1. ECONOMIC BACKGROUND

Almost 10 years after the collapse of Lehman Brothers in 2008 and after the 2011 sovereign debt crisis, the global economy seems to be on a track of ongoing low growth. Consequently, the IMF estimates that in 2016 the world economy grew 3.1% vs. 3.2% in 2015, *(World Economic Outlook*, IMF, January 2017), performing differently according to the geographic areas.

In Europe, the economy experienced moderate growth, with positive signs, though facing challenges posed by political events, in particular the United Kingdom's decision to exit the European Union after the referendum. After increase of 2% in GDP in 2015 in the Euro Zone, growth slowed down in 2016 (1.7% according to the latest IMF estimates), followed by a drop in the unemployment rate.

According to the same source, Germany, the engine of the European economy, grew slightly more compared to the previous year, estimated at 1.7%. Positive economic data for the fourth quarter point to economic growth in the Euro Zone at the quickest pace since 2011. However, the progress of the European economy will continue to depend greatly on the political events in 2017, including the elections that will be held in several countries. The ECB has continued its policy of quantitative easing, having lowered its policy rates again in March 2016.

In 2016, the rate of economic growth in North America slowed down (2.6% in 2015 vs. 1.6% estimated for 2016, *World Economic Outlook*, IMF, January 2017). On the other hand, the Federal Reserve raised its reference rate, albeit only slightly compared with what was expected, taking into account the economic performance in the year and the management of future expectations of the market. A better performance was recorded in the second half of the year; the markets reacted positively to the election of Donald Trump, whose office raises uncertainties for both the American and global economies, e.g. possible implementation of strong protectionist measures.

China's growth rate continued to slow down, with less exports and imports, partly based on less investment and industrial activity, nonetheless at significantly high level and playing a proportionally decisive part in overall growth. The performance of the Chinese economy is reflected particularly in the commodities market (except for oil), with China as one of the core players, whose prices fell significantly across the board.

In particular, the price of oil doubled in 2016, standing at USD 56 year end. The meetings held between OPEP and the non-member countries resulted in output limitation, and at the end of the year it was agreed that production in OPEP countries and Russia would be reduced.

Regarding the exchange market, in 2016 the dollar appreciated against the euro and other main market currencies, and continued to function as a safe currency. The North American currency is not expected to depreciate, whereas the currencies of countries that depend on US policies and economy may encounter difficulties.

After a 1.5% growth in GDP in 2015, the Portuguese economy is expected to grow 1.2% in 2016 (Bank of Portugal – Projections for the Portuguese economy: 2016-2019). So the Portuguese economy has followed a path of moderate recovery since 2013 sustained by dynamic exports; it recovered access to markets in the aftermath of the sovereign debt crisis, and the level of unemployment, while high, has been decreasing sustainably. However, economic growth still faces several constraints, namely the high level of debt, high long-term unemployment rate, low volume of investment and vulnerable banking and financial sectors.

2. OVERVIEW OF SEMAPA GROUP OPERATIONS

LEADING BUSINESS INDICATORS

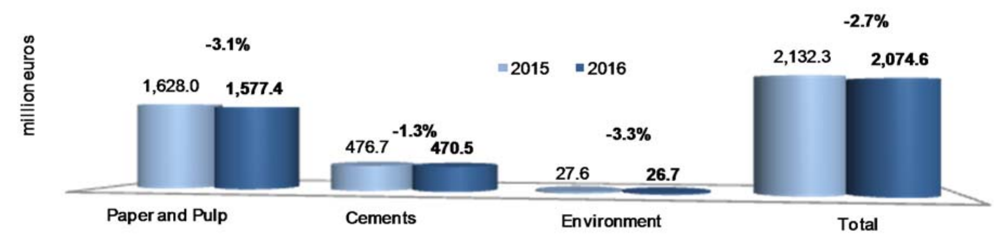
IFRS - accrued amounts (million euros)	2016	2015	Var.
Turnover	**2,074.6**	**2,132.3**	**-2.7%**
Total EBITDA	**489.1**	**478.2**	**2.3%**
EBITDA margin (%)	23.6%	22.4%	1.2 p.p.
Depreciation and impairment losses	(247.0)	(199.3)	-23.9%
Provisions (increases and reversals)	2.4	9.0	-73.4%
EBIT	**244.5**	**287.9**	**-15.1%**
EBIT margin (%)	11.8%	13.5%	-1.7 p.p.
Net financial profit	(74.3)	(122.3)	39.2%
Profit before tax	**170.2**	**165.6**	**2.8%**
Income tax	19.1	(34.8)	>100%
Retained profits for the year	189.3	130.8	44.7%
Attributable to Semapa shareholders	**114.9**	**81.5**	**40.9%**
Attributable to non-controlling interests (NCI)	74.4	49.3	51.1%
Cash-flow	433.9	321.1	35.1%
	31-12-2016	**31-12-2015**	**Dec16 vs. Dec15**
Equity (before NCI)	817.3	716.3	14.1%
Net debt	**1,779.7**	**1,803.0**	**-1.3%**

Notes:

- **Total EBITDA = operating profit + depreciation and impairment losses + provisions (increase and reversal)**
- **Cash flow = retained earnings for the period + depreciation and impairment losses + provisions (increase and reversal)**
- **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 comparison with the same period of the previous year, it was impacted by the full consolidation of the Supremo Group on 1 July 2015, the change in The Navigator Company stake from 81.19% to 69.4% in July 2015; the latter only impacts the retained profits for the period attributable to Semapa shareholders**

TURNOVER

In 2016 the consolidated turnover of the Semapa Group stood at 2,074.6 million euros, a decrease of 2.7% on 2015. Exports and foreign sales amounted to 1,606.0 million euros: 77.4% of turnover.



PAPER AND PULP: 1,577.4 MILLION EUROS ↓ 3.1%

Turnover in the paper and pulp business area in 2016 stood at 1,577.4 million euros, approximately 3.1% below the previous year's figure. The decrease arises mainly from less energy sales, after the sales price to the grid from the natural gas co-generation plant in Figueira da Foz were reviewed and overall paper and pulp prices fell in 2016.

CEMENT[1]: 470.5 MILLION EUROS ↓ 1.3%

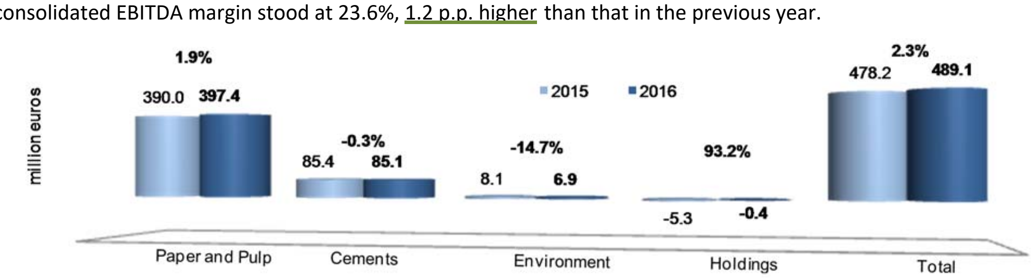
In 2016, the cement unit recorded turnover of 470.5 million euros, 1.3% below that recorded in the previous financial year. The drop was mostly due to fall in turnover of all operations conducted in Portugal and Tunisia, while turnover in Brazil grew.

ENVIRONMENT: 26.7 MILLION EUROS ↓ 3.3%

The environmental area recorded turnover of approximately 26.7 million euros in 2016, down by around 3.3% against 2015.

EBITDA

EBITDA for 2016 increased by approximately 2.3% in relation to the previous year, standing at 489.1 million euros. The consolidated EBITDA margin stood at 23.6%, 1.2 p.p. higher than that in the previous year.



[1] The integration of the Supremo Group in the Semapa consolidated financial statements for 2015, taking into account that the acquisition of the remaining 50% of the Group that forced the full consolidation occurred at the end of the month of June, had the following impact: 50% of the results of the first half were integrated using the equity method, the balance sheet position was fully consolidated (100%) with reference to 30 June 2015 and the results in the second half (July to December) were also fully consolidated (100%).

PAPER AND PULP: 397.4 MILLION EUROS ↑ 1.9%

EBITDA in the Paper and Pulp business area in 2016 stood at 397.4 million euros, which represents an increase of 1.9% in relation to the previous year. The EBITDA margin stood at 25.2% in 2016, 1.2 p.p. up from the previous year. The progress reflects the effect of the effort of cost reduction.

CEMENT: 85.1 MILLION EUROS ↓ 0.3%

EBITDA in the cement business area stood at 85.1 million euros, which translated into a decrease of 0.3% in relation to 2015. EBITDA decreased essentially as a result of operations in Portugal, where this indicator decreased 2.6 million euros, and in Lebanon, where it also dropped 2.6 million euros. In 2016, the EBITDA margin stood at 18.1%, 0.2 p.p. up from that recorded in the previous year.

ENVIRONMENT: 6.9 MILLION EUROS ↓ 14.7%

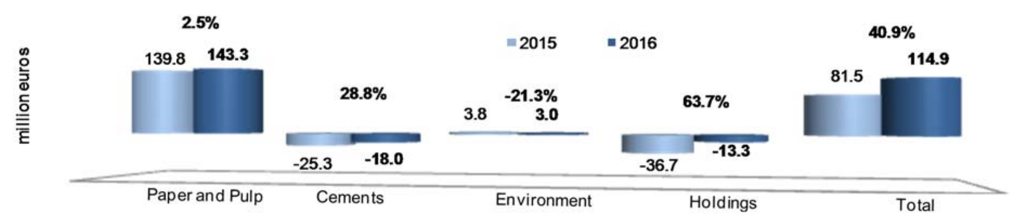
The EBITDA of the environmental area recorded in 2016 approximately 6.9 million euros, which represented a drop of around 14.7% against 2015, but an increase of 78.9% compared to 2014. The EBITDA margin stood at 25.8%, down by around 3.4 p.p. over the margin in 2015.

HOLDINGS (SEMAPA SGPS AND INSTRUMENTAL SUB-HOLDINGS) ↑ 93.2%

In 2016, EBITDA of the holdings amounted to -0.4 million euros, comparing favourably with the negative amount of 5.3 million euros in the previous year. Note that in the same period in 2015, EBITDA had been negatively impacted by the reclassification of balance sheet gratuities referred to 2014, paid after the decision adopted at the Annual General Meeting in 2015, for personnel costs by virtue of the accounting standards in force.

NET INCOME

Net income totalled 114.9 million euros, up by 40.9% over the previous year. The increase in the EBITDA, improved financial results and income tax comparing favourably, more than offset the effects of increase of depreciation, impairment losses and provisions and the decrease in Navigator's stake after July 2015.



BREAKDOWN BY BUSINESS SEGMENTS

IFRS - accrued amounts (million euros)	Paper and Pulp		Cement		Environment		Holdings		Consolidated
	2016	16/15	2016	16/15	2016	16/15	2016	16/15	2016
Sales	**1,577.4**	**-3.1%**	**470.5**	**-1.3%**	**26.7**	**-3.3%**	**-**	**-**	**2,074.6**
Total EBITDA	**397.4**	**1.9%**	**85.1**	**-0.3%**	**6.9**	**-14.7%**	**(0.4)**	**93.2%**	**489.1**
EBITDA margin (% Sales)	25.2%	1.2 p.p.	18.1%	0.2 p.p.	25.8%	-3.4 p.p.			23.6%
Depreciation and impairment losses	(181.9)	-32.8%	(61.9)	-4.7%	(2.9)	0.6%	(0.2)	12.7%	(247.0)
Provisions (increases and reversals)	(0.4)	-102.9%	2.8	197.8%	-	100.0%	-	100.0%	2.4
EBIT	**215.1**	**-19.6%**	**26.1**	**11.2%**	**4.0**	**-21.1%**	**(0.6)**	**93.1%**	**244.5**
EBIT margin (% Sales)	13.6%	-2.8 p.p.	5.5%	0.6 p.p.	14.8%	-3.3 p.p.			11.8%
Net financial profit	(20.8)	58.6%	(37.2)	10.8%	(0.6)	26.8%	(15.7)	46.8%	(74.3)
Pre-tax profits	**194.3**	**-10.6%**	**(11.2)**	**38.9%**	**3.3**	**-19.9%**	**(16.2)**	**56.8%**	**170.2**
Tax on profits	11.5	136.3%	5.1	237.7%	(0.4)	7.0%	2.9	232.2%	19.1
Retained profits for the year	205.8	10.8%	(6.1)	72.3%	3.0	-21.3%	(13.3)	63.7%	189.3
Attributable to Semapa equity holders	**143.3**	**2.5%**	**(18.0)**	**28.8%**	**3.0**	**-21.3%**	**(13.3)**	**63.7%**	**114.9**
Attributable to minority interests	62.5	36.2%	11.9	253.8%	0.0	-21.4%	-	-	74.4
Cash-flow	388.1	26.0%	53.0	32.4%	5.9	-13.6%	(13.1)	61.3%	433.9
Net debt	**640.7**	**-2.1%**	**422.9**	**-7.5%**	**15.7**	**-13.4%**	**700.4**	**4.1%**	**1,779.7**

Notes:

- **Figures for business segment indicators may differ from those presented individually by each Group, as a result of consolidation adjustments**

The Navigator Company ("Navigator") is listed and publishes its Annual Report. The following are the highlights of that disclosure.

The Secil and ETSA Groups, which are not listed, will not publish their results. Therefore, their operations are described in more detail.

