# DESENVOLVEMOS NOVOS CAMINHOS DE CRESCIMENTO SUSTENTÁVEL ASSENTES NUM NOVO CICLO DE DESENVOLVIMENTO.
# **A NOSSA MARCA NO FUTURO.**

*WE HAVE PAVED THE WAY FOR SUSTAINABLE GROWTH BASED ON A NEW CYCLE OF DEVELOPMENT.*
***OUR IMPRINT ON THE FUTURE.***

DIVULGAÇÃO DE RESULTADOS DO ANO 2015
*CONSOLIDATED ANNUAL RESULTS FOR 2015*



**PORTUCEL, S.A.**
SOCIEDADE ABERTA

Sede: Mitrena, Apartado 55, 2901-861 Setúbal - Portugal
N.I.P.C. 503 025 798 - Capital Social €767 500 000
Matriculada na Conservatória do Registo Comercial de Setúbal

*PUBLIC LIMITED COMPA NY*

*Headquarters: Mitrena, Apartado 55, 2901-861 Setúbal - Portugal*
*Corporate Entity 503 025 798 - Share Capital €767 500 000*
*Registered at the Commercial Register of Setúbal*

**Highlights for the year 2015 (vs. 2014)**

- Turnover up by 5.6% to € 1.6 billion on the strength of higher pulp and paper prices
- EBITDA up by 18.7% to € 390 million, with EBITDA/Sales margin rising to 24%
- Group makes progress on strategic development plan. Milestones during the period:
    - Start-up of new pulp capacity in Cacia, allowing for 20% increase in annual output
    - Move into tissue business, with acquisition and integration of AMS
    - Completion and start-up of second tissue machine in Vila Velha de Ródão
    - Start of construction work on pellets factory in US
    - Construction and start-up of Luá Nurseries, in Zambézia, allowing operation to move on to large scale forestry planting phase

- Debt restructured, with better terms and longer maturities
- Net debt/ Ebitda ratio still at prudent levels, below average for sector

**Highlights for Q4 2015 (vs. Q3 2015)**

- Paper sales total 425 thousand tons in quarter, setting new record
- EBITDA stands at € 96 million, due to negative impact of non-recurrent factors (anti-dumping tax and increase in pension fund)
- Payment of € 130 million in December by way of anticipated dividends and distribution of retained earnings
- Group implements new measures to optimise operational efficiency and cut costs

**Leading Indicators – IFRS** (unaudited)

| Million euros | FY 2015 | FY 2014 | Change [5] 2015 / 2014 |
|---|---|---|---|
| **Total sales** | 1 628.0 | 1 542.3 | 5.6% |
| **EBITDA** [1] | 390.0 | 328.4 | 18.7% |
| **Operating profits** | 282.9 | 218.3 | 29.6% |
| **Financial results** | - 50.3 | - 34.2 | 47.2% |
| **Net earnings** | 196.4 | 181.5 | 8.2% |
| **Cash flow** | 303.6 | 291.6 | 4.1% |
| **Free Cash Flow** [2] | 81.0 | 234.2 | -65.4% |
| **Capex** [6] | 152.3 | 50.3 | 102.0 |
| **Net debt** [3] | 654.5 | 273.6 | 380.9 |
| | | | |
| **EBITDA / Sales** (%) | 24.0% | 21.3% | 2.7 pp |
| **ROS** | 12.1% | 11.8% | 0.3 pp |
| **ROE** | 14.7% | 12.4% | 2.3 pp |
| **ROCE** | 15.7% | 12.4% | 3.3 pp |
| | | | |
| **Net Debt / EBITDA** [4] | 1.7 | 0.8 | |

| Million euros | Q4 2015 | Q3 2015 | Change [5] Q4 15/Q3 T15 |
|---|---|---|---|
| **Total sales** | 423.7 | 409.4 | 3.5% |
| **EBITDA** [1] | 96.0 | 109.5 | -12.3% |
| **Operating profits** | 75.1 | 78.1 | -3.7% |
| **Financial results** | - 5.4 | - 27.1 | -80.2% |
| **Net earnings** | 54.5 | 41.5 | 31.4% |
| **Cash flow** | 75.3 | 72.9 | 3.3% |
| **Free Cash Flow** [2] | 62.6 | - 28.5 | -319.9% |
| **Capex** | 39.2 | 35.9 | 3.2 |
| **Net debt** [3] | 654.5 | 587.1 | 67.4 |
| | | | |
| **EBITDA / Sales** (%) | 22.7% | 26.7% | -4.1 pp |
| **ROS** | 12.9% | 10.1% | 2.7 pp |
| **ROE** | 17.5% | 13.2% | 4.3 pp |
| **ROCE** | 16.1% | 17.1% | -1.0 pp |
| | | | |
| **Net Debt / EBITDA** [4] | 1.7 | 1.5 | |

(1) Operating profits + depreciation + provisions
(2) Var. Net debt + dividends + share buyback
(3) Interest-bearing net debt – liquid assets
(4) EBITDA corresponding to last 12 months
(5) Percentage variation corresponds to figures not rounded up/down
(6) Capex not including € 41Mln of AMS acquisition

## 1. ANALYSIS OF RESULTS

**2015 vs. 2014**

2015 was a landmark year in the history of the Portucel Group, not just because of the launch of the strategic development plan for the new cycle of growth, but also because of the excellent operating performance achieved in its core pulp and paper business. Turnover stood at € 1.6 billion for the period, the highest figure ever recorded, reflecting an increase of approximately € 85.7 million in relation to 2014 up 5.6%, resulting essentially from the increase in pulp and paper prices, caused by the strength of the dollar against the euro. Inclusion of figures for tissue business in the Group's consolidated accounts contributed to the growth recorded. Paper sales accounted for 75% of turnover, with energy representing 12%, pulp 9% and tissue paper approximately 3%.

