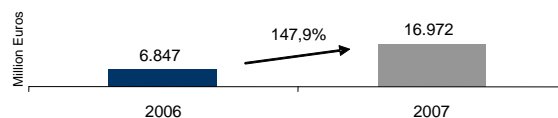
Growth in turnover was due to the combined effect of increasing prices and quantities sold.

EBITDA stood at **17,0 million euros**, representing growth of **147.9%** over the previous year. This reflected the rising cement prices on the domestic and foreign markets and the substantial improvement in management of the plant, making it possible to cut maintenance, energy and personnel costs.

##### Turnover



##### EBITDA



In May, under the approved prices system which remains in force, the Government established an increase of 7.8%.

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.

##### Production

Clinker output totalled 1 012 000 t, representing an increase over the previous year (+ 14%). This performance was all the more noteworthy considering that it was achieved in a year when two developments had a severe and negative effect on normal production at the plant: (i) one of the transformers was out of service for more than two months, which required very careful management of electricity and (ii) an accident in June caused by a gas explosion caused a lengthy stoppage of one of the kilns (around one month).

Production of cement and artificial lime stood at 1 166 000 t, slightly up on the previous year (+ 3%).

Industrial performance at the plant improved considerably as a result of a substantial reduction in maintenance costs and lower specific energy consumption.

## Human Resources

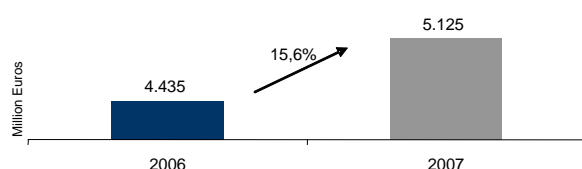
The total workforce amounted to 380 workers at the end of 2007, 44 less than at the end of 2006, and the company continued with a policy of streamlining human resources, at the same time as recruiting young and qualified technical staff for key areas with a view to modernizing the company.

## Investment

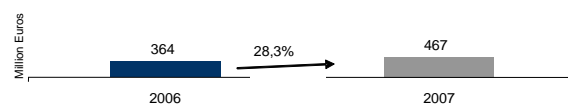
Investment totalled 6.5 million euros, including the installation of a 3rd generation separator at one of the cement mills and an online analyzer for the crushing plant output. The extraction and transport systems from the cement silos to the bagging machines were also replaced.

### 4.3.2.3 Ready-mixed and precast concrete

#### Turnover



#### EBITDA



The ready-mixed market continued to grow in the regions where **Sud Béton** and **Zarzis Béton** operate (Sfax, Gabès and Zarzis). However, the precast concrete market recorded only marginal growth.

In this context, sales of ready-mixed grew significantly (+ 15.1%), whilst precast sales fell off (- 8.2%) due to the discontinuation of supplies to the Sfax Government.

There was appreciable growth in turnover in the ready-mixed and precast concrete segments (+ 15.6%) in comparison to 2006, with sales totalling **5.1 million euros**. Performance also improved over the previous year, with EBITDA for these two segments standing at 467,269.0 euros, representing growth of **28.3%** over 2006.

### 4.3.3 Lebanon

In the course of 2007, Secil acquired a further stake in **Sibline**, making it the majority shareholder, as reported above.

This acquisition is part of a strategy of international expansion designed to boost the Group's presence in markets with the best potential for growth in the coming years.

#### 4.3.3.1 Economic Background

Growth in Lebanon's GDP is expected to stand at 1.7%. This modest growth represents a turnaround from the negative situation existing in the first half. The improvement was due partly to the fact that the economy had been adversely affected by the war during the second half of 2006.

The slow pace of economic growth was also due to external factors, such as the rise in oil and cereal prices and depreciation of the USD against the Euro. Lebanon is highly dependent on imports, and imports from the European Union represent around 40% of total.

The construction and property sectors continued to record substantial growth, despite a slight slowdown.

However, the main source of instability in Lebanon is the political impasse which was reached during 2007. Only the resolution of this question can bring renewed stability and business confidence and encourage normal economic growth.

#### 4.3.3.2 Cement and Clinker

Cement demand stood at 3.9 million tons, significantly higher than in 2006 (+ 18%); part of this growth was due to Syria.

Lebanon ('000 euros)	Sales 2007	EBITDA 2007
Cement and clinker	46.104	18.216
Internal market	42.162	
External market	3.942	

Despite the difficult political and economic context in which the Group operated in Lebanon, sales totalled approximately **46.1 million euros**.

EBITDA stood at approximately **18.2 million euros**, up by **2%** on the previous year. This may be regarded as fairly positive in view of the increase in energy prices and the agreement between cement manufacturers and the Lebanese government for a 10 USD cut in cement prices with a view to reconstruction of the country. This performance was due essentially to growing sales and optimized plant management.

#### 4.3.3.3. Ready-mixed

**Secil** also operates in this market through **Soime**, a company controlled by **Sibline** and located in Beirut. **Soime** recorded sales in 2007 of 141 000 m<sup>3</sup> of ready-mixed concrete, 8% more than in the previous year.

Lebanon ('000 euros)	Sales 2007	EBITDA 2007
Ready-mixed	5.756	512

In the financial year of 2007, turnover totalled **5.8 million euros** (growth of 31% over 2006). EBITDA stood at 512.2 thousand euros (up 68% on the financial year of 2006).

### 4.3.4 Angola

#### 4.3.4.1 Economic Background

The Angolan economy once again recorded significant growth in 2007, thanks to positive trends in the oil sector and the process of national reconstruction financed by external credit lines contracted mostly from China. National reconstruction has leveraged the non-oil sector, which has recorded high levels of growth in the last two years. Overall, growth in GDP has been in the order of 18% (19% in 2006).

The political situation is clearly constrained by the date set for general elections which had originally been planned for late 2007, but were recently postponed to September 2008.

As regards the economy, inflation has held steady at 12%, whilst the Kwanza gained against the US dollar.

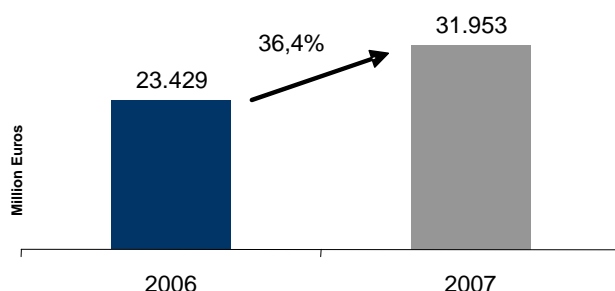
**Secil's** operations in **Angola** have been positively affected by the impact of this situation on the demand for construction materials, whilst still suffering the effects of the structural constraints on the supply side (availability of human resources with adequate training, transport, power supply).

Clinker prices on the international market and the spectacular increase in maritime freights have also had a significant impact on the operations of **Secil Lobito** and on the cement market.

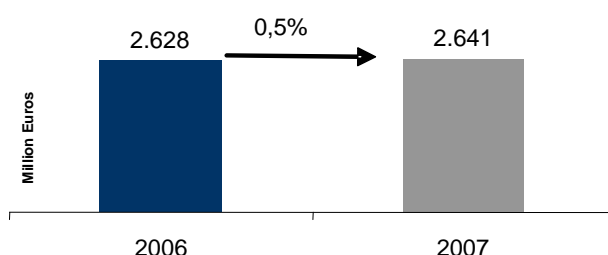
#### 4.3.4.2 Cement and Clinker

Demand for cement grew in 2007 to above the level year recorded in 2006 (1.8 million tons), thanks to sustained growth in the economy and major national reconstruction projects. Demand was met by Angolan producers and also from imported cement given that the country's cement industry lacks the capacity to respond to total needs. This growth was particularly sharp in the second half of the year.

##### Turnover



##### EBITDA



**Secil-Lobito** recorded sales of 236,773 t, in quantity, and **32.0 million euros** in value, representing growth of **36.4%** in value and quantity over the previous year.

Performance was at a similar level to the previous year, with the combined **EBITDA** of **Secil Lobito** and **Secil Angola** at **2.6 million euros**, representing growth of **0.5%** over the previous year.

#### Investment

Capital expenditure totalled **3.3 million euros**, including acquisition of tanker trucks for cement distribution, acquisition of power generators and development of the new production line project.

As reported above, one of the most important developments in 2007 was the approval by the Council of Ministers of the Angolan Government of the investment in a new production line and the subsequent signing of the investment contract with the Angolan Private Investment Agency (ANIP).

Capital expenditure totalled **141 million USD** and included a power generation unit. With this new investment, **Secil-Lobito** will have annual production capacity of **500 000 t** of clinker and **900 000 t** of cement. Construction work on the new line is planned to start in 2008.

#### Human Resources

In human resources, we should draw attention to the start of the training programme for **Secil Lobito** employees at the **Group's** Technical Centre, with the first group departing for **Portugal** in July.

#### 4.3.5 Cape Verde

##### 4.3.5.1 Economic Background

Cape Verde's economy continued to enjoy sustained growth. Gross domestic product is thought to have grown by 6.9%, slightly up from 6.5% in 2006 (FMI – Word Economic Outlook – October 2007).

The inflation rate stood at 4.5%, down from the previous year (5.4%).

In the construction sector, a number of infrastructure projects were completed, including the Boavista international airport and the new ring road around the city of Praia.

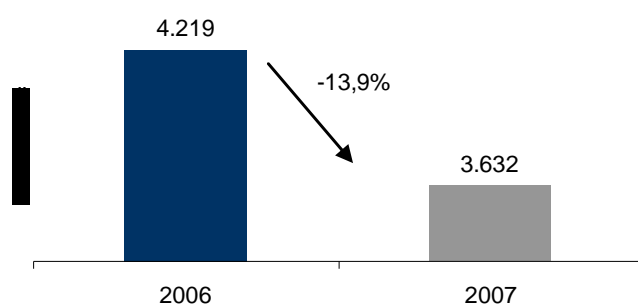
In the private sector, a large number of projects have been presented and started, but various constraints, relating to port operations on the islands of Sal and Boavista and other factors, have stood in the way of fast progress on these works.

Sustained economic growth is expected to continue in 2008, with the start-up of various major public projects, including the extension of the port of Praia, and private projects, especially in the tourism sector. In the political domain, municipal elections will be held, probably in May.

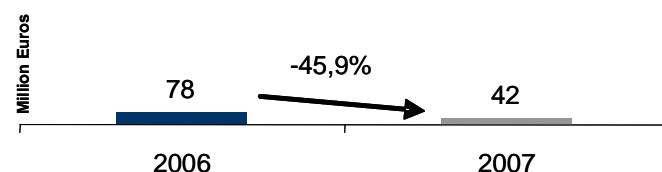
#### 4.3.5.2 Cement and Clinker

The cement market recorded moderate growth due above all to demand from the private sector, and especially to development projects in the tourism sector. Demand for cement is thought to have stood at around 270 000 t.

##### Sales



##### EBITDA



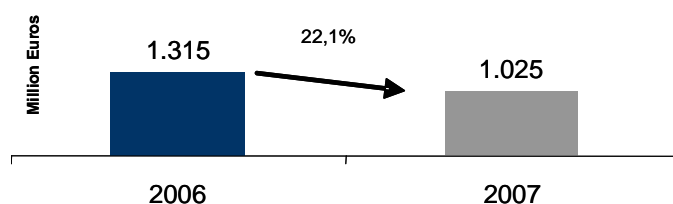
**Secil-Cabo Verde** recorded sales of 34 000 t which represents a decline of **21,7%** in relation to the previous year; turnover stood at **3.7 million euros**, also down by around **13.9%**. This reduction in business was due exclusively to **Secil's** sales policy, as it took over the supply of some of the customers previously supplied by **Secil-Cabo Verde**.

The company recorded reasonable performance, and EBITDA stood at **42.1 thousand euros**, down nonetheless by **45.9%** on 2006 for the reasons explained above.

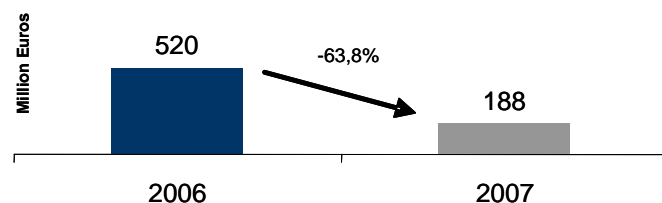
#### 4.3.5.3 Aggregates and Precast Concrete

The evolution of the aggregates market on the island of Santiago went through two distinct phases in 2008, with positive growth in the first half in line with the previous year, and the appearance of new operators and imports of natural sand from the African coast in the second half, which significantly constrained the operations of **ICV – Inertes de Cabo Verde**. The total aggregates market on the island of Santiago is thought to have stood at 470 000 t.

##### Turnover



##### EBITDA



In this context, sales totalled 66 665 tons of aggregates and 2 553 tons of precast concrete products. Turnover stood at **1.0 million euros**, down on the previous year (- 22.1%).

EBITDA stood at **187.9 thousand euros**, down **63.8%** on 2006.

## **4.4 Financial Resources**

### **4.4.1 Financial Resources**

At 31 December 2007, The Secil Group's net debt totalled **150.5 million euros**, up by **12.9 million euros** on the figure recorded in the previous year of **138.0 million euros**.

This increase was due essentially to mobilization of funds for investment and consolidation of **Sibline's** borrowing.

Bank loans recorded in the financial statements are mostly denominated in euros. The exceptions are finance contracted in **Tunisia**, denominated in the local currency, and finance contracted in the **Lebanon**, which is mostly denominated in US dollars.

New borrowing included a 10 year bond loan for **SBI**, with a value of **40 million euros**.

In March, **CMP** learned that a repayable grant of **5.3 million euros** it had previously been awarded was converted into a non-repayable subsidy for the investment project submitted to the SIME programme.

### **4.4.2 Pensions and other post-employment benefits**

The employee welfare schemes in existence imply liabilities relating to pension plans, health plans and others.

The independent pension funds set up by **Group** companies have been managed since their inception by external management companies. In 2006 these funds recorded returns of 4.1% (**Secil**), 5.7% (**CMP**) and 3.1% (**Secil Betões e Inertes**). A conservative policy has been adopted, preferring lower risk assets.

Total liabilities for pensions at 31 December 2007 stood at 43.1 million euros. These liabilities are covered by independent funds and insurance contracts which at 31 December 2007 presented a financial deficit of 44 thousand euros. In addition, the Secil Group has accepted liabilities for other post-employment benefits, which at 31 December 2007 stood at 28.3 million euros.

The proceedings brought by **Secil** against the Portuguese State, for recovery of the damages caused by the incorrect assessment of the liabilities of the **CMP** pension fund contained in the confidential tendering documents for the privatisation of **Secil** and **CMP**, remain pending at the Lisbon district administrative and fiscal courts. Trial hearings have been held, and the decision is awaited.

## 5 Semapa Group 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 rose from 4 202 employees in December 2006 to 4 364 employees in December 2007, as shown in the following table:

Segment	2006	2007
Pulp and Paper	1.951	1.952
Cement and Derivatives	2.231	2.391
Holdings	20	21
<b>Total</b>	<b>4.202</b>	<b>4.364</b>

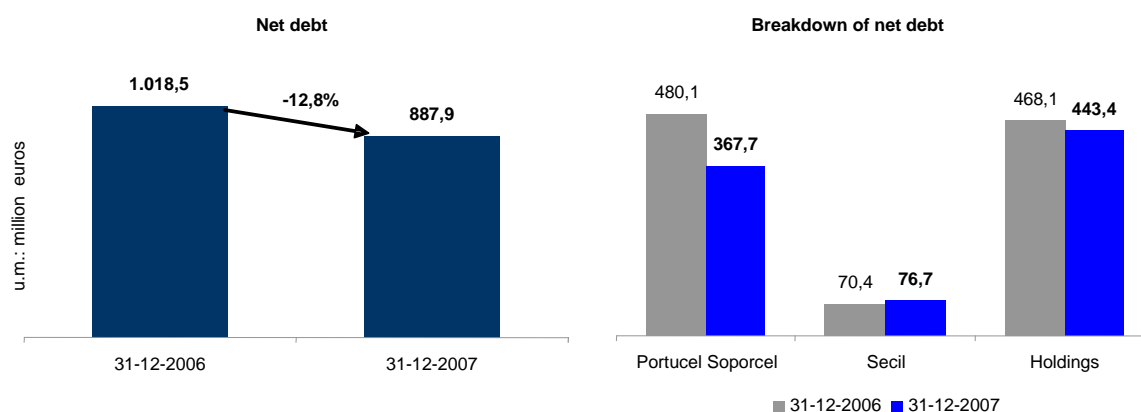
The total increase in the workforce in the Cement and Derivatives segment was due essentially to acquisition of the subsidiaries Ciment de Sibline and Cimentos Madeira.

## 6 Semapa Group - Financial

### 6.1 Indebtedness

At year end 2007, Semapa's consolidated net debt totalled approximately 887.9 million euros, as compared with 1,018.5 million euros recorded at the end of December 2006.

The following graphs show total consolidated debt and a breakdown at year-end 2007, compared with year-end 2006.



In March 2007, the Portucel Soporcel Group repaid early its BEI loan for 28.9 million euros, originally scheduled for repayment in March 2009, reflecting the Portucel Soporcel Group's excellent capacity for generating cash flow.

The increase in the Secil Group's borrowing was due essentially to investments in the first half of the year, in particular the acquisition of increased holdings in Ciment de Sibline and Secil Martingança.

In March 2007, as contracted, Semapa SGPS repaid 25% of the nominal value of the bonds in the Semapa 98 issue, amounting to 5.6 million euros.

The following factors contributed to lowering the indebtedness of Semapa SGPS and Sub Holdings: (i) the receipt of 85.2 million euros on the disposal of shares in EDP, (ii) receipt of dividends from Portucel

and Secil (82.3 and 19.1 million euros, respectively), despite the fact that the company (i) paid dividends of 27.2 million euros, (ii) acquired own shares with a value of 36.7 million euros, (iii) acquired shares in Portucel on the stock exchange with a value of 68.7 million euros and (iv) bore structural and financial costs.

An important development in this context was the acquisition of 2,720,000 own shares by the company on 4 July, as authorized by the shareholders at the general meeting of 21 March 2007. These shares were acquired with long terms aims, in the belief that this acquisition would generate value for the company. The shares were acquired on the stock exchange for a total of 36,747,200 euros, and Semapa closed the financial year with a total of 5,447,975 own shares, of which 2,720,000 it held directly and 2,727,9754 were also subject to the rules on treasury stock as they are held by Seminv Investimentos, SGPS, S.A., wholly controlled by Semapa

## **6.2 Risk Management**

Semapa Group operations are exposed to a number of risks, both financial and operational. 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..

### **6.2.1 Financial Risks**

#### **Exchange Rate Risk**

Over the course of 2007, the US dollar depreciated by 10.5% against the Euro.

Given that the PORRTUCEL 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..

As regards the Secil Group, exchange rate variations against the euro over the course of 2007 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 0.6 million euros.

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.

Semapa SGPS and its instrumental subholdings are not exposed to exchange rate risk as it conducts no foreign business.



## **Interest Rate Risk**

In the course of 2007, the European Central Bank increased its leading rates on two occasions, by a total of 0.50%. As a result, the principal reference rate stood at 4.00% in December.

The main reference rates applicable to the Group's borrowing rose significantly over the course of the year, with the Euribor 3 months rate at 4,684%, as against 3.725% at year-end 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. At the end of the year, approximately 30% of its medium term debt was covered by interest rate hedges.

For its part, in November 2005, Secil 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 2007, this debt stood at approximately 71.5 million euros and the market value of the said hedge was approximately 1.0 million euros. 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.

## **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 existence of adequate cash in hand at the end of the period all serve to assure the Group a sufficient degree of liquidity.

### **6.2.2 Operating Risks**

#### **Pulp Price Risk**

In order to reduce the risk associated with wide fluctuations in the pulp price, the PORTUCEL SOPORCEL Group contracted hedges in early 2007 for around 5% of its sales, limiting volatility to within a fixed band.

#### **Client 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 2008 for its different business areas, achieving a significant reduction in insurance premiums in all areas.

### 6.3 Pensions and other post-employment benefits

Total liabilities for pensions, in consolidated terms, at 31 December 2007, stood at 258.5 million euros, of which 146.7 million euros was covered by independent pension funds. Uncovered liabilities at this date, totalling 111.8 million euros, comprise i) 13.8 million euros for the Portucel Soporcel Group, ii) 6.2 million euros for the Secil Group and iii) 91.8 million euros for Semapa.

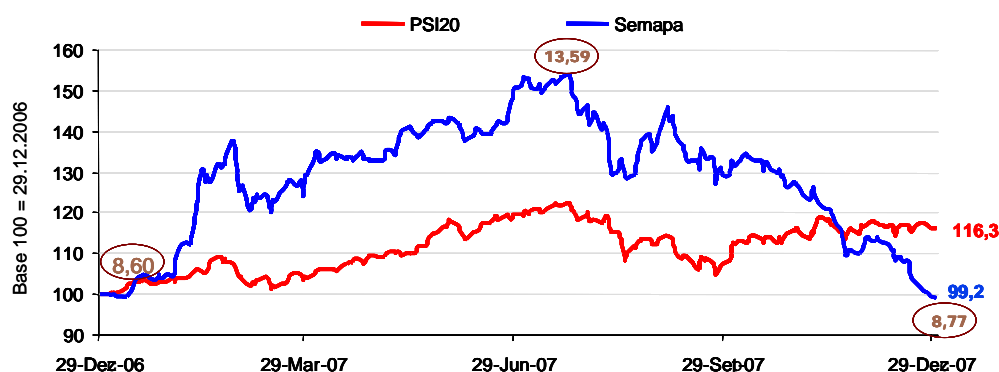
In addition, the Semapa Group also calculated liabilities for other post-employment benefits totalling 10.8 million euros (2.5 million euros for the Portucel Soporcel Group and 8.3 million euros for the Secil Group).

### 6.4 Listed Share Prices

The financial year of 2007 was characterized by a degree of volatility in the capital markets, especially in the second half of the year. The main European exchanges recorded a mixed performance, with some indexes showing substantial gains, including the Lisbon index, the PSI10, which was up by 16%, and with other indexes accruing losses, as with the FTSE 30, which dropped around 4%.

In 2007, Semapa shares performed fairly well through to the crisis which shook the financial markets in August, ending the year at practically the same level as at year-end 2006, slightly below the performance of the PSI20, as may be seen in the following graph:

**Listed share prices - from 29.12.2006 to 31.12.2007**



NB: closing prices

It may be seen that Semapa shares grew in value by 51% in the first half of the year, and that from August to the end of the year the shares accrued a loss of approximately 23%. The listed price dropped by around 0.79% over the course of 2007.

The listed price at close of trading varied between 8.77 euros and a maximum of 13.59 euros. Average daily trading of the period in question stood at 280,902 shares.

At the session after disclosure of the 2006 results, on 2 March 2007, the share price adjusted downwards by 4.8% in relation to the previous session.

No adjustment occurred in the listed price of Semapa shares after the payment of the dividends for 2007.

## 6.5 Dividends

In relation to the payment of dividends, the company has pursued a policy of distributing an amount which allows it not to take out significant additional borrowing and without undermining its sound financial position. The aim has been to maintain a financial structure compatible with the Group's sustained growth and different business areas, whilst maintaining sound solvency indicators. Accordingly:

- On 13 April 2007, Semapa paid out dividends for the financial year of 2006 totalling 27,216,463 euros, corresponding to 0.23 euros per share in circulation.
- The General Meeting of Secil approved distribution of a dividend of 0.38 euros per share for the financial year of 2006, which was paid on 4 April, corresponding to a total of 19,008,907 euros.
- In October 2007, Secil paid interim dividends totalling 19,509,141.60 euros, corresponding to 0.39 euros per share.
- The General Meeting of Portucel resolved to distribute a dividend of 0.079 euros per share for the financial year of 2006, corresponding to a total of 60,627,721 euros, which was paid on 13 April.
- In December 2007, Portucel paid out an interim dividend of 53,720,765.00 euros, corresponding to 0.070 euros per share.

## 6.6 Net Profit for 2007

Semapa recorded consolidated net profits for 2007, before minority interests, of **161.5 million euros**, of which **122.0 million euros** is attributable to Semapa shareholders.