3. PAPER AND PAPER PULP BUSINESS AREA

3.1. LEADING BUSINESS INDICATORS

IFRS - accrued amounts (million euros)	2016	2015	Var.
Turnover	**1,577.4**	**1,628.0**	**-3.1%**
EBITDA	**397.4**	**390.0**	**1.9%**
EBITDA margin (%)	25.2%	24.0%	1.2 p.p.
Depreciation and impairment losses	(181.9)	(137.0)	-32.8%
Provisions (increases and reversals)	(0.4)	14.6	-102.9%
EBIT	**215.1**	**267.6**	**-19.6%**
EBT margin (%)	13.6%	16.4%	-2.8 p.p.
Net financial profit	(20.8)	(50.3)	58.6%
Profit before tax	**194.3**	**217.3**	**-10.6%**
Tax on profts	11.5	(31.6)	136.3%
Retained profits for the year	205.8	185.7	10.8%
Attributable to Navigator shareholders	**206.4**	**185.3**	**11.4%**
Attributable to non-controlling interests (NCI)	(0.7)	0.4	-285.9%
Cash-Flow	**388.1**	**308.1**	**26.0%**
	31-12-2016	**31-12-2015**	**Dec16 vs. Dec15**
Equity (before NCI)	1,056.0	1,041.7	1.4%
Net debt	**640.7**	**654.5**	**-2.1%**

Note:

- Figures for business segment indicators may differ from those presented individually by each Group, as a result of consolidation adjustments.

3.2. OVERVIEW OF OPERATIONS OF THE PAPER AND PAPER PULP AREA

In 2016, the turnover of Navigator stood at 1,577.4 million euros, compared to 1,628.0 million euros in the previous year. The drop in total sales arises mainly from less energy sales, after the sales price to the grid from the natural gas co-generation plant in Figueira da Foz were reviewed and overall paper and pulp prices fell in 2016. Navigator mitigated the downward trend in paper and pulp prices by increasing its sales volumes, and also through an effort to reduce costs.

In Europe, conditions in the **paper** business (UWF) deteriorated during 2016, and estimates point to a reduction in apparent consumption of 3.8% (-0.3% in 2015) and growth in total imports of more than 18%. Paper imports from Asia grew significantly, particularly in office paper, having driven global prices down. In this adverse context, Navigator sales of UWF paper stood at 1,586.8 thousand tons, a 2.0% increase compared to 2015, thus reaching a new peak in terms of volume. The Group succeeded in placing additional volumes of paper in this context by increasing its sales both in Europe and in International markets. In European sales, the average price was 1.2% lower than recorded in the previous year, which compares with an increase in the price index for Europe (PIX A4 Copy-B) of 0.3%; this was due to a negative change in the product group and geography sales mix. Navigator's average sales price for all markets was down by 2.4% in relation to the previous year, also due to the change in product and market mix.

Falling **pulp** prices were a key feature of the previous year, in a descent which started in late 2015 and continued throughout 2016. The benchmark index for hardwood pulp (PIX – BHKP) dropped by around 16% in USD and 13% in Euros in relation to the start of 2016. However, Navigator had a sound operating performance, with volume of pulp placed on the market amounting to 290.6 thousand tons, raising sales by 15.1% due to the capacity expansion at the

Cacia mill in 2015, which has resulted in increased availability of pulp for the market. The increase in the sales volume fell short of wholly offsetting the reduction in prices, and the value of pulp sales ended the year at around 1.6% below the figure recorded in 2015.

In the **energy** business, Navigator suffered the impact of a series of negative factors over the course of the year, most significantly the fact that, as anticipated, natural gas cogeneration at Figueira da Foz switched to an own-consumption only basis, reducing the volume of power sales to the national grid, while reducing purchases of electricity and natural gas for one of the paper mills. Operations were also constrained by repairs on the turbogenerators at the Cacia and Setúbal pulp mills, as well as other planned maintenance, in particular at the natural gas co-generation plant at the Setúbal industrial complex and at the Setúbal biomass power station.

As a result, total gross power output for the period as a whole was down by 8% on 2015 and the sales volume (quantity of power sold in MWh) fell by 16.3%. The total value of power sales to the national grid stood at around 50 million euros below the figure recorded in 2015. However, the reduction in the volume of electricity and gas purchases and lower purchase prices for fuel, essentially natural gas, significantly softened the impact of the drop in power sales, resulting in a net negative impact of around 6.0 million euros in EBITDA in relation to 2015.

In the **tissue** business unit, sales volume of goods and merchandise from the Vila Velha de Ródão plant grew approximately 30% in 2016 (in tons sold), driven by the rise in output capacity of reels and product finishing in 2015. The increase in amounts sold, together with the slight decrease in average sales price due to changes in the product mix (greater sales of reels), resulted in tissue sales close to 67.5 million euros, rising by 21% over the previous year.

The EBITDA of Navigator for 2016 totalled 397.4 million euros, up from the figure of 390.0 million in the previous year, reflecting a margin of 25.2%, compared to 24.0% recorded in 2015.

On the cost side, Navigator recorded an increase in the volume of wood supplied to mills, sourced essentially from the Spanish and import market. Despite an improvement in specific consumption, increased use of imported wood pushed up the overall acquisition cost. Imports from Spain and beyond continue to be necessary to make up for shortfalls in supply on the Portuguese market.

As observed in the first nine months of 2016, logistical costs for paper and pulp were brought down due to falling oil prices, different destination market mix, increased use of ports closer to the mills (Setúbal and Figueira) and improvements in cross-cutting procedures and greater efficiency in the Group's trade operations. These factors made it possible to bring down logistical costs by 8.2 million euros in relation to the previous year.

In the case of chemicals used in paper manufacture, Navigator achieved a reduction in overall costs estimated at about 2 million euros. In addition, Navigator has been working hard to cut maintenance costs at all its industrial sites, resulting in an overall reduction in 2016 of around 5%, corresponding to 3.6 million euros.

Personnel costs show a reduction of approximately 10.2 million euros against the previous year. On the one hand, in 2015 this item included non-recurrent costs, namely consisting of allocations to the pension fund, additional costs relating to the rejuvenation programme under way and the estimated cost of the performance bonus. On the other hand, expenses in 2016 were hit by growth in the workforce due to the recruitment by new businesses (in Mozambique and the USA) and integration of services which were outsourced before, in particular at the Figueira da Foz mill. Consequently, personnel costs in 2016 stayed in line with those in 2015, excluding the impact of the workforce in new business areas and of insourcing, as well as other non-recurrent impacts which inflated costs in the previous year.

In addition to the operating performance described above, EBITDA in the period is also the result of several non-recurrent elements, with an overall positive value of 7.5 million euros, namely:

- Revaluation of biological assets in Portugal, reflecting essentially the review of the assumptions underlying the discount rate and a number of adjustments to the valuation model: net increase of 7.3 million euros;

- Reversal of anti-dumping amount on the 2015 EBITDA: positive impact of 3.8 million euros;
- Receipt of compensation for breakdowns in TG3 and TG4 in Cacia in 2015 and 2016, less the estimated overall impact of the breakdowns: positive impact of approximately 1 million euros;
- Impairment of biological assets in Mozambique: negative impact of 3.5 million euros;
- The impact of the fire at the tissue mill in Vila Velha de Ródão in May less the partial insurance receipt: negative effect on EBITDA of 1.1 million euros;

Without these non-recurrent items, the figure for EBITDA in 2016 would have been broadly equivalent to that recorded in 2015.

Operating income in 2015 amounted to 215.1 million euros, which compares with 267.6 million euros in 2015. This item was hit by an increase of 45 million euros in Depreciation and impairments, reflecting essentially increased impairment on tangible fixed assets in Mozambique associated with field works (45.5 million euros, on top of the 3.5 million euros of biological assets in Manica), which reflect a conservative approach to the project, considering the country´s current economic and political context. This item also includes the write-off of tangible fixed assets, following the fire in Vila Velha de Ródão (1.9 million euros).

The financial results in 2015 amounted to negative 20.8 million euros, which compares favourably with a negative value of 50.3 million euros in 2015. The Group recorded a reduction of 16.6 million euros in interest expense due to the significant restructuring of its debt over the past twelve months and also positive trends in interest income and net foreign exchange gains. The results also reflect the impact of non-recurrent items, in particular (i) a cost of 6 million euros relating to the premium on the option exercised in May 2016 to repay 150 million euros for Portucel Senior Notes 5.375%, a cost nonetheless 8.6 million euros lower than the repayment premium recorded in September 2015 for repayment of 200 million euros; (ii) a reversal of provisions for compensatory interest with a value of 3.2 million euros.

The account for taxes reflects a series of reversals of tax provisions in the final quarter of 2016, as a result of closure of the tax inspection of Navigator in relation to the financial year of 2013 and favourable court decisions adding up to 23 million euros, and also the positive impact of adoption of the revaluation rules published in Decree-Law 66/2016, of 3 November, with a net effect of 16 million euros. In 2015 the account for taxes was impacted negatively by the tax gain generated on disposal inside the group of assets allocated to pulp manufacture in Setúbal (16 million euros).

The consolidated net income for the year stood at 206.4 million euros, representing growth of +11.4% in relation to the same period in 2015.

3.3. BUSINESS REVIEW

3.3.1. PAPER

3.3.1.1. MARKET BACKGROUND

In 2016 the framework was adverse, as a result of the 3.8% decrease in apparent consumption of UWF in Europe and an increase of around 18% of the volume of European low cost imports, particularly from countries affected by the anti-dumping taxes imposed by the USA, like Indonesia and China. The negative effect of these two factors was offset by the closing of total production capacity in Europe of 300.000 tons, which meant that the operating rate dropped only 1.4 p.p. against 2015, standing at 91%.

Paper market price, pressured by the drop in the price of pulp, remained at 2015 levels, on average, in spite of the variation of 29.6 euro/t between the beginning and the end of the year. The main UWF benchmark price index (PIX A4-

Copy B) increased 0.3% year on year.

In the USA, the drop in apparent consumption of UWF paper of 3.7% was in line with the European market. The imposition of anti-dumping measures and the appreciation of the dollar brought the international flows down significantly, imports decreasing by 12% and exports by 10.5%. The capacity utilization rate stood at 92% (-0.6 p.p. vis a vis 2015). The leading price index for the sector (Risi 20lb A4) fell by 1.9% in relation to the same period in the previous year, in line with the trend since 2010.

3.3.1.2. OPERATIONAL PERFORMANCE

(000 tons)	2016	2015	Var.
UWF Output	1,587	1,571	1.0%
UWF Sales	1,587	1,555	2.0%
FOEX – A4- BCopy Euros/ton	**824**	**822**	**0.3%**

Despite this environment, Navigator recorded in 2016 its highest ever figure for the volume of paper sales, up by more than 2% on 2015. In addition to the 2.4% increase in sales in Europe, this growth was sustained by ongoing expansion into new geographical regions, especially in the Middle East and Africa, and sales in markets outside Europe stood at their highest ever level. This growth in countries outside Europe consisted largely of an increase in the volume of sales of standard products, altering the share represented by these products in the total volume of paper sales and impacting average sales price negatively. However, it is important to note that, because of the Group's positioning and foreign exchange rate trends, these sales are more profitable than selling equivalent products in Europe. Despite the less advantageous mix of products sold, the Group has maintained its position as leader in the premium segment, with a market share of more than 50% in Europe.

As a result, the Group continued to operate, as usual, at 100% of its capacity, with order books at record levels.

3.3.1.3. BRANDING

In 2016 the Navigator Company Group continued to focus on its own brands, in particular the following:

The Navigator brand continued to lead the market in the premium office paper segment in 2016, especially sales in Eastern Europe, the Nordic and Baltic countries and England, as well as Africa, thus expanding its geographical presence in over 110 countries worldwide.

For the first time, Navigator brand was number one on the *Brand Equity Index*, an initiative of Opticom. The 2016 survey highlighted Navigator as the most popular, top selling brand, with the highest loyalty rate and quality perception index. The annual EMGE – Paper Industry Consultants study conducted among wholesale professionals rated Navigator again as the leading brand in Europe.

Discovery, European leader brand in low grammage office paper, continues to prove that it is possible to strike a balance between environmental results and grammage reduction, thus ensuring high performance levels, by combining top raw materials, innovation, state-of-the-art technology and a strong position at the level of eco-efficiency.

Discovery is today a world reference in its segment; it can be found in more than 60 countries, and in 2016 it continued to grow in important markets, like the Italian, where sales increased by more than 5%.

In 2016, Pioneer, the premium office paper brand with the female universe as its target, consolidated its position in terms of sales and market share, both in Europe and in other international markets, the performance in North Africa standing out in particular.

The Pioneer brand also managed to be in the top-20 brands with more spontaneous knowledge in the annual study conducted by EMGE– Paper Industry Consultants with merchants, besides the fact that it came in fourth as far as Brand Performance is concerned.

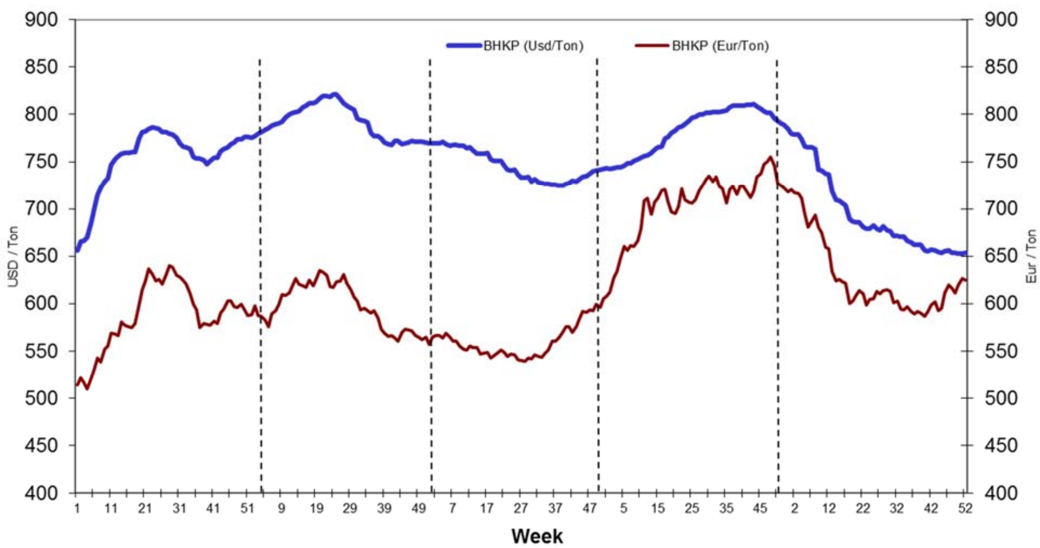
3.3.2. PULP

3.3.2.1. MARKET BACKGROUND

After a start to the year when Chinese buyers significantly scaled down their purchases of BEKP, demand for pulp picked up, with gains of 5.7% (accrued) in 2016. The Chinese market has accounted for 98% of this increase. The global capacity utilization rate for BEKP stood at 93% in 2016.