In the UWF (uncoated woodfree paper) area, the European market registered only a slight reduction in apparent consumption (around 0.3%), and exports grew significantly, supported by the favourable USD exchange rate. Taking advantage of foreign exchange trends, Portucel expanded its sales to USD denominated markets, recording growth of approximately 1.7% in the volume of sales to these markets. The Group's average sales price evolved favourably, rising by approximately 5% over 2014, making it possible to achieve growth of 4.0% in the value of paper sales in 2015, which rose to its highest ever level at above € 1.2 billion. Over the same period, the benchmark index in Europe, PIX A4- Copy B, dropped by 0.6%. In terms of volume, there was a slight reduction of 0.6%, due essentially to efforts to replenish stocks, which had fallen to a very low level, and to the increase in the volume in transit to clients.

Bleached eucalyptus pulp (BEKP) business maintained the positive performance recorded since the start of the year, with prices significantly better than in the same period in 2014. The dollar-denominated price index performed well, with an average price of 784 USD/ton, as compared to 746 USD/ton in the same period in the previous year. Due to the foreign exchange effect, this increase translated into a sharp rise in the price in euros, with the benchmark PIX BHKP index pointing to an average of € 698/ton, up by 25.6% on the same period in the previous year. The upward trend in pulp prices resulted in an increase of 23.2% in the value of sales, despite a reduction of 1.7% in the quantity sold.

The reduction in the pulp sales volume in 2015 can essentially be attributed to the smaller quantities available for sale on the market, as a result of a stoppage at the Cacia mill to allow for work to expand the plant's capacity. This project, involving a 20% increase in rated capacity, has been successfully completed, and the Cacia mill went back into production at the end of June. Output figures have been consistent with the anticipated learning curve as the mill moves towards stability at the new target output levels established for the expansion project: 350 000 tons per annum of BEKP.

Power generation and sales were affected by maintenance stoppages in Cacia, Setúbal and Figueira da Foz, causing the Group's gross annual output to drop by 4.2% in relation to that recorded in 2014. Combined with the reduction in the prices invoiced, this resulted in a reduction of 16.1% in power sales to the national grid.

Lower prices for power from natural gas co-generation plants were influenced by falling Brent prices and the weakness of the euro against the US dollar. In another significant development at the end of the year, the Figueira da Foz natural gas co-generation plant suffered a cut in the tariff applied to power sales to the national grid as a result of the alteration of Decree-Law 23/2010 by Decree-Law 68-A/2015, meaning that, from 2016 onwards, this facility will now be operated for internal consumption only.

In tissue business, AMS' sales of products and goods grew by approximately 6%, thanks to increased production and converting capacity. The completion and successful start-up in September of the second reel production machine was a significant milestone, and allowed to double annual production capacity from 30,000 to 60,000 tons. The increase in quantities sold, combined with some improvement in the average sales price, resulted in growth of 9% in tissue sales, which stood at € 55.8 million.

On the production side, raw material costs improved significantly. The Group's supply mix included an increasing proportion of wood sourced from within Portugal, resulting reduction in the supply from the Spanish market. This change, combined with optimisation of logistical costs and an improvement in specific consumption, resulted in favourable evolution in the most important cost item, despite the fact that significant wood imports from South America are still necessary.

Personnel costs rose by around € 34.2 million, due essentially to the following factors:

- Growth in the Group's workforce, in particular for the Mozambique project (accounting at year end for

228 employees) and the inclusion of AMS' personnel costs;

- Non-recurrent factors, such as the allocation made to the Pension Fund, an increase in severance pay, relating to compensation awarded under the current rejuvenation programme, and the estimated cost of the 2015 performance bonus.

In this scenario, consolidated EBITDA rose strongly to € 390 million, representing an increase of approximately 61.6 million in relation to 2014.

The figure recorded for EBITDA also reflects a positive contribution of € 8 million from AMS' operations, as well as a negative figure of approximately € 10.9 million in relation to the Mozambique project and the new pellets project in the United States, both still at the investment stage. Also significant was the negative impact of € 3.8 million resulting from application of the anti-dumping tax in the United States.

The EBITDA / Sales margin also improved, standing at 24%. Operating cash flow stood at € 303.6 million, up by 4.1 % on the same period in 2014.

Operating income also improved significantly, up by 29.6% to € 282.9 million.