## 7 Prospects for 2008

The financial year of 2008 will be marked by considerable uncertainty as to the impact of the current crisis in the financial markets on the economy of the main markets where the Semapa Group operates.

The US economy may be expected to continue to cool significantly, in line with the tendency observed since 2006, and there is the possibility that it may enter a recession this year. The European economy is also expected to slow somewhat, albeit with continued positive economic growth. As a result, the global economy should continue to decelerate in 2008, although the emerging economies are expected to remain dynamic.

As regards the prospects for 2008 for Semapa SGPS, apart from the operations of its subsidiaries, there is nothing new to report, although attention should be drawn to two issues.

Firstly, although no major impact is expected, either positive or negative, definitive closure has not yet been reached on the price adjustment system for the sale of the minority holding in Secil to CRH, the current Irish shareholders, under the terms of the usual contractual mechanisms agreed at the time. We believe that it should be possible to close this matter during 2008.

Secondly, a trial date has been set for May 2008 for the action which Semapa has brought, through its subsidiary Semapa Inversiones SL, against various companies in the Teixeira Duarte, BCP and Lafarge groups in relation to non-compliance with the obligation to launch a mandatory take-over bid for Cimpor shares.

The prospects for 2008 are therefore largely dependent on the business affairs of its main subsidiaries:

### **PORTUCEL SOPORCEL GROUP**

In the economic context described above, modest growth is expected in demand for UWF paper in Europe, the main market for the Group's products. Rising demand, combined with the process of reorganization underway in some of the Group's competitors, leading specifically to a certain reduction in production capacity, should make it possible for the European industry to maintain good occupation rates.

Demand for eucalyptus pulp is expected to remain buoyant in 2008, driven by a continued fast rate of growth in the Chinese market, combined with growth in tissue paper consumption and increased use of virgin fibre in the respective manufacturing process.

However, the weakness of the dollar and the risk of further depreciation against the euro poses a threat which could bring down pulp sales prices and prices for certain paper sales, as well as increase competition in the European market, both from producers located in US dollar dominated areas, and from the repatriation of European exports.

High timber costs are a great cause for concern, and could have a negative impact on the Group's annual profits, and the difficulties currently felt in this market are not expected to improve in the short term.

Likewise, the situation in the market for the main chemicals consumed by the Group may also be expected to lead to increased operating costs.

In this difficult context, the Group will continue to focus its efforts on a stringent drive for operational efficiency, in order to continue to keep its competitive capacity intact in the demanding international markets where it has consistently asserted itself.

In 2008, the Group will move ahead with a set of major investments, notably in the new paper mill being built at its industrial complex in Setúbal, propelling the Group to a new standing as one of the world's leading producers of uncoated printing and writing paper.

### **The new renewable energy Directive. A serious challenge for the future**

In late 2007 the Council finalized its Directive on renewable energy, publishing it in early 2008 (23 January). This represents a huge challenge to all member countries of the European Union, in general, and a serious threat to the European paper industry, in particular.

This directive sets a target of 20% for the consumption of renewable energy in the Union in 2020. Although it finally admits that there are conflicting and competing uses for the forestry biomass available, it fails to assign priority to uses with the greatest value added (such as in the paper industry), in relation to uses yielding only energy, with considerably lower added value.

This poses a threat to the paper industry of what amounts to unfair competition from unsustainable uses and practices, at a time when the sector has made an irreversible commitment to society to achieve sustainability in the use of forestry raw materials.

Further developments this year and in the future will therefore depend on improvements which the European Parliament may make to the final version of the directive, on issues such as trading in "green certificates" (GOO – guarantees of origin), promotion of co-generation from biomass, priorities and rules on access to the power distribution network and, in particular, sustainability standards and requirements for the use of timber raw materials for energy use.

In order to respond to all these challenges, and particular the last of these, the paper industry, in conjunction with all parties concerned (especially the public authorities) will have to be able to improve and increase the physical availability of timber, through environmentally creative forestry policies which are also socially equitable and economically effective. In Portugal, it is clear that this issue is of crucial importance to the future of the eucalyptus forest industry.

### **SECIL GROUP**

In **Portugal**, business in the **cement and clinker sector** is expected to show moderate growth, in view of the situation in the sector. Secil expected to maintain its position in the internal market, with increasing exports and improved performance thanks to streamlining production and distribution costs. The prospects for 2008 in its other business segments are as follows:

- **ready-mixed and mortars:** the market is expected to evolve in line with the general prospects for the construction sector, which points to moderate improvement;
- **Pre-cast concrete:** another poor year is expected for the companies operating in this market, as no improvement is foreseen in demand for pre-cast products.

- **Aggregates:** slight growth, with the quarrying department extending its operations in the North of the country and new business initiatives in the processing and marketing of construction waste;
- **Mortars:** evolution in keeping with the general prospects for the construction sector, which point to very moderate growth..

In **Tunisia**, consumption is expected to increase in line with the growth recorded in 2007; **Société des Ciments de Gabès** expects to improve its operational and commercial performance. However, there is still uncertainty as to the Tunisian Government's position on price deregulation. In the ready-mixed sector, positive growth is expected due essentially to the effect of market penetration.

In **Lebanon**, the cement market is set for growth provided political stability is achieved in the wake of the presidential elections. In this context, **Sibline** may be expected to increase its sales and improve performance, considering the demand for cement generated by reconstruction work and major infrastructure projects. In the ready-mixed sector, the market is expected to grow in line with the cement market.

In **Angola**, the prospects for growth in the cement market remain favourable, both for the country as a whole and for the southern region, which is **Secil-Lobito's** main market, due to expectations that a large number of works projects will continue as part of the process of national reconstruction. Approval by the Angolan Government of the new production line, as reported above, will allow the Secil Group to consolidate its expansion strategy in this region.

Finally in **Cape Verde**: in the cement segment, the construction sector is expected to show moderate growth in 2008, with the start-up of a number of major public works projects. Accordingly, **Secil-Cabo Verde** will seek to consolidate and increase its market share. Growth is also expected in the aggregates and pre-cast sector, and the aim of **ICV – Inertes de Cabo Verde** will be to position itself as the prime supplier to construction companies. However, surplus supply of aggregates and imports will continue to constrain the company's profitability.

## Subsequent Developments

- In the course of January 2008, Semapa SGPS acquired a further 0.20% holding in its subsidiary Portucel, through acquisition of 1.5 million shares on the stock exchange.
- Acquisition of 2,434,368 own shares by the Portucel Soporcel Group, representing 0.317% of the share capital of Portucel SA.
- In the course of January 2008, our subsidiary Secil learned of that a definitive judicial decision had been issued in its favour in relation to the Fiscal Incentive for International Expansion, provided for in Decree-Law 401/99, of 14 October 1999, for which it had applied at the time of acquisition of Société des Ciments de Gabès, in the financial year of 2000. This application had been rejected by the Tax Authorities despite a favourable opinion from ICEP. As a result of this decision, our subsidiary recorded in its accounts for 2007 a credit over the Portuguese State of Euros 5,985,575 in relation to this benefit.
- Also in January 2008, co-incineration of hazardous industrial waste resumed at the Secil Plant in Outão, after the decision of the Supreme Administrative Court of 14 January, throwing out the previous decision handed down in injunction proceedings.

## 8 ACKNOWLEDGEMENTS

In 2007, Semapa 2007 enjoyed another year of growth and consolidation for the company and the group, one of the largest Portuguese industrial groups.

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;

We propose that the net profits from individual operations determined under the POC rules of EUR 121,950,560.81 (one hundred and twenty one million, nine hundred and fifty thousand, five hundred and sixty euros and eighty one cents) be distributed as follows:

Dividends for shares in circulation (25.5 cents/share)	29,481,173.48 euros
Free reserves	35,181,477.69 euros
Retained earnings	57,287,909.64 euros

Lisbon, 25 February 2008

## THE BOARD OF DIRECTORS

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Pedro Mendonça de Queiroz Pereira  
Chairman

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Maria Maude Mendonça de Queiroz Pereira Lagos  
Director

---

Carlos Eduardo Coelho Alves  
Director

---

José Alfredo de Almeida Honório  
Director

---

Francisco José 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 Andrada Reis  
Director

---

Fernando Maria Costa Duarte Ulrich  
Director

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Joaquim Martins Ferreira do Amaral  
Director



NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS

DECEMBER 31, 2007



# CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31, 2007 AND 2006

Amount in Euros	Notes	2007	2006*	2006**
<b>Revenues</b>				
Sales	4	1,404,209,668	1,294,142,455	1,506,711,135
Services rendered	4	31,165,056	24,764,314	40,324,241
<b>Other income</b>				
Gains on disposal of non-current assets	5	30,995,869	16,803,462	22,763,684
Other operating income	5	24,116,259	60,254,834	103,032,797
<b>Changes in fair value of biological assets</b>	19	(370,699)	(12,943,423)	(12,943,423)
<b>Costs</b>				
Sold and consumed inventory	6	(498,271,500)	(417,637,678)	(475,090,535)
Variation in production	6	3,717,334	(1,932,295)	(2,409,080)
Consumed material and services	6	(381,224,931)	(381,216,416)	(461,695,890)
Staff costs	6	(166,503,477)	(158,579,300)	(189,973,887)
Other costs	6	(15,166,747)	(50,491,887)	(87,107,345)
Provisions	6	(12,545,957)	(27,897,739)	(29,927,467)
<b>Depreciations, amortizations and impairment losses</b>	8	(116,830,240)	(121,042,577)	(138,003,094)
<b>Operating profit</b>		<b>303,290,635</b>	<b>224,223,750</b>	<b>275,681,136</b>
Profit in associated companies	9	611,427	1,268,934	2,488,107
Net financial costs	10	(58,574,635)	(47,194,035)	(50,964,237)
<b>Profit before tax</b>		<b>245,327,427</b>	<b>178,298,649</b>	<b>227,205,006</b>
Income tax	11	(83,843,941)	(51,713,457)	(62,898,078)
<b>Net profit for the year</b>		<b>161,483,486</b>	<b>126,585,192</b>	<b>164,306,928</b>
<b>Net profit for the year</b>				
<b>Attributable to Semapa's shareholders</b>		<b>121,950,561</b>	<b>91,399,271</b>	<b>91,399,271</b>
Attributable to minority interests	13	39,532,925	35,185,921	72,907,657
<b>Earnings per share</b>				
Basic earnings per share	12	1.067	0.791	0.791
Diluted earnings per share	12	1.067	0.791	0.791

\* Pro-forma Financial Statements with subsidiary Secil consolidated by the proportional method

\*\* As reported to stock market in the Financial Statements of 2006

# CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2007 AND 2006

Amounts in Euros	Notes	31-12-2007	31-12-2006*	31-12-2006**
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill	15	285,675,118	280,185,705	334,524,956
Other intangible assets	16	152,963,362	160,717,430	168,997,827
Property, plant and equipment	17	1,621,494,019	1,631,186,509	1,852,260,296
Investment properties	18	177,434	185,593	363,907
Biological assets	19	122,924,753	123,295,452	123,295,452
Investment in associated companies	20	1,878,882	21,396,746	41,455,988
Available-for-sale financial assets	21	1,427,137	78,763,132	79,230,810
Deferred tax assets	28	33,704,431	54,407,280	66,187,428
Other non-current assets		1,232,046	1,802,212	3,533,748
		<b>2,221,477,182</b>	<b>2,351,940,059</b>	<b>2,669,850,412</b>
<b>Current assets</b>				
Inventory	23	177,434,516	144,926,850	171,224,461
Receivable and other current assets	24	375,324,637	304,265,715	354,023,377
State and other public entities	25	44,160,535	31,365,807	34,650,137
Cash and cash equivalents	31	438,742,899	287,607,139	306,130,212
		<b>1,035,662,587</b>	<b>768,165,511</b>	<b>866,028,187</b>
<b>Total assets</b>		<b>3,257,139,769</b>	<b>3,120,105,570</b>	<b>3,535,878,599</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	26	118,332,445	118,332,445	118,332,445
Treasury shares	26	(47,164,986)	(10,399,412)	(10,399,412)
Share premiums		3,923,459	3,923,459	3,923,459
Currency translation reserves	27	(14,378,266)	(9,359,315)	(9,359,315)
Fair value reserves	27	4,755,757	22,532,476	22,532,476
Other reserves	27	614,568,727	550,385,918	550,385,918
Retained earnings	27	(56,162,674)	(29,812,510)	(29,812,510)
Net profit for the year		121,950,561	91,399,271	91,399,271
<b>Shareholder's equity</b>		<b>745,825,023</b>	<b>737,002,332</b>	<b>737,002,332</b>
Minority interests	13	304,873,080	313,767,641	525,275,087
<b>Total equity</b>		<b>1,050,698,103</b>	<b>1,050,769,973</b>	<b>1,262,277,419</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	28	272,965,603	277,334,301	313,834,584
Pensions and other post-employment benefits	29	122,608,285	134,939,566	151,214,038
Provisions	30	46,454,921	32,927,995	37,105,479
Interest-bearing liabilities	31	1,208,813,406	1,259,330,756	1,324,378,845
Other non-current liabilities		21,698,842	22,787,609	23,879,161
		<b>1,672,541,057</b>	<b>1,727,320,227</b>	<b>1,850,412,107</b>
<b>Current liabilities</b>				
Interest-bearing liabilities	31	117,794,597	46,764,046	67,837,778
Payables and current liabilities	32	316,026,889	241,069,259	288,271,418
State and other public entities	25	100,079,123	54,182,065	67,079,877
		<b>533,900,609</b>	<b>342,015,370</b>	<b>423,189,073</b>
<b>Total liabilities</b>		<b>2,206,441,666</b>	<b>2,069,335,597</b>	<b>2,273,601,180</b>
<b>Total equity and liabilities</b>		<b>3,257,139,769</b>	<b>3,120,105,570</b>	<b>3,535,878,599</b>

\* Pro-forma Financial Statements with subsidiary Secil consolidated by the proportional method

\*\* As reported to stock market in the Financial Statements of 2006

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR THE YEAR AS OF DECEMBER 31, 2007 AND 2006

Amounts in Euros	31-12-2007	31-12-2006*	31-12-2006**
<b>Retained earnings for the year without minority interests</b>	<b>161,483,486</b>	<b>126,585,192</b>	<b>164,306,928</b>
Fair value of derivative financial instruments	3,086,462	9,542,506	9,542,506
Fair value of available-for-sale financial instruments (Note 27)	(18,092,125)	17,616,685	16,893,140
Foreign currency translation differences	(7,865,139)	(5,648,439)	(11,191,019)
Actuarial gains and (losses)	12,406,135	1,920,706	308,517
Tax on items directly included in equity	(5,251,363)	(2,248,090)	(1,890,708)
<b>Profit directly recognized in equity</b>	<b>(15,716,030)</b>	<b>21,183,368</b>	<b>13,662,436</b>
<b>Total recognized income and expenses for the year</b>	<b>145,767,456</b>	<b>147,768,560</b>	<b>177,969,364</b>
<b>Atributable to:</b>			
Semapa's shareholders	105,373,832	110,464,409	110,464,409
Minority interests	40,393,624	37,304,151	67,504,955
	<b>145,767,456</b>	<b>147,768,560</b>	<b>177,969,364</b>

\* Pro-forma Financial Statements with subsidiary Secil consolidated by the proportional method

\*\* As reported to stock market in the Financial Statements of 2006

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FROM JANUARY 1, 2006 TO DECEMBER 31, 2007

	Share capital	Treasury shares	Share premiums	Fair value reserves	Other reserves	Currency translation reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total	NOTES
<b>Equity as of January 1, 2006</b>	<b>118,332,445</b>	<b>(10,399,412)</b>	<b>3,923,459</b>	<b>58,609</b>	<b>270,268,242</b>	<b>(3,671,963)</b>	<b>(11,044,472)</b>	<b>334,026,873</b>	<b>701,493,781</b>	<b>542,403,235</b>	<b>1,243,897,016</b>	
Currency translation differences of subsidiaries	-	-	-	-	-	(5,687,352)	-	-	(5,687,352)	(6,385,881)	(12,073,233)	
Application of net profit for 2005:												
- Transfer to reserves	-	-	-	-	280,117,676	-	4,209,570	(284,327,246)	-	-	-	
- Dividends paid	-	-	-	-	-	-	-	(49,699,627)	(49,699,627)	-	(49,699,627)	
Change in the consolidation perimeter	-	-	-	-	-	-	-	-	-	(52,321,808)	(52,321,808)	13
Dividends paid by subsidiaries to minority interests	-	-	-	-	-	-	-	-	-	(31,478,685)	(31,478,685)	13
Changes in actuarial assumptions*	-	-	-	-	-	-	2,276,775	-	2,276,775	(1,325,868)	950,907	29
Fair value of financial instruments*	-	-	-	17,616,685	-	-	-	-	17,616,685	(723,545)	16,893,140	27
Fair value of available-for-sale financial assets*	-	-	-	4,857,182	-	-	-	-	4,857,182	2,135,781	6,992,963	27
Goodwill	-	-	-	-	-	-	(26,525,335)	-	(26,525,335)	-	(26,525,335)	27
Dividends distributed to subsidiary Seminiv, SGPS, SA	-	-	-	-	-	-	1,145,750	-	1,145,750	-	1,145,750	
Other movements	-	-	-	-	-	-	125,202	-	125,202	64,201	189,403	
Net profit for the year	-	-	-	-	-	-	-	91,399,271	91,399,271	72,907,657	164,306,928	
<b>Equity as of December 31, 2006</b>	<b>118,332,445</b>	<b>(10,399,412)</b>	<b>3,923,459</b>	<b>22,532,476</b>	<b>550,385,918</b>	<b>(9,359,315)</b>	<b>(29,812,510)</b>	<b>91,399,271</b>	<b>737,002,332</b>	<b>525,275,087</b>	<b>1,262,277,419</b>	
Currency translation differences of subsidiaries	-	-	-	-	-	(5,018,951)	-	-	(5,018,951)	(2,846,188)	(7,865,139)	
Application of net profit for 2006:												
- Transfer to reserves	-	-	-	-	64,182,809	-	-	(64,182,809)	-	-	-	
- Dividends paid	-	-	-	-	-	-	-	(27,216,462)	(27,216,462)	-	(27,216,462)	14
Treasury shares acquisition	-	(36,765,574)	-	-	-	-	-	-	(36,765,574)	-	(36,765,574)	26
Change in the consolidation perimeter	-	-	-	-	-	-	-	-	-	(18,355,769)	(18,355,769)	35
Change in the consolidation method	-	-	-	-	-	-	-	-	-	(211,507,450)	(211,507,450)	1.2
Dividends paid by subsidiaries to minority interests	-	-	-	-	-	-	-	-	-	(30,929,289)	(30,929,289)	13
Changes in actuarial assumptions*	-	-	-	-	-	-	4,937,198	-	4,937,198	3,035,487	7,972,685	29
Fair value of financial instruments*	-	-	-	(18,092,125)	-	-	-	-	(18,092,125)	-	(18,092,125)	27
Fair value of available-for-sale financial assets*	-	-	-	1,597,148	-	-	-	-	1,597,148	671,402	2,268,550	27
Revaluation due to control acquisition*	-	-	-	(1,281,742)	-	-	-	-	(1,281,742)	-	(1,281,742)	27
Goodwill	-	-	-	-	-	-	(31,890,244)	-	(31,890,244)	-	(31,890,244)	27
Dividends distributed to subsidiary Seminiv, SGPS, SA	-	-	-	-	-	-	627,434	-	627,434	-	627,434	
Other movements	-	-	-	-	-	-	(24,552)	-	(24,552)	(3,125)	(27,677)	
Net profit for the year	-	-	-	-	-	-	-	121,950,561	121,950,561	39,532,925	161,483,486	
<b>Equity as of December 31, 2007</b>	<b>118,332,445</b>	<b>(47,164,986)</b>	<b>3,923,459</b>	<b>4,755,757</b>	<b>614,568,727</b>	<b>(14,378,266)</b>	<b>(56,162,674)</b>	<b>121,950,561</b>	<b>745,825,023</b>	<b>304,873,080</b>	<b>1,050,698,103</b>	

\* Net of deferred taxes

# CONSOLIDATED CASH FLOW STATEMENT

## AS OF DECEMBER 31, 2007

		December 31, 2007			
Amounts in Euros	Notes	Cement	Paper	Holding	Total
<b>OPERATING ACTIVITIES</b>					
Received from costumers		334,886,941	1,147,635,205	-	1,482,522,146
Payments to suppliers		(201,778,796)	(666,796,750)	(2,295,722)	(870,871,268)
Payments to employees		(31,505,951)	(113,579,365)	(8,071,333)	(153,156,649)
Cash flow generated from operations		101,602,194	367,259,090	(10,367,055)	458,494,229
(Payments)/ receipts from income tax		(265,013)	(12,279,477)	262,840	(12,281,650)
Other (payments)/ receipts from operating activities		(31,853,228)	(42,427,479)	(3,198,224)	(77,478,931)
<b>Cash flow from operating activities (1)</b>		<b>69,483,953</b>	<b>312,552,134</b>	<b>(13,302,439)</b>	<b>368,733,648</b>
<b>INVESTMENT ACTIVITIES</b>					
<b>Receipts relating to:</b>					
Financial investments		5,941,099	-	83,606,135	89,547,234
Property, plant and equipment		506,941	3,434,799	14,000	3,955,740
Interest and similar income		896,301	14,848,478	221,655	15,966,434
Dividends		553,191	-	128,317	681,508
		7,897,532	18,283,277	83,970,107	110,150,916
<b>Payments relating to:</b>					
Financial investments		(21,970,095)	(1,827,986)	(114,631,663)	(138,429,744)
Cash and cash equivalents by change in perimeter		5,214,212	-	-	5,214,212
Property, plant and equipment		(20,631,555)	(56,532,905)	(185,708)	(77,350,168)
		(37,387,438)	(58,360,891)	(114,817,371)	(210,565,700)
<b>Cash flow from investment activities (2)</b>		<b>(29,489,906)</b>	<b>(40,077,614)</b>	<b>(30,847,264)</b>	<b>(100,414,784)</b>
<b>FINANCING ACTIVITIES</b>					
<b>Receips relating to:</b>					
Borrowings		83,466,832	32,101,544	694,649,499	810,217,875
<b>Payments relating to:</b>					
Borrowings		(87,996,694)	(29,009,721)	(645,234,976)	(762,241,391)
Lease contracts		(163,693)	(329,261)	-	(492,954)
Interests and similar expenses		(5,395,251)	(40,567,770)	(21,615,433)	(67,578,454)
Dividends		-	(31,778,074)	(26,589,028)	(58,367,102)
Treasury shares aquisitions		-	-	(36,765,574)	(36,765,574)
		(93,555,638)	(101,684,826)	(730,205,011)	(925,445,475)
<b>Cash flow from financig activities (3)</b>		<b>(10,088,806)</b>	<b>(69,583,282)</b>	<b>(35,555,512)</b>	<b>(115,227,600)</b>
<b>CHANGES IN CASH AND EQUIVALENTS (1)+(2)+(3)</b>		<b>29,905,241</b>	<b>202,891,238</b>	<b>(79,705,215)</b>	<b>153,091,264</b>
EFFECT OF DIFFERENCES IN EXCHANGE RATES		(1,955,504)	-	-	(1,955,504)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>37,802,191</b>	<b>268,898,911</b>	<b>(570,890)</b>	<b>306,130,212</b>
CHANGE IN THE CONSOLIDATION METHOD		(18,523,073)	-	-	(18,523,073)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>31</b>	<b>47,228,855</b>	<b>471,790,149</b>	<b>(80,276,105)</b>	<b>438,742,899</b>

# CONSOLIDATED CASH FLOW STATEMENT

AS OF DECEMBER 31, 2006 *(Pro-forma with subsidiary Secil consolidated by the proportional method)*

		December 31, 2006			
Amounts in Euros	Notes	Cement	Paper	Holding	Total
<b>OPERATING ACTIVITIES</b>					
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)
<b>Cash flows from operating activities (1)</b>		<b>91,155,427</b>	<b>344,611,187</b>	<b>(29,008,262)</b>	<b>406,758,352</b>
<b>INVESTMENT ACTIVITIES</b>					
<b>Receipts relating to:</b>					
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
<b>Payments relating to:</b>					
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)
<b>Cash flows from investment activities (2)</b>		<b>2,224,982</b>	<b>312,759</b>	<b>(67,489,299)</b>	<b>(64,951,558)</b>
<b>FINANCING ACTIVITIES</b>					
<b>Receipts relating to:</b>					
Borrowings		500,017,085	-	575,009,696	1,075,026,781
		500,017,085	-	575,009,696	1,075,026,781
<b>Payments relating to:</b>					
Borrowings		(550,543,319)	(77,335,039)	(542,325,964)	(1,170,204,322)
Lease 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)
<b>Cash flows from financing activities (3)</b>		<b>(77,739,918)</b>	<b>(134,518,537)</b>	<b>(35,633,190)</b>	<b>(247,891,645)</b>
<b>CHANGES IN CASH AND CASH EQUIVALENTS (1) + (2) +(3)</b>		15,640,491	210,405,409	(132,130,751)	93,915,149
EFFECT OF DIFFERENCES IN EXCHANGE RATES		(1,136,627)	-	-	(1,136,627)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		42,523,563	89,521,261	81,306,866	213,351,690
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	31	<b>57,027,427</b>	<b>299,926,670</b>	<b>(50,823,885)</b>	<b>306,130,212</b>

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OF THE YEAR ENDED DECEMBER 31, 2007

(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:** Euros 118.332.445  
**Registration No.:** 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.

