1. Economic Background

The world economy slowed again in 2012, although the pace of growth differed significantly from region to region: in the advanced economies, growth in Gross Domestic Product remained either weak or negative, whilst the emerging and developing economies, if slightly less ebullient than in the previous year, achieved growth at comparatively more robust levels.

International trade flows slowed significantly in 2012, reflecting the significant extent to which the global economy is exposed to trends in the more developed regions.

The international business climate once again featured high levels of uncertainty, visible in the continued volatility of the financial markets, in the erosion of business confidence and the consequent deferment of economic recovery on a global scale. Dwindling confidence - associated not only with uncertainty about the outcome of the public debt crisis in the Euro zone but also with persistent doubts about the resolution of major fiscal issues in the USA - has critically undermined the prospects for growth worldwide.

The euro zone found itself centre stage in the economic and financial crisis. In a contractionary context, characterized by a broad process of reduction in the levels of public and private sector debt, which had been shown to be excessive, efforts intensified to consolidate budgets. This process was observed throughout the zone, but most significantly in the countries which have negotiated bailouts. This process of procyclical adjustment naturally contributed to a deepening of the recession: the outlying countries recorded significant drops in GDP and a substantial increase in unemployment (exacerbating the reduction in consumer spending and adding to the lack of confidence).

The sovereign debt crisis has been prolonged in part because of the difficulty of shaping a coordinated and prompt European response, and also due to continuing doubts as to the willingness of national authorities to implement the policies needed to resolve the problems and the ability of some countries to meet the budget targets, in a recessionary environment. At the same time, the ECB has responded to the economic recession by adopting an expansionist monetary policy, but the perception of high risk levels in the outlying countries means that these economies continued to operate within a more restrictive financial environment: private sector borrowing costs remained extremely high, practically unaffected by the rate changes announced by the ECB or by the drop in the Euribor rate to all-time lows.

Nonetheless, the European authorities took important steps in the second half of 2012, seeking to restore investor confidence and contributing to an appreciable improvement in risk perception on the financial markets. These developments included the decisions of the European Council to create a banking union and the ECB's declaration that it was prepared to do whatever it takes, within the scope of its mandate, to save the Euro. Lower spreads on issues of sovereign debt by outlying countries, particularly towards the end of the year, offered a positive sign that the markets were evolving towards normality.

In Portugal, the process of adjusting the economy continued, along the lines established in the programme of economic and financial aid. This took place within an extremely restrictive monetary and financial environment, in which budgetary policy remained wedded to contractionary aims.

This context, combined with high levels of economic and social uncertainty, severely inhibited economic growth, resulting in a sharp drop in output (- 3.0%) and unprecedented levels of unemployment (over 16%).

Linked to the high costs resulting from the worsening economic situation, in line with the recessionary cycle, some progress was observed in the process of adjustment, in particular in current and capital account balances, with growing exports and a sharp reduction in imports. At the same time, perception amongst international investors of the risk of the Portuguese economy showed signs of improvement.

The US economy showed signs of an upturn in 2012 (slightly above 2%), held back by the deleveraging process under way Although far from full employment, the jobless rate (7.8% at the end of 2012) compares very favourably with that recorded in Europe. Questions about the credibility of budgetary policy - after a limited period of expansionist policies - and the corresponding sustainability of the level of federal debt continue to hold back the prospects for growth in the US economy.

Economic growth in Asia was significantly curbed, with a drop in external demand (the knock-on effect from the developed economies) and slower rates of growth in the Chinese economy (above 7%). At a structurally different level, the Japanese economy showed signs of renewal, with growth of more than 2%, benefiting from reconstruction efforts during the first half of the year.

Latin America experienced a significant slowdown in economic growth, one of the crucial factors behind which was the less favourable trend in external demand, due in particular to the slowing of the European economy.

On average, the US dollar was 8% stronger against the Euro in relation to 2011, although it ended the year 9% down from its highest point against the Euro, recorded during the summer.

2. Overview of Semapa Group Operations

LEADING BUSINESS INDICATORS – comparison with figures for 2011:

Turnover: 1,952.6 million euros ↑ 9.7%

Total EBITDA: 494.8 million euros ↑ 15.8%

EBITDA Margin: 25.3% ↑ 1.3 p.p.

Pre-tax profits: 241.5 million euros ↑ 6.9%

Net income: 126.5 million euros ↑ 1.9%

Net debt: 1,453.0 million euros ↑ 539.9 million euros (vs. December 2011.)

Comparison of the Semapa Group's results is affected by two structural changes which took place during 2012:

- Acquisition of 49% of the Secil Group from CRH, following the arbitral award;
- The Group moved into the Brazilian cement market, acquiring 50% of Supremo Cimentos.

Leading Business Indicators

IFRS - accrued amounts (million euros)	2012	2011	Var. (%)
Turnover	**1.952,6**	**1.779,7**	**9,7%**
Other income	96,5	53,3	81,1%
Costs and losses	(1.554,3)	(1.405,7)	-10,6%
Total EBITDA	**494,8**	**427,3**	**15,8%**
Recurrent EBITDA	447,1	424,4	5,4%
Depreciation and impairment losses	(199,8)	(165,5)	-20,8%
Provisions (increases and reversals)	9,5	1,3	621,5%
EBIT	**304,5**	**263,1**	**15,7%**
Net financial profit	(63,0)	(37,4)	-68,7%
Pre-tax profit	**241,5**	**225,8**	**6,9%**
Tax on profits	(70,9)	(56,6)	-25,2%
Retained profits for the year	170,6	169,1	0,8%
Attributable to Semapa equity holders	**126,5**	**124,2**	**1,9%**
Attributable to minority interests	44,0	45,0	-2,1%
Cash-flow	360,9	333,3	8,3%
EBITDA margin (% Sales)	**25,3%**	**24,0%**	**1,3 p.p.**
EBIT margin (% Sales)	15,6%	14,8%	0,8 p.p.
	31-12-2012	**31-12-2011**	**Dec12 vs. Dec11**
Equity (before MI)	796,0	1.048,8	-24,1%
Net debt	**1.453,0**	**913,1**	**59,1%**
Net Debt / EBITDA *	**2,9 x**	**2,1 x**	**0,4 x**

Notes:

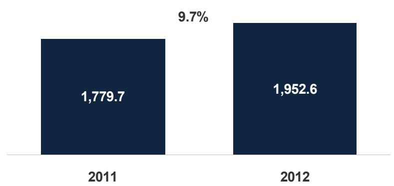
- Total EBITDA = operating profit + depreciation and impairment losses + provisions – reversal of provisions
- Cash flow = retained earnings + depreciation and impairment losses + provisions – reversal of provisions
- Net debt = non-current interest bearing debt (net of loan issue charges) + current interest-bearing debt (including debts to shareholders) – cash and cash equivalents – market value of own shares and other securities held by the Group

Comparability is affected by: i) inclusion of 50% of the recently acquired operation in Brazil (Supremo Cimentos, SA), consolidated on a proportional basis, and by ii) full consolidation of Secil as from the end of March 2012 (100% integration of Secil in balance sheet items, as compared to 51% in the comparative figures for 31 December 2011; income accounts include 51% of Secil's results in the 1st quarter and 100% in the remaining quarters of 2012, as compared to 51% for the financial year of 2011).

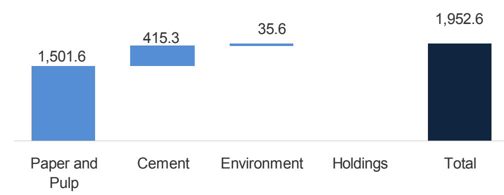
Consolidated Turnover: 1,952.6 million euros ↑ 9.7%

Exports and sales on foreign markets accounted for 78.0% of Consolidated Turnover

Evolution



Breakdown by Business Area



Figures in million euros

Consolidated turnover was up by 9.7% in relation to 2011, with 78.0% relating to foreign markets. Turnover broke down by business area as follows:

Paper and Pulp: 1,501.6 million euros ↑ 0.9%

With turnover topping 1.5 billion euros, the Portucel group recorded in 2012 its highest ever figures for output and paper sales, consolidating its position as Europe's leading manufacturer of uncoated woodfree (UWF) printing and writing paper. The Group's growing turnover has been achieved thanks to strong performance in paper operations, and also to burgeoning returns from the energy sector.

Despite the difficult climate in the world economy and the high level of unemployment recorded throughout the year, with a negative impact on paper consumption, the Group was once again able to increase the quantity of paper sold, breaking through the barrier of 1.5 million tons. This growth, combined with an increase in the average sales price, contributed positively to the excellent performance achieved in **paper** business. This increase in the Group's average sales price was in contrast with the benchmark index in the paper market, the PIX Copy B, down by around 1%. This was due essentially to changes in the geographical sales mix, combined with more favourable exchange rate trends.

In bleached eucalyptus **pulp** (BEKP) business, turnover was down by approximately 11%, due in part to the maintenance stoppage at the Setúbal industrial complex in September and also to the smaller volume of pulp available for sale on the market, as a result of increased paper output, incorporating larger quantities of pulp. Prices moved upwards over the year, with the PIX BHKP index (in euros) gaining 0.6%, in line with the Group's average price. This helped to offset the impact of the diminishing volume of pulp sales. As a result, the value of pulp sales in 2012 was down by approximately 10% in comparison with 2011.

The energy business area performed well over the course of 2012, with sales up by around 8% in value, thanks to increased output and rising sale prices.

Cement*: 496.4 million euros ↓ -2.1%

Appropriated by Semapa: 415.3 million euros ↑ 60.7%

In the financial year of 2012, turnover in the Cement business area stood at 496.4 million euros, down by 2.1% on the figure recorded for the previous financial year, with the Semapa Group appropriating 415.3 million euros[1].These

* Includes 100% of the Secil Group +100% of the Supremo Group

[1] Appropriation by the Semapa Group of 51% of the Secil Group in the 1st quarter and 100% of the Secil Group in the remaining quarters + 50% of the Supremo Group over the 12 months of 2012.

[2] Appropriation by the Semapa Group of 51% in the 1st quarter and 100% in the remaining quarters of 2012

figures reflected worsening performance in sales in most sectors of the domestic market.

Despite growth of 25.8% in sales to foreign markets by the cement business unit in Portugal and positive performance in Lebanon and Tunisia, the Group failed to offset the decline in sales on the home market by the cement business unit in Portugal and in sales by the cement business unit in Angola.

In **Portugal**, the construction industry remained weak with the extremely negative trends of the previous year worsening further over the period. In the period from January to December, output in the construction sector dropped by 16.6 % (production index in construction and public works – INE January 2013). This was accompanied by a slump of around 26.9% in cement consumption in relation to 2011 (figures from FEPICOP – Federação Portuguesa da Indústria da Construção e Obras Públicas), with total consumption standing at 3,329 thousand tons, the same level as recorded in 1973.

In this particularly harsh environment, cement operations in Portugal recorded turnover of 177.1 million euros[2] over the financial year of 2012, down by 12.3% on the previous year.

Attention should be drawn to the increase in export business, with sales up by 25.8% in relation to the financial year of 2011, partially offsetting a reduction of 25.9% in sales on the domestic market. The reduction in business, due to falling domestic demand, was sharper during the second half of the year.

Turnover in non-cement business segments (concrete, aggregates, mortars, pre-cast and others) operating from Portugal stood at 83.7 million euros[2], down by 34.0% on the previous year.

In **Tunisia**, the construction industry and demand for cement continued to grow at a healthy pace. Over the financial year, demand for cement increased by around 12.3% for the country as a whole and 11.7% for the southern region which is the natural market for Secil's operations.

In this context, the cement business unit in Tunisia recorded turnover of around 59.1 million euros[2], up by 12.5% on the figures for the 12 months of the previous year, due essentially to increasing sales in quantity (up by 11.1%).

Over the period in question, turnover from cement operations in **Lebanon** stood at approximately 79.9 million euros[2], representing an increase of 9.2% over the previous year, due fundamentally to the rising average sale prices in euros, insofar as sales by quantity were slightly lower.

The cement business unit in **Angola** recorded performance down by 6.2% on the financial year of 2011, with turnover of approximately 28.5 million euros[2], due essentially to a reduction in cement sales in quantity (down by 22.6%), insofar as the average sales price rose over the period (up by 21.2%). The start-up of a new cement mill in the Benguela region, with annual capacity of 600 thousand tons, was a contributing factor to contracting business in this market.

During the financial year of 2012, operations in **Brazil** (**Supremo Group**) generated turnover of 46.1 million euros, of which the Semapa Group appropriated 23.1 million euros.

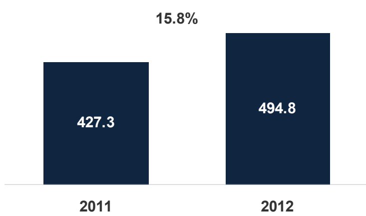
Environment: 35.6 million euros ↑ 7.2%

Despite reduction in the level of animal slaughter, caused by the current economic situation in Portugal and Spain, turnover in 2012 stood at 35.6 million euros, representing an increase of 7.2% over the financial year of 2011, due essentially to the extension of services to new abattoirs as the result of acquisition in April 2011 of the assets of another operator, to the stepping up of commercial operations in Spain, resulting in the contracting of a number of new suppliers, including a number of former suppliers, and to rising average sales prices for category 3 by-products (fats and meals).

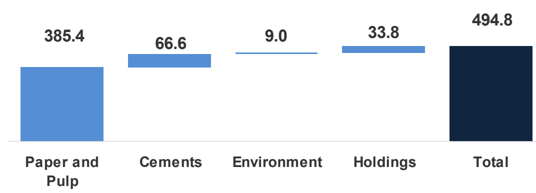
Consolidated EBITDA: 494.8 million euros ↑ 15.8%

Consolidated EBITDA Margin: 25.3% ↑ 1.3 p.p.

EBITDA



Breakdown by Business Area



Figures in million euros

Paper and Pulp: 385.4 million euros ↑ 0.1%

Consolidated EBITDA for paper and pulp business stood at € 385.4 million, close to the figure recorded in 2011 and resulting in an EBITDA / Sales margin of 25.7%, down 0.2 percentage points on the margin recorded in the previous year.

Trends in a certain production costs were positive throughout 2012, in particular as regarded the costs of some of the raw materials and chemicals used. This was nonetheless not enough to offset the sharp hike in power and natural gas costs, up by around 36 million euros, meaning that the Group recorded an overall increase in its production costs.

Logistical costs also worsened, due to wider dispersal of points of sale, rising fuel prices, reduced availability of means of transport (due to changes in import and export flows) and exchange rate variations, which were detrimental for this item. The increase in logistical costs was significantly exacerbated by the dock workers' strikes that disrupted operations at the ports of Lisbon, Setúbal, Figueira da Foz and Aveiro over the last five months of the year.

Cement*: 74.7 million euros ↓ 26.9%

Appropriated by Semapa: 66.6 million euros ↑ 27.7%

EBITDA in the cement sector stood at 74.7 million euros, down by 26.9% on the financial year of 2011, with the Semapa Group appropriating 66.6 million euros1.

Despite the improvement in operational performance in the 4th quarter of 2012, accrued figures for the year as a whole point to a negative trend due to poorer performance in business segments located in Portugal (as a direct consequence of the severe crisis affecting the construction sector) and also, to a lesser extent, in the cement business unit in Lebanon .

The EBITDA margin stood at 15.1% for the period in question, 5.1 p.p. down from the margin recorded in the same period in the previous year.

EBITDA from cement operations based in **Portugal** stood at approximately 40.7 million euros[2], down by 42.4% on the same period in 2011.