The Group recorded a financial loss in the period of € 50.3 million euros, as compared with a negative result in 2014 of 34.2 million euros. The main difference resulted from the recognition of costs relating to partial early repayment of Portucel Senior Notes 5.375%. The nominal amount repaid was € 200 million (out of total borrowing of € 350 million), the price paid was the face value of the notes, plus a contractual premium for early repayment, of approximately € 14.6 million. This early repayment also triggered immediate recognition of approximately € 2.3 million in costs incurred on this notes issue. This repayment will allow for a significant reduction in financial costs, as the Group simultaneously renegotiated a bond issue for the same amount (€ 200 million), on more advantageous terms and a longer maturity. Financial results also include the cost of foreign exchange hedges contracted for 2015 of approximately € 6.8 million.

As a result, consolidated net income for the period stood at € 196.4 million, representing growth in relation to 2014 (up by 8.2%).

**4th Quarter 2015 vs. 3rd Quarter 2015**

The Group's performance in the third quarter of 2015 was again stronger than in the previous quarter, with turnover standing at € 423.7 million, up by 3.5%. The increased volume of paper sales, rising pulp prices and the reduction in certain production costs were the main factors affecting results in this quarter.

As in previous years, the volume of paper sales in the 4th quarter was up on the previous quarter, setting a new sales record in 2015, at a total of 425 thousand, tons, 11.3% higher than the figure recorded in the 3rd quarter, and more than 2% up on the 4th quarter of 2014. This sales effort involved a more aggressive sales policy, meaning that the Group's average sales price was slightly lower than the average price recorded in the previous quarter.

In volume, pulp sales (BEKP) rose by 1.6% in relation to the 3rd quarter, and the Group's average price performed favourably, resulting in growth of 4% in the value of sales.

In energy, as reported above, operations were affected by the maintenance stoppage for one of the turbogenerators for renewable co-generation at the Setúbal pulp mill, with a negative impact on power output and sales in the 4th quarter.

EBITDA for the quarter totalled € 96 million, compared with €109.5 million in the third quarter, and was brought down by some of the non-recurrent factors referred to above, including the anti-dumping tax of €3.8 million, as well as the allocation of approximately € 13 million to the pension fund, at the end this period.

As a result, the EBITDA/Sales margin stood at 22.7%, down from the figure of 26.7% achieved in the 3rd quarter. Operating income grew in line with EBITDA, standing at € 75.1 million (as compared to € 78.1 million).

## 2. MARKET ANALYSIS

### 2.1 UWF Paper

Figures for 2015 point to a very slight decline in apparent consumption of UWF in Europe of 0.3% in relation to the same period in 2014, whilst the main benchmark index for UWF prices (PIX A4-Copy B) was down year-on-year by 0.7%. In this environment, as already observed over the year, the weakness of the euro against the dollar drove the European industry to look for more profitable opportunities, boosting the volume of exports and consequently reducing the volume sold to the European market. The capacity utilization rate stood at approximately 92%, 1.5 percentage point up on the figure recorded in the previous year, whilst the order book for the industry in the period was 1.3% higher than in 2014.

In the US, apparent consumption of UWF paper dropped by 0.4% up to November, with a very significant drop in imports, down by 12.1%, as a result of anti-dumping measures imposed on Chinese, Australian, Brazilian and Portuguese manufacturers. Even so, the capacity utilization rate stood at 93%, one percentage point lower than in the previous year. The leading price index for the sector (Risi 20lb A4) recorded a drop of 1.8% in relation to the same period in the previous year, following the trend recorded since 2010, with a total decline of 12% from the highest price recorded that year.

In this context, the Group recorded its highest ever figures for paper sales turnover in 2015, up by close to 4% on 2014. This growth was sustained by an increase in sales on overseas markets of 1.7% in volume and 14.5% in value, as it continues to expand into new geographical regions, improving its penetration in Latin America and Africa. Sales in Europe were slower, due fundamentally to the shift in marketing focus to USD-denominated markets, where contribution margins were higher.

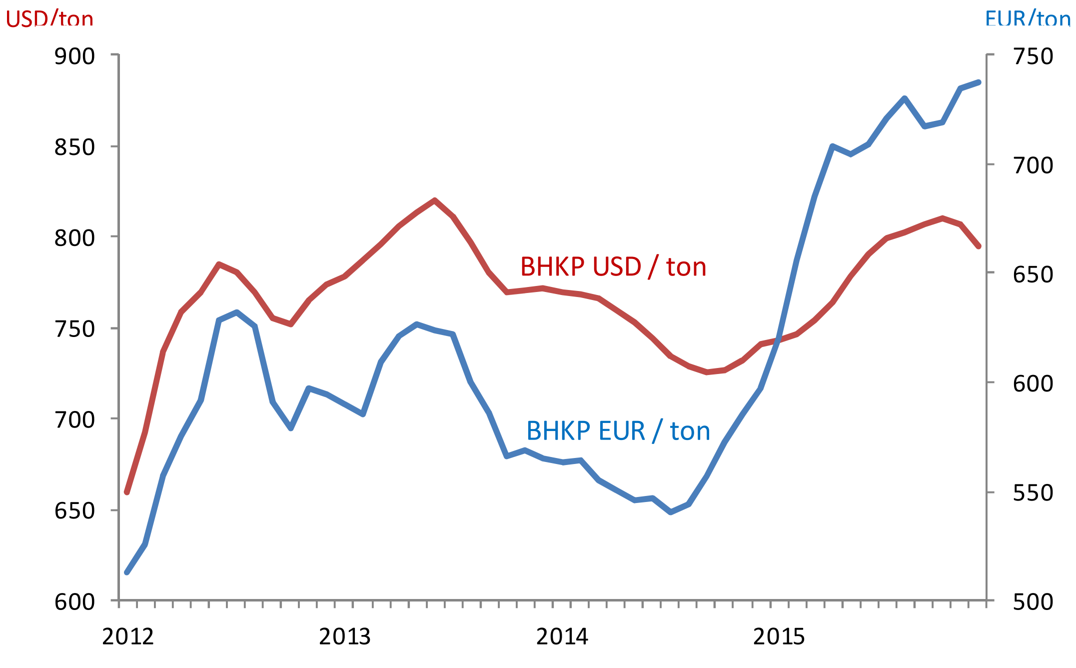
As usual, the Group continued to operate at 100% of its capacity, with order books at fairly comfortable levels in comparison with the previous year. The Navigator brand remained the Group's top performer, achieving growth of 2.4% and maintaining levels of penetration and brand recognition unrivalled in the industry.