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 25, 2008.

The board members, who signed this report, declare that, as their knowledge, the information here contained was prepared in accordance with applicable Accounting Standards, giving a true view of assets and liabilities, financial position and results of the companies included in the Group consolidated financial statements.

## 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 have been prepared in accordance with 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 attached consolidated financial statements were equally prepared on the assumption of continuity of operations, from the accounting books and records of the companies included in the consolidation (Note 45), and based on historic cost, except for biological assets, and financial instruments that are shown at fair value (Notes 33 and 19).

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 consolidation methods and comparability

Since January 1, 2007 the maintenance of the Chief Executive Officer and the Chief Financial Officer named by Semapa ceased to be imposed by the agreements signed with CRH – Secil's minority shareholder. Thus, from this date forward the investment of 51% in Secil is consolidated by the proportional method, although the agreement provides the maintenance of Semapa's 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 Semapa's consolidated net profit or net equity, excluding minority interests, neither the ability to distribute dividends.

The comparatives presented in these notes didn't suffer any change when compared to the ones disclosed in 2006, which means that they include the subsidiary consolidated by the full consolidation method, fact that affects its comparability.

### 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.

On the consolidated balance sheet, 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 at fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the acquisition date, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value on acquisition date, irrespective 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. The subsidiaries are fully consolidated since control is transferred to the Group.

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

Whenever a reinforcement in the share capital of an associated company results in control acquisition, and the company starts to integrate consolidated financial statements by full consolidation method, the share in fair values attributable to assets and liabilities, corresponding to the stake previously held, is recorded in equity, under the caption Fair value reserves (Note 27).

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.

The 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 investments 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, liabilities and contingent 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, except for Goodwill.

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

Unrealized gains in transactions with associates are eliminated to the extent of Group's interest in these 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. 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 based on 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.

Two business segments have been identified: pulp and paper, cement and 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, Germany, Spain, France, Italy, United Kingdom, Netherlands, Austria and United States, 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. leads the Enterprise Group of cements and related products which operates in Portugal, Tunisia, Spain, Angola, Netherlands, France, Lebanon and Cape Verde with cement production, taking place at the Maceira, Pataias, Gabés (Tunisia), Lobito (Angola) and Beirut (Lebanon) 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 Inerentes, SGPS S.A..

*Geographical segment* is an individualized area committed to supply 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 revenues are performed at market prices and eliminated by consolidation process.

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 period-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 financial statements;

All resulting exchange differences are recognised as a separate equity component, under the caption Currency translation reserves.

- (ii) Income and expenses for each income statement are translated at the average exchange rate for the reporting period, 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.

## **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 period between 3 and 5 years and impairment losses.

### **1.6.1 CO2 emission rights**

CO2 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 caption "Deferred income – subsidies", 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 realized amount and the respective purchase price, less the respective subsidy, which is recorded as Other operating income or Other operating costs, respectively.

### **1.6.2 Brands**

When brands are identified in a business combination, the Group records them separately in the consolidated statement as an asset valued at cost, which represents their fair value on the acquisition date.

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

## **1.7 Goodwill**

Goodwill represents the excess of cost of an acquisition over fair value of subsidiaries net identifiable assets, liabilities and contingent liabilities at acquisition date.

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.

## 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 (revalued) in accordance with accounting principles generally accepted in Portugal up to that date, less depreciation and accumulated impairment losses.

Regarding 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 recorded 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 asset's carrying amount or recognised as a separate asset, as appropriate, only when 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 it occurred.

Depreciation is calculated over acquisition cost, using the straight-line method from the date the asset starts to operate, 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

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 (net of transaction costs) 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).

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, as in this 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.

When calculating the fair value of the forests, the Group used the discounted cash flows 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 corresponds to a market rate, determined on the basis of Group's expected rate of return of its forests and the risk associated to them.

Fair value adjustments resulting in changes in estimates of growth, logging period, price, cost and other assumptions are recognised as fair value changes of biological assets on income statement.

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

## 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 granted 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

A financial asset is classified under this caption if acquired mainly 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 there is no active market, 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, economic aspects are the main focus of assessment. Derivative financial instruments are recognised in the balance sheet at fair value.

To the extent that they are considered efficient hedges, changes in the fair value are initially recorded as an offset to shareholders' equity and subsequently reclassified under the caption Net financial income – gains/ losses in hedging derivatives, on settlement date.



Accordingly, and 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 recognized in the income statement at the time they occur.

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 under the caption Gains/ losses in trading derivatives (Note 10).

Whenever possible, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, fair value of derivatives is estimated through the discounted cash-flow method and option valuation models, in accordance with prevailing market assumptions. Fair value of derivatives financial instruments is included essentially in the captions 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 profits will be generated in the future, against which they can be used.

Deferred tax assets are reviewed periodically and impaired 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 caption.

### 1.15 Inventory

Inventory is 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 and the cost method used is the weighted average cost.

#### 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.

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 exact 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 petty cash, banks deposits 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 caption 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, to 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.

Treasury shares are accounted by their acquisition value, as a reduction of equity, under the caption treasury shares and the gains or losses related to its sale are recorded in other reserves. In accordance with the applicable commercial law, while the treasury shares remain in the possession of the Company, it has to account a reserve by an amount equal to its acquisition cost.

When a Group company purchases shares of the holding company (treasury shares), the consideration paid, including any directly attributable incremental

costs (net of income taxes), is deducted to 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 other reserves.

### 1.19 Interest-bearing liabilities

Interest-bearing liabilities are initially recognised at fair value, net of transaction costs incurred, and 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 basis (Note 10).

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

Capitalization of these charges begins once preparation of asset's construction or development starts and is suspended after its utilization begins or when the respective project is suspended or substantially completed.

Any financial income generated by loans directly associated with a specific investment is deducted to the asset cost.

### 1.21 Provisions

Provisions are recognised whenever the Group has a legal or constructive obligation, as a result of past events, an outflow of resources is likely to 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 the reduction of environmental impacts to levels that do not exceed those representing a viable application of the best available technologies, from those related to minimizing energy consumption, atmospheric emissions, production of waste and noise,

to those established for the execution of environmental rehabilitation plans) are capitalized when they are intended to serve the Group's business in a sustainable way, as well as those associated with future economic benefits and which increase the expected useful life, increase capacity or improve the safety or efficiency of other assets held by the Group (Notes 30 and 36).

Additionally, lands used in the exploitation of quarries must be subject to environmental recovery. The Group's practice is to restore spaces freed up by quarries on a continuing and progressive basis, recognizing incurred expenditures in the income statement of that period.

Concerning the quarries where recovery is only possible after exploitation ceases, the Group has requested independent and specialized entities to evaluate those liabilities, as well as the estimated period of exploitation, recognising provisions for this purpose (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 part of 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.

Thus, Group's total liability is estimated separately for each plan at least once every six months, on the closing date 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, deducted from the market value of the set funds, under the caption Pensions and other post-employment benefits, 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 (Note

27).

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 reduced.

#### **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. 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.

Additionally, some of the companies of Portucel's group assumed liabilities for the payment of retirement premium, equivalent to a 6 months salary if the employee retires on the date of normal retirement (65 years).

##### *Long service award*

The subsidiaries Secil – Companhia Geral de Cal e Cimento, S.A. and CMP – Cimentos Maceira e Pataias, S.A. assumed with their workers the commitment to pay bonuses: (i) at Secil to those attaining 25, 35 and 40 years of seniority; (ii) at CMP, to those attaining 20 and 35 years of seniority, calculated according to their monthly basic remuneration, up to 3 salaries.

##### *Healthcare benefits*

Secil – Companhia Geral de Cal e Cimento, S.A., CMP – Cimentos Maceira e Pataias, S.A., Cimentos Madeira, Promadeira and Brimade provide their employees a healthcare benefit plan that is over and above Health and Social Security systems, 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, (ii) at CMP, through "Cimentos – Federação das Caixas de Previdência", for covered workers, as well as for the remaining workers, after company's medical services prior approval and (iii) at Cimentos Madeira, Promadeira and Brimade, through the approval of healthcare expenses presented by pensioners.

#### **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. This right is acquired in the year previous to its payment.

In accordance with the Management performance system, workers are entitled to a compensation benefit defined in the annual objectives, whose right is generally acquired in the year previous to its 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 caption Payables and other current liabilities.

#### **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 only recognised when it becomes certain that the Group will meet the respective conditions and the grant will be received.

Grants received to compensate the Group for costs incurred are recorded systematically on the income statement during the periods the respective costs 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 grant are met.

Government grants received to compensate the Group for capital expenditures are shown under the caption Payables and other current liabilities and are recognised in the income statement under the caption Other operating income 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, and the interest included in rental payments and depreciation of the asset, calculated as described in Note 1.8, are recognised as costs in the income statement 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 recorded in the income statement 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

The dividends distribution to shareholders is recognised as a liability in the Group's financial statements in the period dividends are approved by the 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 its completion, at the fair value of the amounts 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.

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

Group companies record their costs and income on accrual basis, 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 captions Receivables and other current assets and Payables and other current liabilities (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 standards, changes and interpretations of existing standards

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:

### New standards in force since 2007:

New standards into force	Effective date*
IFRS 7 - Financial instruments: Information disclosure	January 1, 2007
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

\* Periods beginning on or after

The adoption of these new standards didn't have significant impacts on the consolidated financial statements.

### New standards of non-mandatory application as of December 31, 2007:

New standards for future application	Effective date*
IFRIC 11 - Group and treasury shares transactions	March 1, 2007
IFRS 8 - Operating segments **	January 1, 2009
IFRIC 12 - Service concession arrangements **	January 1, 2008
IFRIC 13 - Customer loyalty programmes **	July 1, 2008
IFRIC 14 - IAS 29 - The limits on a defined benefit asset, minimum funding requirements and their interaction **	January 1, 2008
Amendments to IAS 23 - Borrowing costs **	January 1, 2008

\* Periods beginning on or after

\*\* Standards not yet approved by the European Commission

The Group didn't conclude yet about all the impacts of the application of the above mentioned standards, deciding not to early apply them. However, 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' payment, loans reimbursement and other cash-flows generated by those companies.

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.

Risk management is driven by 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 Euro exchange rate against other currencies can affect revenues of Semapa Group in various 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 paid in USD. Secil Group accomplished the optimization of intra-group flows in foreign currencies in order to improve the "natural hedging".

On what concerns the non-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 stills in a variable interest rate regime.

### **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).

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

The wood used by Portucel comes from its own land, from the acquisition to national producers and import.

Although Portucel favours the use of its own wood and the establishment of cut contracts with producers, allowing the anticipation 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 insufficient national production, Portucel will have to increase imported quantities, what may lead to an increase on this raw material average cost.

Portucel Group's 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 changes in the production capacity installed worldwide creating disequilibrium between 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.

Papéis 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 equal 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 Portucel's main clients.

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

Consumers' preferences may impact the global demand of paper or the demand of certain types in particular. Demand for Portucel's currently produced paper may be affected by consumers' behaviour, namely as a result of the use of e-mail 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.

Although the company considers that its geographical diversification is the best way to stabilize its results, its activity, financial position and operational results may be negatively affected by construction sector slowdown in any significant market where it operates.

### **2.2.5 Demand for products – Secil**

In stabilized economies demand for cement and other materials tend to be quite regular along the year. A demand reduction is just noticed 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**

Energy costs have significant weight in most activities of Semapa's subsidiaries.

The company is partly protected against the risk of increase of energy price 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.

Despite 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 Group considers that may appear growth opportunities either organic or throughout acquisitions.

### 3. Estimates and relevant accounting judgements

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.

Though, actual translation results may differ from estimates.

Estimates and assumptions that present a significant risk of generating a material adjustment in assets and liabilities' book value in the next period are shown below:

#### 3.1 Goodwill impairment

Each year, the Group tests whether there is impairment of goodwill, in accordance with the accounting policy described in Note 1.9. 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 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.

#### 3.3 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.

In 2007 the Group changed the discount rate used in the calculation of its responsibilities from 4.5% to 5.25% (as referred in Note 29) and the overall positive impact amounted to Euros 33,599,485.

#### 3.4 Fair value of biological assets

To determine fair value of biological assets is used the discounted cash flows method, in which are considered assumptions about the nature of the assets being valued (Note 1.11). Changes in these assumptions may entail a valuation/ devaluation of those assets.

As of December 31, 2007 an increase of 0.5% on the used discount rate would lead to a devaluation of this asset amounting Euros 5,386,212.

### 3.5 Credit risk

As mentioned above, the group manages the credit risks of balances receivable portfolio through wise risk analyses when the credit opening to new customers and its regular review (Note 24).

Because of its customers nature, is not available on a widespread credit ratings for the portfolio, which allow its categorization and analysis as a homogeneous population. Thus, they are collected elements of the customers financial behaviour through regular contacts, as well as through contacts with other entities involved in the trade relationship (for example, sales agents).

Similarly, the sub-groups Portucel and Secil have contracts with several credit insurance companies where they include the sales of those portfolios in insurance policies that reduce its exposure in such sales to the franchise to liquidate in the event of accident, which varies depending on the geographical origin of customers.

## 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 2007 is shown as follows:

Amounts in Euro	Pulp and Paper	Cement and derivatives	Holdings	Consolidated
<b>REVENUE</b>	1,147,394,506	287,729,064	251,154	1,435,374,724
Operational results	237,039,169	55,438,069	10,813,397	303,290,635
Financing results	(27,541,005)	(7,717,576)	(23,316,054)	(58,574,635)
Profit in associated companies	-	611,427	-	611,427
Income tax	(72,640,740)	(12,823,644)	1,620,443	(83,843,941)
Ordinary activities results	136,857,424	35,508,276	(10,882,214)	161,483,486
Minority interests	(36,986,840)	(2,546,085)	-	(39,532,925)
<b>Net profit for the year</b>	<b>99,870,584</b>	<b>32,962,191</b>	<b>(10,882,214)</b>	<b>121,950,561</b>
<b>OTHER INFORMATIONS</b>				
Segment assets	2,521,630,393	480,896,664	254,612,712	3,257,139,769
Investments in associated Companies	130,074	1,748,808	-	1,878,882
Total segmental liabilities	1,398,944,917	233,984,322	573,512,427	2,206,441,666
Amortization and impairment losses	95,350,149	21,338,328	141,763	116,830,240
Net provisions	9,945,622	366,042	2,234,293	12,545,957
EBITDA	342,334,940	77,142,439	13,189,453	432,666,832
Net debt	367,703,751	76,745,157	443,416,196	887,865,104

Financial data by business segment, *in pro-forma comparative basis*, for 2006 is shown as follows:

Amounts in Euro	Pulp and Paper	Cement and derivatives	Holdings	Consolidated
<b>REVENUE</b>	1,080,659,265	237,851,817	395,687	1,318,906,769
Operational results	183,225,935	53,557,689	(12,559,874)	224,223,750
Financing results	(26,456,536)	(3,924,087)	(16,813,412)	(47,194,035)
Profit in associated companies	-	1,268,934	-	1,268,934
Income tax	(46,380,484)	(11,641,136)	6,308,163	(51,713,457)
Ordinary activities results	110,388,915	39,261,400	(23,065,123)	126,585,192
Minority interests	(35,355,932)	170,011	-	(35,185,921)
<b>Net profit for the year</b>	<b>75,032,983</b>	<b>39,431,411</b>	<b>(23,065,123)</b>	<b>91,399,271</b>
<b>OTHER INFORMATIONS</b>				
Segment assets	2,378,979,466	432,743,367	308,382,737	3,120,105,570
Investments in associated Companies	516,307	20,877,987	2,452	21,396,746
Total segmental liabilities	1,291,812,984	212,602,959	564,919,654	2,069,335,597
Amortization and impairment losses	103,246,062	17,652,784	143,731	121,042,577
Net provisions	26,046,991	2,112,575	(261,827)	27,897,739

Financial data by business segment, as reported to the market in 2006, is shown as follows:

Amounts in Euros	Pulp and Paper	Cement and derivatives	Holdings	Consolidated
<b>REVENUE</b>	1,080,659,265	466,376,111	-	1,547,035,376
Operational 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 results	110,388,915	76,983,138	(23,065,125)	164,306,928
Minority interests	(35,355,932)	(37,551,725)	-	(72,907,657)
<b>Net profit for the year</b>	<b>75,032,983</b>	<b>39,431,413</b>	<b>(23,065,125)</b>	<b>91,399,271</b>
<b>OTHER INFORMATIONS</b>				
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
Total segmental 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
Net provisions	26,046,991	4,142,303	(261,827)	29,927,467

## Geographical segment

	Cements and derivatives		Pulp and Paper		Total	
	2007	2006	2007	2006	2007	2006
<b>Sales and services rendered:</b>						
Portugal	186,772,850	337,733,873	187,315,561	152,837,513	374,088,411	490,571,386
Rest of Europe	8,885,802	18,659,416	781,339,803	739,609,646	790,225,605	758,269,062
America	-	-	80,533,185	77,617,400	80,533,185	77,617,400
Africa	43,700,005	87,187,690	-	-	43,700,005	87,187,690
Asia	24,382,594	-	-	-	24,382,594	-
Overseas	23,987,812	22,795,132	98,205,956	110,594,706	122,193,768	133,389,838
	<b>287,729,063</b>	<b>466,376,111</b>	<b>1,147,394,505</b>	<b>1,080,659,265</b>	<b>1,435,123,568</b>	<b>1,547,035,376</b>

The decrease of turnover in Cement and Derivatives segment is due to the application of the proportional method on the sub-group Secil, since January 1, 2007, as referred in Note 1.2, why the figures comparability is affected.

## 5. Other operating income

As of December 31, 2007 and 2006, the caption "Other operating income" was as follows:

Amounts in Euros	2007	2006
Reversion of adjustments (Note 22)	709,990	1,931,649
Reversion of impairment (Note 16 e 22)	1,594,000	-
Supplementary income	6,541,928	8,048,157
Gains on inventories	1,639,497	538,255
Gains on disposals of non-current assets	30,995,869	22,763,684
Gains on disposals of current assets	777,130	1,022,657
Grants - CO2 Emission Licences	1,241,471	68,947,605
Government Grants (Note 32)	3,304,132	4,743,857
Other operating income	8,308,111	11,654,686
	<b>55,112,128</b>	<b>125,796,481</b>

The value under the heading of supplementary income mainly concerns electricity, water and other forest products, amount of Euros 4,669,462 (2006: Euros 5,341,728), Euros 559,102 (2006: Euros 524,957) and Euros 334,983 (2006: Euros 1,141,401), respectively.

In 2007 and 2006 the gains on disposal of non-current assets was as follows:

Amounts in Euros	2007	2006
Land, buildings and equipments	1,936,952	4,153,879
Investments in associated Companies	36,893	2,375,709
Available-for-sale assets	26,230,146	1,374,591
CO2 Licences disposals	2,791,878	14,859,505
	<b>30,995,869</b>	<b>22,763,684</b>

The caption "Gains on disposal of non-current assets" includes essentially the gain on the disposal of 20,123,117 shares of EDP – Energias de Portugal, amounting Euros 26,217,374 (Note 21).

## 6. Costs

As of December 31, 2007 and 2006 costs were made up as follows:

Amounts in Euros	2007	2006
<b>Cost of sales and service rendered</b>		
Cost of inventories sold and consumed	(498,271,500)	(475,090,535)
Cost of materials and services	(381,224,931)	(461,695,890)
<b>Variation in production</b>	<b>3,717,334</b>	<b>(2,409,080)</b>
<b>Payroll costs</b>		
Board of directors	(13,763,154)	(18,387,090)
Other remunerations	(101,374,696)	(111,556,120)
Pension costs	(11,136,597)	(12,006,505)
Other payroll costs	(40,229,030)	(48,024,172)
	<b>(166,503,477)</b>	<b>(189,973,887)</b>
<b>Other operating costs</b>		
Own cost capitalization	465,273	446,878
Quotations	(612,076)	(757,374)
Donations	(611,957)	(647,766)
Development and research	(56)	(2,413,615)
CO2 emission costs	(1,241,471)	(68,947,605)
Inventories and other receivables impairment	(1,982,166)	(3,462,096)
Losses on inventories	(1,055,587)	(325,610)
Indirect taxes	(7,023,763)	(4,124,918)
Losses on disposal of non-current assets	(121,572)	(576,174)
Others	(2,983,372)	(6,299,065)
	<b>(15,166,747)</b>	<b>(87,107,345)</b>
<b>Net provisions (Note 30)</b>	<b>(12,545,957)</b>	<b>(29,927,467)</b>
<b>Total cost</b>	<b>(1,069,995,278)</b>	<b>(1,246,204,204)</b>

On December 31, 2007 figures presented above include only 51% of the amounts of Secil, as referred to in note 1.2.

The caption Board of directors includes an amount of Euros 6,419,003 (2006: Euros 7,342,171), relating to the accrual of performance awards to members of Semapa's Board of Directors.

The caption "Other payroll costs" includes an amount of Euros 284,754 relating to compensation payments from contractual obligations of the subsidiary Portucel, occurred during 2007 (2006: Euros 2,389,684).

This caption also includes Euros 15,161,119 (2006: Euros 10,856,026), relating to the accrual of performance awards to be paid in 2008.

## 7. Remuneration of members of the corporate bodies

As of December 31, 2007 and 2006 the remunerations to the members of the corporate bodies, including performance bonuses, were made up as follows:

Amounts in Euros	2007	2006
<b>Board of directors</b>		
Semapa SGPS, S.A.	6,277,755	9,137,505
Members of Semapa board in other companies	3,462,343	5,288,471
Corporate bodies from other group companies	4,023,056	3,961,114
	<b>13,763,154</b>	<b>18,387,090</b>

Additionally, Semapa's Board of Directors benefits from a pension plan as described in Note 29.

## 8. Depreciation, amortization and impairment losses

As of December 31, 2007 and 2006 depreciation, amortization and impairment losses were as following:



Amounts in Euros	2007	2006
<b>Property, plant and equipment depreciation</b>		
Land	(1,321,965)	(2,638,285)
Buildings	(23,247,655)	(27,063,451)
Machinery and equipment	(86,232,511)	(99,046,332)
Other tangible assets	(5,287,198)	(7,092,097)
	<u>(116,089,329)</u>	<u>(135,840,165)</u>
<b>Intangible assets depreciation</b>		
Industrial property and other rights	(464,420)	(104,576)
	<u>(464,420)</u>	<u>(104,576)</u>
<b>Impairment losses in intangible assets</b>		
Goodwill (Note 15, 20 e 22)	(276,491)	(464,353)
Other intangible assets - Brands (Note 16)	-	(1,594,000)
	<u>(276,491)</u>	<u>(2,058,353)</u>
	<b>(116,830,240)</b>	<b>(138,003,094)</b>

Depreciations are net of recognized government grants (Note 24).