This decline was due essentially to the following factors: i) an appreciable reduction in the average sales margin, caused by decreased sales on the domestic market which offers higher prices and margins than the export market; ii) an increase in power costs; iii) occurrence of non-recurrent costs related to redundancies, due to the streamlining plan currently under way, partially offset by a reduction in liabilities for other benefits.

Factors which had a positive impact on performance included continued tight control of production and maintenance overheads, and also of distribution and structural costs. Secil has various projects underway, in particular in the cement, ready-mixed and aggregates segments, with a view to achieving significant savings by streamlining operations and resizing supporting departments in order to bring the company's structure into line with the new situation created by shrinking domestic demand.

Other business segments operating in Portugal generally recorded performance well down on 2011, due to the significant contraction of the construction market.

In **Tunisia**, EBITDA from cement operations totalled 8.5 million euros[2], up by 20.5% on the financial year of 2011, when business had been badly hit in the wake of the political events.

Overall, performance was positive, considering the following factors which affected operations over the course of 2012: (i) temporary blockade of the mill due to strikes and sit-ins, (ii) delay in the start-up of the new cement mill, (iii) the shortfall in clinker output meant that substantial quantities had to be imported, at higher prices, in order to meet internal demand, resulting in a squeeze on the margin on local sales.

Performance in the ready-mixed and pre-cast segments was slightly down on 2011 (-16.9%), with EBITDA at 0.8 million euros[2], due to a reduction in both the quantity and value of sales.

In **Lebanon**, EBITDA from the cement business unit totalled 23.2 million euros[2], down by -9.3% on 2011, despite a significant improvement as from the 3rd quarter of 2012.

The decline in performance recorded in the first part of the year was due essentially to lengthy stoppages on production lines due to frequent power cuts and other technical problems. In order to respond to market demands, the company was obliged to buy in sizeable quantities of clinker and cement from other manufacturers, with a consequent loss of margin. At the same time, successive stoppages led to increased maintenance costs and added thermal fuel consumption due to kiln start-ups.

In the concrete segment, performance was positive and showed an improvement on the financial year of 2011. EBITDA stood at 0.51 million euros[2], up by 18.0%.

In **Angola**, EBITDA from cement business stood at 2.9 million euros[2], down by approximately 34.4% in relation to the 12 months of 2011. This improvement was achieved essentially on the strength of rising average sales prices and streamlining of costs.

Operations in **Brazil** generated EBITDA of 3.1 million euros, of which the Semapa Group appropriated 1.5 million euros.

Environment: 9.0 million euros ↑ 10.5%

EBITDA in the environmental sector totalled 9.0 million euros, representing growth of 10.5% over the financial year of 2011, thanks essentially to (i) improvement in turnover, thanks to acquisition of the assets of another operator, as reported above, and in change in stocks and (ii) the pressure exerted throughout operations by cost control systems, despite unfavourable trends in unit costs for the Group's main energy needs.

The EBITDA margin stood at 25.2%, representing an increase of 0.7 p.p in relation to the margin for the same period in 2011.

Holdings (Semapa SGPS and instrumental sub-holdings)

EBITDA from the holding companies made a positive contribution of 33.8 million euros, comparing favourably with the negative figure of 18.1 million euros recorded in 2011, due to the inclusion in the accounts of non-recurrent items with a value of 45.4 million euros. 9.6 million euros relating to the reimbursement of expenses by CRH in connection with the acquisition of 49% of Secil, 16.8 million euros resulting from recognition at fair value of the original holding owned by Semapa in Secil (51%) and 19.0 million euros due to the discount on redemption of the pension plans for Semapa's directors.

Financial results: -63.0 million euros ↓ 68.7%

Financial results in 2012 worsened by 25.7 million euros in relation to the financial year of 2011, standing at -63.0 million euros.

This was due to increased interest payable by the Secil and ETSA Groups and the holding companies as a result of rising levels of indebtedness, due to acquisitions, and higher average interest rates over the period, which were not partially offset by inclusion in the accounts of exchange rate gains worth 10.8 million euros deriving from acquisition of Supremo.

Consolidated Net Income: 126.5 million euros ↑ 1.9%

Accrued consolidated net income in 2012 totalled 126.5 million euros, representing an increase of 1.9% in relation to the financial year of 2011. This increase was due essentially to the following factors:

- An increase in EBITDA of approximately 67.5 million euros;
- An increase in depreciation and impairment losses of 34.4 million euros
- An improvement in provisions of 8.2 million euros.
- A worsening of financial results by 25.7 million euros in relation to the financial year of 2011;
- A taxation increase of 14.3 million euros, fundamentally due to the impact of harmonization of the tax rate applicable to deferred taxes in order to accommodate a state surtax (*derrama estadual*) of 5% and by the growth in the pre-tax profits of the Portucel Group.

Consolidated Net Debt: 1,453.0 million euros ↑ 539.9 million euros

At 31 December 2012, consolidated net debt stood at 1,453.0 million euros, representing an increase of 539.9 million euros over the figure recorded at year-end 2011.

Segment Reporting (IFRS)

IFRS-accrued amounts (million euros)	Paper and Pulp	Cement	Environment	Holdings	Consolidated
Sales	**1,501.6**	**415.3**	**35.6**	**-**	**1,952.6**
Total EBITDA	**385.4**	**66.6**	**9.0**	**33.8**	**494.8**
Recurrent EBITDA	384.1	65.6	9.0	(11.6)	447.1
Depreciation and impairment losses	(129.4)	(67.2)	(2.8)	(0.3)	(199.8)
Provisions (increases and reversals)	15.0	0.5	(1.0)	(5.0)	9.5
EBIT	**270.9**	**(0.2)**	**5.2**	**28.5**	**304.5**
Net financial profit	(15.7)	(12.4)	(1.6)	(33.3)	(63.0)
Pre-tax profits	**255.2**	**(12.6)**	**3.6**	**(4.8)**	**241.5**
Tax on profits	(63.4)	(7.2)	(0.5)	0.2	(70.9)
Retained profits for the year	**191.9**	**(19.8)**	**3.1**	**(4.6)**	**170.6**
Attributable to Semapa equity holders	**152.8**	**(24.6)**	**2.9**	**(4.6)**	**126.5**
Attributable to minority interests	39.1	4.8	0.2	-	44.0
Cash-flow	**306.4**	**47.0**	**6.9**	**0.7**	**360.9**
EBITDA margin (% Sales)	25.7%	16.0%	25.2%	-	25.3%
EBIT margin (% Sales)	18.0%	0.0%	14.6%	-	15.6%
Net debt	**255.6**	**304.3**	**20.4**	**872.8**	**1,453.0**

Notes:

- Figures for business segment indicators may differ from those presented individually by each Group, as a result of consolidation adjustments
- The Cement segment includes 51% of the Secil Group in the 1st quarter and 100% in the remaining quarters of 2012 + 50% of the Supremo Group in 2012

3. Paper and Paper Pulp Business Area - PORTUCEL

3.1. Leading Business Indicators

IFRS - accrued amounts (million euros)	2012	2011	Var %
Sales	**1,501.6**	**1,487.9**	**0.9%**
Other income	30.6	21.5	42.5%
Costs and losses	(1,146.8)	(1,124.3)	-2.0%
EBITDA	**385.4**	**385.1**	**0.1%**
Recurrent EBITDA	384.1	385.0	-0.2%
Depreciation and impairment losses	(129.4)	(139.8)	7.4%
Provisions (increases and reversals)	15.0	5.6	166.5%
EBIT	**270.9**	**250.9**	**8.0%**
Net financial profit	(15.7)	(15.8)	0.4%
Pre-tax profit	**255.2**	**235.1**	**8.5%**
Tax on profts	(63.4)	(49.6)	-27.7%
Retained profits for the year	191.9	185.5	3.4%
Attributable to Portucel equity holders *	**191.8**	**185.5**	**3.4%**
Attributable to minority interests (IM)	0.0	0.0	10.5%
Cash-Flow	**306.4**	**319.7**	**-4.2%**
EBITDA margin (%)	**25.7%**	**25.9%**	**-0.8%**
EBT margin (%)	18.0%	16.9%	7.0%
	31-12-2012	**31-12-2011**	**Dec12 vs. Dec11**
Equity (before MI)	1,336.3	1,353.0	-1.2%
Net debt	**255.6**	**422.8**	**-39.5%**

* of which 80.84% is attributable to Semapa

Note: The above figures may differ from those presented individually by the Portucel Group, as a result of consolidation adjustments made by the holding company, Semapa.

3.2. PORTUCEL GROUP – OVERVIEW OF OPERATIONS

With turnover topping 1.5 billion euros, the Portucel group recorded in 2012 its highest ever figures for output and paper sales, consolidating its position as Europe's leading manufacturer of uncoated woodfree (UWF) printing and writing paper. The Group's growing turnover has been achieved thanks to strong performance in paper operations, and also to burgeoning returns from the energy sector.

Despite the difficult climate in the world economy and the high level of unemployment recorded throughout the year, with a negative impact on paper consumption, the Group was once again able to increase the quantity of paper sold, breaking through the barrier of 1.5 million tons. This growth, combined with an increase in the average sales price, contributed positively to the excellent performance achieved in paper business. This increase in the Group's average sales price was in contrast with the benchmark index in the paper market, the PIX Copy B, down by around 1%. This was due essentially to changes in the geographical sales mix, combined with more favourable exchange rate trends.

In bleached eucalyptus pulp (BEKP) business, turnover was down by approximately 11%, due largely to the smaller volume of pulp available for sale on the market, as a result of increased paper output and the consequent incorporation of larger quantities of pulp. Prices moved upwards over the year, with the PIX BHKP index (in euros) gaining 0.6%, in line with the Group's average price. This helped to offset the impact of the diminishing volume of pulp sales. As a result, the value of pulp sales in 2012 was down by approximately 10% in comparison with 2011.

The energy business area performed well over the course of 2012, with sales up by around 8% in value, thanks to increased output and rising sale prices; however, business in this sector was hit by steep rises in costs and by the reduction in the tariff applied to power produced through co-generation by one of the Group's industrial units, under recently published legislation. It should be stressed that the tariffs set by this legislation severely penalize the manufacturers of tradable goods, and are not even sufficient to cover the cost of the gas required to operate the units.

Trends in a certain production costs were positive throughout 2012, in particular as regarded the costs of some of the raw materials and chemicals used. This was nonetheless not enough to offset the sharp hike in power and natural gas costs, up by around 36 million euros, meaning that the Group recorded an overall increase in its production costs.

Logistical costs also worsened, due to wider dispersal of points of sale, rising fuel prices, reduced availability of means of transport (due to changes in import and export flows) and exchange rate variations, which were detrimental for this item. The increase in logistical costs was significantly exacerbated by the dock workers' strikes that disrupted operations at the ports of Lisbon, Setúbal, Figueira da Foz and Aveiro over the last five months of the year.

In this context, consolidated EBITDA stood at 385.4 million euros, close to the figure recorded in 2011 and resulting in an EBITDA / Sales margin of 25.7%, down 0.2 percentage points on the margin recorded in the previous year.

Operating results stood at 270.9 million euros, up by 8.0% on 2011, having been favourably influenced by the reversal of provisions of approximately € 15 million, as well as by a reduction in the value of depreciation over the period, due to the normal life cycle of industrial assets.

The Group recorded a financial loss of 15.7 million euros, in line with that recorded in 2011. This was due essentially to a significant reduction in borrowing rates over the year, which to a certain extent countered the effect of the reduction in the Group's net debt, and to the negative result from currency hedges.

As a result, the Group closed the financial year of 2012 with a consolidated net profit of € 191.8 million, representing growth of 3.4% in relation to the previous year.

3.3. Business Review

3.3.1. Paper

3.3.1.1. Market Background

The European and North American markets account for 45% of the total volume of the world market for uncoated woodfree (UWF) paper. It follows from this that sluggish economic growth in the US and recession in Europe has lowered the overall demand for UWF paper, with consumption of this type of paper estimated to be down by around 3.5% on 2011.

Despite this gloomy economic climate in Europe, reflected in rising levels of unemployment, which is a crucial factor for the consumption of office paper, demand for this product continued to prove resilient, as in previous years, down by an estimated 1.5% on 2011, outperforming all other types of printing paper.

The European paper industry felt the beneficial impact in 2012 of the capacity closures effected in the previous year by some of our competitors. This helped to balance the market and allowed the industry to operate at 93% of its total capacity, up by 3 percentage points on 2011. In the US, the capacity utilization rate in the industry improved by one percentage point, to 91%.

The combination of the exchange rate situation and trends in demand in different geographical regions resulted in a reduction in UWF imports into the European market and stabilization in the quantities exported, despite the reduction of 7% in the industry's production capacity. Markets in Africa and the Middle East strengthened their position as a prime destination for European exports.

3.3.1.2. Performance

The Portucel group recorded its all-time highest figures for output and sales in 2012, as well as for quantities sold on the European markets, which grew by 4% in relation to 2011. The Group's average sale price for paper rose by approximately 1%, in contrast to a reduction of nearly 1% in the benchmark index for the sector, Copy B, published by FOEX. The Group succeeded in bucking the industry trend thanks to a better geographical mix in its sales and the positive exchange rate effect.

As a result, the Group continued to expand its penetration in the European market and increased its market share by a further 85 thousand tons, giving it a total share in UWF of 17%, rising to over 20% for sheeted products (office paper and paper for the printing industry).

The Group's prime focus in sales is on premium segments, in view of the perceived quality of its products and the positioning of its brands. The economic and financial situation, particularly in southern Europe, where the Group enjoys a strong position in the UWF market, has resulted in a degree of downgrading in the quality sought by consumers, and a reduction in total consumption.

Mill brands are another key element of the Group's sales strategy, and trends in this area were also positive in relation to 2011. These brands continue to dominate the business mix, to an extent unmatched by other manufacturers of this size. In particular, the Group's top premium brand, Navigator, achieved new sales records around the world, growing by 4% in relation to 2011.

Changes in the geographical mix and strong inflationary pressures in the logistical sector resulted in sharply rising transport costs.

Lastly, in a context of tight restrictions on access to credit throughout paper distribution channels, the Portucel Group recorded successful performance in the management of credit risks.

3.3.1.3. Branding

Over the course of 2012 the Portucel Group continued to invest in growth in its own brands as the cornerstone of its sales strategy. As a result, these brands accounted for more than 62% of its total sales of sheeted products.

Crucially important to the success of this strategy was the launch of new products, in the Group's various brand ranges, allowing it to reach new segments of consumers, and helping to increase sales in all of its brands.

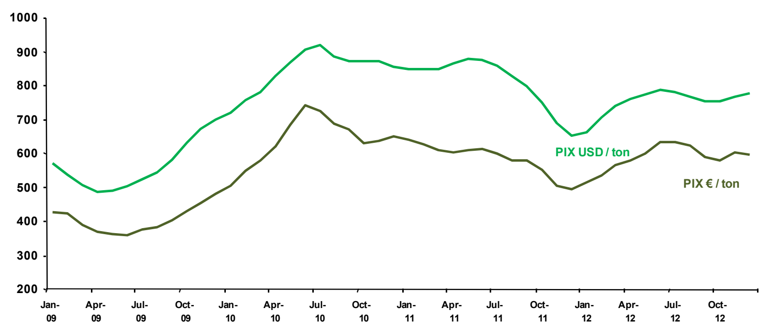
The Group's brands for the printing industry, Soporset and Inaset, were also centre stage at the world's leading trade fair for the sector, in Düsseldorf, an event held every four years. Both brands took advantage of the latest technological developments in digital printing to position themselves in this segment, earning recognition for their excellent quality, even in the toughest assignments.