**2.2 BEKP Pulp**

The recovery which started in the 4th quarter of 2014 was sustained throughout 2015, as the pulp market benefited from a combination of factors, including a slowdown in new capacity reaching the market, a reduction in supply due to a number of production stoppages over the year and robust demand from the Chinese market. Towards the end of the year, business began to slow, due to strong pressure on commodity prices and slower economic growth in China, the main destination for pulp exports.

Market trends in 2015 allowed prices to rise in relation to the previous year, and the PIX index stood at average levels 5.1% higher than in 2014, up from USD 746 to USD 784. In euros, due to the currency's weakness against the dollar, the price increase was even more significant, as can be seen from the following graph, with a rise of € 114 over the course of 2015.

Monthly PIX Price Europe - BHKP




As reported above, the Chinese market remained the main driving force behind demand. PPPC W-20 figures for pulp sales to this market in 2015 point to an overall increase of 11.0%, with eucalyptus pulp leading the way with growth of 14.1%.

The Group's BEKP pulp sales totalled approximately 253 thousand tons in 2015, with an improved position in the decorative and special papers segment, which accounted for more than 75%.

**2.3 Tissue**

In the tissue segment, the Group operates in two market segments: the At Home segment, which accounts for 75% of the total market, and Away From Home, offering a varied range of products in both. The sales strategy is focussed mainly on the Iberian market, but the company is developing other high-potential markets, especially in Europe and Africa.

This new move is in line with the Group's expansion plans, which now include a fast-growing business segment into which the Group will gradually introduce its own business model.

The tissue market in Western Europe totals around 6.4 million tons, with Germany and the United Kingdom at the top of the ranking for per capita consumption, and a total of more than 2 million tons per annum. Growth in the European market over the last ten years has been steady at an annual rate of approximately 1.3%.

Across all of Western Europe the largest sales are in toilet paper and kitchen roll/towels, with paper napkins recording higher sales in Southern Europe and tissues in Central/Northern Europe.

In terms of results, the tissue business unit recorded sales of approximately € 55.8 million, representing growth of close to 9% in relation to the previous year, with 52% of this value being generated by At Home products, and the remaining 48% by Away from Home products.

The capacity utilization rate stood at 95%, which compares favourably with an average of around 88% for other Western European manufacturers.

## Operating indicators

### Pulp and paper

| (in 000 tons) | FY 2015 | FY 2014 | % | 4Q 2015 | 3Q 2015 | % |
|---|---|---|---|---|---|---|
| **BEKP Output** | 1423 | 1418 | +0,4% | 364 | 370 | -1,6% |
| **BEKP Sales** | 253 | 257 | -1,7% | 68 | 67 | +1,6% |
| **UWF Output** | 1571 | 1559 | +0,8% | 424 | 372 | +14,8% |
| **UWF Sales** | 1555 | 1564 | -0,6% | 425 | 382 | +11,3% |
| **Foex – BHKP Euros /ton** | 707 | 561 | +25,9% | 730 | 724 | +0,8% |
| **Foex – A4-B copy Euros / ton** | 822 | 827 | -0,6% | 832 | 826 | +0,9% |

### Energy

| (in 000 tons) | FY 2015 | FY 2014 | % | 4Q 2015 | 3Q 2015 | % |
|---|---|---|---|---|---|---|
| **Output (GWh)** | 2292 | 2392 | -4,2% | 507 | 611 | -17% |
| **Sales (GWh)** | 1961 | 2184 | -10,1% | 413 | 524 | -21% |

### Tissue

| (in 000 tons) | FY 2015 | 4Q 2015 | 3Q 2015 | 2Q 2015 | 1Q 2015 |
|---|---|---|---|---|---|
| **Output of reels** | 33 | 11 | 8 | 7 | 7 |
| **Output of finished products** | 36 | 10 | 9 | 8 | 9 |
| **Sale of finished products** | 35 | 9 | 9 | 9 | 8 |
| **Sale of reels and other goods** | 4 | 1 | 1 | 0 | 0 |

## 3. STRATEGIC DEVELOPMENT

In March 2015, the Group announced it was moving into the tissue segment by acquiring AMS - BR Star Paper, located in Vila Velha de Ródão. The acquisition value was € 41 million, the Company had a net debt of approximately € 24 million and a project to increase tissue production capacity of € 36 million. The new capacity came on line in September and includes a machine with production capacity of 30 thousand tons, as well as new converting capacity, of more than 20 thousand tons. At year-end 2015, nominal capacity at the Vila Velha de Ródão therefore totalled 60 thousand tons in reels and 64 thousand tons in processed products.