## 9. Profit in Associated Companies

During 2007 and 2006 the Group presented the following results of associates:

Amounts in Euros	2007	2006
<b>Sub-group Secil</b>		
Ciment de Sibline S.A.L.	76,881	-
Chryso - Aditivos de Portugal, S.A.	(9,830)	777,314
Setefrete, SGPS, S.A.	435,000	35,845
Betão Liz, S.A.	125,372	240,438
Cimentação - Cements dos Açores, Lda.	35,466	945,900
Ecoresíduos, Lda.	-	712,761
Viroc Portugal - Ind. Madeiras e Cement, S.A.	-	(261,346)
Cements Madeira, Lda.	(2,015)	-
Be-Power, Serviços e Equipments, Lda	1,891	-
J.M. Henriques, Lda.	(51,338)	37,195
	<b>611,427</b>	<b>2,488,107</b>

The presented amounts related to the companies Ciment de Sibline and Cimentos Madeira correspond to the appropriation of Group's share in net profit of the two companies until the date of acquiring control (Note 35).

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

## 10. Net financial costs

On December 31, 2007 and 2006 net financial costs were made up as follows:

Amounts in Euros	2007	2006
Interest paid on loans from shareholders	(437,274)	(272,673)
Interest paid on other loans	(67,174,757)	(55,581,361)
Other interest earned	15,803,417	6,357,679
Participation securities income	-	689,147
Gain / (losses) in trading derivatives	888,468	2,548,551
Gain / (losses) in hedging derivatives	15,544,559	7,367,265
Accrued premium for stock options	(6,276,500)	(5,600,960)
Interests for Delayed Payments	(10,422,243)	-
Exchange fluctuations	(4,589,418)	(5,543,320)
Other financial expenses	(2,309,813)	(2,395,709)
Other financial income	398,926	1,467,144
	<b>(58,574,635)</b>	<b>(50,964,237)</b>

Gains of financial instruments include, essentially, gains in interest rate SWAPS amounting Euros 2,469,348, losses in pulp price hedgings amounting Euros 1,480,264 and foreign exchange gains in budget hedging positions amounting to Euros 14,555,475.

Gains of financial instruments amounting Euros 888,468 relate to forward foreign exchange contracts,

being included in the caption "Exchange differences" the exchange variations of clients balances for foreign currency.

Compensatory interests are associated with taxes payments and additional tax contingencies, particularly in the VAT outside Portugal, in the period 1998 to 2003 and corporate tax (IRC) and VAT in Portugal from 2003 to 2005, for subsidiary Portucel

## 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 Euros 20,000,000.

As of December 31, 2007 and 2006 the caption "Income tax" showed the following breakdown:

Amounts in Euros	2007	2006
Current tax	46,623,428	18,487,979
Current tax provision increase	24,894,221	21,794,440
Deferred tax	<u>12,326,292</u>	<u>22,615,659</u>
	<b>83,843,941</b>	<b>62,898,078</b>

The reconciliation of the effective income tax rate for the periods ended June 30, 2007 and 2006 was as follows:

Amounts in Euros	2007	2006
Profit before tax	<u>245,327,427</u>	<u>227,205,006</u>
Expected income tax	65,011,768	62,481,377
Differences (a)	6,984,626	(5,630,137)
Recoverable tax losses carried forward	(2,227,925)	1,371,934
Non-recoverable tax losses carried forward	1,539,696	8,060,206
Changes in tax rate	(576,561)	(12,133,963)
Provisions to current tax	24,894,207	21,794,440
Adjustments to tax collection	<u>(11,781,870)</u>	<u>(13,045,779)</u>
	<b>83,843,941</b>	<b>62,898,078</b>
Effective tax rate	34.18%	27.68%

(a) This amount is made up essentially of:

Effects arising from the application of the equity method	(334,936)	(2,023,759)
Capital gains / (losses) for tax purposes	25,400,108	(1,223,166)
Capital (gains) / losses for tax accounting purposes	(27,484,781)	(5,810,229)
Taxable adjustments and provisions	17,412,490	24,225,747
Fiscal benefits	(2,372,617)	(1,099,152)
Dividends received from non EU companies	-	7,823,051
Decrease of taxed provisions	(1,447,608)	(32,037,930)
Increase of taxed provisions	-	10,440,944
Taxed provisions in previous years	-	(5,629,669)
Intra-group earnings subject to taxation	371,612	(5,867,233)
Pension fund allocation	1,553,135	(2,327,660)
Others	13,259,677	(6,944,171)
	26,357,080	(20,473,226)
Tax effect (26,50%)	6,984,626	(5,630,137)

The caption adjustments to the collection includes 51% of the amounts recognized by Secil with regard to both situations as follows:

### **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 Euros 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 Euros 5,985,575.

The issue started in Almada's constitutional court in 2004 and, on January 18, 2008, come to judge the referred proceeding impugnation, leading to the recognition of the tax credit on the 2007 accounts.

### **Tax retention from dividends – Cimpopor**

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 Cimpopor, SGPS, S.A., having received dividends in the amount of Euros 25,960,429 for 2001 to 2003, subject to tax in Portugal in the amount of Euros 3,039,491, that should be deducted from tax payable in Spain.

The subsidiary Secilpar filed an appeal in Portugal against the tax retention of dividends for 2002 and 2003, in the amounts of Euros 1,481,263 and Euros 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.

On November 8, 2007, the European Communities Court of Justice (First Section) judge favourably a Portuguese taxpayer in a similar issue, in the known Amurta case (Judgement on the case C-379/05), reason why the asset was recognized in the group's financial statements.

The Portuguese income annual declarations are subject review and possible adjustments by the tax authorities during a 4 years period. However, if there are tax losses

they may be subject to revision and payment by the tax authorities for a 6 years period. In other countries where the group develops its activity the deadlines are different, usually higher.

The Board believes that any adjustments to those statements as a result of revisions / inspections by the tax authorities will have no significant effect on the consolidated financial statements at December 31, 2007, being certain that the exercises have already been reviewed by 2005, including in Portucel and Soporcel and subsidiaries and by 2004 in Secil.

## **12. Earnings per share**

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

Amounts in Euros	2007	2006
Profit attributable to shareholders	121,950,561	91,399,271
Weighted average number of ordinary shares in issue	114,244,470	115,604,470
Basic earning per share	1.067	0.791
Diluted earning per share	1.067	0.791

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. and 2,720,000 treasury shares acquired by Semapa in July 2007.

As proposed by the Board of Directors for the results investment, the proposed dividend corresponds to 25.5 cents per share, for a total of Euros 29,481,173, which are not recognised as financial liabilities in the consolidated financial statements.

## **13. Minority interests**

As of December 31, 2007 and 2006 minority interests disclosed in the income statement were as follows:

Amounts in Euros	Equity	
	31-12-2007	31-12-2006
Portucel - Empresa de Pasta e Papel, SA	278,408,578	306,589,000
Secil - Companhia Geral de Cal e Cimento, SA	-	204,784,966
Raiz - Instituto de Investigação da Floresta e Papel	237,401	181,774
Secil Betões e Inertes Group	150,196	224,514
Société des Ciments de Gabés	687,707	1,345,346
Secil Martingança	133,754	3,632,671
Secil - Companhia de Cimento do Lobito, S.A.	2,995,600	6,515,933
Cimentos de Siblino, S.A.L.	19,042,136	-
Cimentos Madeira Group	2,564,120	-
Others	653,588	2,000,883
	304,873,080	525,275,087

As already referred, the subsidiary Secil – Companhia Geral de cal e Cimento, SA, in which the Group has a stake of 51%, started to be consolidated by the proportional method. For this reason, since January 1, 2007 the Group doesn't recognize any profits affected to minority interests.

As of December 31, 2007 and December 31, 2006 minority interests disclosed in the balance sheet were as follows:

Amounts in Euros	Result	
	2007	2006
Portucel - Empresa de Pasta e Papel, SA	36,967,840	35,337,644
Secil - Companhia Geral de Cal e Cimento, SA	-	37,885,082
Raiz - Instituto de Investigação da Floresta e Papel	19,001	18,288
Secil Betões e Inertes Group	33,645	(164,057)
Société des Ciments de Gabès	30,705	47,396
Secil Martingança	24,426	296,140
Secil - Companhia de Cimento do Lobito, S.A.	124,540	(791,647)
Cimentos de Siblino, S.A.L.	2,042,319	-
Cimentos Madeira Group	360,728	-
Others	(70,279)	278,811
	<b>39,532,925</b>	<b>72,907,657</b>

During 2007 and 2006, the following movements in minority interests have occurred:

Amounts in Euros	Pulp and Paper	Cement and Derivatives	Total Restated
<b>Balance as of January 1, 2006</b>	<b>332,375,599</b>	<b>210,027,636</b>	<b>542,403,235</b>
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 gain and losses	(66,369)	(1,259,499)	(1,325,868)
Available-for-sale assets fair value	-	(723,545)	(723,545)
Other movements on equity	64,201	-	64,201
Profit for the year	35,355,932	37,551,725	72,907,657
<b>Balance as of December 31, 2006</b>	<b>306,770,779</b>	<b>218,504,308</b>	<b>525,275,087</b>
Changes in consolidation perimeter	(38,348,752)	19,992,984	(18,355,768)
Change in the consolidation method	-	(211,507,450)	(211,507,450)
Dividends	(30,421,029)	(508,260)	(30,929,289)
Currency translation reserve	2,264	(2,848,453)	(2,846,188)
Financial instruments	671,402	-	671,402
Actuarial gain and losses	2,987,611	47,875	3,035,487
Other movements on equity	(3,125)	-	(3,125)
Profit for the year	36,986,841	2,546,084	39,532,925
<b>Balance as of December 31, 2007</b>	<b>278,645,991</b>	<b>26,227,089</b>	<b>304,873,080</b>

The change of perimeter occurred in the segment of Pulp and paper results from a group acquisition of an additional minority interests of 3.4% in subsidiary Portucel.

## 14. Application of preceding year's net profit

Amounts in Euros	Application of year's net profit:	
	2006	2005
Dividends distribution	27,216,463	49,699,627
Legal reserves	-	1,445,412
Other reserves	-	278,672,264
Retained earnings	64,182,808	4,209,570
<b>IFRS net profit for the year</b>	<b>91,399,271</b>	<b>334,026,873</b>
<b>Dividends per share</b>	<b>0.23</b>	<b>0.42</b>

As of December 31, 2007 legal reserves are recorded at maximum amount, to which is added the share premiums reserve.

## 15. Goodwill

During 2007 and 2006 changes under the caption "Goodwill" were as follows:

Amounts in Euros	31-12-2007	31-12-2006
<b>Net amount at the beginning of the year</b>	<b>334,524,956</b>	<b>331,502,916</b>
Changes of perimeter	(729,507)	139,445
Change in the consolidation method	(54,339,254)	-
Impairment losses	-	(89,353)
Acquisitions	7,613,028	5,946,429
Disposals	-	-
Exchange fluctuations	(1,394,105)	(2,974,481)
<b>Closing balance</b>	<b>285,675,118</b>	<b>334,524,956</b>

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

In accordance with IFRS 1, Goodwill is subject to impairment tests performed on an annual basis, in accordance to the accounting policy described on note 1.7.

As of December 31, 2007 and December 31, 2006 Goodwill was made up as follows:

Entity	Year of acquisition	31-12-2007	31-12-2006
<b>Acquisitions made by sub-group Semapa</b>			
Secil - Companhia Geral de Cal e Cimento, S.A.	1997	6,766,530	6,766,530
Cimentospar, SGPS, SA	2003	81,296,931	81,296,931
Portucel - Empresa Produtora de Pasta de Papel	2004	135,565,059	135,565,059
		<b>223,628,520</b>	<b>223,628,520</b>
<b>Acquisitions made by sub-group Secil</b>			
CMP - Cimentos Maceira e Pataias, S	1994	24,906,178	48,835,643
Société des Ciments de Gabès	2000	17,595,400	35,667,738
Secil Betões e Inertes Group	2000	6,796,620	13,326,706
Sud-Béton-Société de Fabrication de Béton	2001	1,045,923	2,120,199
Tecnosecil, S.A.R.L.	2005	823,830	1,805,585
IRP - Indústria de Reboco de Portugal	2005	1,557,891	3,054,688
Sicobetão - Fabricação de Betão, S.A	2005	421,747	826,955
Secil Cape Verde Comércio e Serviço	2006	71,117	139,445
Secil Betões e Inertes, SGPS, S.A.	2005	311,197	610,192
Cimentos Costa Verde - Comércio de Cimentos	2006	-	1,430,408
Ecoresíduos - Centro de Tratamento de Resíduos	2006	1,570,227	3,078,877
Cimentos Madeira, S.A.	2007	924,103	-
Minerbetão, S.A.	2007	476,507	-
Cimentos de Siblino, S.A.L.	2007	5,545,858	-
		<b>62,046,598</b>	<b>110,896,436</b>
		<b>285,675,118</b>	<b>334,524,956</b>

On December 31, 2007 the goodwill caption includes only 51% of the amounts of the subsidiary Secil, as referred in note 1.2.

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:

Acquisitions made by sub-group Secil	31-12-2007	31-12-2006
CMP - Cimentos Maceira e Pataias, S	1994	48,835,643
Société des Ciments de Gabès	2000	34,500,784
Secil Betões e Inertes Group	2000	13,326,706
Sud-Béton-Société de Fabrication de Béton	2001	2,050,829
Tecnosecil, S.A.R.L.	2005	1,615,352
IRP - Indústria de Reboco de Portugal	2005	3,054,688
Sicobetão - Fabricação de Betão, S.A	2006	826,955
Secil Cape Verde Comércio e Serviço	2005	139,445
Secil Betões e Inertes, SGPS, S.A.	2006	610,191
Cimentos Costa Verde* - Comércio de Cimentos	2006	-
Ecoresíduos - Centro de Tratamento de Resíduos	2006	3,078,877
Cimentos Madeira, S.A.	2007	1,811,967
Minerbetão, S.A.	2007	934,328
Cimentos de Siblino, S.A.L.	2007	10,874,229
	<b>121,659,994</b>	<b>110,896,436</b>

Regarding to impairment tests, the recoverable amount of the CGU's is determined based on value-in-use, through cash-flow projections based in financial budgets approved by management. For future periods are performed extrapolations, in which are used estimated growth rates, determined in conformity with past performance and expectations regarding the future development of the market.

The main assumptions used in the mentioned tests were as follows:

	Portugal	Tunisia	Lebanon
<b>WACC (after tax rate)</b>			
Cement and derivatives	7.7%	9.4%	11.1%
Pulp and Paper	7.7%	NA	NA
<b>Tax rate</b>	<b>26.50%</b>	<b>30.00%</b>	<b>15.00%</b>



## 16. Other intangible assets

During 2007 and 2006 changes under the intangible assets heading were as follows:

	Brands	Researche and development expenses	Industrial property and other rights	CO2 Emission licences	Assets in progress	Total
Amounts in Euros						
				<i>Restated</i>		
<b>Acquisition cost</b>						
Amount as of January 1, 2006	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 and transfers	-	-	119,860	(113,806,105)	18,378	(113,667,867)
Exchange differences	-	-	-	-	-	-
<b>Amount as of December 31, 2006</b>	<b>151,488,000</b>	<b>4,291,159</b>	<b>2,472,450</b>	<b>18,972,545</b>	<b>86,757</b>	<b>177,310,911</b>
Changes of consolidation method	-	-	-	(8,280,397)	-	(8,280,397)
Changes of perimeter	-	-	-	-	-	-
Acquisitions	-	-	1,835,461	4,722,252	-	6,557,713
Disposals	-	-	-	(2,173,803)	-	(2,173,803)
Write-off and transfers	-	(4,291,159)	(144,258)	(11,637,284)	(86,757)	(16,159,458)
Exchange differences	-	-	-	-	-	-
<b>Amount as of December 31, 2007</b>	<b>151,488,000</b>	<b>-</b>	<b>4,163,653</b>	<b>1,603,313</b>	<b>-</b>	<b>157,254,966</b>
<b>Accumulated amortizations and impairment losses</b>						
Amount as of January 1, 2006	-	(4,291,159)	(2,323,505)	-	-	(6,614,664)
Changes of perimeter	-	-	-	-	-	-
Amortization and impairment losses	(1,594,000)	-	(104,576)	-	-	(1,698,576)
Disposals	-	-	-	-	-	-
Write-off and transfers	-	-	156	-	-	156
Exchange differences	-	-	-	-	-	-
<b>Amount as of December 31, 2006</b>	<b>(1,594,000)</b>	<b>(4,291,159)</b>	<b>(2,427,925)</b>	<b>-</b>	<b>-</b>	<b>(8,313,084)</b>
Changes of perimeter	-	-	-	-	-	-
Amortization and impairment losses	-	-	(464,420)	-	-	(464,420)
Disposals	-	-	-	-	-	-
Write-off and transfers	1,594,000	4,291,159	144,257	(1,543,516)	-	4,485,900
Exchange differences	-	-	-	-	-	-
<b>Amount as of December 31, 2007</b>	<b>-</b>	<b>-</b>	<b>(2,748,088)</b>	<b>(1,543,516)</b>	<b>-</b>	<b>(4,291,604)</b>
Net amount as of January 1, 2006	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
Net amount as of December 31, 2007	151,488,000	-	1,415,565	59,797	-	152,963,362

The amount of Euros 151,488,000 under the caption Brands relates to the initial evaluation performed by a specialized and independent entity, for trademarks Navigator and Soporset, using the respective cash-flow projections at an appropriate discount rate, after determined the fair value of Portucel's assets and liabilities, 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 has valued it in the first semester of 2007, of which resulted a fair value of Euros 199,245,000. Additionally, as a result of this valuation, the impairment loss registered in 2006 in trademark Soporset was reversed, in the amount of Euros 1,594,000 (Note 5).

The increase in caption Industrial property and other rights for 2007 refers to the compensation paid to customers/ non-competition clause in USA paper market.

## 17. Property, plant and equipment

During 2007 and 2006 changes in property, plant and equipment accounts, as well as in the respective depreciations and impairment losses, were as follows:

Amounts in Euros	Land	Buildings and other constructions	Equipments and others tangibles	Assets in progress	Advances	Total
			<i>Restated</i>			
<b>Acquisition cost</b>						
Amount as of January 1, 2006	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)
Write-off and transfers	(469,345)	2,150,696	85,131,823	(93,174,216)	(290,266)	(6,651,308)
Exchange differences	(5,017,957)	(2,819,361)	(10,171,424)	(260,943)	(262)	(18,269,947)
<b>Amount as of December 31, 2006</b>	<b>228,430,922</b>	<b>759,381,674</b>	<b>3,829,373,886</b>	<b>20,315,259</b>	<b>1,442,538</b>	<b>4,838,944,279</b>
Change in the consolidation method	(62,535,049)	(150,281,209)	(498,837,859)	(5,657,840)	(691,556)	(718,003,513)
Changes of perimeter	9,319,937	24,287,536	67,172,232	887,700	184,693	101,852,098
Acquisitions	455,485	693,186	18,520,830	52,962,554	893,022	73,525,077
Disposals	(5,785)	(1,531,192)	(9,263,835)	(82,015)	-	(10,882,827)
Fair value revaluation	(349,378)	4,886,733	3,313,598	(19,193,184)	(523,854)	(11,866,085)
Exchange differences	(2,086,324)	(2,982,180)	(9,430,013)	(164,160)	(66,817)	(14,729,494)
<b>Amount as of December 31, 2007</b>	<b>173,229,808</b>	<b>634,454,548</b>	<b>3,400,848,839</b>	<b>49,068,314</b>	<b>1,238,026</b>	<b>4,258,839,535</b>
<b>Accumulated amortizations and impairment losses</b>						
Amount as of January 1, 2006	(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)
Amortization 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 and transfers	-	1,278,324	(3,449,824)	-	-	(2,171,500)
Exchange differences	599,970	941,019	4,409,260	-	-	5,950,249
<b>Amount as of December 31, 2006</b>	<b>(22,864,744)</b>	<b>(439,117,742)</b>	<b>(2,524,701,497)</b>	<b>-</b>	<b>-</b>	<b>(2,986,683,983)</b>
Change in the consolidation method	11,075,637	105,777,763	380,076,321	-	-	496,929,721
Changes of perimeter	(777,562)	(11,972,256)	(30,140,694)	-	-	(42,890,512)
Amortization and impairment losses	(1,321,965)	(23,247,655)	(110,312,495)	-	-	(134,882,115)
Disposals	-	732,409	9,051,593	-	-	9,784,002
Write-off and transfers	(134,840)	(701,696)	16,197,835	-	-	15,361,299
Exchange differences	265,352	1,114,187	3,656,533	-	-	5,036,072
<b>Amount as of December 31, 2007</b>	<b>(13,758,122)</b>	<b>(367,414,990)</b>	<b>(2,256,172,404)</b>	<b>-</b>	<b>-</b>	<b>(2,637,345,516)</b>
Net amount as of January 1, 2006	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
<b>Net amount as of December 31, 2007</b>	<b>159,471,686</b>	<b>267,039,558</b>	<b>1,144,676,435</b>	<b>49,068,314</b>	<b>1,238,026</b>	<b>1,621,494,019</b>

The Group applied retroactively the interpretation IFRIC 4 - Determining whether an arrangement contains a Lease. By the adoption of this standard, the caption "Property, plant and equipment – equipment and other tangibles" was increased in Euros 44,003,950, amount to which was deducted the respective accumulated depreciation amounting Euros 20,535,177, as of December 31, 2006. As of December 31, 2007, the net book value of these equipments is Euros 23,468,774. On December 31, 2007 the net book value was Euro 20,535,176 (2006: Euro 23,468,773).

The group has registered under the caption Land, assets related to "montados de sobro", which gross amount as of December 31, 2007 and 2006 was Euros 336,593. The referred assets are being depreciated during its expected useful life, which net amount is Euros 42,390 (2006: Euros 75,189).

## 18. Investment properties

As of December 31, 2007 the caption investment properties reflects the acquisition cost net of accumulated amortization of one building, owned by Secil, with a residual useful life of 19 years, located in Rua Conselheiro Fernando Sousa, in Lisbon, presently rented to third parties.

## 19. Biological assets

Over the years ended on December 31, 2007 and 2006 changes in biological assets were as follows:

Amounts in Euros	31-12-2007	31-12-2006
<b>Fair value as of January 1</b>	<b>123,295,452</b>	<b>136,238,875</b>
Changes in fair value		
Trees felled	(16,928,309)	(17,631,810)
Trees growth	5,642,698	4,645,197
Replantations	2,092,508	1,640,898
Other Changes in fair value	8,822,404	(1,597,708)
<b>Total of Changes in fair value</b>	<b>(370,699)</b>	<b>(12,943,423)</b>
	<b>122,924,753</b>	<b>123,295,452</b>

The amounts presented under the caption Other fair value changes relate essentially to changes (positive or negative) in estimated value of wood extraction future potential through new forestry plantings, efficiency gains/ losses on exploitation of biological assets and woodcutting due to forest fires.

## 20. Investments in associates

During 2007 and 2006 changes in this caption were as follows:

Amounts in Euros	31-12-2007	31-12-2006
Opening balance	41,455,988	46,138,309
Changes of perimeter	(11,757,624)	(1,544,862)
Changes of consolidation method	(20,059,243)	-
Acquisitions	26,010	126,032
Disposals	(6,023,184)	-
Apropriated net profit	611,427	2,488,107
Dividends received	(553,191)	(2,932,683)
Exchange fluctuations	204,390	(2,528,771)
Impairment losses	(276,491)	(375,000)
Other movements	(1,749,200)	84,856
	<b>1,878,882</b>	<b>41,455,988</b>

As of December 31, 2007 and 2006 investments in associated companies include goodwill detailed as follows:

Associated companies	Acq. year	Goodwill	
		31-12-2007	31-12-2006
Betão Liz, S.A. a)	1999	-	542,140
Setefrete, SGPS, S.A.	2003	1,136,153	2,227,750
Cimentos de Siblino, S.A.L. b)	2005	-	157,444
		<b>1,136,153</b>	<b>2,927,334</b>

a) Disposed in 2007

b) Companies included in consolidated financial statements in 2007

Subsidiary Secil, through one of its subsidiaries 100% held, acquired an additional share of 21.86% of the share capital and voting rights of the company Ciment de Sibline SAL, with head office in Beirut, Lebanon, which is now reflected by the full consolidation method in the Group's consolidated financial statements (Note 35).

