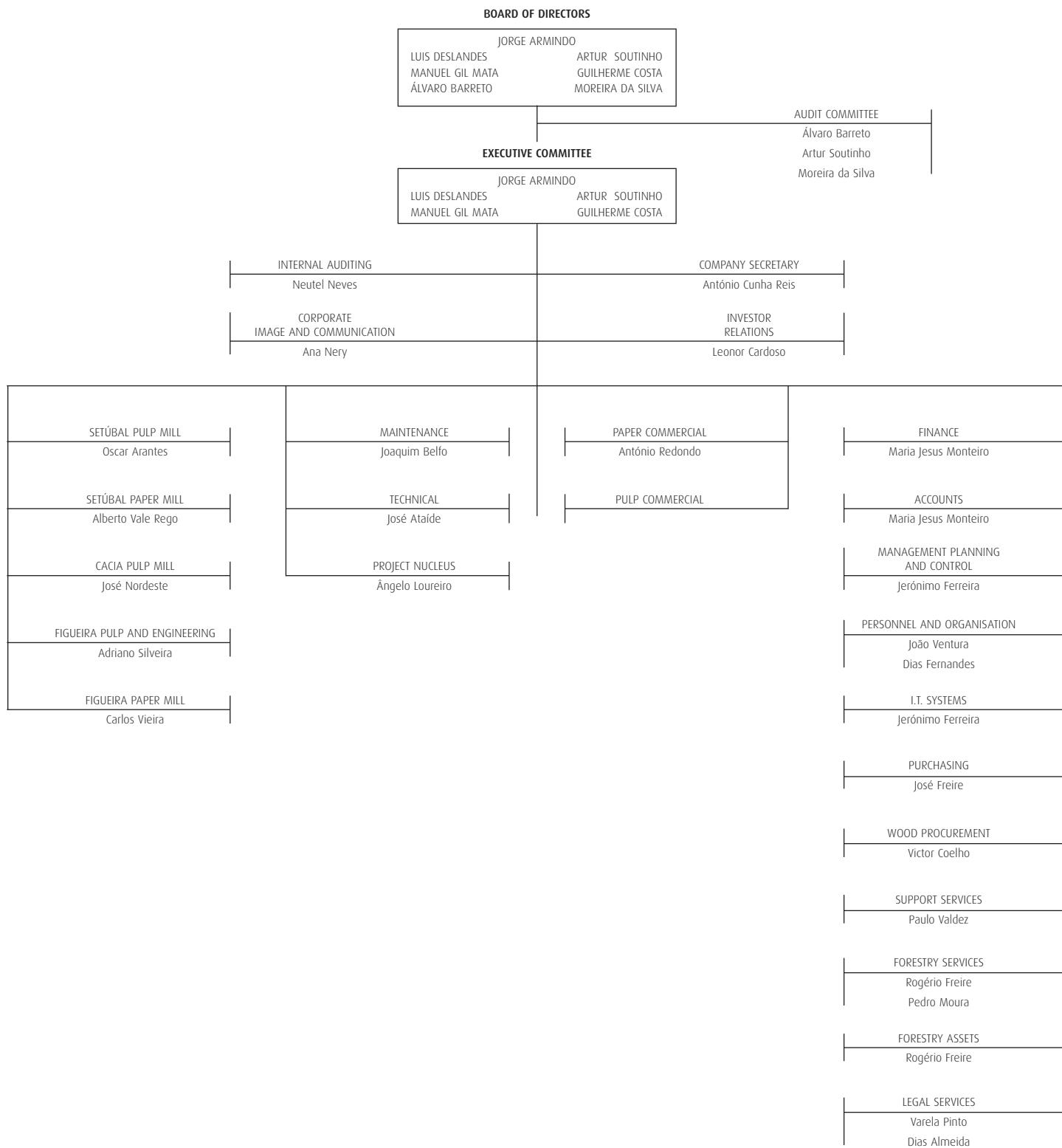


REPORT ON CORPORATE GOVERNANCE (C.M.V.M. Regulation n.º 11/2003)