3.3.2. Pulp

3.3.2.1. Market Background

After the contraction of the pulp market observed in the 3rd quarter of 2012, caused primarily by the traditional summer slowdown in European markets and the high levels of stocks existing at this time in China, the market recovered again in the 4th quarter. with increases in the PIX price in USD, reflecting a rush of price adjustments announced in October, for both long and short fibre. Due to trends on the foreign exchanges, this increase in USD prices was not fully reflected in prices in Euros, as shown by the following table.

Monthly Evolution - PIX - BHKP Price



The Chinese market continued to be the single most important driver of demand in the world pulp market. Despite slacker demand in the summer months, this market remained robust throughout 2012, with pulp imports at high levels, higher than in 2011: up by 15.4% overall through to November, at 17% for short fibre and 13.9% for long fibre.

At the same time, the difficult economic situation experienced in certain euro zone countries, combined with a still tentative recovery in the US and poor performance in the Japanese economy, has resulted in a global economic slowdown, with repercussions for the paper industry, as well as a degree of instability on the foreign exchanges, as emerging countries, principally geared to exports, devalued their currencies to keep their products competitive. This is the case of major pulp producers such as Brazil, Indonesia and Russia, where manufacturers are not in a situation so favourable to rising prices in USD, as in the recent past.

3.3.2.2. Performance

Pulp sales in 2012 was down by approximately 10% in value in comparison with 2011, as explained above.

A breakdown of BEKP pulp sales by paper segment shows that the Group strengthened its position in the special papers segment, which offers the greatest value added, with sales to this segment rising from 57% of total in 2011 to 63% in 2012.

An analysis of sales by destinations shows that almost all pulp sales went to European markets, home to manufacturers of higher quality paper where technical demands are more stringent and where the intrinsic qualities of the *Eucalyptus globulus* pulp produced by the Group are more properly valued.

3.4. Industrial Operations

3.4.1. Production

The Portucel Group's industrial units again recorded outstanding performance in 2012, improving their production efficiency and consequently breaking some of their previous records for output.

All the plants operated at full production capacity and achieved high levels of efficiency with their equipment, allowing them to equal and even surpass their previous output indicators.

Performance in pulp operations was among the best ever recorded, whilst paper operations, concentrated at the industrial sites in Figueira da Foz and Setúbal, resulted in output at a new all-time high of 1,530 thousand tons of printing and writing paper, making this more than ever the Group's prime area of business. The increase in paper output, in relation to the previous year, resulted from the natural progression in the operations of the new Setúbal paper mill.

The positive performance of the Portucel Group's industrial units can be attributed to the excellence of its production equipment which, combined with careful maintenance and operation, leads to high standards of production efficiency.

The average age of the Group's industrial assets means that efficiency indicators can be kept high was a low level of capital expenditure. As a result, investment is normally directed at increasing production capacity or improving efficiency.

Pulp output at the Setúbal and Figueira da Foz industrial complexes stood at levels close to full capacity, and special attention should be drawn to performance at the Cacia pulp mill, which set a new record for output, 2% higher than the best figures achieved in the past.

It should be noted that part of the output from the Cacia mill is now being integrated in paper production at the other sites, resulting in a gradual decrease in the Portucel Group's exposure to pulp sales on the open market.

The quality of the paper produced is in line with the highest international benchmarks, allowing the Group to enjoy the benefits of growing sales of own-brand premium products on the world's toughest markets.

High performance and quality standards have allowed the Group to manufacture new paper products, tailored to the varying requirements of world markets, with the output from the new Setúbal Paper Mill leading the way.

Efficiency has been achieved in production thanks to a constant quest for fresh reductions in the specific consumption of products and raw materials, and the Group has been successful in achieving major efficiencies in the consumption of chemicals and reduced energy use. In this field, the Group has adopted ever-cleaner technologies, based on renewable fuels and natural gas, reducing its dependence on fossil fuels. The consumption of fuel oil in the Portucel Group is now close to negligible.

Importantly, cost savings have been achieved in the purchasing of raw material and chemicals for pulp production, and energy consumption has been adjusted to the levels of production capacity.

Special reference should be made to consumption of bleaching chemicals at the pulp mills where, thanks to increased operational efficiency in washing, combined with the improved performance of this equipment, significant cuts in consumption have been possible.

In paper production, the Group's excellent energy performance is owed essentially to a reduction in energy consumption, thanks to high levels of production efficiency and up-to-date equipment which makes it possible to optimize our use of this resource.

We may also point to the performance of the natural gas co-generation plant in Setúbal, which set a new record for output, and also to the stable and efficient performance of the Group's biomass power plants, which achieved consistently high standards of performance and efficiency.

The overheads of the Portucel Group's industrial units evolved fairly positively in 2012, thanks to the policies and programmes implemented, which have resulted in constant, ongoing reductions.

Maintenance operations at the Group's sites are entrusted to its subsidiary EMA 21 which has achieved high standards of efficiency, breaking records for production equipment uptime whilst performing well in terms of costs.

The LEAN Project, designed primarily to improve production and maintenance operations, was completed successfully, resulting in gains of 8.5 million euros over the implementation period.

The project aiming at improved energy efficiency at all Group plants is nearing completion, awaiting merely the physical implementation of some of the investment plans developed. This project has essentially helped to raise even further the Group's already high level of efficiency in energy performance, opening the way to further gains in this area.

The new MEO project was launched during the year at the Group's various plants, with a view to improving operational efficiency through increased integration of the different units, contributing to the transfer of best practices in operation and maintenance. This made it possible to consolidate the results and improvements achieved with the previous LEAN project, helping to disseminate good performance levels and intensifying a number of activities with the potential for achieving fresh efficiency and productivity gains.

3.4.2. Capital Expenditure Projects

The need to consolidate the major industrial investment projects recently implemented has meant that capital expenditure in the Portucel Group has been directed at the specific aims of improving efficiency and productivity, allowing it to overcome constraints on its industrial operations.

Special attention has accordingly been paid to projects for replacing end-of-life equipment, to environmental projects and to others for improving energy efficiency.

In 2012, the Group successfully completed the project for increasing the evaporation capacity at the Figueira da Foz Industrial Complex. The new equipment came online in September with excellent results for the site's energy efficiency.

Work was also completed on the project for replacing the furnace and superheaters in the biomass boiler at the Setúbal Industrial Complex, resulting in an expected increase in the useful life of this equipment and significant improvements to environmental performance.

In another important project in the energy area, work was completed in September on converting the lime kilns at the Setúbal Industrial Complex from fuel oil to gas, resulting in further cost savings and reductions in the level of atmospheric emissions.

At the Cacia mill, various projects were implemented to improve the reliability of production equipment and to improve energy efficiency.

Several projects also went ahead to improve production efficiency in the manufacture of paper.

3.5. DEVELOPMENT

The Group has continued to advance with the first phase of its investment project in Mozambique consisting, as previously reported, of developing a forestry operation and constructing a pulp mill and power generation facility. Early results have been highly encouraging, especially from the field trials for selecting the plant materials with the best potential and for testing forestry models. This should make it possible to expand the scale of the forestry operation sooner than originally anticipated.

In the field of logistics, studies are being conducted to determine the feasibility of the different alternatives for inflows of raw materials and other factors of production, and for dispatching BEKP. This phase is expected to continue through to next year.

In Portugal, the Group has followed up its investment in modernizing and doubling the capacity of its Espirra nurseries by successfully concluding its first production season for cloned eucalyptus saplings since the completion of the project, which will allow the Group, for the first time in its history, to produce in the order of six million cloned plants. This will make it possible to make better use of the Group's plantations and to provide high-quality, certified genetic materials for organizations of Portuguese forestry producers, with significant benefits for the sector's yields and the returns enjoyed by forestry operators.

With the conclusion of this capital project, the Group now owns the largest nurseries for certified forest plants in Europe, with annual production capacity of 12 million plants.

Another important area in the Group's strategy is centred on certification of forestry management, which it pioneered in Portugal. In 2012, the Group successfully renewed its forest management certification under the strict FSC and PEFC systems, bearing witness to its efforts and investment in implementing best forestry practise, biodiversity management plans and its plans for preventing and fighting forest fires. In its continued efforts to help other forestry producers and land owners to achieve certification, the Group again took part in local initiatives to promote these certification schemes and renewed its support to leading organizations in the sector.

The Group pressed ahead with its forestation plan in 2012, as well as a range of maintenance activities to protect its forestry holdings. In terms of protection against forest fires, the 2012 season was closed with positive results overall. The resources mobilized to prevent and help fight forest fires proved effective, and despite the adverse meteorological conditions experienced, the area of woodland lost to fire was relatively small, and in line with that recorded in recent years. We should stress that the overwhelming majority of the incidents – more than 85% - to which our resources responded occurred on the property of third parties, illustrating the support provided to the national forest fire protection system. This summer season once again proved that professional and certified forest management is the best defence against the scourge of wildfires.

In the field of forest fire prevention, we should also draw attention to the Group's participation in the program organized by MIT (Massachusetts Institute of Technology) Portugal, with work continuing in 2012 on the Fire-Engine project (Flexible Design of Forest Fire Management Systems). The models for supporting public policy making and management of fire protection systems produced through this partnership between the Portucel Group and MIT will be available for adoption by Portuguese institutions.

3.6. Resources and Supporting Functions

3.6.1. Sustainability

On the road to sustainable development - a journey on which the world's nations and political leaders set out in 1992 at the Earth Summit in Rio de Janeiro - 2012 will be remembered as the year when a broader consensus was generated at the Rio + 20 Conference on the need for and the advantages of what is called the green economy.

Forest-based industries, and in particular the the paper and pulp industry, are the oldest and most successful examples of the green economy.

After being bombarded in the later part of the twentieth century with groundless arguments against the paper industry, the general public is now watching with interest and curiosity as the best informed and less extremist environmental organizations begin to recognize the need for and usefulness of forestry plantations as a source of industrial raw materials, a means of reforesting degraded land, retaining fossil carbon and creating renewable energy.

Bearing witness to their long-held concerns about the sustainability of the pulp and paper industry, the largest and most active manufacturers in this sector are prime movers in the world sustainability movement known as the WBCSD – World Business Council for Sustainable Development, founded shortly after the Rio Summit.

The Portucel Group, having been invited to join this international organization at its earliest stages, has been a consistently active participant over nearly two decades and has taken a leading role in the SFPI – Sustainable Forest Products Industries initiative, later renamed as WBCSD – Forest Solutions.

This leading role has included chairing the Forest Resources Action Team, one of four such teams run by WBCSD – Forest Solutions, and putting two issues of great current importance on its agenda: water, in products, processes and forests, and the transparency of forest certification, in particular the meaning and public perception of the different logos used by the two main certification schemes (FSC and PEFC).

The WBCSD, which argues that the key to sustainable development lies with business rather than with the regulators, has gained growing recognition of its role in an environment which might lead some to believe that the business world would not be interested in the principles and challenges of sustainability. This is because it has become increasingly clear that only a business model like that of the Portucel Group, which is based on renewable natural resources, which serves the real needs of society, which minimizes the impact of its operations and generates biodegradable products suitable to recycling, is capable of withstanding the undesirable effects of globalization.

This was the context in which the Group took part in drafting the WBCSD's Vision 2050 report and put its weight behind a similar exercise undertaken by CEPI (European Confederation of Forest Industries), with a view to integrating the medium and long term strategies of the United Nations and the European Union.

Despite the Portucel Group's global vocation, reflected by the presence of its products in more than 113 countries, it has never ceased to concentrate its efforts on developing Portugal's woodlands, providing incentives and financial, technical and human support for certification by the small forest landowners characteristic of the northern and central regions of Portugal, encouraging them to work through associations, with a commitment to transparency of good practice, and seeking at all times to diversify, developing policies and initiatives for conserving biodiversity, without causing any type of irreversible impact on the ecosystems in which it intervenes.

Several ventures, including the launch of a prize, with the University of Coimbra, for new business ideas that open the way to the adoption of sustainable forest management, closer links with the academic world, support for improving the health of Portugal's woodlands (combating *Gonipterus and supporting research into the* pinewood nematode), and the joint funding, with the FCT (Science and Technology Foundation), of research into eucalyptus plantations, were all steps taken in 2012 towards implementing our strategy of carrying further the Group's sustainability policy, as formally defined in 2005.

3.6.2. Forestry and Timber Supply

Sustainable Management

The financial year of 2012 represented a further milestone in the reorganization of the Portucel Group's forestry operations, in particular with the specialization of land and forestry assets, with the goal of standardizing processes and consequently the management model. Portucel Soporcel Floresta is currently the Group's company in charge of forestry operations, bringing together management of all its agro-forestry holdings, both on its own land and on land entrusted to its management by the respective owners.

At year-end 2012, the Portucel was responsible for managing approximately 120 thousand hectares of agro-forestry holdings, around 70% of which corresponded to eucalyptus plantations, spread over 160 Portuguese municipalities.

In a decisive contribution to strengthening the Group's presence at a local level, the business of renting and acquiring land, which includes taking on new areas or renegotiating existing contracts, represents an important way of conducting our relationship with forestry landowners. The Group has formed partnerships with a growing number of forestry landowners seeking to add to the value of their assets, either by reforesting their land with selected cloned saplings, which leads to significantly improved yields in relation to traditional forestry, or else by enjoying the benefits of their land being managed with the best forestry practices and certified under the strictest international schemes.

Licensing applications were made for more than 200 forestation projects in 2012, including reforestation, forestation and conversion projects. There was a significant increase during the period in the number of forestation projects drawn up by the Group, reflecting its increased objectives in relation to the area to be planted. However, the licensing process remains extremely complicated and weighed down by the bureaucracy required by the existing legal framework for operations of this type.

Timber suppliers

It is crucial to the development of the Portucel Group that it is able to secure supplies of certified wood on competitive terms.

Since 2006, the supply of eucalyptus roundwood on the Portuguese market has fallen short of demand, meaning that significant quantities have to be purchased from markets such as Spain, Africa and the South America, resulting in higher total costs, due to the logistics involved.

In relation to the wood sourced from its own woodlands, the Group was able to assure quality and the sustainability of felling, given that nearly all the forestry holdings in question are certified. In the pursuit of its policy of corporate responsibility and engagement with its local communities, the Group remained strongly committed to certification of forest management and the chain of custody, as means of assuring sustained development of its business.

Forestry logistics and transport

The Group's forestry logistics and transportation sector was responsible for logistical flows of more than 2 million tons of wood received at its industrial sites.

Over the course of the year, the Group relocated some of its external road freight timber reception yards to port or railway yards, in particular in areas most distant from its production plants (such as in Galicia). The logistical network is based on 15 timber reception and temporary storage yards, collecting raw material from neighbouring areas, and 8 ports for optimized management of forest logistical flows bound for the Group's mills.

This initiative is designed to assure transportation with less pollution and lower costs, substantially reducing mileage in the transport of wood.

In 2012, tracking devices were installed in timber trucks in the Group's service, allowing for a significant improvement in safety and operational control of road freight.

Purchasing

The worsening economic crisis in Europe, combined with high energy prices in the European economic zone and the dollar exchange rate effect, has continued to encourage the relocation of industrial units to markets which, although more distant, are enjoying growth.

As a result, chemicals at attractive prices are in shorter supply, whilst a clear process is under way of disinvestment in Europe and relocation of suppliers to the BRIC markets (Brazil, Russia, India and China) and to Asia in general, accompanying fresh industrial investments in these regions.

Commodity prices were also extremely volatile in 2012, especially for the majority of chemical products used in manufacturing paper.