However, fears persist as to the impact of new production capacity expected to come on line in late 2016 and in the next few years, and the industry's benchmark price, which started the year at a high level, followed a sharp downward course, dropping around 16% in USD and 13% in EUR since the start of the year.

MONTHLY VARIATION OF THE PIX PRICE EUROPE - BHKP



3.3.2.2. OPERATIONAL PERFORMANCE

(000 tons)	2016	2015	Var.
BEKP Output	1,470	1,424	3.3%
BEKP Sales	291	253	15.1%
Foex – BHKP Euros /ton	**628**	**705**	**-10.9%**

In spite of this trend and, due to the expansion of capacity in 2015, the Group ´s sales increased to 291 thousand tons, approximately 15.1% up on the previous year.

3.3.3. TISSUE

3.3.3.1. MARKET BACKGROUND

The Tissue market, one of Navigator's focus under the expansion plan, has evolved favourably in terms of apparent consumption in Western Europe. In 2016 it is believed to have grown 2.2% compared to the previous year.

3.3.3.2. OPERATIONAL PERFORMANCE

(000 tons)	2016	2015	Var.
Output of reels	47	33	44.2%
Output of finished products	42	35	18.1%
Sale of finished products	9	2	315.7%
Sale of reels and other goods	42	37	13.0%
Sale of tissue total	51	39	29.7%

In this context, considering the increase in capacity completed in 2015, Navigator presented accumulated growth of 29.7% in the volume of tissue sales (tons). This growth occurred in particular in the away-from-home segment, in Portugal and Spain. Sales on the Portuguese market stood at around 43.5 million euros, accounting for 65% of total volume. Practically all the Group's other tissue sales were to Spain, totalling approximately 23.2 million euros. Total tissue sales in 2016 stood at 67.5 million euros, representing growth of approximately 21%.

3.4. INDUSTRIAL OPERATIONS

In 2016 1.5 million tons of air dry Paper Pulp and 1.6 million tons of UWF paper were produced, representing growth of 3.2% and 1.0% respectively, compared to the previous year. The production plants of Navigator were 100% occupied in the year.

The Figueira da Foz plant achieved a new record in pulp production, 6,000 tAD more than the previous peak in 2015.

The expansion project implemented in 2015 at the Cacia plant resulted in more Pulp production at the unit in 2016, of more than 45,000 tAD (13.2%).

Paper output at the two plants in Setúbal increased again, 14,000 t more finished product than in the previous year, with particular focus on the new industrial unit About the Future.

	2016	2015	2014
Pulp ('000 tAD)			
Cacia	341	296	302
Figueira da Foz	586	580	565
Setúbal	543	548	551
Total	**1,470**	**1,424**	**1,418**
Paper ('000 t			
Figueira da Foz	767	765	765
Setúbal	820	806	794
Total	**1,587**	**1,571**	**1,559**

The unit costs for wood, the main input cost of pulp, behaved favourably on 2015, down by 1.0 %.

In paper production, the variable unit costs dropped significantly on the previous year: 15.6% less in Fibres and Calcium Carbonate overall, 2.3% less in Chemicals and 14.3% less in Electricity.

The maintenance costs of Navigator's industrial assets decreased 5.1% vis-à-vis 2015. The unit costs of maintaining the Paper Plants remained at the same level, while these costs in the Pulp Plants dropped significantly by 11.4%, as a result of less spending and a greater volume of pulp production.

Under the expansion policy for the production capacities of the Navigator plants, 2016 involved the preparatory engineering work and negotiations with the suppliers of the industrial equipment for the project PO3 (Optimisation Project 3), which is intended for enhancing the capacity of the Pulp Plant in Figueira da Foz to 650,000 tAD/year.

In Figueira da Foz, building started on the infrastructure designed to house a new pile of wood chips with a 170.000 m^3 capacity and due to come into use in May 2017.

To improve the operational efficiency of the Navigator Pulp and UWF Paper plants, two pilot projects of Lean Manufacturing will be implemented, one at the Figueira da Foz Pulp Plant and another at the About the Future Paper Plant in Setúbal. These experiments are intended to help draw the necessary lessons for expanding the Lean methodology to all of the Navigator Plants. Also in this regard, the 5S+Safety methodology was consolidated throughout the industrial area, having visibly impacted a cultural change oriented towards the Safety of People, greater operational efficiency and, consequently, waste reduction.

Regarding tissue production in 2016, Vila Velha de Ródão reached 46,940 tons of paper and 41,700 tons of finished goods in total, which translate an increase of 44% and 18%, respectively, against 2015.

2016 was a good year in terms of asset use: 86% of paper machines (figure affected negatively by the fire in May, otherwise offset by an excellent internal response plan) and 77% of processing.

Furthermore, unit costs performed well, due to a nominal reduction on 2015 in all of the main items, mostly arising from the scaling up of operations and the cost reduction activities.

The core equipment set up at Colombo Energy was concluded in 2016.

In the second half of 2016, the facilities, startup and entry into service tests were commissioned.

The production of industrial grade Pellets began in Q4, alongside product quality testing, and the first shipment left the Port of Willmington, NC to the end customer.

Colombo Energy, with annual production capacity of 500 thousand tons of industrial and domestic grade Pellets, is located in Greenwood, in the state of South Carolina, in the centre of one of the greatest forests on the East Coast of the USA, guaranteeing a supply of wood in exceptional conditions.

3.5. DEVELOPMENT

Over the course of 2016, the Navigator Group pressed ahead with developing the various growth opportunities set out in its strategic plan. Investment totalled 138.6 million euros, including 38 million euros in pulp, paper and tissue business, 8.9 million euros in the project in Mozambique, and 81.6 million euros in the pellets mill in the United States.

PELLETS

Colombo Energy Inc., in South Carolina, USA, commenced operations in the last quarter of the year and has begun to export to Europe. The output points to premium quality, high calorific value, low ash content and good durability.

The company has obtained certification by SFI, PEFC (CoC), FSC (CoC) and SBP, for the industrial segment, and certification by PFI as needed to sell to the residential market in the USA.

Colombo Energy Inc. has secured sales to the industrial segment in Europe, representing 40% of the mill's capacity over the next ten years. In addition, the market research into the residential segment in the US is pressing ahead, aimed at channelling 10 to 20% of the output into the American domestic market.

MOZAMBIQUE

As referred previously, the Group has been monitoring carefully the economic and political developments occurring in Mozambique, permanently reassessing the situation, and has decided to scale down the rhythm of investment in its operations.

Indeed, 2016 was a year marked by political and economic instability, resulting in restrictions on travel and safety for employees and service providers involved in the venture.

Nonetheless, the resulting operations point to the planting of around 5.3 thousand ha, bringing the total planted area to date up to approximately 10 thousand ha in Zambezia and 1.7 thousand ha in Manica. In terms of plant supply, the vast majority of the area planted was supplied from the nurseries in Luá, and a total of 7.1 million plants produced in the year were used.

The year was also marked by the completion of important activities under the environmental and social actions plan that was part of the commitment to the IFC - International Finance Corporation, which acquired a stake in the capital in July.

A pilot project involving the export of 2 thousand tons of eucalyptus wood from the Port of Nacala was conducted, aiming at acquiring insight into the legal and administrative procedures, logistics and operational channels of institutions.

TISSUE

In late 2015, the Group announced its intention of implementing a development project in the tissue segment in Cacia, consisting of the construction of a production line for tissue paper and the respective converting facilities. The project would create nominal annual capacity of 70 thousand tons and involve total investment of 121 million euros. The decision to go ahead with construction of the new line was conditional on a series of factors, in particular on the company securing a package of fiscal and financial incentives, which has now been finalized.

Navigator estimates that the necessary conditions have been met for implementing this investment plan and, once the incentives were contracted, the Board of Directors pressed ahead with the project. The new production and converting lines for tissue are expected to be completed in the second half of 2018, and the capital disbursements are planned to be split between 2017 (approximately 40%) and 2018.

EXPANSION OF PULP CAPACITY

Navigator also intends to develop a project to improve competitiveness at the Figueira da Foz Industrial Complex, involving a total investment estimated at 85 million euros. The Group has submitted applications for a series of financial and tax incentives, still pending decision from AICEP and expecting additional visibility at the end of the first quarter. This project aims to improve production efficiency and to increase the annual capacity by 70 thousand tons, to a total of 650 thousand tons of BEKP pulp.

However, Navigator is concerned at the Government's intention to approve new legislation for the forestry sector which prohibits the planting of new areas with eucalyptus, permitting plantations in new areas only on the basis of swaps with existing plantations in marginal and low-yield areas. This proposal, which lacks any technical or environmental rationale, fails to take into account the importance of eucalyptus to the Portuguese economy and will add to the difficulties experienced in a sector where supply and demand are already mismatched, and which already has to rely on imports of wood costing approximately 200 million euros each year.

It is important to enhance, that the Group has been working in a constructive manner, both individually and through the pulp and paper industry association, in order to deliver the necessary inputs to reduce the impact of the more negative aspects of this legislation.

3.6. RESOURCES AND SUPPORTING FUNCTIONS

3.6.1. SUSTAINABILITY

In 2016, Navigator consolidated, in a structured and lasting fashion, its Sustainable practices. In economic terms, it fostered employment and the development of the country and the regions; environmentally, through the fine-tuning of policies and practices for the preservation of the environment and minimisation of the impacts of its activities; at the social level, by creating opportunities for the development and well-being of its employees and the Community.

The Company delivered two sessions at the Sustainability Forum, providing a platform for dialogue and cooperation with the main stakeholders. The event had more than 200 participants and addressed topics like the contribution of the Navigator Group to the economic and social development of the country and the regions around its production units, and forest certification as the pillar of an industry based on forest products coming from sustainably managed plantations.

The investment project in Mozambique completed successfully the first year of the Social Development Plan, which included several family and community-support initiatives.

In the context of its external activities, in 2016 Navigator was co-Chairman of the Forest Solutions Group, a global platform of strategic cooperation for promoting sustainable forest management, under the WBCSD - World Business Council for Sustainable Development.

Domestically, the Navigator Group remained actively present in the BCSD Portugal, lending support to the project MEET 2030 for the development of corporate scenarios and solutions for 2030 against the backdrop of climate change and carbon neutrality.

Internally Navigator conducted a training module on sustainability for more than 800 of the company's operational staff. The activity aimed at raising awareness to the importance of social and environmental challenges that the World faces, while highlighting Navigator's sustainable management.

It published the 2014-2015 Sustainability Report based on the G4 version of the GRI - Global Reporting Initiative. Stakeholders were also heard for their opinions on the relevant issues for the business, and the core challenges and actions to be implemented for sustainability.

It is also worth highlighting that Navigator is among the top 3 companies with the Best Sustainability Performance in 2016 as assessed by Lyreco, a key customer of Navigator for the office paper business.

Navigator's core sustainability challenges include aligning its priorities with the UN's objectives on sustainable development, involving business partners in the effort of integrating sustainable practice along the value chain, reinforcing social responsibility and citizenship practices in the community, promoting staff participation, and sustaining investment in circular economy and low carbon technologies.

3.6.2. FORESTRY AND TIMBER SUPPLY

SUSTAINABLE MANAGEMENT

Sustainable forest management is one of the fundamental pillars of Navigator's business model. In 2016, the company developed its active policy of renewing Portugal's woodlands and increasing the returns obtained from own forest land and rented properties, over a total area of 118 thousand hectares, in 168 municipalities and 603 parishes in the country; 55% of the forest is on property owned by the company.

In 2016 Navigator also produced cork (14 th. arrobas), wine (109 th. litres), resinous wood (28 th. tons), pinecones, eucalyptus branch, game and pasture, among others, as a result of its diversified activity.

Forestation activity levels in 2016 were lower than in 2015, due to issues with the approval of the forestation projects by the ICNF (Forest and Nature Conservation Institute) on time to authorise planting in the right weather conditions. Therefore, a total of 1,8 thousand hectares were forested or reforested and 2 million selected eucalyptus saplings were planted out.

With a focus on its responsible management of forest holdings, over 12.6 thousand hectares were controlled for spontaneous vegetation and around 7 thousand hectares of stem cuttings selected. Fertilisation measures were also conducted on approximately 8 thousand hectares and around 4,900 km of tracks and paths were maintained or improved.

In 2016, approximately 607 thousand m^3 of eucalyptus timber was extracted from forests belonging to Navigator and shipped (99% of which was certified wood).

The regular production of nursery plants in three nurseries of Viveiros Aliança, S.A. yielded production and sales of 8.9 million plants, of which 408 thousand were native or protected species and 84 thousand were ornamental plants or shrubs.

In 2016, investment in fire prevention amounted to around 3 million euros, with emphasis being placed on prevention, mitigation measures and Research & Development.

Assuming forest certification as a means to enhance its presence in the increasingly demanding international market regarding the origin of the raw materials of its products and to respond to society's legitimate worries, in 2016 Navigator managed to secure its certificates under two internationally acknowledged programmes, the FSC® and the PEFC™. These certificates cover products like eucalyptus wood for paper and pulp production (Navigator's main output) and cork. Navigator's certified area includes all holdings on mainland Portugal and corresponds to a significant share of all certified Portuguese forests (32% FSC and 46% PEFC).