CHAPTER I - DISCLOSURE OF INFORMATION >> COMPANY ORGANISATION CHART

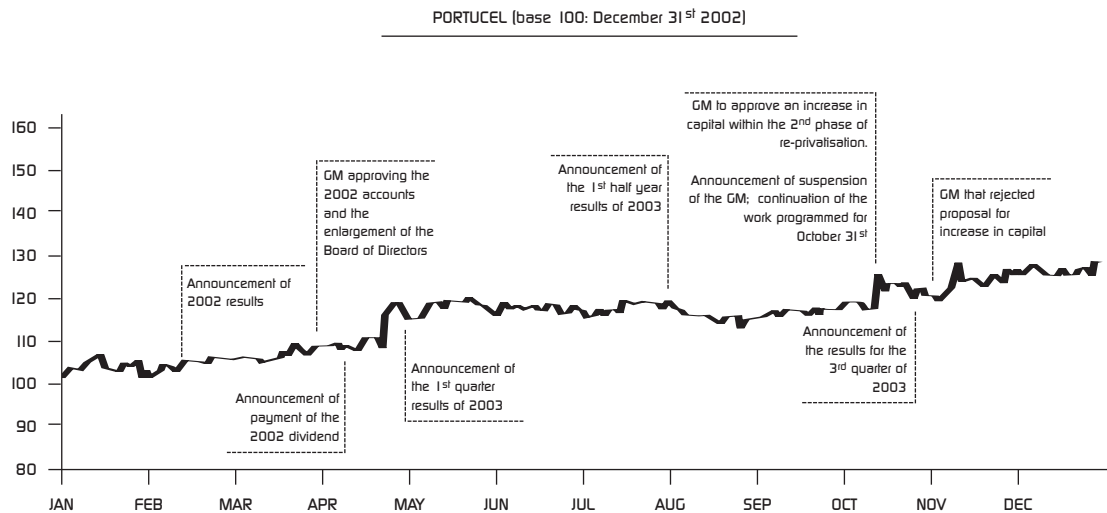


There are no specific committees within the company, specifically relating to ethics, evaluation of company structure or company governance.

Evolution of share prices

Portucel ended 2003 with a gain of 20.7%, a valuation almost 5 percentage points above that recorded by the main domestic market reference index in which it is included - the PSI 20. Over the course of the year the price quoted for Portucel shares demonstrated sustained growth and maintained a positive balance, with monthly falls limited to July and August. In the first quarter of the year, this evolution was against the cycle of the domestic market as a whole; at the end of April, Portucel had already accumulated a gain of 12.1% although the PSI 20 was showing a fall in value of 5.9% compared to the start of the year.

There were two days on which Portucel shares were valued above 6%: April 24th, the day immediately following the ex-date for payment of dividends, and October 14th, the day on which the work of the General Meeting was suspended. This meeting had been called to consider the proposal for a forthcoming increase in the Company capital. The graph below shows the evolution of the Company's share price, identifying the principal facts communicated to the market.



Dividend Distribution Policy

The proposal for dividend distribution falls within the competence of the Portucel Board of Directors, subject to current legislation and the company statutes. According to the statutes a minimum annual sum corresponding to twenty per cent of distributable profit must be distributed to the shareholders in the form of dividends. The Board of Directors formalised a proposal for appropriation of the results of 2002, which was considered and favourably voted in the General Meeting held on March 31st 2003, with the approval of a gross dividend payment of 0.0315 euros per share; dividend was paid on April 28th 2003.

Given the very cyclical nature of the industry, the Company considers it is advantageous to stabilise the level of dividends to be paid. This intention is stated in the articles of association that call for a reserve to be set aside for the purpose, increased each year by 10% of the distributable profit.

Share distribution plans and stock options

There are no share distribution plans or stock options in force at present.

Description of business and operations main elements

Under this heading, mention should be made to the exchange of company shares referred to in page 30.