Work proceeded over the year to integrate AMS into Portucel and has now been concluded. This consisted of integrating the information systems and organisational procedures, in the fields of marketing, logistics, finance and human resources. The entire AMS workforce (199 employees) has also been integrated in the Group. In addition, major strides were made towards exploiting synergies, in terms of logistics, pulp and energy.

In addition to acquiring AMS, the Group also pressed ahead with developing the alternative areas for growth set out in its strategic plan. Capital expenditure stood at approximately € 152.3 million, including € 67 million on pulp and paper business (of which € 42 million related to the expansion plan at Cacia), € 36 million on expanding tissue capacity at the mill in Vila Velha de Rodão, € 18 million on the project in Mozambique and €32 million on building the pellets factory in the United States.

**Tissue project**

In view of the Portucel Group's strategic option to diversify its business and move into the tissue segment, Portucel has approved investment on a tissue production and converting line with rated capacity of 70 thousand tons per annum, representing estimated expenditure of approximately € 120 million. As a result of this project, the Group will have total annual capacity in this sector of 130 000 tons.

The environmental impact studies were drawn up and submitted to the authorities, in order to obtain the Environment Impact Declaration (EID), after which it will be possible to start construction work on the industrial unit. At the same time, work is proceeding on assessing tenders for the supply of equipment, as well as for the engineering and specialist services involved.

As stated in previous reports, the investment decision is nonetheless conditional on a number of pre-conditions being met, including approval by AICEP of the application for financial and/or fiscal subsidies under the Portugal 2020 programme, a decision which is still pending. An application has also been submitted to the PIN project, and this was accepted by AICEP in January this year.

**Pellets**

The project for a new pellets factory in the United States has continued to make good progress, in particular by consolidating the project team working in Greenwood, South Carolina. The company is currently recruiting the workforce of around 70 employees needed to operate the plant, and some 15 individual have already been hired and have started training.

The civil construction work got underway at the start of August 2015 and work is already proceeding on constructing the foundations and buildings which will house the main items of equipment. Contracts have been awarded for almost 90% of the investment value, and work has started on assembling equipment; the work is currently proceeding at a good pace and is expected to be completed in April 2016. The commissioning and trial operation period will start in May, with production due to start up in July.

Over the course of the year, the initial investment sum for this project was revised up from USD 110 to USD 116.5 million, and the plant's rated production capacity was increased from 460,000 tons to 500,000 tons a year.

**Mozambique**

Forestry plantation operations have expanded significantly in 2015 with a view to supplying the future industrial complex.

In an important breakthrough, Portucel Moçambique successfully obtained the environmental license needed for forestry operations in Zambézia and Manica provinces.

Work was also completed on the Luá nurseries, in Zambézia province, designed to produce cloned saplings on an industrial basis, starting with capacity for 6 million plants a year, which has already been doubled. The nurseries were officially opened at the start of September, at a ceremony attended by the senior executives of the Portucel Group, and also by the President of Mozambique and representatives from the International Finance Corporation.

Despite the adverse weather, with record floods at the start of the year and extreme drought for the rest of the year, it was possible to keep planting operations going, albeit at a slower pace than initially envisaged.

Lastly, the organisation continues to adjust to the increasing pace of local operations, and work has been completed on the housing centre to provide accommodation for some of the staff located in Zambézia (Nipiode).

## 4. COST CUTTING MEASURES

In order to maintain high standards of efficiency in its operations, the Portucel Group has been implementing specific measures to cut costs, making significant progress in 2015 on two distinct projects:

**M2 Programme**

The M2 programme was launched in 2014 in order to implement a structured and integrated cost reduction process, with the ultimate objective of promoting continuous improvement in costs or operational efficiencies, in all of the Portucel Group's business areas. Annual targets are set for the programme, so as to ensure that the different organisational structures are fully involved and aligned, and these targets are reflected in cost reduction aims in strategic areas on which the organisation needs to focus. This is a way of ensuring systematic implementation of sustainable cost reduction measures, with the aim of making the Group more competitive in its different business areas.

In 2015, the programme involved around 96 measures, developed in 26 different sectors/divisions; naturally, these efforts are concentrated in manufacturing divisions, where their impact is greatest. In terms of economic impact, the forecast at the end of November pointed to an impact on EBITDA in 2015 of around 13 M€.

**Lean Manufacturing Programme**

The Lean Manufacturing programme has been designed to implement and support a culture of continuous improvement throughout the Group, through adoption of methods for pinpointing and eliminating waste as an integral part of the Group's corporate identity. This represents a profound change in how daily work is organised, carried out and reported, at all levels in the organisation. The long term aim is for the organisation to regroup around a more collaborative, multifunctional and multi-level culture, in which all employees take an active role in optimising flows and value added.