Subsidiary Secil increased its stake in the share capital of Cimentos Madeira, from 14.29% to 57%, which is now accounted for the full consolidation method in the Group's consolidated financial statements.

As of December 31, 2007 and 2006 investments in associated companies in the balance sheet, including goodwill, were as follows:

Associated companies	% held	Book value	
		31-12-2007	31-12-2006
Secil - Energia, Lda.	51.00%	27,219	50,477
Betão Liz, S.A. a)	17.02%	-	9,697,708
Transecil, Lda.	16.83%	381	748
Cimentaçor, Lda. a)	12.75%	-	2,339,227
Ciment de Sibline S.A.L. b)	14.34%	-	24,162,392
Chryso - Aditivos de Portugal, S.A.	20.40%	9,310	37,529
Setefrete, SGPS, S.A.	12.75%	1,468,485	3,111,132
Cimentos Madeira, Lda. b)	7.29%	-	1,535,128
MC - Materiaux de Construction	25.17%	1,424	2,888
J.M. Henriques, Lda.	25.50%	214,087	-
Be-Power, Serviços e Equipamentos, Lda	3.06%	27,900	-
Portucel International Trading, SA b)	100%	-	386,234
Soporgen	8%	4,000	4,000
Liaison Technologie	2%	126,076	126,032
Others	-	-	2,493
		<b>1,878,882</b>	<b>41,455,988</b>

a) Disposed in 2007

b) Companies included in consolidated financial statements in 2007

## 21. Available-for-sale financial assets

During 2007 and 2006 changes in available-for-sale financial assets were made up as follows:

Valores em Euros	31-12-2007	31-12-2006
Fair value at the beginning of the year	79,230,810	18,584,241
Change in the consolidation method	(467,678)	-
Acquisitions	11,676	59,906,603
Disposals	(85,275,621)	(13,106,256)
Bons assigned to third parties	-	(2,899,097)
Exchange fluctuation	(195,355)	(147,821)
Changes in fair value	8,123,305	16,893,140
<b>Fair value at year end</b>	<b>1,427,137</b>	<b>79,230,810</b>

As of December 31, 2007 and December 31, 2006 available-for-sale financial assets were made up as follows:

Investments available for sale	31-12-2007	31-12-2006
Angolan government bonds	291,412	954,445
EDP - Energias de Portugal, SA shares	402,300	77,618,369
Banco Espírito Santo, SA shares	724,665	657,996
Banco Comercial Português, SA shares	8,760	-
<b>Amount at year end</b>	<b>1,427,137</b>	<b>79,230,810</b>

In 2007 the Group disposed 20,223,117 shares of EDP – Energias de Portugal, SA. From this operation resulted a gain amounting to Euros 26,217,374, as mentioned in Note 5.

## 22. Impairments in non-current and current assets

During 2007 and 2006 changes in non-current assets impairments were as follows:

Amounts in Euros	Goodwill	Intangible Assets	Tangible Assets	Investments Assoc. Comp.	Total
As of January 1, 2006	(18,858,581)	-	(19,357,083)	(635,189)	(70,263,375)
Changes of perimeter	-	-	-	306,000	(377,853)
Exchange differences	1,122,515	-	-	-	1,222,102
Increases	(464,353)	(1,594,000)	-	-	(5,520,449)
Reversals	-	-	-	-	1,931,649
Direct utilizations	-	-	-	250,000	789,105
Transfers	-	-	-	61,017	268,807
<b>As of December 31, 2006</b>	<b>(18,200,419)</b>	<b>(1,594,000)</b>	<b>(19,357,083)</b>	<b>(18,172)</b>	<b>(71,945,014)</b>
Changes of perimeter	-	-	-	-	(3,178,022)
Changes in consolidation method	8,918,205	-	-	8,904	21,843,886
Exchange differences	-	-	-	-	266,486
Increases	(276,491)	-	-	-	(2,258,657)
Reversals	-	-	-	-	709,990
Direct utilizations	-	-	11,724,990	-	12,119,046
Transfers	-	-	-	-	651,507
<b>As of December 31, 2007</b>	<b>(9,558,705)</b>	<b>(1,594,000)</b>	<b>(7,632,093)</b>	<b>(9,268)</b>	<b>(41,790,778)</b>

During 2007 and 2006 changes in current assets impairments were as follows:

Amounts in Euros	Inventories	Customers	Receivables Assoc. comp.	Other Receivables	Total
As of January 1, 2006	(1,927,566)	(18,551,425)	(2,188,719)	(8,744,812)	(70,263,375)
Changes of perimeter	(5,782)	(678,071)	-	-	(377,853)
Exchange differences	(7,942)	103,818	-	8,711	1,227,102
Increases	(820,637)	(2,003,297)	(408,207)	(229,955)	(5,520,449)
Reversals	375,426	292,402	291,916	971,905	1,931,649
Direct utilizations	-	519,618	-	19,487	789,105
Transfers	207,790	-	-	-	268,807
<b>As of December 31, 2006</b>	<b>(2,178,711)</b>	<b>(20,316,955)</b>	<b>(2,305,010)</b>	<b>(7,974,664)</b>	<b>(71,945,014)</b>
Changes of perimeter	(1,309,245)	(1,812,001)	-	(56,776)	(3,178,022)
Changes in consolidation method	912,627	7,074,777	1,129,455	3,799,918	21,843,886
Exchange differences	192,156	70,424	-	3,906	266,486
Increases	(1,087,944)	(696,049)	(68,876)	(129,297)	(2,258,657)
Reversals	126,939	580,428	-	2,623	709,990
Direct utilizations	-	394,056	-	-	12,119,046
Transfers	-	(29,262)	-	680,769	651,507
<b>As of December 31, 2007</b>	<b>(3,344,178)</b>	<b>(14,734,582)</b>	<b>(1,244,431)</b>	<b>(3,673,521)</b>	<b>(41,790,778)</b>

## 23. Inventory

As of December 31, 2007 and December 31, 2006 inventory comprised the following:

Amounts in Euros	31-12-2007	31-12-2006
Raw materials	119,904,813	113,172,679
Work in progress	11,966,041	10,441,625
Byproducts and waste	199,683	466,935
Finished and intermediate products	39,817,730	41,946,121
Merchandise	4,673,999	4,521,803
Advances	872,250	675,298
	<b>177,434,516</b>	<b>171,224,461</b>

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

## 24. Receivables and other current assets

As of December 31, 2007 and December 31, 2006 the caption Receivables and other current assets showed the following breakdown:

Amounts in Euros	31-12-2007	31-12-2006
Costumers	268,249,339	299,393,387
Costumers - associated companies (Note 34)	-	3,081,295
Financial instruments derivatives (Note 33)	14,562,920	16,879,141
Other debtors	87,794,052	28,288,134
Accrued Income	2,326,226	2,455,783
Deferred costs	2,392,100	3,925,637
	<b>375,324,637</b>	<b>354,023,377</b>

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

As of December 31, 2007 and 2006, the balances of accounts receivable had the following structure of seniority, taking as reference the expiration date of the open items:

Amounts in Euros	31-12-2007	31-12-2006
Not overdue	220,323,598	241,612,509
From 1 to 180 days	49,936,984	59,624,069
From 181 to 360 days	2,215,294	6,612,954
From 361 to 540 days	665,314	1,622,841
From 541 to 720 days	413,047	327,568
More than 720 days	9,429,684	9,910,401
<b>Costumers gross amount</b>	<b>282,983,921</b>	<b>319,710,342</b>

As of December 31, 2007 and December 31, 2006 the caption other debtors was as follows:

Amounts in Euros	31-12-2007	31-12-2006
<b>Shareholders and Associated Companies</b>		
Group companies (Note 34)	2,386	4,610
Associated companies (Note 34)	628,477	1,403,985
Shareholders	-	812,465
	<b>630,863</b>	<b>2,221,060</b>
<b>Other debtors</b>		
Advances to suppliers	626,611	1,057,962
IAPMEI grants	3,850,409	12,849,769
AICEP - Financial incentives to receive	71,343,438	-
Others	11,342,731	12,159,343
	<b>87,163,189</b>	<b>26,067,074</b>
	<b>87,794,052</b>	<b>28,288,134</b>

On July 12, 2006, were concluded four contract investments between the Group and API - Agência Portuguesa para o Investimento (now AICEP) (ongoing and held until June 30, 2008) which include fiscal and financial incentives of Euros 74,913,245 and Euros 102,038,801, respectively, which correspond to a total investment of Euros 900,000,000. On December 31, 2007, after Brussels' approval of contracts, the investment made under the projects for which were provided financial incentives to receive from AICEP exceeds the amount of incentives actually received. Thus, to ensure the accrual of the recognition of these incentives has been recognized as a value to receive the balance corresponding to the amount of incentives contracted but not yet received. , the extent of investment, has been recognized in the results of the share incentive Financial corresponding to the depreciation of equipment related in the project and has already accounted part of the same period of eligibility (2002 to 2007), amounting to EUR 18,014,811 (Note 8), in accordance with the policy described in note 1.22.

As of December 31, 2007 and December 31, 2006 the captions accrued income and deferred costs were made up as follows:

Amounts in Euros	31-12-2007	31-12-2006
<b>Accrued Income</b>		
Interest receivable	737,191	339,527
Discounts in acquisitions	87,538	20,955
Subsidies	485,646	866,783
Compensations	369,797	682,126
Others	646,054	546,392
	<b>2,326,226</b>	<b>2,455,783</b>
<b>Deferred costs</b>		
Major repairs	-	1,534,246
Insurance costs	95,791	209,249
Others	2,296,309	2,182,142
	<b>2,392,100</b>	<b>3,925,637</b>
	<b>4,718,326</b>	<b>6,381,420</b>

## 25. State and other public entities

As of December 31, 2007 and December 31, 2006 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 Euros	31-12-2007	31-12-2006
State and other public entities		
Corporate income tax - IRC	6,640,724	6,018,758
individual income tax - IRS	-	4,331
Value added tax	9,758,465	7,911,777
Value added tax - refunds requested	26,553,624	18,237,657
Other	1,207,722	2,477,614
	<b>44,160,535</b>	<b>34,650,137</b>

The amount of reimbursement requests on December 31, 2007 and 2006 detailing as follows per company and per month:

Amounts in Euros	Aug/2007	Sep/2007	Oct/2007	Nov/2007	Dec/2007	Total
Enerpulp	931,757	718,001	820,763	842,966	1,078,333	4,391,820
Portucel	2,280,696	2,522,905	3,010,962	3,167,416	5,191,271	16,173,250
Soporcel	-	-	-	2,923,501	2,811,924	5,735,425
Viveiros Aliança	-	-	110,915	-	-	110,915
Raiz	-	-	-	-	142,214	142,214
	<b>3,212,453</b>	<b>3,240,906</b>	<b>3,942,640</b>	<b>6,933,883</b>	<b>9,223,742</b>	<b>26,553,624</b>

Amounts in Euros	Jun/2006	Jul/2006	Aug/2006	Sep/2006	Oct/2006	Nov/2006	Dec/2006	Total
Enerpulp	607,076	686,409	663,392	794,073	810,857	737,640	964,627	5,264,074
Portucel	-	2,265,984	-	-	-	1,799,064	1,861,505	5,926,553
Soporcel	-	2,502,307	-	-	-	4,212,687	34,269	6,749,263
Viveiros Aliança	-	-	-	92,713	-	-	3,896	96,609
Raiz	-	-	-	-	-	201,158	-	201,158
	<b>607,076</b>	<b>5,454,700</b>	<b>663,392</b>	<b>886,786</b>	<b>810,857</b>	<b>6,749,391</b>	<b>3,065,455</b>	<b>18,237,657</b>

### Current liabilities

Amounts in Euros	31-12-2007	31-12-2006
State and other public entities		
Corporate income tax - IRC	29,826,133	8,449,446
individual income tax - IRS	2,646,079	3,369,425
Value added tax	5,753,828	8,139,532
Social security	2,784,354	2,987,906
Additional tax payment	57,644,398	43,555,882
Others	1,424,331	577,686
	<b>100,079,123</b>	<b>67,079,877</b>

The caption "additional tax payment" includes 51% of an amount of Euros 9,289,439, including Euros 970,938 of compensation interest due to an additional payment of 2002 corporate tax (IRC), in Secil, concerning IRC established on an aggregate base - under the Special Regime of Group of Companies Taxation. 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.

The caption "corporate tax (IRC)" breakdown as follows:

Amounts in Euros	31-12-2007	31-12-2006
Year income tax	46,623,428	3,710,831
Exchange fluctuations	(72,278)	-
Payment on account	(12,859,645)	(1,159,503)
Tax retention to recover	(3,277,635)	(868,316)
Previous years Corporate tax (IRC)	(587,737)	(246,199)
	<b>29,826,133</b>	<b>1,436,813</b>

## 26. Share capital and treasury shares

As of December 31, 2007 the share capital of Semapa was fully subscribed and paid in; it is represented by 118,332,445 shares with a nominal value of Euro 1.

As of December 31, 2007 and 2006 corporate shareholders of significant stakes in the company's share capital were as follows:

Name	Nº of shares	%	
		31-12-2007	31-12-2006
Credit Suisse Group	23,600,000	19.94	19.94
Sodim, SGPS, S.A.	23,365,000	19.75	22.07
Longapar, SGPS, S.A.	20,000,000	16.90	16.90
Cimo - Gestão de Participações, SGPS, S.A.	14,211,710	12.01	12.33
Banco BPI, SA	11,855,974	10.02	10.02
Banco Espírito Santo, SA	6,191,854	5.23	5.52
Morgan Stanley	3,159,859	2.67	-
Seminv - Investimentos, SGPS, S.A.	2,727,975	2.31	2.31
Treasury shares	2,720,000	2.30	-
Bestinver Gestión, SGILC, S.A.	2,609,327	2.21	-
Sonaca - Sociedade Nacional de Canalizações, S.A.	1,630,590	1.38	1.06
Other shareholders with participation lower than 2%	6,260,156	5.29	9.85
	<b>118,332,445</b>	<b>100.00</b>	<b>100.00</b>

As the company Seminv Investimentos, SGPS, S.A. is a subsidiary of Semapa Group, the 2,727,975 Semapa shares held by the company are disclosed as treasury shares in the Group's consolidated financial statements.

Additionally, on July 4, 2007, Semapa – Sociedade de Investimento e Gestão, SGPS, S.A. acquired on stock exchange, 2,720,000 treasury shares, corresponding to 2.30% of its capital.

## 27. Reserves and Retained earnings

As of December 31, 2007 and December 31, 2006 the captions Fair value reserve, Currency translation reserve and Other reserves showed the following breakdown:

Amounts in Euros	31-12-2007	31-12-2006
Fair value of available-for-sale financial assets	5,443,476	3,846,329
Fair value of available-for-sale assets	594,023	18,686,147
Control acquisition revaluation	(1,281,742)	-
<b>Total of fair value reserves</b>	<b>4,755,757</b>	<b>22,532,476</b>
Currency translation reserve	(14,378,266)	(9,359,315)
Reserva legal	23,666,489	23,666,489
Other reserves	590,902,238	526,719,429
<b>Total of other reserves</b>	<b>614,568,727</b>	<b>550,385,918</b>
<b>Total of reserves</b>	<b>604,946,218</b>	<b>563,559,079</b>

### Fair value of financial instruments

The amount of Euros 5,433,476, net of deferred tax in the amount of Euros 1,961,614, 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, On December 31, 2007 were valued at Euros 12,514,043 (Note 33), accounted for in accordance with the policy described in Note 1.13.

### Fair value of available-for-sale assets

The amount of Euros 594,023 relates to:

- Group's appropriation of the Angolan government bonds' fair value, in the amount of Euros 316,386;

- ii) Change in fair value of the 90,000 shares held by the Group in EDP, in the amount of Euros 78,240; and
- iii) Change in fair value of the shares held by the Group in Banco Espírito Santo, in the amount of Euros 199,397.

Additionally, was transferred to results an amount of Euros 18,158,794 corresponding to the fair value of existing reserves in December 31, 2006 on the EDP shares sold in 2007 (Note 5), in accordance with the policy described in note 1.12.

### Control acquisitions revaluation

The amount of Euros 1,281,742 relates to the fair value of subsidiary Ciment de Sibline assets, in the proportional part to the participation already held before the control acquisition, occurred in 2007 (Note 20).

### Currency Translation Reserve

The amount of Euros 14,378,266 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, essentially Tunisia, Lebanon, Angola, USA and United Kingdom.

### 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 on December 31, 2007.

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 were constituted by transfer from retained earnings.

Following the purchase of 2,720,000 treasury shares, an amount of Euros 36,765,574 has been made unavailable a reserve equal amount, in accordance with the applicable trade law, this reserves should be maintained until the disposal of the shares.

### Retained earnings

During the year ended December 31, 2006, the Group recorded in this caption an amount of Euros 26,535,335 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 stated on IFRS 3 – reviewed Concentration of Entrepreneurial Activities, but this standard has not yet been approved by the European Union.

In 2007, the group reinforced in 3.4% its shareholder position in Portucel, through the acquisition of

26,067,336 shares on a stock exchange, which resulted in a positive acquisition difference amounting Euros 30,369,562, registered directly in retained results.

Under this caption are equally recorded actuarial deviations, arising from the differences between the assumptions used for the purpose of determining liabilities related to post-employment benefits and what effectively occurred (as well as changes made to those assumptions and the difference between the expected return on the assets of the funds and their actual yield) as described in Note 1.22.1. In 2007 was recorded in this caption a total amount of Euro 7,972,684 (Note 29), of which Euros 4,937,198 were appropriated by the Group, correspondent to its share on the impacts occurred in Semapa and its subsidiaries.



## 28. Deferred taxes

As of December 31, 2007 changes in deferred tax assets and liabilities of each subgroup were as follows:

Amounts in Euros	As of January 1, 2007	Changes in consolidation method	Exchange adjustment	Income statement		Retained earnings	Transfers	Changes in perimeter	As of December 31, 2007
				Increases	Decreases				
Temporary differences originating deferred tax assets									
Sub-group Portucel									
Tax losses carried forward	-	-	-	-	-	-	-	-	-
Intangible assets adjustments	799,755	-	-	-	-	-	-	-	799,755
Taxed provisions	8,163,405	-	-	150,000	(5,461,959)	-	-	-	2,851,446
Fixed assets adjustments	14,468,241	-	-	64,953	(11,323,344)	-	-	-	3,209,850
Underfunding of the pension fund	35,154,141	-	-	29,840	(2,655,203)	(15,544,166)	-	-	16,984,612
Financial instruments	-	-	-	-	-	-	-	-	-
Deferred accounting gains in inter-group transactions	5,529,002	-	-	-	(3,134,583)	-	-	-	2,394,419
Forests valuation	54,016,754	-	-	-	(10,131,492)	-	-	-	43,885,262
Update of costs ith forest exploration	36,842,876	-	-	-	(36,842,876)	-	-	-	-
Depreciation in assets subject to IFRIC 4	3,859,215	-	-	61,799	-	-	-	-	3,921,014
Investment tax incentives	-	-	-	14,522,414	-	-	-	-	14,522,414
Sub-group Secil									
Taxed provisions	16,148,598	(7,912,813)	(41,145)	594,893	(1,158,951)	-	(298,996)	432,012	7,763,598
Tax losses carried forward	32,857,214	(16,100,035)	-	583,071	(7,570,169)	-	298,996	97,500	10,166,577
Liabilities with retirement benefits	928,737	(455,081)	-	72,415	(32,623)	(27,104)	-	-	486,344
Liabilities with long service award	1,443,723	(707,424)	-	70,804	(43,743)	(44,588)	-	-	718,772
Underfunding of the pension fund	3,631,508	(1,779,439)	-	272,114	(65,782)	77,135	(1,451,771)	-	683,765
Retirement benefits not covered by an autonomus fund	12,890,239	(6,316,217)	-	423,514	(840,701)	(329,136)	-	347,880	6,175,579
Derecognition of government grants	5,521,683	(2,705,625)	-	80,344	-	-	-	-	2,896,402
Derecognition of intangible assets	-	-	-	519,018	(361,192)	(487,861)	-	95,965	(234,070)
Recognition of deferred costs	-	-	-	-	(232,340)	-	-	-	(232,340)
Liabilities for healthcare benefits	14,319,379	(7,016,496)	(555,394)	29,666	(3,378,198)	-	-	6,993,033	10,391,990
Deferred accounting gains in inter-group transactions	2,396,459	(1,174,265)	(596,538)	2,645,839	(13,683,698)	(811,553)	(1,451,771)	7,966,390	(4,709,137)
	248,970,929	(44,167,395)	(1,193,077)	20,120,684	(96,916,854)	(17,167,273)	(2,903,542)	15,932,780	122,676,252
Temporary differences originating deferred tax liabilities									
Sub-group Portucel									
Revaluation of fixed assets	(31,157,665)	-	-	-	6,614,632	550,675	-	-	(23,992,358)
Retirement benefits	(999,297)	-	-	(46,780)	17,197	(158,512)	-	-	(1,187,392)
Financial instruments	(7,464,582)	-	-	-	-	(3,086,461)	-	-	(10,551,043)
Fair value of fixed assets - Soporcel	(246,794,514)	-	-	-	3,506,033	-	-	-	(243,288,481)
Extension of the useful life of the tangible fixed assets	(48,887,412)	-	-	(41,269,373)	-	-	-	-	(90,156,785)
Deferred accounting losses in inter-group transactions	(73,100,049)	-	-	-	19,948,826	-	-	-	(53,151,223)
Deferred tax gains	-	-	-	-	-	-	-	-	-
Harmonization of depreciation criteria	(14,579,836)	-	-	-	-	-	-	-	(14,579,836)
Fair value of intangible assets - Brands	(149,894,000)	-	-	(1,594,000)	-	-	-	-	(151,488,000)
Fair value of fixed assets - Portucel	(298,534,351)	-	-	-	24,877,863	-	-	-	(273,656,488)
Sub-group Secil									
Revaluation of fixed assets	(17,755,098)	8,699,998	-	(376)	2,425,426	-	11,261,140	(732,313)	3,898,777
Change in depreciation criteria	(79,902,200)	39,152,078	140,275	(10,279,538)	-	-	(3,334,057)	-	(54,223,442)
Subsidiaries fair value	(136,583,897)	66,926,110	1,731,267	-	2,353,746	-	-	(656,694)	(66,229,468)
Deferred accounting losses in inter-group transactions	(25,170,219)	12,333,407	-	-	346,950	-	(7,890,682)	-	(20,380,544)
Financial instruments	(1,089,350)	533,782	-	-	60,875	-	-	-	(494,693)
Deferred taxation on capital gains	(7,038,883)	3,449,053	-	-	2,872,712	-	(36,401)	-	(753,519)
Increased amortizations	(2,795,024)	1,369,562	48,689	(198,906)	111,951	-	-	-	(1,463,728)
Pension cost excess	-	-	-	(578,374)	306,678	(1,329,982)	1,451,771	(511,653)	(661,560)
Other temporary differences	-	-	13,304	(204,040)	51,000	-	-	(51,000)	(190,736)
Other companies									
Deferred accounting losses in inter-group transactions	(31,775,587)	-	-	-	17,214,256	-	-	-	(14,561,331)
	(1,173,521,964)	132,463,990	1,933,535	(54,171,387)	80,708,145	(4,024,280)	1,451,771	(1,951,660)	(1,017,111,850)
Amounts reflected on the balance sheet									
Deferred tax assets	66,187,428	(11,780,148)	(90,473)	4,639,460	(21,849,754)	(4,332,046)	(384,719)	1,314,683	33,704,431
Deferred tax liabilities	(313,834,584)	36,500,284	571,849	(29,800,920)	34,684,923	(1,063,109)	384,719	(408,765)	(272,965,603)

As of December 31, 2006 changes in deferred tax assets and liabilities of each subgroup were as follows:

Amounts in Euros	As of January 1, 2006	Exchange adjustment	Income statement		Retained earnings	Transfers	Changes in perimeter	As of December 31, 2006
			Increases	Decreases				
<b>Temporary differences originating deferred tax assets</b>								
<b>Sub-group Portucel</b>								
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 accounting 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 exploration	73,774,331	-	-	(36,931,455)	-	-	-	36,842,876
Depreciation in assets subject to IFRIC 4	3,663,197	-	196,018	-	-	-	-	3,859,215
<b>Sub-group Secil</b>								
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 autonomous 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 accounting gains in inter-group transactions	1,739,330	-	857,050	(199,921)	-	-	-	2,396,459
	<b>333,229,259</b>	<b>(158,530)</b>	<b>33,522,585</b>	<b>(119,637,778)</b>	<b>1,348,117</b>	<b>-</b>	<b>667,276</b>	<b>248,970,929</b>
<b>Temporary differences originating deferred tax liabilities</b>								
<b>Sub-group Portucel</b>								
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 accounting losses in inter-group transactions	(37,052,365)	-	(36,047,684)	-	-	-	-	(73,100,049)
Harmonization of 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)
<b>Sub-group Secil</b>								
Revaluation 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)
Subsidiaries fair value	(122,353,734)	7,749,679	(22,080,666)	4,621,313	-	-	(4,520,489)	(136,583,897)
Deferred accounting 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 amortizations	(2,340,822)	124,133	(578,335)	-	-	-	-	(2,795,024)
<b>Other companies</b>								
Deferred accounting losses in inter-group transactions	(54,177,269)	-	-	22,401,682	-	-	-	(31,775,587)
	<b>(1,118,681,872)</b>	<b>8,455,267</b>	<b>(125,027,709)</b>	<b>73,750,489</b>	<b>(7,348,513)</b>	<b>-</b>	<b>(4,669,626)</b>	<b>(1,173,521,964)</b>
Amounts reflected on the balance sheet								
<b>Deferred tax assets</b>	92,143,526	(69,042)	9,340,948	(33,187,406)	195,105	-	183,501	68,606,632
<b>Rate change effect</b>	-	-	(3,396,398)	996,675	(19,481)	-	-	(2,419,204)
<b>Total of deferred tax assets</b>	<b>92,143,526</b>	<b>(69,042)</b>	<b>5,944,550</b>	<b>(32,190,731)</b>	<b>175,624</b>	<b>-</b>	<b>183,501</b>	<b>66,187,428</b>
<b>Deferred tax liabilities</b>	(316,973,323)	2,792,376	(34,474,396)	21,690,811	(2,020,842)	-	(1,217,827)	(330,203,201)
<b>Rate change effect</b>	-	-	15,934,141	479,966	(45,490)	-	-	16,368,617
<b>Total of deferred tax liabilities</b>	<b>(316,973,323)</b>	<b>2,792,376</b>	<b>(18,540,255)</b>	<b>22,170,777</b>	<b>(2,066,332)</b>	<b>-</b>	<b>(1,217,827)</b>	<b>(313,834,584)</b>

## 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 recognised deferred taxes that considers to be deductible from future profits, are as follows:

Amounts in Euros	31-12-2007	31-12-2006	Expiry date
Secilpar, SL*	9,515,461	31,597,117	2019
Lisconcreto – Unibetão, S.A.*	-	385,670	2009
Camilo e Lopez, Lda.*	-	173,946	2010
Ecoresíduos, Lda.*	572,088	627,096	2010
Minerbetão, S.A.*	79,028	-	2011
Britobetão*	-	73,385	2012
	<b>10,166,577</b>	<b>32,857,214</b>	

\* On December 31, 2007 the values above represent only 51% of their real amount, to be in line with the Note 1.2.