Investor Relations Office

Portucel has an Investor Relations Office since November 1995, created with the aim of ensuring continuous and adequate contact with the financial community - investors, shareholders, analysts and regulatory bodies - and encouraging the disclosure of the Company's financial and other information relevant to the performance of Portucel's shares on the capital market, in accordance with the principles of coherence, regularity, equity, credibility and timeliness. All the communications and press releases concerning the quarterly, half year and annual results, as well as all the relevant facts occurring are made available by the Investor Relations Office on Portucel's internet site, at the address www.portucelsoportcel.com.

Maria Leonor Teixeira Gomes Cardoso is Portucel's Investor Relations Officer and can be contacted by telephone on + 351 21 3824200 or at the following email address: leonor.cardoso@portucel.pt.

Auditor remuneration

The annual sum paid to the auditor totalled 297,640 euros, broken down as follows:

34.4% to carry out the legal review of the accounts

4.2% to other work to ensure reliability

10.0% to fiscal advice

51.4% to services other than the legal review of accounts, and which relate wholly to support in implementing the International Accounting Standards, including training and translation of the Explanatory Notes to the Financial Statements.

Our auditors have introduced stringent internal rules to guarantee that their independence is safeguarded. These rules were adopted in the provisions of services included in points c) and d) above and were monitored by the Company.

CHAPTER II - EXERCISE OF VOTING RIGHTS AND SHAREHOLDER REPRESENTATION

Portucel has always had a policy designed to encourage shareholder participation in General Meetings; this takes the form of periodic disclosure of reports of its activity and of its economic and financial results, and is a policy that aims to go beyond mere compliance with the applicable legislation.

Shareholders wishing to participate in the Portucel General Meeting must prove to be title-holders of Portucel shares, which must be registered in their name not less than eight days before the date assigned for the Meeting, and must remain so registered until the close of the Meeting. The articles of association allow all the shareholders to take part in the General Meeting regardless of the number of shares they hold. There are, however, rules limiting voting rights.

Without prejudice to the right of grouping, one vote shall be counted for each one thousand shares, without counting the votes which exceed those corresponding to twenty-five percent of the share capital, when the same are issued with reference to ordinary shares, for a single shareholder in his/her own name or as representative of another person.

It is Portucel's practice to provide for postal voting and proxy voting in the notice of the General Meeting, detailing all the established rules and ensuring that shareholders are informed in a simple and expeditious way. Portucel does not at present envisage the possibility of exercising voting rights by electronic means.

During the period preceding the General Meetings, the Investor Relations Officer analyses all the queries raised and provides all the information necessary for shareholders to be fully informed.

CHAPTER III - COMPANY RULES

Portucel is governed by the law applicable to public limited companies and by its by-laws, and no specific legislation is applicable to its business.

Following the election of two new members to the Board of Directors at the General Meeting held on March 31st 2003, which brought the number of board members to seven, an Executive Committee was elected and internal rules drawn up to establish the competence of this committee and the matters that must necessarily be approved by the full Board of Directors. This is an internal operational document of the Board of Directors, the aim of which is to establish the rules by which it operates.

In terms of internal control procedures, Portucel has an internal audit body that exercises its activity at every level of the Company; this is of course in addition to its Statutory Auditor and the external auditors that are mandatory according to law.

Risk management is undertaken at several levels through the Management Planning and Control Division, the Financial Division and the Investor Relations Office that monitors the movement of Portucel's share price. All the Company departments publish exhaustive documents on a monthly or fortnightly basis reviewing the Company's economic and financial situation.

During 2002, a specific body was created to monitor and analyse patrimonial risks. In 2003, an Audit Commission was also set up, whose competences are listed on page 55 of this Report.

The Mills Directors also draw up fortnightly operating reports providing operational information, with specific reference, among other things, to matters requiring urgent attention, equipment maintenance and stocks.

With regard to commercial activity, the Company's Marketing Division issues a weekly report providing information on the performance of pulp and paper sales, market trends and prospects, and stock levels.

The Company is unaware of any shareholder agreements entered into by its shareholders. Limits to voting rights are solely those set out in the by-laws and referred to above.