In view of the complexity of this challenge, the programme is being implemented over several stages, and the pilot areas identified will be the first to adopt the operating model. The programme will seek to optimise the management of teams in the field and develop operational leadership, alongside improvement projects and new infrastructure to provide support for a dynamic of improvement cycles.

## 5. FINANCIAL

Over the course of the year, Portucel continued to demonstrate excellent capacity for generating cash flow, with operational cash flow standing at approximately € 303.6 million (as compared to € 291.6 million in 2014). This capacity to generate funds, combined with the Group's sound financial situation, allowed it to meet its considerable financial commitments maturing in the first nine months without any disruption.

- Acquisition of AMS: in June, Portucel made a payment of 41 million relating to this takeover; inclusion of AMS's debt in the Portucel Group accounts also involved and increase of € 24 million;
- Investment: in line with the plan referred to above, overall investment totalled around € 152.3;
- Dividend payments: in May 2015, a total of € 310.5 million was paid out in dividends and reserves, and an advanced dividend (for 2015) was combined in December with distribution of retained earnings, corresponding to a total pay-out of € 130 million;

As a result of these disbursements, interest-bearing net debt rose by € 380.9 million to € 654.5 million. The Net Debt/EBITDA ratio stood at 1.7 at the end of December, as compared with 0.8 at the end of 2014; this increase was in line with expectations, considering the events reported above and the investment plan currently being implemented. In view of the approved investment plan and the forecast of operating cash flow, no further increase is anticipated in the level of indebtedness.

Portucel proceeded to restructure its debt over the course of the year, contracting new credit facilities and renegotiating the terms and maturities on existing borrowing. Repayments of € 160 million were made on bond issues and new commercial paper facilities were contracted with a total value of € 225 million. An existing commercial paper facility of € 125 million was also renegotiated, extending its maturity and reducing the costs. At the end of the year, the Group had used € 225 million of the total commercial paper facility available to it.

In September, the Group made a partial early repayment on a bond (Portucel Senior Notes 5.375%), of € 200 million, reducing the value of this issue to € 150 million. At the same time, the Group made a new issue of notes, underwritten by two banks, also for a value of € 200 million. This new issue matures in 8 years and has a substantially lower interest rate than the loan repaid.

After these operations, gross lending at 31 December 2015 stood at € 727.1 million, down by € 46.1 in relation to the amount recorded in the previous year.

As a result of these refinancing operations, the Group increased its interest rate exposure, and consequently negotiated a number of fixed rate hedges, for the € 125 million commercial paper issue and for the new notes issue of € 200 million.

The average cost of the Group's net debt now stands at 2.5%, as compared to an average cost of 4.2% prior to the operations described above.