Production capacity was also shut down due to business sell-offs, with some suppliers in a precarious financial situation; suppliers were clearly concerned about the profitability of their European plants, raising questions as to future investment plans and even their continued existence.

The supply base has offered little stability, although in the case of some chemicals the market is over-supplied. Europe has witnessed an increase in vertically integrated Asian suppliers, who are also seeking to move into the US market.

New products, or products with innovative features, are coming out of Asia, again from vertically integrated suppliers. For reasons of global competitiveness and regulation, European suppliers have difficulty in achieving this form of integration.

No significant problems have been experienced in securing supplies of wood to meet internal needs, although some difficulty has been felt in obtaining benefits through price negotiations. Efforts were made to achieve advantages through the TCO-Total Cost of Ownership System.

Prices for products purchased were revised upwards, especially due to the influence of commodity prices and rising energy costs. Brent prices were on average high, at over USD 108.00, which exerted pressure on the prices of various raw materials.

The supply base contracted slightly, at both national and European level. In line with the strategy of diversification adopted in the previous year, the Group gave priority to contracting suppliers from different regions of the world, and especially from Asia, assessing and approving a number of suppliers from this region for its supplies.

The aim of this policy is to balance the current supply, to reduce dependence on a small number of Portuguese and European sources and to improve access to other sources of innovation, moderating acquisition costs.

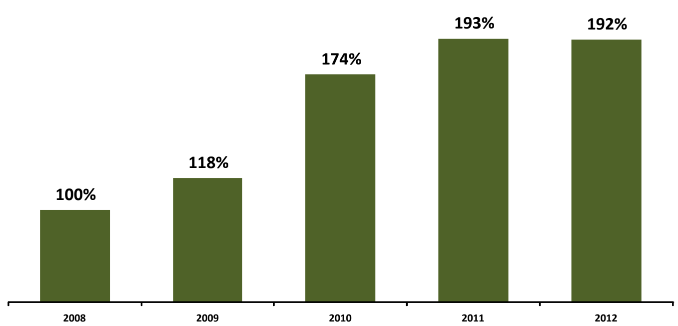
The work carried out in 2012 will continue into 2013 and 2014, and the Group has plans to keep up the search for potential in other supplier markets, such as Turkey, the Persian Gulf, South Africa, Asia and North America. This project will be supported by specific market research initiated in 2012 and which will be stepped up in 2013.

3.6.3. Energy

In 2012, the Portucel Group recorded gross power generation of 1,879 GWh, representing a modest reduction of 0.4% in relation to the previous year. Overall, the electricity generated by the Group corresponded to 4.4% of the country's entire power output.

Gross Power Output

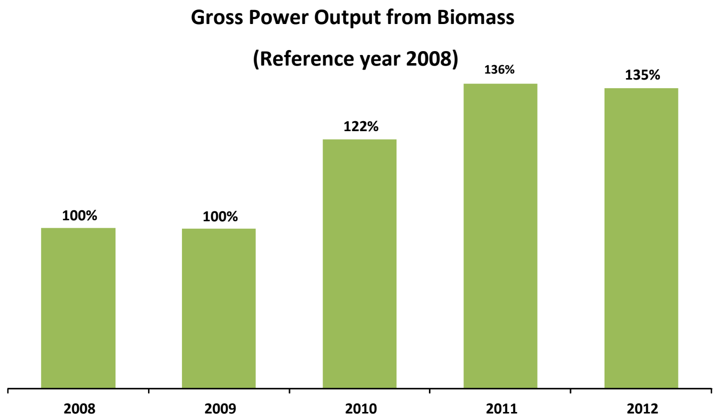
(Reference Year 2008)



Not including cogeneration by SOPORGEN (partnership with EDP)

This was a year in which the Group consolidated various investment projects in power generation.

Power generation from biomass plants (3 combined heat and power plants and 2 dedicated power stations) totalled 1,214 GWh, slightly down (0.6%) on the previous year. This reduction was due essentially to stoppages for work on boilers and biomass storage, transport and feeding systems.



The Portucel Group continues to enjoy the status of Portugal's leading producer of electricity from biomass, accounting in 2012 for an estimated 49% of the total power produced from this natural resource.

Despite the increase in power generation from natural gas, due to the energy needs of the new paper mill in Setúbal, 65% of the Group's energy production was derived from highly efficient co-generation plants and power stations fuelled by biomass, i.e. a renewable resource. It is important to note that co-generation combines the production of electrical power with much larger quantities of thermal energy, making it considerably more efficient than conventional processes which generate only power.

Co-generation in the Portucel Group is consistent with the stated objectives of Directive 2012/27/EU, which recommends Member States to exploit the potential of co-generation on the basis of the demand for useful heat, and these facilities are essential for achieving the target of a 20% increase in energy efficiency set by the European Union for 2020.

However, Ministerial Order 140/2012 established rules which significantly reduce the tariffs applicable to older co-generation plants, meaning it is no longer economically feasible for highly efficient co-generation facilities to continue operation.

Bioenergy and Fossil Fuels

The two biomass power stations in Cacia and Setúbal and the Group's three biomass co-generation plants have allowed it to consolidate its dominant position in the Portuguese renewable energy market. The great benefit in terms of reduced CO_2 emissions will have an impact on the national balance for these emissions and will reduce the country's dependence on imported fossil fuels, a national aspiration which the Group is accordingly helping to achieve. It is estimated that these power stations belonging to the Portucel Group will avoid CO_2 emissions in excess of 450 thousand tons on the national balance sheet.

3.6.4. Environment

In 2012, the Portucel Group renewed the contract defining the terms on which it uses the European Union Ecolabel on the paper it manufactures and markets, in the office stationery and printing segments; License PT/11/002 is now valid through to June 2015.

In line with IPPC (Integrated Pollution Prevention and Control) legislation, the Portucel Group pressed ahead with procedures, already under way, for renewal of the environmental licenses for its industrial complexes in Figueira da Foz and Setúbal.

The second period of application of the EETS (European Emissions Trading Scheme) ran from 2008 to 2012, and with the publication of directive 2009/29/EC, the new EETS directive included in the Energy and Climate Package, the rules on the available EU licenses and the allocation of free licenses have changed considerably. The preliminary allocation of free licenses was effected on the basis of benchmarks defined at community level, with the third EETS application period starting on 1 January 2013, and due to end in 2020.

In 2011 and 2012, a set of forms, subject to verification, were submitted in relation to the Portucel Group's facilities covered by EETS, allowing the competent authority (the Portuguese Environment Agency, or APA) to determine the preliminary allocation to each facility of free emission licenses for the period 2013-2020.

In connection with the monitoring and reporting of greenhouse gas emissions, the Group's various facilities also submitted to APA in 2012 the documentation for updating their Greenhouse Gas Emissions Permits (GGEP) for the EETS period running from 2013 to 2020.

In relation to the Seveso Directive (on the previous of serious accidents), the Group has established a Serious Accidents Prevention Policy (SAPP) in order to communicate its principles for action and commitments accepted in this field. The text of the SAPP was opened to worker consultation, in a process due to be completed in early 2013, culminating in publication of the approved document.

Also in connection with this, the Group took part in an exercise simulating the External Emergency Plan at the Mitrena Peninsula, known as 'MITREX 2012', involving all the Seveso establishments in this industrial area.

Despite the increase output, achieved on a sustained basis by all the Group's plants, in particular in paper production, corresponding to around 45% over the last five years, the strategy for continuous improvement of processes, products and operational efficiency has made it possible to achieve continuous improvements in environmental performance indicators in all areas.

As a result of these efforts, the assessment of the environmental performance of production processes, through systematic records of eco-efficiency and environmental impact indicators, points to positive and sustained performance by all the Group's plants, in all fields: air, water, waste and natural resources.

The use of Best Available Techniques, combined with ongoing efforts to implement improvements, so as to increase the eco-efficiency of process, has permitted significant reductions in the water use and improvement in the sustained used of renewable energy sources.

In 2012, the Portucel Group assured the continued certification of the management systems implemented. To this end, a series of external audits were conducted over the year by accredited entities at the Group's various facilities, and the Group was successful in renewing the Safety Management system at the Cacia plant, the Quality Management system at the Figueira da Foz Industrial Complex and the Environmental Management system at the Setúbal Industrial Complex. Certifications were also maintained in respect of all other standards previously implemented and certified.

3.6.5. Innovation

The financial year of 2012 saw the launch of an innovative product aimed at the student population, Navigator Students, designed to respond to the needs of younger consumers looking for quality products at competitive prices.

Another important development in 2012 was the launch on the US market of Navigator Eco-Logical 18Ib, a product whose special feature is that it assures a standard of performance superior to that of competing 20lb papers, despite a grammage below the market standard.

The Group's commitment to improving its product range leads it to search systematically to adapt to the real market, conducting exhaustive and constant analysis of client needs, and of technological developments in printing and the respective opportunities these offer. This process is backed up by the superb technology used in the manufacturing process and the superior quality of the raw materials. To this end, internal processes have been improved so as to consolidate the consistency of product quality and to optimize the associated production costs, with a positive overall impact on operational productivity and efficiency.

Special attention has also been paid to opportunities resulting from emerging printing technologies with great potential for growth, such as web inkjet technology which allows for high-speed inkjet printing.

The importance of the research and development (R&D) projects in which the Group is involved has been recognized by the relevant authorities, including the Innovation Agency, the Ministry of Science, Technology and Higher Education and the Foundation for Science and Technology. Under SIFIDE, the system of tax breaks for companies involved in R&D, these authorities have certified investment projects in this area as eligible. In 2008, 2009 and 2010, investment in this area totalled 4.1 million, 3.7 million and 3.8 million euros, respectively. In 2011, an application was made for a capex project worth 9 million euros, and an investment project was carried out in 2012 with a value of more than 4 million euros.

3.6.6. Research & Development

In 2012, the Portucel Group continued to invest in research in forestry, pulp and paper, through the work of its forestry and paper research institute, RAIZ. These aims were pursued in close cooperation with the Group's respective business sectors and a range of bodies in the science and technology sector.

In the area of industrial pulp and paper research, one of the many projects undertaken consisted of investigation of the application of enzymes with support from Biocant, a leading biotechnology laboratory. This involved an in-depth study of the characteristics, workings and optimization of conditions for the use of enzymes to improve the characteristics of white eucalyptus pulp, confirming the excellent potential of this technology for streamlining resources, in particular fibres and energy, in the manufacture of office paper.

The Valorcel research project, a joint undertaking between the Portucel Group, RAIZ and PIEP, has made it possible to produce a composite incorporating up to 30% fibre, with good mechanical properties, which has been tested in the production of parts of the automobile industry.

In 2012, the Portucel Group invested in the fields of bio-energy and bio-refining, working on the BIIPP research project (Integrated Biorefinery in the Pulp and Paper Industry), in partnership with the Universities of Aveiro, Coimbra and Porto; the role of RAIZ in this project is to align the research and its industrial application. The project involves studying the pre-extraction of hemicellulose from *Eucalyptus globulus* trimmings and processing primary sludge from the waste water treatment plant in order to produce sugar solutions and subsequent conversion into ethanol. The extraction of high value added organic products from eucalyptus bark, such as triterpenic and phenolic compounds, is another aspect of this project. These compounds are of recognized value to the pharmaceutical, cosmetics and nutrition industries.

Also in the biorefinery area, RAIZ has sought to complement its key expertise in new technologies for breaking down biomass and the kraft process, in partnership with organizations specializing in biotechnology and chemical processes, with a view to developing raw material for the biochemicals, bio-polymers and bio-compounds industry. The production of cellulose materials, including micro- and nano-cellulose, and the development of new applications are another area of research work.

In the field of forestry research, the environmental characterization of stands remains an important aspect of RAIZ' work, with the stratification of 23 thousand hectares of woodlands into homogeneous zones. The findings of this work were integrated into the Geographical Information System, so as to enhance its operability and support forestry management, by making it possible to provide grounds for investment plans, define forestry projects and the respective intervention required, and also reduce the risks of decision-making. This know-how has been internalized by Group staff, forestry producers and their associations, through training in zoning and good forest husbandry.

Another feature of 2012 was intense activity in providing technical support for projects designed to seek viable alternatives for optimizing forest yields in areas under Group management, so as reduce dependence on imported and third party wood, with a view to improving future supplies of woods to the Portucel Group's pulp and paper mills.

4. Cement and Derivatives Business Area – SECIL

As previously reported, the Secil Group has been included in the Semapa's accounts on a full consolidation basis since the end of March 2012.

The figures presented in this chapter correspond to 100% of Secil Group operations after adjustments for consolidation in Semapa's accounts, not including the operations of the Supremo Group, so as to provide a better understanding of the real evolution of the Secil Group's operations. Leading indicators for the Supremo Group are presented separately.

4.1. Leading Business Indicators

IFRS - accrued amounts (million euros)	2012	2011	Var. (%)
Sales	**450.2**	**506.9**	**-11.2%**
Other income	40.8	61.1	-33.2%
Costs and losses	(419.4)	(465.8)	10.0%
EBITDA	**71.6**	**102.2**	**-29.9%**
Recurrent EBITDA	71.6	96.7	-25.9%
Depreciation and impairment losses	(71.7)	(45.0)	-59.5%
Provisions (increases and reversals)	0.4	(4.0)	110.7%
EBIT	**0.3**	**53.2**	**-99.4%**
Net financial profit	(12.7)	(4.9)	-158.0%
Pre-tax profit	**(12.4)**	**48.2**	**-125.8%**
Tax on profits	(7.8)	(14.6)	46.9%
Retained profits for the year	(20.2)	33.6	-160.1%
Attributable to Secil equity holders	**(24.9)**	**27.0**	**-192.3%**
Attributable to minority interests (IM)	4.7	6.6	-28.1%
Cash-flow	**51.1**	**82.6**	**-38.1%**
EBITDA Margin (%)	**15.9%**	**20.2%**	**-21.1%**
EBIT Margin (%)	0.1%	10.5%	-99.3%
	31-12-2012	**31-12-2011**	**Dec12 vs. Dec11**
Equity (before MI)	506.1	499.3	1.4%
Net debt	**285.5**	**142.4**	**100.4%**

4.2. LEADING OPERATING INDICATORS

The following table sets out the main operating indicators for the Secil Group in the financial year of 2012:

	Unit	*2012*	*2011*	12/11 (%)
Annual cement production capacity	1000 t	6,850	6,850	0.0%
Grey cement sales	1000 t	4,538	4.735	(4.2%)
White cement sales	1000 t	92	94	(2.5%)
Artificial lime sales	1000 t	66	41	60.5%
Clinker sales	1000 t	315	397	(20.5%)
Ready-mixed	1000 m3	1,266	1,724	(26.6%)
Aggregates	1000 t	2,059	3,123	(34.1%)
Precast concrete	1000 t	87	128	(31.6%)
Mortars	1000 t	141	226	(37.7%)
Hydraulic lime	1000 t	15	16	(5.2%)
Mortar fixative	1000 t	10	9	11.0%
Number of employees	no	2,247	2,589	-13.2%

4.3. SECIL GROUP – OVERVIEW OF OPERATIONS

The construction industry and cement consumption both continued on a downward course in Portugal, which is the Secil Group's principal market. In Portugal, during the period from January to December, output in the construction sector dropped by 16.6 % (production index in construction and public works – INE January 2013). This was accompanied by a slump of around 26.9% in cement consumption in relation to 2011 (figures from FEPICOP – Federação Portuguesa da Indústria da Construção e Obras Públicas), with total consumption standing at 3,329 thousand tons, the same level as recorded in 1973.