## 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 Euros	Position on		2008	2009	2010	2011	2012	2013
	31-12-2007	31-12-2006						
<b>Semapa, SGPS, SA</b>	<b>18,325,643</b>	<b>21,129,445</b>						
2001	-	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	-	-	-
<b>Seminv, SGPS, SA</b>	<b>15,730,099</b>	<b>15,730,099</b>						
2003	7,987,025	7,987,025	-	7,987,025	-	-	-	-
2004	7,743,074	7,743,074	-	-	7,743,074	-	-	-
<b>Seinpart, SGPS, SA</b>	<b>8,248,989</b>	<b>8,249,483</b>						
2001	-	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	-	-
<b>Cimentospar, SGPS, Lda.</b>	<b>593,484</b>	<b>593,484</b>						
2005	593,484	593,484	-	-	-	593,484	-	-
<b>Portucel Florestal, S.A.</b>	<b>13,915,018</b>	<b>17,406,032</b>						
2001	-	3,491,014	-	-	-	-	-	-
2002	5,989,592	5,989,592	5,989,592	-	-	-	-	-
2003	7,925,426	7,925,426	-	7,925,426	-	-	-	-
<b>Aliança Florestal, SA</b>	<b>-</b>	<b>31,049</b>						
2001	-	31,049	-	-	-	-	-	-
<b>Enerforest, S.A.</b>	<b>-</b>	<b>133,842</b>						
2001	-	133,842	-	-	-	-	-	-
<b>Tecnipapel, Lda</b>	<b>152,048</b>	<b>202,865</b>						
2001	-	50,816	-	-	-	-	-	-
2002	152,048	152,048	152,048	-	-	-	-	-
<b>Secil Pré-betão, S.A.*</b>	<b>2,145,604</b>	<b>2,781,272</b>						
2003	228,918	448,859	-	228,918	-	-	-	-
2004	190,716	373,953	-	-	190,716	-	-	-
2005	34,887	68,405	-	-	-	34,887	-	-
2006	963,928	1,890,055	-	-	-	-	963,928	-
2007	727,155	-	-	-	-	-	-	727,155
<b>Secil Angola, SARL*</b>	<b>3,499,943</b>	<b>9,446,910</b>						
2006	3,499,943	9,446,910	-	-	3,499,943	-	-	-
2007	196,046	-	-	-	-	196,046	-	-
<b>Cimentos Costa Verde**</b>	<b>179,274</b>	<b>-</b>						
2007	179,274	-	-	-	-	-	-	179,274
<b>Sobioen, SA*</b>	<b>549,324</b>	<b>-</b>						
2007	549,324	-	-	-	-	-	-	549,324
<b>Silonor, S.A. (undefined)*</b>	<b>3,102,705</b>	<b>4,930,546</b>						
	<b>65,713,534</b>	<b>80,635,027</b>	<b>10,517,351</b>	<b>21,263,698</b>	<b>24,261,169</b>	<b>5,073,574</b>	<b>963,928</b>	<b>1,455,753</b>

\* On December 31, 2007 the values above represent only 51% of their real amount, to be in line with Note 1.2.

## 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 responsibilities assumed with post-employment benefits, reflected in the consolidated balance sheet as of December 31, 2007 is as follows:

Amounts in Euros	Group liability for pensions	Under/(overfunding) of pensions funds	Death and retirement	Assistance in health	Long services award	Total
Opening balance	96,843,476	37,679,108	928,736	14,318,995	1,443,723	151,214,038
Change in consolidation metho	(6,316,221)	(1,779,439)	(455,081)	(7,016,308)	(707,424)	(16,274,473)
Liabilities increase	8,418,937	(21,803,991)	(2,502,246)	22,886	26,217	(15,838,197)
Changes of perimeter	347,879	(511,653)	-	95,965	-	(67,809)
Payments	(1,234,434)	(2,406,649)	(32,623)	(352,725)	(43,743)	(4,070,174)
Fund endowment	-	7,644,900	-	-	-	7,644,900
Closing balance	98,059,637	18,822,276	(2,061,214)	7,068,813	718,773	122,608,285

Concerning costs incurred with pensions, the breakdown as of December 31, 2007 can be presented as follows:

Amounts in Euros	Current services	Interest cost	Expected return on the plan assets	Impact in the profit for the year
<b>Post-work benefits</b>				
Group liability for pensions	361,038	4,042,245	-	4,403,283
Under/(overfunding) of pensions fund	4,499,189	8,280,451	(6,700,291)	6,079,349
Death and retirement	47,952	24,463	-	72,415
Assistance in health	137,242	373,506	-	510,748
Long services award	32,445	38,357	-	70,802
	5,077,866	12,759,022	(6,700,291)	11,136,597

The responsibilities and costs presented correspond to diverse existing plans in companies that make part of the Group, which are described below.

In 2007, the Group changed some of the assumptions used in the calculation of the liabilities for retirement pension supplements, namely the discount rate (4,5% to 5,25%), because these assumptions are considered to be more adequate to the present financial and economical situation of the Group.

### 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, which can only be exercised when the directors resign.

This allowance reaches a maximum of 80% of directors' monthly salary at the date of ceasing functions, when they worked at least 20 years as directors, and a minimum of 27.2%, corresponding to 8 years in that position. However, these amounts are deducted from the values received by the beneficiaries through the Social Security system.

Once the Company's statutes determine that members of the corporate bodies' mandates correspond to a four years period, the responsibility is calculated and recorded on the beginning of the second mandate.

On December 31, 2007, the liabilities of the plan amount to Euros 91,827,435. No pension fund was established for the financing of this Group's obligation.

### Sub-Group Portucel

Currently, there are several plans for retirement, retirement premiums and survivor pension supplements within the whole of the consolidated companies. Thus, to certain categories of current employees, there are plans which are over and above those below described, also with autonomous assets to cover those additional responsibilities.

Under the prevailing Social Benefit Regulation, permanent employees of Portucel and its main subsidiaries with more than five years service (ten years service to Soporcel, Aliança Florestal and Raíz) are entitled, after retirement or disability, to a monthly retirement pension or disability supplement. 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 retirement and the years of service, up to a limit of 30 (limit of 25 to Soporcel, Aliança Florestal and Raíz), being also guaranteed survivor pensions to the spouse and to direct descendants.

Additionally, some of the Portucel Group companies assumed the responsibility for the payment of a retirement premium, equivalent to 6 months salary if the employee retires on the date of normal retirement (65 years).

On December 31, 2007, the amount of liabilities assigned to post-employment benefits plans relating to four administrators of sub Group Portucel, amounts to Euros 3,758,404 (2006: Euros 3,864,107).

### 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

Secil and its subsidiaries:

- (i) CMP – Cimentos Maceira e Pataias, S.A.;
- (ii) Unibetão – Industrias de Betão Preparado, S.A.;
- (iii) Cimentos Madeira, Lda.;

The companies assumed the commitment to pay cash benefits to their employees as supplements for retirement, disability, anticipated retirement and survivor pensions.

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, December 31, 1987, are the sole obligation of Secil. Likewise, the responsibility assumed by some its subsidiaries, in Portugal, which operate 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 HEALTHCARE BENEFITS

Secil and its subsidiaries CMP- Cimentos Maceira e Pataias, S.A., Cimentos Madeira, Lda., Brimade – Sociedade de Britas da Madeira, S.A. and Promadeira – Sociedade Técnica de Construção da Ilha da Madeira, Lda., have assumed to provide its employees healthcare benefits, which are over and above those provided by the state's health and social security system and are extended to family members, retired staff and widows. Under this scheme, costs of certain healthcare have been assumed:

- (i) in Secil, through the Health insurance agreed by the company;
- (ii) in CMP, through the entity "Cimentos - Federação das Caixas de Previdência", for the affiliated workers, as well as for all the other employees, with approval of company's medical office; and
- (iii) in subsidiaries Cimentos Madeira, Brimade and Promadeira, through approval of companies' medical office.

### 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 bonuses to those employees who:

- (i) at Secil, achieve 25, 35 and 40 years; and

- (ii) in CMP, achieve 20 and 35 years of service at the mentioned companies. Those premiums are paid in the year in which the worker reaches that number of years at company's service.

The liabilities are directly ensured by the company.

### ACTUARIAL ASSUMPTIONS USED

Actuarial studies carried out by independent entities for determining the accumulated liabilities as of December 31, 2007 and December 31, 2006 were based on the following assumptions:

	31-12-2007	31-12-2006
Mortality table	TV 88/90	TV 88/90
Disability table	EKV 80	EKV 80
Pensions growth rate	2.25%	2.25%
Technical interest rate	5.25%	4.50%
Income rate	5.25%	4.50%
Wage growth rate	2.50%	2.50%
Pensions reversability rate	50%	50%
Number of annual payments of Semapa complement	12	12
Social Benefits formula	Decreto-Lei nº 187/2007 Decreto-Lei nº 35/2002 of May 10th of February 19th	

### Funds allocated to pension benefit plans

During the periods ended June 30, 2007 and December 31, 2006 the evolution of the funds was as follows:

	31-12-2007	31-12-2006
Amounts in Euros	Autonomous fund	Covered amount
Valor no início do exercício	156,950,033	-
Change in the consolidation method	(19,811,248)	-
Changes of perimeter	-	969,537
Endowments made in the year	8,981,100	31,529
Expected return of funds in the year	6,772,941	131,511
Actual return of funds in the year (equity)*	(3,415,332)	-
Pensions paid	(3,839,890)	(92,491)
Others	-	-
	145,637,604	1,040,086
		156,950,033

\* Differential between real and expected income

As of December 31, 2007 and December 31, 2006 the composition of funds was as follows:

	31-12-2007	31-12-2006
Amounts in Euros		
Shares	27,561,293	37,678,154
Bonds	77,112,980	79,387,654
Index Linked Bonds	4,806,086	13,155,964
Property	72,612	503,367
Liquidity	32,180,213	4,609,696
Other applications - short term	3,904,420	21,615,198
	145,637,604	156,950,033

### Obligations for post-employment benefits

As of December 31, 2007 and December 31, 2006 companies' liabilities with retirement and survivor benefits were as follows:

Balance sheet obligations	31-12-2007				31-12-2006		
	Autonomous fund	Insurance policy	Assumed by the group	Total	Autonomous fund	Assumed by the group	Total
Amounts in Euros							
Liabilities for past services							
- Active employees	110,742,892	505,211	92,132,248	203,380,351	130,737,208	84,126,112	214,863,320
- Pre-retired	618,168	-	-	618,168	1,698,239	-	1,698,239
- Retired employees	48,595,200	-	5,870,772	54,465,972	62,193,692	12,717,365	74,911,057
Market value of the pension fund	(145,637,604)	(1,040,086)	-	(146,677,690)	(156,950,033)	-	(156,950,033)
<b>Under/(overfunding) of pension funds</b>	<b>14,318,656</b>	<b>(534,875)</b>	<b>98,003,020</b>	<b>111,786,801</b>	<b>37,679,106</b>	<b>96,843,477</b>	<b>134,522,583</b>

Amounts included in the income statement	31-12-2007				31-12-2006		
	Autonomous fund	Insurance policy	Assumed by the group	Total	Autonomous fund	Assumed by the group	Total
Amounts in Euros							
Current services	4,480,795	18,394	361,038	4,860,227	4,497,382	108,238	4,605,620
Interest cost	7,995,607	20,605	4,042,245	12,058,457	8,294,803	4,474,031	12,768,834
Expected return on the plan assets	(6,660,148)	(40,143)	-	(6,700,291)	(6,278,713)	-	(6,278,713)
Others	-	-	264,237	264,237	-	-	-
	<b>5,816,254</b>	<b>(1,144)</b>	<b>4,667,520</b>	<b>10,482,630</b>	<b>6,513,472</b>	<b>4,582,269</b>	<b>11,095,741</b>

#### Changes in liabilities presented in the balance sheet

	31-12-2007				31-12-2006		
	Autonomous fund	Insurance policy	Assumed by the group	Total	Autonomous fund	Assumed by the group	Total
Amounts in Euros							
Liability in the beginning of the period	194,629,139	-	96,843,477	291,472,616	179,894,500	102,909,209	282,803,709
Change in the consolidation method	(21,590,686)	-	(6,316,221)	(27,906,907)	-	-	-
Changes of perimeter	-	457,884	347,879	805,763	-	-	-
Costs/(gains) recognized in the income statement	12,476,402	38,999	4,403,283	16,918,684	12,366,124	4,582,269	16,948,393
Actuarial gain and losses (equity)	(21,775,324)	8,329	4,015,654	(17,751,341)	2,003,772	(3,502,624)	(1,498,852)
Responsibilities transferred to fund	56,618	-	(56,618)	-	5,097,645	(5,097,645)	-
Pensions paid	(3,839,890)	-	(1,234,434)	(5,074,324)	(4,732,902)	(2,047,732)	(6,780,634)
	<b>159,956,259</b>	<b>505,212</b>	<b>98,003,020</b>	<b>258,464,491</b>	<b>194,629,139</b>	<b>96,843,477</b>	<b>291,472,616</b>

### Obligations for other post-employment benefits

As of December 31, 2007 and December 31, 2006 companies' liabilities with retirement and death benefits, as well as long service awards and healthcare benefits were as follows:

Amounts reflected on the balance sheet	31-12-2007				31-12-2006			
	Assistance in health	Retirement and death	Long service award	Total	Assistance in health	Retirement and death	Long service award	Total
Amounts in Euros								
Liabilities for past services								
- Assets	2,901,051	2,547,556	718,772	6,167,379	6,085,768	928,736	1,443,724	8,458,228
- Retired persons	4,167,762	486,342	-	4,654,104	8,233,227	-	-	8,233,227
	<b>7,068,813</b>	<b>3,033,898</b>	<b>718,772</b>	<b>10,821,483</b>	<b>14,318,995</b>	<b>928,736</b>	<b>1,443,724</b>	<b>16,691,455</b>

#### Amounts reflected on the income statement

	2007				2006			
	Assistance in health	Retirement and death	Long service award	Total	Assistance in health	Retirement and death	Long service award	Total
Amounts in Euros								
Current services	137,242	47,952	32,445	217,639	168,360	33,888	68,188	270,436
Interest cost	373,506	24,463	38,359	436,328	536,130	40,029	64,169	640,328
	<b>510,748</b>	<b>72,415</b>	<b>70,804</b>	<b>653,967</b>	<b>704,490</b>	<b>73,917</b>	<b>132,357</b>	<b>910,764</b>

#### Changes in liabilities presented in the balance sheet

	31-12-2007				31-12-2006			
	Assistance in health	Retirement and death	Long service award	Total	Assistance in health	Retirement and death	Long service award	Total
Amounts in Euros								
Responsibility at the beginning of the period	14,318,995	928,736	1,443,724	16,691,455	12,152,369	906,651	1,431,349	14,490,369
Change in the consolidation method	(7,016,308)	(455,081)	(707,425)	(8,178,814)	-	-	-	-
Changes of perimeter	95,965	-	-	95,965	-	-	-	-
Costs/(gains) recognized in the income statement	510,748	72,415	70,804	653,967	704,490	73,917	132,357	910,764
Adjustments due to changes in actuarial assumptions (losses/(gains))	(487,862)	2,520,451	(44,588)	1,988,001	2,107,240	16,269	(41,040)	2,082,469
Benefits paid in the year	(352,725)	(32,623)	(43,743)	(429,091)	(645,104)	(68,101)	(78,942)	(792,147)
	<b>7,068,813</b>	<b>3,033,898</b>	<b>718,772</b>	<b>10,821,483</b>	<b>14,318,995</b>	<b>928,736</b>	<b>1,443,724</b>	<b>16,691,455</b>

Actuarial studies assumptions	31-12-2007			31-12-2006		
	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
Wage growth rate	n/a	3.30%	3.30%	n/a	3.30%	3.30%
Technical interest rate	5.25%	5.25%	5.25%	4.50%	4.50%	4.50%
Health liabilities growth rate	4.60%	n/a	n/a	4.60%	n/a	n/a

### Actuarial gains and losses recognised under Equity on the period

Actuarial gains and losses directly recognised under equity during 2007, as described in Note 1.22, were as follows:

Amounts in Euros	Actuarial gains & (losses)			Gross value	Deferred tax	Impact in equity 31-12-2007
	Change in assumption	Others	Return of assets expected vs real			
<b>Post-work benefits</b>						
Group liability for pensions	10,706,239	(14,721,893)	-	(4,015,654)	(86,085)	(4,101,739)
Under/(overfunding) of pensions funds liabilities	22,029,241	(204,117)	(3,415,332)	18,409,792	(4,900,749)	13,509,043
Death and retirement liabilities	29,098	(2,549,550)	-	(2,520,452)	693,396	(1,827,056)
Assistance in health liabilities	790,263	(302,402)	-	487,861	(128,197)	359,664
Long services award liabilities	44,644	(56)	-	44,588	(11,816)	32,772
	<b>33,599,485</b>	<b>(17,778,018)</b>	<b>(3,415,332)</b>	<b>12,406,135</b>	<b>(4,433,451)</b>	<b>7,972,684</b>

## 30. Provisions

During 2007 and 2006 movements in provisions were as follows:

Amounts in Euros	Legal claims	Fiscal claims	Environmental restoration	Others	Others	Others	Others	Total
January 1, 2006	1,800,854	-	695,813	3,565,734	153,145	852,774	4,974,654	7,470,531
Changes of perimeter	-	-	-	(112,878)	-	-	(112,878)	(112,878)
Increases (Note 6)	407,654	13,919,015	269,630	4,258,529	12,140,946	314,299	16,753,774	31,400,073
Direct utilisations	(11,347)	-	(91,642)	-	-	-	-	(103,389)
Replacements (Note 6)	(470,625)	-	(121,590)	(303,866)	-	(576,125)	(879,991)	(1,472,606)
Exchange fluctuations	-	-	-	(76,352)	-	-	(76,352)	(76,352)
December 31, 2006	1,779,346	13,919,015	751,811	7,774,457	12,294,092	590,948	26,635,957	37,105,479
Changes of perimeter	-	-	-	2,459,509	-	-	2,459,509	2,459,509
Change in consolidation method	-	-	-	(3,809,489)	-	-	(3,809,489)	(4,177,844)
Increases (Note 6)	395,018	11,683,760	158,947	835,950	13,627,269	2,234,292	16,792,511	29,050,236
Replacements (Note 6)	(736,223)	(2,806,045)	(142,452)	(581,403)	(12,218,157)	-	(12,799,560)	(16,484,280)
Direct utilisations	-	-	(56,898)	(1,043,103)	-	-	(1,043,103)	(1,099,999)
Exchange fluctuations	-	-	-	(313,320)	-	-	(313,320)	(313,320)
Transfers	-	-	-	(65,620)	-	-	(65,620)	(65,620)
December 31, 2007	1,434,741	22,796,730	342,615	5,352,391	13,700,284	3,825,240	21,886,835	46,454,921

The increase in provisions for Fiscal claims refers to contingencies in Portugal concerning the tax inspection to the year 2004 in subsidiary Soporcel. The initial balance relates to VAT contingencies outside Portugal, concerning the subsidiaries Portucel and Soporcel.

Additionally, the increase in Other provisions relates to Social Security complementary benefits to employees.

## 31. Interest-bearing liabilities

As of December 31, 2007 and December 31, 2006 Group's net debt were as follows:

Amounts in Euros	31-12-2007	31-12-2006
<b>Interest-bearing liabilities</b>		
Non-current	1,208,813,406	1,324,378,845
Current	117,794,597	67,837,778
	<b>1,326,608,003</b>	<b>1,392,216,623</b>
<b>Cash and cash equivalents</b>		
Cash	290,104	295,363
Short term bank deposits	37,434,621	12,755,194
Others	401,018,174	293,079,655
	<b>438,742,899</b>	<b>306,130,212</b>
<b>Interest-bearing net debt</b>	<b>887,865,104</b>	<b>1,086,086,411</b>

### Non current interest-bearing liabilities

As of December 31, 2007 and December 31, 2006 non-current interest-bearing liabilities were as follows:

Amounts in Euros	31-12-2007	31-12-2006
<b>Non-currents</b>		
Bond loans	920,400,000	927,244,591
Commercial paper	55,500,000	123,550,000
Loans from financial institutions	240,073,263	262,202,409
Expenses with bond loans issuance	(7,522,896)	(8,258,462)
<b>Interest-bearing bank debt</b>	<b>1,208,450,367</b>	<b>1,304,738,538</b>
Financial leases	256,919	856,195
Other loans - POE's	106,120	18,784,112
<b>Other interest-bearing debts</b>	<b>363,039</b>	<b>19,640,307</b>
<b>Non-current interest-bearing liabilities</b>	<b>1,208,813,406</b>	<b>1,324,378,845</b>

### Loans from financial institutions

The amount disclosed under the caption Loans from financial institutions included, as of December 31, 2006, an amount of Euros 66,263,756 related with 2 structures – with Caixa - Banco de Investimento, S.A. (Put & Call Combination) and with Credit Suisse International (Portucel Total Return Swap), which gave the right, in pre-certain dates, to buy 2.95% and 1.13% of Portucel S.A. share capital. On February 12, 2007, and according to the contract signed with Caixa - Banco

de Investimento, S.A., Semapa exercised the right to buy the mentioned 2.95% of Portucel's share capital.