CHAPTER IV - MANAGEMENT

Portucel has a Board of Directors comprising seven members, the Chairman and six members. Five of the members are executive directors and make up the Executive Committee, which was elected and whose powers were delegated by the Board of Directors, and another two Directors are non-executive.

The Board members comprising the Executive Committee are as follows:

Jorge Armindo de Carvalho Teixeira (Chairman)
Luis Alberto Caldeira Deslandes (Member)
Artur Porfírio Silveira de Almeida Soutinho (Member)
Manuel Maria Pimenta Gil Mata (Member)
Manuel Guilherme Oliveira da Costa (Member)

The non-executive Directors are:

Álvaro Roque de Pinho Bissaia Barreto (Member)
Carlos António Rocha Moreira da Silva (Member)

For the purposes of article 1.2 of CMVM Regulation nº 11/2003, the following are not considered Independent Directors: Jorge Armindo Carvalho Teixeira (Chairman), Artur Porfírio Silveira de Almeida Soutinho (Board Member) and Manuel Maria Pimenta Gil Mata, because they are part of the Board of Directors of the shareholder Portucel - Empresa de Celulose e Papel de Portugal, SGPS, S.A..

It is our understanding that the remaining Directors are not subject to any of the criteria mentioned in the article referred to in the previous paragraph, unless it is understood that, because they are also Directors of Soporcel - Sociedade Portuguesa de Papel, S.A., they are subject to point c) of the said legal provision.

The powers delegated to the Executive Committee are the following:

- a) To propose to the Board of Directors the policies, objectives and strategies of the Company;
- b) To propose to the Board of Directors the general lines of internal organisation of the Company, including choosing the Vice President of the Executive Committee, allocating competences and responsibilities to each member of the Executive Committee and nominating executives at management level;

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- c) To propose to the Board of Directors the operating budgets and medium and long term investment and development plans and to execute these when approved;
 - d) To approve budget alterations during the financial year, including transfers between cost centres, provided that, cumulatively, these do not exceed five million euros;
 - e) To approve purchase contracts for goods and services, provided that these, singly or cumulatively, and for each type of goods and services, do not exceed five million euros;
 - f) To approve short term financing contracts representing increased indebtedness, provided these do not exceed five million euros;
 - g) To acquire, sell or charge the Company's fixed assets up to a maximum equivalent to five per cent of the paid share capital;
 - h) To take or give in rental any buildings or parts of properties;
 - i) To represent the Company judicially or extra-judicially, actively or passively, as well as to take and pursue any legal action, to admit such actions or waive them, to transact and to enter into arbitration agreements.
 - j) To acquire, sell or charge shares in other companies, provided the operations in question are included in approved business plans;
 - k) To manage shares in other companies, specifically appointing their representatives to the corresponding corporate bodies and defining guidelines for the actions of these representatives;
 - l) To enter into, alter or rescind employment contracts;
 - m) To open, move or close bank accounts; and
 - n) To grant power of attorney.

The Board of Directors also elected an Audit Committee, comprising:

Álvaro Roque de Pinho Bissaia Barreto (Chairman)
Artur Porfírio Silveira de Almeida Soutinho (Member)
Carlos António Rocha Moreira da Silva (Member)

The powers of the Audit Committee are those specified below and those explicitly granted to it by the Board of Directors.
Its generic powers are:

1. To evaluate procedures for the control of disclosed financial information (accounts and reports) and the periods for such disclosure, having specifically to review the Group's annual, half year and quarterly accounts and publish and report on these to the Board of Directors before their approval and signature by the Board.
2. To advise the Board of Directors on the choice of Statutory Auditor and express an opinion on the scope of action of the Internal Auditor.
3. To discuss with the Statutory Auditor his annual reports, advising the Board of Directors on possible measures to be taken.

In performing its duties the Audit Committee will heed to the following facts:

- (i) Alteration of accounting policies or practices;
- (ii) Significant adjustments due to intervention of the auditor;
- (iii) Progress in the relevant financial ratios and possible alterations to the Group's formal or informal rating;
- (iv) Factors indicating significant financial exposure (such as currency, interest rate or derivative risks);
- (v) Illegal or irregular procedures.