In this difficult setting, the Secil Group recorded consolidated turnover in the financial year of 2012 of 450.2 million euros. This performance represented a decline of 11.2% from the turnover recorded in 2011, reflecting weaker performance across all sales on the Portuguese market and by cement operations in Angola.

Cement operations in Portugal recorded an increase in turnover on export business of 25.9%, whilst business also grew in Lebanon and Tunisia, thereby offsetting the overall decline in activity.

EBITDA stood at 71.6 million euros, down by approximately 29.9% in relation to 2011.

Despite the improvement in operational performance in the 4th quarter of 2012, accrued figures for the year as a whole point to a negative trend due to poorer performance in business segments located in Portugal (as a direct consequence of the severe crisis affecting the construction sector) and also, to a lesser extent, in the cement business unit in Lebanon .

The EBITDA margin stood at 15.9% for 2012, 4.3 p.p. down from the margin recorded in the previous year.

The Secil Group achieved net operating income of 0.3 million euros, as compared with 53.2 million euros in the previous year. This indicator was brought down in 2012 by a set of losses on the recording of impairments with an overall value of 23.9 million euros.

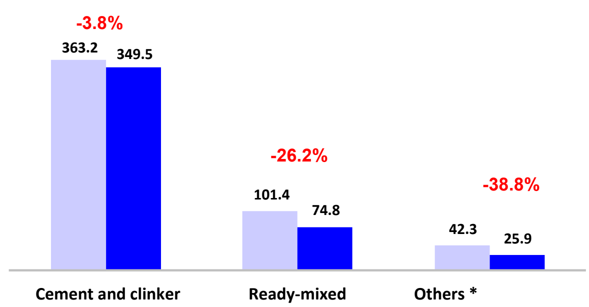
In the financial year of 2012, the Secil Group recorded losses of 24.9 million euros, due fundamentally to the following factors: (i) reduction in the operating margin, (ii) the recording of a set of impairment losses as referred to above and, (iii) an increase in financial charges (as a result of the combined effect of higher average net debt over the period and the Group's average interest rate).

Capital expenditure in the period totalled 56.6 million euros, of which 31.4 million euros related to operating investments, and 24.4 million euros to the acquisition of a 14.1% stake in Supremo Cimentos, located in Brazil.

At 31 December 2012, net debt stood at 285.5 million euros, up 143.1 million euros from 2011, an increase due essentially to investments made in the context of the Semapa Group.

Turnover by Segment and Geographical Region

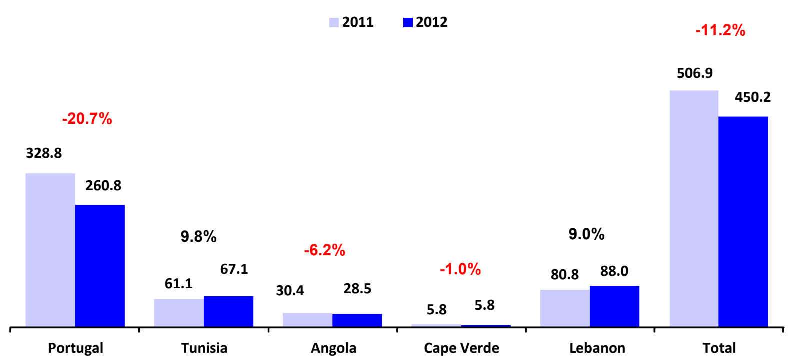
Segment (million euros)



* includes Aggregates, Mortars and Pre-cast

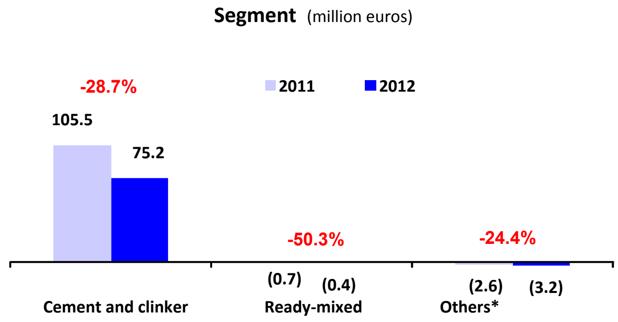
Turnover in the cement and clinker segment declined by 3.8% in relation to 2011, due to lower cement sales on the domestic market in Portugal and a reduction in cement operations in Angola. Business also contracted in all other segments in relation to 2011.

Region (million euros)



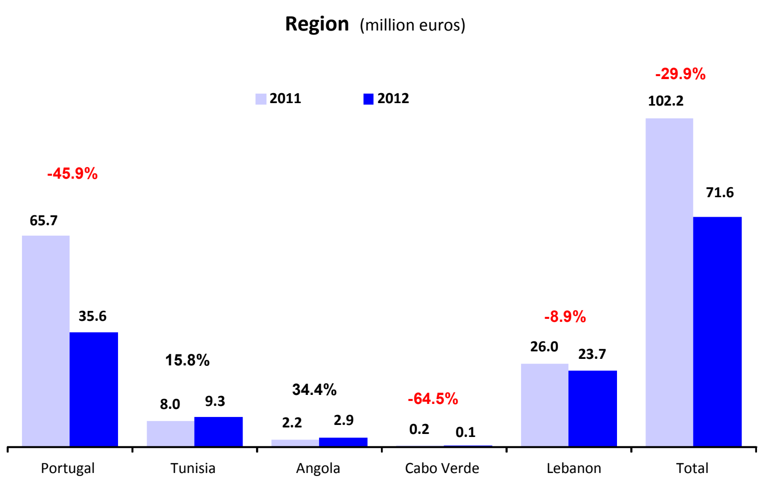
Turnover from total operations outside Portugal and from exports by Portugal-based operations represented a larger share of the total: 42.1%, as compared to the figure of 35.1% recorded 2011.

Breakdown of EBITDA by segment and geographical region



* includes Aggregates, Mortars and Pre-cast

The cement and clinker segment declined in absolute terms in relation to 2011. However, it represented a larger relative share of total Secil Group operations.



Note: The segment 'Portugal' includes the EBITDA of Silonor (France) and Secilpar (Spain)

In terms of geographical breakdown, EBITDA was more widely dispersed than in the previous year, with operations outside Portugal accounting for approximately 50.3% of the Secil Group's total EBITDA, as compared to the figure of 35.7% recorded in 2011.

4.4. Business Review

4.4.1. Portugal

4.4.1.1. Market Background

According to the latest forecasts published by the Bank of Portugal in its winter Economic Bulletin, the Portuguese economy is thought to have shrunk by 3% in 2012. This reduction reflects essentially a significant drop in domestic demand, as exports recorded growth over the period.

According to the same source, the state of recession is expected to persist throughout 2013 (contraction of 1.9% in economic activity, according to the Bank of Portugal's January Economic Bulletin), as a result of the restrictive measures contained in the State budget, which will lead to a further reduction in domestic demand, with the respective negative effects on the economy in general, and on the construction sector in particular.

This gloomy economic environment, which can be observed in most sectors of the economy, will continue to weigh heavily on the construction sector, which has recorded no growth in the last 11 years. The industry which in the past accounted for 7.3% of Portuguese GDP, makes a contribution at present of only 5% (according to the Portuguese Construction and Public Works Industry Federation). According to figures published by INE, business in the construction and public works sector fell by approximately 16.6% in the period from January to November (production index for the construction and public works sector, INE – January 2013).

In this adverse environment, the Secil Group presented the following overall indicators for its operations in Portugal in 2012:

Portugal	Turnover			EBITDA			Quantities Sold			
(million euros)	Dec 12	Dec 11	12/11 (%)	Dec 12	Dec 11	12/11 (%)	Unit	Dec 12	Dec 11	12/11 (%)
Cement and clinker	177.1	202.0	-12.3%	40.7	70.6	-42.4%	1000 t	2,427.0	2,702.7	-10.2%
Ready-mixed	58.8	85.4	-31.2%	-1.7	-2.1	-21.0%	1000 m3	958.1	1,398.2	-31.5%
Aggregates	8.7	14.7	-40.6%	-1.6	-1.2	34.5%	1000 t	1,982.6	3,052.7	-35.1%
Mortars	9.1	12.5	-26.9%	0.3	1.4	-78.1%	1000 t	166.1	251.4	-33.9%
Precast	5.7	8.1	-30.2%	-0.4	-1.6	-75.3%	1000 t	82.1	120.2	-31.7%
Waste reclamation	1.5	6.1								
Total	**260.8**	**328.8**	**-20.7%**	**37.3**	**67.1**	**-44.4%**				

4.4.1.2. Cement and Clinker

Cement consumption fell by 26.9% in Portugal in 2012, standing at 3.3 million tons, accelerating the decline which started back in 2002.

Cement and clinker imports are estimated at approximately 200 000 tons, down from the previous year and representing a market share of roughly 6%.

Annual variation in cement and clinker consumption in Portugal

		2010	2011	2012
Portugal	Mt	5.8	4.9	3.4
Portugal	Var%	-5.8	-15.1	-29
European Union	Var%	-10.9	-3.0	

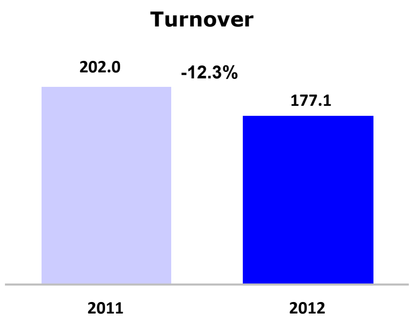
Source: Secil Group

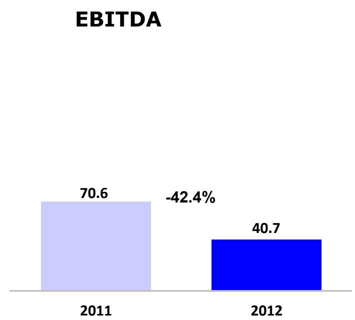
The financial year of 2012 was marked by a fiercely competitive business environment, due to the stance taken by local competitors and to imports from the Spanish market, which is also contracting. Competition was also stoked by the existence of surplus production capacity in the country in relation to current levels of demand.

In this economic situation, with falling internal demand, the Secil Group maintained its relative share of the market, adapting its output to the size of the market and seeking alternative distribution channels in the export market, so as to minimize the reduction in the occupancy rates of its production units.

The Secil Group continued to operate a dynamic sales policy, seeking to maintain close relations with its customers, which allowed it to increase its average net sales price on the domestic market by approximately 0.4%. Also significant was the strategy adopted by the Secil Group of building a stronger position in dealings with specialized retail chains, which helped to increase the relative importance of retail in its overall sales structure.

Indicators (million euros)





Turnover stood at 177.1 million euros, down by 12.3% on 2011 due a significant reduction in sales on the domestic market (down by 25.9%). Attention should be drawn to the increase in export business (up by 25.8%), which helped offset declining sales on the home market.

Cement operations in Portugal presented poorer performance than in the previous year, with EBITDA standing at 40.7 million euros, 42.4% down on the previous year.

This decline was due essentially to the following factors: i) an appreciable reduction in the average sales margin, caused by decreased sales on the domestic market which offers higher prices and margins than the export market; ii) an increase in power costs; iii) occurrence of non-recurrent costs related to redundancies, due to the streamlining plan currently under way, partially offset by a reduction in liabilities for other benefits.

Tight controls were maintained on production costs, distribution costs and overheads in the internal market, making it possible to minimize the effects described above, and the Group has increased its use of alternative fuels.

The distribution system was able to meet market demands in full. In a year in which new tolls were introduced, alongside significant increases in fuel prices and strikes in the port and rails industries, transport costs constituted a priority which was managed with success, with distribution costs remaining close to those recorded in the previous year.

Secil's Board of Directors believes that policy for the power sector should seek to reduce the competitive bias against Portuguese manufacturing, and the cement industry in particular.

Lastly, we are pleased to report that Secil's cement was used in a number of major and high profile projects, some completed and others still under way, including the Fundação Nadir Afonso in Chaves (architect: Álvaro Siza Vieira) and the Poente Building at Tagus Park, Oeiras (architect: Frederico Valsassina). Construction projects using the group's grey cement included the works to increase power capacity at two major hydroelectric stations, in Venda Nova and Salamonde, Vieira do Minho, the Data Center for Portugal Telecom, in Covilhã, the new Vila Franca de Xira Hospital, the new Criminal Police Headquarters in Lisbon and the Cruise Ship Terminal in Leixões.

Industrial Operations

Cement output from the Secil Group mills in Portugal stood at 2.3 million tons in 2012, representing a reduction of 13% in relation to 2011, due to lower demand.

Cement Production:

		2011	2012	Change
Grey Cement	1000 t	2,509	2,175	-13%
White Cement	1000 t	94	94	2%
Total	**1000 t**	**2,603**	**2,271**	**-13%**

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

Purchase prices for petcoke came down by an average figure for the year in the order of 20%.

The cement plants have made major efforts to cut their production costs. Streamlining measures were fundamental in order to mitigate the adverse effects of the low rate of use of production capacity. Important initiatives in this area included the programme for pooling resources in the field of industrial maintenance, in order to cut the costs of materials, services and stocks, and a project to increase energy efficiency, designed to cut thermal energy and power costs, factors of great importance to both the cost structure and also to the company's sustainability.

The Group has further increased the use of industrial waste as thermal fuel. Overall, the rate of use of alternative thermal fuels rose from 38% in 2011 to 41% in 2012.

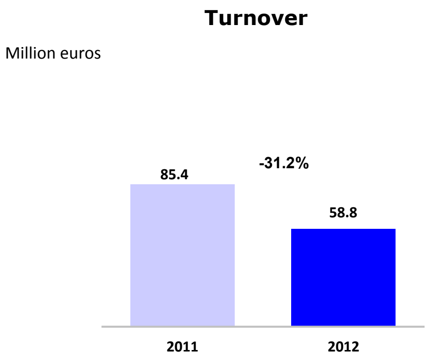
The reorganization of operations in Portugal had a very significant impact on the cement sector, and the plan to cut back the operational structure involved the 3 cement mills, as well as the organizational structure. The streamlining of human resources, in order to adapt to the new situation in the market, resulted in a reduction in the workforce of around 24% in relation to 2011.

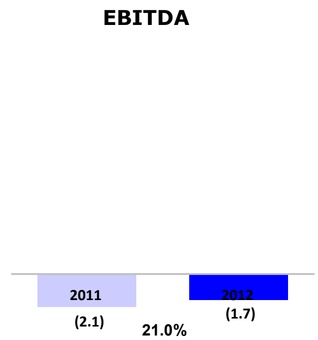
Capital expenditure

Capital expenditure in 2012 totalled 12 million euros, down by 63% from 2011, when investment had totalled 32 million euros. This reduction is in line with the streamlining policy currently being pursued by the Secil Group.

Major projects included increasing storage capacity for alternative fuels, the start of work on installing a gas by-pass at the kilns at the Outão and Maceira mills, installation of a cement bagging and palletizing unit at the Outão Mill and completion of the project for using CO_2 to grow microalgae and developing commercial applications.

4.4.1.3. Ready-Mixed





Estimates point to the ready.-mixed market standing at 3.5 million cubic metres, representing a reduction of approximately 43% in relation to 2011, due to the significant contraction of the residential construction sector and suspension of certain public works projects.

In addition to the reduced size of the ready-mixed market, the Group was faced with the worsening credit risk and financial situation of many clients, leading to insolvency in numerous cases and increasing recourse to special procedures for corporate reorganization, compromising the prompt and full receipt of amounts owed.