TIMBER SUPPLY

Wood supply in 2016 grew 156 thousand m^3 compared with 2015, arising from higher levels of consumption by plants. Since the supply of eucalyptus wood on the Portuguese market fell short of the consumption needs, wood was imported, especially from the Spanish market that contributed the most to the rise in supply (+33%), reflecting an increase in the cost of production when compared to 2015.

Therefore, supply amounted to 4.5 million m^3, 72% of which from Portugal, including self-supply, 14% from Spain and 14% from outside the Iberian market: Uruguay and Brazil. Navigator has maintained its position as a strong player in the Atlantic woodchip market.

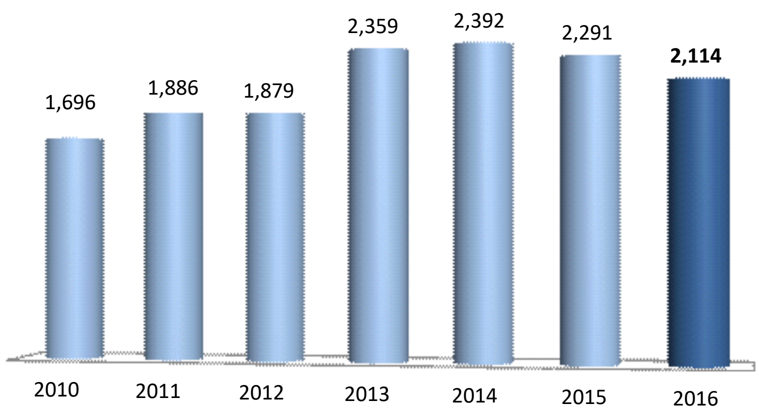
Of all timber supplied to the plants, 45% was certified and 55% was of protected origin. In Spain, where the supply of certified wood is strong, 88% of the timber supplied was certified. Navigator enhanced its focus on promoting forest certification measures and of the Custody Chain with suppliers and owners' associations, aiming at achieving 20% of all national purchase of certified timber in 2017.

3.6.3. ENERGY

The electricity generated by Navigator accounts for approximately 4% of annual gross production on mainland Portugal.

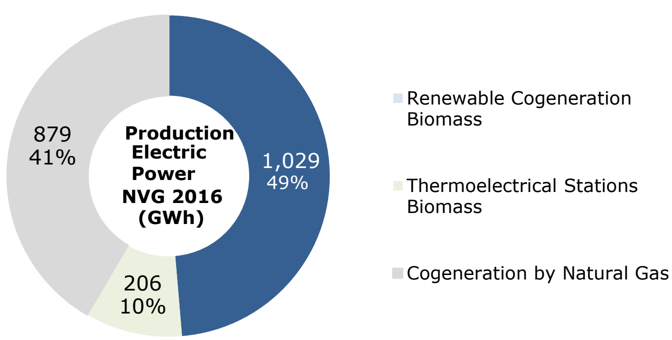
In 2016 Navigator produced 2,114 GWh in total, 7.7% less than in the previous year.

Gross Power Output NVG (GWh)



Electric power production was impacted mostly by two factors: On the one hand, malfunction of the turbogenerators at the Cacia and Setúbal mills; on the other hand, the fact that from November 2015, the combined-cycle natural gas power station in Figueira da Foz switched to an own-consumption only basis using one turbogroup only.

In 2016, Electricity generated by biomass power plants totalled 1.235 GWh, amounting to approximately 59% of Navigator's total production and around 50% of the estimated total national production from this renewable resource. Four renewable cogeneration plants fuelled by biomass and the two thermoelectrical stations fuelled by biomass in Cacia and Setúbal contributed to the output.



Compared to 2015, Electricity generated by biomass power plants increased 1.5%, benefiting from a more favourable production framework for renewable cogeneration. It is important to highlight the role of cogeneration technology that, by optimising simultaneous production of electric and thermal power, helps save significant amounts of primary energy, compared to producing the same amount of power using separate equipment.

On the other hand, the electric power produced by the two combined-cycle natural gas power stations in Setúbal and Figueira da Foz accounted for approximately 41% of Navigator's total production in 2016. The production of electric power by natural gas power stations decreased around 18% compared to 2015, in virtue of the combined-cycle natural gas power station in Figueira da Foz being switched to an own-consumption basis using one turbogroup only.

In 2016, the solar power facility of Navigator began operating, signalling the Group's focus on one of the world's emerging sources of renewable energy. With 2,288 kWp of installed power, the solar power facility will support the production of around 3,100 MWh/year of renewable electric power supplied to paper machine 4 on own-consumption only basis.

The increase in power generation from renewable sources, reducing where possible the exposure to fossil fuels remains an important goal of Navigator's activity in the field of energy.

FOREST BIOMASS FOR ENERGY PURPOSES

The year 2016 maintained high biomass supply, particularly leftovers from the forest activities. The biomass power stations of Cacia and Setúbal were supplied with approximately 314 thousand tons of biomass, not including bark of eucalyptus from the plants.

3.6.4. ENVIRONMENT

The environmental performance of Navigator is still very much guided by ongoing improvement, taking into account technological development and the implementation of best practices. It is in this context that in 2016 the activities under the Environmental Strategic Plan of Navigator were first implemented, and will continue until 2026.

Following a year of intense environmental investment in the Cacia Industrial Complex, in 2016 a new Optimisation Project (PO3) with a strong environmental focus was started at the Figueira da Foz unit. The project seeks to address the implementation of the Best Available Techniques (BAT) and the Emission Levels Associated to the BAT (ELA-BAT), laid down in Commission Decision 2014/687/EU of 26 September.

The environmental indicators for 2016 illustrate the good performance that all industrial units have kept up with in all areas: air, water, waste, power and materials. Compared to 2015, atmospheric emissions of particles and NOx improved, while SO2 emissions increased. The latter will be significantly reduced after the implementation of the PO3 project.

Improvements in procedures and the minimisation of loss helped to reduce total waste per ton of product by 47% compared to 2010. The waste recovery rate in the last decade remained above 80%.

The odour emission study conducted on all of Navigator's Industrial units, in partnership with accredited external entities, will help to minimise this important environmental feature by outlining improvement/mitigation measures.

3.6.5. INNOVATION, RESEARCH AND DEVELOPMENT

The Group is known for focusing on the development of innovative products, not only in terms of intrinsic quality, but also of consumer segmentation, which continued to receive particular attention in 2016.

In 2016, the Group continued to invest in research in forestry, pulp and paper, through the work of its forestry and paper research institute, RAIZ, conducted in close cooperation with the Group's respective business sectors and a range of bodies in the national and international science and technology sector.

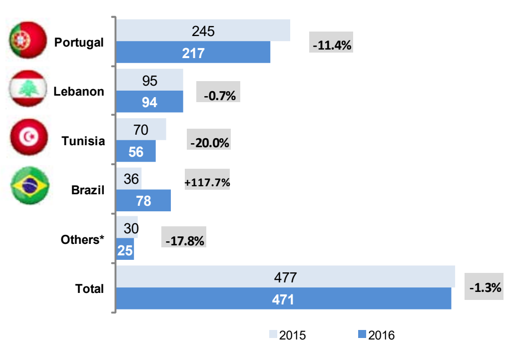
4. CEMENT AND DERIVATIVES BUSINESS AREA

4.1. LEADING BUSINESS INDICATORS

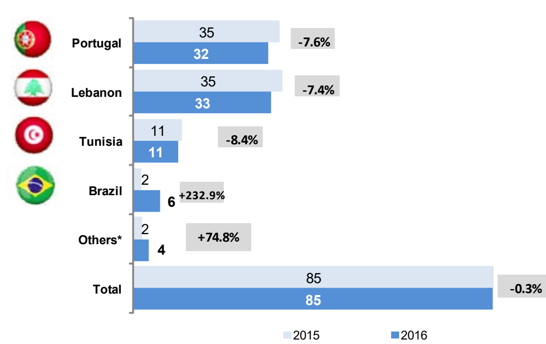
IFRS - accrued amounts (million euros)	2016	2015	Var.
Sales	**470.5**	**476.7**	**-1.3%**
EBITDA	**85.1**	**85.4**	**-0.3%**
EBITDA Margin (%)	18.1%	**17.9%**	**0.2 p.p.**
Depreciation and impairment losses	(61.9)	(59.1)	-4.7%
Provisions (increases and reversals)	2.8	(2.9)	197.8%
EBIT	**26.1**	**23.4**	**11.2%**
EBIT Margin (%)	5.5%	4.9%	0.6 p.p.
Net financial profit	(37.2)	(41.7)	10.8%
Pre-tax profit	**(11.2)**	**(18.3)**	**38.9%**
Tax on profits	5.1	(3.7)	237.7%
Retained profits for the year	(6.1)	(21.9)	72.3%
Attributable to Secil equity holders	**(18.0)**	**(25.3)**	**28.8%**
Attributable to non-controlling interests (NCI)	11.9	3.4	253.8%
Cash-flow	**53.0**	**40.0**	**32.4%**
	31-12-2016	**31-12-2015**	**Dec16 vs. Dec15**
Equity (before NCI)	444.9	426.1	4.4%
Net debt	**422.9**	**457.4**	**-7.5%**

(million euros)

TURNOVER



EBITDA



* includes Angola and Cape Verde

Notes:

- Figures for business segment indicators may differ from those presented individually by each Group, as a result of consolidation adjustments.
- The integration of the Supremo Group in the Semapa consolidated financial statements for 2015, taking into account that the acquisition of the remaining 50% of the Group that forced the full consolidation occurred at the end of the month of June, had the following impact: 50% of the results of the first half were integrated using the equity method, the balance sheet position was fully consolidated (100%) with reference to 30 June 2015 and the results in the second half (July to December) were also fully consolidated (100%).

4.2. LEADING OPERATING INDICATORS

in 1 000 t	2016	2015	Var.
Annual cement production capacity	9,750	9,750	0.0%
Sales			
Grey cement	4,988	4,731	5.4%
White cement	84	80	5.1%
Clinker	418	482	-13.1%
Aggregates	2,547	2,179	16.9%
Precast concrete	200	29	581.8%
Mortars	102	100	2.3%
Hydraulic lime	24	26	-6.8%
Mortar fixative	16	15	5.4%
in 1 000 m3			
Ready-mixed	1,214	1,389	-12.6%

4.3. OVERVIEW OF THE CEMENT AND DERIVATIVES BUSINESS AREA

In 2016, the cement unit recorded turnover of 470.5 million euros, 1.3% below that recorded in the previous year. The drop was mostly due to fall in turnover of all operations conducted in Portugal and Tunisia, while turnover in Brazil grew.

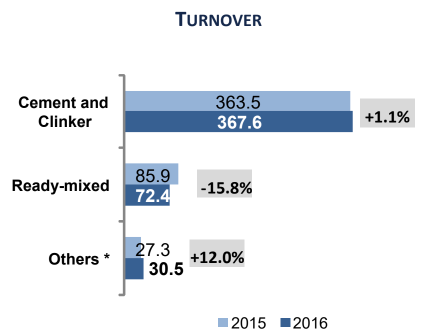
EBITDA stood at 85.1 million euros, which translated into a decrease of around 0.3 million euros in relation to 2015. EBITDA decreased essentially as a result of operations in Portugal, where this indicator decreased 2.6 million euros, and in Lebanon, where it also dropped 2.6 million euros. In 2016, the EBITDA margin stood at 18.1%, 0.2 p.p. up from that recorded in the previous year.

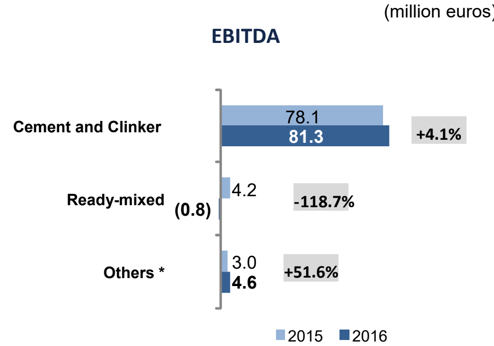
Operating income stood at 26.1 million euros, up from 23.4 million euros in the previous year as a result of the improved provisions.

The financial results experienced a positive a development, having increased from a negative figure of 41.7 million euros in 2015 to minus 37.2 million euros in 2016. In spite of the integration of the Supremo Group with high financing costs (due to the investment made in the new Adrianópolis plant and the high interest rates charged in Brazil), these results were less negative, especially as a result of exchange rate appreciation of around 4 million euros.

Consolidated net income in 2016 totalled a loss of 18.0 million euros.

(million euros)





* includes Aggregates, Mortars and Pre-cast

Turnover in the Cement and Clinker segment grew by 1.1% in relation to 2015. The Ready-Mixed concrete segment dropped by 15.8%, especially due to the completion of the construction of the Marão Tunnel in Portugal. The Other Segments together (Aggregates, Mortar and Pre-cast) increased against the previous year's figure, which stood at 12.0%.

EBITDA in the Cement and Clinker segment grew by 4.1% in 2016 in relation to 2015 and the Other Segments were up by 51.6%. The EBITDA of the Ready-Mixed Concrete was negative as a result of the drop in turnover and the rise in transportation cost.

4.4. BUSINESS REVIEW

4.4.1. PORTUGAL

4.4.1.1. MARKET BACKGROUND

The projections for Portugal in 2016-2019 suggest continued moderate growth of the economic activity, slightly below projections for the Euro Zone. After a 1.5% growth in GDP in 2015, a 1.2% rise is seen for 2016 (Bank of Portugal – Projections for the Portuguese economy: 2016-2019). The Construction Production Index (INE – Indices of Production, Employment and Remuneration in Construction – November 2016) was down by 2% in November 2016, on a year on year basis.

According to the latest figures available, cement consumption in mainland Portugal was down by 3.6% year on year. It is estimated that the market reached approximately 2.7 million tons.