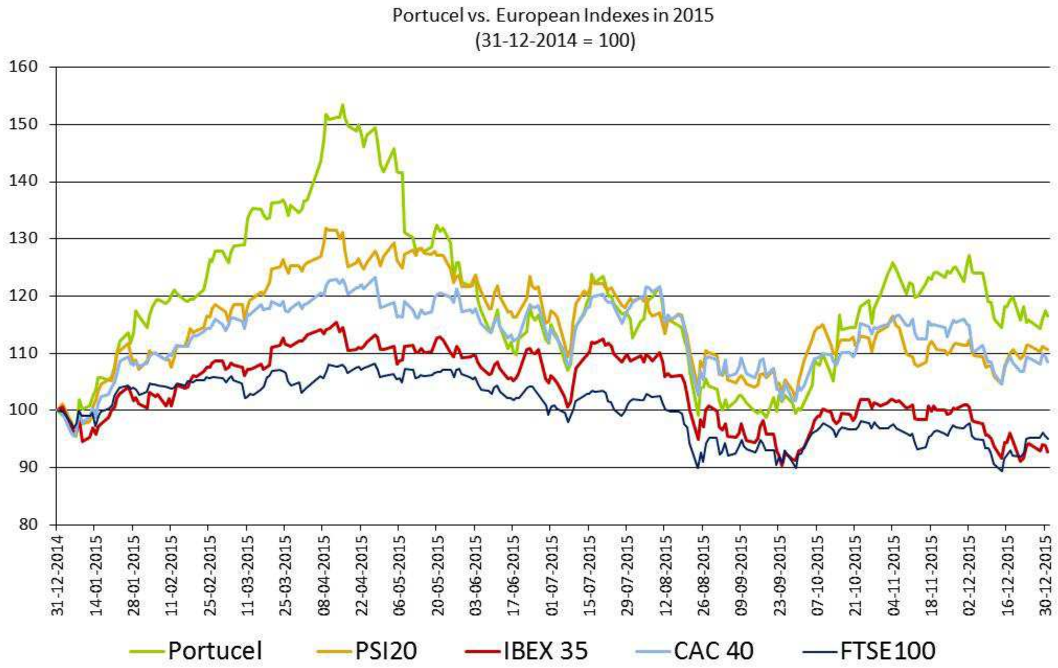
## 6. CAPITAL MARKETS

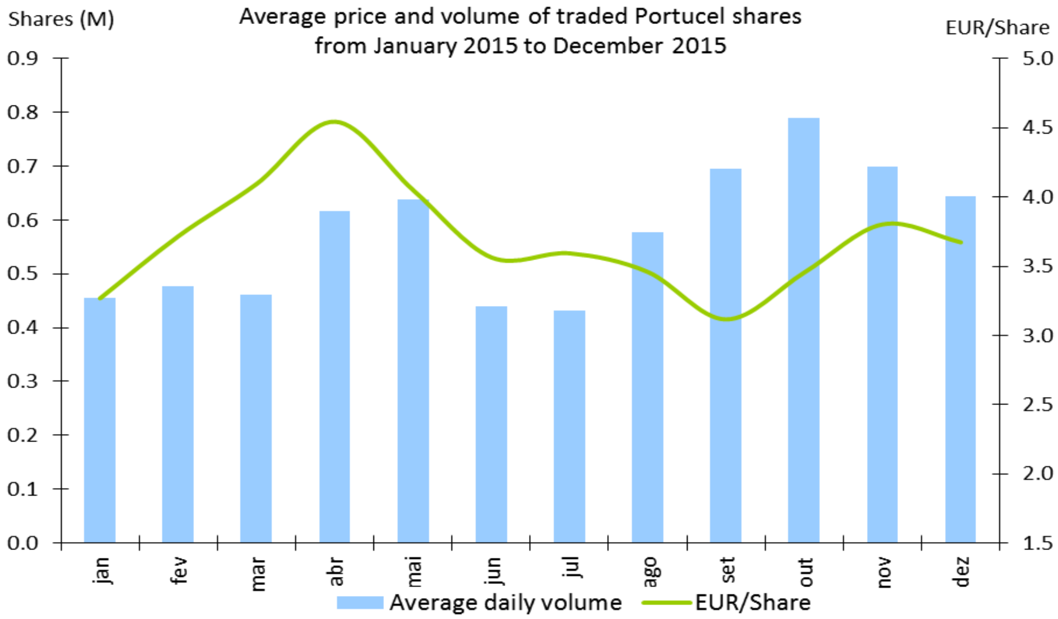
The capital markets were extremely volatile in 2015, due to the various events which left their mark on the year, including the monetary policies of the central banks, foreign exchange trends and, in particular, the weakness of the euro, falling oil prices and geopolitical conflicts in the Middle East and Eastern Europe. However, equities remained one of the financial assets offering the best yields in 2015 (average of 2.20%), outperforming the average returns on bonds and commodities.

The European stock exchanges recorded overall gains for the year. The top performers were the German and Portuguese exchanges, with gains of around 10%, despite the events in the banking sector which had a negative impact on the Portuguese capital market.

In the pulp and paper sector, the shares of Iberian and Brazilian pulp manufacturers recorded the most impressive gains, having benefited over the year from the positive environment of rising pulp prices and the strong dollar.

In this context, Portucel shares rose by 16.6% and performed very positively over the first four months of 2015, reaching a high of 4,735 €/share in April, with a downward adjustment in subsequent months. In terms of volume, daily trading grew to around 700 thousand shares after conclusion of the public exchange offer launched by Semapa, at the end of which the free float rose to 28.6%. Portucel paid a gross dividend of 0.433 € per share on 12 May, and in December paid out a further 0.1813€/share by way of interim dividend and distribution of retained earnings.



## 7. OUTLOOK

Recent economic projections for 2016 and 2017 continue to point to downward revisions in growth in world economy. This reflects a slower recovery in the emerging and developing economies and also points to slower growth expected in the US over the next two years. In relation to the Euro Zone, expectations have improved, and estimates point to growth picking up in 2016. The main risks for global economic growth remain centred on the slowdown in the Asian economies and on the change in the model of growth in China, as well as on falling prices for commodities, especially oil, and the normalisation of US monetary policy, as quantitative easing comes to an end.

In this context, although the pulp sector continues to enjoy a healthy rate of growth in prices and a robust level of demand, the drop-off in prices in recent weeks suggests a more conservative view for the sector over the next few months. The continued strong pressure on commodity prices and slower economic growth in China have resulted in a highly unstable market, with fears emerging that the growth in demand may fail to keep up with the new pulp capacity expected to start up over the year. Trends on foreign exchange rates will remain a fundamental factor in the competitiveness of pulp manufacturers.

The tissue paper segment should continue to perform well, in particular in terms of demand, with interesting levels of growth in consumption in Europe and the emerging economies such as China, Turkey and Latin America. The pressure of competition is nonetheless increasing, in particular from companies seeking to add production capacity in the short term.

In the UWF paper market, the prospects remain positive and Portucel has confirmed to its European clients that a further price rise will take effect in February 2016. The impact of the recent capacity reduction and conversion in certain production units in Europe should be reflected over the course of 2016, contributing to a more balanced market.

However, mention should be made of a number of factors which could trigger a degree of instability in the paper market in the months ahead. Firstly, the impact of the anti-dumping measures adopted by the US authorities will result in changes to supply and demand in various geographical regions, and in particular in increased pressure of supply in certain countries in Asia, Latin America and Europe. At the same time, falling currency values and currency controls in a number of countries in the Middle East, Africa and Latin America could also cause additional difficulties to international trade.