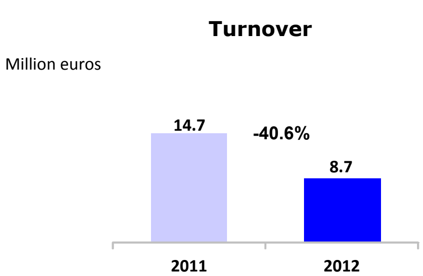
In this adverse environment, the Secil Group's turnover in this business segment stood at around 58.8 million euros, down by 31.5% in quantity and 31.2 in value in relation to 2011.

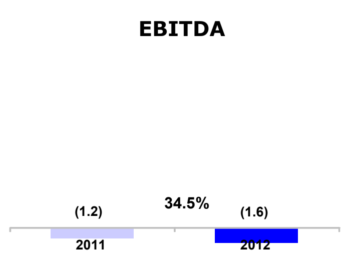
In terms of performance, EBITDA stood at -1.7 million euros, as compared to -2.1 million euros in the previous year. The performance of this business unit was adversely affected by the reduction in business, and by non-recurrent costs of approximately 2.5 million euros relating to redundancy payments and by a figure of around 825 thousand euros recorded for impairment of client receivables.

The sharp drop in business in the sector has led the Group to reorganize its operations, in a process that started in 2011, with a view to achieving substantial cost savings and streamlining operations, in order to adjust this business unit to the new business reality. This process involved laying off some 75 workers, and redundancy agreements were also reached at the end of 2012 with a further 17 workers, who will leave the Secil Group in early 2013.

A large number of concrete plants were closed down or mothballed, with 31 plants currently in operation.

4.4.1.4. Aggregates



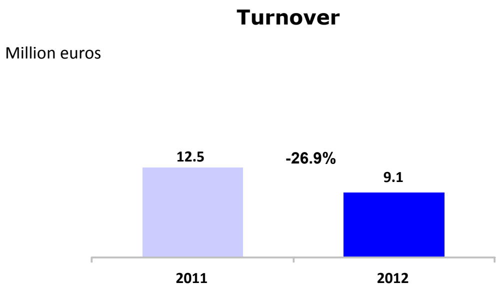


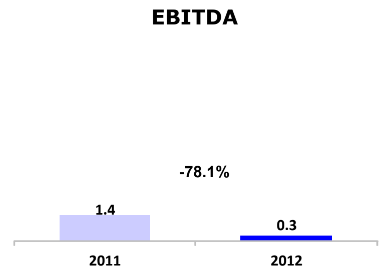
Sales of aggregates fell significantly, down by 40.6% in value and 35.1% in quantity, as a result of the crisis in the civil construction sector.

EBITDA stood at -1.6 million euros, down by 34.5% in relation to the previous year. This reduction was due to the appreciable decline in business and the recording of redundancy payments for 37 workers, with a value of 653 thousand euros, resulting from a process of reorganization that started at the end of 2011.

Sales prices came under considerable pressure, and the second half of 2012 was marked by fiercer competition. Production costs rose by around 6%, due in the main to rising power costs, despite careful selection of tariffs and adjustment of production hours, seeking to operate at cheaper times.

4.4.1.5. Mortars





The effects on the mortar market of the crisis in the civil construction sector, and in particular in the residential construction segment, were once again severe.

The hydraulic lime market recorded business at the same level as in 2011, despite the tendency for contraction observed in recent years.

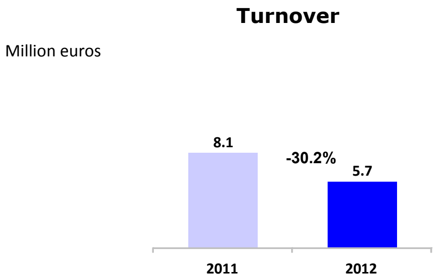
In this context, turnover in this business unit stood at 9.1 million euros, down 26.9% on 2011.

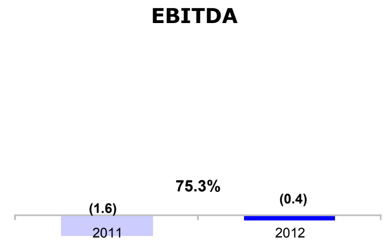
EBITDA totalled 0.3 million euros, representing a reduction of 78.1% due essentially to falling sales quantities on the domestic market. Ongoing efforts have been made to streamline costs, and personnel costs in particular, although these measures have not been sufficient to offset the slump in business.

Major developments included the start-up, in January 2012, of the new mortars plant in Montijo, with annual production capacity of 240,000 tons, which will significantly improve the process of supplying the market, especially in the Lisbon region.

Another important development was the launch of the *hidrostop* range of technical products for damp proofing, prevention and treatment of damp, and expansion of the renovation range using new mortars based on natural hydraulic lime.

4.4.1.6. Pre-cast Concrete





As in previous year, the pre-cast concrete market continued to decline in 2012. Estimates of the market in which Group companies operate point to a reduction of approximately 30%, in line with level of business experienced by Secil Prebetão and Argibetão.

Supply far outstrips demand, meaning that competition in the sector remains extremely fierce, with manufacturers offering very low prices, sometimes close to cost price.

In this environment, the pre-cast concrete business unit recorded turnover of 5.7 million euros, down by 30.2% on the figure recorded in the previous year. In terms of operational performance, this business unit presented EBITDA of -0.4 million euros, comparing favourably with the figure of -1.6 million euros recorded in 2011, when EBITDA had been pushed down by the cost of redundancy payments.

Significantly, Secil Prebetão is implementing a plan to restructure its operations, which will enable it to be more competitive and improve its performance in future.

4.4.2. Tunisia

4.4.2.1. Market Background

Tunisian society and the country's economy continued in 2012 to feel the effects of the revolution of January 2011 and its aftermath.

Despite continuous improvement in the general security situation, some unstable flashpoints still remain, and the outlook for the country in political, social and economic terms is consequently unclear.

The economic situation in Europe has had an impact on the Tunisian economy, causing a slowdown in export sectors and undermining an economy already reeling from the revolution and from political and social instability. This situation was further exacerbated by the fact that the period of transition, due to have ended in 2012, is still continuing, awaiting fresh elections which have yet to be held.

According to the IMF, the Tunisian economy is expected to grow by 2.7% in 2012, turning around the negative growth of -1.8% recorded in 2011 (Angola Economic Outlook, IMF October 2012). A slight recovery was observed in manufacturing, tourism and transport, while still falling short of the levels recorded in 2010.

As in 2011, the Tunisian dinar continued its downward trend against the euro, falling by an average of approximately 2.6% over the year.

The following table presents overall indicators for the Secil Group's business operations in Tunisia in 2011 and 2012:

Tunisia	Turnover			EBITDA			Quantities Sold			
(million euros)	Dec 12	Dec 11	12/11 (%)	Dec 12	Dec 11	12/11 (%)	Unit	Dec 12	Dec 11	12/11 (%)
Cement and clinker	59.1	52.6	12.5%	8.5	7.0	20.5%	1000 t	1,217.5	1,096.1	11.1%
Ready-mixed	7.9	8.4	-6.1%	0.8	1.0	-16.5%	1000 m3	175.9	189.8	-7.4%
Precast	0.1	0.2	-32.5%	0.0	0.0	-40.3%	1000 t	4.0	6.2	-34.6%
Total	**67.1**	**61.1**	**9.8%**	**9.3**	**8.0**	**15.8%**				

4.4.2.2. Cement and Clinker

The cement sector continued in 2012 to suffer the effects of the transitional period in the wake of the revolution, including sporadic closures of facilities, albeit on a smaller scale than in 2011.

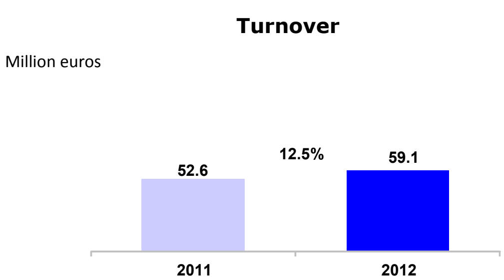
Consumption of cement and artificial lime in the Tunisian market stood at approximately 7.5 million tons, representing an increase of 12.3% in relation to the previous year. In the southern region, where the Secil Group's production facility is located, growth was slower, in the order of 11.7%.

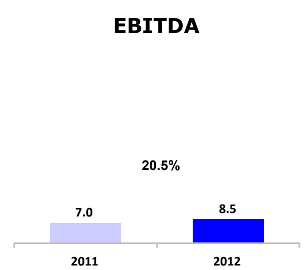
Sales on the local market totalled 1.2 million tons, up by 8.2% on the figure recorded in the previous year. Sales on the external market also grew in relation to 2011, standing at a total of 36 thousand tons, as against 4 thousand in 2011.

This increase was explained largely by the abrupt reduction experienced in 2011 in the wake of the revolution and the events that followed.

Despite the growth in sales to foreign markets, administrative restrictions on exports were maintained in 2012, whilst the situation remained unstable in Libya, meaning that exports failed to fulfil their potential in terms of quantities.

Indicators





Turnover in cement and clinker business stood at approximately 59.1 million euros, representing an increase of 12.5% over the 12 months of the previous year, due essentially to an increase in quantities sold (up 11.1%), insofar as sales prices stagnated on the domestic market.

EBITDA in this business area totalled approximately 8.5 million euros, up by 20.5% on the previous year, when performance had been badly hit by the political developments in 2010.

Overall, performance was positive, considering the following factors which affected operations over the course of

2012: (i) temporary blockade of the mill due to strikes and sit-ins, (ii) delay in the start-up of the new cement mill, (iii) the shortfall in clinker output meant that substantial quantities had to be imported, at higher prices, in order to meet internal demand, resulting in a squeeze on the margin on local sales.

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

Accordingly, under the existing price regulation system, there was no price rise for cement sales during 2012.

It should be noted that the prices prevailing in the Tunisian market are substantially lower than those in neighbouring countries. For this reason, the Government imposed strict restrictions on exports, which generally offer much better margins than the domestic market.

Industrial Operations

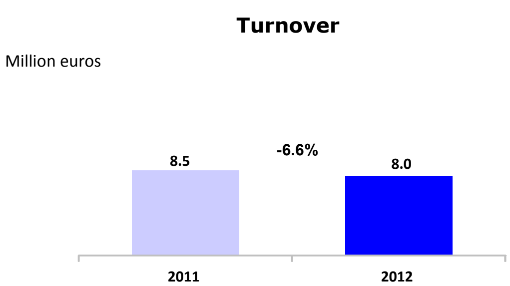
Output of cement and artificial lime stood at 1.3 million tons, representing growth of 8.3% over the previous year. The financial year of 2011 was marked by a series of stoppages, which had a severe effect on output. The mill was again subject to stoppages in 2012, due to strikes and sit-ins, although the impact was less significant than previously.

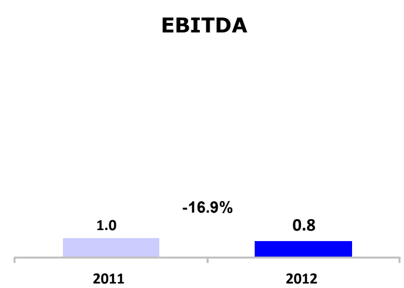
Fuel costs fell over the period, and most significantly petcoke prices were down by an average of approximately 17.3%.

Capital expenditure

In the wake of the crisis situation, the start-up of the new cement mill, originally planned for 2011, was postponed to 2012. However, as reported above, there was a considerable delay in the commissioning of this facility.

4.4.2.3. Ready-mixed and Precast Concrete





The ready-mixed market contracted in 2012 and the pre-cast market also continued the trend of recent years by declining further.

Concrete sales were down by 7.4% on the previous year and pre-cast sales tumbled by around 34.6%.

The situation in the country has affected both segments, with the public works sector in recession due to the lack of contracts and the private construction sector experiencing positive but uneven growth.

The decline in major public and private works projects had an impact on the concrete sector, where sales recorded a decline across the board.

Overall, turnover in this business unit contracted in the order of 6.6%, standing at 8.0 million euros. Despite the drop in sales by quantity, turnover was not so significantly hit, thanks to rising prices in both segments. Margins on concrete and pre-cast sales increased in 2012, due in part to the increase in prices and also to a slight reduction in production costs.

EBITDA totalled 0.8 million euros, down by approximately 16.9% on 2011. This reduction was due fundamentally to decreasing business and to the recording of impairments on receivables, in the order of 300 thousand euros.

4.4.3. Lebanon

4.4.3.1. Market Background

According to figures published by the IMF, the Lebanese economy is thought to have grown by 2% in 2012, up from the rate of 1.5% recorded in the previous year (World Economic Outlook, IMF October 2012).

The political situation in Lebanon was relatively stable in 2012, despite the troubles experienced in the north of the country. The Middle Eastern region has been going through a period of significant change, involving political transition in several countries. This holds out the promise of growth, but these changes have also created uncertainties, which have undermined investment, tourism and the economy in general. Lebanon has also felt the impact of both the global slowdown and stability at home.

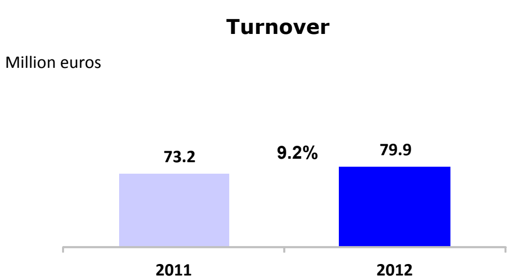
The following table presents overall indicators for the Secil Group's business operations in Lebanon in 2011 and 2012:

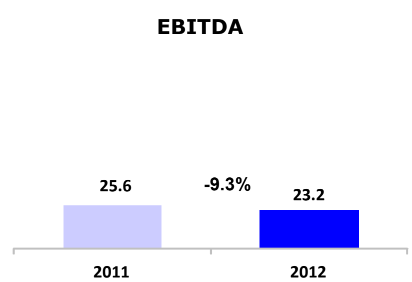
Lebanon	Turnover			EBITDA			Quantities Sold			
(million euros)	Dec 12	Dec 11	12/11 (%)	Dec 12	Dec 11	12/11 (%)	Unit	Dec 12	Dec 11	12/11 (%)
Cement and clinker	79.9	73.2	9.2%	23.2	25.6	-9.3%	1000 t	1,138.3	1,185.8	-4.0%
Ready-mixed	8.2	7.6	7.5%	0.5	0.4	18.0%	1000 m3	131.6	135.9	-3.2%
Total	**88.0**	**80.8**	**9.0%**	**23.7**	**26.0**	**-8.9%**				

4.4.3.2. Cement and Clinker

Despite the modest growth forecast for the economy, cement consumption edged downwards overall in relation to the previous year, with the market contracting for the first time since 2002. Estimates point to a total value for the cement market of 5.4 million tons of cement, some 4.6% smaller than in the previous year.

Indicators





In this context, Sibline recorded a slight reduction in sales in relation to 2011, with all its sales being made on the domestic market.

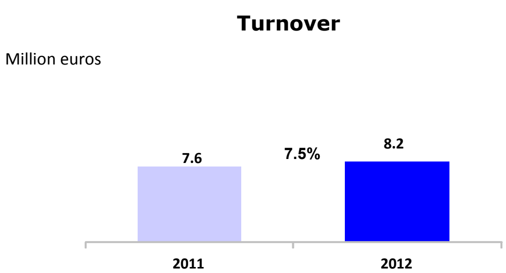
Turnover from cement operations in **Lebanon** stood at approximately 79.9 million euros, representing an increase of 9.2% over the previous year, due fundamentally to the rising average sale prices in euros, insofar as sales by quantity were slightly lower.