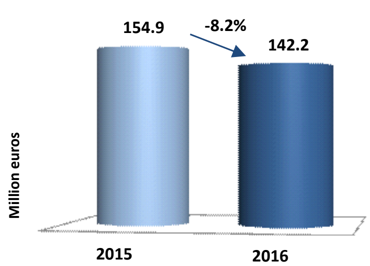
In this environment, the Secil Group presented the following overall indicators for its operations in Portugal in 2016 and 2015.

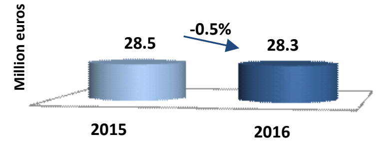
Portugal (million euros)	Turnover 2016	2015	Var.	EBITDA 2016	2015	Var.	Unit	Quantities Sold 2016	2015	Var.
Cement and clinker	142.2	154.9	-8.2%	28.3	28.5	-0.5%	1,000 t	2,085	2,346	-11.1%
Ready-mixed	46.0	64.4	-28.5%	-0.6	3.3	-119.0%	1,000 m3	737	1,027	-28.3%
Aggregates	12.8	12.0	7.3%	2.3	1.4	61.9%	1,000 t	2,437	2,096	16.3%
Mortars	11.6	10.8	7.1%	2.5	1.9	33.0%	1,000 t	143	141	1.0%
Precast	4.2	2.5	68.7%	-0.1	0.1	-205.9%	1,000 t	188	20	832.6%
Others	0.6	1.0	-35.6%	-0.4	-0.5	23.8%				
Total	**217.5**	**245.5**	**-11.4%**	**32.0**	**34.6**	**-7.6%**				

4.4.1.2. CEMENT AND CLINKER

According to the latest figures available, cement consumption in mainland Portugal was down by 3.6% year on year. It is estimated that the market reached approximately 2.7 million tons. Although the performance picked up in the second half of the year, the improvement was not enough to make up for the low consumption at the beginning of the year. The figures were brought down mostly by the public works sector.

INDICATORS





In the Cement business in Portugal, including sales in Portugal and exports, although the amounts sold in the domestic market increased 4.4% in relation to figures in 2015, the quantities sold for export dropped around 21.6% year on year. Consequently, the turnover of the whole unit dropped 8.2%, resulting in 142.2 million euros in 2016. This was mostly the result of the negative developments of cement and clinker exports, due to excess supply in the Mediterranean and less demand in countries dependent on revenues from fossil fuels, namely Algeria.

The Cement business unit in Portugal recorded EBITDA of 28.3 million euros, slightly down on the figure recorded in 2015. The drop in activity was partially offset by CO_2 sales licenses (2016 recorded 3.6 million euros of gains, whereas in the previous year sales amounted to 1.6 million euros) and the decrease in production costs, as thermal energy costs dropped significantly, influenced positively by overall reduction in fuel prices. The optimization of the alternative fuel mix helped improve the fossil fuel replacement rate.

INDUSTRIAL OPERATIONS

Cement output from the Secil Group mills in Portugal stood at 1,804 thousand tons in 2016, representing a reduction of 9.6% in relation to 2015 and lower demand in export markets.

CEMENT OUTPUT

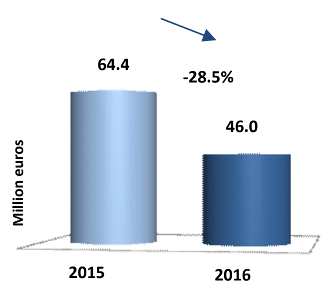
		2016	2015	Var.
Grey Cement	1,000 t	1,716	1,913	-10.3%
White Cement	1,000 t	88	82	7.3%
Total	**1,000 t**	**1,804**	**1,995**	**-9.6%**

CAPITAL EXPENDITURE

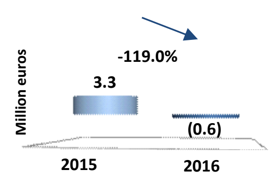
Investment in fixed tangible assets in Portugal totalled 30,4 million euros. Most of the investments were made in the Cement business. They include the replacement of the coolers in the kilns in the Outão plant, refurbishment of the CDR facilities in Outão and of the raw feed mill in Maceira and Outão.

4.4.1.3. READY-MIXED CONCRETE

TURNOVER



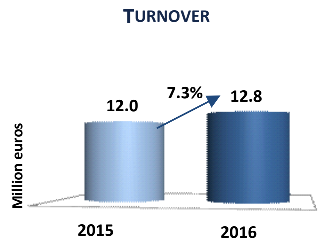
EBITDA

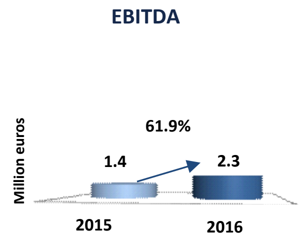


The turnover of the Ready-mix concrete business unit totalled 46.0 million euros in 2016, which dropped 28.5% in comparison with 2015, resulting from less amounts sold once the Marão Tunnel project was completed. The Marão tunnel aside, although sales in the first quarter of 2016 decreased year on year (due to weather conditions), in the following quarters they picked up, which brought sales in 2016 up by approximately 4% against 2015.

EBITDA of this business unit stood at a loss of around 0.6 million euros, against 3.3 million euros in the previous year. The EBITDA was brought down by the decrease in turnover and the increase in transportation costs.

4.4.1.4. AGGREGATES

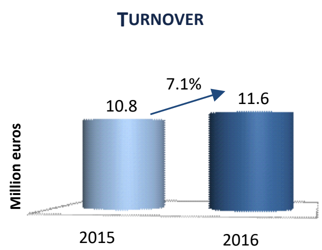


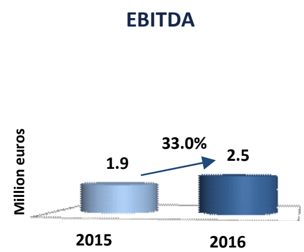


The aggregates business grew; sales volume was up by 16.3%, arising from greater dynamics in all of the regions where it operates, especially in Lisbon and the Algarve that recorded a significant rise in road maintenance works. The northern region had the lowest dynamics due to the completion of the Marão tunnel project. Turnover in this business unit stood at around 12.8 million euros, up by about 7.3% compared with the previous year.

More amounts sold and lower operation costs helped this unit to achieve an EBITDA of 2.3 million euros, 61.9% above that in the same period of the previous year.

4.4.1.5. MORTARS



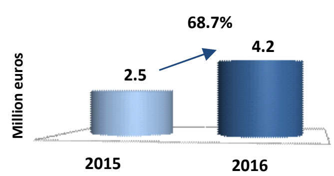


The Mortar business unit was impacted by the rise in sales volumes in the domestic market (+2.7%) and a drop in the external market (-12.7%). This was a challenging year at the international level, especially concerning the main market (UK). However, turnover grew by 7.1% to 11.6 million euros, due to a more favourable product mix.

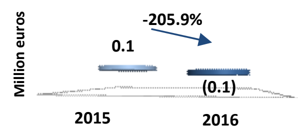
As a result of the increase in turnover driven by the sale of more valuable products, EBITDA grew 33%, standing at 2.5 million euros.

4.4.1.6. PRE-CAST CONCRETE

TURNOVER



EBITDA



In July 2016 Secil Prebetão became fully consolidated, with an impact of 2.3 million euros on turnover and a loss of 140 thousand euros on EBITDA.

The Pre-cast unit, which has been most affected by the ongoing downturn in the market and the deteriorating commercial performance over the past years, showed a negative development in terms of tile and block sales, compared to 2015. Tile sales dropped in the external market (-2%) and in the domestic market (-15%), and the sale of blocks decreased 12%.

EBITDA recorded a loss of 13 thousand euros in 2016, below the 77 thousand euros positive in 2015.

4.4.2. LEBANON

4.4.2.1. MARKET BACKGROUND

Lebanon is still feeling the impact of the global slowdown and regional instability, especially with the situation in Syria. The political environment remained relatively unstable in 2016, notwithstanding the new elected president and a new government in place at the end of the year. Nonetheless, there are expectations of modest economic growth. According to the latest figures published by the IMF, the Lebanese economy is expected to grow by 1% in 2016, as was the case in 2015 (*World Economic Outlook*, IMF October 2016).

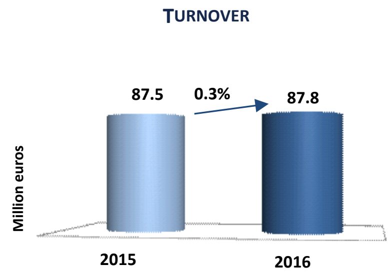
Regarding cement consumption in 2016, the market grew 4.3% against 2015, standing at 5.3 million tons. This happened because weather conditions were more favourable than in 2015 (weather conditions in the first quarter of 2015 were rather adverse) and the completion of some projects that continued from 2015. However, consumption dropped in the fourth quarter of 2016.

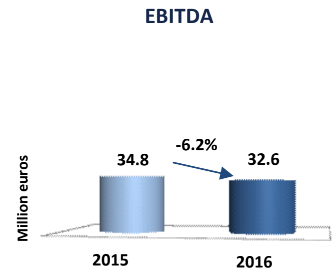
The following table presents overall indicators for the Secil Group's business operations in Lebanon in 2016 and 2015:

Lebanon	Turnover			EBITDA			Quantities Sold			
(million euros)	2016	2015	Var.	2016	2015	Var.	Unit	2016	2015	Var.
Cement and clinker	87.8	87.5	0.3%	32.6	34.8	-6.2%	1,000 t	1,116	1,134	-1.6%
Ready-mixed	6.6	7.6	-12.2%	0.1	0.5	-87.5%	1,000 m3	107	113	-5.2%
Total	**94.4**	**95.1**	**-0.7%**	**32.7**	**35.3**	**-7.4%**				

4.4.2.2. CEMENT AND CLINKER

INDICATORS





The sales of Cement and Clinker totalled 1,116 thousand tons, down by 1.6% year on year. The competitive nature of the market has been challenging, reflecting a 2.6% fall of average prices in local currency. Turnover dropped by approximately 0.3%, totalling 87.8 million euros.

The Cement unit recorded EBITDA of 32.6 million euros, down by 6.2% over the figure recorded in 2015. The drop resulted from a decrease in the amounts sold, enhanced competitiveness, the pressure on sales prices and the need to purchase cement from third parties for sale, partly offset by lower input costs.

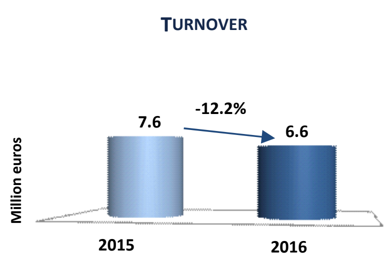
INDUSTRIAL OPERATIONS

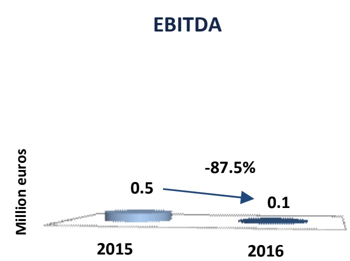
Clinker production was below production in 2015, with 871 thousand tons produced (vs. 1,007 thousand tons in 2015). Production was down due to the programmed shut down of line 2 in Q1 to fit in the bag filter. Due to some constraints in cement production (shut downs of the main cement mill), less cement was produced compared to 2015, having produced 1,103 thousand tons (vs. 1,162 thousand tons of cement in 2015).

CAPITAL EXPENDITURE

Investments in 2016 amounted to 3.4 million euros; the installation of the bag filter on line 2 (initiated at the end of 2015 and involving investment of 1.3 million euros in 2016) was completed and the raw material silo was modified (420 thousand euros).

4.4.2.3. READY-MIXED CONCRETE





The turnover of the Concrete business unit in 2016 dropped 12.2% to 6.6 million euros, with a performance below that of the same period in the previous year, as a result of the decrease in the amounts sold by around 5.2% and the drop in sales price. The concrete market remained competitive, with special focus on this unit's practice areas, and reflecting on the sales prices that dropped around 8% in the local currency.

Therefore, EBITDA of this unit stood at 65 thousand euros, representing a drop of 87.5% in relation to 2015. The figure was brought down by the decrease in turnover, which was partly offset by lower maintenance and fuel expenses, and the recording of impairments on customers.

4.4.3. TUNISIA

4.4.3.1. MARKET BACKGROUND

In Tunisia, after the end of the process of political transition, the economic transformation required to ensure sustained growth remains to be concluded. According to the latest figures published by the IMF, the Tunisian economy is expected to have grown by 1.5% in 2016, above the 0.8% figure recorded in 2015 (*World Economic Outlook*, IMF October 2016).

The climate of uncertainty impacted cement consumption, which dropped about 4% in 2016, compared to 2015. Competition in the Tunisian market has grown, with many competitors and strong pressure on sales prices, which dropped. The competition was also felt in exports, aggravated by the occasional shut down of the Libyan borders and the constraints of cement exports from Tunisia to Algeria.

The following table presents overall indicators for the Secil Group's business operations in Tunisia in 2016 and 2015:

Tunisia	Turnover			EBITDA				Quantities Sold		
(million euros)	2016	2015	Var.	2016	2015	Var.	Unit	2016	2015	Var.
Cement and clinker	48.6	62.4	-22.1%	10.5	11.2	-6.3%	1,000 t	962	1,139	-15.5%
Ready-mixed	7.1	7.4	-3.9%	0.0	0.3	-90.0%	1,000 m3	154	147	4.7%
Precast	0.3	0.2	24.5%	0.0	0.0	-86.8%	1,000 t	11	8	40.2%
Total	**56.0**	**70.0**	**-20.0%**	**10.5**	**11.5**	**-8.4%**				

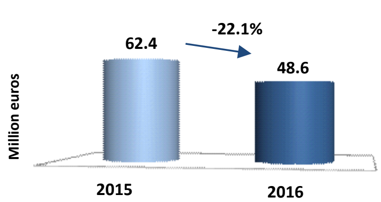
4.4.3.2. CEMENT AND CLINKER

Sales performance of the Cement and Clinker segment dropped in comparison with 2015, and sales volume decreased 15.5%. Domestic market sales were down by 6.2%, as a result of a reduction in the market and pressure on the sales price. In spite of strong competition, unit prices grew approximately 1.7% in the domestic market against 2015, partly due to the product mix.