The amount presented under the caption Other loans - POE 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, 2007 and December 31, 2006 non-current bond loans were made up as follows:

Amounts in Euros	31-12-2007	31-12-2006
<b>Bond loans</b>		
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	175,000,000
Semapa 2006 / 2016	50,000,000	50,000,000
Semapa 1998 / 2008	2,244,591	2,244,591
SBI 2007	20,400,000	-
	<b>947,644,591</b>	<b>927,244,591</b>

Amounts in Euros	Amount	Maturity	Reference rate	Spread
<b>Bond loans</b>				
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%
SBI 2007	20,400,000	December 2017	Euribor 6m	0.550%
	<b>945,400,000</b>			

Portucel sub-group's bond loans, made through private subscription in the total amount of Euros 700,000,000, will be repaid in a single instalment.

Two of the above mentioned bond loans, amounted to Euros 300,000,000 and Euros 150,000,000, are listed in Euronext Lisbon under the designations "Obrigações Portucel 2005/2010" and "Obrigações Portucel 2005/2012", and its unit value, as of December 31, 2006, is Euros 100.71 and Euros 100.26, respectively (2006: Euros 100.00 and Euros 100.25, respectively).

Additionally, in 2006 Semapa SGPS, SA have restructured its debt, issuing two bond loans amounting Euros 50,000,000 and Euros 175,000,000 with 10 years maturity, led by Banco BPI, SA and Banco Espírito Santo de Investimento, SA, jointly with Caixa BI, respectively. This last is listed in Euronext Lisbon under the designation "Obrigações Semapa 2006/2016", whose unit value is, as of December 31, 2007, Euros 100.93.

Maturity dates regarding the recorded amount in non-current bank loans, other loans and bond loans were as follows:

Amounts in Euros	31-12-2007	31-12-2006
1 to 2 years	42,991,352	89,101,813
2 to 3 years	373,426,668	65,222,344
3 to 4 years	9,730,556	357,438,347
4 to 5 years	154,656,614	8,570,594
More than 5 years	579,774,193	687,898,014
	<b>1,160,579,383</b>	<b>1,208,231,112</b>



## Current interest-bearing liabilities

As of December 31, 2007 and December 31, 2006 current interest-bearing liabilities were as follows:

Amounts in Euros	31-12-2007	31-12-2006
<b>Currents</b>		
Bond loans	27,244,590	5,611,476
Loans from financial institutions	71,355,858	49,675,771
<b>Interest-bearing bank debt</b>	<b>98,600,448</b>	<b>55,287,247</b>
Shareholders short term loans	12,429,256	8,755,110
Financial leases	434,102	720,387
Other loans - POE	6,330,791	3,075,034
<b>Other interest-bearing debts</b>	<b>19,194,149</b>	<b>12,550,531</b>
<b>Current interest-bearing liabilities</b>	<b>117,794,597</b>	<b>67,837,778</b>

## Liabilities related to financial leasing

As of December 31, 2007 and December 31, 2006 Group's indebtedness under financial lease plans, except for Equipments – Soporgen, was as follows:

Amounts in Euros	31-12-2007	31-12-2006
Less than 1 year	452,689	757,089
1 to 2 years	162,519	566,418
2 to 3 years	65,788	286,517
3 to 4 years	35,428	88,300
4 to 5 years	9,277	32,708
More than 5 years	-	20,497
	<b>725,701</b>	<b>1,751,529</b>
Future interests	(34,680)	(174,947)
<b>Actual liabilities value</b>	<b>691,021</b>	<b>1,576,582</b>

As of December 31, 2007 and December 31, 2006, the Group uses the following goods acquired under finance leases:

Amounts in Euros	31-12-2007		
	Acquisition value	Accumulated depreciation	Net book value
Machinery and equipment	2,906,843	(658,980)	2,247,863
Machinery and equipment - Soporgen (IFRI)	44,003,950	(23,468,774)	20,535,176
Transport equipment	696,550	(536,562)	159,988
	<b>47,696,282</b>	<b>(24,702,149)</b>	<b>22,994,133</b>

Amounts in Euros	31-12-2006		
	Acquisition amount	Accumulated amortization	Net book value
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
	<b>48,089,635</b>	<b>(19,585,553)</b>	<b>28,504,082</b>

The group holds a stake of 8% in Soporgen - Sociedade Portuguesa de Geração de Electricidade e Calor, S.A. (Soporgen), a company whose main activity is the production of electricity and steam sold mainly to the subsidiary Soporcel. Soporcel has the purchase option to the capital that does not holds in Soporgen by the amount of expected cash flows present value of the company until the contract of steam electricity supply expiry between Soporgen and Soporcel.

On December 31, 2007 and 2006, the bank granted loans and not drawn, were as follows:

Amounts in Euros	31-12-2007	31-12-2006
Sub-grup Portucel	176,648,693	226,648,693
Sub-grup Secil	267,815,427	210,448,000
Semapa SGPS, SA	197,570,523	249,719,816
	<b>642,034,643</b>	<b>686,816,509</b>

## Financial Covenants

To certain type of financing operations, there is the commitment to maintain certain financial ratios, whose limits are previously negotiated and were not exceeded in the period of analysis.

## 32. Payables and other current liabilities

As of December 31, 2007 and December 31, 2006 the caption Payables and other current liabilities showed the following breakdown:

Amounts in Euros	31-12-2007	31-12-2006
Accounts payable to suppliers	161,982,839	160,200,778
Accounts payable to associated companies (Note 34)	619,642	3,253,673
Accounts payable to suppliers of fixed assets	10,145,916	14,772,119
Instituto do Ambiente - CO2 Emission licences	42,542	18,393,144
Financial instruments derivatives (Note 33)	284,968	1,421,511
Other creditors	9,399,389	13,447,458
Accrued costs	70,774,716	57,911,320
Deferred income	62,776,877	18,871,415
	<b>316,026,889</b>	<b>288,271,418</b>

The amount of Euros 18,393,144 presented in the caption Instituto do Ambiente – CO2 emission licenses, as of December 31, 2006, related to the fair value of gases emission licences to be delivered by the emissions carried through that year, 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, 2007 and December 31, 2006 the captions Accrued costs and Deferred income were made up as follows:

Amounts in Euros	31-12-2007	31-12-2006
<b>Accrued costs</b>		
Insurance costs	95,620	16,037
Payroll expenses	39,388,829	33,789,742
Interests payable	20,312,756	9,799,838
Power costs	4,230,888	4,252,757
Transportation services	543,069	344,275
Others	6,203,554	9,708,671
	<b>70,774,716</b>	<b>57,911,320</b>
<b>Deferred income</b>		
Government grants	62,607,105	17,921,364
Grants - CO2 Emission licences	29,813	579,401
Others	139,959	370,650
	<b>62,776,877</b>	<b>18,871,415</b>

## Changes in Government grants

Amounts in Euros	31-12-2007	31-12-2006
Opening balance	17,921,364	22,559,299
Change in the consolidation perimeter	244,460	-
Change in the consolidation method	(7,003,875)	-
Exchange fluctuations	(45,474)	(224,419)
Grants receive in the year	243,773	519,973
Grants recognized in year results (Notes 5 e 8)	(19,694,076)	(4,743,857)
Estimate for adicional grant to receive (Note 24)	70,940,934	(189,632)
<b>Closing balance</b>	<b>62,607,106</b>	<b>17,921,364</b>

## Changes in Grants – CO2 emission licences

Amounts in Euros	31-12-2007	31-12-2006
Opening balance	579,401	11,422,108
Grants receive in the year	1,387,266	81,056,817
Change in the consolidation method	(119,720)	-
Licences disposal	(400,274)	(23,951,250)
Licences remittal	(94,959)	-
Grants recognized in year results	(1,236,532)	(67,208,905)
Fair value changes	(85,369)	(739,369)
<b>Closing balance</b>	<b>29,813</b>	<b>579,401</b>

## Changes in CO2 emission licences – quantities (tonnes)

Units: TonCO2	31-12-2007	31-12-2006
Opening balance	89,414	506,772
Change in the consolidation method	(18,475)	-
Allowances received	609,304	3,376,408
Acquisitions	-	-
Emissions	(263,964)	(2,838,448)
Disposals	(382,000)	(955,318)
<b>Closing balance</b>	<b>34,279</b>	<b>89,414</b>

## 33. Derivative financial instruments

To manage the exchange rate risk associated with collections from customers were made forward rate agreements that will expire during 2007. Additionally, it was contracted a financial instrument to hedge against the risk associated with fluctuations in the prices of pulp for sales contemplated to 2008.

In 2007, following the previous years' practice, in order to reduce the associated risk with prices of pulp sales fluctuations planned in 2008, was hired a financial instrument coverage who expires throughout this year.

Additionally, to cover the interest rate risk, are hired since 2005, interest rate swaps related to loans bond.

As of December 31, 2007 and December 31, 2006 fair value of derivative financial instruments showed the following breakdown:

Amounts in Euros	31-12-2007				31-12-2006
	Amount	Positive	Negative	Net amount	Net amount
<b>Hedging</b>					
Interest rate swaps (IRS)	262,500,000	6,553,318	-	6,553,318	6,585,447
Foreign exchange forwards (pulp sale)	78,459,036	6,245,693	(284,968)	5,960,725	7,155,635
	<b>340,959,036</b>	<b>12,799,011</b>	<b>(284,968)</b>	<b>12,514,043</b>	<b>13,741,082</b>
<b>Trading</b>					
CAP's	-	-	-	-	(15)
Foreign exchange forwards	59,852,902	1,269,215	-	1,269,215	627,214
Interest rate options	35,742,182	184,227	-	184,227	314,343
Interest rate swaps (IRS)	35,742,182	310,467	-	310,467	775,007
	<b>131,337,266</b>	<b>1,763,909</b>	<b>-</b>	<b>1,763,909</b>	<b>1,716,549</b>
		<b>14,562,920</b>	<b>(284,968)</b>	<b>14,277,952</b>	<b>15,457,631</b>

Movements in balance sheet disclosed balances related to financial instruments, in the first semester of 2007, were as follows:

Amounts in Euros	Bonuses paid	Changes in fair values (negotiation)	Changes in fair values (hedging)	Total
<b>Opening balance</b>	<b>6,276,500</b>	<b>1,716,549</b>	<b>7,464,582</b>	<b>15,457,631</b>
Change in the consolidation method	-	(841,108)	-	(841,108)
New agreements	1,963,000	-	-	1,963,000
Maturity (Note 10)	(6,276,500)	-	(15,544,559)	(21,821,059)
Fair value increases (Note 10)	-	888,468	18,631,020	19,519,488
<b>Closing balance</b>	<b>1,963,000</b>	<b>1,763,909</b>	<b>10,551,043</b>	<b>14,277,952</b>

Fair value of derivative financial instruments is included under the caption Current payables (Note 32), if negative, and in caption Current receivables (Note 24), if positive.

## 34. Balances and transactions with related parties

As of December 31, 2007 and December 31, 2006 balances with related parties are made up as follows:

Amounts in Euros	Interest-bearing liabilities	
	31-12-2007	31-12-2006
<b>Shareholders</b>		
Cimo SGPS, SA	3,239,252	2,450,999
Longapar, SGPS, SA	8,868,168	5,636,078
Sonaca, SA	321,836	668,033
	<b>12,429,256</b>	<b>8,755,110</b>

Amounts in Euros	Current receivables amount	
	31-12-2007	31-12-2006
<b>Group companies</b>		
Secil Energia, Lda.	2,386	4,610
	<b>2,386</b>	<b>4,610</b>

Amounts in Euros	31-12-2007		31-12-2006
	Other debtors	Costumers	Other debtors
<b>Associated companies</b>			
Betão Liz, S.A.	-	191,469	40,254
Cimentos Madeira, Lda	-	2,021,103	29,545
Cimentação, Lda	-	501,478	138
Chryso Portugal, S.A.	-	-	88,116
J.M. Henriques, Lda.	51,455	-	-
Viroc Portugal	-	-	-
Secil Unicon - S.G.P.S., Lda	3,500	-	3,627
Setefrete, S.A.	-	-	853,125
Be-power	6,170	-	-
Inertogrande	116,389	-	-
Secil Prebetão	-	36,627	5,140
Afocelca, ACE	-	-	-
Soporgem	319,992	-	319,992
Cutpaper, ACE	-	330,618	61,305
TASC	2,743	-	2,743
Other associated companies	128,228	-	-
<b>Total</b>	<b>628,477</b>	<b>3,081,295</b>	<b>1,403,985</b>

During 2007, transactions with related companies were as follows:

Amounts in Euros	31-12-2007		31-12-2006	
	Services purchase	Custos financeiros	Services purchase	Financial expense
<b>Shareholders</b>				
Cimianto SGPS, SA	107,740	-	107,740	-
Cimo SGPS, SA	-	130,253	-	127,485
Longapar, SGPS, SA	-	174,709	-	113,055
Sonaca, SA	-	34,169	-	32,077
	<b>107,740</b>	<b>339,131</b>	<b>107,740</b>	<b>272,617</b>

Amounts in Euros	31-12-2007			
	Services purchase	Services rendered	Operating income	Financial expense/(income)
<b>Subsidiarie shareholders</b>				
Irish Cement, Ltd.	-	4,313,976	-	-
CRH, plc	912,900	-	-	-
Seribo, S.A.	-	-	-	5,461
Others Shareholders	-	-	-	198,605
<b>Associates</b>				
Viroc Portugal, S.A.	-	693,120	1,227	(59,476)
Chryso Portugal, S.A.	749,560	-	-	-
Setefrete, S.A.	729,407	-	-	-
Secil Prebetão, S.A.	21,217	143,324	66,535	-
Others	-	-	3,111	-
	<b>2,413,084</b>	<b>5,150,420</b>	<b>70,873</b>	<b>144,590</b>



	31-12-2006			
Amounts in Euros	Services purchase	Services rendered	Operating income	Financial expense
<b>Subsidiary shareholders</b>				
Irish Cement, Ltd.	-	7,049,117	-	-
CRH, plc	1,780,000	-	-	-
<b>Associates</b>				
Beirão 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)
Cutpaper	2,859,916	1,639,429	-	5
	<b>12,061,185</b>	<b>31,192,749</b>	<b>281,107</b>	<b>154,879</b>

## 35. Changes in consolidation perimeter

During 2007, the main impacts on consolidated financial statements caused by changes in consolidation perimeter were as follows:

Amounts in Euro	Total	Ciment de Sibline	Cimentos Madeira	Minerbetão	Martingança and Prescor
<b>Non-current assets</b>					
Land, buildings and equipments	58,961,586	54,711,812	3,733,308	516,466	-
Investments in associated Companies	(11,757,624)	(11,311,082)	(446,542)	-	-
Deferred tax assets	1,314,684	960,381	329,928	24,375	-
Other non-current assets	62,866	30,909	31,957	-	-
<b>Current assets</b>					
Inventories	5,983,535	4,813,783	1,167,128	2,624	-
State	281,636	-	260,735	901	-
Other current receivable amounts	6,958,226	3,301,464	3,321,694	335,068	-
Minority interests (Note 13)	(19,992,985)	(19,483,137)	(2,445,428)	-	1,935,580
<b>Non-current liabilities</b>					
Provisions	(2,459,909)	(2,230,409)	(229,500)	-	-
Pension and other post-employment benefits	67,809	-	67,809	-	-
Deferred tax liabilities	(408,763)	(73,863)	(291,367)	(43,533)	-
Interest-bearing liabilities	(16,102,099)	(15,790,223)	-	(311,876)	-
Other non-current payable amounts	(1,220,586)	(976,126)	(244,460)	-	-
<b>Current liabilities</b>					
Interest-bearing liabilities	(7,255,034)	(5,288,584)	(1,966,450)	-	-
State	(854,164)	(766,232)	(88,862)	(9,070)	-
Other current payable amounts	(5,973,243)	(3,006,169)	(2,448,884)	(518,190)	(2,554)
<b>Total acquired / Integrated</b>	<b>7,585,935</b>	<b>4,922,524</b>	<b>731,866</b>	<b>(3,235)</b>	<b>1,933,026</b>
Goodwill (Note 15)	7,613,028	6,212,418	924,103	476,507	-
Negative Goodwill	-	-	-	-	-
<b>Net acquisition cost</b>	<b>15,198,963</b>	<b>11,134,942</b>	<b>1,655,969</b>	<b>473,272</b>	<b>1,933,026</b>
Cash and cash equivalents	5,214,213	3,777,547	1,404,832	31,834	-
<b>Net assets acquired / Integrated</b>	<b>20,413,176</b>	<b>14,912,489</b>	<b>3,060,801</b>	<b>505,106</b>	<b>1,933,026</b>

### Inclusions in the perimeter – sub-Group Secil

#### Reinforcement of participation with acquisition of control

Ciment de Sibline, S.A.L., with its head office in Lebanon, reinforcement of the participation held with the acquisition of 21.86%, having 50.5% of its share capital held by the Group;

Cimentos Madeira, S.A., with its head office in Funchal, reinforcement of the participation held with the acquisition of 42.86%, having 57.15% of its share capital held by the Group;

#### New acquisitions

Minerbetão, Lda., com with its head office in Leiria, having 100% of its share capital held by the Group;

#### Reinforcement of participation in subsidiaries already controlled

Prescor, Lda., reinforcement of the participation held with the acquisition of 30%, having 100% of its share capital held by the Group;

Secil Martingança, reinforcement of the participation held with the acquisition of 45.81%, having 100% of its share capital held by the Group.

### Inclusions in the perimeter – sub-Group Portucel

#### Companies established

- PortucelSoporcel Papel, SGPS, SA;
- PortucelSoporcel Energia, SGPS, SA;
- PortucelSoporcel Participações, SGPS, SA;
- PortucelSoporcel Cogeração de Energia, SGPS, SA;
- PortucelSoporcel Comérico de Papel, SA;
- Impactvalue, SGPS, SA.

### Inclusions in the perimeter – Semapa

#### Companies established

- Verdeoculto, SGPS, SA.

#### Disposal companies

- Cimenpar Investment BV;
- CMP Investment BV

Additionally, during the 2007's last quarter was made an internal restructuring of the participations in order to simplify the Group's corporate structure so that the 36.63% participation in the capital of Portucel held by Semapa Investment BV has been transferred to Investment Seinpar BV. Semapa Investment BV has also transferred its 49% participation in Seinpart SGPS for Semapa SGPS. It should be noted that this last operation had the approval, by order together, from Ministers of Finance and Economics, needed in the face of the commitment to maintain, for a five years period, the detention's structure of Seinpart SGPS, made on the acquisition date, by OPA, 30% of the capital of Portucel SA, in 2004. These operations, carried out on market values, did not produce any accounting impact in these Group's consolidated financial statements.

## 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 2007 are as follows:

Areas	Expenses of the period	Capitalized in the period	Total
Atmospheric emission	2,337,965	4,127,262	6,465,227
Management of residual waters	22,860	130,505	153,365
Waste/residual managements	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
Materials recycling	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
	<b>13,043,553</b>	<b>17,798,394</b>	<b>30,841,947</b>

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
	<b>13,043,553</b>	<b>17,798,394</b>	<b>30,841,947</b>

## 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 trade of "CO2 emission licenses", then transposed to the Portuguese legislation and applicable, from January 1, 2005, to the paper industries, among others (Note 32).

## 37. Auditing and statutory auditing expenses

As of December 31, 2007 and 2006 costs incurred with auditors and statutory auditors were as follows:

Amounts in Euros	31-12-2007	31-12-2006
Statutory auditors services	428,673	435,460
Tax consultancy services and others	406,333	392,921
	<b>835,006</b>	<b>828,381</b>

The services described as tax consultancy and other consist mainly on the support in safeguarding the fulfilment of tax obligations, in Portugal and abroad, as well as in services, surveys of situations on operational processes of business, which did not result any advice for recasting of practices, procedures or controls that exist. The Board believes there are adequate procedures safeguarding the independence of auditors through careful definition of the work in the hiring.

## 38. Average number of employees

As of December 31, 2007 and December 31, 2006 the average number of employees at service in the various Group companies, by business segment, was as follows:

Segment	31-12-2007	31-12-2006
Pulp and Paper	1,952	1,951
Cement and derivatives	2,391	2,231
Holdings	21	20
	<b>4,364</b>	<b>4,202</b>

The increase in the Cement and Derivatives (100% included) segment is due to changes in consolidation perimeter, as described in Note 35.

## 39. Commitments

As of December 31, 2007 and December 31, 2006 commitments assumed by the Group were as follows:

Entity	31-12-2007	31-12-2006
<b>Garanties</b>		
DGT - Direcção Geral do Tesouro	50,000,000	50,000,000
IAPMEI (âmbito do POE)	6,329,702	11,021,574
DGCI - Direcção Geral dos Impostos	25,247,206	25,199,206
Financiamento Soporgen	888,889	1,111,111
Câmara Municipal de Setúbal	487,700	956,275
APSS - Admi. dos Portos de Setúbal e Sesimbra	189,959	372,468
Direcção Geral de Alfândegas	408,000	598,557
APDL - Administração do Porto de Leixões	297,736	583,796
OMMP e Elfouladh	40,817	80,033
Simria	514,361	514,361
Instituto de Conservação da Natureza - Arrábida	338,645	332,005
IFADAP	-	289,804
INGA - Instituto Nacional de Garantia Agrícola	94,521	185,334
IAPMEI (âmbito do PEDIP)	65,937	99,760
Commerzbank (Lebanon)	3,857,149	-
Comissão de Coordenação e Desenv. Reg. Centro	400,591	-
BNA (Tunisia)	237,237	-
Others	3,937,440	2,844,474
	<b>93,335,891</b>	<b>94,188,758</b>
<b>Other commitments</b>		
Of purchase	110,637,607	7,332,178
Others (Cartas de crédito - Lebanon)	3,066,072	-
	<b>113,703,679</b>	<b>7,332,178</b>
	<b>207,039,570</b>	<b>101,520,936</b>

The subsidiary Seinpart – Participações SGPS, issued a bank guarantee, to the tax authorities (Direcção Geral do Tesouro), in 2004, by Euros 50,000,000, valid for five years. This guarantee has the purpose of covering the fulfilment of all 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, concerning the privatization of Portucel.

During 2006, Semapa SGPS and Semapa Inversiones, SL, as guarantor, concluded a promise of a credits granting contract with a financial institution, amounting of Euros 200,000,000 in order to finance the acquisition of listed on the Euronext Lisbon shares and that integrate PSI 20 and / or acquisition of Portucel shares.

With funds availability under that contract, Semapa and/or guarantor undertake to provide security in the corresponding shares acquired and/or holding in portfolio Portucel shares, or alternately the establishment of a long term deposit, sufficient to maintain a coverage ratio amounting never less than 1.1. This credit line was used up, on December 31, 2007, by the amount of Euros 133,079,000, having been given as security 37,475,858 Portucel shares, 86,386 EDP shares and 2,720,000 Semapa SGPS treasury shares.

## Investment contract - AICEP

On July 12, 2006 was signed between Portucel, Soporcel and AICEP - Agência para o Investimento e Comércio Externo de Portugal, contracts investment, ongoing and held until June 30, 2008, which include tax and financial incentives of Euros 22,480,095 and Euros 102,038,801, respectively in a total of Euros 122,518,885, which were used Euros 4,434,524 and Euros 8,332,164 of tax incentives, in 2007 and 2006 respectively.

Given the projects' stage of development, the Group recognized, until December 31, 2007, earnings from financial incentives on the use of eligible investments of Euros 18,014,811 and is recognized as a value to receive Euros 71,343,348 relating to the investments made matching incentive and not yet funded. Under these contracts Portucel and Soporcel will still invest the total amount of Euros 103,029,000 (Note 9).

Additionally was made a contract with the subsidiary About the Future, SA, for 482 million euros investments in the years 2007 and 2008, which provides for the award of a tax incentive in that project of Euros 52,433,150.

All contracts have been approved by national authorities and EU, the last of which on Soporcel in June 2007.