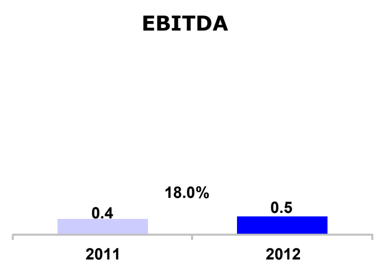
EBITDA stood at approximately 23.2 million euros, down by 9.3% on the previous year. The reduction in EBITDA was caused largely by the slump in performance in the 1st half, as a result of power cuts and a number of technical problems. In order to respond to market demands, the company was obliged to buy in sizeable quantities of clinker and cement from other manufacturers, with a consequent loss of margin. At the same time, successive stoppages led to increased maintenance costs and added thermal fuel consumption due to kiln start-ups.

Industrial Operations

Cement output stood at approximately 1.1 million tons, down by 2.3% on the figure recorded in 2011. The decline in performance was caused largely by the slump in performance in the 1st half, as a result of lengthy stoppages of production lines, due to frequent power cuts and the occurrence of technical problems

4.4.3.3. Ready-Mixed





The ready-mixed business area declined slightly in comparison to the previous year, with sales of 131,570 cubic metres, 3.2% down on 2011, and turnover of 8.2 million euros.

Despite an increase in average sale prices, the growth in turnover was due essentially to movements in the EUR/USD exchange rate. Had it not been for these, turnover would have been similar to that recorded in 2011.

EBITDA stood at 0.5 million euros in 2012, representing an improvement of 18.0%, thanks to the start-up of the new concrete plant located in Dorsa (in northern Beirut).

4.4.4. Angola

4.4.4.1. Market Background

Growth in the Angolan economy was robust in 2012, estimated at 6.8% (World Economic Outlook, IMF October 2012), and is still gathering momentum. The country also established a stronger fiscal position and larger international reserves, enjoying a stable exchange rate. In this context, the Angolan authorities pressed ahead with reforms, to bolster key areas, such as the fiscal, monetary and financial sectors.

Growth in the economy was sustained by a recovery in the oil sector and continued growth in the non-oil sector.

The following table presents overall indicators for the Secil Group's business operations in Angola in 2011 and 2012:

Angola	Turnover			EBITDA			Quantities Sold			
(million euros)	Dec 12	Dec 11	12/11 (%)	Dec 12	Dec 11	12/11 (%)	Unit	Dec 12	Dec 11	12/11 (%)
Cement and clinker	28.5	30.4	-6.2%	2.9	2.2	34.4%	1000 t	177.2	229.1	-22.6%

4.4.4.2. Cement and Clinker

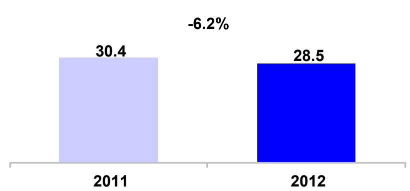
Growth in the Angolan economy also resulted in continued expansion of the construction industry, causing cement consumption to rise to 5 million tons, representing an increase of approximately 39% on the previous year. Of the total cement market, around 2 million tons is represented by imported cement.

In terms of domestic manufacturing capacity, a significant development was the commissioning of a cement mill in the Benguela region, with annual capacity of 600 000 tons. In view of the location of this unit, the start-up will have an impact on the Secil Group's operations.

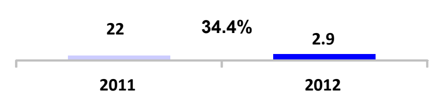
Indicators

Turnover

Million euros



EBITDA



Secil Lobito recorded sales of 177.2 thousand tons, corresponding to turnover of 28.5 million euros; these figures are down by respectively 22.6% and 6.2% on the previous year.

This negative evolution in turnover was the result of a reduction in the volume of cement sales, insofar as the average sales price increased over the period. The start-up of the new cement mill in the Benguela region also contributed to shrinking business.

The performance of cement operations in Angola improved significantly, with EBITDA standing at 2.9 million euros, up by 34.4% on the previous year, thanks essentially to rising average sales prices and streamlining of costs.

4.5. Resources and Supporting Functions

4.5.1. Sustainability

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

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

- The alternative fuel substitution rate rose to 41%, allowing further substitution of fossil fuels;
- The total rate of clinker incorporation remained unchanged from 2011, at 74.4%;
- A significant reduction in specific CO_2 emissions from 654 kg to 615 kg of CO_2 per ton of cement products, thanks to reduction in specific CO_2 emissions per ton of cement;
- CO2 emissions from all 3 plants stayed within the limits set in the licenses issued by the Portuguese Government under the National CO2 Emissions Plan (PNALE II).

4.5.2. Environment

In an important development for Secil in particular, 2012 saw the launch of a project for "Electrical Energy Optimization at Cement Mills in Portugal", designed to improve energy efficiency (electrical and thermal energy) at its facilities. This project started by identifying a set of measures to cut energy consumption, including the optimization and replacement of equipment and utility networks, and measures for increasing the alternative fuels substitution rate.

Another major development was the publication of the National Low Carbon Roadmap (NLCR), which set out to study the technical and economic feasibility of routes to reducing greenhouse gas emissions in Portugal by 2050, leading to a competitive low-carbon economy. The analysis in this Roadmap leads to the conclusion that the possibility exists of reducing Portugal's greenhouse gas emissions to between 50 and 60% of 1990 levels by 2050. The vision underlying the NLCR is in line with the European Union's target of cutting greenhouse gas emissions by 2050 to 80-95% of 1990 levels. Emissions by manufacturing industry (which includes the cement sector) can be brought down to 33-53% of 1990 levels by 2050, and in the case of cement, part of this reduction will be achieved by using carbon capture and sequestration technologies, whose technical and economic feasibility still needs to be investigated.

At European level, the conclusions on the Best Available Techniques for the cement industry have been approved, which could have implications for emissions limits applicable to SECIL's facilities, in particular with regard to Nitrogen Oxide, requiring the adoption of secondary reduction measures (SBCR - Selective Non-Catalytic Reduction)

4.6. ORGANIZATION

In 2012, Secil significantly restructured its operations in Portugal, in particular in the cement, ready-mixed and aggregates segments, with a view to achieving significant savings by streamlining operations and resizing supporting departments in order to bring the company’s structure into line with the new situation created by the substantial reduction in domestic demand.

The aim of all the measures adopted is to protect Secil's long term viability, preserving the important role it has played in Portugal's economy, over a period of unprecedented hardship and uncertainty.

As a result of the restructuring measures adopted in Portugal, the Secil Group's workforce was cut to 2247, 13% down on the figure for 2011.

The operational streamlining plan has involved the 3 cement mills in Portugal, the Group's concrete plants and its quarries. Streamlining of operations has also involved the closure of concrete plants.

The Group's central support structures have also been reorganized, involving the migration of back-office activities for ready-mixed and aggregates to the Group's central offices. A new central services structure has been created, which will serve all the Group's units in Portugal.

The migration was effected in early November 2012, leading to redundancies in this area, and the new organizational structure is currently stabilizing. A further process of optimizing supporting functions will commence in 2013, involving a large number of projects in the field of information technologies, in order to improve organizational processes.

A series of initiatives is currently under way to streamline costs and maximize efficiency, both in operations and in the central departments.

5. Supremo Group

During the 1st quarter of 2012, the Semapa Group went ahead with acquisition of a 50% stake in Supremo Cimentos S.A., a cement manufacturer located in southern Brazil, in the state of Santa Catarina. The company operates an integrated clinker and cement mill in Pomerode, as well as aggregates and concrete operations. Supremo is currently constructing a new mill which is set to increase its cement production capacity to close to one million seven hundred thousand tons.

This holding has now been included in Semapa's consolidated accounts on a proportional basis.

In the financial year of 2012, the Supremo Group recorded turnover of 46.1 million euros and EBITDA of 3.1 million euros, of which Semapa appropriated 50%.

6. Environment Business Area – ETSA

6.1. Leading Business Indicators

IFRS - accrued amounts (million euros)	2012	2011	Var. (%)
Sales	**35.6**	**33.2**	**7.2%**
Other income	1.5	0.2	656.0%
Costs and losses	(28.2)	(25.3)	-11.3%
EBITDA	**9.0**	**8.1**	**10.5%**
Recurrent EBITDA	9.0	8.1	10.5%
Depreciation and impairment losses	(2.8)	(2.4)	-18.8%
Provisions (increases and reversals)	(1.0)	(1.1)	15.0%
EBIT	**5.2**	**4.6**	**12.4%**
Net financial profit	(1.6)	(1.0)	-57.0%
Pre-tax profit	**3.6**	**3.6**	**-0.2%**
Tax on profits	(0.5)	(0.7)	28.3%
Retained profits for the year	3.1	2.9	6.3%
Attributable to ETSA equity holders *	**3.0**	**2.9**	**3.7%**
Attributable to minority interests (MI)	0.1	(0.0)	756.4%
Cash-Flow	**6.9**	**6.4**	**7.2%**
EBITDA margin (%)	**25.2%**	**24.5%**	**3.1%**
EBIT margin (%)	14.6%	13.9%	4.9%
	31-12-2012	**31-12-2011**	**Dec12 vs. Dec11**
Equity (before MI)	55.7	52.6	5.8%
Net debt	**20.4**	**22.7**	**-10.2%**

* of which 96% is attributable to Semapa

Note: The above figures may differ from those presented individually by the ETSA Group, as a result of consolidation adjustments made by the holding company, Semapa.

6.2. LEADING OPERATING INDICATORS

The following table sets out the main operating indicators for the ETSA Group in the financial year of 2012:

	Unit	2012	2011	12/11
Collection of raw materials – Animal waste (categories 1 and 2)	1000 t	47.5	51.6	-7.9%
Collection of raw materials – Animal waste (category 3)	1000 t	71.7	67.8	5.8%
Collection of used food oil	1000 t	2.2	2.9	-24.1%
Sales – animal fats	1000 t	18.1	15.0	20.7%
Sales – meal	1000 t	18.7	16.0	16.9%
Sales - used food oil	1000 t	2.1	2.9	-27.6%
Sales – Frozen products for pet food	1000 t	0.0	2.2	-100.0%

6.3. ETSA GROUP - BUSINESS OVERVIEW

The economic recession currently affecting Portugal and Spain has had a constraining effect on the ETSA Group's turnover, which in 2012 totalled 35.6 million euros, up by approximately 7.2% on the figure recorded in the financial year of 2011. This growth was due essentially to the extension of services to new abattoirs with the acquisition in April 2011 of the assets of another operator, to the stepping up of commercial operations in Spain, resulting in the contracting of a number of new suppliers, including a number of former suppliers, and to rising average sales prices for fats and meals.

The change in stocks for the same period stood at approximately 1.5 million euros, as compared to a figure of 0.3 million euros in the previous year, thanks to dynamic programming of sales and stocks.

As a result, at 31 December 2012, consolidated EBITDA totalled 9.0 million euros, representing growth of 10.5% over the financial year of 2011, thanks essentially to (i) increased turnover and change in stocks and (ii) the pressure exerted throughout operations by cost control systems, despite the penalizing effect of rising unit costs for the main energy needs.

The increase in depreciation was caused fundamentally by the volume of investment in April 2011, relating to acquisition of assets from another operator in the market.

At the same time, as a result of the uncertainty surrounding an abattoir with which SEBOL established a commercial contract in late 2010, additional provisions have been recorded in the consolidated accounts with a value of 900 thousand euros, bolstering the provisions already made in 2011.

Financial charges increased significantly over the period, due to an increase in gross borrowing, as a result of the investments made in 2011 and the repricing of the respective main conditions.

The combination of the effects described above resulted in an increase in net income, which for 2012 stood at approximately 3.0 million euros, up by 3.7% from that recorded in 2011.

At 31 December 2012, the ETSA Group recorded net debt of 20.4 million euros, representing a reduction of approximately 10.2%, or 2.3 million euros in relation to the net debt recorded at 31 December 2011.

7. Semapa Group Human Resources

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

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 rose from 5,133 at the end of December 2011 to 5,208 at the end of December 2012, as shown in the following table:

	31-12-2012	31-12-2011	Var
Paper and Pulp	2,275	2,290	-15
Cements	2,659	2,589	70
Environment	254	235	19
Holdings	20	19	1
Total	**5,208**	**5,133**	**75**

The net increase of 70 employees in the workforce in the cement area was due fundamentally to the acquisition of the Supremo Group in 2012, with 412 employees, and 342 redundancies in the Secil Group.

8. Social Responsibility in the Semapa Group

Helping to develop its local communities is one of the guiding strategic principles of the Semapa Group. 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 conserve the environment.

The Semapa Group has supported a number of institutions including Associação Salvador, which defends the interests and rights of people with reduced mobility, and especially of people with mobility handicaps, and the Fundação Nossa Senhora do Bom Sucesso, a charity working to provide health care centred on families, with a special focus on women and children.

In 2012, the Portucel Group developed closer links with the community through projects designed to promote the improvement of woodlands and conservation of biodiversity, to create a culture of openness and provide information about its industrial units, as well as running active programmes of welfare support for people facing hardship.

In keeping with its policy of social responsibility, the Group has established partnerships with various institutions working in the regions around its plants and forest holdings.

Paper was also donated in 2012 to schools and welfare organizations in the area of influence of the Group's mills. A total of 146 donations were made to social, educational and cultural projects, corresponding to approximately 43 tons of paper.

The Secil 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 in which it locates its production units and commercial premises.

Secil's workforce has benefited from complementary retirement pension plans and other benefits designed to combat absenteeism and to help retain employees.

At the same time, Secil has signed 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.

The ETSA Group has established partnerships with charities and welfare organizations, designed to support work to improve the living conditions and inclusion of the underprivileged. This has included supporting the work of AMI – Assistência Médica Internacional and also the Ronald McDonald Foundation, by means of cash donations.

9. Semapa Group – Financial Area

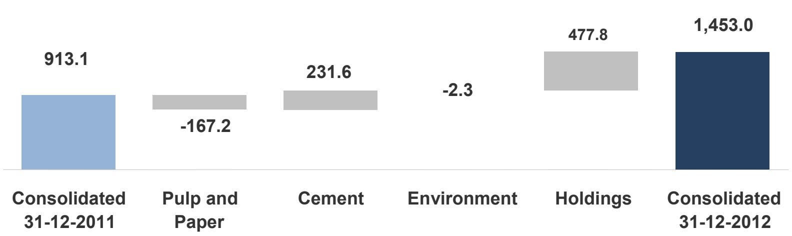
9.1. Indebtedness

At 31 December 2012, consolidated net debt stood at 1,453.0 million euros, representing an increase of 539.9 million euros over the figure recorded at year-end 2011. The following table shows the evolution and a breakdown of consolidated net debt:

Million Euros

	31-12-2012	31-12-2011	Var
Pulp and Paper	255.6	422.8	-167.2
Cement	304.3	72.6	231.6
Environment	20.4	22.7	-2.3
Holdings	872.8	395.0	477.8
Total	**1,453.0**	**913.1**	**539.9**

Consolidated Net Debt Evolution



The increase recorded in indebtedness is due essentially to the combined effect of:

- Very significant cash flow generation in the paper and pulp segment: although Portucel paid out a total dividend of 164.7 million euros in April and acquired own shares for an outlay of 46.0 million euros, its indebtedness was reduced by 167.2 million euros. It should also be noted that cash generation over the year was also held in check by efforts to step up support to raw material suppliers, by disbursement of the final payments on capital projects from previous periods and the adoption of supplier payment practices which take into account the current difficulties they face in obtaining bank credit;
- An increase of 231.6 million euros in the cement segment, due to incorporation of 49% of the net debt of the Secil Group and consolidation in the Semapa Group's accounts of 50% of Supremo's debt;
- A reduction of 2.3 million euros in the Environment segment (ETSA Group);
- An increase of 477.8 million euros at holding company level, due to the combined effect of the acquisition of Supremo, acquisition of 49% of Secil, receipt of dividends from Portucel and payment of dividends to Semapa's shareholders.