The anti-dumping measures ordered by the US Department of Commerce have also hit the Portucel Group, with a provisional rate of 29.53% applied on 20 August 2015. Portucel expressed its view that this margin was entirely disproportionate, pointing out that part of the calculation was based on adverse inferences drawn in the light of information which the Department of Commerce classified as erroneous. This position was vindicated by an announcement by the Department of Commerce on 11 January 2016, setting a final anti-dumping margin of 7.8%.

The anti-dumping investigation has resulted in final anti-dumping margins for the other countries involved (Australia, Brazil, China and Indonesia) which range between 22% and 222%; in the case of China and Indonesia, these anti-dumping margins are applied in addition to countervailing duties.

Although the margin just announced is substantially lower than that provisionally set on 20 August, Portucel continues to disagree entirely with the application of any anti-dumping margin and will pursue the matter through all the available channels to demonstrate that the measure is unjustified.

Setúbal, 04 February 2016

## 8. FINANCIAL STATEMENTS

# Consolidated Income Statement

| Amounts in Euro | 2015 | 2014 |
|---|---|---|
| | Unaudited | |
| Revenues | | |
| Sales | 1,624,102,449 | 1,537,678,167 |
| Services rendered | 3,920,658 | 4,601,248 |
| Other operating income | | |
| Gains on the sale of non-current assets | 1,268,496 | 408,792 |
| Other operating income | 24,939,325 | 30,650,502 |
| Change in the fair value of biological assets | 3,027,505 | 2,630,117 |
| Change in the fair value of financial investments | | |
| Costs | | |
| Cost of inventories sold and consumed | (688,695,104) | (675,102,529) |
| Variation in production | 19,221,022 | (13,785,825) |
| Cost of materials and services consumed | (421,502,621) | (423,025,068) |
| Payroll costs | (154,750,966) | (120,562,976) |
| Other costs and losses | (21,524,093) | (15,050,161) |
| Provisions | 14,562,355 | 1,336,655 |
| Depreciation, amortization and impairment losses | (121,715,935) | (111,502,345) |
| **Operational results** | **282,853,090** | **218,276,578** |
| Group share of (loss) / gains of associated companies | - | - |
| Net financial results | (50,258,882) | (34,152,250) |
| **Profit before tax** | **232,594,208** | **184,124,328** |
| Income tax | (35,828,685) | (2,654,912) |
| **Net Income** | **196,765,522** | **181,469,417** |
| Non-controlling interests | (361,302) | (2,721) |
| **Net profit for the period** | **196,404,220** | **181,466,696** |

## Consolidated Statement of Financial Position

| Amounts in Euro | 31-dez-15 | 31-Dec-2014 |
|---|---|---|
| | **Unaudited** | |
| **ASSETS** | | |
| **Non-Current Assets** | | |
| Goodwill | 377,339,466 | 376,756,383 |
| Other intangible assets | 4,931,507 | 3,416,269 |
| Fixed tangible assets | 1,320,799,086 | 1,250,351,511 |
| Investment in property | 426,838 | - |
| Biological assets | 116,996,927 | 113,969,423 |
| Financial assets available for sale | 229,136 | 229,136 |
| Investment in associates | - | - |
| Other assets | - | - |
| Deferred tax assets | 50,934,325 | 23,418,573 |
| | **1,871,657,286** | **1,768,141,295** |
| **Current Assets** | | |
| Inventories | 212,554,956 | 188,859,834 |
| Receivable and other current assets | 215,370,516 | 188,808,093 |
| State and other public entities | 57,642,795 | 62,929,572 |
| Cash and cash equivalents | 72,657,585 | 499,552,853 |
| | **558,225,851** | **940,150,351** |
| **Total Assets** | **2,429,883,137** | **2,708,291,646** |
| | | |
| **EQUITY AND LIABILITIES** | | |
| **Capital and Reserves** | | |
| Share capital | 767,500,000 | 767,500,000 |
| Treasury shares | (96,974,466) | (96,974,466) |
| Fair value reserves | (1,869,064) | (2,329,120) |
| Legal reserves | 91,781,112 | 83,644,527 |
| Translation reserves | 5,688,140 | 724,832 |
| Other reserves | 273,081,975 | 519,395,217 |
| Net profit for the period | 196,404,220 | 181,466,696 |
| Advancement on profits | (29,971,019) | |
| | **1,205,640,898** | **1,453,427,686** |
| Non-controlling interests | 8,622,303 | 235,253 |
| | **1,214,263,201** | **1,453,662,938** |
| | | |
| **Non-current liabilities** | | |
| Deferred taxes liabilities | 88,296,253 | 95,893,297 |
| Pensions and other post-employment benefits | | - |
| Provisions | 59,205,593 | 41,148,805 |
| Interest-bearing liabilities | 686,570,753 | 468,458,255 |
| Other non-current liabilities | 38,538,726 | 38,551,650 |
| | **872,611,325** | **644,052,007** |
| **Current liabilities** | | |
| Interest-bearing liabilities | 40,578,590 | 304,735,140 |
| Payables and other current liabilities | 225,084,110 | 211,924,917 |
| State and other public entities | 77,345,911 | 93,916,644 |
| | 343,008,611 | 610,576,701 |
| **Total liabilities** | **1,215,619,936** | **1,254,628,708** |
| | | |
| **Total equity and liabilities** | **2,429,883,137** | **2,708,291,647** |