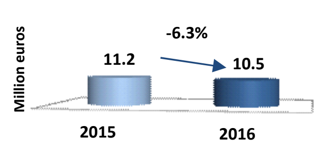
Sales for export were also down by 43.2% on 2015. The reduction is due to some limitations to imports in Algeria and the closure of the Libyan border several times. Export sales prices are down due to the aforementioned constraints and greater competition (as a result of the situation in the domestic market), which also hindered the sales of this unit.

INDICATORS

TURNOVER



EBITDA



The turnover dropped approximately 22.1%, and stood at 48.6 million euros, due to the decrease in turnover in the domestic market, and in the external market in particular.

EBITDA in 2016 stood at around 10.5 million euros, down by about 6.3% compared to the previous year.

Production performed better in 2016 than in 2015. The variable costs of clinker and cement production decreased in relation to the same period of the previous year. Decrease in thermal energy costs, as a result of overall drop in fuel prices impacted the reduction in production costs significantly. Electricity costs also decreased, as a result of less specific consumptions and energy price. The price of electric power in Tunisia reduced significantly in June, which also impacted quite positively input costs in the third and fourth quarter.

INDUSTRIAL OPERATIONS

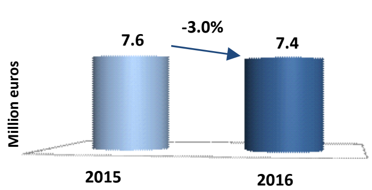
Less clinker was produced in 2016 than in 2015, due to the reduction in cement output, arising from the drop in cement sales.

CAPITAL EXPENDITURE

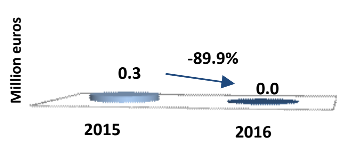
Investment amounted to 2.2 million euros, the equivalent to 2015, mainly intended for investments in replacement, health and safety.

4.4.3.3. READY-MIXED AND PRE-CAST CONCRETE

TURNOVER



EBITDA



The Ready-mixed and Pre-cast concrete unit performed less strongly than in 2015. As far as sales volume is concerned, concrete sales grew by 4.7%. However, enhanced competition brought sales prices slightly down. Turnover was lower than in 2015, but it is under the negative effect of the depreciation of the Tunisian dinar against the euro by approximately 500 thousand euros.

EBITDA of this business unit stood at 29 thousand euros, lower than the figure for the same period of the previous year, as a result of the drop in the EBITDA margin due to the rise in the purchase price of some raw materials, transportation costs and the recording of some impairments on customers.

4.4.4. BRAZIL[2]

For a more suitable comparative analysis, the main economic and financial indicators of the Supremo Group are provided separately.

IFRS - accrued amounts (million euros)	2016	2015	Var.
Sales	**77.6**	**60.0**	**29.3%**
EBITDA	**6.4**	**(1.4)**	**>100%**
EBITDA Margin (%)	8.2%	-2.3%	10.5 p.p.
Depreciation and impairment losses	(11.6)	(7.0)	-66.4%
Provisions (increases and reversals)	(0.2)	(0.2)	17.4%
EBIT	**(5.4)**	**(8.6)**	**37.0%**
EBIT Margin (%)	-7.0%	-14.3%	7.3 p.p.
Net financial profit	(16.2)	(25.5)	36.5%
Profit before tax	**(21.6)**	**(34.1)**	**36.6%**
Tax on profits	3.4	9.6	-64.4%
Retained profits for the year	(18.2)	(24.4)	25.7%
Attributable to Supremo equity holders	**(18.2)**	**(24.4)**	**25.7%**
Attributable to minority interests (MI)	-	-	
Cash-flow	**-6.4**	**-17.2**	**63.0%**
	31-12-2016	**31-12-2015**	**Dec16 vs. Dec15**
Equity (before MI)	176.2	151.1	16.6%
Net debt	**146.7**	**121.0**	21.2%

4.4.4.1. MARKET BACKGROUND

In Brazil, recent IMF projections point to a contraction of the economy of 3.5% in 2016 (*World Economic Outlook*, IMF, October 2016).

The economy of Brazil is still significantly affected by the political instability, tax adjustments and a number of proceedings/inquiries which received plenty of media coverage. The combination of these events produced a great deal of uncertainty about which way the economy would go, making expectations difficult to manage.

In this context, the construction industry was naturally affected: less works and projects, with an impact on cement consumption. Recent information (SNIC – January 2017) about the cement market in Brazil suggest a drop in the market in the first half of 2016 of around 11.7% year on year. In the south of Brazil, the core market of the Supremo Group, the decrease amounted to 5.8%.

[2] The integration of the Supremo Group in the Semapa consolidated financial statements for 2015, taking into account that the acquisition of the remaining 50% of the Group, which forced the full consolidation, occurred at the end of the month of June, and had the following impact: 50% of the results of the first half were integrated using the equity method, the balance sheet position was fully consolidated (100%) with reference to 30 June 2015 and the results in the second half (July to December) were also fully consolidated (100%).

4.4.4.2. CEMENT, CLINKER AND READY-MIXED CONCRETE

INDICATORS

Brazil	Turnover			EBITDA				Quantities Sold		
(million euros)	2016	2015	Var.	2016	2015	Var.	Unit	2016	2015	Var
Cement and clinker	64.9	46.0	41.0%	6.6	-1.7	483.2%	1,000 t	1,132	716	58.0%
Ready-mixed	12.7	14.0	-9.1%	-0.3	0.4	-171.5%	1,000 m3	216	215	0.6%
Total	**77.6**	**60.0**	**29.3%**	**6.4**	**-1.4**	**566.9%**				

In 2016, total operations by the Supremo Group generated turnover of 77.6 million euros, of which 64.9 million euros from cement and clinker and 12.7 million euros from ready-mixed concrete. It should be noted that the Adrianópolis plant began production only in late April 2015 and, consequently, the average daily sales volume increased. In 2016, while the market slowed down, the unit managed to raise sales significantly, having sold 1,132 thousand tons of cement and clinker and 216.3 thousand $m^3$of ready-mixed concrete.

Although the start-up of the new plant was successful, sales prices behaved rather negatively in 2016, under the strong impact of competition. The market contraction, combined with the increase in the capacity of one of the competitors, lead to increased competition, causing prices to drop. Average sales price dropped about 8% on 2015, which naturally affected EBITDA margin.

In 2016, EBITDA stood at 6.4 million euros, compared to a negative figure of 1.4 million euros in the previous year. When the Adrianópolis plant went into operation, variable input costs decreased significantly, due to less thermal and electric consumption by the new equipment. The variable costs of cement production were down (although they are not directly comparable with the previous year, as there are a new range of products), as a result of the reduction in the cost of fuel purchased and the cost control activities. The fixed costs increased compared with costs in 2015, due to growing operations in Brazil, arising from reinforcement of the sales team, the opening of new distribution centres and fixed costs concerning a new industrial unit.

INDUSTRIAL OPERATIONS

The levels of clinker and cement production in Brazil were significantly higher in 2016 than in 2015. The new plant began operating in April 2015, which is why the figures cannot be compared, as 2016 was the first complete year of activity of the new plant. The Adrianópolis plant showed good industrial performance, energy consumption (thermal and electric) was less than in the previous year, which also helped to maintain variable costs down.

CAPITAL EXPENDITURE

Investments in 2016 stood at 4.9 million euros, and included the completion of the plant construction, the purchase of two concrete plants (intended to expand the cement sales channels), the opening of eight cement distribution centres and the strategic centre in Curitiba.

4.4.5. ANGOLA

4.4.5.1. MARKET BACKGROUND

According to the IMF, the Angolan economy is not expected to grow in 2016 (*World Economic Outlook*, IMF October 2016). Given the heavy dependence of the economy on the revenues from the oil sector, this situation is limiting its economic performance and making its presence felt in the major economic and financial variables. In 2016 the value of the Kwanza continued to deteriorate, inflation was up (to around 33.7% according to the IMF) and the country faced difficulties in foreign payments.

The following table presents overall indicators for the Secil Group's business operations in Angola in 2016 and 2015:

Angola	Turnover			EBITDA			Quantities Sold			
(million euros)	2016	2015	Var.	2016	2015	Var.	Unit	2016	2015	Var.
Cement and clinker	19.1	24.2	-20.8%	2.4	1.4	72.1%	1,000 t	155	200	-22.6%
Total	**19.1**	**24.2**	**-20.8%**	**2.4**	**1.4**	**72.1%**				

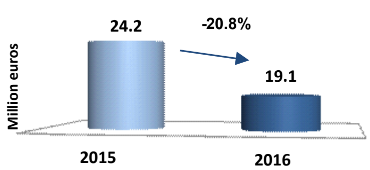
4.4.5.2. CEMENT AND CLINKER

The cement market in Angola was not immune to these difficulties and in 2016 it dropped around 25.5%, standing at approximately 3.9 million tons. The decrease was justified by the halt in a great many public works, and by the private building sector that was adversely affected by the overall rise in the prices of goods intended for current consumption.

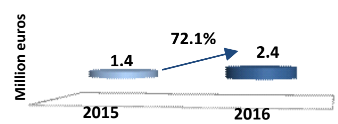
This situation disturbed national cement manufacturers, who were impacted by the cost of clinker imports and all incoming materials and services that was raised by currency depreciation. The availability of foreign exchange reduced, creating difficulties in foreign payments and exposing companies to exchange losses.

INDICATORS

TURNOVER



EBITDA



The amount of cement sold decreased 22.6% in relation to the same period of the previous year, amounting to 154.7 thousand tons of cement sold. This decrease was due to market contraction, considering the aforementioned conditions of the Angolan economy. Turnover amounted to 19.1 million euros in total, down by 20.8% compared to 2015. The decrease was negatively affected by the depreciation of the Kwanza against the Euro by 6.9 million euros. The exchange rate effect aside, the turnover would have been 5.7% more than in 2015, as the sales price increased significantly (+44.8%), thus offsetting the drop in quantities.

The Group has done its best to reduce total costs through adjustments to its manufacturing structure. The fixed costs dropped, due to staff costs that decreased as a result of workforce cuts. Such improvement helped to offset the rise in variable unit costs due to: i) higher clinker import cost (arising from the devaluation of the Kwanza); and ii) significantly higher energy and fuel costs.

The combined effect of the factors previously mentioned resulted in the EBITDA improvement, which reached 2.4 million euros in 2016, compared to 1.4 million euros in the previous year.

CAPITAL EXPENDITURE

Investments in 2016 totalled 120 thousand euros (down by 82% against 2015), due to no relevant investments having been made.

4.5. RESOURCES AND SUPPORTING FUNCTIONS

4.5.1. SUSTAINABILITY

Sustainability is a strategic issue for the management of the Secil Group, which is why it is committed to participate in the CSI – Cement Sustainability Initiative, under the WBCSD – World Business Council for Sustainable Development, namely through the measures for redesigning the priority goals and establishing the most suitable structure for their fulfilment, in the context of the rejuvenation of the CSI.

Furthermore, Secil's CEO participated in the drafting of and outspokenly supported the Low Carbon Partnership Initiative for the cement industry, the WBCSD's input to the Paris Agreements.

The following steps have been taken in the cement business unit in Portugal:

- The alternative fuel substitution rate rose to 47%, allowing further substitution of fossil fuels;
- The rate of clinker incorporation in cement was 74.9%, slightly below 75.5% in 2015;
- Carbon emissions went down from 620 kg of CO_2 released per ton of cement products in 2015, to 601 kg of CO_2 per ton of cement products in 2015, lower than the set target (629 kg of CO_2 per ton of cement products), reflecting the lower proportion of clinker incorporated in cement and the reduced specific emission factor at the Secil-Outão plant;
- Carbon emissions of all 3 plants remained below the licences granted by the Portuguese Government under the NIMs – National Implementing Measures for Allocations 2013-2020.

4.5.2. ENVIRONMENT

The cement industry has proven its commitment by reducing carbon emissions. It was the first industry to deliver a roadmap of progress towards the targets for a low carbon economy (Cement Technology Roadmap – Carbon emissions reductions up to 2050), jointly published by the Cement Sustainability Initiative (CSI) and the International Energy Agency (IEA) in 2009.

In 2013, the European Cement Association (CEMBUREAU) published a roadmap of the European cement industry, titled "The role of Cement in the 2050 Low Carbon Economy".

Secil participated actively in the drafting of these two documents as member of the CSI and the CEMBUREAU.

In the latter of the two documents mentioned above, the CEMBUREAU proposed to reduce CO_2 emissions by 32% compared to a 1990 baseline, using proven conventional technologies. Such reduction may increase to 80%, as soon as ground breaking technologies, such as the Carbon Capture and Storage/Use (CCS/U), become technically and economically viable.

In July 2015 the European Commission (CE) tabled a proposal to revise the Directive on the European Carbon Dioxide Emissions Market (EU-ETS), which will have to be adopted in co-decision with the European Parliament and the European Council.

The EU-ETS should be an incentive for investment, growth and the creation of jobs, allowing the cement industry and the equivalent to foster innovative solutions in shaping the Europe of tomorrow. Therefore, the proposal submitted should protect the more efficient facilities in the European market from competition by non-European manufacturers, which are not subject to proportionate restrictions for reducing CO_2 emissions, and foster competition between European producers for exporting outside Europe. Consequently, it should ensure technically viable emission reduction rates, while guaranteeing affordable energy prices.

However, the proposal of the EC does not provide for these two situations and, if it is not changed, it will burden the more efficient facilities with undue costs, up to 30% of the Gross Value Added.