9.2. Risk Management

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

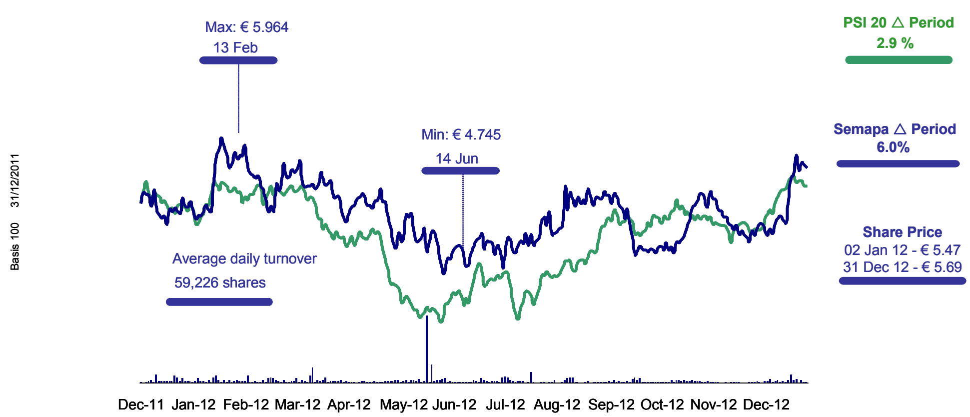
9.3. Pensions and Other Post-employment Benefits

Total liabilities for pensions, in consolidated terms, at 31 December 2012, stood at 150 million euros, of which 145.7 million euros were covered by independent pension funds. Accordingly, uncovered pension liabilities at this date, totalling 4.3 million euros, comprise i) 2.1 million euros for the Portucel Group, ii) 0.8 million euros for the Secil Group and iii) 1.4 million euros for Semapa.

In addition, the Semapa Group also calculated liabilities for other post-employment benefits totalling 5.2 million euros (3.2 million euros for the Portucel Group and 2 million euros for the Secil Group).

9.4. Listed Share Price

After the financial year of 2011, which was particularly difficult for most markets, 2012 proved to be a year of recovery, with investors returning to the equity markets. The main European markets recorded significant gains, in particular towards the end of the year, most notably in Frankfurt (up 29.1%), but also in London (up by 18.7%) and Paris (up by 15.2%). Performance in the Portuguese index fell short of the level recorded by other European markets, although it managed to outshine the Madrid market index, which ended the year down by 4.7%. After losing almost 15% over the first half of the year, the PSI20 rallied significantly in the second half, and ended the year up by 2.9%.



Note: Closing prices

In this context, shares in Semapa ended the financial year of 2012 with an overall gain of approximately 6.0%, around double the increase recorded by the PSI20 over the period (up 2.9%).

9.5. DIVIDENDS

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

- Semapa's General Meeting resolved to distribute a total dividend of 28,785,539.85 euros, paying out 25.5 cents per share on 11 June.
- Portucel's General Meeting resolved to distribute a total dividend of 164,730,887 euros, paying out 22.1 cents per share on 20 April.

9.6. NET PROFITS FOR 2012

Also in connection with the process of acquisition of 49% of Secil from CRH, and due to differences between the IFRS and SNC rules, as well as to reassessment of the recoverable value of this subsidiary, in the separate financial statements, drawn up under the SNC rules, the difference determined between the acquisition value and the respective recoverable value was partially recorded in the individual results for the period (221 million euros), as duly disclosed to the market. As a result of this, the net income stated in the separate financial statements, drawn up under the SNC rules, stood at a negative figure of 110 million euros for the period ended 31 December 2012

Semapa has recorded Consolidated Net Profit for 2012, before minority interests, of 170.6 million euros, of which a positive figure of 126.5 million euros is attributable to Semapa equity holders.

10. Principal Developments in 2012

- During the 1st quarter of 2012, the Semapa Group went ahead with acquisition of a 50% stake in Supremo Cimentos S.A., a cement manufacturer located in southern Brazil, in the state of Santa Catarina. The company operates an integrated clinker and cement mill in Pomerode, as well as aggregates and concrete operations. Supremo is currently implementing an expansion plan after which its cement production capacity will be close to one million seven hundred thousand tons. This holding has now been included in Semapa's consolidated accounts using the proportional method, with 13.8% held by Secil and 36.2% held indirectly by Semapa SGPS.
- In March, Semapa SGPS launched a bond issue, with financial settlement on 30 March 2012, providing it with gross funding of 300 million euros. The SEMAPA 2012-2015 issue has a maturity of 3 years and a flat rate of 6.85%.
- As from the same month, the holding in Secil has been included in Semapa's consolidated accounts on the full consolidation basis, as a result of the ending of the shareholders' agreement between Semapa and CRH and with the Semapa Group taking over control of the Secil Group.
- In April, the Semapa Group effected a bond issue in Brazil, through its wholly owned subsidiary NSOSPE. This is a 5-year floating rate issue with a total value of 128.1 million reais.
- In the same month, Portucel paid out dividends totalling 164.7 million euros.
- In May, the Semapa Group acquired the 49% holding in Secil owned by CRH, for a price of 574 million euros.
- June, Semapa paid out dividends of 28.8 million euros.
- In the course of June, Portucel acquired a bloc of 24.85 million own shares, representing 3.2% of its capital. As a result of this transaction, Portucel now owns 47.36 million shares, representing 6.17% of its capital.
- On 27 December 2012, an Extraordinary General Meeting of Semapa abolished the directors' pension scheme in force since 2005, delegating powers, on the terms and for the purposes of Article 397.2 of the Companies Code, for the conclusion of agreements to redeem the rights existing under this system between the Company and its directors (see the Corporate Governance Report).

11. Outlook

Most indicators point to modest global economic growth in 2013, although with significant differences between regions and countries. A number of structural issues persist with the potential to restrict growth, including the uncertainty surrounding the debt crisis in the Euro Zone, the management of the fiscal cliff in the US and the need for deleveraging of the public and private sectors in a number of economies.

In the Euro Zone, signs of an economic slowdown can still be seen, and are expected to continue throughout the year. Despite the recent boost to confidence in financial markets, economic growth is expected to remain constrained by severe measures to consolidate state spending in most European countries, by the high level of national, corporate and household debt and by the continued fragility of the financial system.

Despite a number of positive signs in the US, in particular the recovery of the real estate sector and improved competitiveness in energy costs, uncertainties remain as to the severity and pace of policies to be implemented over coming years to consolidate the budget, with a possible impact on economic growth.

Some emerging markets, and China in particular, have also begun to cool, and growth in these economies is expected to decrease in the next few years as a result of slacker demand from the developed economies and the transition from a model of growth sustained almost entirely by exports and public spending to one based on internal demand. In any case, the Chinese market is expected to remain one of the main driving forces in global demand, especially in some of the main markets in which the Group operates.

The way forward for the Portuguese economy remains wholly dependent on the process of economic and financial adjustment being undertaken under the aid programme agreed between the Portuguese State, the European Union and the International Monetary Fund.

Forecasts recently published by the Bank of Portugal confirm a reduction in GDP over 2012 in the order of 1.9%, as detailed in the Winter Economic Bulletin, issued in January this year.

Paper and Pulp

The expected persistence of the economic downturn, with its inevitable impact on employment levels, will continue to drive down consumption of uncoated woodfree paper in the more developed economies, in particular in Europe and the United States, the Group's main markets. It should be noted that apparent consumption in Europe, the Group's main market, fell by almost 4% in 2012, and that this trend is set to continue.

Accordingly, despite the resilience shown by the cut-size paper market, where consumption fell by only 1.5%, and the positive impact of capacity closures in 2011, as well as the positive evolution in the USD/Euro exchange rate, factors which together helped to provide some support for the market over the past year, the outlook for the near future remains extremely uncertain.

In addition, insofar as the rally in pulp prices in 2012 was one of the factors that helped sustain paper prices, by maintaining strong pressure on non-integrated producers, the evolution of this market will also be an important element in the Group's future performance.

Expectations accordingly point to the BEKP **pulp** market continuing to be sustained by strong demand from Asian markets, and particularly from China, thanks to investment in the manufacture of tissue papers and the policy pursued by the Chinese government of closing down obsolete plant. Demand will be further bolstered by the foreseeable growth in internal demand, with a sharp impact on consumption of tissue papers, despite the fact that estimates point in the short term to a temporary dip in the pace of paper production, due to the high levels of existing stocks.

This positive performance in the Chinese market has offset the more recessionary environment in Europe and the US. The recent closure of a plant in Brazil with annual production capacity of more than 400 thousand tons, the cost inflation experienced in the main BEKP pulp producer countries, combined with the high level of indebtedness of certain producers and the strong pressure on them to maximize yields from sizeable capital projects currently under way are all conditions which could help sustain prices in the near future.

However, the 4th quarter of 2012 saw the start of production in the Eldorado project, in Mato Grosso do Sul, in Brazil, with rated annual capacity of 1.5 million tons. The impact of this will be felt by the market in 2013, at the same time as a further new unit in Uruguay and another in Brazil are set to come online, with combined capacity of 2.8 million tons/year. The start-up of these new pulp mills will test the capacity of the market to absorb an appreciable increase in the supply of BEKP pulp, and could have a negative impact on the market in the second half of 2013.

In this difficult environment, the Group has striven consistently to expand its markets and to reposition its product mix on its traditional markets, capitalizing on the excellent penetration and awareness levels enjoyed by its own brands and wide perception of the quality of its value proposition. As a result, the Group has expanded its share in its traditional markets and significantly increased its presence in new markets, in particular in Eastern Europe, North Africa and the Middle East.

This has permitted the Group to keep its order books at very comfortable levels and to operate continuously at 100% capacity, placing nearly all its output on foreign markets.

Cement

The current economic climate remains unfavourable to Secil's main business activities, considering the geographical location of its main operations.

In **Portugal**, which is the Group's main market, the outlook remains particularly gloomy in the light of the measures set out in the 2013 State Budget, which will help drive down internal demand yet further, with the consequent negative effects for the economy in general, and for the construction sector in particular. The prospects are therefore not positive for the various segments operated by the Secil Group.

Accordingly, as already mentioned, Secil is implementing a broad array of measures to cut costs, in order to bring its operations in Portugal and the respective structure into line with the new reality created by the drastic reduction in demand. Some of the effects of these measures were already felt in 2012.

In **Tunisia**, the economy is expected to grow by 3.3%, up from the estimated level of 2.7% in 2012, accordingly to the IMF's latest estimates, despite the uncertainty deriving from the continued possibility of political and social instability.

Expectations of improved stability and a slight upturn are constrained by the continuing uncertainty and a degree of indecision as to the country's future, delaying the drafting of a new constitution and the setting of a date for elections which should have been held in 2012. If this situation drags on, it may undermine the normal functioning of a wide variety of sectors.

In line with expectations for the economy as a whole, the construction and cement sector is also expected to record stronger growth than in 2012.

Expectations point to an improvement in exports as the Libyan market stabilizes, although this is subject to factors which are unpredictable.

In **Lebanon**, economic performance is expected to be similar to that in 2012, with growth in the order of 2.5%, up from the estimate of 2.0% for 2012, according to the latest estimates from the IMF. Recent changes in the Middle East region have not made it easy to maintain economic stability, and the 2.5% growth forecast for Lebanon is below the country's potential. The cement market is expected to stabilize in 2013, after the boom from 2003 to 2011.

Prospects for Angola in 2013 are favourable, despite the uncertainties existing in the world economy. According to the IMF, the Angolan economy can be expected to grow by 5.5% in 2013, well up on the figure of 6.8% estimated for 2012. The oil sector is expected to grow by 4% whilst growth in the non-oil sector is forecast to exceed 7% on the strength of growing public sector spending plans, geared to resolving the shortage of infrastructures in the country.

This holds out the promise of strong growth for the Angolan cement market in 2013. However, the start-up of a new cement mill in the Sumbe region, with annual capacity of 2 million tons, will have a strong impact on the Secil Group's market, in view of its geographical location.

The Group’s investment in the acquisition of **Supremo Cimentos** and the construction of a new cement mill in **Brazil** will mean an increase in indebtedness. This will penalize financial results and consequently the Group’s net income until the start-up of the new plant.

Environment

In the current economic environment, in which a clear tendency towards a downturn in the European economy, especially visible in Portugal, is expected to lead to a sharp drop in internal consumption, no significant improvement is anticipated in the short term in the sector in which the ETSA Group operates, insofar as decreased consumption means a reduction in the level of animal slaughter, and consequently a reduction in the quantity of by-products generated and increased competition between operators.

The Group’s prime objectives in the short term include: (i) concentrating on horizontal expansion of its markets, with estimates suggesting that exports will account for more than one third of total turnover in 2013; and (ii) identifying fresh opportunities for vertical growth, paying particular attention to investment in improving operational efficiency, extracting maximum value from the channels operated and locking in the main conventional and alternative collection centres.

The Ministry of Agriculture, the Sea, the Environment and Territorial Planning launched a new Open Tendering procedure, to run for a period of three years, establishing the new procedural system for providing integrated services in the collection and transport of animal carcasses for destruction (SIRCA).

ITS (a subsidiary of the ETSA Group) was notified on 18 January 2013, in its capacity as representative of a consortium which had tendered a bid, of the decision by the Directorate-General of Food and Veterinary Services to award the contract in question, and services are therefore expected to start up on the terms established by the new tendering procedure during the first quarter of 2013.

12. Acknowledgments

2012 was a year in which the Group continued to focus on export operations, building on the heavy capital expenditure projects implemented in previous years. This is a Portuguese Group rooted in manufacturing industry whose successful strategic decisions have led it to play a growing role in the country's economy.

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

- 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;
- for the cooperation of the Audit Board and the officers of the General Meeting; and
- our Shareholders, who have accompanied our progress and whose trust we believe we continue to deserve.

13. Proposed Allocation of Net Income

1. Proposed Allocation of Net Income

Considering that the company's net income as determined by its separate accounts drawn up under the SNC rules corresponds to a negative figure of 109,655,322.20 euros (one hundred and nine million, six hundred and fifty five thousand, three hundred and twenty two euros and twenty cents), it is proposed that this amount be allocated in full to retained earnings.

2. Proposal for Distribution of Free Reserves

Whereas:

a) The Company has followed a consistent policy of distributing dividends to shareholders;

b) Despite the negative net income recorded in the separate accounts, the Company recorded positive consolidated net income under the IFRS rules of 126.5 million euros;

c) The Company has total free reserves of 931,505,690 euros (nine hundred and thirty one million, five hundred and five thousand, six hundred and ninety euros);

d) It is admissible for part of these reserves to be distributed, without the Company's equity, as stated in the annual balance sheet, falling below the sum of the share capital and reserves whose distribution to shareholders is not permitted under the law or the articles of association;

e) Partial distribution of the free reserves as proposed by the Company is compatible with its financial structure;

It is proposed that free reserves be distributed in the amount of 28,785,539.85 euros (twenty eight million, seven hundred and eighty five thousand, five hundred and thirty nine euros and eighty five cents), corresponding to 25.5 cents per share.

Lisbon, 28 February 2013

The Board of Directors

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Chairman

Maria Maude Mendonça de Queiroz Pereira Lagos

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