## Other purchase commitments

In addition to the previous paragraph, the suppliers purchase commitments amounted, on December 31, 2007, Euros 110,637,607 related manufacturing equipment investments.

## 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 (Euros 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 Secil Martingança, Lda. contracted a bank loan, with maturity in 2012, to finance the acquisition of the 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, in 1993, a comfort letter as a guarantee of obligation compliance with the financings contracted by its associate Viroc Portugal, S.A., in the amount of Euros 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 is held by 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.

Share capital of Secil Lobito, amounting USD 21,274,286, was carried out through the transfer of tangible and intangible assets from TecnoSecil and Encime U.E.E., by the Group and the Angolan government, respectively. 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

### Sub-group Secil

#### 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 Euros 2,235,907 in financial terms.

The company lost the case in court related to 1995 (Euros 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 (Euros 795,311). As regards the actions of 1997 (Euros 282,262), 1998 (Euros 327,323) and 1999 (Euros 10,464), they already started in 2004 in the court of first instance, still pending of decision.

### **CMP' Pensions Plan**

Secil recorded in its financial statements as of December 31, 1995 a total adjusted amount of Euros 5,598,358, receivable from the Portuguese Government, result from the actuarial study of the liabilities with retirements, reported as of 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, in 1996, CMP's Administration requested the Portuguese State the settlement of the amount above mentioned. On September 16, 1999, Secil's management opened a procedure against the Portuguese state, reclaiming the payment of this amount including interest, anticipating conviction of the constitutional court, with reasoning having started in the last quarter of 2004.

### **2002 Corporate Tax (IRC)**

Secil judicially impugned the additional tax payment, amounting to EUR 9,289,439, including compensation interest of Euros 970,938, arising from the individual basis tax inspection on 2002 Corporate Tax (IRC), in Secil, regarding the IRC established in aggregate base - under the Groups of Companies taxation Special Regime, and it awaits court decision on this case.

### **Sub-group Portucel**

#### **Claims and impugnations**

According to Decree-Law 36/93 of February 13, fiscal debts of privatized companies previous to privatization date are responsibility of Public Debt Regularization Fund (Fundo de Regularização da Dívida Pública). Within this framework, the below mentioned amounts, in the total amount of Euros 3,872,355, as well as paid and non-claimed debts (Euros 625,033) and settled as a result of ongoing tax inspections (already adequately funded) should be reimbursed by the respective Fund.

#### Income tax – 2<sup>nd</sup> paper machine – Euros 17,300,599

During the first semester of 2003 was tax authorities took place a supervision action that included the review of the aspects related to the use of the tax incentive for investment in the Company's second paper machine.

Following this action, tax authorities presented additional income tax payments on the years 1998 to 2001, which have been impugned by Soporcel on 2003, in the approximate amount of Euro 11,797,305, including compensation income, which added Euros 5,503,293 relating to the liabilities discharge of subsequent years until 2007, mainly related to the corporate tax deductions by the use of this tax incentive, which, on December 31, 2007, are under the liabilities caption "State and other public entities".

In consequence of the court impugnation, Soporcel provided two bank guarantees the Tax General Directorate in the amount of Euros 15,677,315 (Note 39), and requested its return, for having elapsed more than 3 years since have been submitted, with the judicial impugnation (December 2003).

#### Tax retention – Euros 2,643,586

In recent years, tax administration has been presenting payments due on tax retention allegedly at fault for not having been made by the Group companies, which were as follows, on December 31, 2007 and 2006.

Amounts in Euros	31-12-2007	31-12-2006	Garanties
Portucel - 2004	372,659	-	470,482
Portucel - 2005	216,536	-	-
Soporcel - 2002	16,162	-	-
Soporcel - 2003	245,998	-	-
Soporcel - 2004	1,211,417	-	1,544,570
Soporcel - 2005	580,814	-	737,790
	<b>2,643,586</b>	<b>-</b>	<b>2,752,842</b>

The group decided to claim those payments and the tax administration, in complaints already assessed, refuse them. However, in November 2007, expecting the legislative amendment, now on Article 90A of corporate tax law (CIRC) by the publication of the 2008 State Budget, the tax authorities accepted suspend those instances.

Indeed, this amendment comes on the interpretation made by the company, and it is expected soon a favourable decision of the claim.

#### Income tax from 2001 – Euros 314,340

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 Euros 314,340.

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 2002 – Euros 286,187

As at November 15, 2006, the subsidiary Soporcel claimed additional payments of income tax amounting Euros 270,025.

It is expected soon a favourable decision of this claim, in particular, for at later payment date had obtained the forms relating to missing tax incentive for research and development amounting Euros 100,806.

#### 2003 aggregated corporate tax – Euros 3,158,530

On 15 October 2007 Portucel presented a partial complaint of its paid corporate tax of Euros 3,000,615.10, of which Euros 2,607,145 are tax and Euros 393,480, and paid the remaining Euros 157,915, of which Euros 131,807 are tax and Euros 26,108 are compensation interest.



The amount claimed was still, on November 5, 2007, subject to partial compensation in Euros 2242329 with the pending refund of VAT of August 2007, having been guaranteed the remaining amount of Euro 1,032,317, on November 26, 2007. Portucel appealed against that compensation and the Almada Administrative and Fiscal Court ordered, by a January 15, 2008 decree, a refund of the compensated amount.

The payment regards essentially the tax impact of restructuring operations decided by the shareholder State, in the context of Portucel's privatisation, which was applied improperly the corporate tax neutrality regime, because Soporcel not have ceased the forest exploitation and because did not exist valid economic reasons to have established an immediate capital gains on disposal of the parties received in exchange of transmitted capital assets.

#### 2004 aggregated corporate tax – Euros 1,167,629

Portucel paid on December 10, 2007 the additional tax settlement of Euros 1,078,403 and its corresponding compensatory interest of Euros 89,227, which will be partially claimed within the legal time limits.

From corrections to the tax base total amount of Euros 3,539,759, will be claimed the amount of Euros 1,961,515 corresponding to "rolaria" regularisation, losses on supplementary capital disposal, deduction of income-sharing in the settlement benefits and 1st employment for young people.

#### 2005 aggregated corporate tax – Euros 10,498,592 (tax estimation)

The 2005 audit, in which was declared an aggregate tax loss of Euros 30,381,815, resulted in the issuance of final reports on December 28, 2007 and September 8, 2007 respectively in Portucel and Soporcel, closing the 2005 audit. There were made corrections to the tax base of these companies, of Euros 67,612,268 and Euros 6,865,841 respectively, whose tax is registered in liabilities.

Of the corrected amount of Euros 66,636,141 and Euros 6,817,635 match the loss on disposal of financial investments, including supplementary capital, which the tax administration believes constitute equity investments according to paragraph 5 of Article 23 of the corporate tax law.

#### Withholding tax in Spain – Euros 516,729

ENCE – Empresa Nacional de Celulose, SA, company in which Portucel held 8% of share capital until 2004, paid, between 2001 and 2004, dividends in the global amount of Euros 3,444,862, which have been subject to withholding tax in the amount of Euros 516,729.

The retained amount was objected by Portucel to 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 wouldn't be subject to tax retention). The claim was refused in 2007 and was made a court appeal in 2008.

Additionally, and during the period, the European Commission formally requested to Spain the change of the law that regulates non-residents' tax retentions, namely concerning to dividends paid, as it violates Community 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).

#### Stamp duty – Euros 891,618

On October 2, 2007, Soporcel partially claimed the payment of stamp duty of Euro 793,164 and compensatory interest of Euro 98,454 in the corresponding part to the period from January 1 to June 30, 2004 in the amount of Euro 451,180, of which Euro 399,164 are tax and Euro 49,470 are compensatory interest, secured on 19 October 2007 on the amount of Euros 575,870.

The tax was settled because Soporcel allegedly not have shown the shortcomings of Portucel SGPS treasury, under which the cash operations made by Soporcel SGPS were considered tax exempt.

Being Portucel SGPS (now absorbed by the merger Parpública) the economic beneficiary of the transaction and on prior date to privatization (June 3, 2004) the company's dominant Soporcel, indirectly holding 55.72% of its capital, was the paid tax passed to it, having already been received the amount paid of Euros 440,038, the corresponding tax part of Euro 394,002.

#### VAT from 2003 – Euros 2,509,101

Soporcel had to make an additional VAT payment of Euros 2,509,101, including compensatory interest of Euros 227,759 as at September 19, 2006, compensated with requested VAT reimbursements, within the period to appeal. The company believes the amount is not due, as it relates to the adjustment of VAT deducted on forestry plantings, to which the article 24 of VAT Acts (Código do IVA) is not applicable because they aren't property.

#### VAT from 2004 – Euros 225,121

On 3 October 2007 Portucel claimed the additional VAT payment of Euros 206,580 and corresponding compensatory interest of Euros 18,541, which was secured on 23 October 2007 for an amount of Euros 284,215.

Of the tax total amount, Euros 20,227 refer to accounting disposals of reserve pieces, which however were not physically disposed, and the book value of them was reinstated in 2005 and formed the corresponding provision.

## 42. 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, 2007.

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, 2007 and December 31, 2006, by comparison with the Euro, were as follows:

	2007	2006	Increase/ /(decrease)
TND (tunisian dinar)			
Average exchange rate for the year	1.7498	1.6868	(3.73%)
Exchange rate at the end of the year	1.7911	1.7325	(3.38%)
LBN (libanese pound)			
Average exchange rate for the year	2,066.00	1,892.82	(9.15%)
Exchange rate at the end of the year	2,192.00	1,985.38	(10.41%)
USD (american dollar)			
Average exchange rate for the year	1.3705	1.2556	(9.15%)
Exchange rate at the end of the year	1.4721	1.3170	(11.78%)
GBP (sterling pound)			
Average exchange rate for the year	0.6843	0.6817	(0.38%)
Exchange rate at the end of the year	0.7334	0.6715	(9.21%)

### 43. Subsidiary Portucel privatisation process

With the publication of Decree-Law 6/2003 of January 15, the State set the template for the second phase of the Company's privatization process, which should be held in two segments. One segment, occurred in May 2004, was a tender for the sale of an indivisible lot of shares representing a value of 30% of Portucel capital. Semapa group was the winner of the competition, through the participation of Seinpart - Participations, SGPS, SA.

Decree-Law above had also a second leg, respecting the direct sale of up to 115,125,000 shares of the Company's capital to financial institutions to take over the subsequent dispersal of shares among institutional investors.

With the publication of Decree-Law 143/2006, of July 28, the State established the model for the third phase of the Company's privatization, which consisted on the sale of shares representing up to 25.72% of the Company's equity, which occurred through a tender offer (OPV) held on November 14, after which the company became fully privatized.

### 44. Subsequent events

The sub-group Portucel has signed contracts with AICEP for incentives granted by the agency for development investment in its industrial units. On January 10, 2008, was received the first part on the financial incentive attributed to the investments co-financing in the Cacia unit valued at Euros 9,239,308. For investments in the Setubal unit, was completed in January the process of submission of expenditure proof under these contracts, concerning the application of the first part of the financial component of the incentives granted. The payment of Euros 3,844,561

corresponding to this par is expected during the first semester of 2008.

During January 2008, Semapa SGPS strengthened on 0.20% its participation in subsidiary Portucel, through the acquisition on a stock exchange of 1.5 million shares.

Also in January 2008 was resumed hazardous industrial waste co-incineration in the Outão Secil factory, following a ruling of the Supreme Administrative Court on 14 January that overturned the earlier decision ordered under this injunction.

During the months of January and February the sub-Grupo Portucel acquired 2,434,368 treasury shares, representing 0,317% of Portucel SA equity.

On February 8, 2008, the subsidiary Soporcel was notified of the judgement by the Coimbra Administrative and Fiscal Court which upheld the appeal of the corporate tax payment from 1998 to 2001, and their compensation interest. Note that, following the audit carried out by the tax administration in 2003, the subsidiary had contested the additional corporate tax payment regarding these years, in the approximate amount of Euro 11,797,305, including compensation interest. This figure was already guaranteed and recognised as a liability in the accounts, as well as Euros 5,503,294 of interest on the payments and tax contingency for the years 2006 and 2007, remaining the tax administration criteria.

## 45. Consolidated companies

Name	Head office	Direct and indirect % 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
Cimentospar - Participações Sociais, SGPS, Lda.	Lisbon	-	100.00	100.00
Seinpart, SGPS, S.A.	Lisbon	49.00	51.00	100.00
Verdeoculto, SGPS, S.A.	Lisbon	100.00	-	100.00
Seinpar Investments, B.V.	Amsterdam	100.00	-	100.00
Semapa Investments B.V.	Amsterdam	100.00	-	100.00
Semapa Inversiones S.L.	Madrid	100.00	-	100.00

## Subsidiary companies of sub-group Portucel - under full consolidation

Name	Head office	Direct and indirect % of equity held by subsidiary Portucel			Equity % actually held by Semapa
		Direct	Indirect	Total	
Portucel – Empresa Produtora de Pasta e Papel, SA	Setúbal	-	-	-	75.20
Subsidiaries					
Soporcel - Sociedade Portuguesa de Papel, SA	Figueira da Foz	100.00	-	100.00	75.20
Tecnipapel – Sociedade de Transformação e Distribuição de Papel, Lda	Setúbal	100.00	-	100.00	75.20
Soporcel España, SA	Spain	-	100.00	100.00	75.20
Soporcel International, BV	Holanda	-	100.00	100.00	75.20
Soporcel France, EURL	France	-	100.00	100.00	75.20
Soporcel United Kingdom, Ltd	United Kingdom	-	100.00	100.00	75.20
Soporcel Italia, SRL	Italy	-	100.00	100.00	75.20
Soporcel 2000 - Serviços Comerciais de Papel, Soc. Unipessoal, Lda	Figueira da Foz	-	100.00	100.00	75.20
Soporcel North America Inc.	EUA	-	100.00	100.00	75.20
Soporcel Deutschland, GmbH	Germany	-	100.00	100.00	75.20
Soporcel Handels, GmbH	Austria	-	100.00	100.00	75.20
Portucel Florestal – Empresa de Desenvolvimento Agro-Florestal, SA	Setúbal	-	100.00	100.00	75.20
Aliança Florestal – Sociedade para o Desenvolvimento Agro-Florestal, SA	Setúbal	-	100.00	100.00	75.20
Arboser – Serviços Agro-Industriais, SA	Setúbal	100.00	-	100.00	75.20
Enerforest - Empresa de Biomassa para Energia, SA	Setúbal	-	100.00	100.00	75.20
Sociedade de Vinhos da Herdade de Espirra - Produção e Comercialização de Vinhos, SA	Setúbal	-	100.00	100.00	75.20
Viveiros Aliança - Empresa Produtora de Plantas, SA	Palmela	-	100.00	100.00	75.20
Aflomec - Empresa de Exploração Florestal, SA	Setúbal	-	100.00	100.00	75.20
Cofotrans - Empresa de Exploração Florestal, SA	Figueira da Foz	-	100.00	100.00	75.20
SPCG – Sociedade Portuguesa de Co-Geração Eléctrica, SA	Setúbal	100.00	-	100.00	75.20
Enerpulp – Cogeração Energética de Pasta, SA	Setúbal	100.00	-	100.00	75.20
Setipel – Serviços Técnicos para a Indústria Papeleira, SA	Setúbal	100.00	-	100.00	75.20
Empremédia - Corretores de Seguros, Lda	Lisbon	-	100.00	100.00	75.20
Socortel - Sociedade de Corte de Papel, SA	Figueira da Foz	-	100.00	100.00	75.20
PortucelSoporcel Papel - Sales e Marketing, ACE	Figueira da Foz	50.00	50.00	100.00	75.20
Cutpaper - Transformação, Corte e Embalagem de Papel, ACE	Figueira da Foz	-	50.00	50.00	37.60
Raiz - Instituto de Investigação da Floresta e Papel	Eixo	43.00	51.00	94.00	70.68
PortucelSoporcel Floresta, SGPS, SA	Figueira da Foz	50.00	50.00	100.00	75.20
Aflotrans - Empresa de Exploração Florestal, Lda	Figueira da Foz	-	100.00	100.00	75.20
About the Future - Empresa Produtora de Papel, SA	Setúbal	100.00	-	100.00	75.20
Headbox - Operação e Contolo Industrial, SA	Setúbal	-	100.00	100.00	75.20
EMA21 - Engenharia e Manutenção Industrial Século XXI, SA	Setúbal	100.00	-	100.00	75.20
Ema Cacia - Engenharia e Manutenção Industrial, ACE	Cacia	91.15	-	91.02	68.44
Ema Setúbal - Engenharia e Manutenção Industrial, ACE	Setúbal	92.56	-	91.01	68.44
Ema Figueira da Foz - Engenharia e Manutenção Industrial, ACE	Figueira da Foz	91.47	-	91.87	69.08
ImpactValue - SGPS, SA *	Setúbal	100.00	-	100.00	75.20
PortucelSoporcel Papel, SGPS SA *	Setúbal	100.00	-	100.00	75.20
PortucelSoporcel Energia, SGPS SA *	Setúbal	100.00	-	100.00	75.20
PortucelSoporcel Participações, SGPS SA *	Setúbal	100.00	-	100.00	75.20
PortucelSoporcel Cogeração de Energia, SA *	Setúbal	-	100.00	100.00	75.20
Atlantic Forests, SA *	Setúbal	-	100.00	100.00	75.20
Portucel International GMBH	Germany	100.00	-	100.00	75.20
Afoelca - Agrupamento complementar de empresas para protecção contra incêndios	Portugal	-	64.80	64.80	48.73
Bosques do Atlantico, SL	Spain	-	100.00	100.00	75.20

\* Companies created on 2007



## Subsidiary companies of subgroup Secil – under proportional consolidation

Name	Head office	% Direct e Indirect do capital held by subsidiary Secil			Equity % actually held by Semapa
		Direct	Indirect	Total	
Secil - Companhia Geral de Cal e Cimento, S.A.	Setúbal	-	-	-	51.00
<b>Subsidiaries</b>					
Parcim Investments, B.V.	Amsterdam	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.	Amsterdam	100.00	-	100.00	51.00
Serife - Sociedade de Estudos e Realizações Industriais e de Fornecimento de Equipamento, Lda.	Lisbon	58.40	-	58.40	29.78
Silonor, S.A.	Dunkerque - France	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.	Lisbon	100.00	-	100.00	51.00
Secil Angola, 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.	Lisbon	-	100.00	100.00	51.00
Secil Britas, S.A.	Penafiel	-	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
Minerbetão - Fabricação de Betão Pronto, Lda.	Leiria	-	100.00	100.00	51.00
Secil Martingança - Aglomerantes e Novos Materiais para a Construção, Lda.	Leiria	97.00	-	97.00	49.47
IRP - Industria de Rebocos de Portugal, S.A.	Lisbon	-	97.00	97.00	49.47
Condind - Conservação e Desenvolvimento Industrial, Lda.	Setúbal	50.00	50.00	100.00	51.00
Ciminpart - Investimentos e Participações, SGPS, S.A.	Lisbon	100.00	-	100.00	51.00
Argibetão - Sociedade de Novos Produtos de Argila e Betão, S.A.	Lisbon	-	90.87	90.87	46.34
Sobioen- Soluções de Bioenergia, S.A.	Lisbon	-	51.00	51.00	26.01
Ave- Gestão Ambiental e Valorização Energética, S.A.	Lisbon	-	51.00	51.00	26.01
Cimentos Costa Verde - Comércio de Cimentos, Lda.	Lisbon	-	100.00	100.00	51.00
Ecoresíduos - Centro de Tratamento e Valorização de Resíduos, Lda.	Lisbon	-	100.00	100.00	51.00
Prescor Produção de Escórias Móidas, Lda.	Lisbon	-	100.00	100.00	51.00
CMP - Cimentos Maceira e Pataias, S.A. ("CMP")	Leiria	100.00	-	100.00	51.00
Ciments de Sibline, S.A.L.	Beirute	28.64	21.86	50.50	25.76
Cimentos Madeira, Lda.	Funchal	57.14	-	57.14	29.14
Betomadeira - Betões e Britas da Madeira, S.A.	Funchal	-	57.14	57.14	29.14
Promadeira - Sociedade Técnica de Construção da Ilha da Madeira, Lda.	Funchal	-	57.14	57.14	29.14
Sanimar Madeira, Sociedade de Materiais de Construção, Lda.	Funchal	-	57.14	57.14	29.14
Brimade - Sociedade de Britas da Madeira, S.A.	Funchal	-	57.14	57.14	29.14
Madebritas - Sociedade de Britas da Madeira, Lda.	Funchal	-	29.14	29.14	14.86
Pedra Regional - Transformação e Comercialização de Rochas Ornamentais, Lda.	Funchal	-	29.14	29.14	14.86
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

## 46. Companies excluded from consolidation

Name	Head office	Direct and indirect % of equity held by subsidiary Portucel			Equity % actually held by Semapa
		Direct	Indirect	Total	
Portucel Brasil	Brasil	99.00	-	99.00	74.44

On December 31, 2007, the process of Portucel Brazil liquidation and dissolution was being concluded. The consolidated balance sheet at this date note the liabilities identified and quantified from this process. The Group may also incur on additional costs to the completion of these procedures, which, however, estimates are not materially relevant.

**BOARD OF DIRECTORS**

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Pedro Mendonça de Queiroz Pereira  
Chairman

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Fernando Maria Costa Duarte Ulrich  
Member

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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

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Francisco José Melo e Castro Guedes  
Member

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Carlos Maria Cunha Horta e Costa  
Member

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José Miguel Pereira Gens Paredes  
Member

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Paulo Miguel Garcês Ventura  
Member

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Rita Maria Lagos do Amaral Cabral  
Member

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António da Nóbrega de Sousa da Câmara  
Member

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António Paiva de Andrada Reis  
Member

DECLARATION  
AS REQUIRED BY ARTICLE 245.1 A)  
OF THE SECURITIES CODE

Article 245.1 a) of the Securities Code requires that each of the persons responsible for issuers make a number of declarations, as described in this article. In the case of Semapa, a uniform declaration has been adopted, worded as follows:

*I hereby declare, under the terms and for the purposes of Article 245.1 a) of the Securities Code that, as far as I am aware, the management report, annual accounts, legal accounts certificate and other financial statements of Semapa – Sociedade de Investimento e Gestão, SGPS, S.A., for the financial year of 2007, were drawn up in accordance with the relevant accounting rules, and provide a true and fair view of the assets and liabilities, financial affairs and profit or loss of the said company and other companies included in the consolidated accounts, and that the management report contains a faithful account of the business, performance and position of the said company and other companies included in the consolidated accounts, describing the main risks and uncertainties which they face.*

Considering that the members of the Audit Board and the Official Auditor sign an equivalent declaration in relation to the documents for which they are responsible, a separate declaration with the above text was signed by the directors only, as it was deemed that the company officers fall within the concept of “persons responsible for the issuer”. As required by this rule, we provide below a list of the persons signing the declaration and their office in the company:

<u>Name</u>	<u>Office</u>
Pedro Mendonça de Queiroz Pereira	Director
Maria Maude Mendonça de Queiroz Pereira Lagos	Director
José Alfredo de Almeida Honório	Director
Francisco José 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 Andrada Reis	Director
Fernando Maria Costa Duarte Ulrich	Director
Joaquim Martins Ferreira do Amaral	Director

**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 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, 2007, (which shows total assets of €3,257,139,769 and a total of shareholder's equity of €1,050,698,103, including minority interests of €304,873,080 and net profit of €121,950,561), 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, 2007, 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, February 26, 2008

PricewaterhouseCoopers & Associados, SROC, Lda  
represented by:

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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 2007.

2. 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.

3. We also monitored the work of PricewaterhouseCoopers & Associados, SROC, Lda and assessed the Legal Accounts Certificate and Audit Report, attached, with which we agree.

4. 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.

5. 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.

6 Finally, the Supervisory Board's members express its gratitude and appreciation for the cooperation provided by the Board of Directors, the top management and the other employees of the Company.

Lisbon, February 27, 2008



The Chairman of the Supervisory Board

Duarte Nuno D'Orey da Cunha

Member

Miguel Camargo de Sousa Eiró

Member

Gonçalo Nuno Palha Gaio Picão Caldeira