The EP and the European Council assessed the proposal in 2016; the EP adopted the changes on 15 February 2017 and the Council adopted its changes at the European Council of Environment Ministers held on 28 February 2017. This will be followed by a discussion between the three entities: the European Council, the European Parliament and the European Commission. It is believed that EC is also available to discuss its details. Either individually or as a member of the ATIC and CEMBUREAU, Secil undertakes to ensure that it is reviewed fairly and realistically by the relevant entities.

Nevertheless, we recall that under the Paris Agreements the negotiating conditions are expected to deteriorate further for the sectors covered by the EU-ETS. We believe that a greater effort is needed to support those areas that are not included, namely the carbon efficiency of buildings and infrastructures, to which the cement industry can contribute significantly, by providing concrete construction solutions of proven sustainability.

4.6. ORGANISATION

Work continued in 2016 on prioritising procedure optimization and improvement. As in previous years, improved efficiency remains one of the Group's main priorities and focal points in all geographical regions. The units continued to implement several of previous years' initiatives, and in 2016 a set of structural projects were laid out (some of which cut across several regions), with the aim at all times to improve profitability and to streamline procedures.

5. ENVIRONMENT BUSINESS AREA

5.1. LEADING BUSINESS INDICATORS

IFRS - accrued amounts (million euros)	2016	2015	Var.
Turnover	**26.7**	**27.6**	**-3.3%**
EBITDA	**6.9**	**8.1**	**-14.7%**
EBITDA margin (%)	25.8%	29.2%	-3.4 p.p.
Depreciation and impairment losses	(2.9)	(3.0)	0.6%
Provisions (increases and reversals)	-	(0.1)	100.0%
EBIT	**4.0**	**5.0**	**-21.1%**
EBIT margin (%)	14.8%	18.1%	-3.3 p.p.
Net financial profit	(0.6)	(0.9)	26.8%
Profit before tax	**3.3**	**4.2**	**-19.9%**
Tax on profits	(0.4)	(0.4)	7.0%
Retained profits for the year	3.0	3.8	-21.3%
Attributable to ETSA shareholders	**3.0**	**3.8**	**-21.3%**
Attributable to non-controlling interests (NCI)	-	-	-
Cash-Flow	**5.9**	**6.8**	**-13.6%**
	31-12-2016	**31-12-2015**	**Dec16 vs. Dec15**
Equity (before NCI)	65.5	62.5	4.7%
Net debt	**15.7**	**18.1**	**-13.4%**

Note:
Figures for business segment indicators may differ from those presented individually by each Group, as a result of consolidation adjustments.

5.2. LEADING OPERATING INDICATORS

The following table sets out the main operating indicators for the ETSA Group in the financial years of 2016 and 2015:

	Unit	2016	2015	Var.
Collection of raw materials - Animal waste (categories 1 and 2)	1 000 t	42.6	43.3	-1.7%
Collection of raw materials - Animal waste (category 3)	1 000 t	76.2	73.0	4.3%
Collection of used food oil	1 000 t	1.6	1.7	-4.5%
Sales - animal fats	1 000 t	15.1	12.7	18.8%
Sales - meal	1 000 t	21.7	21.3	1.7%
Sales - used food oil	1 000 t	1.4	1.9	-24.2%

5.3. OVERVIEW OF THE ENVIRONMENT BUSINESS AREA

The ETSA Group recorded turnover of 26.7 million euros in 2016, down by around 3.3% in comparison with the previous year.

The reduction is the result of less 4.5% of consolidated services delivered, mostly due to the Government's decision to cancel temporarily and exceptionally the official SIRCA collection from 26 August to 4 October, but also to the drop in sales by around 2.4%, fundamentally arising from the price reduction.

This activity is cyclical. Therefore, EBITDA of the ETSA Group, which amounted to around 6.9 million euros in 2016, was down by 14.7% against 2015, but up by 78.9% compared with 2014.

Such variation is explained cumulatively through: i) the suspension of the SIRCA service, and ii) narrower commercial margins of sales, caused by lower meal prices and the rise in the cost of raw materials year on year.

The EBITDA margin stood at 25.8%, down by around 3.4 p.p. over the margin for the same period of 2015.

Financial results were up around 26.8% on the same period in the previous year, resulting from the average net debt in the year, and the repricing of the applicable debt remuneration terms.

The combined impact of these factors resulted in Net Income attributable to equity holders of the ETSA Group for 2016 of approximately 3.0 million euros.

6. SEMAPA GROUP HUMAN RESOURCES

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

A commitment to a highly skilled workforce, with specialized professional careers, 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 went from 5,621 at the end of December 2015 to 6,028 at the end of December 2016, as shown in the following table:

	31-12-2016	31-12-2015	Var.
Pulp and Paper	3,111	2,662	449
Cement	2,615	2,647	-32
Environment	275	287	-12
Holdings	27	25	2
Total	**6,028**	**5,621**	**407**

The increase in the Paper and Paper Pulp areas is essentially the product of staff hired for the new businesses and the incorporation of activities that were previously outsourced, particularly at the plant in Figueira da Foz.

7. SOCIAL RESPONSIBILITY IN THE SEMAPA GROUP

Helping to sustainably develop its local communities is one of the strategic principles guiding the Semapa Group. The Group has been aware at all times that sustainable growth depends on the well-being of its Workforce, and on the support and ties it builds with the communities around its production units and commercial premises.

The Group is accordingly involved in a wide array of projects designed in the last instance to improve the quality of life of the communities around its plants and facilities, and to preserve the environment.

Taken together, donations by the Semapa Group to welfare charities totalled approximately 2.2 million euros in 2016.

The following were some of the numerous initiatives and projects supported by the Group:

- "Dá a Mão à Floresta": The 6th edition of this initiative , which is already an ex-libris of the annual agenda of the CSR of Navigator, mobilised a total of 2,400 primary and pre-primary school children from north to south of the country. This activity, that includes the celebrations of the World Forest Day and World Environment Day, is conducted in partnership with the town halls and the local communities welcome it with open arms. It is intended to raise the awareness of people to the need to protect and cherish the national forest. More than 5,000 plants were distributed in 2016 under this initiative;
- Support to the school meal reinforcement programme (PERA): In 2015/2016 Navigator granted daily breakfasts to more than 252 pupils with food shortage, which totalled 24,933 meals. The aid is delivered under a partnership programme with the Ministry of Education and covers schools in the catchment areas of the plants;
- Cooperation agreements with institutions working in the fields of social inclusion, sport and the arts, with programmes in the local communities around the Group's facilities.
- Paper grants: in 2016 grants were given out to schools and charities in the plants' catchment areas; social, educational and cultural projects were donated up to 24 tons of paper. Furthermore, ongoing aid is provided to the boards of schools of the communities around the Group's plants and facilities, which is translated into fundamental support for the educational communities;
- Aid to the Fundação Nossa Senhora do Bom Sucesso foundation: Founded in 1951, the Foundation has worked towards health and human development, in particular child and women's health, by delivering top quality services irrespective of the social and economic background of users;
- Support to the Salvador Association: An Association that works to defend the interests and rights of persons with reduced mobility, especially individuals with physical disability;
- Support to the Quinta Essência Association: A charity that helps people with intellectual disabilities to achieve independence through the integrated development of their personal, social and vocational skills.
- Support to MDV Projecto Família: A pioneering project in Portugal, seeking to work with families with children at risk. The aim is to keep the family together through intensive, immediate and individualised support;
- Support to Cáritas Portuguesa;
- Support to the Ronald McDonald Foundation in Lisbon and Porto.

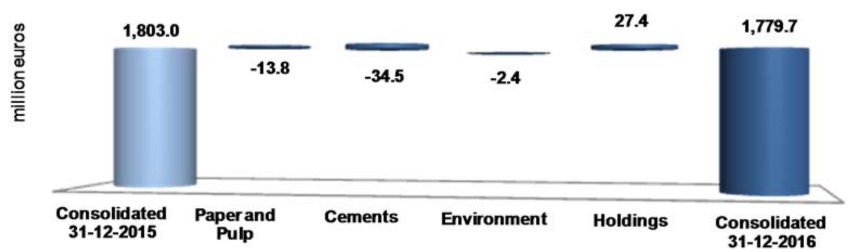
8. SEMAPA GROUP – FINANCIAL AREA

8.1. INDEBTEDNESS

CONSOLIDATED NET DEBT

(million euros)	31-12-2016	31-12-2015	Var.
Pulp and Paper	640.7	654.5	-13.8
Cement	422.9	457.4	-34.5
Environment	15.7	18.1	-2.4
Holdings	700.4	673.0	27.4
Total	**1,779.7**	**1,803.0**	**-23.3**

EVOLUTION



On 31 December 2016, consolidated net debt stood at 1,779.7 million euros, representing a decrease of 23.3 million euros over the figure recorded at year-end 2015, positively influenced by the creation of operating cash flow and:

- Pulp and paper: -13.8 million euros, resulting from the payment of dividends of 170 million euros (118 million euros paid to Semapa) and investments of about 138.6 million euros, including 38 million euros in pulp, paper and tissue business, 8.9 million euros in the project in Mozambique, and 81.6 million euros in the pellets mill in the United States;
- Cement: -34.5 million euros, reflecting the supplementary capital payment of 140 million euros made by Semapa in December 2016. These developments also include investments of 23 million euros, the settlement of 30.25 million euros payable to Semapa, contribution paid to the sellers of Supremo (35 million euros), and the effect of the foreign currency denominated debt by approximately +23.9 million euros;
- Environment: -2.4 million euros; and
- Holdings: +27.4 million euros, resulting namely from the withdrawal of funds for the supplementary capital payments to be made in Secil, dividends received from Navigator, the purchase of own shares, advance corporate income tax (IRC) payments and dividend payments (26.7 million euros).

8.2. FINANCIAL RESULTS

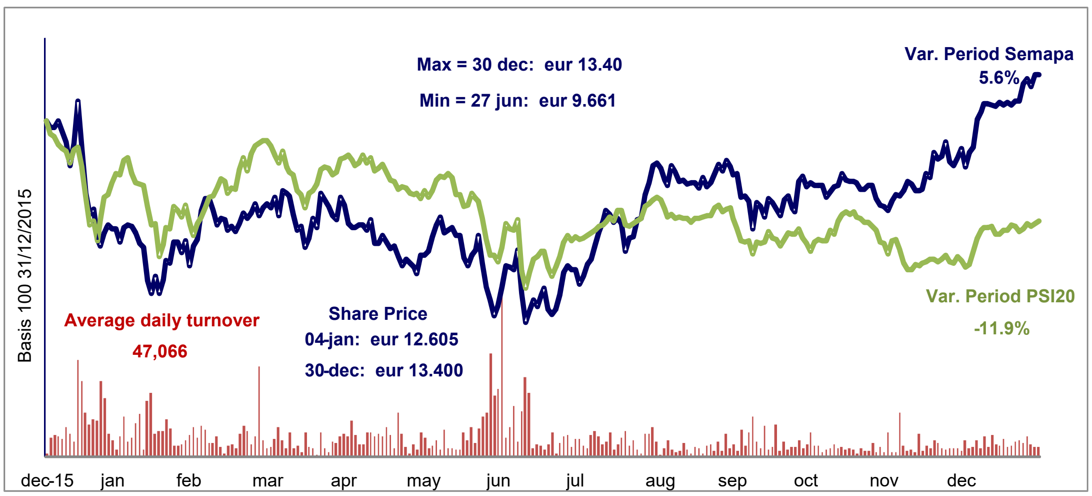
In 2016 financial results amounted to a negative figure of 74.3 million euros, improving 39.2% in relation to the figure recorded in the previous year. The positive variation of 48.0 million euros was primarily the result of:

- Positive effect arising from a decrease in interest rates, debt repayment and debt renegotiation in more favourable conditions;
- Interest accrued as a result of the integration of the Supremo Group;
- The recording of the non-recurrent cost of around 7.9 million euros concerning the early repayment of the final tranche of Portucel Senior Notes 5.375%, amounting to 150 million euros. In September 2015, Navigator had already repaid 200 million euros of the bonds issued, of which 16.2 million euros in costs were recorded in the third quarter of 2015.

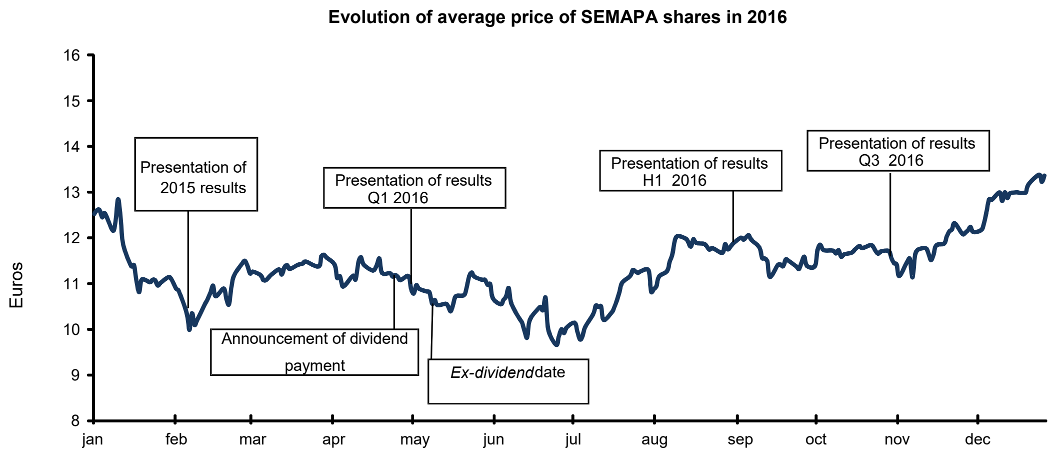
8.3. RISK MANAGEMENT

Details of risk management may be consulted in the relevant section of the Notes to the Consolidated Financial Statements (Semapa Group).