The Audit Committee can also exercise its power to inspect and audit the Board of Directors, without prejudice to the powers attributed to this body. Specifically, it can inspect all the accounts of the company and its associated companies, and obtain accounting and financial information from the Group's employees, in so far as such measures are necessary to fulfil its responsibilities.

All the members of the Board of Directors have seats on the board of other companies as detailed hereunder:

Jorge Armindo de Carvalho Teixeira

Executive:

- >> Chairman of the Board of Directors of Portucel - Empresa de Celulose e Papel de Portugal, SGPS, S.A.;
- >> Chairman of the Board of Directors of Portucel Florestal - Empresa de Desenvolvimento Agro-Florestal, S.A.;
- >> Chairman of the Board of Directors of Aliança Florestal - Sociedade para o Desenvolvimento Agro-Florestal, S.A.;
- >> Chairman of the Board of Directors of Portucel Tejo - Empresa de Celulose do Tejo, S.A.;
- >> Chairman of the Board of Directors of Sociedade de Vinhos da Herdade de Espirra - Produção e Comercialização de Vinhos, S.A.;
- >> Chairman of the Board of Directors of Lazer e Floresta - Empresa de Desenvolvimento Agro-Florestal, Imobiliária e Turismo, S.A.;
- >> Chairman of the Board of Directors of Celpinus - Empresa de Desenvolvimento Agro-Florestal, S.A.;
- >> Chairman of the Board of Directors of Portucel International Trading, S.A.;
- >> Chairman of the Board of Directors of Portucel International Trading, GmbH;
- >> Chairman of the Board of Directors of Imobiliária do Tojal - Compra, Venda e Gestão de Imóveis, S.A.;
- >> Vice Chairman of the Board of Directors and Chairman of the Executive Committee of Soporcel - Sociedade Portuguesa de Papel, S.A.;
- >> Chairman of the Board of Management of Tecnipapel - Sociedade de Transformação e Distribuição de Papel, Lda;
- >> Chairman of CELPA - Associação da Indústria Papeleira.

Non-executive:

- >> Member of the Board of Directors of Inapa, I.P.G. - Investimentos, Participações e Gestão, S.A.;
- >> Chairman of the General Meeting of Aflomec - Empresa de Exploração Florestal, S.A.;
- >> Chairman of the General Meeting of Viveiros Aliança - Empresa Produtora de Plantas, S.A.;
- >> Chairman of the Board of Directors of Fundição do Alto da Lixa, S.A.;
- >> Vice Chairman of AEP - Associação Empresarial de Portugal;
- >> Chairman of the Audit Committee of CIP - Confederação da Indústria Portuguesa;
- >> Member of the Audit Committee of Oporto Football Club.

Luis Alberto Caldeira Deslandes

- >> Member of the Board of Directors and Deputy Chairman of the Executive Committee of Soporcel - Sociedade Portuguesa de Papel, S.A.;
- >> Member of the Board of Directors of Aliança Florestal - Sociedade para o Desenvolvimento Agro-Florestal, S.A.;
- >> Chairman of Portucel Soporcel Papel - Sales e Marketing, ACE

Chairman of the Board of Directors of the Portucel Soporcel Group associate companies:

- >> Portucel Pasta y Papel, S.A.
- >> Portucel UK, Ltd
- >> Soporcel España, S.A.
- >> Soporcel Italia, SRL
- >> Soporcel France, EURL
- >> Soporcel UK, Ltd
- >> Soporcel International, BV
- >> Soporcel North America, Inc
- >> Soporcel 2000
- >> Soporcel Deutschland, GmbH
- >> Soporcel Austria, GmbH

Artur Porfírio Silveira de Almeida Soutinho

- >> Chairman of the Board of Directors of Portucel Serviços - Empresa de Prestação de Serviços, S.A.;
- >> Chairman of the Board of Directors of Arbozer - Serviços Agro-Industriais, S.A.;
- >> Member of the Board of Directors of Portucel - Empresa de Celulose e Papel de Portugal, SGPS, S.A.;
- >> Member of the Board of Directors of Soporcel - Sociedade Portuguesa de Papel, S.A.;
- >> Member of the Board of Directors of Portucel International Trading, S.A.;
- >> Member of the Board of Directors of Portucel International Trading, GmbH;
- >> Director of Portucel Soporcel Papel - Sales e Marketing, ACE;
- >> Member of the Board of Management of Tecnipapel - Sociedade de Transformação e Distribuição de Papel, Lda.;
- >> Member of the Board of Management of Sacocel - Sociedade Produtora de Embalagens e Sacos de Papel, Lda.;
- >> Member of the Board of Management of Empremédia - Corretores de Seguros, Lda.;
- >> Director of Portucel Brasil, Lda.

Manuel Maria Pimenta Gil Mata

Executive:

- >> Chairman of the Board of Directors of Enerpulp - Cogeração Energética de Pasta, S.A.;
- >> Chairman of the Board of Management of Setipel - Serviços Técnicos da Indústria Papeleira, S.A.;
- >> Chairman of the Board of Management of SPCG - Sociedade Portuguesa de Cogeração, S.A.;
- >> Chairman of the Board of Directors of Socortel - Sociedade de Corte de Papel, S.A.;
- >> Member of the Board of Directors of Soporcel - Sociedade Portuguesa de Papel, S.A.;
- >> Member of the Board of Directors of Portucel - Empresa de Celulose e Papel de Portugal, SGPS, S.A.;
- >> Member of the Board of Directors of Arboser - Serviços Agro-Industriais, S.A.;
- >> Member of the Sustainability Strategy Steering Group of the CEPI.

Non-executive:

- >> Chairman of the Board of Directors of Rinave, S.A..

Manuel Guilherme Oliveira da Costa

- >> Member of the Board of Directors of Soporcel - Sociedade Portuguesa de Papel, S.A.;
- >> Member of the Board of Directors of Gescartão, SGPS, S.A.;
- >> Chairman of the Board of Directors of Portucel Viana - Empresa Produtora de Papéis Industriais, S.A.;
- >> Member of the Board of Directors of Imocapital, SGPS, S.A.;
- >> Director of Investalentejo, SGPS, S.A..

Álvaro Roque de Pinho Bissaia Barreto

Executive

- >> Chairman of the Board of Directors of Soporcel - Sociedade Portuguesa de Papel, S.A.;
- >> Member of the Portuguese Council and the International Council of INSEAD;
- >> Vice-Chairman of IBET - Institute for Experimental and Technological Biology.

Non-executive

- >> Non-executive Chairman of the Board of Directors of Tejo Energia, S.A.;
- >> Member of the Board of Directors of Somincor - Sociedade Mineira de Neves Corvo, S.A.;
- >> Chairman of the General Meeting of Portugália - Companhia Portuguesa de Transportes Aéreos, S.A.;
- >> Member of the Board of Directors of Nutrinveste - Sociedade Gestora de Participações Sociais, S.A.;
- >> Member of the Board of Directors of Mellol - Sociedade Gestora de Participações Sociais, S.A.;
- >> Member of the Board of Directors of Nova Robbialac - Indústria Ibérica de Tintas, S.A..