8.4. LISTED SHARE PRICE



Note: Closing market prices



In 2016 the capital markets behaved in an extremely risk-averse way and were highly volatile. The PSI20 was down by 11.9%. Prices were hit by fears of slower growth in the Portuguese economy and doubts concerning budgetary execution. London was the best performing stock market exchange: despite the instability generated by Brexit, it once again confounded expectation with a 14% gain for the year in the FTSE. On the other side of the Atlantic, performance was positive, for both the US DJI and the Brazilian Bovespa indexes.

In this context, the value of Semapa shares had a positive out turn in the period, as it increased by 5.6%, above PSI20 average (-11.9%). The Semapa share value reached a high of 13.40 euros on 30 December and a low of 9.661 euros on 27 June.

8.5. DIVIDENDS

In May 2016 Semapa distributed dividends with a total value of 26.7 million euros, corresponding to 0.329 euros per share.

In May 2016, Navigator paid dividends and distributed reserves totalling 170 million euros, corresponding to 0.159 euros per share and 0.0781021 euros per share, respectively.

8.6. NET INCOME

Consolidated net income in 2016 attributable to shareholders of Semapa was 114.9 million euros, which represents an improvement of 40.9% compared to the same period in the previous year. Net income per share stood at 1.42 euros/share.

This improvement is explained essentially by the combined effect of the following factors:

- An increase in total EBITDA of approximately 10.9 million euros;
- An increase in depreciation and impairment losses of 47.7 million euros, arising namely from:
  - The depreciation, for the first time, of the new capital projects in Cacia, Vila Velha de Ródão and Colombo (Pellets), and the full consolidation of Supremo;
  - Non-recurrent adjustments resulting from the write-off of fixed assets after the fire in Vila Velha de Ródão (1.9 million euros), the revaluation of fixed assets in Mozambique which resulted in impairment losses associated with field works (45.5 million euros), which reflects a conservative approach to the ongoing project, considering the country´s current context. Additionally, Secil recorded impairments, net of deferred taxes in the total amount of 6.8 million euros.
- Change in provisions amounting to 6.6 million euros, due essentially to the release of provisions in the previous year, which proved to be unnecessary;
- An improvement of net financial results by about 48.0 million euros, in relation to the previous year;
- The improvement of income taxes by about 53.9 million euros, reflecting a series of reversals of tax provisions in the final quarter of 2016, as a result of closure of the tax inspection of the Navigator Company in relation to the financial year of 2013, favourable court decisions adding up to 23 million euros and also the positive impact of adoption of the revaluation rules published in Decree-Law 66/2016, of 3 November, with a net effect totalling 16 million euros. In 2015, income taxes were negatively affected by the reversal of deferred taxes on the tax losses incurred by Semapa;
- The appropriation of lower results from Navigator in the first half of 2016 vs. the previous year (69.40% versus 81.19%, respectively), following the Public Exchange Offer completed in July 2015.

9. HIGHLIGHTS IN 2016

- At the Annual Meeting of Semapa Shareholders held on 20 April 2016, the following was implemented as adopted by the Shareholders:
  - The decrease of the share capital from 81,645,523.00 euros to 81,270,000.00 euros, in the amount of 375,523.00 euros, by the cancellation of 375,523 own shares, according to Article 463 of the Companies Code, with the resulting amendment to the Articles of Association, namely to no. 1 of Article 4, regarding the composition of the share capital;
  - The increase of the share capital from 81,270,000.00 euros to 117,028,800.00 euros, in the amount of 35,758,800.00 euros, by incorporation of reserves, with the proportional increase of the nominal value of all Company shares of 0.44 euro per share to 1.44 euro per share, with the resulting amendment to the Articles of Association, namely to no. 1 of Article 4, regarding the composition of the share capital;
  - The decrease of the share capital from 117,028,800.00 euros to 81,270,000.00 euros, in the amount of 35,758,800.00 euros, aimed at releasing the excess capital, transferring to free reserves the released amount of share capital and by proportionally reducing the nominal value of all Company shares from 0.44 euro per share, to the nominal value of 1.00 euro per share, with the resulting amendment to the Articles of Association, namely to no. 1 of Article 4, regarding the composition of the share capital, and no. 4 of Article 9, regarding the number of shares that shall correspond to one vote;
  - The payment of dividends arising from 2015 income of approximately 26.7 million euros (32.9 cents per outstanding share).
- At the end of July the International Financial Corporation – IFC – acquired a stake in Portucel Moçambique, by subscribing the initial amount of 5 million USD.
- ETSA, through the ITS/LLF consortium, concluded in August with the Food and Veterinary Directorate General (DGAV), for the duration of 3 years, the service acquisition contract for the collection of dead animals on the farm, transport to the slaughterhouse and stables, and processing and elimination, amounting to 35.993 million euros.
- In December, Semapa made supplementary capital payments of 140 million euros to its subsidiary Secil, 30.25 million euros of which was used to repay Semapa's debt.
- In 2016 Semapa – Sociedade de Investimento e Gestão, SGPS, S.A. purchased 956,322 own shares, an investment of approximately 10 million euros. Semapa completed the year with 586,329 own shares in the portfolio, representing 0.721% of its share capital.

SUBSEQUENT EVENTS

- Last 27 January, Secil signed a purchase contract of assets in Spain, currently belonging to the LafargeHolcim group. The assets include a cement terminal, two quarries and thirteen ready-mix concrete plants in the Spanish regions of Astúrias, Galiza and Castilla and León. This acquisition will enable Secil to expand its activity to a new geography and increase its cement sales from Portugal. This transaction is dependent on several preliminary conditions that need to be met, as is usual in similar operations.

10. OUTLOOK

This was another difficult year for the world economy: the key features of 2016 were the stagnation of global trade, the low level of investment and growing political uncertainty. In Europe, the economy experienced moderate growth over the year, with positive signs undermined by political events, in particular the United Kingdom's decision to exit the European Union. After growth of 2% in GDP in 2015 in the Euro Zone, growth is expected to slow down in 2016-2018, with estimates pointing to figures between 1.5% and 1.7%. However, fiscal stimulus and growth-oriented policies in place in some of the major economies, in particular the US, have the potential to unlock new dynamics in the economy.

PAPER AND PULP

After an especially poor third quarter for the paper market, demand showed signs of improving at the end of the year, and Navigator recorded an increase in sales to Europe and other markets (excluding the United States). In December, Navigator announced a price increase for UWF paper in the North Africa, Middle East and Turkish markets, implemented in early 2017. Since then Navigator has continued to observe improving market conditions, visible in a robust level of orders, encouraging it to announce a price rise for its UWF products in Europe of approximately 4%, with effect from 24 February 2017.

In the short fibre pulp market, the end of the year saw a recovery in sales, as demand picked up from Chinese buyers. New capacity has come onto the market, albeit at lower levels than originally anticipated, and the Chinese authorities have continued to close down obsolete capacity; the combination of these two factors was largely responsible for the recovery in demand. Sales price rose in Asia in the final quarter of 2016, and greater upward pressure could also be observed on pulp prices in Europe at the start of 2017. Nonetheless, despite these positive signs, there are still concerns about the rapid growth in pulp supply anticipated for 2017 and 2018, and fears that the growth in demand will fail to keep pace with the increase in new capacity expected on the market. At the same time, foreign exchange trends will be a fundamental factor in determining the competitiveness of pulp manufacturers.

Tissue remains one of the main driving forces in global demand for pulp, with annual growth in output estimated at around 1 million tons. In Europe, estimates point to growth in tissue of around 2.2% in 2016, with the away-from-home segment expansion sustained by improvements in employment and disposable income. The prospects for 2017 appear to be in line with the previous year, constrained by the general state of the economy and in particular by the level of employment and growth in earnings.

Concerning the Colombo Energy Inc. project in the pellet business unit, expectations for 2017 point to a difficult year, whilst prospects appear more positive as from 2018 in Europe, and as from 2020-2021 in Japan, due to large-scale investment plans for this period: Colombo Energy is already turning the focus of its sales efforts in this direction. In addition, the company is pressing ahead with market research into the residential segment in the US, and aspires in the future to channelling 10 to 20 % of its output into the American domestic market.

The Group has been monitoring carefully the economic and political developments in Mozambique, permanently reassessing the situation, and has decided to scale down the pace of its operations locally. The country's political and economic environment remains unstable, translating into movement restrictions and safety concerns for staff and the service providers involved in the project.

CEMENT

For Portugal, GDP growth outlooks for 2017 are still moderate; according to the latest projections of the Bank of Portugal, it is expected to increase 1.4%. The increase in some of the building sector's indicators in 2016, like employment, the sale of dwellings, the number of new licensed dwellings and the amount of public works contracts awarded create moderately positive expectations in the national market. Regarding exports, the outlook is moderately negative.

In Lebanon 2017 should not be very different to 2016. The changes which have occurred in the Middle East have not helped to preserve macroeconomic stability. Despite the slowdown that is expected in residential construction and lower investor confidence, caused by the lingering uncertain political situation in the country and region, the cement market should be flat or drop slightly in 2017. The competitive environment is expected to remain challenging. Block sales should rise in the coming months, since orders increased.

A 2.8% growth of the economy is the forecast for Tunisia (World Economic Outlook, IMF October 2016) 1.5% above 2016. However, economic growth prospects remain uncertain due to recent events and the unstable environment. Competition should continue to be intense and increased pressure on sales prices is expected (in the domestic and foreign markets).

The IMF is forecasting 1.5% economic growth in Angola for 2017. Government programmes to diversify the economy in 2016, the upward trend of oil prices on the international markets and the elections in 2017 are expected to foster growth of the economy and cement consumption.

Brazil is expected to grow modestly by 0.5% in 2017 (*World Economic Outlook*, IMF October 2016), which foretells the continuation of the difficulties in economic activity and especially in the activities tied to the construction sector, due to the difficulty in investments coming to fruition. The political framework is still the greatest threat to economic growth, which is largely dependent on the government's capacity to pass the necessary reforms to improve the expectations of public and private economic agents. In line with falling inflation, interest rates are expected to go down sending out a positive sign, thus driving the expenses of companies and households down, possibly driving consumption and investment. The government has announced a public-private partnership program for infra-structure development, but that will only produce effect in the beginning of the second half of the year, hereby improving the context of the civil construction sector.

In this unstable macroeconomic framework and in spite of some improvement signs, the cement market is expected to drop again. Notwithstanding, the performance of Brazilian companies is expected to improve and sales should grow, driven by product quality, technology used, low production costs and marketing dynamic. The opening of new distribution centres and the purchase of concrete units will help to mitigate the market slowdown and complement the trade dynamics.

ENVIRONMENT

Considering the current macroeconomic, financial and sector environment, current conditions are envisaged to remain unchanged in the medium term in the sector operated by the ETSA group, insofar as consumption of foodstuffs are maintained (due to actual increase or simply to changes in the average shopping basket), the animal slaughter rate remains stable, after a period of reinvestment in the main collection centres and especially after the implementation of gradual import replacement mechanisms which, consequently, will allow the volume of by-products generated to be maintained. However, the competition between operators in arranging raw material, which is scanty, will remain intense, because of the pronounced overcapacity of industrial processing.

The ETSA group's prime objectives in the short term include (i) concentrating on the horizontal expansion of its production and destination markets (exports accounted for around 52.5% of total sales in 2016), (ii) identifying fresh opportunities for vertical growth, channelling its investments to improving operational efficiency, extracting maximum value from the channels operated and retaining the loyalty of the main conventional and alternative collection centres, (iii) the gradual and progressive recovery of balanced sales margins in the market, and (iv) focus on sustained innovation and research and development addressed at ensuring new profit thresholds for the business.

11. ACKNOWLEDGEMENTS

We wish to express our thanks to the following, for their important contribution to our success:

- our Shareholders, who have accompanied our progress and whose trust we believe we continue to deserve;
- our Employees, whose efforts and dedication have made possible the company's dynamism and development;
- for the support and understanding of our Customers and Suppliers, who have acted as partners in our endeavours;
- for the cooperation of the Financial Institutions, and the Regulatory and Supervisory Authorities, and;
- for the cooperation of the Audit Board and the officers of the General Meeting.

12. PROPOSED ALLOCATION OF PROFITS

Considering that the Company needs to maintain a financial structure compatible with the sustained growth of the Group it manages in the various Business Areas in which it operates, and

Considering that the Company's independence from the financial sector involves preserving consolidated levels of short, medium and long-term debt, which allow it to maintain sound solvency indicators, and

Since the Remuneration Committee and the company's Executive Board have taken a stance on the amounts which, in their view, may be paid to the members of the Board of Directors and the Company's Employees, respectively, for the financial year 2016, the total approximate amount of which is known,

It is proposed to:

1. That the Net Profits for the individual period, determined under the SNC rules, in the amount of 89,520,902.81 euros (eighty-nine million, five hundred and twenty thousand nine hundred and two euros and eighty-one cents) be allocated as follows:

Dividends on shares in circulation	36,307,651.95 euros* (45 cents per share)
Free reserves	48,813,250.86 euros
Share of the Employees and Directors in the profits of the financial year up to	4,400,000.00 euros

* excluding own shares held; 586,329 own shares were considered; on the payment date, if this amount is changed, the total dividends payable may be adjusted, while the amount payable per share will remain unchanged.

2. That the individual distribution of the share in profits be made by the Executive Board in that which relates to the Employees and by the Remuneration Committee in that which relates to the directors and, since this amount was already reflected in the financial statements, it shall be transferred to item Free Reserves.

3. That the amount regarding the participation of Employees and Directors in the annual profits which in accordance with applicable accounting standards has been specialized in personnel costs, is reversed by the respective amount of credit in free reserves.

Lisbon, 07 March 2017

THE BOARD OF DIRECTORS

CHAIRMAN

Pedro Mendonça de Queiroz Pereira

MEMBERS

João Nuno de Sottomayor Pinto de Castello Branco

José Miguel Pereira Gens Paredes

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Ricardo Miguel dos Santos Pacheco Pires

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