Carlos António Rocha Moreira da Silva

- >> Chairman of the Executive Committee of Sonae Indústria - SGPS, S.A.;
- >> Chairman of the Board of Directors of BA - Fábrica de Vidros Barbosa & Almeida, S.A.;
- >> Chairman of the Board of Directors of BA - Vidrio, S.A.;
- >> Chairman of the Board of Directors of BA - Vidrios, Distribución y Comercialización de Envases de Vidrio, S.A.;
- >> Chairman of the Board of Directors of BA - Vidros Marinha Grande, S.A.;
- >> Chairman of the Board of Directors of Bar.Bar.Idade - Imobiliário e Serviços, S.A.;
- >> Chairman of the Board of Directors of Bar.Bar.Idade Glass - Serviços de Gestão e Investimentos, S.A.;
- >> Chairman of the Board of Directors of Bar.Bar.Idade II - Consultores de Gestão, S.A.;
- >> Chairman of the Board of Directors of Bar.Bar.Idade, SGPS, S.A.;
- >> Chairman of the Board of Directors of Barbosa & Almeida - SGPS, S.A.;
- >> Chairman of the Board of Directors of Cor.on.line - Comércio de Arte, S.A.;
- >> Chairman of the Board of Directors of Glunz AG;
- >> Chairman of the Board of Directors of Isoroy SAS;
- >> Chairman of the Board of Directors of P.F.V. - Paços de Ferreira Vidro, SGPS, S.A.;
- >> Chairman of the Board of Directors of Tafisa France, S.A.;
- >> Vice-Chairman of APGEI - Associação Portuguesa de Engenharia e Gestão Industrial;
- >> Member of the Board of Directors of Sonae Indústria - SGPS, S.A.;
- >> Member of the Board of Directors of Sonae Indústria - Consultadoria e Gestão, S.A.;
- >> Member of the Board of Directors of Sonae UK, Ltd.;
- >> Member of the Board of Directors of Euromegantic, Ltée.;
- >> Member of the Board of Directors of 173509 Canada, INC.;
- >> Member of the Board of Directors of Artividro - Arte em Vidro, Lda.;
- >> Member of the Board of Directors of Tableros de Fibras, S.A.;
- >> Member of the Board of Directors of Tafibra - Tableros Aglomerados y de Fibras, AIE;
- >> Member of the Board of Directors of Tafisa UK, Ltd.;

The Chairman of the Board of Directors who is simultaneously Chairman of the Executive Committee has the powers conferred to him by law and company by-laws.

The Executive Committee can discuss all matters within the competence of the Board of Directors but only take decisions on the matters referred to above. All matters dealt with by the Executive Committee, even those included in the delegated powers, are made known to the non-executive Directors, who have access to the respective minutes and supporting documents.

There are no incompatibilities specifically defined by the Board nor is there a maximum figure established for the positions that may be held by the Directors on boards of other companies.

During 2003, the Board of Directors met on 31 occasions; this figure includes 12 meetings of the Executive Committee.

The emoluments of the directors are established by a Remuneration Committee that establishes a sum for the fixed remuneration, another for expenses incurred by representation and, if applicable, profit-based bonus payments. The Remuneration Committee comprises the Chairman of the General Meeting, João António de Morais Silva Leitão (Chairman), Jorge Armindo Carvalho Teixeira (Member) and Rui de Faria Lélis (Member).

Remuneration paid to the members of the Board of Directors in 2003 totalled 2,651,206.44 euros, of which 2,179,149.50 euros were paid to executive directors and 472,056.94 euros paid to non-executive directors. Of the total remuneration, 243,489.97 euros were paid by Portucel, S.A., 1,429,288.70 euros were paid by Portucel SGPS, S.A., and 978,427.75 euros were paid by Soporcel, S.A. The total paid by Soporcel, S.A. includes 73,453.75 euros variable remuneration. No other variable remuneration was paid.

Declaration of compliance

Portucel, S.A. has already adopted the general recommendations governing companies. However, there are two aspects which are not adopted in full, and which are detailed below:

1. Article 10º, n.º 3 of the By-Laws provides for the suspending of share dealing up to eight days before the date set for the General Meeting; this means that the shares are suspended for six working days and not five, as recommended. In relation to this, it is made clear that this ruling in the By-Laws predates the recommendation and that, in order to modify it, a statutory alteration would be required; that will only be justified after the conclusion of the current process of re-privatisation together with other alterations that will in due course be approved by the new shareholders.
2. The Remuneration Committee includes one of the members of the Board of Directors of Portucel, S.A., namely its Chairman, Jorge Armindo de Carvalho Teixeira. This situation arises because of the fact that the latter is also Chairman of Portucel SGPS, a majority shareholder, and also due to the fact that he does not receive remuneration from Portucel, S.A., but from Portucel SGPS, S.A.

In all else, there is full compliance with the recommendations on company governance.